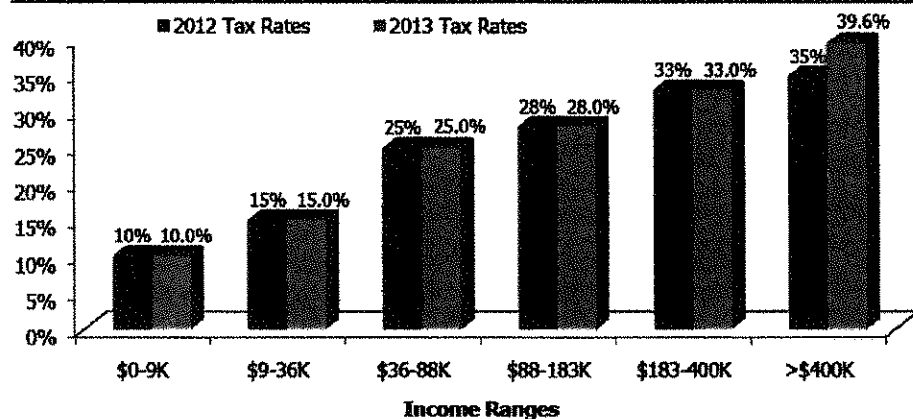


Sample LockSmart

## THE FISCAL CLIFF: OVER AND BACK

At the same moment that most were enjoying a New Year's Eve champagne toast, the U.S. economy was sliding over the dreaded "fiscal cliff." Fortunately, congress came to an agreement, and the American Taxpayer Relief Act of 2012 (ATRA) was signed into law on January 2.

### MARGINAL INCOME TAX BRACKETS

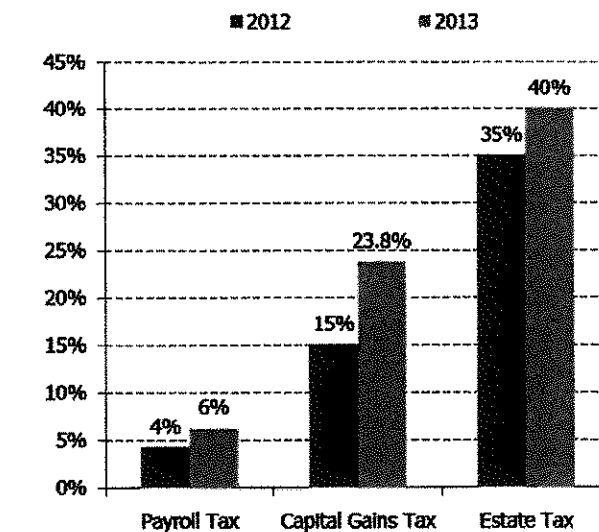


Source: Internal Revenue Services (IRS)

- ❖ Low- and middle-income earners did not escape unscathed. The payroll tax cut was allowed to expire, increasing taxes by 2% on the first \$113,700 of income.
- ❖ Capital gains tax remained at 15% for most households, but those over \$400,000 will pay 20%.
  - > An additional Obamacare surcharge tax on capital gains of 3.8% for those over \$250,000.
- ❖ The estate tax will increase from 35% to 40% for estates with a value in excess of \$5M (Married \$10M).
- ❖ The overall drag on 2013 GDP is expected to be near 1.5% compared to the 4% drag that would have occurred under the fiscal cliff.
- ❖ This appears to set the economy up for a low growth, "muddle through" scenario.

- ❖ Income tax rates will remain unchanged for everyone making under \$400,000 (married \$450,000).
- ❖ Marginal tax rates for high income earners will rise nearly 5% to 39.6%.
- ❖ If the fiscal cliff had not been avoided, there would have been a 3% to 5% increase for nearly all tax payers.

### OTHER TAX CHANGES FOR 2013



Source: Internal Revenue Services (IRS)

## THE FISCAL CLIFF: OVER AND BACK (CONTINUED)

### 401(k) Impact

- ❖ The Retirement Savings Provision encourages 401(k) participants to convert savings to a Roth 401(k) plan.
- ❖ Disbursements from a Roth account during retirement years would be tax-free, essentially allowing participants to hedge themselves against future tax increases.
- ❖ The conversion is a taxable event, which will allow the federal government to collect tax revenue today in return for less revenue in the future.

### Upcoming Congressional Confrontations

January						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

Fiscal cliff "resolved" after the December 31 deadline.

February						
S	M	T	W	T	F	S
						1 2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28		

The debt ceiling debate will take center stage if not addressed before February. Republicans will be looking for spending cuts in return for a higher debt ceiling.

March						
S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

March 1: Sequestration cuts go into effect, cutting defense and domestic programs.

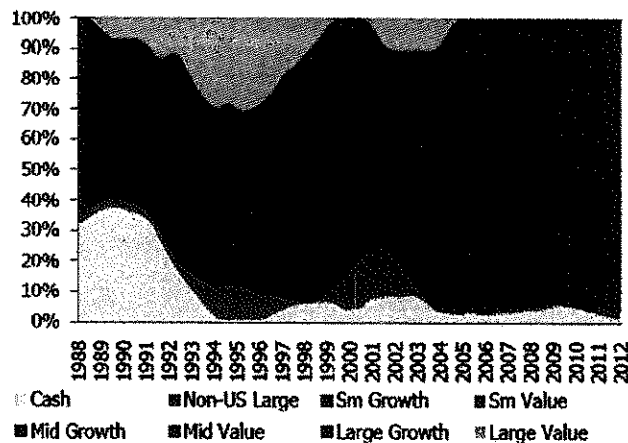
March 27: Partial government shut down without funding agreement.

The stock market cheered congress for pulling the economy out of the fiscal cliff, but the resolution was far from a solution. There are numerous events over the coming quarter that will provide opportunities for congress to add volatility to financial markets. In the long run, congress must find ways of reducing the deficit without too much harm to the economy. Actions that are too aggressive may send the economy spiraling into a recession and those that are too weak will lead to an ever-increasing national debt and credit downgrades from the rating agencies.

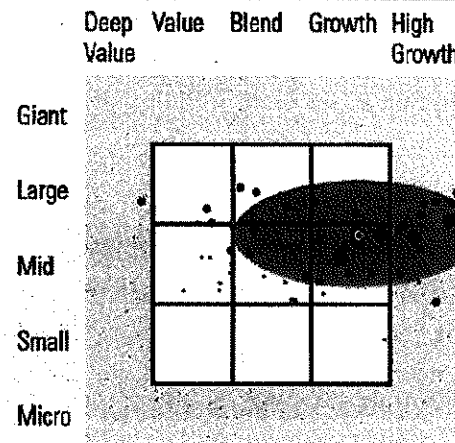
## THE ORIGIN OF STYLE

Where do you begin a search for a new investment with nearly 30,000 mutual funds available in the market? Most investors begin searching for a fund that focuses on a specific area of the financial markets and use an investment category or universe to narrow the field. These categories are often built with a heavy reliance on style analysis. Returns-Based and Holdings-Based are the two most common forms of style analysis with each offering its own advantages and drawbacks. This same analysis is later used to detect when a portfolio has drifted away from its original mandate.

### RETURNS-BASED STYLE ANALYSIS VS. HOLDINGS-BASED STYLE ANALYSIS



Source: MPI, Morningstar



- ❖ The returns-based analysis (on left) shows the estimated allocation to different categories over rolling 36-month periods.
  - This shows a strong trend in how a fund may change its allocations over time.
- ❖ The holdings-based chart (on right) shows how each holding in the portfolio currently stacks up by size and growth/value orientation.
  - Ability to plot each individual holding.

#### Returns Based Style Analysis

- |             |   |
|-------------|---|
| <b>Pros</b> | <ul style="list-style-type: none"> <li>❖ Uses easy to obtain performance data</li> <li>❖ Estimates the allocation to benchmarks that would produce similar performance</li> <li>❖ Provides a better picture of a fund's asset class exposure over time</li> </ul> |
| <b>Cons</b> | <ul style="list-style-type: none"> <li>❖ Statistical process can cause inaccuracies</li> <li>❖ Does not consider current holdings</li> <li>❖ Long memory can hide today's positioning</li> </ul>  |

#### Holdings Based Style Analysis

- ❖ Can be used to detect style drift
  - ❖ Gives full picture of funds actual holdings
  - ❖ Provides a current "snapshot" of where the portfolio is currently positioned
- 
- ❖ Growth/Value determined by a quantitative methodology and inputs may be misleading
  - ❖ Requires detailed holdings information
  - ❖ Doesn't provide historical context

## THE ORIGIN OF STYLE (CONTINUED)

### Different Perspectives on Style

To determine where a stock falls on the growth/value spectrum, Morningstar uses a combination of traditional growth and value metrics on both a historical and forward-looking basis. A full 50% of the overall score is weighted toward forward-looking earnings growth and P/E, respectively. While it is certainly a logical approach for classifying thousands of securities, it does leave room for disagreements about the style of individual stocks.

- ♦ The Growth/Value evaluation of Morningstar will occasionally conflict with a fund manager's own assessment, for example:
  - The fund manager has different forward-looking earnings estimates.
  - Stocks with a temporarily depressed earnings base: recovering value or cyclical companies for example.

Style analysis is an effective tool for investors to classify portfolios by their focus and to detect when a fund has drifted from that core focus. Overall, each type of style analysis has its merits and there is a time to use both holdings and returns-based strategies in the investment process. As always, it is helpful to view any findings from the style analysis in context of the rest of the portfolio and current market conditions.



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## Section 2: Plan Level Analysis





Investment Option Style Analysis  
As of 12/31/2012

**LockSMART®**  
STRATEGIC MONITORING AND RESEARCH TOOL

### US Equity Style Box

	VALUE	BLEND	GROWTH
LARGE	American Beacon Lg Cap Value Inv Diamond Hill Large Cap A Goldman Sachs Large Cap Value Instl	SunTrust Retirement 500 Index B	Janus Forty S Prudential Jennison 20/20 Focus Z T. Rowe Price Growth Stock
MEDIUM	T. Rowe Price Mid-Cap Value	Royce Value Svc	Munder Mid-Cap Core Growth Y
SMALL		Fidelity Advisor Small Cap I	

### Other Asset Classes

MONEY MARKET / STABLE VALUES	BOND / FIXED INCOME	RISK-BASED ASSET ALLOCATION
Federated Prime Obligs Instl Svc Federated US Treasury Cash Reserves Svc	Federated Mortgage Svc Harbor Bond Instl Harbor High-Yield Bond Instl	Fidelity Balanced Principal Diversified Real Asset A
INTERNATIONAL / GLOBAL	OTHER INCLUDING SECTOR FUNDS	TIME-BASED ASSET ALLOCATION
MFS International Value R3 Thornburg International Value R4 Lazard Emerging Markets Equity Open	Invesco Real Estate R5	

Asset categories are determined by Morningstar for registered products. For separate accounts, collective trusts, and other unregistered products asset categories are determined by the fund provider.

New fund recommendations appear in blue.

This information is not intended as a solicitation for investment in any of the funds listed.

## Section 3: Performance Review





MILESTONE  
MILESTONE  
Fund Scorecard  
As of 12/31/2012

**LockSMART®**  
STRATEGIC MONITORING AND RESEARCH TOOL

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		
Fund/ Universe/ Benchmark	Return 3Yr	Return 5Yr	Return 1Yr Outperf. Index	Return 3Yr Outperf. Index	Return 5Yr Outperf. Index	Std Dev 5Yr Outperf. Index	Alpha 5Yr	Beta 5Yr	Info Ratio 5Yr	Overall Rating	Watch List Since
Weighted Percentage	15%	15%	5%	10%	15%	10%	10%	10%	10%		
<b>Federated Prime Obligs Instl Svc (PRSOX)</b> Morningstar Money Market - Taxable Benchmark: BofAML US Treasury Bill 3 Mon	Below	Exceeds	Below	Below	Exceeds	Exceeds	Exceeds	Below	Exceeds	●	
<b>Federated US Treasury Cash Reserves Svc (TISXX)</b> Morningstar Money Market - Taxable Benchmark: BofAML US Treasury Bill 3 Mon	Below	Below	Below	Below	Below	Exceeds	Below	Exceeds	Below	●	2012-03-31
<b>Federated Mortgage Svc (FGFSX)</b> Morningstar Intermediate Government Benchmark: Barclays US Govt Interm TR USD	Below	Below	Exceeds	Exceeds	Below	Exceeds	Exceeds	Exceeds	Below	45	2012-12-31
<b>Harbor Bond Instl (HABDX)</b> Morningstar Intermediate-Term Bond Benchmark: Barclays US Agg Bond TR USD	Exceeds	Exceeds	Exceeds	Exceeds	Exceeds	Below	Exceeds	Exceeds	Exceeds	●	
<b>Harbor High-Yield Bond Instl (HYFAX)</b> Morningstar High Yield Bond Benchmark: Merrill Lynch High Yield U.S. Master II	Below	Exceeds	Below	Below	Below	Exceeds	Exceeds	Exceeds	Exceeds	●	
<b>Fidelity Balanced (FBALX)</b> Morningstar Moderate Allocation Benchmark: DJ US Moderate TR USD	Exceeds	Exceeds	Exceeds	Below	Below	Below	Below	Below	Exceeds	45	2012-09-30

This evaluation about the funds in your plan has been prepared pursuant to your specific request. This scorecard should be considered together with the fund's performance and supporting detail analysis. This information is provided in order to assist in the prudent investment analysis of the funds in your plan and possible alternatives. Asset categories are determined by Morningstar for registered products. For unregistered products, asset categories are determined by fund provider. Benchmark indices are representative of each fund's investment style.

**Fund Scorecard Selected Measurement Criteria:**

- |   |  |
|---|--|
| (1) Return 3Yr : Highest 50%                    | (6) Std Dev 5Yr Outperf. Index : Lesser than 1.1 x |
| (2) Return 5Yr : Highest 50%                    | (7) Alpha 5Yr : Greater than 0%                    |
| (3) Return 1Yr Outperf. Index : Greater than 0% | (8) Beta 5Yr : Lowest 50%                          |
| (4) Return 3Yr Outperf. Index : Greater than 0% | (9) Info Ratio 5Yr : Highest 50%                   |
| (5) Return 5Yr Outperf. Index : Greater than 0% |  |

**This information is not intended as a solicitation for investment in any of the funds listed**

**Overall Rating Legend**

- |                |                |                 |
|----------------|----------------|-----------------|
| ● = Exceeds    | ○ = Below      | ● = Below       |
| Exceeds >= 50% | Below < 50%    | Below < 50%     |
|                | < 3 Quarter(s) | >= 3 Quarter(s) |

See Important Disclosures and Definitions Attached. For Individual Plan Sponsor Use Only.

**LOCKTOW**