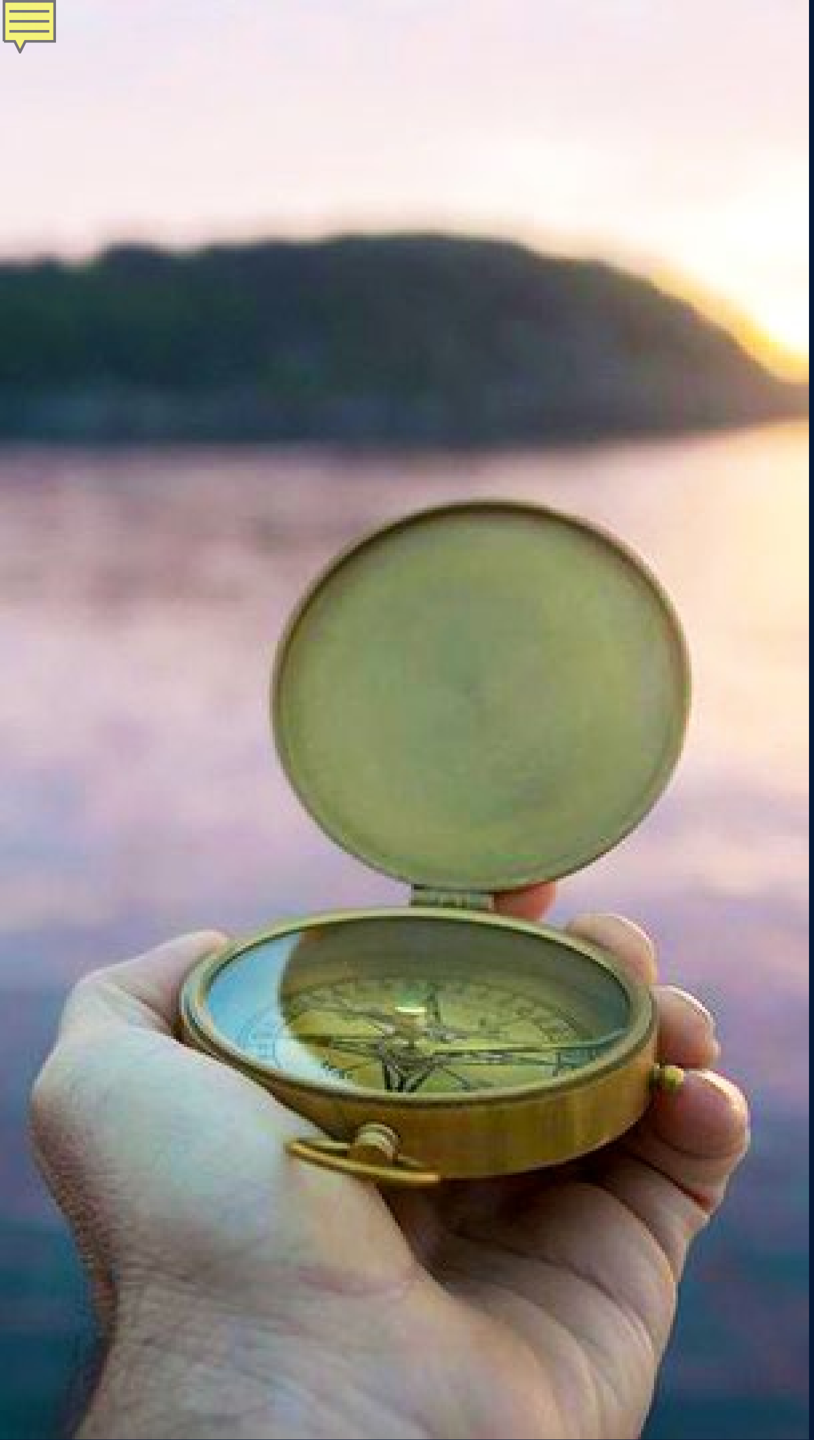


Fiduciary Misperceptions

About investment selection and monitoring

Worry over 401(k) fees rises as lawsuits increase

ThinkAdvisor.com, August 5, 2016

…proposed class action lawsuit over excessive 401(k) fees

Investment News, August 22, 2016

… Can’t get 401(k) fee lawsuit dismissed

Bloomberg, January 19, 2017

… Sued over fee scheme in … 401(k) plan

Bloomberg, January 31, 2017

Our objectives

1

Help you explain a complex fiduciary investment process…

2

…in a manner that is resonant and relatable to plan sponsors.

3

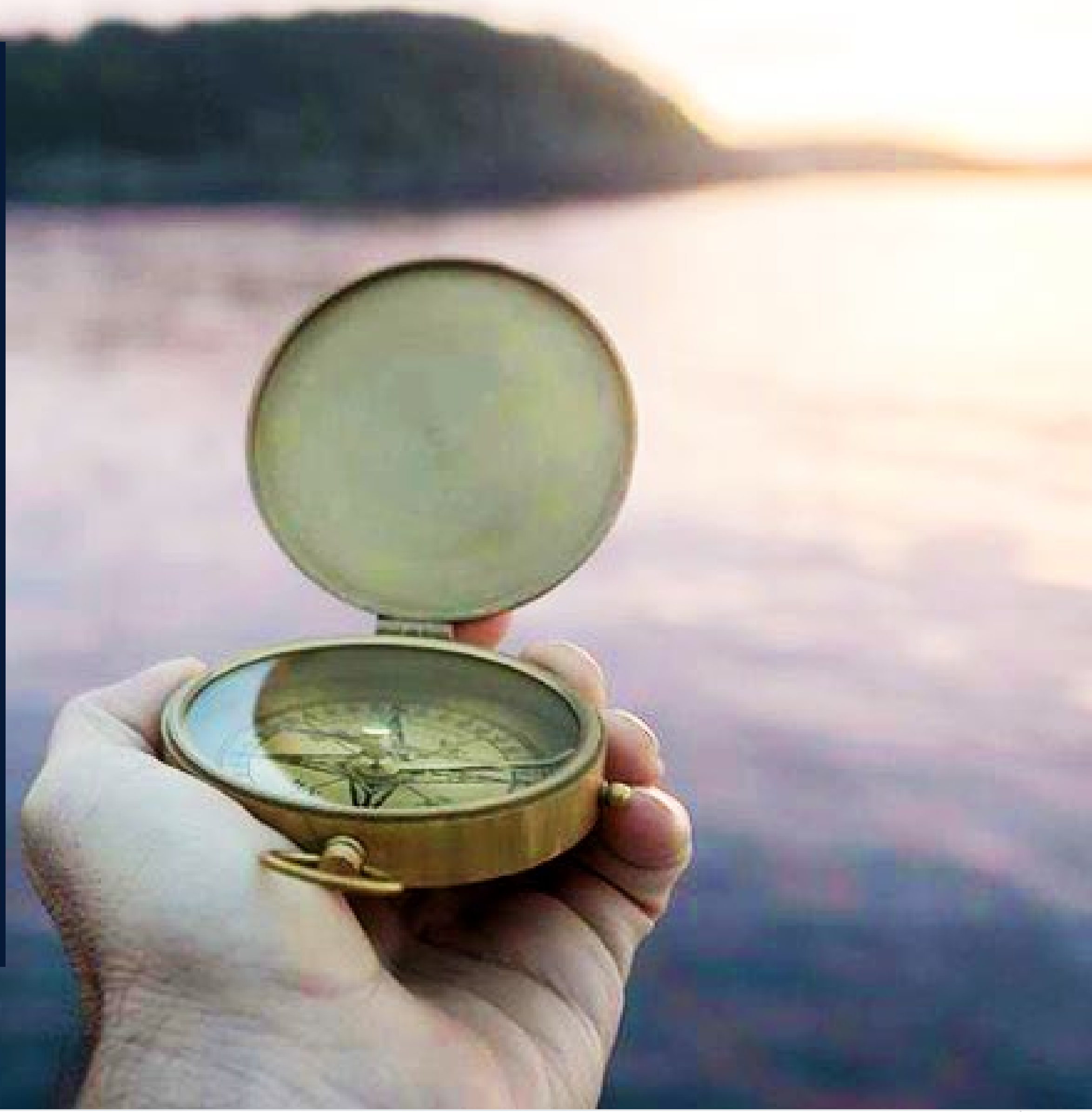
Provide you with resources for plan sponsors

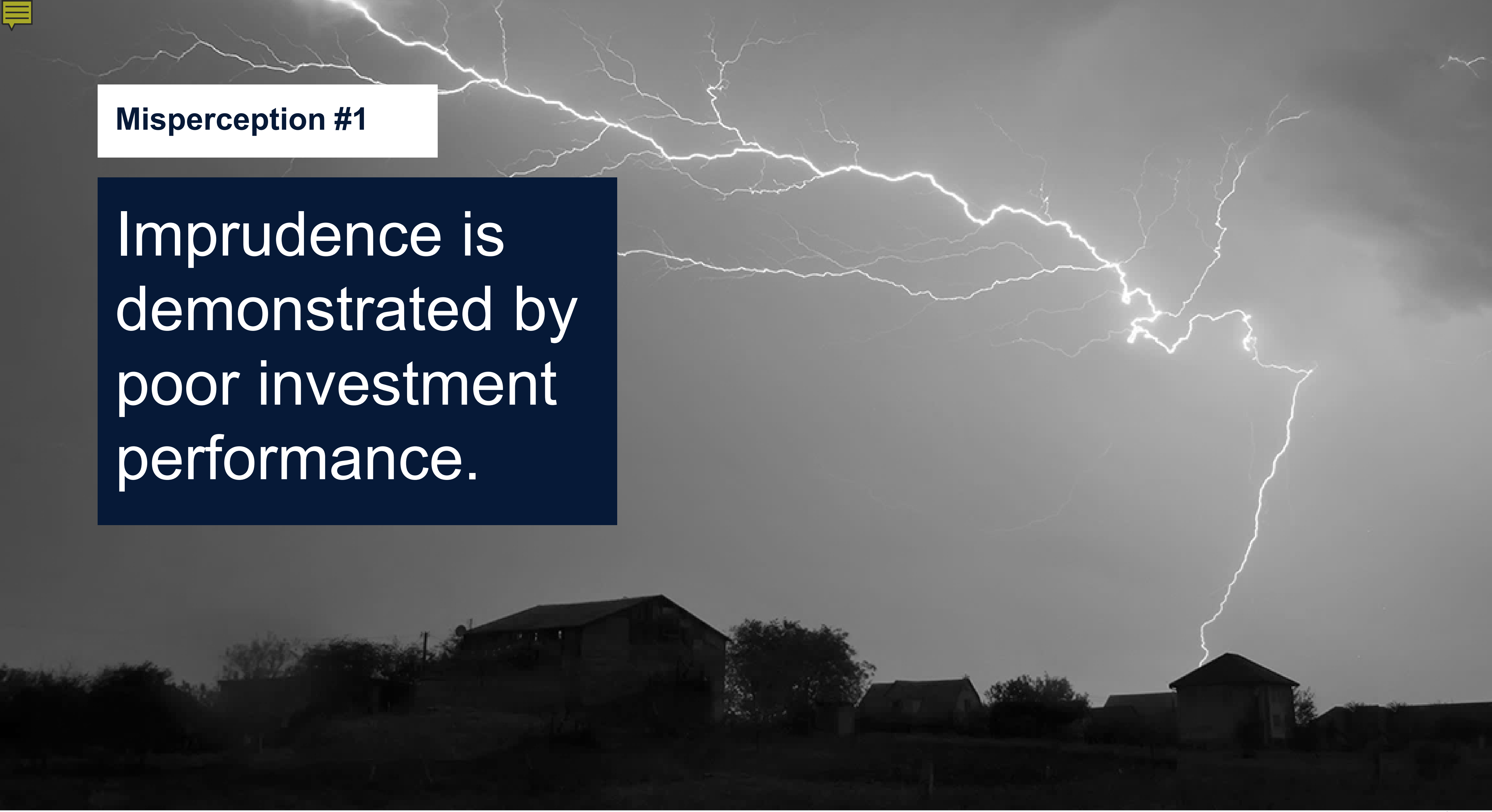
Nobody is going to give you money if they don’t understand what you’re doing.

—Alan Alda

Discover the truths behind these myths

1. Fiduciary imprudence is demonstrated by poor investment performance.
2. The lower cost option is always the safer (and better) option.
3. One way to protect participants is to limit particular investment options.
4. There’s one right method to select investments for all plans.
5. Follow the herd to limit liability.



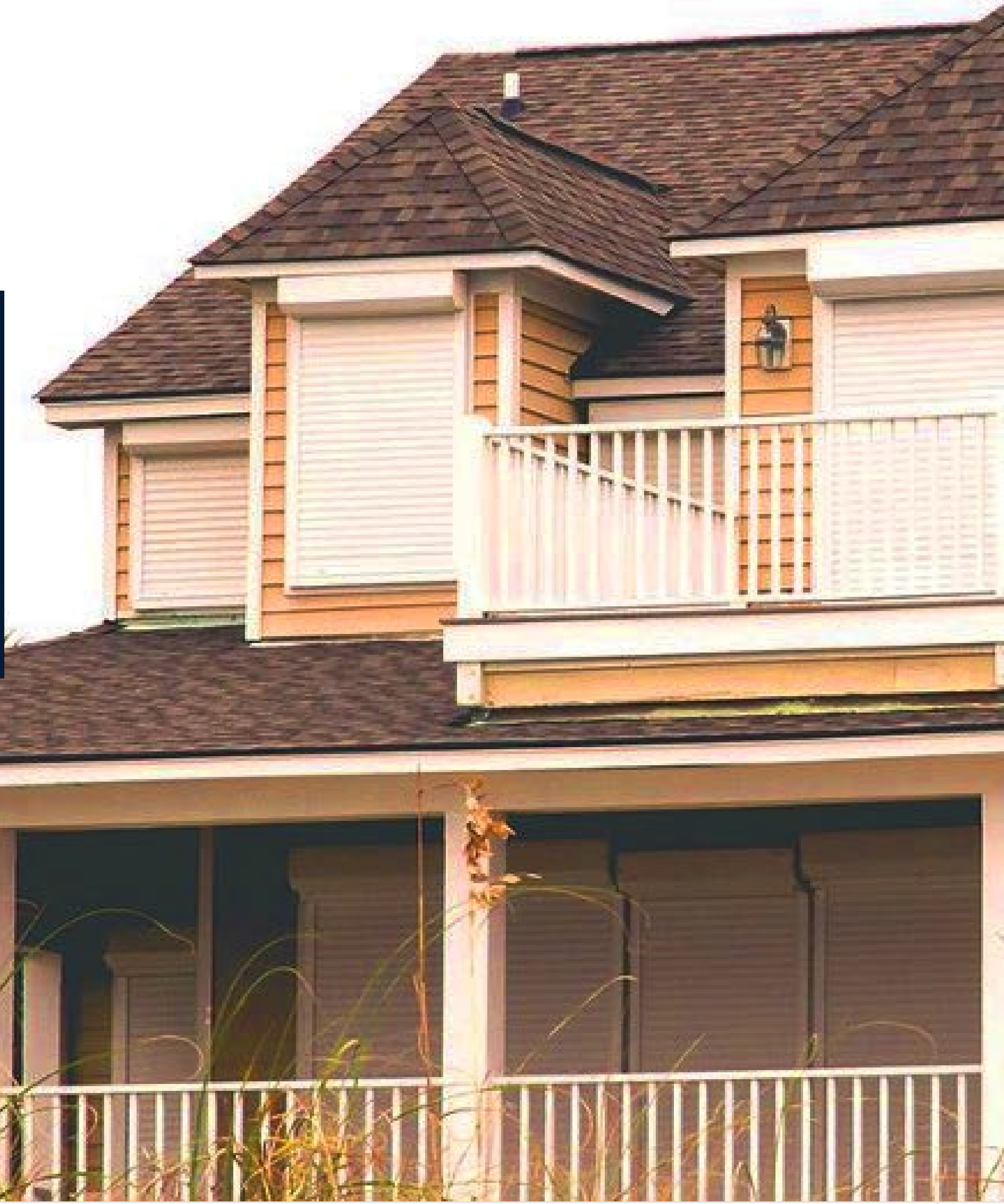


Misperception #1

Imprudence is demonstrated by poor investment performance.

It’s about the process

The prudent approach to storm preparation.



Fiduciary considerations

It’s about the process.

- Actions are judged on the quality of decision-making and circumstances at decision time

- Fiduciaries should not be judged solely on results

- Decisions do not have to be perfect, but the process must be prudent

Principle #1—Action items for sponsors

It's about process

Fiduciaries should focus on the value-for-cost proposition

There is no one-size-fits-all approach to investment menus

Range of choice and strategies can be appropriate

Fear based decisions fall short of prudence

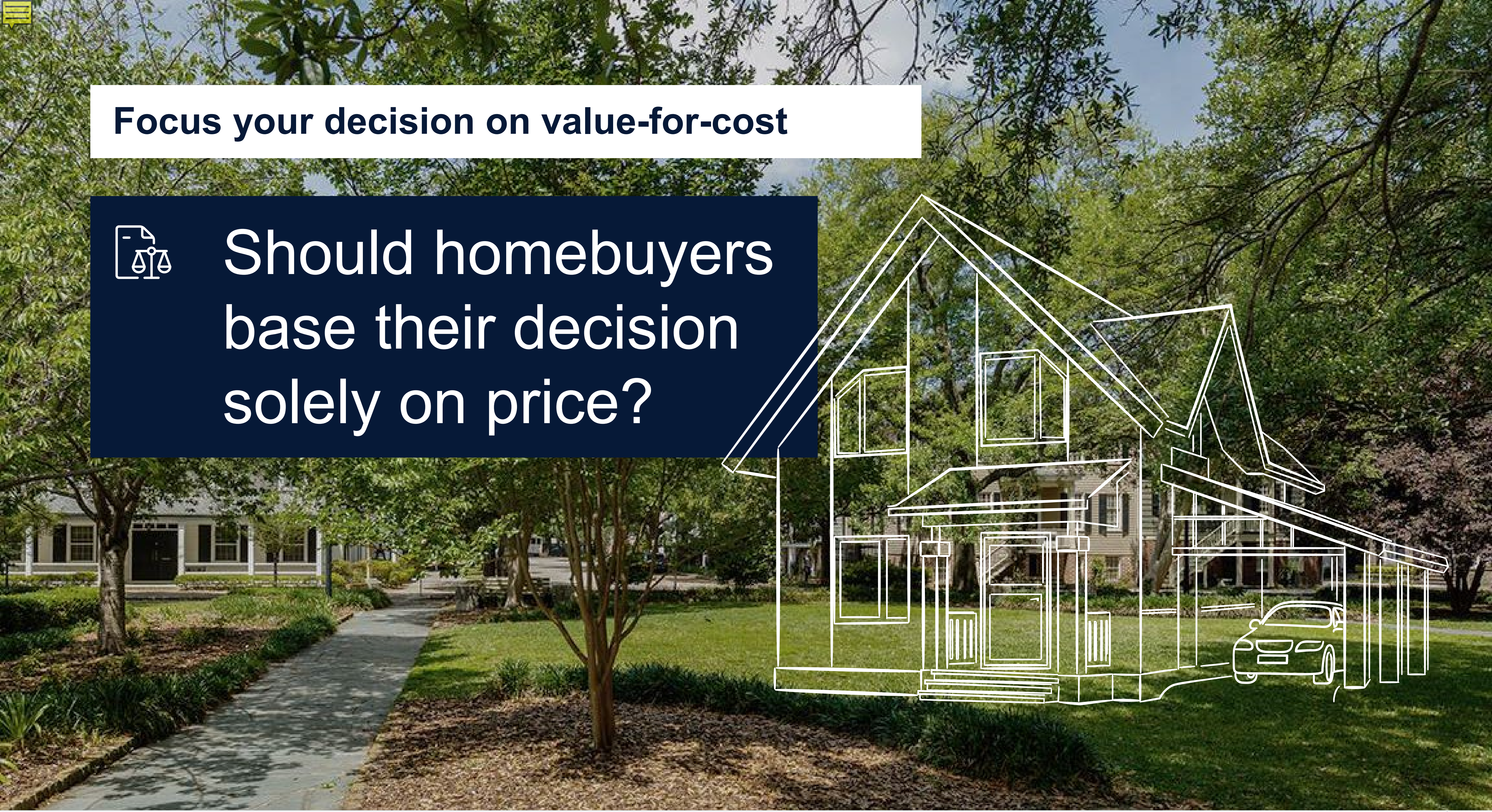
- Define role of the plan.
- Set plan mission, objectives, and beliefs.
- Leverage DOL/other regulatory guidance.
- Balance governance with plan complexity.
- Clarify processes and documentation.
- Review investment outcomes in light of objectives and process adherence.
- Periodic review of the investment policy statement.

Misperception #2

The lower cost option is always better.

Focus your decision on value-for-cost

Should homebuyers base their decision solely on price?



Fiduciary considerations

Fiduciaries should focus on the value-for-cost proposition.

- Consider available alternatives, and understand key dimensions such as investment type, asset class, management strategy, and cost
- Fees cannot be evaluated in a vacuum
- ERISA does not require fiduciaries to “scour the market” for the cheapest option available

Principle #2—Action items for sponsors

It's about process

Fiduciaries should focus on the value-for-cost proposition

There is no one-size-fits-all approach to investment menus

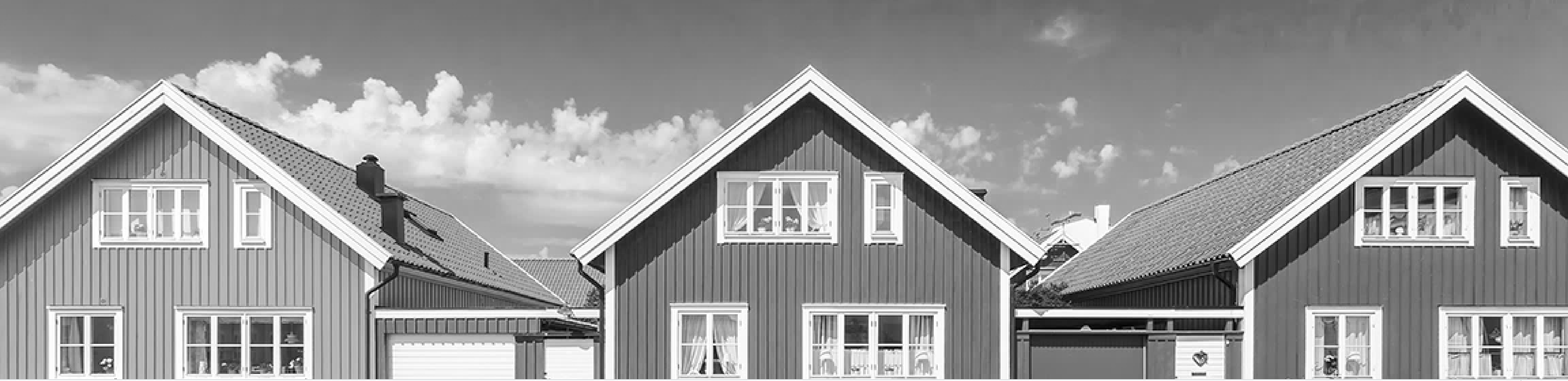
Range of choice and strategies can be appropriate

Fear based decisions fall short of prudence

- Ensure commensurate value is provided for the fees paid.
- Understand basis for comparison (investment strategy, methodology, asset class, vehicle, benchmark, etc.).
- Consider the trade-offs of strategies and impact on retirement outcomes.
- Focus on net of fee performance.
- Leverage buying power and scale.

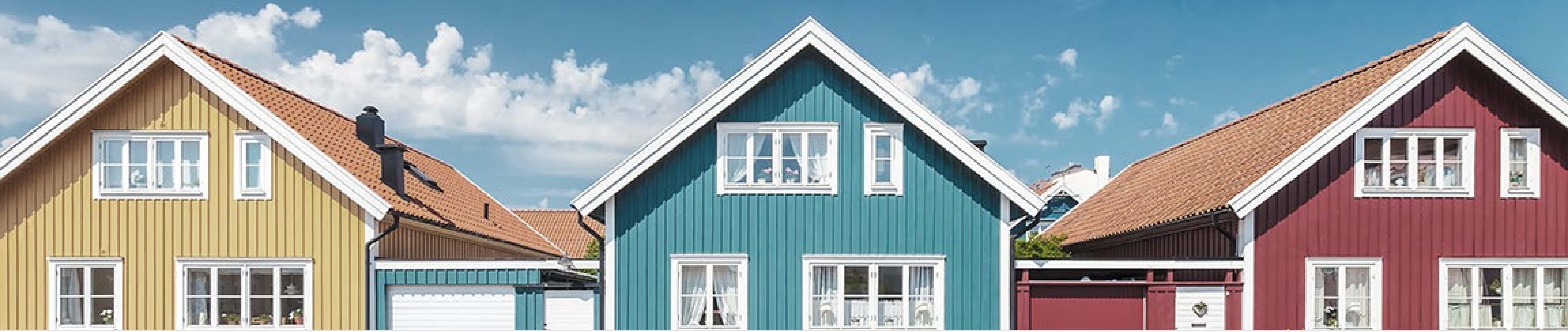
Misperception #3

Limiting options protects participants from themselves.



A range of choice is appropriate

Most home buyers want to choose where they live.



Fiduciary considerations

Range of choice and strategies can be appropriate.

- Participant choice plays an important role in defined contribution plans
- Safe Harbor guidelines help to encourage a broad range of investment options
- Safe Harbor guidelines encourage use of investments with different risk and return characteristics

Principle #3—Action items for sponsors

It's about process

Fiduciaries should focus on the value-for-cost proposition

Range of choice and strategies can be appropriate

There is no one-size-fits-all approach to investment menus

Fear based decisions fall short of prudence

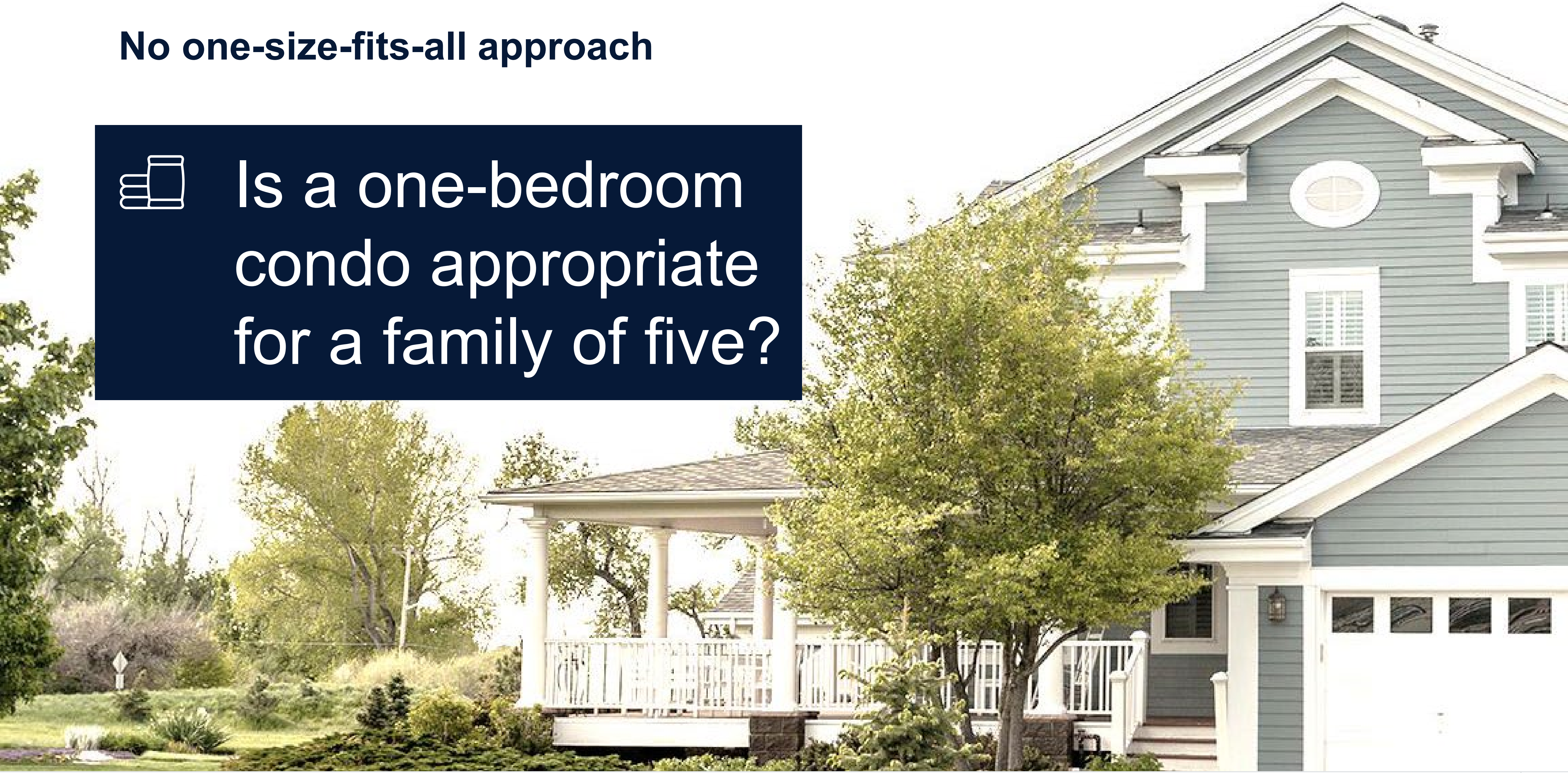
- Factor in participant preferences, demographics and behaviors.
- Acknowledge that different populations may benefit from different ranges of lineup options.
- Recognize that choice is built-in to the safe harbor 404(c) provisions.
- Consider the generational needs of different employee cohorts.

Misperception #4

There’s one right method for all plans.

No one-size-fits-all approach

Is a one-bedroom condo appropriate for a family of five?



Fiduciary considerations

There is no one-size-fits-all approach to investment menus.

- Fiduciaries are entitled to consider participant preferences
- Consideration may be given to participant age and level of investment sophistication
- Fiduciaries may consider whether certain investments may encourage participation or higher savings levels

Principle #4—Action items for sponsors

It's about process

Fiduciaries should focus on the value-for-cost proposition

Range of choice and strategies can be appropriate

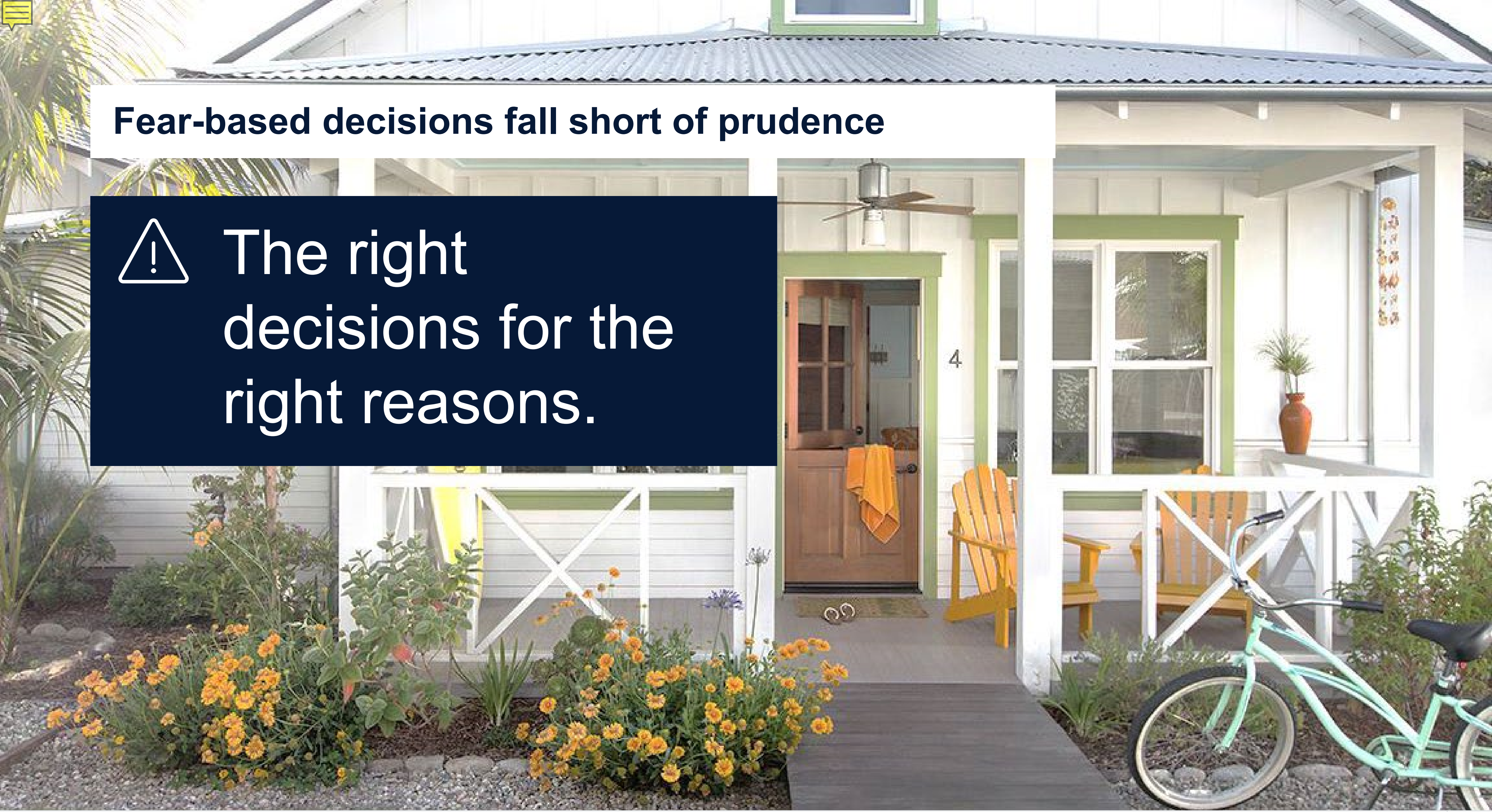
There is no one-size-fits-all approach to investment menus

Fear based decisions fall short of prudence

- Consider what you are solving for and select the investment structure and options which help achieve goals.
- Allow unique attributes of plan needs and participant demographics inform choices.
- Increase focus on evaluating what constitutes success.
- Adopt metrics to influence selection of Qualified Default Investment Alternative, investment structure, and plan design focused on maximizing outcomes.

Misperception #5

Follow the herd to limit liability.



Fear-based decisions fall short of prudence

⚠ The right decisions for the right reasons.

Fiduciary considerations

Fear-based decisions fall short of prudence.

- Fiduciaries are required to act for the exclusive benefit of the plan's participants and their beneficiaries
- An ERISA fiduciary's loyalty is to its participants, and its decisions should not be motivated by its own self-interest
- Fiduciaries should make informed choices, and do so for the right reasons

Principle #5—Action items for sponsors

It's about process

Fiduciaries should focus on the value-for-cost proposition

There is no one-size-fits-all approach to investment menus

Range of choice and strategies can be appropriate

Fear based decisions fall short of prudence

- Develop a top-down strategy to govern plan decisions to avoid compromising a diligent process.
- Focus on "internal inputs" (organizational goals, culture, benefit strategy, role of plan, participant needs) first.
- Gain insights into how well participants are prepared for retirement.
- Document. Document. Document!

> What’s good for the client is also good for the firm.
>
> –Thomas Rowe Price, Jr.

Important information

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