

# The Growing Appeal of CITs in Retirement Plans

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# Today's Speakers



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# What Are CITs?

- Pooled investment vehicles generally not subject to the '40 Act held by a bank or other trustee
- Generally only available to certain retirement plans, including 457 plans and most ERISA plans
- We've seen them used by foundations, endowments, and some HNW individuals
- Not available to 403(b) plans for the most part except some church and HR10 plans
- A1 and A2 funds go by common trust funds and collective investment funds respectively—we will just stick to CIT

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# How Do CITs Benefit Retirement Plans?

CITs can have a significant cost advantage

- Generally, CITs offer the same strategy as existing mutual funds
- We compared the net expense ratio of the CIT tiers and mutual fund share classes
  - CITs are cheaper **91% of the time overall**
  - CITs are cheaper **82% percent of the time** when comparing the least expensive CIT and mutual fund classes or tiers

Source: Morningstar Inc., data on strategies that offer a CIT. Data as of 6/30/2020.

# CITs Can Be Quite a Bit Cheaper for the Same Strategy

This difference is not driven by passive investment CITs

## Average Asset-Weighted Expense Ratio by Investment Vehicle and Management Style

	Active, %	Passive, %
Mutual Fund	.647	.077
Collective Investment Trust	.369	.048

Source: Morningstar Inc. Data as of 6/30/2020.

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## How Can CITs Do This?

And what's the catch?

- CITs are not marketed nor regulated like mutual funds
- In practice, CITs in retirement plans have comprehensive disclosures to comply with 408(b)(2)
- Mutual funds include sub-transfer agency fees
- Management fee itself may include revenue-sharing
- Some of these fees pay for services that are unbundled from CITs but need to be paid for somehow

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# Retirement Plans That Use CITs Can Cost Less

So they help participants save more for retirement

- Median asset-weighted expense ratio for retirement plans with at least one CIT is 10 basis points lower than plans without one
  - But this is only true for plans with more than \$25 million in assets
- These plans with CITs have \*slightly\* higher administrative costs
  - When sponsors use unbundled investments, they can negotiate lower fees
  - This is not unique to CITs

Source: Morningstar Inc., analysis of 2016 Form 5500 filings. Data as of 6/30/2020.

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# How CITs Have Penetrated the ERISA marketplace?

- More than one-quarter of ERISA DC assets are in CITs
- CITs are moving downstream to mid-size plans
- Many popular QDIA target-date funds are CITs

Source: Morningstar Inc., analysis of 2016 Form 5500 filings. Data as of 6/30/2020.



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# Why Are CITs Not Allowed In Most 403(b) plans?

- We don't think there's a good reason
- CITs are available in 457 plans and even some church plans
- CITs are even barred from ERISA-covered 403(b) plans
- So, we support the Public Service Retirement Fairness Act, which would allow CITs in 403(b) plans

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## **CITs in ERISA Plans are Regulated by the Department of Labor**

But other CITs are not regulated and have few reporting requirements

- While we support allowing CITs into 403(b)s
- We think it is worth exploring limiting these CITs to those already available in ERISA plans
- These CITs in ERISA plans often file a Form 5500 and their trustees are ERISA fiduciaries
- If they are successful in the 403(b) space, millions of people could be enrolled in these funds, which look like mutual funds, with little or no federal oversight



## More Reasons We Think an ERISA Nexus Is a Good Idea

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- There are a lot of CITs and most TDFs have a CIT sleeve; this enhancement will not reduce choice
- CITs include disclosures that are already available and fairly-standardized
- Enforcement mechanism through private action for ERISA plans
- Vetted by ERISA fiduciaries, allowing non-ERISA plans to free-ride

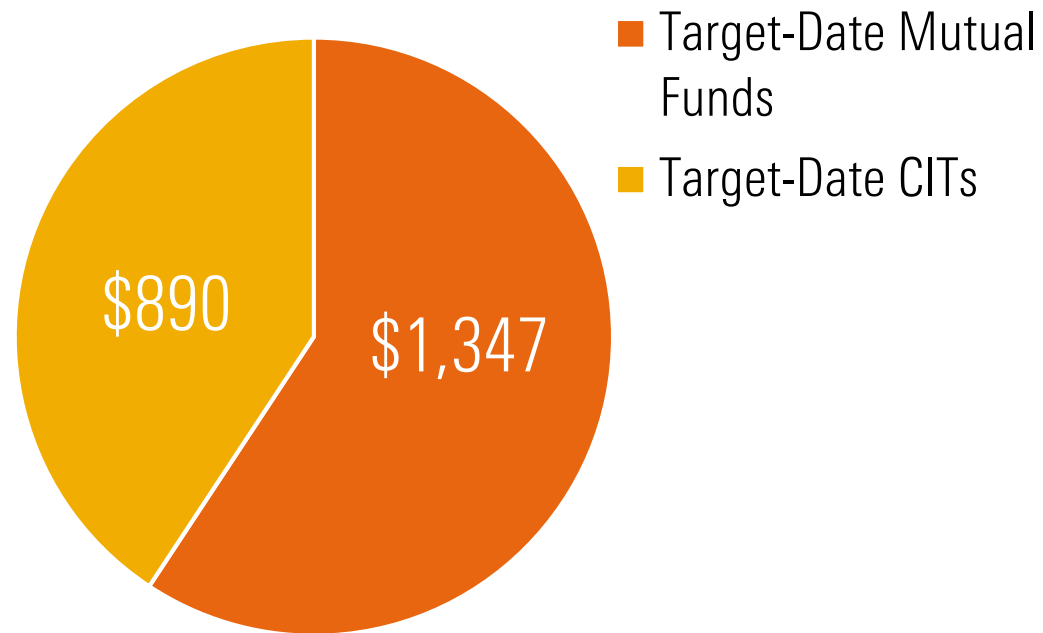
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## Concluding Thoughts

- We believe CITs can be a good mechanism for reducing fees
- It's time to modernize 403(b) plans

# State of the Target-Date Industry

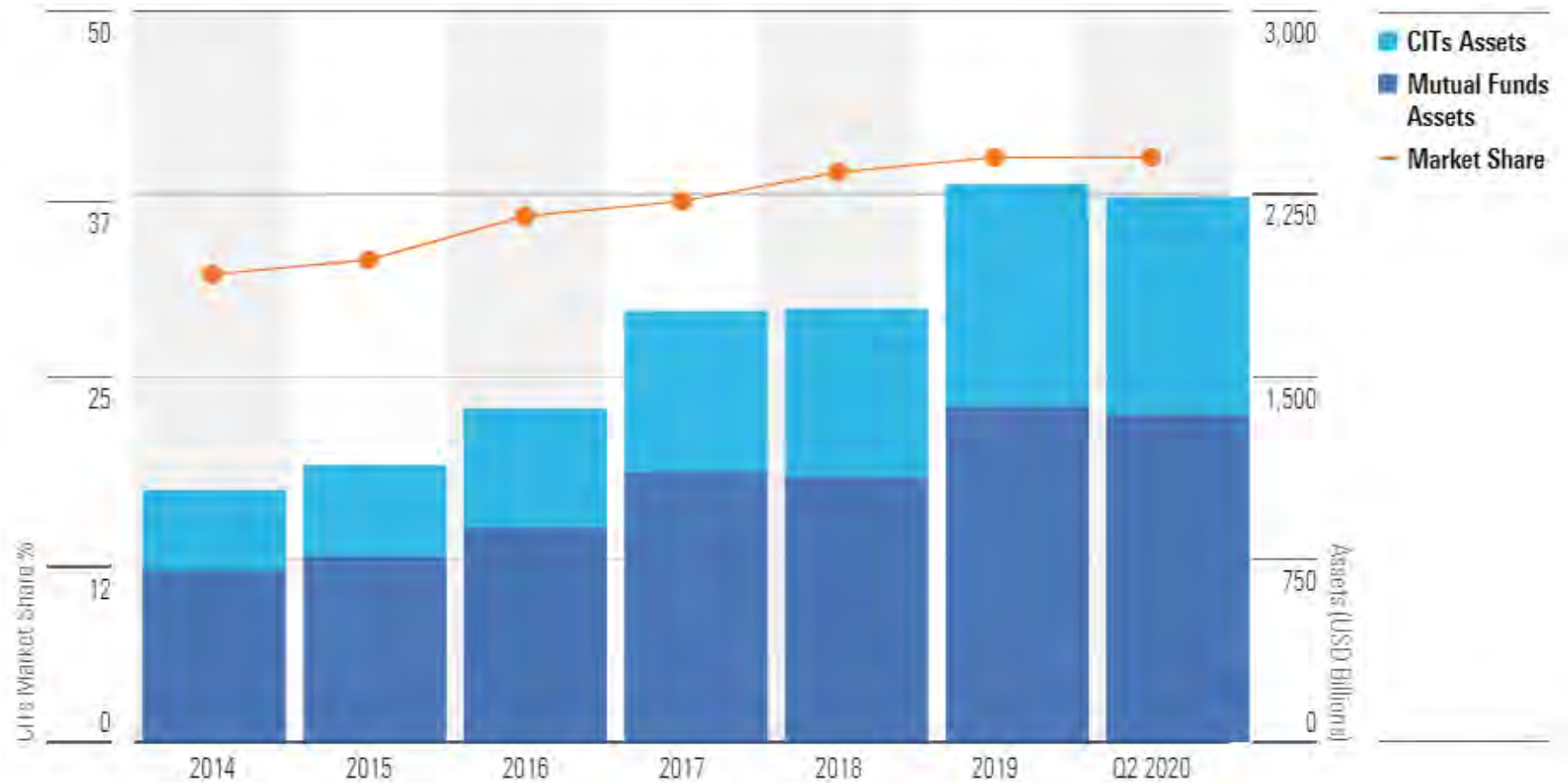
# Estimated Assets in Target-Date Strategies | Mutual Funds vs. Collective Investment Trusts – 6/30/2020



Source: Morningstar Investment Management LLC and Morningstar Direct

Note: Target-date CIT assets includes 3/31/2020 or 5/30/2020 assets for series that did not report 6/30/2020 assets prior to this report's production.

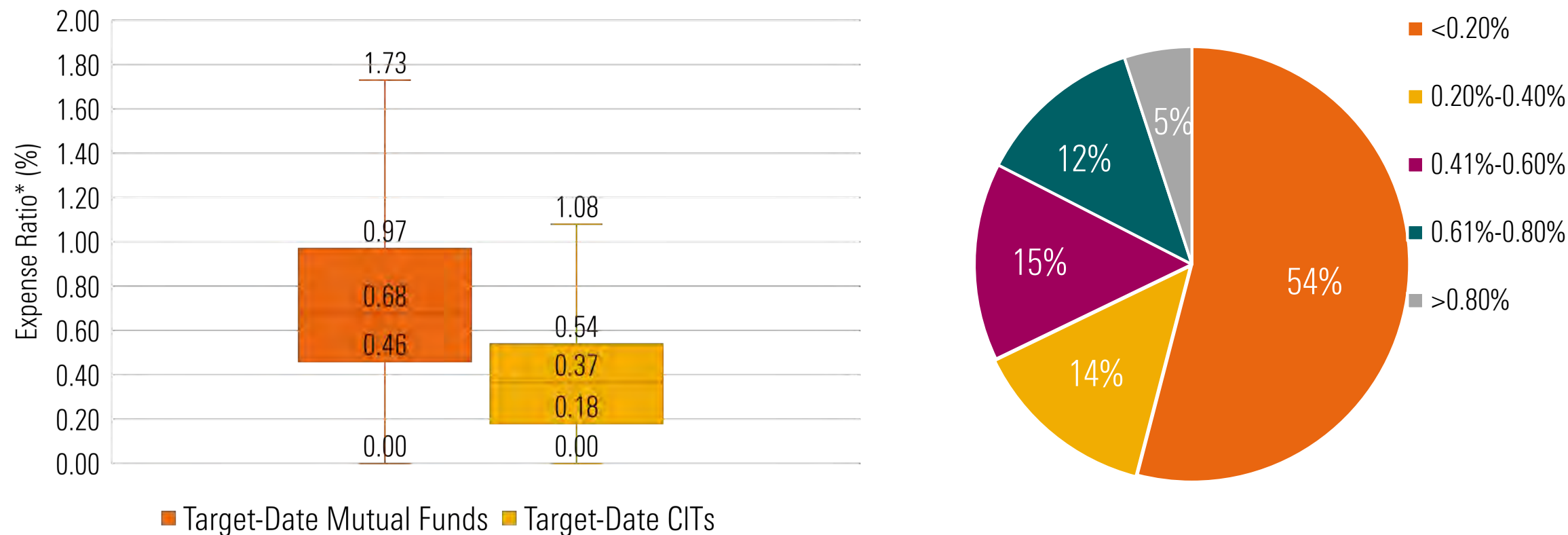
# Assets and CITs Market Share | Mutual Funds and Collective Investment Trusts – 6/30/2020



Source: Morningstar Direct. Data as of 6/30/20

Note: Target-date CIT assets includes 12/31/2019 or 3/31/2020 assets for series that did not report 6/30/2020 assets prior to this report's production.

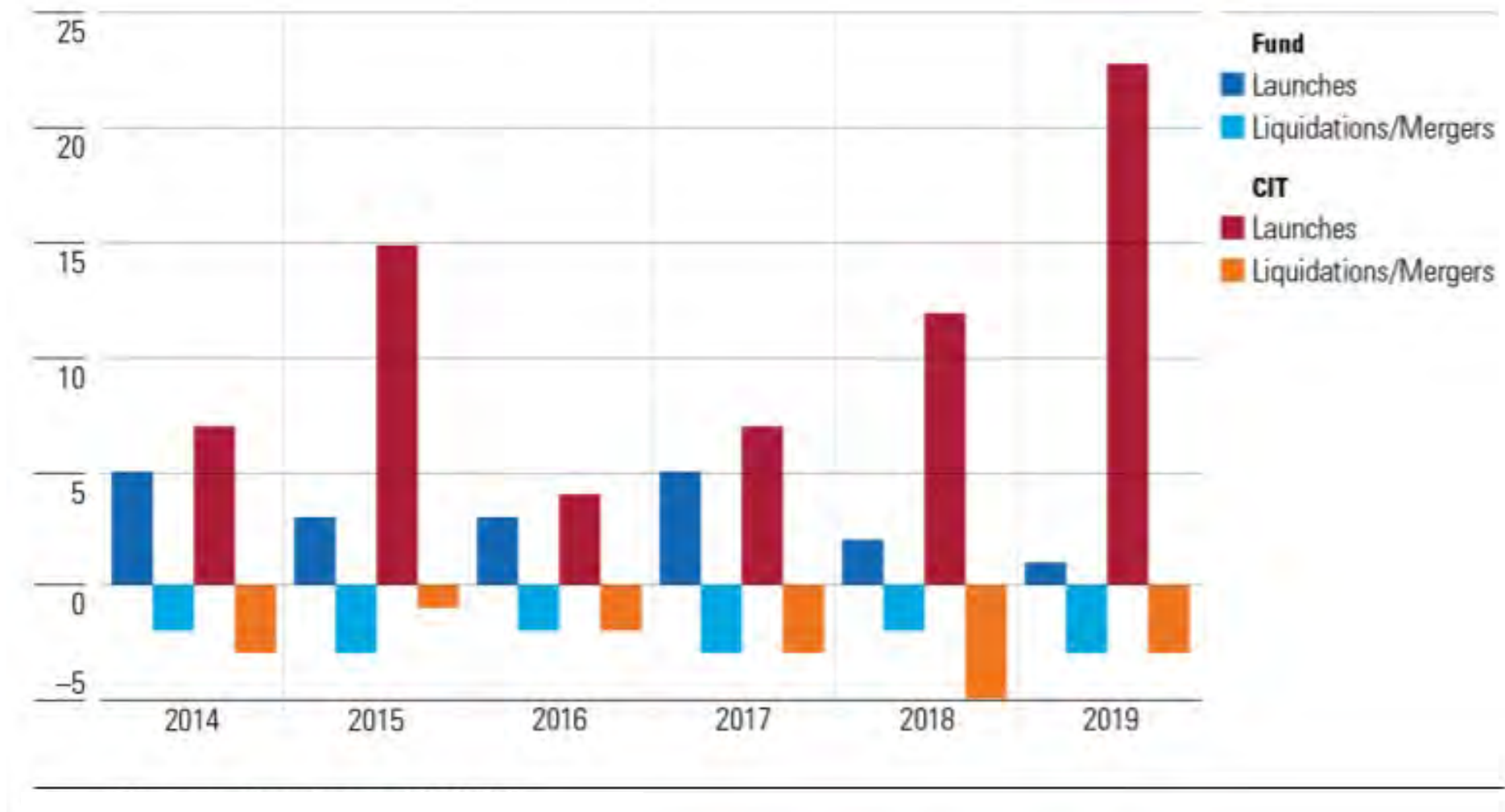
# Investors Pushing Costs Lower | Mutual Funds vs. Collective Investment Trusts



Source: Morningstar Investment Management LLC and Morningstar Direct. Data as of 3/31/2020  
Note: Target-date CIT assets includes 12/31/2019 or 2/29/2020 assets for series that did not report 3/31/2020 assets prior to this report's production.



# Target-Date Launches/Terminations, Count 2014-2019



Source: Morningstar Direct. Data as of 12/31/2019.

# Morningstar Analyst Ratings, CITs

Target-Date Series	Firm Name	Morningstar Analyst Rating	Pillar Rating			Legend
			People	Process	Parent	
BlackRock LifePath Index	BlackRock Inc	Gold		↓		<b>New Pillars</b> High Above Average Average Below Average Low
BlackRock LifePath Index	Wilmington Trust	Gold		↓		
BlackRock LifePath Index Non-Lendable	BlackRock Inc	Gold		↓		
BlackRock LifePath Index Non-Lendable	Wilmington Trust	Gold		↓		
JPMCB SmartRetirement Passive Bld	JPMorgan Chase Bank	Gold	↓			<b>Previous Pillars</b> Positive Neutral Negative  Upgrades Downgrades
JPMCB SmartRetirement	JPMorgan Chase Bank	Silver ↓	↓			
SSgA Target Retire Non-Lending	State Street Global Advisors	Silver				
SSgA Target Retire Lending	State Street Global Advisors	Silver				
T. Rowe Price Retirement	T. Rowe Price	Silver	↑			
Vanguard Target Retirement	Vanguard Group Inc	Silver ↓				
American Century Target Date	American Century Inv Mgmt Inc	Neutral				
IndexSelect Aggressive Retirement	Wilmington Trust	Neutral				
IndexSelect Conserv Retirement	Wilmington Trust	Neutral				
IndexSelect Moderate Retirement	Wilmington Trust	Neutral				
Schwab Managed Retirement Trust	Charles Schwab Bank	Neutral				
Manning & Napier Retirement Target	Manning & Napier Advisors, LLC	Neutral		↓		
Principal Lifetime Hybrid Target	Principal Global Investors Trust Co.	Neutral	↓			

Source: Morningstar Direct. Data as of 3/31/2020.

# Target-Date Funds' Performance in 2020

# Average Trailing Results of Target-Date Mutual Funds – 6/30/2020

Target Date	Q1 2020	Q2 2020	YTD as of 6/30/2020	1-YR as of 6/30/2020	1-YR Std Dev as of 6/30/2020
2060	-20.67	18.48	-5.99	1.54	20.80
2055	-20.43	18.45	-5.74	1.77	20.66
2050	-20.07	18.06	-5.63	1.69	20.22
2045	-19.79	17.95	-5.38	1.99	20.04
2040	-18.43	16.78	-4.72	2.26	18.67
2035	-16.85	15.71	-3.72	3.01	17.32
2030	-14.41	13.61	-2.68	3.29	15.01
2025	-12.32	11.99	-1.70	3.78	13.16
2020	-10.11	10.03	-1.00	3.69	11.07
2015	-9.83	10.13	-0.53	4.24	10.87
2010	-8.59	9.28	0.12	4.57	9.74
2005	-6.64	7.93	0.79	4.80	8.07
Income/Retirement	-7.81	7.78	-0.59	3.21	9.39
<b>Universe Average*</b>	<b>-15.61</b>	<b>14.58</b>	<b>-3.47</b>	<b>2.79</b>	<b>16.15</b>
<b>Market Indexes</b>					
Morningstar US Large Core	-20.21	19.74	-4.46	8.05	21.96
Morningstar Dev Mkts xUS	-23.62	16.21	-11.24	-4.43	21.39
Morningstar US Core Bond	3.2	2.82	6.11	8.70	3.49
Morningstar Cash	0.41	0.02	0.43	1.39	0.23

Source: Morningstar Investment Management LLC and Morningstar Direct

\*Average of all share classes of target-date mutual funds tracked by Morningstar, Inc. Indexes are not available for direct investment.

# Selecting the Right Glidepath

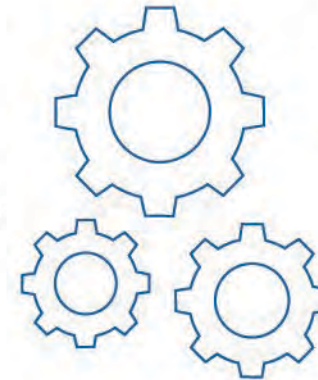
# Plan Demographics Data Should Drive the Glidepath Selection

Information from the recordkeeping system provides the basis for analyzing investors' risk capacity and preference, informing the glidepath selection process. As the participant's balance, age, salary, etc. evolve, the advice evolves with the participant's evolving circumstances.

## Available Data on Participants



## Objective, Data Driven Analysis



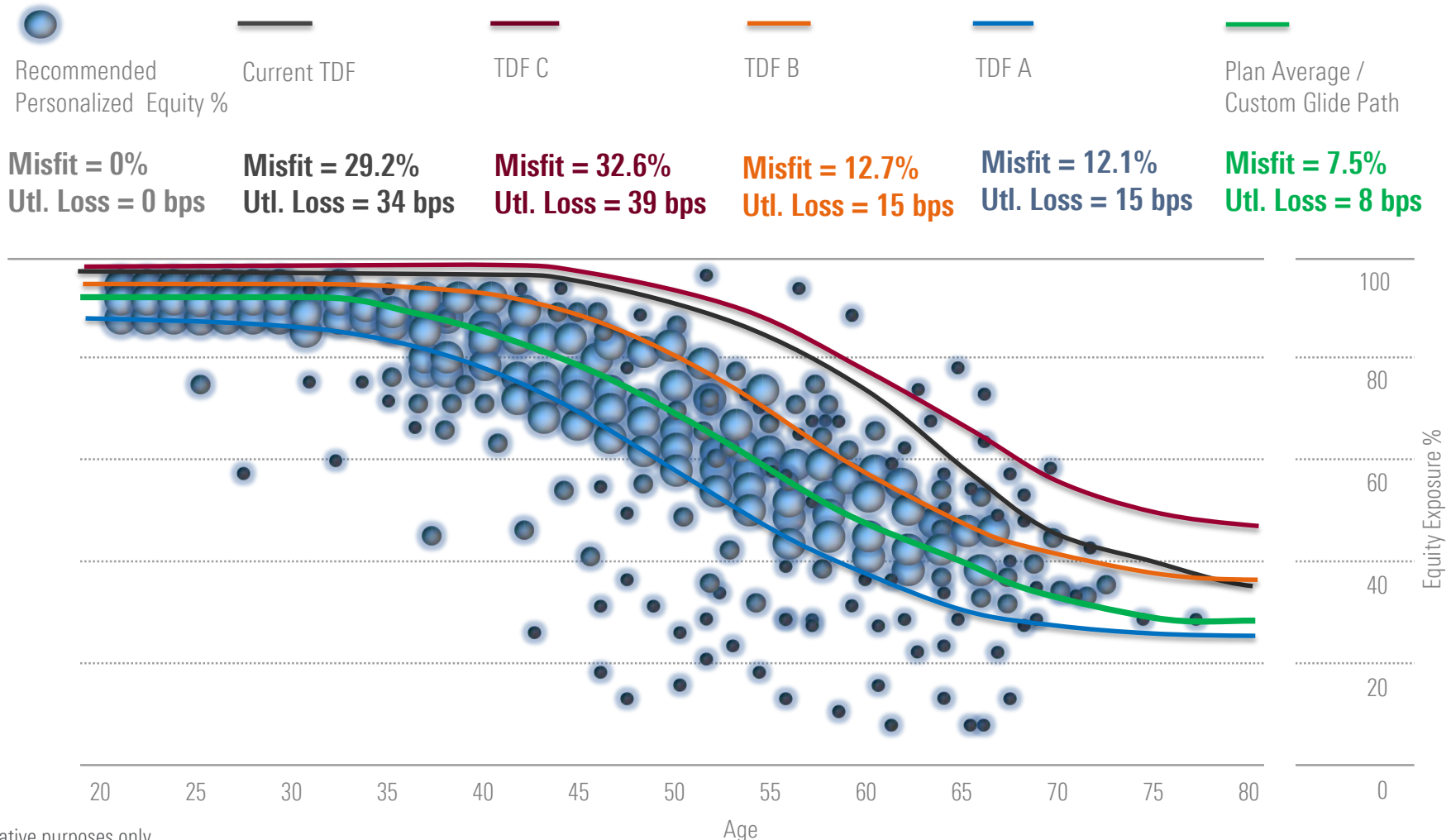
## Appropriate Glidepath and Asset Allocation



For illustrative purposes only.



# Glide Path Selection: Analyze the fit of a plan's retirement investment



For illustrative purposes only.

Questions?



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# Disclosures

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