Fi360

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The Evolving QDIA Landscape

What Defined Contribution Plan Professionals Should Know

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Agenda

1. QDIAs in Defined Contribution Plans
2. Focusing on Managed Accounts as a QDIA
3. Using Managed Accounts as a QDIA
4. The Impact of Managed Accounts as a QDIA

The History of QDIAs in DC Plans

1990s – TDFs Launched by Wells Fargo, Barclays Global Investors (1994,) and Fidelity (1996)

2006 – TDF Popularity Boosted by PPA Safe Harbor & Auto Enrollment

2008 – Financial Crisis Prompts Regulators Attention

2013 – DOL Publishes TDF Tips for Fiduciaries

Today and Tomorrow – Custom TDF Adoption and Managed Account Advice – The Future?

Source: OppenheimerFunds, 2018.

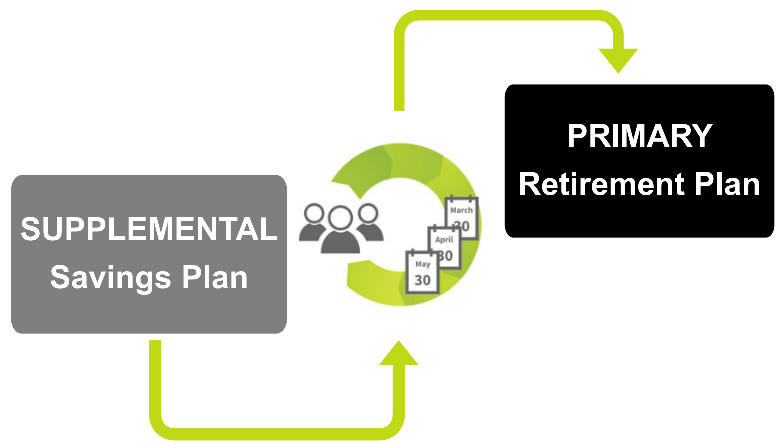
Automatic Enrollment

The passage of PPA in 2006 provided ERISA safe harbor allowing:

- Plan fiduciaries to invest auto-enrolled participant assets in certain types of default investments in the absence of participant investment direction
- Employers to help unengaged participants improve retirement readiness

Auto Enrollment

has enabled the practical evolution of DC Plans



Source: ERISA 29 CFR §2550.404c-5.

Safe Harbor Fiduciary Relief

For safe harbor fiduciary relief, the following must be met:

- Participants must have the opportunity to provide investment direction
- Absent election by the participant, assets must be invested in the plan's qualified default investment alternative (QDIA)
- Initial and annual participant notice describing:
  - ✓ Which assets will be invested in QDIA
  - ✓ QDIA investment objective
  - ✓ Participant's right to direct investments out of the QDIA
- QDIA investment-related materials provided to participants at least annually
- Participants have the opportunity to direct investments out of the QDIA without financial penalty and with same frequency as other plan investments
- Plan must offer a "broad range of investment alternatives"

Source: ERISA 29 CFR §2550.404c-5.

QDIA Requirements

A QDIA must meet the following:

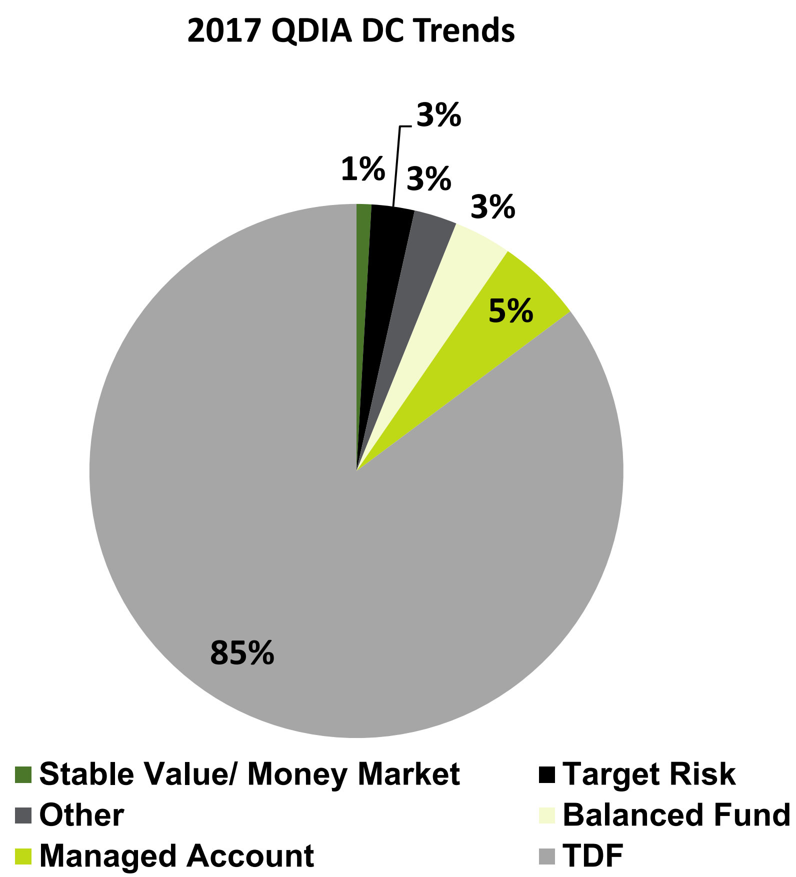
- Cannot impose penalties or restrict participants ability to transfer to other plan investment options
- Cannot invest directly into employer securities
- Must be a mutual fund or managed by a 3(38) investment manager/trustee, or a plan fiduciary under ERISA
- Must be diversified to minimize risk of large losses

- Three broad categories of QDIAs:
  - ✓ Risk-based products/models (Target Risk or Balanced Funds)
  - ✓ Age-based products/models (Target Date Funds including Custom Target Date Funds)
  - ✓ Managed accounts

- Determination of QDIA eligibility is a plan sponsor fiduciary decision
- Plan fiduciaries are responsible for the prudent selection and monitoring of a QDIA

Source: ERISA 29 CFR §2550.404c-5.

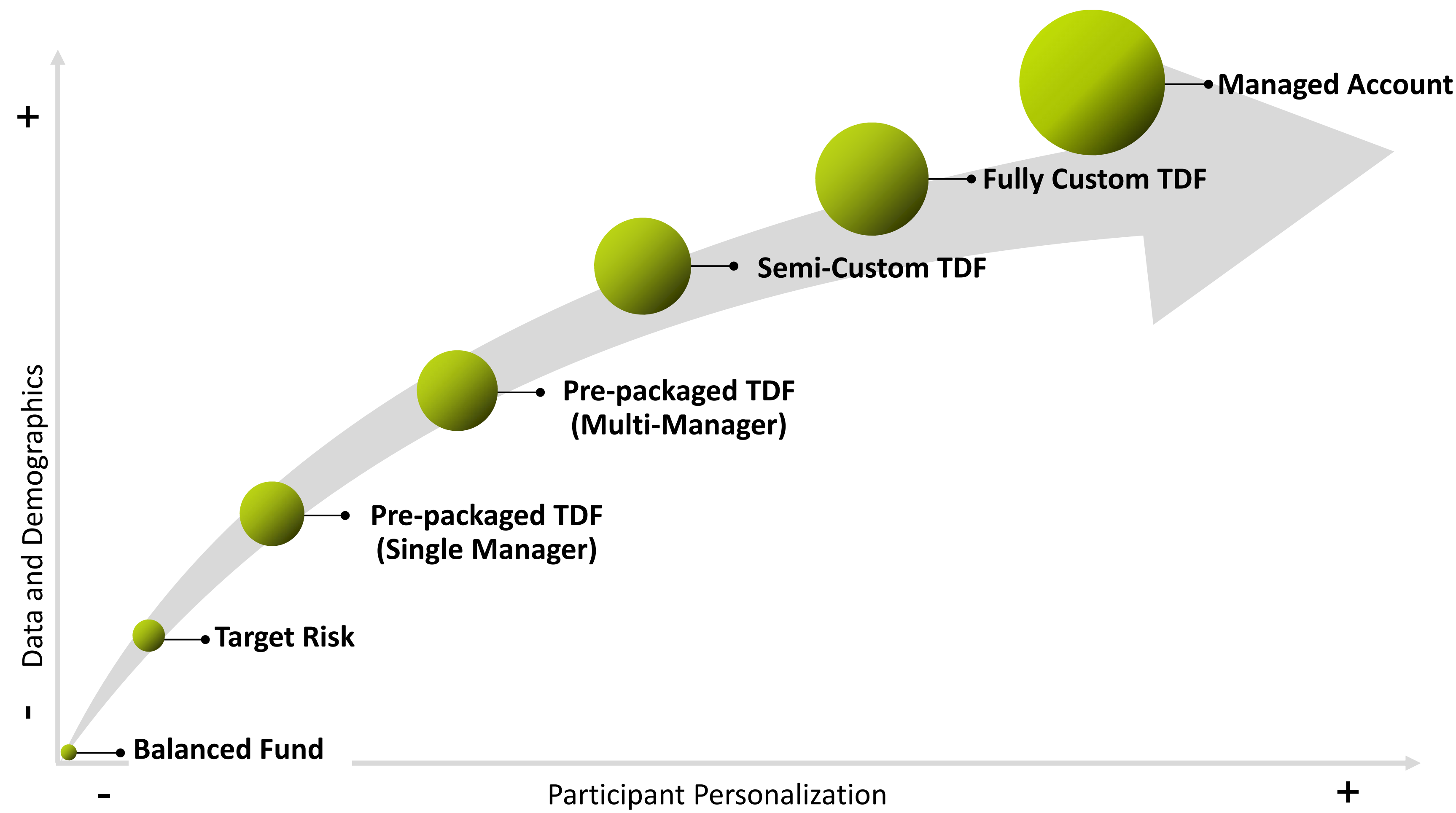
QDIAs Today



98.8% of DC Plans have a QDIA as the Default Investment

Source: Callan, 2018 DC Trends Survey of 152 DC plan sponsors representing plans with assets from <$50m to >$5b.

QDIA Evolution to Customization



Source: OppenheimerFunds, 2018.

Meeting Plan Sponsors Needs

Plan Sponsors continue searching for retirement plan expertise in the following areas:

- Improving plan performance
- Managing fiduciary responsibilities
- Minimizing costs
- Providing regulatory updates
- Providing insight into participant trends and behaviors
- Monitoring investment options

38% are actively looking for a new plan advisor, despite high levels of satisfaction.

Source: 2018 Fidelity Plan Sponsor Attitudes 8th Edition Survey Results – Trends and Opportunities in the DC Market

For Institutional Use Only

What is a Managed Account?

A managed account is a professionally managed investment service which provides ongoing management of a individual participant's account.

- ✓ Can be highly personalized to the participant; account for many personal variables
- ✓ Professional, active investment management
- ✓ Leverages core menu enabling easy replacement of underperforming funds
- ✓ Ability to support a supplemental line up provided by an advisor and plan sponsor
- ✓ Individual investment advice
- ✓ QDIA-eligible
- ✓ Can provide retirement income and draw-down strategies

2 out of 3 Consultants

agree that Managed Accounts produce better performing portfolios than do-it-yourself investing*

Source: PIMCO's 12th Annual DC Consulting Support and Trends Survey, March 2018.

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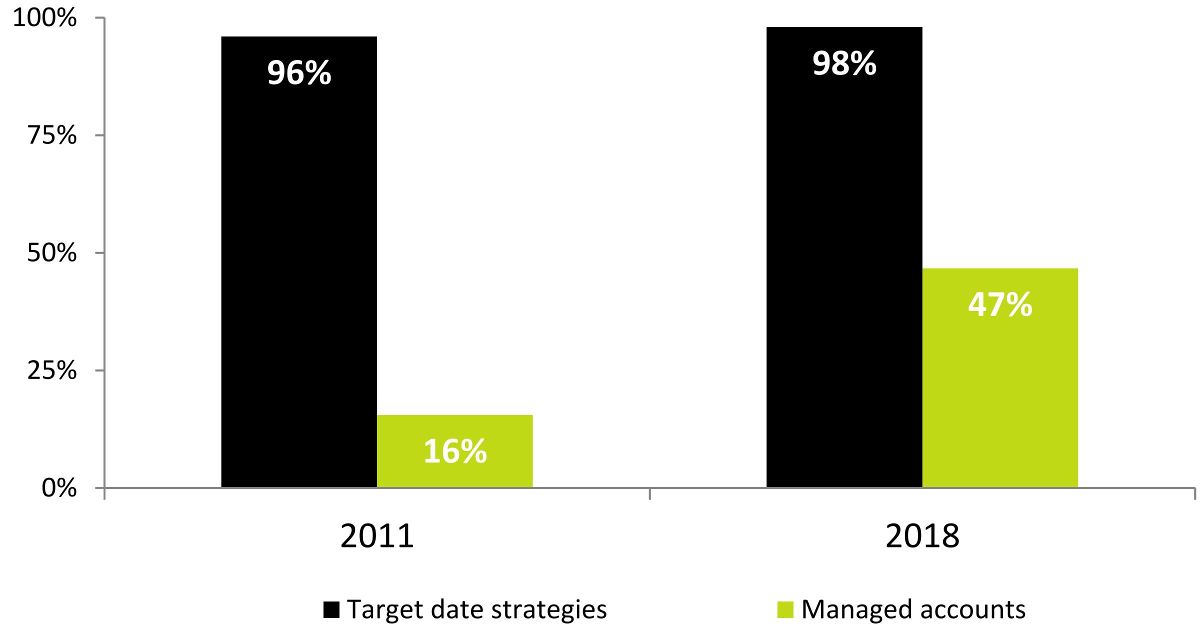
DC Plans Should Offer a Range of Solutions

DO-IT-YOURSELF	DO-IT-FOR-ME	
Core Fund Lineup/ Tools & Research For employees actively engaged in managing their own retirement accounts.	**Target Risk Funds/ Target Date Funds** For employees who want an asset allocation based on risk profile or estimated retirement age.	**Managed Accounts** For employees who want an asset allocation based on their individual situation, including factors such as age, time horizon, risk profile, and overall financial situation.

More Plans Are Offering Both Target Date Strategies and Managed Accounts

Nearly half of Fidelity plans offer both target date strategies and managed accounts[1]

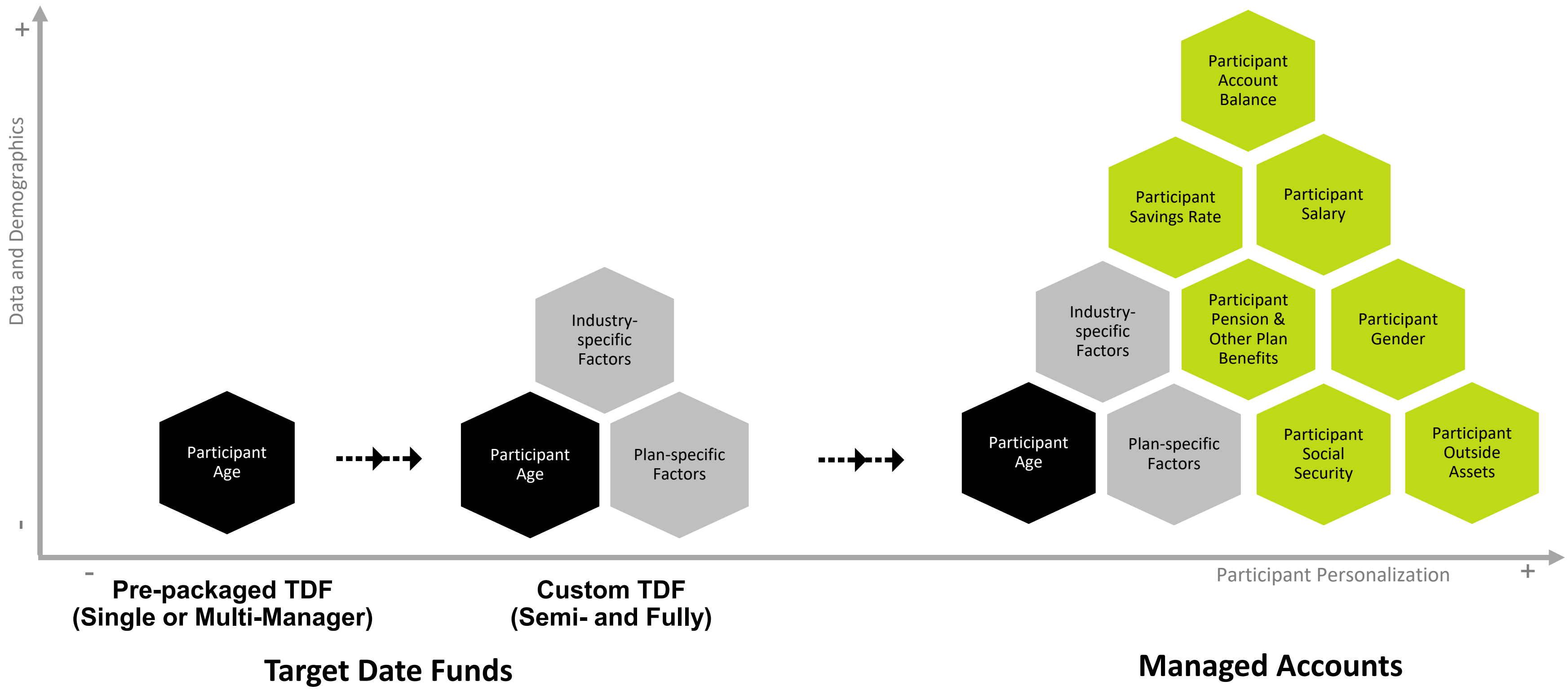


And the trend continues in the broader industry…
16% of plan sponsors plan to add a managed account solution this year[2]

Source: [1] Based on Fidelity Investments record-kept data including both Defined Contribution clients and plans in our Strategic, Large, and Select market segments only, as of 09/30/2018 that currently offer a managed account service. [2] The Cerulli U.S. Retirement Markets Report 2017.

"What We Know" is Driving Customization

- Technological advancements have increased access to data
- Amount and quality of participant data available has improved substantially
- Access to more participant data points facilitates customization



Source: OppenheimerFunds, 2018.

How Managed Accounts Work

- Customized at the individual level based on both plan data and participant inputs
- Utilize plan's core line-up as well as investments outside of the plan
- Factors participant objectives, preferences, and circumstances over time
- 3(38) Investment Manager assumes fiduciary responsibility for investment decisions and allocations*

*ERISA 29 CFR §2550.405(d)(1)

The "Dual" QDIA

- A "Dual" QDIA is a hybrid solution that begins with a default investment in a professionally managed TDF (QDIA) that at a set time transitions to a default investment in a managed account (QDIA.)
- The transfer from the TDF (QDIA) to the managed account (QDIA) is triggered by account balance or age as designated by the plan fiduciary.
- The transfer itself is achieved through participant reenrollment into the managed account.

Plan sponsor sets criteria to determine each participant's default investment (age, account balance, other indicators of financial complexity) →

Participants initially default into the plan's **Target Date Fund[1]** →

Participants are evaluated annually or at a frequency determined in consultation with the plan sponsor[2]

→ Some participants remain in the plan's **target date fund**

→ Some participants default into **the managed account**

Source: [1]Initial default could be a Target Date Fund or other fund as determined by the plan (e.g., lifecycle fund, balanced fund), of which participants can opt out and choose a different investment option in the plan at any time. [2]The annual evaluation provides participants the opportunity to opt out of the automatic enrollment into Personalized Planning & Advice. [3]Participants can unenroll from the managed account and/or choose a different investment option in the plan at any time. In the instance they choose to opt out, they will not be included in the following year's annual evaluation and passive enrollment campaign.

Potential Benefits of the "Dual" QDIA Approach

- Flexibility in selection of new or existing TDF (pre-packaged, semi-custom, fully custom) for the initial investment period
- 3(38) Investment Manager may assume fiduciary responsibility for managed account investment decisions and allocations[1]
- Plan sponsors can introduce greater portfolio personalization to those participants nearing retirement age when investment customization is most meaningful

Plan sponsor sets criteria to determine each participant's default investment (age, account balance, other indicators of financial complexity)

→

Participants initially default into the plan's **Target Date Fund**[2]

→

Participants are **evaluated annually** or at a frequency determined in consultation with the plan sponsor[3]

→ Some participants remain in the plan's **target date fund**

→ Some participants default into **personalized planning & advice**[4]

Source: [1]ERISA 29 CFR 2550.405(d)(1) [2]Initial default could be a Target Date Fund or other fund as determined by the plan (e.g., lifecycle fund, balanced fund), of which participants can opt out and choose a different investment option in the plan at any time. [3]The annual evaluation provides participants the opportunity to opt out of the automatic enrollment into Personalized Planning & Advice. [4]Participants can unenroll from the managed account and/or choose a different investment option in the plan at any time. In the instance they choose to opt out, they will not be included in the following year's annual evaluation and passive enrollment campaign.

Roles and Relationships with Managed Accounts

Review & Update
Investment Policy Statement

Plan Advisor
- Plan Consultant
- Investment Advisor
- Influences Recordkeeper Selection

Plan Sponsor
- Act as Plan Fiduciary
- Designate QDIA Consistent with Plan IPS
- Hires Managed Account Provider

Recordkeeper
- Integrates plan and participant data
- Provides operations & technology infrastructure
- May be a Managed Account provider
- May provide call center and participant education

Participants
- Default or Opt-in/ Opt-out to QDIA
- Provide outside-of-plan personal information

Third Party Managed Account Provider
- 3(38) Investment Manager
- Registered Investment Advisor
- May provide call center and participant education

Source: OppenheimerFunds, 2018.

Managed Account Provider Considerations

Consider these questions when hiring a Managed Account provider:

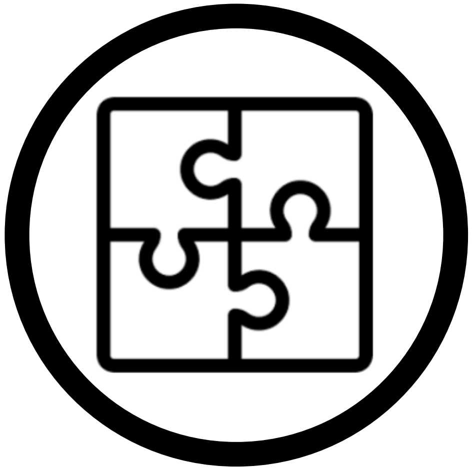
1. What is the fiduciary responsibility of a plan sponsor and what is the fiduciary responsibility of the managed account provider?
   - [ ] Experienced
   - [ ] Willing and able to assume fiduciary status
   - [ ] Trustworthy
   - [ ] Prudent
   - [ ] Committed
   - [ ] Reasonable fees
2. What is the minimum plan size required to offer a managed account service?
3. What kind of plan line up is required to support a managed account? Will the advice provider leverage a plan provided supplemental line up?
4. How is the Managed Account Contract constructed? Who are the parties that sign — Recordkeeper, 3(38)?
5. What are the fees for the service?

Summary of DOL Field Assistance Bulletin 2007–01 was issued by the DOL following the enactment of the Pension Protection Act of 2006 to specifically address employer concerns about responsibilities when offering a nondiscretionary investment advice program. It provides a detailed summary of the duties involved in selecting and monitoring a plan investment adviser.

Managed Account Provider Considerations

Consider these questions when hiring a Managed Account provider:

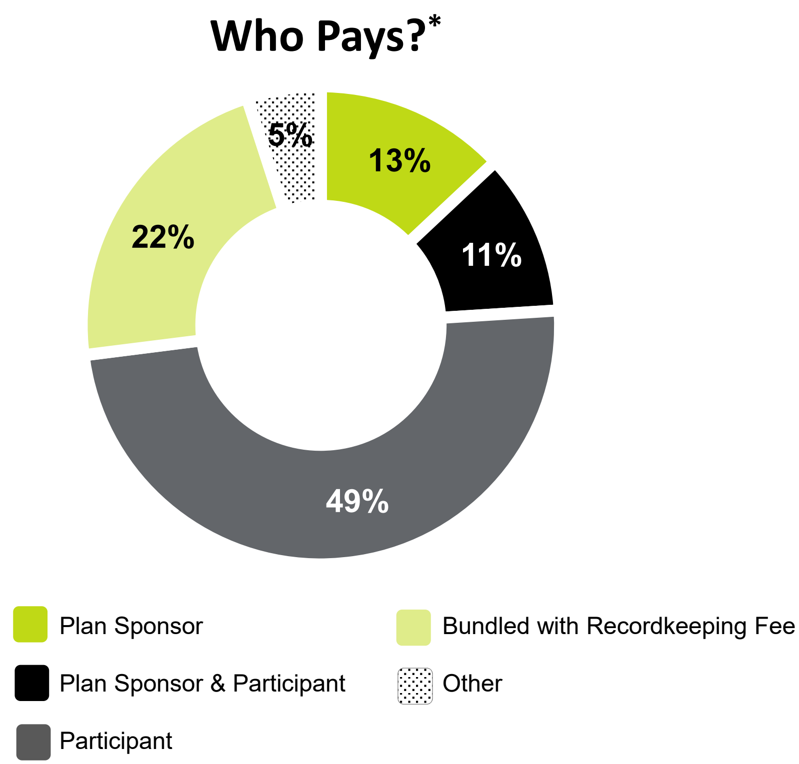
6. Are fees paid from plan assets or participant accounts?
7. What are the fees if the plan is and is NOT using the Managed Account as the QDIA? How is the Managed Account provider paid?
8. What is the participant experience?
9. When participants have questions on managed accounts who do they call?
10. Does the advice provider offer planning and advice to all participants in the plan? Who do they believe should be in a Target Date/Risk Based portfolio vs the managed account? Does this philosophy align with you the plan sponsors participant design?



Fees and Costs

Consider the following aspects when evaluating value-for-fee:

- Structuring of fees dependent on implementation approach*
- Negotiable and may be bundled with other provider fees
- Fees may be lower if implemented as a plan default option
- To offset fee concerns, some plan sponsors prefer "Dual QDIA" solutions to focus managed accounts to those participants nearing retirement age when reduction of risk is critical and portfolios tend to be more complex**

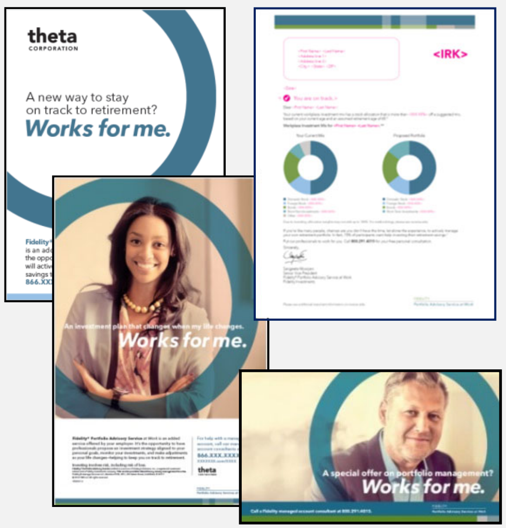


Source: *Callan, 2018 DC Trends Survey of 152 DC plan sponsors representing plans with assets from <$50m to >$5b. **Society for Human Resource Management, August 2017.

Education and Communication

Awareness Program

Robust awareness, education and incentive programs to generate interest among participants

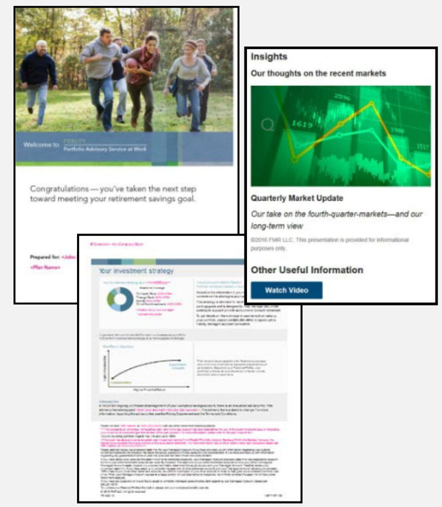


Enrollment and Onboarding

Digital experience and call center representatives that makes it easy for participants to enroll in the service

Post-Enrollee Follow Up

Participants receive customized welcome kits and quarterly market updates



Images are for illustrative purposes only.

Results Matter

Key observations of participants who enroll Fidelity's workplace managed account

INCREASED DEFERRALS	BETTER DIVERSIFICATION	POTENTIAL LOWER RISK	STAY INVESTED
2x	64%	2x	97%
Participants are 2X as likely to increase their deferral rates during the quarter in which they enroll in Fidelity's workplace managed account	Most participants are inappropriately allocated prior to signing up for our managed account	Participants in PAS-*W* experienced a 2x narrower range of risk compared to do-it-yourself Investors	Retention rate among participants who join PAS-*W* managed account service

Source: Fidelity Investments record kept plans that currently offer Fidelity Personalized Planning & Advice.

Results Matter

Managed account participants' savings rates increased by nearly 28%*

87% of participants

Increased savings rate after advice*

If holdings are a valid measure of diversification, a recent study found that participants in a Managed Account held an average

11 funds vs. 5

in a participant-directed 401(k)†

Source: *Morningstar, "Selecting the Optimal QDIA- Where Do Managed Accounts Fit?," 2018. †Fidelity Investments, 2018.

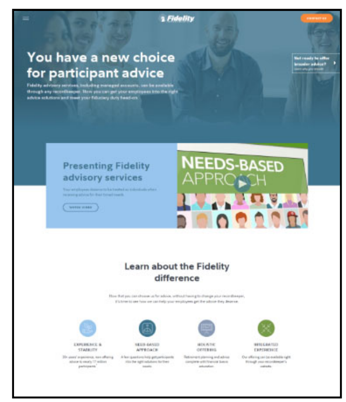
Ways We Can Help You

- Contact your OppenheimerFunds' Retirement Consultant at 800-734-5222 to assist you every step of the way with specialized expertise.

Oppenheimerfunds.com/advisors

- For Fidelity's third party record keeper advice solution contact Anthony Karamas at 617-392-2984 or contact your Fidelity relationship manager.

go.fidelity.com/advice



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The date in a target date fund's name refers to the approximate year when an investor in the portfolio is assumed to retire and likely would stop making new investments in the portfolio, and may plan to start withdrawing money. Using an asset allocation "glide path" (how the asset allocation changes as the target date nears), the portfolios generally become progressively more conservative until and after the approximate date of an investor's "transition" into retirement. An investment, including the principal value, in a target date fund is not guaranteed and a portfolio can suffer losses, including losses near, at, or after the transition date, and there is no guarantee that a portfolio will provide adequate income at and through the investor's retirement.

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