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ERISA SECTION 408(B)(2) NOTICE
SERVICES AND COMPENSATION DISCLOSURE

This ERISA Section 408(b)(2) Notice is provided to you as the responsible plan fiduciary for your retirement plan ("Plan").

In response to the need for improved clarity about fees and expenses, the United States Department of Labor ("DOL") has introduced a requirement (See DOL 408(b)(2) fee disclosure requirements; www.dol.gov/ebsa/newsroom/fsmain.html) for certain service providers that receive more than $1,000 in compensation to make explicit disclosures to certain retirement plans that they serve.

The attached Fact Sheet from the DOL provides additional details pertaining to the rule.

Fiduciary Status
American Investors Company ("AIC") provides fiduciary services to your plan as an investment advisor registered under the Investment Advisers Act of 1940.

Services Provided
AIC may provide advisory services to 401(k) plans and other similar retirement plans which, in some instances, may be limited to the selection and continuous monitoring of the investments available in the plan and may include participant enrollment, education and ongoing support.

In other instances, the services provided may be broader in scope extending to asset supervisory and management services, and performance reporting as described in the "Item 4. Advisory Business" (subsection "Asset Supervisory/Management Services"**)** of our disclosure brochure, known as Form ADV Part 2A. Services do not include record keeping, but may include interfacing with the plan's record keeping service provider.

The scope of services provided to these various retirement plans are set forth in the Investment Advisory Agreement. Please refer to this document for further information.

Fees
AIC is compensated for providing services to the Plan by receiving an advisory fee. The details are described in the "Schedule A – Compensation" section of the Investment Advisory Agreement. Please refer to this document for further information. Additional information pertaining to fees can be found in the "Item 5. Fees and Compensation" section of the Form ADV Part 2A.

Fact Sheet Appendix

U.S. Department of Labor
Employee Benefits Security Administration
February 2012

Final Regulation Relating to Service Provider Disclosures Under Section 408(b)(2)

The Employee Retirement Income Security Act (ERISA) requires plan fiduciaries, when selecting and monitoring service providers and plan investments, to act prudently and solely in the interest of the plan's participants and beneficiaries. Responsible plan fiduciaries also must ensure that arrangements with their service providers are "reasonable" and that only "reasonable" compensation is paid for services. Fundamental to the ability of fiduciaries to discharge these obligations is obtaining information sufficient to enable them to make informed decisions about an employee benefit plan's services, the costs of such services, and the service providers.

Background

- The Employee Benefits Security Administration (EBSA) is responsible for administering and enforcing the fiduciary, reporting, and disclosure provisions of Title I of ERISA.
- The agency oversees approximately 718,000 private pension plans, including 498,000 participant-directed individual account plans, such as 401(k)-type plans.
- In recent years, arrangements for how services are provided to employee benefit plans and how services providers are compensated (e.g., through revenue-sharing and other arrangements) have become increasing complex.
- Many of these changes have improved efficiency and reduced the costs of administrative services and benefits for plans and their participants. However, the complexity resulting from these changes has made it more difficult for many plan sponsors and fiduciaries to understand how, and how much, service providers are compensated.
- This final rule establishes, for the first time, specific disclosure obligations for plan service providers to ensure that responsible plan fiduciaries are provided the information they need to make better decisions when selecting and monitoring service providers for their plans.
- EBSA published an interim final rule (IFR) on July 16, 2010, and thereafter received approximately 45 written comments from plan sponsors, fiduciaries, service providers, financial institutions, and various industry representatives of employee benefit plans and participants. The final rule replaces the IFR with minor changes and revisions.

Overview of Final Regulation

- The final rule requires covered service providers (CSPs) to provide responsible fiduciaries with information they need to:
    - Assess reasonableness of total compensation, both direct and indirect, received by the CSP, its affiliates, and/or subcontractors;
    - Identify potential conflicts of interest; and
    - Satisfy reporting and disclosure requirements under Title I of ERISA.
- The final rule applies to ERISA-covered defined benefit and defined contribution pension plans. It does not apply to simplified employee pension plans (SEPs), SIMPLE retirement accounts, IRAs, and certain

annuity contracts and custodial accounts described in Internal Revenue Code section 403(b). The final rule does not apply to employee welfare benefit plans. EBSA intends to separately publish proposed disclosure requirements for welfare benefit plans in the future.

- The final rule applies to covered service providers who expect at least $1,000 in compensation to be received for services to a covered plan. The final rule applies to the following covered service providers:

    - ERISA fiduciary service providers to a covered plan or to a "plan asset" vehicle in which such plan invests;
    - Investment advisers registered under Federal or State law;
    - Record-keepers or brokers who make designated investment alternatives available to the covered plan (e.g., a "platform provider");
    - Providers of one or more of the following services to the covered plan who also receive "indirect compensation" in connection with such services:

        - Accounting, auditing, actuarial, banking, consulting, custodial, insurance, investment advisory, legal, recordkeeping, securities brokerage, third party administration, or valuation services.

- The final rule includes a class exemption from the prohibited transaction provisions of ERISA for responsible plan fiduciaries that enter into service contracts without knowing that the covered service provider (CSP) has failed to comply with its disclosure obligations. The class exemption requires that fiduciaries notify the Department of the disclosure failure. Fiduciaries can file the notice online at **www.dol.gov/ebsa/regs/feedisclosurefailurenotice.html**.

Disclosure Requirements

Disclosure of Services and Compensation

- Information required to be disclosed by a CSP must be furnished in writing to a responsible plan fiduciary for the covered plan. The rule does not require a formal written contract delineating the disclosure obligations.
- CSPs must describe the services to be provided and all direct and indirect compensation to be received by a CSP, its affiliates, or subcontractors.
- "Direct compensation" is compensation received directly from the covered plan. "Indirect compensation" generally is compensation received from any source other than the plan sponsor, the CSP, an affiliate, or subcontractor.
- In order to enable a responsible plan fiduciary to assess potential conflicts of interest, CSPs who disclose "indirect compensation" also must describe the arrangement between the payer and CSP pursuant to which indirect compensation is paid. CSPs must identify the sources for indirect compensation, plus services to which such compensation relates.
- Compensation disclosures by CSPs will include allocations of compensation made among related parties (i.e., among a CSP's affiliates or subcontractors) when such allocations occur as a result of charges made against a plan's investment or are set on a transaction basis.
- CSPs must disclose whether they are providing recordkeeping services and the compensation attributable to such services, even when no explicit charge for recordkeeping is identified as part of the service "package" or contract.
- Some CSPs must disclose an investment's annual operating expenses (e.g., expense ratio) and any ongoing operating expenses in addition to annual operating expenses. For participant-directed individual account plans, such disclosures must include "total annual operating expenses" as required under the Department's new participant-level disclosure regulation at 29 CFR §2550.404a-5.
- The final rule contains a "pass-through" for investment-related disclosures furnished by recordkeepers or brokers. A CSP may provide current disclosure materials of an unaffiliated issuer of a designated

investment alternative, or information replicated from such materials, provided that the issuer is a registered investment company (i.e., mutual fund), an insurance company qualified to do business in a State, an issuer of a publicly-traded security, or a financial institution supervised by a State or Federal agency.

- Service providers may use electronic means to disclose information under the 408(b)(2) regulation to plan fiduciaries provided that the covered service provider's disclosures on a website or other electronic medium are readily accessible to the responsible plan fiduciary, and the fiduciary has clear notification on how to access the information.

Summary or Guide to Initial Disclosures

- EBSA strongly encourages CSPs to offer responsible plan fiduciaries a "guide," summary, or similar tool to assist fiduciaries in identifying all of the disclosures required under the final rule, particularly when service arrangements and related compensation are complex and information is disclosed in multiple documents.
- EBSA has included a Sample Guide as an appendix to the final rule that can be used on a voluntary basis by CSPs as a model for such a guide.
- EBSA intends to publish a notice of proposed rulemaking in the near future under which covered service providers may be required to furnish a guide or similar tool to assist responsible plan fiduciaries' review of initial disclosures. EBSA did not adopt such a requirement at this time and will request comments and specific data from interested persons on how to cost effectively structure a guide or similar requirement.

Ongoing Disclosure Obligations

- Changes: Generally, CSPs must disclose changes to initial information as soon as practicable, but no later than 60 days from when the CSP is informed of such change. Disclosures of changes to investment-related information are to be made at least annually.
- Reporting and Disclosure Requirements: Service providers must disclose compensation or other information related to their service arrangements upon the request of the responsible plan fiduciary or plan administrator, reasonably in advance of the date upon which such person states that they must comply with ERISA's reporting and disclosure requirements.

Disclosure Errors

- The final rule allows for timely corrections of an error or omission in required disclosures when a CSP is acting in good faith and with reasonable diligence. Such corrections must be made not later than 30 days from the date that the CSP knows of the error or omission.

Overview of Changes from Interim Final Regulation

- The final rule reflects a number of technical and other changes in response to comments received on the interim final rule, including the following:

    - An exclusion for certain Internal Revenue Code section 403(b) annuity contracts and custodial accounts;
    - Expansion of the information that must be disclosed concerning a CSP's receipt of indirect compensation to include a description of the arrangement between the payer and the CSP pursuant to which indirect compensation will be paid;
    - Conformance of investment-related disclosures for covered plans' designated investment alternatives to the requirements of the Department's participant-level disclosure regulation; and
    - A separate provision for the disclosure of changes to investment-related information, which must be updated at least annually.

- For a more detailed discussion of these and other changes, see EBSA's release entitled "Changes to Final Fee Disclosure Rule" (February 2012).

Costs and Benefits of the Final Regulation

- EBSA estimates that significant benefits will result from the reduced time and cost for fiduciaries to obtain compensation information needed to fulfill their fiduciary duties, the discouragement of harmful conflicts of interest, reduced information gaps, improved decision-making by fiduciaries about plan services, enhanced value for plan participants, and increased ability to redress abuses committed by service providers. These benefits will outweigh the costs associated with the rule.
- EBSA estimates that the final rule will be economically significant. The non-discounted costs for the first year are estimated to be approximately $164 million. The first year costs are attributable to reviewing and analyzing the regulation, conducting a compliance review to ensure that service providers comply with the regulation, and preparing and delivering any new disclosures required by the regulation. The Department estimates that 50 percent of the disclosures will be mailed at a first year cost of $9.5 million for materials and postage. Costs in the second and subsequent years are expected to fall to an estimated $43 million ($1.5 million attributable to materials and postage costs).

Effective Date; Impact on Participant-Level Disclosures

- The final regulation is effective for both existing and new contracts or arrangements between covered plans and CSPs as of July 1, 2012. The IFR's April 1 effective date was extended to July 1, 2012 in order to allow CSPs more time to respond to the specific changes made to the IFR, which are contained in the final rule. Service providers not in compliance as of July 1, 2012, will be subject to the prohibited transaction rules of ERISA section 406 and Internal Revenue Code section 4975 penalties.
- Plan administrators are reminded that the final rule's new July 1 effective date also will impact when disclosures must first be furnished under EBSA's participant-level disclosure regulation (29 CFR § 2550.404a-5). The transitional rule for the participant-level disclosure regulation was revised in July 2011 so that the first disclosures would follow the effective date of the 408(b)(2) regulation. Consequently, for calendar year plans, the initial annual disclosure of "plan-level" and "investment-level" information (including associated fees and expenses) must be furnished no later than August 30, 2012 (i.e., 60 days after the 408(b)(2) regulation's July 1 effective date). The first quarterly statement must then be furnished no later than November 14, 2012 (i.e., 45 days after the end of the third quarter (July through September), during which initial disclosures were first required). This quarterly statement need only reflect the fees and expenses actually deducted from the participant or beneficiary's account during the July through September quarter to which the statement relates.