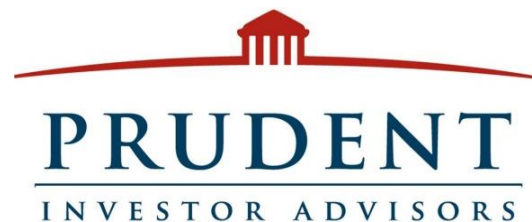


Making the Best Use of MFDA's Master Escrow Plan™

**W. Scott Simon, J.D., CFP® , AIFA®
and
Brian R. Taylor**



Prudent Investor Advisors

- Prudent Investor Advisors (Prudent) is a registered investment advisory firm regulated by the U.S. Securities and Exchange Commission
- Prudent is a fiduciary investment manager and advisor to governmental, private and public entities across the United States
- The trustees of the Master Escrow Plan™ have delegated their “investment and management functions” to Prudent in accordance with the Michigan Prudent Investor Rule (section 1510)
- As a fiduciary under the Michigan Prudent Investor Rule, Prudent is solely responsible (and liable) for selecting, monitoring and (if necessary) replacing the MEP™ portfolios

When Prudent Began to Manage the MEP™ Portfolios in 2013, It Found

- 80% of pre-need funeral contracts are performed within 5 years
- 95% are performed within 10 years
- Many MFDA members chose the Merrill Lynch/BlackRock Pre-Need Growth Fund that was invested 80% in stocks

Given These Facts, Prudent Detected a Mismatch Between:

Investment time period: 0-10 years

Investment: 80% stocks

Understanding the Nature of the Mismatch

- Investment time periods of 10 years or less are short-term in nature while those 10 years or more are long-term
- Stock-heavy (e.g., 80%) investments are prudent for long-term investment time periods such as:
 - Infinite (the Ford Foundation portfolio)
 - 65+ years (a person invested in a 401(k) plan and into retirement)
- Stock-heavy investments are imprudent for the short-term investment time period in which MFDA members satisfy their liabilities (performance of pre-need funeral contracts):
 - 0-10 years (95% of pre-need funeral contracts performed)

Why Stock-Heavy Investments are Imprudent for a Short-Term Investment Time Period

- An investment with 80% stocks will bear the great brunt of any downturns in the stock market
- When that happens, there may not be enough time for the investment to recover its full value before MFDA members who chose it are required to perform on contracts coming due
- If the investment fails to recover a significant portion of its value, members will be forced to cover - out-of-pocket - any subsequent large dollar shortfalls in the contracts
- A stock-heavy investment used to attempt to satisfy liabilities coming due within a short investment time period (0-10 years) is unnecessarily risky and therefore imprudent – this is the mismatch!

MFDA Members Should Not Have to Suffer Financial and Emotional Trauma

- MFDA members can suffer emotional trauma as well as financial trauma when forced to cover large dollar shortfalls out-of-pocket in plunging stock markets such as the **37% drop in 2008**
- To minimize these possibilities, Prudent designed the MEP™ portfolios to prudently match up the investment time period faced by MFDA members with appropriate investments to help reduce their out-of-pocket payments in any stock market downturns
- The design of these portfolios began by defining the primary investment objective of MFDA members

The Primary Investment Objective of MFDA Members Invested in MEP™ Portfolios

- Maximizing the probability of satisfying the liabilities of their pre-need funeral contracts on (1) an inflation-adjusted basis (2) without the need to cover any dollar shortfalls out-of-pocket
- This objective means that the “**just right**” portfolio return should actually be 0% inflation-adjusted (at 3.5% annually) - **not too hot and not too cold**
- In reality, MFDA members are likely to experience a series of relatively small gains and losses that should average close to a 0% return, inflation-adjusted over time

The Primary Investment Objective of MFDA Members (cont.)

- This objective **DOES NOT INCLUDE** speculative activities like “making a lot of money,” “getting big returns,” “beating the market,” etc.
- **Speculation** – which takes **ONLY return** into consideration – is exactly what led to the financial catastrophe at the Wisconsin Funeral Directors Association (which is STILL in receivership)
- Speculation also led to the multi-million dollar scandals at the Illinois and California Funeral Directors Associations
- In contrast, the lower risk and lower cost MEP™ portfolios are built according to the principles of **Modern Portfolio Theory** (which underpins all modern prudent fiduciary investing) which take **BOTH risk and return** into consideration

Two Risks Threaten the Ability of MFDA Members to Achieve Their Primary Investment Objective

- 1. Inflation:** the increase in the costs of funeral merchandise and services over time; and
- 2. Stock Market Volatility:** random plunges in the stock market that sharply decrease portfolio values of MFDA members

Risk 1: Inflation

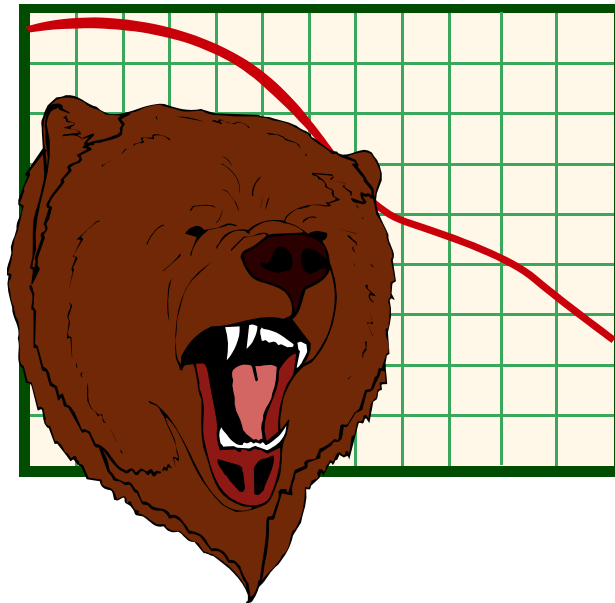


Funeral Inflation Has Decreased Over the Last Five Years

- Over the last 30+ years, funeral inflation has averaged a higher annual rate (4.85%) than the Consumer Price Index (2.73%)
- Over the last 5 years, however, funeral inflation has decreased to an annual rate of 3.53% (FSI-Net index) based on a mix of 80% funerals with caskets and 20% without caskets
- Over this period, inflation for funerals with caskets has averaged 4.08% (FSI-1 index) while inflation for those without caskets has averaged 1.31% (FSI-2 index)
- Although funeral inflation is a risk to MFDA members, stock market volatility is a much bigger risk

All data courtesy of The Foresight Companies, LLC Funeral Services Inflation Indexes

Risk 2: Stock Market Volatility



Stock Market Volatility

Stock market volatility is the random - and therefore wholly unpredictable – up-and-down gyrations in the values of stocks that comprise the stock market



Examples of random gyrations in stock market returns

Who could have known - before it happened - that the stock market (i.e., S&P 500) would go **down**↓ **37.0%** in **2008**? (a “bad” gyration)

Who could have known that in the very next year the stock market would go **up**↑ **26.5%**? (a “good” gyration)

Stock Market Volatility: The Biggest Risk to MFDA Members

The biggest risk to MFDA members are the “bad” gyrations in the values of stocks – random plunges in the stock market that decrease portfolio values – which may force them to cover out-of-pocket any resulting large dollar shortfalls

How Does the Father of Modern Portfolio Theory Define the “Randomness” of Stock Market Volatility?

“Investment return is a random variable subject to inherent uncertainty.”

Harry M. Markowitz
1990 Nobel Laureate in Economics and
The “Father of Modern Portfolio Theory”

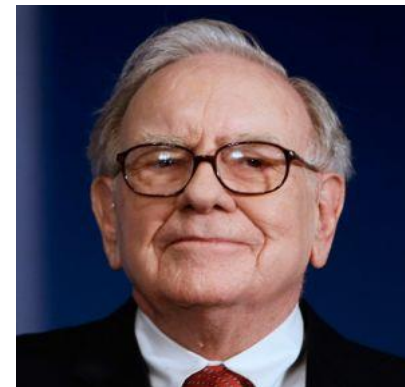


- Although Dr. Markowitz is one of the most important economists of the 20th Century, isn't he just an egghead in the ivory tower of academia – so what does he know?

How Does the World's Most Successful Investor Define the Randomness of Stock Market Volatility?

“I’m no good on what’s going on in [financial] markets. I have no idea what will happen tomorrow or next week...I really have no idea where [financial markets will] be in 10 days or 10 months.”

Warren Buffet
Chairman and CEO, Berkshire Hathaway
CNBC “Squawk Box”
September 8, 2015



The Academic Egghead and the World's Most Successful Investor Are Saying the Same Thing!

Stock market volatility is random and wholly unpredictable

Translation: No one has any idea – in advance of when it happens - what the return will be for a stock/bond/mutual fund/asset class/financial market over any given time period whether it's a decade/year/month/day/hour/minute

The Risk of Random Stock Market Volatility

Year	Merrill Lynch/ BlackRock Pre-Need Growth Fund ¹	PIA Dimensions Higher Funeral Inflation Portfolio SM	Winner
2006	12.51%	7.04%	ML by 5.47%
2007	5.03%	5.75%	PIA by 0.72%
2008	-28.33%	-1.70%	PIA by 26.63%
2009	19.30%	10.16%	ML by 9.14%
2010	11.37%	6.75%	ML by 4.62%
2011	1.21%	3.24%	PIA by 2.03%
2012	11.49%	5.29%	ML by 6.20%

Historical simulation comparing the ACTUAL returns of the 80% stocks Merrill Lynch/BlackRock Pre-Need Growth Fund and the SIMULATED returns of the PIA Dimensions Higher Funeral Inflation PortfolioSM if it been available during the same time periods shown.

- **ML beat Prudent** in 4 of 7 years, usually by a lot (2006/09/10/12).
- **Prudent beat ML** in 2 of 7 years by a little (2007/11).
- **Prudent beat ML** in 1 of 7 years by a lot (2008).

The Risk of Random Stock Market Volatility (cont.)

Random and wholly unpredictable plunges in the stock market – **EVEN IN JUST ONE YEAR** - can require MFDA members invested in a mutual fund with a lot of stocks (e.g., 80%) to cover significant dollar shortfalls out-of-pocket as shown in the following chart.

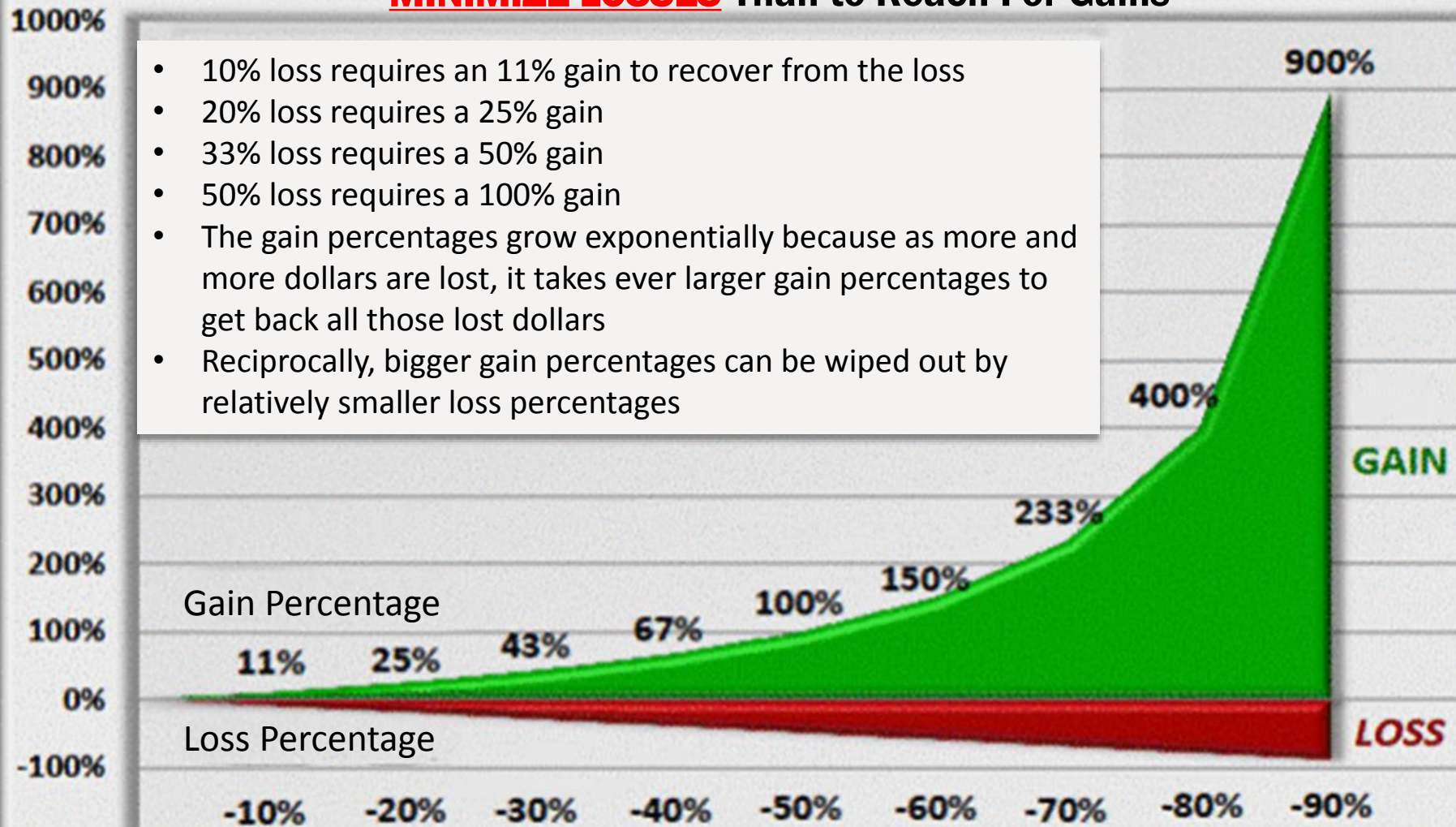
Year	Merrill Lynch/BlackRock Pre-Need Growth Fund	PIA Dimensions Higher Funeral Inflation Portfolio SM	Winner
2006	12.51%	7.04%	ML by 5.47%
2007	5.03%	5.75%	PIA by 0.72%
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2011	1.21%	3.24%	PIA by 2.03%
2012	11.49%	5.29%	ML by 6.20%

Year	Merrill Lynch/BlackRock Pre-Need Growth Fund	PIA Dimensions Higher Funeral Inflation Portfolio SM
2008	-28.33%	-1.70%
<u>Return Required to Recover Losses</u>	39.5%	1.73%
<u>Year of Recovery</u>	2012	2009

- Most pre-need funeral contracts initiated in 2007-2008, invested in the Merrill Lynch/BlackRock Pre-Need Growth Fund would have settled at a loss throughout 2008-2011. These contracts would not have broken even on an inflation-adjusted basis until the end of 2012.
- Most pre-need funeral contracts purchased in 2007-2008, invested in the Merrill Lynch/BlackRock Pre-Need Income & Growth Fund would have settled at a loss during 2008-2010 on an inflation-adjusted basis.
- Most pre-need funeral contracts purchased in 2007-2008, invested in the Merrill Lynch/BlackRock Pre-Need Income Fund would have settled at a loss during 2008-2009 on an inflation-adjusted basis.

It's Far More Important to **MINIMIZE LOSSES** Than to Reach For Gains

- 10% loss requires an 11% gain to recover from the loss
- 20% loss requires a 25% gain
- 33% loss requires a 50% gain
- 50% loss requires a 100% gain
- The gain percentages grow exponentially because as more and more dollars are lost, it takes ever larger gain percentages to get back all those lost dollars
- Reciprocally, bigger gain percentages can be wiped out by relatively smaller loss percentages



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Prudent's Solution: MEP™ Portfolios to Help MFDA Members Reduce Out-of-Pocket Payments in Stock Market Downturns

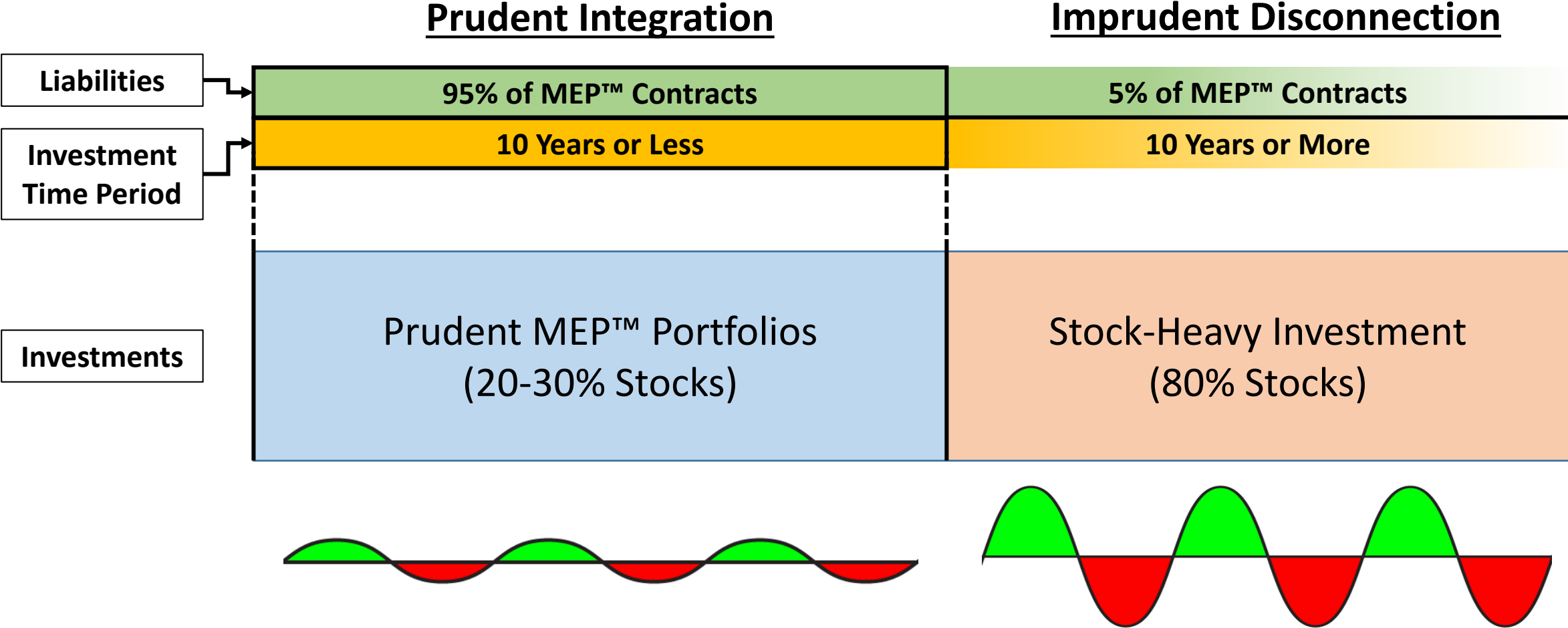
- Prudent established a prudent integration between the relevant **investment time period** in which MFDA members must satisfy their liabilities and the broadly and deeply diversified **MEP™ portfolios** (compared to the imprudent disconnection between that **time period** and **stock-heavy investments**)
- MEP™ portfolios with 20-30% stocks are exposed to only 20-30% of the random volatility of the stock market (compared to an investment with 80% stocks which is exposed to 80% of that volatility)
- This lower volatility minimizes percentage losses in stock market downturns which helps reduces the dollar shortfalls that MFDA members may have to pay out-of-pocket in such times (the MEP™ portfolios also minimize percentage gains)
- When another 2008 comes along - a wholly unpredictable 37% plunge in value of the stock market – would an MFDA member rather run the risk of bearing out-of-pocket 80% of that plunge in value or 20-30% of it?

Lower Volatility MEP™ Portfolios

Minimize Percentage Losses to Reduce Payment of Dollar Shortfalls

	Value Start of Year 1	Year 1 Return	Year 2 Return	Simple Average Return	Compound Return	Value End of Year 2
80% Stock Investment (higher volatility)	\$1.00	+50%	-50%	0%	-13.4%	<u>\$0.75</u> (+33.3%)
MEP™ Portfolio With 20-30% stocks (lower volatility)	\$1.00	+10%	-10%	0%	-0.5%	<u>\$0.99</u> (+1%)

Investment Time Period and Investments



Summary - MUCH Applause!

The investment objective of MFDA Members is to satisfy their liabilities on an inflation-adjusted basis without having to cover any dollar shortfalls out-of-pocket

The broadly and deeply diversified MEP™ portfolios designed by Prudent are meant to help meet this objective in two ways:

First, the portfolios are meant to keep up with the ever increasing costs of funeral inflation on an annual inflation-adjusted basis of 3.5% over time

Second, the 20-30% allocation to stocks in the portfolios are meant to help avoid by far the biggest risk to MFDA members: stock market volatility

The portfolios minimize percentage losses in stock market downturns, thereby helping to reduce dollar shortfalls that MFDA members may have to pay out-of-pocket in such times

The relatively small allocations to stocks in the portfolios mean that any percentage gains will also be minimized

The possibility of earning big returns is conceivable only by investing a large portion of a portfolio in stocks but, by definition, that exposes investors to the possibility of suffering big losses - there are no “free lunches” in investing!

Those singing the siren song of promising big returns with stock-heavy portfolios in the context of the short investment time period faced by MFDA members are on the wrong side of the principles of Modern Portfolio Theory, the law of modern prudent fiduciary investing as well as basic arithmetic

Prudent's Investment Options for MEP™

Contract Holder Pays Taxes	MEP™ Escrow Agent Pays Taxes
PIA Dimensions Lower Funeral Inflation Portfolio SM	PIA Dimensions Lower Funeral Inflation QFT Portfolio SM
PIA Dimensions Target Funeral Inflation Portfolio SM	PIA Dimensions Target Funeral Inflation QFT Portfolio SM
PIA Dimensions Higher Funeral Inflation Portfolio SM	PIA Dimensions Higher Funeral Inflation QFT Portfolio SM
PIA Dimensions Merchandise Inflation Portfolio SM	PIA Dimensions Merchandise Inflation QFT Portfolio SM
PIA Dimensions CD Portfolio SM	PIA Dimensions CD QFT Portfolio SM

Fact Sheet for a PIA Dimensions PortfolioSM

PIA Dimensions Higher Funeral Inflation PortfolioSM

Higher
Inflation
Portfolio

The PIA Dimensions Higher Funeral Inflation PortfolioSM targets an average annual rate of return of 4.70%. This targeted return is HIGHER than the historical rate of wholesale funeral inflation (3.53%¹) experienced over the five years ending December 31, 2013. This portfolio is designed for funeral directors who expect that inflation for the cost of funeral goods and services will be higher in the future than it has been in the previous five years.



Target Portfolio Allocation as of 4.1.2015



Annual Portfolio Cost as of 4.1.2015 0.36%²

Portfolio Target Fund Allocation

Fund Name	Symbol	Allocation
DFA US Core Equity 2 Portfolio	DFQTX	14%
DFA International Core Equity Portfolio	DFIEX	7%
DFA Emerging Markets Core Equity	DFCEX	3%
DFA Global Real Estate Securities Portfolio	DFGEX	2%
DFA Inflation Protected Securities	DIPSX	15%
DFA One-Year Fixed Income Portfolio	DFIHX	13%
DFA Short Term Extended Quality Portfolio	DFEQX	15%
DFA Short Term Government Portfolio	DFFGX	5%
DFA Two-Year Global Portfolio	DFGFX	10%
DFA Five-Year Global Portfolio	DFGBX	9%
DFA Intermediate Government Fixed Income Portfolio	DFIGX	7%

¹ The Foresight Companies, LLC FSI-1 and FSI-2 Inflation Indices, 5-YR period ending 12.31.2013

² Includes an estimate of 0.15% to approximate PIA's flat annual investment management fee

The PIA Dimensions MFDA PortfoliosSM

The PIA Dimensions MFDA PortfoliosSM, created by Prudent Investor Advisors (PIA), provide funeral directors with a number of investment options to satisfy their prepaid funeral contract obligations. These portfolios offered by PIA incorporate the standard of care required by Michigan's Funeral and Cemetery Sales Act as well as the Michigan Prudent Investor Rule.

Ultimately, inflation is the primary risk that funeral directors face when entering into a prepaid funeral contract. More specifically, this risk is the inflation rate for the wholesale cost of funeral-related goods and services. The PIA Dimensions MFDA PortfoliosSM provide funeral directors with the opportunity to manage their own expectations for inflation in order to mitigate their future prepaid liabilities.

All the PIA Dimensions MFDA PortfoliosSM are based on the Nobel Prize-winning Modern Portfolio Theory as well as an emphasis on the Fama/French Six-Factor Financial Economic Model. This approach, grounded in academic research that has withstood rigorous open review for many years, does not rely on analysts' forecasts or opinions about financial markets, but instead incorporates the key factors that drive the long-run performance of these markets.

Each PIA Dimensions MFDA PortfolioSM holds approximately 13,000 individual securities from nearly four dozen countries. Worldwide diversification minimizes the potential negative short-term impact that any one company, asset class, or country may have on a portfolio. This reduces overall portfolio risk, allows full exposure to the returns provided by financial markets and limits style drift. However, diversification does not eliminate the potential for investment loss.

Description

Inflation Chart

Pie Chart

Fund Allocation

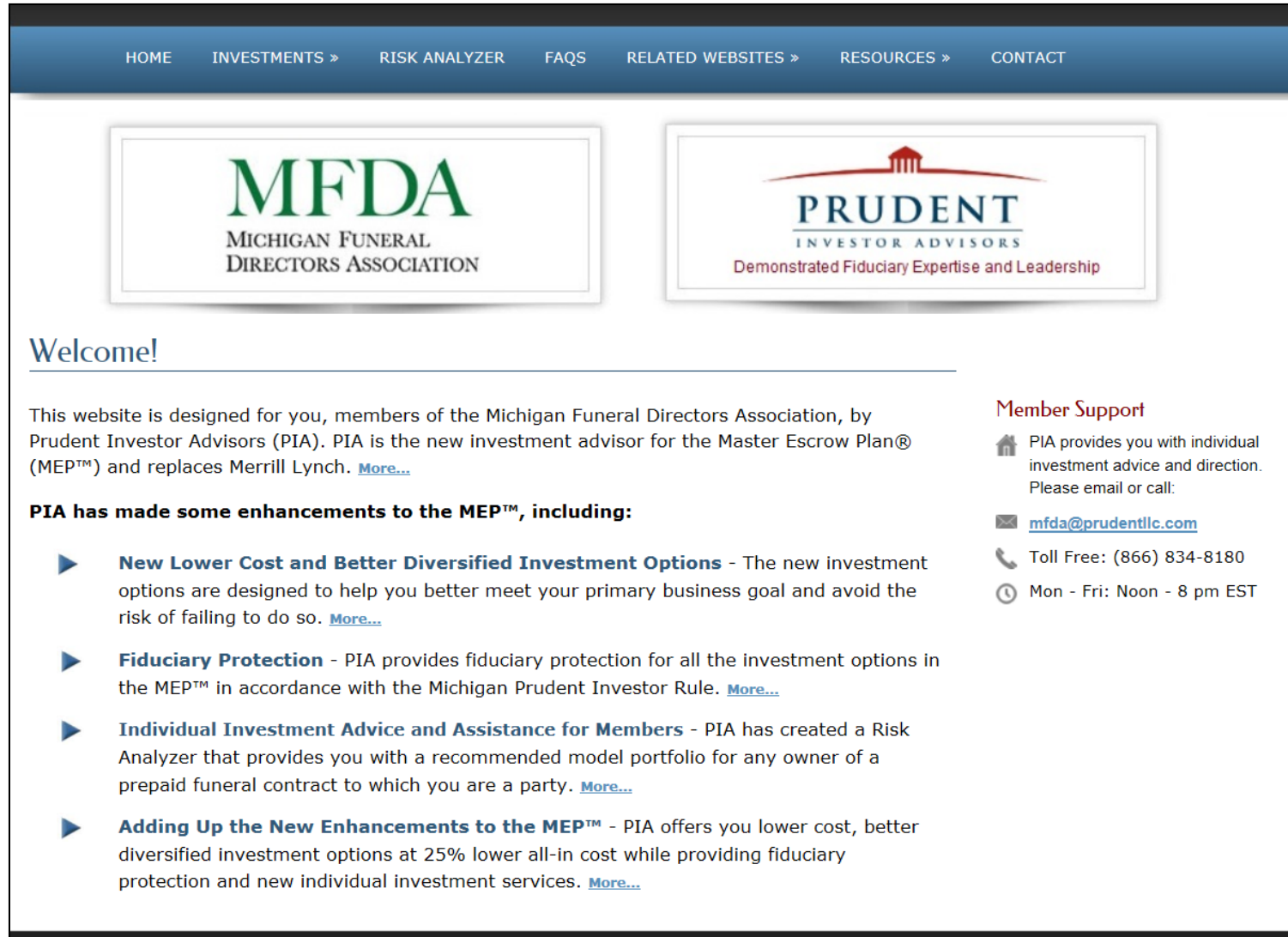
Investment Philosophy

Summary of the MEP™ QFT Investment Options*

Investment Option	Objective	Funeral Inflation Outlook	Typical Asset Allocation Range	Taxes Paid By ¹
PIA Dimensions CD PortfolioSM	Provides returns generated by bank certificates of deposit	N/A	100% insured CDs	Trust
PIA Dimensions Lower Funeral Inflation PortfolioSM	Targets an average annual return that is LOWER than the historical rate of funeral inflation (3.88%)	Lower	5%-10% Stocks 85%-90% Fixed Income	Trust
PIA Dimensions Target Funeral Inflation PortfolioSM	Targets an average annual return that is SIMILAR to the historical rate of funeral inflation (3.88%)	Similar	7%-15% Stocks 85%-93% Fixed Income	Trust
PIA Dimensions Higher Funeral Inflation PortfolioSM	Targets an average annual return that is HIGHER than the historical rate of funeral inflation (3.88%)	Higher	10%-20% Stocks 80%-90% Fixed Income	Trust
PIA Dimensions Merchandise Inflation PortfolioSM	Targets an average annual return that is SIMILAR to the historical rate of funeral Merchandise inflation (5.09%)	Similar	15%-25% Stocks 75%-85% Fixed Income	Trust

*There are also five non-QFT investment options - identical to the five QFT options - whereby the pre-need contract-holder pays taxes.

Dedicated Prudent MEP™ Website for MFDA Members



The screenshot shows a website with a blue navigation bar at the top containing links for HOME, INVESTMENTS », RISK ANALYZER, FAQs, RELATED WEBSITES », RESOURCES », and CONTACT. Below the navigation bar are two logos: the MFDA (Michigan Funeral Directors Association) logo on the left and the Prudent Investor Advisors logo on the right, which includes the tagline "Demonstrated Fiduciary Expertise and Leadership".

Welcome!

This website is designed for you, members of the Michigan Funeral Directors Association, by Prudent Investor Advisors (PIA). PIA is the new investment advisor for the Master Escrow Plan® (MEP™) and replaces Merrill Lynch. [More...](#)

PIA has made some enhancements to the MEP™, including:

- ▶ **New Lower Cost and Better Diversified Investment Options** - The new investment options are designed to help you better meet your primary business goal and avoid the risk of failing to do so. [More...](#)
- ▶ **Fiduciary Protection** - PIA provides fiduciary protection for all the investment options in the MEP™ in accordance with the Michigan Prudent Investor Rule. [More...](#)
- ▶ **Individual Investment Advice and Assistance for Members** - PIA has created a Risk Analyzer that provides you with a recommended model portfolio for any owner of a prepaid funeral contract to which you are a party. [More...](#)
- ▶ **Adding Up the New Enhancements to the MEP™** - PIA offers you lower cost, better diversified investment options at 25% lower all-in cost while providing fiduciary protection and new individual investment services. [More...](#)

Member Support

PIA provides you with individual investment advice and direction. Please email or call:

- ✉ mfda@prudentic.com
- ☎ Toll Free: (866) 834-8180
- 🕒 Mon - Fri: Noon - 8 pm EST

Prudent's Enhanced Services to MFDA Members

- Dedicated MEP™ toll-free phone number: (866) 834-8180
- Dedicated MEP™ email: mfda@prudentllc.com
- Investment advice provided to MFDA members
- Series of education/advice group meetings in districts across Michigan to introduce the Prudent MEP™ investment options to MFDA members
- Periodic webinars

Making the Best Use of MFDA's Master Escrow Plan™

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Questions and Answers