Basics of Defined Contribution Plan Investments

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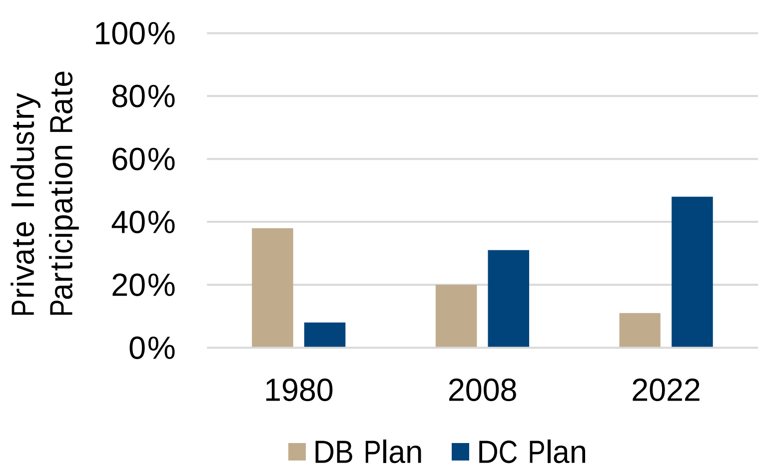
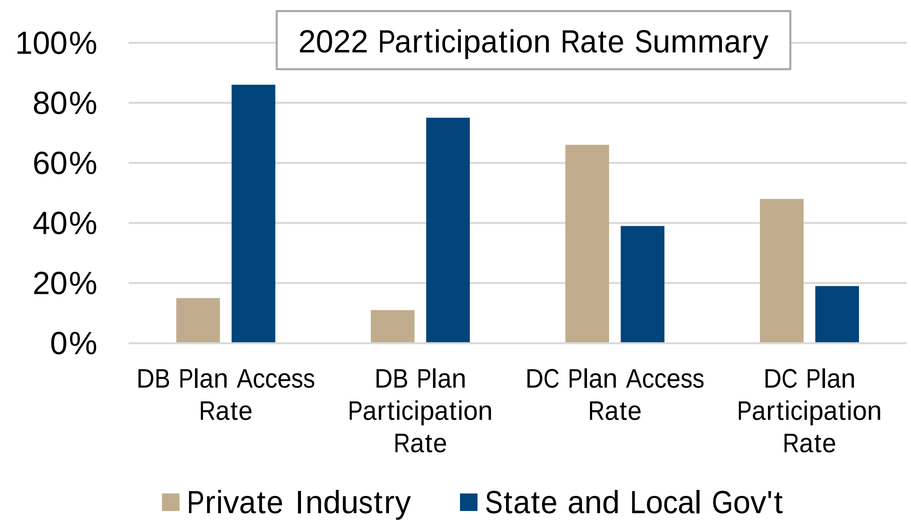
Glossary

- QDIA: The DOL defines a QDIA as an investment fund or model portfolio that seeks both long-term appreciation and capital preservation through a mix of equity and fixed income investments
- Glide Path: A glide path refers to the alteration in a target date fund's asset mix as time goes by. In other words, a glide path defines how the asset mix within a target date fund will change over time.
- CIT, Collective Investment Trust: Is an institutional-only investment structure that is exclusively available to certain types of tax-exempt retirement plans

DB to DC Migration

- Funded status on average is okay
  - Relief will continue to be helpful (SFA/ARPA)
- Looks pretty good for DB plans, but…



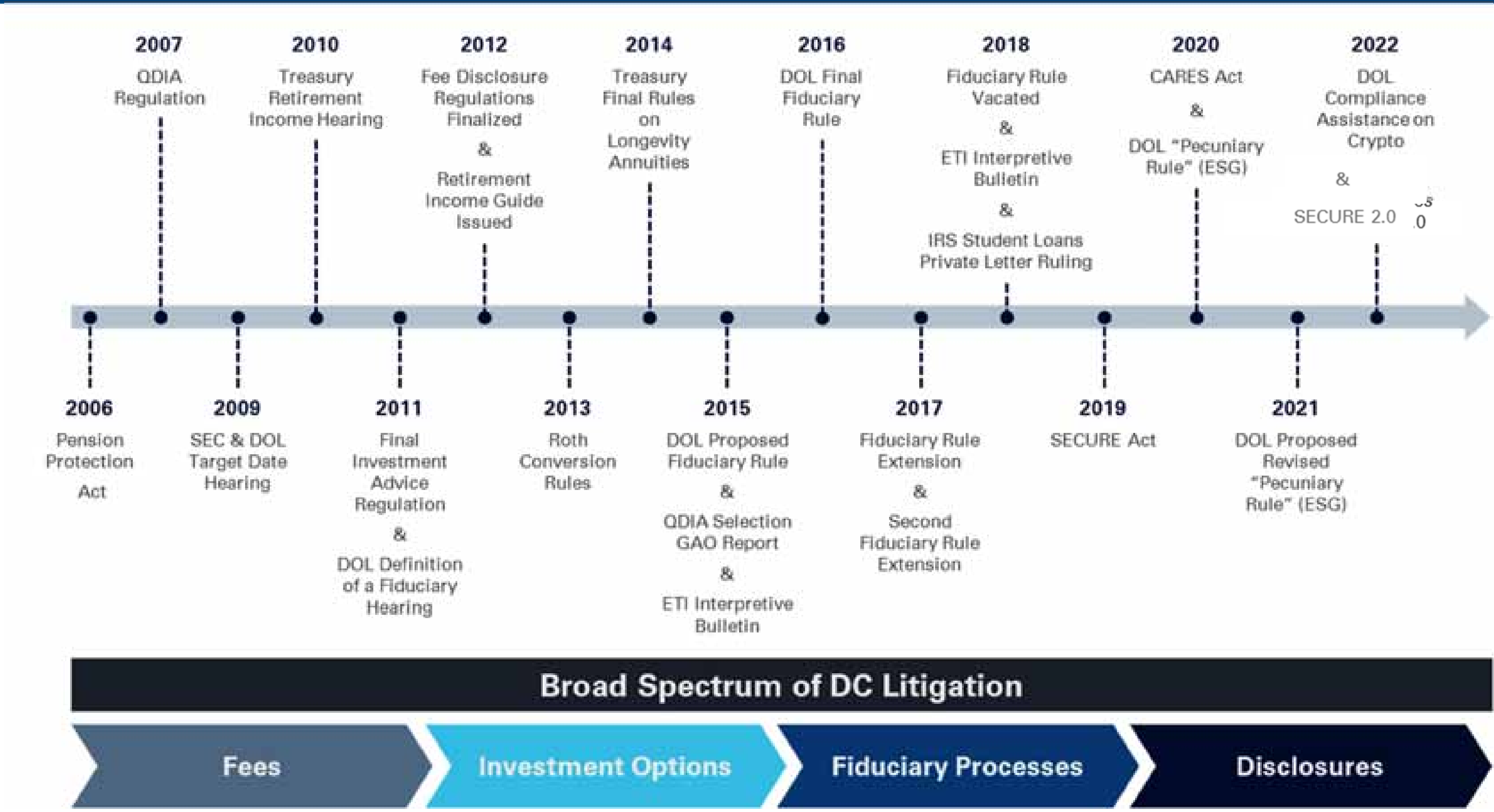


Sources: Bureau of Labor Statistics

Defined Contribution Plan Types

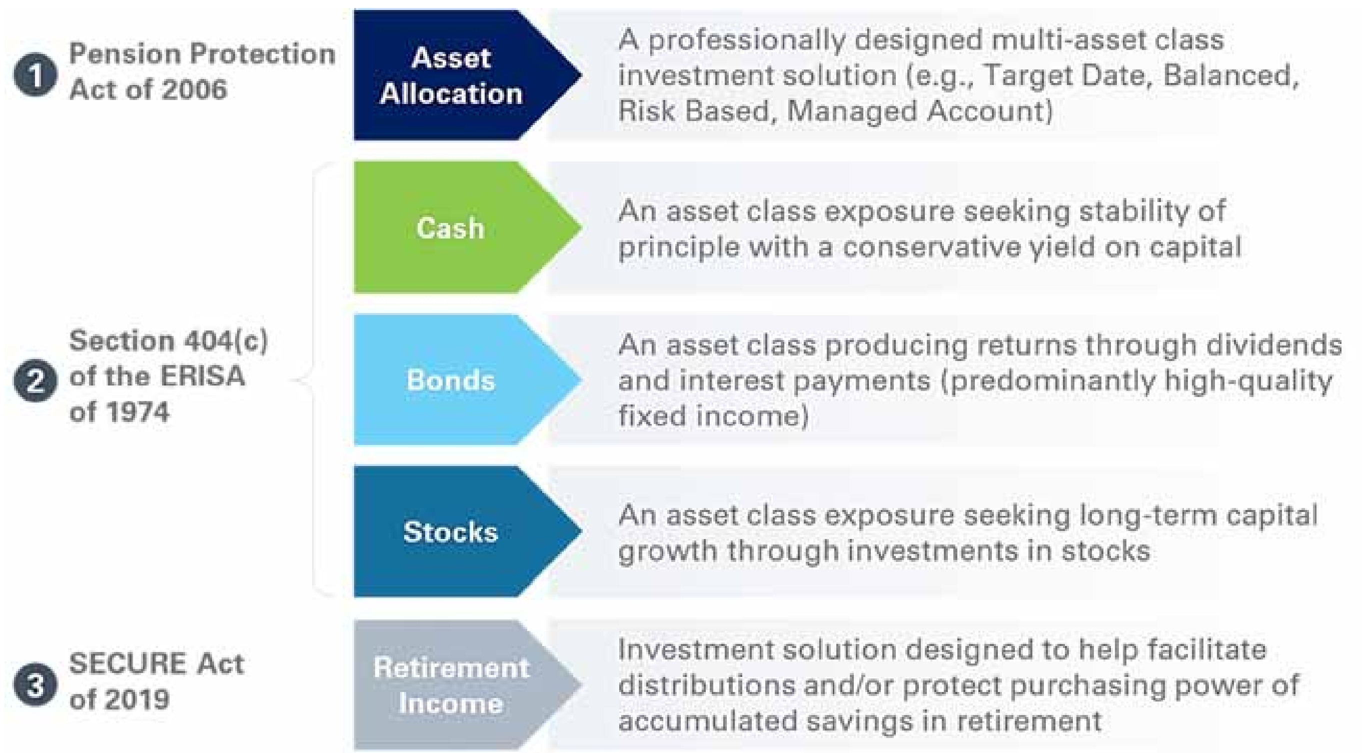
- 401(k): Participant Directed (introduced in 1978)
  - 403(b): Similar to 401(k), but offered by tax-exempt or non-profit entities
  - Becoming the new default (instead of DB) in some states
    - New hires . . . Michigan Teachers, Florida Non-Public Safety, Montana PERS
- Annuity plan: Trustee directed
- Other
  - Employee stock ownership plan
  - Profit sharing plan

Evolving Regulatory Landscape



Regulatory Changes Enhance Investment Design

Three Key Regulations Drive Five Key Investment Objectives



Incremental Steps That Could Improve Defined Contribution Outcomes

	Savings	Target date/QDIA	Core line-up	Addressing near-retirees/retirees
Current	Opt-in structure <10% annual savings	Bundled legacy option	Bundled legacy option	Responsibility of participant, few in-plan options
Incremental steps in between	Auto enroll Auto escalation Adjust match to increase savings Restrict pre-retirement withdrawals	**Assess key drivers** Glidepath composition • Market risk • Inflation risk • Longevity risk Firm stability Value for fee Underlying strategies	**Reassess equity** Reduce options Embed diversification Downside mitigation Optimize active/passive mix **Diversify Fixed Income** Passive to active Reassess benchmarks Broaden opportunity set consider multi-manager Add diversifying solutions Inflation protection Absolute return SRI/ESG/Impact	**Understand evolving market** Ensure plan document flexibility Understand record keeper and communication implications Allow “Roll-ins” Add retirement tier
Suggested best practices	Fully automated system >10% annual savings Assets remain in plan	Off-the-shelf Target Date Custom Target Date Consider “dual QDIA”[1]	White-label multi-manager options Diversified by market environment Evaluate capital preservation option	Utilize retirement tier Keep assets in plan

Fees
Make administrative fees explicit and fair for all participants—Use asset size to drive down investment fees

[1]Qualified Default Investment Alternative | For illustrative purposes only

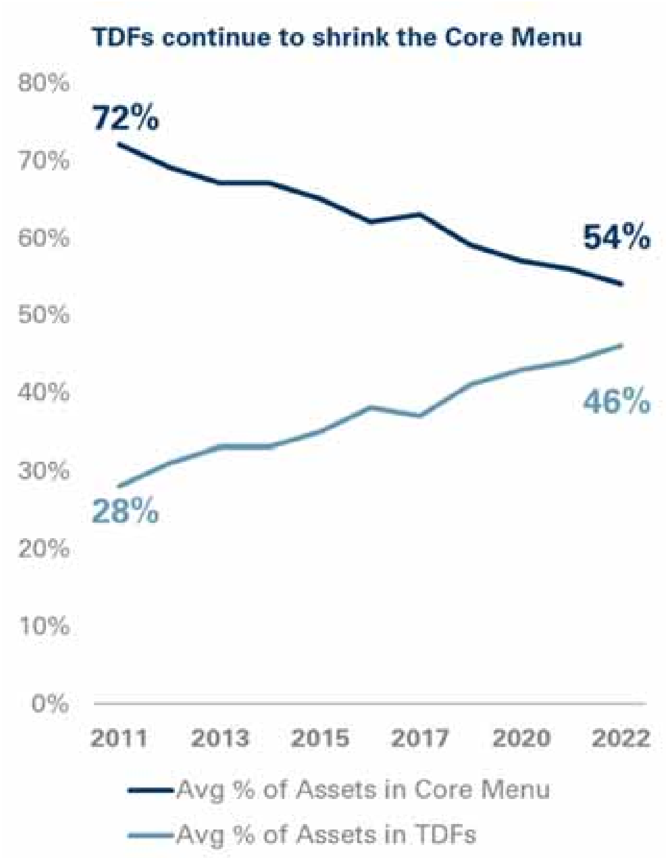
Qualified Default Investment Alternative Questions/Issues

Meeting your fiduciary responsibility— Suggested ways to best evaluate

- DOL tips
- Establish a prudent process for selecting QDIAs and document the process
- Ensure a solid understanding of the fund's underlying investments and glide path
- Evaluate the benefits of custom or non-proprietary offerings
- Conduct a periodic review of the QDIA and understand any changes that have been made
- Review fees and expenses

U.S. Department of Labor, February 2013

Target Date Funds Disrupting Core Menu



- 96% of plans offer TDFs
- 95% of plans use TDFs as QDIA
- 67% of participants have TDF exposure
- 46% of plan assets held in TDFs

Target Date Overview—Glide Path

Early career

- High ability to bear risk
- But should protect downside
- Savings most important

Pre-retirement

- Most important return years
- Still long horizon but need to protect against tail event

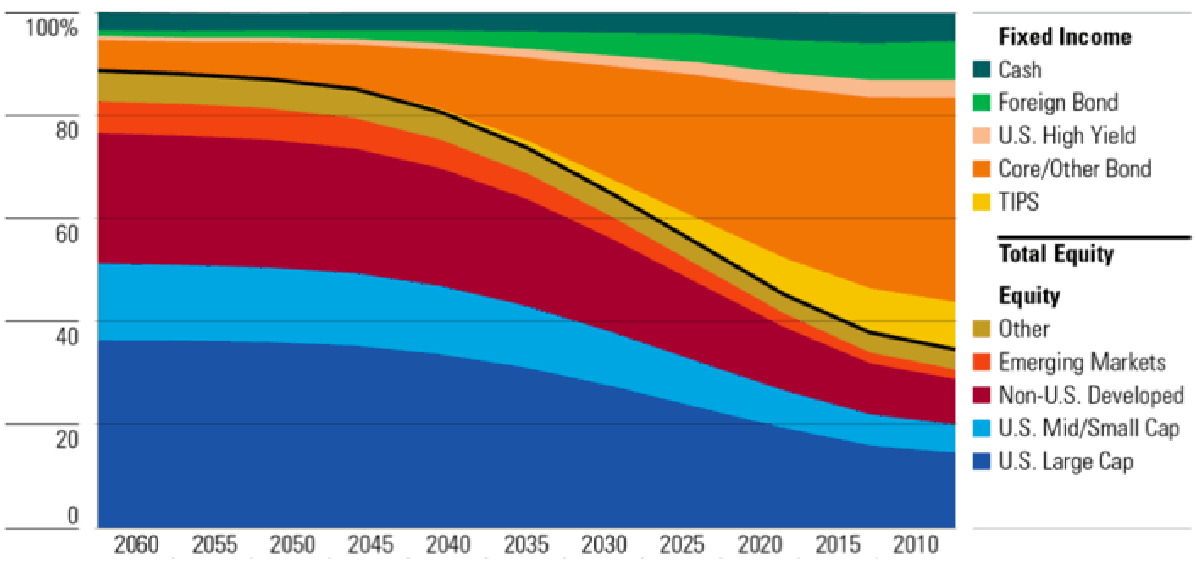
Early retirement

- Longevity of assets key
- Inflation sensitivity needed
- Yield

Late retirement

- Seek capital preservation
- Increase inflation protection
- Yield

Exhibit 12 Peer Average Sub-Asset-Class Glide Path



Source: Morningstar. 2019 Target Date fund report, average glide path across 53 different TDF series.

DC Multi-Asset Solutions Evaluation

Flexible evaluation framework across multi-manager and multi-asset class structures

Apply the same level of due diligence and review across the Core Line-up, TDFs, and Managed Accounts

Risk Profile	Glide Path Risk Level	Level of risk taken by the asset allocation across all participant ages	Suitable for participant goals, demographics, and behaviors
Risk Profile	Asset Class Diversification	Degree of asset class diversity impacts a glide path's risk-adjusted returns	Diversify to enhance risk-adjusted returns
Implementation	Asset Class Implementation	Underlying portfolios are active, passive, or a combination of both	Active, passive, or blended based on Committee's goals and beliefs
Implementation	Manager Selection Skill	Active managers selected based on skill, avoiding low quality or low conviction	Believe in open architecture; multi-manager over proprietary
Fees	Reasonability of Costs	Cost of investment management, trust and custody, operations, and recordkeeping	Should be reasonable for the value provided

Investment Managers should have the resources and commitment to support ongoing maintenance and improvement

Managed Accounts Overview

Managed Accounts (MAs)

- **Discretionary portfolio management, implementing investment decisions for participants within a plan and its fund options**
- **The decision to offer the managed account service is a fiduciary decision**

It is recommended that you review all aspects of managed accounts and participants' experience to ensure intended benefits are met and the fees paid are warranted.

RECORDKEEPER

- Integrates and facilitate managed accounts service
- Controls availability of managed account provider

MANAGED ACCOUNT PROVIDER

- Handles investment decisions
- Rebalances the portfolio
- Recommends deferral rates

PARTICIPANTS

- Cedes control over account to provider
- Incurs fees for both MAs and underlying funds
- MA fees range from 0.11%–0.60%, with some providers offering hard dollar fee caps

PLAN SPONSORS/FIDUCIARIES

- Required to prudently select and monitor the MA
- Required to provide participants with information on the provider and related costs

Self-Directed Brokerage

What is it?

An investment account that allows participants to buy and sell investments that are not designated investment options in their retirement plan

Participants' assets are still "in plan" and receiving associated tax benefits

How does it work?

Plan Sponsors/Fiduciaries:

1. Decide whether to make the feature available
2. Prudently select and monitor the brokerage provider
3. Provide participants with information about the offering and related costs

Participants:

1. Interested participants must complete enrollment paperwork
2. They incur fees for the account (if any), trading fees and commissions

Who may it help?

Participants that want more varied or specific types of investments than are available in their retirement plan, such as ESG investments, ETFs, or even individual securities.

It is best suited for experienced investors with the time, knowledge, and interest in selecting and monitoring their own investments, or those that want to hire a financial advisor to manage their account on a discretionary basis

Self-Directed Brokerage

- Fiduciaries decide the allowable investments

	• Employer securities and funds offered on the core menu are restricted
Mutual Funds Only	• Widely expands participant choice beyond the Plan's designated investment options • No single security risk • No intra-day trading
Mutual Funds & ETFs*	• Further expands participant choice • No single security risk • Introduces access to more speculative exposures through exchange-traded funds* • Introduces intra-day trading
Full SDBA	• Widest expanded choice set • Introduces intra-day trading • Stocks may be more familiar to participants than funds or ETFs • Eliminates a common reason for rollovers

Full SDBA

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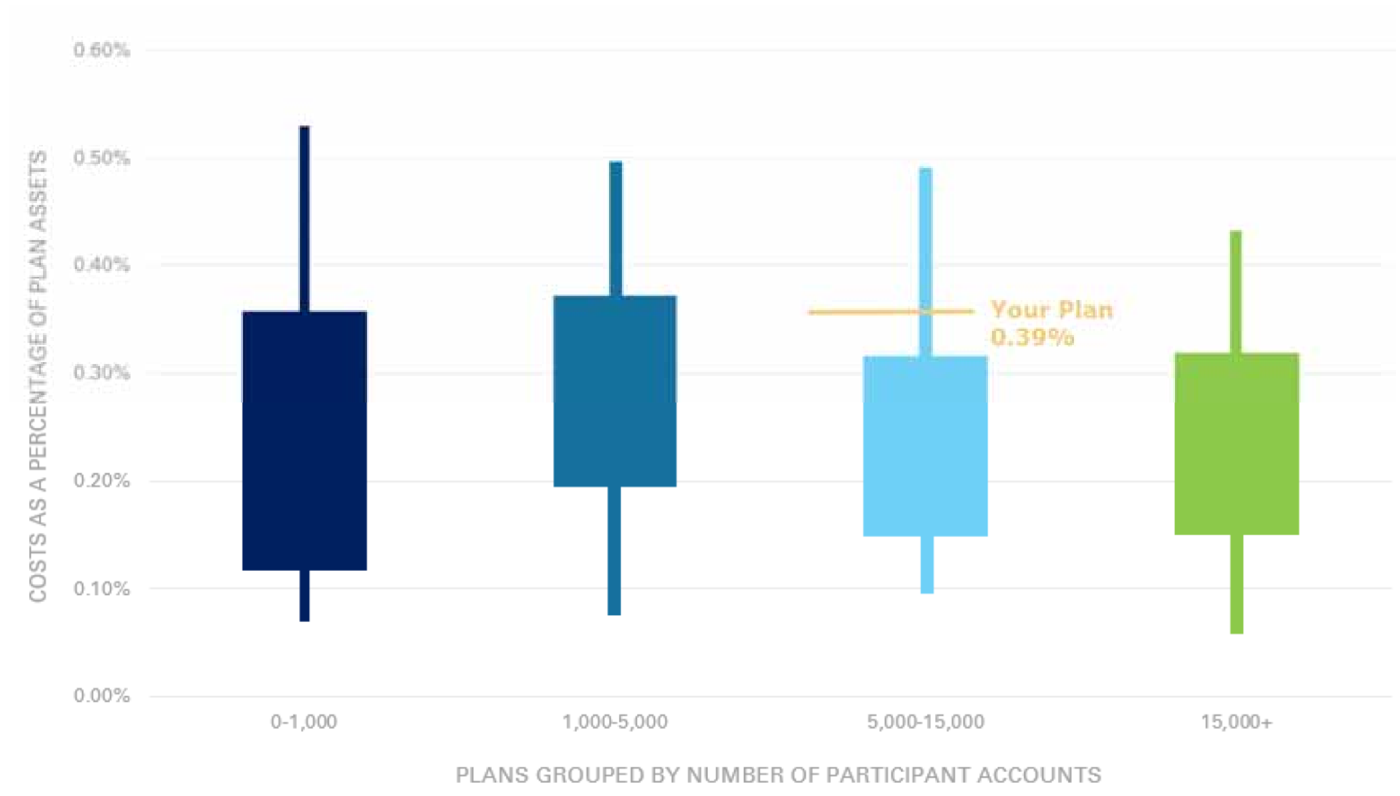
Investment Fees/Benchmarking Example

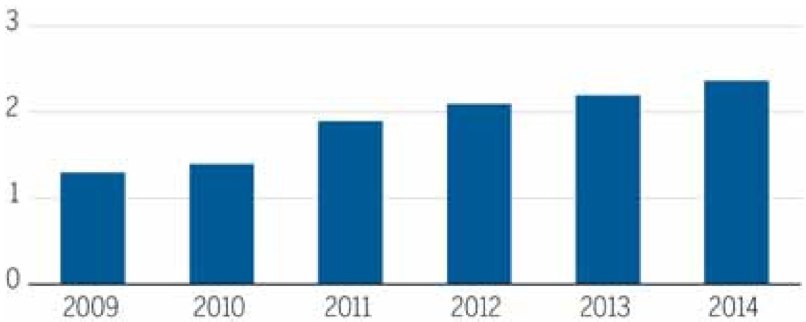


Vehicle Flexibility Can Improve Cost-Savings Further

CITs have grown…

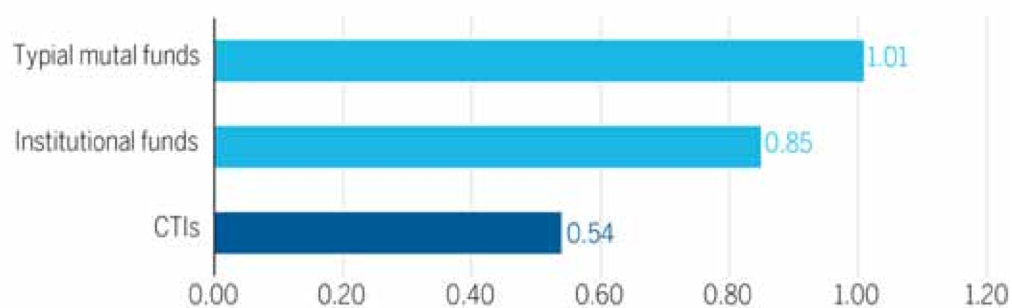
Assets In collective Investment trusts. roughly 60% of which are held in

401(k)-type plans (US$ trillion)



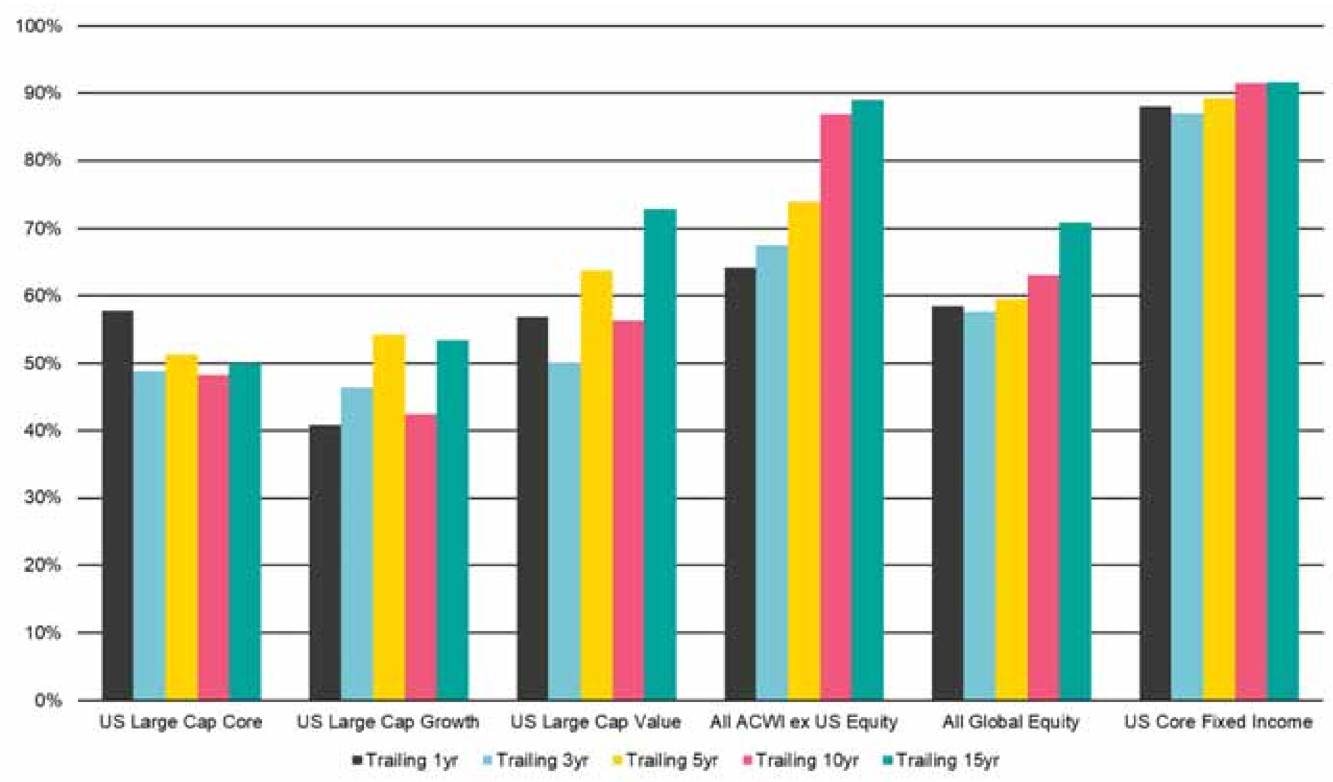
…And offer lower costs to 401(k) savers

Average annual participant expense as a percentage of account balances, in plans with at least US$1 billion in assets (%)



Sources: Cerulli Associates (assets), Callan Associates (expenses). Data as of 31 December 2017.

The Benefits of Time—
Active Results Improve Over Long Periods



Source: eVestment as of 2Q 2021. Data shows the percentage of active managers beating their stated benchmarks gross of fees.

Risk Management / Monitoring

- Risk Management for Defined Contribution includes investment risk as well as plan/ fiduciary risk
- Develop a regular schedule for training, education, monitoring, and plan review (especially fees)
  - Fiduciary calendar

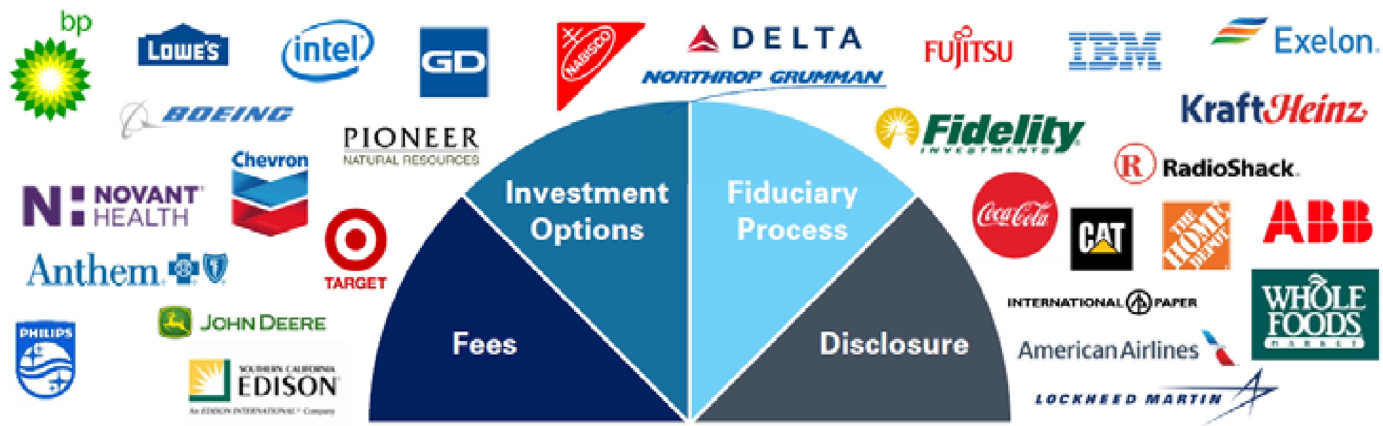
Fiduciary Calendar Example

Category	Fiduciary Practice	Recommended Review Frequency	Note
Investments	Review Investment Performance	Quarterly	Universe Data/ Have Standards
	Review Investment Structure	Every 2-3 Years	Involve a third-party if not currently working with someone
	Review the Plan's QDIA	Periodically	Legal and Investment Decision
Fees and Expenses	Evaluate Investment Expenses	Annually	Peer comparison is key, benchmarking
	Evaluate Record Keeping Expenses	Every 3-5 years or with contract expiration	Peer comparison and fee negotiation
Governance	Review Investment Policy	Annually	Living document
	Provide fiduciary training if needed	Periodically	Review legal requirement

Legal Environment

2006	Pension Protection Act
2007	QDIA Regulation
2009	SEC and DOL Target Date Hearing
2010	DOL Treasury Retirement Income Hearing
2011	Final Investment Advice Regulation; DOL Definition of a Fiduciary Hearing
2012	Fee Disclosure Regulations Finalized; Retirement Income Guidance Issued
2013	Roth Conversion Rules
2014	Treasury Final Rules on Longevity Annuities
2015	DOL Proposed Fiduciary Rule; QDIA Selection GAO Report; ETI Interpretive Bulletin
2016	DOL Final Fiduciary Rule
2017	Fiduciary Rule Extension; Second Fiduciary Rule Extension
2018	Fiduciary Rule Vacated; ETI Interpretive Bulletin; IRS Private Ruling Letter on Student Loans

BROAD SPECTRUM OF DC LITIGATION[1]



[1] *These are all fictional companies. Dozens of household name companies have been involved in DC litigation in recent years.*

Key Takeaways

- Make your defined contribution plan a priority
  - You can't fully control the investment risks, but you can control the structural risks
  - Keep your core options simple
  - Focus on education for all demographics
  - Don't become complacent with expenses
    - Benchmark, compare, and negotiate
  - Consider retirement income options
    - Keep participants in the plan and costs low

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Session Evaluation