

# BLUE PRAIRIE

— Group —

## CASE STUDY:

Why hire a fiduciary-based investment consultant?

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### Challenge:

One of Blue Prairie Group's (BPG) retained investment consulting clients offered an intermediate bond index fund to its participants in a separate account structure. The fund was highly levered and used derivative products to enhance its performance. When the sub prime and credit crisis began to unfold in the summer of 2007, this fund began to unravel quickly.

### Results:

1. After completing an in-depth review of the fund, BPG's Investment Analytics Team concluded that there was significant risk of keeping this fund in the core lineup.
2. BPG convened a special ad hoc meeting with the client's investment committee and recommended that all of the fund's assets be mapped immediately to another bond index fund that BPG had already established as not having any sub prime exposure and which met the selection criteria outlined in the client's custom investment policy statement.
3. From the time BPG began its in-depth investigation and the committee made a formal decision to terminate the fund, the assets were liquidated and transferred to the new fund 11 days later. The speed in which we worked prevented further losses to participants.
4. These actions clearly demonstrated the client's commitment to a sound, fiduciary-based process for ongoing investment monitoring.

### Background:

One of Blue Prairie Group's ongoing investment consulting clients offered a well known intermediate bond index fund. On August 20th of 2007, Blue Prairie Group received an alert from the recordkeeper that the fund was experiencing extreme short-term negative performance and as a result, would be placed on the recordkeeper's proprietary "watchlist." Due to the separate account structure of this investment, the alert memo from the recordkeeper also stated that it was having a difficult time in getting good, up-to-date holdings information from the fund itself.

Upon receipt of this alert, Blue Prairie Group immediately launched its own in-depth investigation of the fund. This investigation included contacting the fund manager directly to request detailed holdings information and specific risk metrics associated with those holdings — data that was essential for determining the magnitude of the problem and for making specific recommendations to the client. Blue Prairie Group's analysis revealed that the fund manager used financial derivative products that were now unraveling due to substantial sub prime exposure.

The fund manager is currently in litigation over the losses experienced by this fund. It also saw over 50% of its total assets under management leave the firm from mid-2007 to the end of 2007.

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