Please note: This is a transcription so there may be slight grammatical errors.

Rachel:

Hello, everyone, and welcome to today's presentation Investment Options to Fund Your Retirement, which will be brought to you by CAPTRUST. CAPTRUST is the independent financial advisory firm that works with your employer sponsored retirement plan. As an added benefit, you not only have access to these quarterly webinars, but also to financial advisors who will give you unbiased, customized investment advice. Without further ado, I would now like to introduce Debra Gates, manager of CAPTRUST Financial Wellness and Advice team. Take it away, Debra.

Debra Gates:

Well, good afternoon. It's certainly a pleasure to be here to have this presentation. Thank you so much, Rachel. And as most of you know who've come to our presentations before, I will not be reading through all of these disclaimers, but I want you to take a moment to look over [inaudible].

But what I do want to say is, within each retirement plan, there is a different investment option, and they all have different degrees of risk. And it's important to understand that there's risk involved in choosing among them. So hopefully, after today's presentation, you'll have a better understanding of the investments you have available in your plan, how to choose what may be right for your situation. And just as a reminder, CAPTRUST is available to help you with investment decisions. However, we do not offer any tax, accounting, or legal advice.

So today, I'm really excited about this presentation today, and I'm excited about my guest that I have here that's here with us, talking about the investment options that are available. And as you know, I'm here as the moderator. But I want to just tell you a little bit about my panel.

We have Jean Duffy. Jean joined CAPTRUST in 2002 as a Senior Vice President and Financial Advisor. She's responsible for providing retirement plan advisory services to corporate fiduciaries and employees. Jean's been in the retirement plan industry for over 30 years and has been spent part of her career providing education and advice sessions to participants. So welcome to today's session, Jean.

Catherine Ellis. Catherine joined CAPTRUST in 2019. She specializes in institutional investment consulting, asset allocation, retirement income solutions, defined contribution, defined benefit, nonprofit and non-qualified retirement compensation plans. Welcome, Catherine.

And to Ellen, Ellen joined Cap Trust in 2013 and she's currently a Director and Investment Strategist on the research team. She serves as a member of the CAPTRUST Investment Committee and is also involved in macro research, individual investment strategy research, and asset allocation.

So welcome to this panel. I'm looking really forward to this session. So today, we're just going to explore the process of how investments are chosen for institutional retirement plans. We're going to look at the most commonly used investments, such as stocks, bonds, and cash. And then we're going to move into a discussion on other investments and why they may or may not be consideration in an employer sponsored plan.

We'll help you also understand the importance of asset allocation and varying strategies. We will allow some time for questions at the end, and then we'll wrap up with a few closing thoughts from our panelists. But before we dive into our discussion, like I always want to do, I want to gauge the pulse of the audience with a polling question.

And we have quite a few people on this call, and I'm just noticing I'm getting just a slight delay in going [inaudible] next slide. But on this polling question, the first polling question I want to look at is, "How many investment options have you chosen in your employer sponsored retirement plan?" Thank you so

much, Rachel, for launching the poll. Have you chosen one? Have you chosen two to four, three or more, or you have no idea how many you have chosen?

So question to you Jean, Cat, and to Ellen, working with retirement plans and working with participants, what do you normally see? How many investment options do you normally see in a really well diversified portfolio? Jean, let's start with you.

Jean Duffy:

Well, I think anymore we see a lot of participants choose the target date fund, right? So they're choosing one, but it is a diversified portfolio. If they're building their own portfolio, I've always said six to eight.

Debra Gates:

Right. And same with you, Cat?

Catherine Ellis:

Yes. If you're looking specifically at the very well diversified, coupling that with education, it's either utilizing the professionally managed target date funds or some type of managed solution. However, in the absence of leveraging those resources, then it tends to be more likely in the two to four region.

Debra Gates:

Okay. Yeah. Just wanted to give people a little bit of time. Any differing thoughts on that, Ellen? Just to give people a little bit of time to answer, and then we're going to see the results here in just a couple of seconds.

Ellen Shaer:

Yep. No. Cat and Jean really covered it. But I think the first thing we're going to talk about is how we do try to solve for the different participant types and needs. So I do see some that have a lot, some that have the one within the asset allocation or target date fund, and then some that are exclusively in index funds and just have maybe three to four.

Debra Gates:

Okay. All right. So Rachel, what do we have here as far as the results? Huh. Very interesting. So we see that people have no idea how many investment options they have in their plan. And for those who have no idea what investment options they have in their plan or how many, prime time for you to reach out to CAPTRUST and call us so that we can look at your lineup and make sure that you're investing appropriately for your investments.

And then I see some people have ... 26% have one, and it's just varying. So thank you for that. We can close that poll. And let's get onto this conversation. Let's talk about this, what we have here today.

And so in my view, can you see my screen? So I want to just pose a question. So I want to pose this question and look at this, Jean and Cat. I want to start from the beginning, when we're looking at plan design. So what I'd like for you to do, I'd like for you to walk us through this process or the approach that we use to determine which fund options are normally offered it in an employer sponsored plan. So that's what I want you to walk through.

So on my screen I'm showing... Are you seeing my screen with planned design? So Rachel, how can we fix that? Because I am still seeing the polling question.

Rachel:

Debra, let's go ahead, if you don't mind, to stop sharing your screen and start sharing it again. And let's see if that goes ahead and works.

Debra Gates:

Absolutely.

Rachel:

Thank you, everyone, for your patience with our technical difficulties. There we go.

Jean Duffy:

Yes. Awesome.

Rachel:

We can see now.

Jean Duffy:

Thanks, Debra. Yeah. I think it's important as participants in your employer sponsored plan to know that your employer is working closely with their advisor to really build a diversified lineup for you and then to monitor that lineup ongoing. So as a retirement plan advisor, we're meeting with the plan committee initially to construct the lineup, and then we're also meeting with them numerous times throughout the year to make sure the investments continue to perform and that you have a strong investment lineup that's offered to you.

So there are a number of factors that we consider when we build a lineup and also when we review it to make sure that we are providing you with options that have different risk-reward characteristics and provide you an opportunity to maximize return at a level of risk that you're comfortable with. So Cat is going to share how we start initially with a tiering approach to actually thinking about building that lineup for plan participants.

Catherine Ellis:

Thanks, Jean. So as Jane just alluded to, part of the duty that plan sponsors have is to ensure that their plan is sufficiently diversified. This allows the participants like you the opportunity to manage your own risk. So in working with our plan sponsors, we achieve this through a process of tiering. We recognize that each participant represents a different type of investor. And for the investor that prefers to take more of maybe a hands-off approach to their investment selection, it's important that we provide them access to some type of professionally managed asset allocation.

The most utilized option that we see is frequently known as the target date fund. This is a non-static asset allocation, meaning that the further away you are as a participant from your potential retirement date, the more growth oriented the underlying mix of that stock, bond, and cash funds will be. But as you move closer to retirement, the portfolio automatically rebalances and shifts away from the capital preservation or growth mode, if you will... I'm sorry, capital appreciation or growth mode to capital preservation or income oriented.

Other options that you may see in this allocation tier include risk-based funds, oftentimes seen as maybe a balanced portfolio or maybe a moderate fund. These options will rebalance back to their stock, bond, cash targets on an ongoing basis. But those are for the hands-off type participants.

For those participants that prefer to do it themselves, it's really important as well that we give them options that allow for them to diversify their allocation themselves, so as to not put all your eggs in one basket, basically. This allows you to manage your risk tolerance and accommodate maybe even your investment preferences.

So for example, some investors are simply looking for broad market exposure but are not interested in taking on active risk, which is the risk of paying for a potential benefit but not actually getting it. Those investors need a tier of passive investment options to consider. Some investors are comfortable with paying a bit more for the opportunity to outperform the broad market, though. So active funds tend to be a little bit more expensive than their passive counterparts because of this, the more actively engaged in their selection and their processes. And while passive funds eliminate the opportunity to outperform, the risk for under-performance is largely removed.

So it's important to note that there are fewer asset class options available in the passive arena versus their active fund counterparts. And lastly, it's important to understand that as an investor, you don't have to be all passive oriented or all active oriented. Having an active tier and a passive tier available to you allows you to make active decisions around where you're willing to pay for opportunities versus just capturing market exposure.

And the final optional tier that all plan sponsors must consider [inaudible] is whether or not allowing other features like loans from your retirement savings and/or a self-directed brokerage account or a mutual fund window are necessary for you as a participant. Factors that play into these decisions for them include things like access to participant education and advice, strong employee engagement, and even needs-based planning. So that's another layer down on the onion.

So Jean, can you peel back a little bit further and tell us what types of asset classes we may typically see in the passive and active tiers?

Jean Duffy:

Yeah. And I love how you tied it together and talked about different level of investors or participants and what they might be looking for. And just know, and you said, that they don't have to use one of these tiers, because we're trying to create something where they can use certain, either the simple do it for me or building their own lineup, maybe using the passive or the active. But it is important to offer different asset classes, such as large company stock funds, small company stock funds, growth versus value, which we'll talk about a little bit later on, international, and then also to give people the option between that active or passive managers.

So we know certainly that different investments perform differently and that, in order to maximize returns at a specified risk level, we have to provide various options. So that's why it's really important. We want to give the participants all the options they need to build that portfolio that's going to work best for them. And we want to make sure that we're complementing our passive managers with active managers for people that want to build their lineup, but also giving people that easy target date fund or risk-based solution.

One thing I'll add here is that on the target date fund scenario, sometimes when I sit down with a participant who maybe didn't know how to make their election, they might have some in a 2020 fund, a 2030, a 2040, a 2050. And those funds are really designed just to choose one for the most part, to pick the one that's closest to the year that you're going to retire or based on your risk level. So that's why we go about making the tiering approach and building a lineup so we have a solution that fits all needs.

Debra Gates:

I want to take just a step back, because we do this every day, and so we are very familiar with all of the terminology. And so active versus passive, can you give us an example? Give me a fund name or something that would really bring that point home as to what's active and what's passive.

Catherine Ellis:

Well, I'll to go ahead and jump in here. So a lot of people think of the broad market as the S&P 500. They think of broad market exposure being just that, which is just a large stock type investment structure that's a combination of growth and value investments under the hood. But it's just a broad market exposure type of structure. And typically, it is a passively managed structure. You want to cast the net and you want to capture your exposure on those types of companies that would be considered in the S&P 500.

For an active manager or an active fund, you're looking to capture maybe a smaller subset. Maybe you're saying that there are certain companies that are inside of that arena that perhaps are more suited to being winning picks, if you will, over a period of time than all of the broad market. And as an active strategy, you would maybe have 20, 30% of the holdings of the S&P 500 versus all of it. And I know I'm not giving you an active name, because there's so many different active names that you can choose from. [inaudible] the S&P 500 is very common.

Debra Gates:

Sure. True. That gives me a better understanding. So I think we want to dig a little bit deeper, and I think this is when I want to pull Ellen in. And I'm going to advance the slide. We get so many questions, I know, when we're meeting with participants and them wanting to know. And people are watching the news and they hear all kinds [inaudible] why certain things are not a part of their plan. So I want you to dig just a little bit deeper when we are-

Debra Gates:

I want you to dig just a little bit deeper when we are looking at the investment vehicles of what can be inside of a plan.

Ellen Shaer:

Sure. So this slide with far fewer words than the last one, is the vehicles that can be used in a participant directive plan. So the most common or the most widely used is the mutual fund and we made that the larger circle to reflect that, to be commensurate with that. So the benefits of this, I will talk about in just a minute, but just briefly going through which each of these are and how they vary slightly. So the mutual fund, the large big blue circle, are pools of money from multiple investors to purchase the diversified portfolio of security. So Jean talked about diversity being important, it reduces the risk and that's the risk of owning, whether it's a more concentrated portfolio or just one security. The value of the mutual fund is based on all the underlying securities in which it invests. They have daily liquidity, they trade or they buy and sell once a day at the close of the market at that value of the net asset value, which is essentially the value of the securities.

The collective investment trusts or CITs, as we noted here, are also a pooled investment vehicle. It's a tax-exempt pooled asset. They're available only in your qualified retirement plans, 401k, some other plans, and they're pooled also to create a vehicle so you can invest again in this diversified portfolio. They're probably the second most highly used. But on the 401k side, as I believe, the legislation is still working through gaining access on the 403b side, which should be happening, but in any event, very popular on the 401k side. They are maintained by a trustee, so that's the bank, the trust company, and

essentially your employer offers this trust and then the trust owns and manages the CIT. Also convenient daily valuations, generally lower management fees because they're not SEC regulated, so less admin and operating, so lower fees, tax-free earnings. But both of the CITs and the mutual funds, you'll see all across your plans, they're pooled investment vehicles, they provide diversification, they also have daily valuations.

The third one we list here is the separate accounts. Separately managed accounts, a little less popular. It's managed by a professional asset management firm and it's that firm that makes the investment decisions. I heard it described recently as a private mutual fund. So meaning it's customized to a specific investor needs or wants with respect to maybe the strategy or the style. So the interesting thing or the differentiator also besides that flexibility is they have a minimum to invest and that minimum can be quite high. It's not low. So more customization in a separately managed account, which is beneficial or can be beneficial. And then maybe a hindrance that there is a high bar or high minimum to set up.

It's a collection of securities. It's also pooled with other investors, but you own the securities in the fund. So direct ownership and in a mutual fund and an ETF, all the securities are pooled together. ETFs, which we don't see that often, which we'll get into, are exchange traded funds somewhat similar to mutual funds in the idea of aggregating the securities. They're generally tracking or matching performance of a benchmark, could be as basic as the S&P that Kat was describing or could be a much more complicated benchmark. Any index that they want, it's created to track anything. ETFs are bought and sold more similar to stocks, so throughout the day, but lower fees than buying all of those individual securities. They do have tax advantages, which really doesn't matter a lot or doesn't mean a lot in a 401k. Retirement account plans already are tax advantaged. So putting a tax efficient vehicle in a tax advantage account really yields almost no additional benefit.

So we generally don't recommend ETFs in our plans. We have extremely low and periodically no usage of that. The takeaway is just that the mutual funds and vehicles are collections of securities and that the mutual fund is the most popular. This is really digging a little deeper. And on the right-hand side, we list the mutual fund or the other pooled accounts and really the many benefits of them, the first being that it is professionally managed. So every mutual fund has a portfolio manager that manages the investment. It could be a large cap growth fund, it could be a bond fund, whatever it is, the international fund, the manager is a professional and an expert in that arena. The manager pulls the money, allocates to the assets by selecting the investments and monitoring them for the investors. And that's us, you, me, the participants in the employee-sponsored plans.

So as a relatively small investor, which all of us are relative to these, we have the benefit of a full-time professional manager selecting and managing the mutual fund. Diversification, the idea of reducing your risk is a huge benefit. If you put all your money in one stock, it could go up or in a bad case, down dramatically based upon a particular influence to that stock. So being in a broader universe or sector in a mutual fund, the focus would be on the sector or the investment area and you would be reducing that risk. So again, the professional manager is doing that, so you're able to avoid a bad outcome by basically not putting all your eggs in one basket or in one security.

On the variety side, mutual funds are not only the S&P 500, they're not only name any fund. There are I think more than, or almost 7,500 in the US. They fall into the broad asset classes that you see on the left-hand side of this screen, being stocks, bonds, and cash. And within each category, there are many styles, many objectives, many strategies. Could be international, could be a balanced fund that crosses over and has percentage equity, percentage fixed income, money markets.

But with this preponderance of mutual funds and the variety, which also include passive funds, sector funds, you really have a lot of options. The other quick benefits are the liquidity. So how easily you can buy and sell, whether it's intraday on a stock, but this is once a day with daily pricing. They're bought

and sold, they're tracked easily. They have tickers. You can see the net asset value. Again, once a day. So different from your stocks, but incredibly convenient to track, to buy, to monitor, to invest. You can take a fixed amount, fixed dollar amount and just buy into the funds. And again, generally lower costs. You're buying the fees of the fund as opposed to for every one of these investments. So I think we're going to dig a little deeper on each of the broader categories, stocks, bonds, and cash.

Debra Gates:

Yeah, we are. We will go in and I do want to go into that and go into them individually. And I'm thinking that we'll start there with Jean. You want to understand the basic principles and those different asset classes. I think that's really beneficial. We're going to look at stocks, bonds, and cash, and we're going to go through these relatively quickly. So I'm going to start here with you, Jean. I think this is really important [inaudible] to look at this style box and let you take it from there.

Jean Duffy:

Yeah, this is exciting. I'm super excited to talk about this slide in the Morningstar Style Box because I think is an area that people want to understand more about. But the Morningstar Style Box is the nine square box that you see that categorizes securities. And we're going to look specifically at US stock funds. I'm going to talk about on this particular slide. As a reminder, anytime you invest in stocks, think about ownership. You're purchasing a very small share of company. And inside a mutual fund, you're buying multiple shares of multiple companies inside that mutual fund. So when we look at the style box, it shows the size of the companies or what is often referred to as capitalization on the vertical access and the style of the investment on the horizontal access.

So from the size perspective, the top row represents investing in large size companies. You'll also hear this referred to sometimes as large cap, meaning the market capitalization or the size of the company. And in the case of large cap companies or large size companies, those would be $10 billion and above in value. Mid-size companies in that second row would be 2 to 10 billion, and small size companies would be the under 2 billion. So market capitalization is simply the value of all of the outstanding shares of the company. So that's how we define that.

When we look at the columns, they represent the style of investing that the fund manager is utilizing. The first column on the left is representing value investing. So the fund manager is looking for a value or a good buy, stocks that are underpriced and they think a good opportunity to buy them. Value stocks will often pay dividends as well. So think of lots of times we'll see financials in the value side, we'll see utility companies on the value side. And if we look at the other extreme on the last column on the right, that's growth investing. And here, the fund managers are looking for companies that they believe have strong growth potential, looking at their earnings potential and forward growth expectation. So the stock price might not be as attractive, but they feel like there's a great upside potential. And lots of times, we will see tech companies here. So think of things like Apple in the past few years, Netflix, things like that, that had great growth opportunities.

The middle column then becomes a blend of those two. And oftentimes, we refer to these as blend or core. And this is where you will often see the index funds or passive funds here due to their lower cost and market efficiency. So Kat referenced earlier the S&P 500 index, this is that broad market index that would fit in that large cap blend, or that middle box on that top row would be where the S&P 500 fits. As you move across from value to growth, the risk increases. And as you move down from large cap to small cap, the risk increases as well. So on that box, the highest level of risk in US stocks would be small cap growth funds and the least amount of risk inside the stock market for US funds would be large cap

value. So remember that when we do invest in stocks, we are taking on risk. And sometimes that means our accounts can go up or down, and sometimes that movement can happen pretty quickly.

So I always like to tell my planned participants if I'm in front of them, that if they tell me they never want to see a negative on their statement or in their account when they log in, then I would tell them they have two choices. One of those choices is don't invest in stocks and the second choice is don't look, which is not a good option. We do want you to look at your account, we just want you to realize that that's what's going to happen if you invest in stocks. There are going to be times when your value on paper goes down, but remember it is just on paper and once the market recovers, you will recover along with it. The danger comes if you sell it at the time when you're seeing that negative, then that loss becomes real. So remember when you buy stocks, there is a certain amount of risk associated with it. The market goes up and down and that means our account value goes up and down with it. So that's what I wanted to say there, Deborah.

Debra Gates:

All right, wonderful. All right, so let's switch on over and look at bonds. Looking at bonds. So I hope everyone's getting something out of this because we could definitely talk about this all day. When we're looking at bonds, when we're looking at bond funds, I want you to talk a little bit about that, Ellen. I mean, we see all different types of bonds and bond funds, but in our lineup we usually look at maybe a couple, two or three bonds in the fund lineup. And I kind of want you to hit, sometimes we'll get questions about savings bonds. So I see we have these listed, so can you kind of hit on some of these to help us to have a better understanding of bonds and that we're looking at bond funds and not individual bonds?

Ellen Shaer:

Right. So first bond funds. Fixed income bonds is such a wide and varied universe. And so if you think back to the menu lineup and the best practices that Jean and Kat were talking about, we probably are offering one or two options for all the same reasons, to diversify, to have a professional manager, in this case, knowing how to access this broad opportunity set, when to get in, when to get out, when to be long duration, what parts of the curve. It's a pretty complicated universe of fixed income securities and probably most participants are not equipped to evaluate not only the market, the drivers, the cycles. Emerging market debt, we wouldn't want to have a fund specific to that. You can see on this slide a number of different fixed income securities and then you would want to tailor that to when to be conservative.

So having this professional manager in that space really provides the ability to do that. I will say that fixed income is really broad. I mean in the strictest sense, it's really securities issued by companies or governments, and you are the lender. So unlike what Jean was saying, where you are buying a piece or an ownership, you are basically the lender to the company. And for that, it should be less risky. You are paid interest. The interest is based upon the credit worthiness of the entity, the prevailing interest rate rates. They should be, again, less risky because of their seniority and the cap structure, which basically means that you're paid first in the event of a disaster or a liquidation. So enormous and varied opportunities set, one that is not easy to access. Individual bonds are expensive, they have idiosyncratic risk, they have large denominations. So bond funds that we offer are created to access this part of the market.

You will probably see in your lineup an index fund, which does just that, tracks the index. And then we usually have what we call or what's referred to as a core plus, it invests across the opportunity set primarily in investment grade, which is higher quality US fixed incomes, governments, corporates,

securitized debt. And then the plus part of that core plus generally gives it a little bit more flexibility and they can hold high yield, corporate high yield, emerging market debt and bank loan. So some non-core assets. And what they will do is dial it up and down as needed, something that you and I probably can't do, the question on savings bonds and treasury bills, notes, bonds... So they're similar in...

Ellen Shaer:

Treasury bills, notes, bonds. So they're similar in that they are both issued by the US government. They're considered low-risk. Funny to be saying that with the debt ceiling looming, but they are backed by the full faith and credit of the government, which is generally a good thing. So they give away for investors to earn interest on their money.

But savings bonds have this fixed interest rate, it's paid out at the end. It's usually 20 or 30 years, it's paid out at maturity. Treasury notes and bills have different interest rates. They can be paid out periodically. Treasury notes, bonds, bills, they trade. So they're on exchange in a secondary market. Savings bonds do not, they just mature.

They have much longer periods, 20 and 30 years, and treasury notes are between two and 10 years. And bills are up to 52 weeks, so less than a year.

Savings bonds, not something you would ever find in your participant- directed plan. Maybe a gift when you're born.

Debra Gates:

Right. All right, so thank you.

So I don't want to forget about cash. We've looked at the three major asset classes. We looked at stock funds, we looked at bonds, and now I want to look at cash. So what I want to ask you, Kat, I know that you're going to talk about this.

Do we find that planned sponsors might want to offer multiple options under this asset class? I mean, is that something that they can do if they want to offer multiple?

Catherine Ellis:

They can, but you typically don't see it. There's some legislation that's currently in place that, they call it an equity wash rule. And so if you were to have two different options in the cash position, for example, and you wanted to move from one to the other because, for whatever reason, you feel that one is more favorable at the time, you're actually limited for a period of time.

Once you sell out or redeem your position in the one strategy, you wouldn't be able to immediately move into the competing fund. You'd have to choose some other type of investment structure that doesn't have the same type of profile as a capital preservation type fund, sit there for a period of time, typically around, I think it's 60 days, correct me if I'm wrong but it's roughly around 60 days, and then moves back.

Then you could move it into the fund of choice. And by then, the benefit of changing may have passed. So typically, you don't see it to eliminate confusion, and to not have to track that limitation for the participant.

Debra Gates:

Okay.

Catherine Ellis:

With that, I'll go ahead and tell you a little bit about what you might see. Because there are a few different flavors that you may see in your plan, and each of them can be a good fit for an investor that was looking to seek some type of cash-like instrument that may provide a small return, but ultimately you're looking for low-risk in this type of position.

So in the beginning of ERISA, which for those who probably don't know on this call was 1974, a majority of plans were on insurance company platforms. Thus, the most commonly utilized position at the time, implants, was known as a general account. These are accounts that are underwritten by insurance companies. And when they underwrite new policies, they would be paid a premium by the policy holder. That would be the participant.

The premiums would then be deposited into the insurers general account, and the account would then be treated as an investible asset that would be allocated accordingly.

It's a really important distinction that the assets held in these general accounts were owned by the general account. They were relatively attractive in the early days, because they often provided an attractive crediting rate relative to other cash and capital preservation options that were available. And the crediting rates were often known ahead of time.

So you might understand that maybe you could earn maybe 3% or 4%, which would be a guaranteed rate, if you will, for a set period of time.

But some of the issues with general accounts would be a general lack of transparency on how the assets were being invested underneath the hood. Further, the guaranteed offer is backed by the insurance company, and the assets could be tied up in the event that the issuing company ever went under.

And a final challenge for plan sponsors was that the availability of these options was really limited to insurance company platforms, making the ability to take this attractive guarantee that you may have with you if you choose to move away from an insurance provider. The insurgence of the money market and the stable value really came into play from this point forward.

Money markets are probably the most commonly recognizable option by participants like yourself. Money market funds typically structure like a mutual fund. They offer exposure to very low-risk cash and high-quality, cash-equivalent securities such as short-term debt. Examples could be things like short-term government or corporate bonds, maybe even commercial paper. And sometimes you might even see overnight bank deposits.

These positions have a very, very short duration. They're usually 60 days or less, meaning they're exposed to potentially less interest rate risk to the relatively, well, I should say, slightly longer-duration, fixed income investment counterparts. And they offer daily liquidity for most of their investors.

The other option that you may see, or typically see, is a stable value fund. This is a portfolio of bonds, bonds that are insured to protect the investor against the decline in yield, or a loss of capital. Meaning the owner of the stable value funds will continue to receive the agreed-upon interest payment regardless of the state of the economy.

Stable value funds are common options that you would see in plans, and the insurance piece of these funds is what makes them nearly as safe as money market funds. Stable value funds invest in high-quality government and corporate bonds, short term and intermediate term. So, a slightly longer duration. They're typically between a one and two-year duration.

They are no different from any bond fund outside of that, except for that they are insured. And an insurance company or bank is contractually obligated to protect the fund's investors from any loss of

capital or interest. The bonds in such a fund are sometimes called wrapped. So if you've ever heard of a wrapped, a wrapper, or a wrapped bond, this is referring to the fact that they're insured.

So a stable value fund is inherently as safe as investment as money market funds. Historically, stable value funds provide a slightly higher rate of return than their money market counterparts. And stable value funds remain just that, stable. They don't grow over time, but they don't lose value either.

So an important distinction, now that you know the three most common options that you may see in your menu, is that capital preservation funds in general can provide you, as an investor, essential elements of a balanced and stability to an overall asset allocation.

However, there is a potential danger if a portfolio is weighted too heavily in lower-yielding investments, such as capital preservation funds. So it's really important that your risk is assessed, and that you don't allow your risk to be squeezed by things like inflation down the road.

A retirement income that seems efficient today could gradually become inadequate over time as the years pass and inflation mounts. So plainly said, capital preservation funds are not suitable for building your wealth over time, but they can help you to preserve a portion of your wealth as you build it, and could be a crucial element of an overall asset allocation.

Debra Gates:

Wonderful. So let's look at some other investments. We get questions a lot about other investments that could be included. Why isn't there high-risk, why isn't there specialty funds? So I want to talk a little bit about those other investments.

And Ellen, I think that, let's just look at a couple of these. The ones that I hear most about, people asking about cryptocurrency, they're asking about real estate or annuity. So if you could do a high-level as to just a couple of those, what they are.

And then kind of think, you're going to fill in the spaces, why we don't traditionally see them in retirement plans. Because we get a lot of questions about these different options.

Ellen Shaer:

So great, lots of reasons that we don't see them. And when we do see them, the ones that are allowed, I will say the adoption, so the percentage invested in them, is relatively low. At least from the cap trust perspective.

So annuities, generally speaking, an investment from an insurance company where the investor receive regular payments. You can see why this is, it's more complicated than that, it's really attractive. Most of us don't have defined benefit plans. And with the risk of not having enough, really would want to have some guaranteed lifetime income.

They can be used for building income in some pension plans. It's very complicated. The Secure Act, I think, was sort of encouraging annuities into plans. And you may want to buy them, it is very hard. It is very hard to have them on the platforms, and they are expensive, and the variety just is not available on a platform.

Real estate essentially comes in two types. The one entitled just real estate are funds that essentially offer direct investments into properties. So this is also giving you some income, or hopefully a lot of income. I can think of only two in the Cap Trust lineups that we have. These are funds or separate accounts that invest directly into commercial real estate.

The goal of those funds is to generate a lot of income, since they're investing directly into these properties. And I think you can pretty easily see why this would be challenging. So they do have these

funds. The real estate have public securities, they have mortgage-backed securities. They generally hold higher levels of cash, so five to 10% in the fund for liquidity reasons.

And the liquidity is not, I won't say never, but should not be a problem. Because they mostly have access to massive lines of credit in the event of a disaster. But they are investing directly into these funds.

REITs, sort of another type of investment, real estate investment trusts. They're set up to own the stocks of companies, issued by companies that actually own and manage these properties. So also different in that they trade on the exchange, they work, they are part of the S&P, and prior to 2016 they were part of the financial sector. Now they're their own sector within the S&P so that these companies or REITs trusts are set up to own income-producing real estate across many, many property sectors.

They own and operate similar to a mutual fund. And that allows folks like us, small investors, to benefit from these income-producing returns. There are a whole lot of qualifications to be a REIT, percentage of assets in real estate, in income from rents, and then distributing 90%. Again, more complicated than that.

And lastly, and probably most complicated is cryptocurrency. Tons of questions on this. I'm not the crypto expert. But the digital currency transferred through the internet, the digital assets, the interest in investing has grown. You certainly see that they've gone up and very much down. Most of us are familiar with Bitcoin because it was the first cryptocurrency, it's probably still the most popular.

It's an asset. It uses the databases referred to as the blockchain, really, which is the internet databases, transferring and tracking the transactions because this is all decentralized. So Bitcoin, Ethereum, Coinbase, where you can trade this, all of this is very popular, very big in investings.

And I will pause before I launch into Flat Cat, why you will not see Bitcoin or cryptocurrency in your plan line up anytime soon.

Catherine Ellis:

Well, some of that is because of some guidance. It's not a rule or a regulation or anything like that. But the Department of Labor, which is a huge governing body on how planned sponsors comply and perform their duty in helping you to diversify and create their menus, has put out a bulletin statement indicating that exposure to these types of securities, whether that be crypto cryptocurrencies in general, is at this point still widely misunderstood. That there's a lot of volatility, and lack of awareness on how they work, how they're evaluated, et cetera.

And until there's a better understanding broadly across our industry on how those things work, and how they can be implemented in an overall strategy effectively and managing your risk appropriately, then they're advising plan sponsors to not include it. And fairly strongly with their language. So that's why you will likely not see it.

It's not to say that it's not in any plans, it obviously is in some plans in the ether, but it's unlikely going forward that if it's not in your plan today, that you would see it until there's more clarity.

Debra Gates:

Wonderful. We had another polling question, I'm going to skip this polling question. And I want to go, I want to talk a little bit about asset allocation and selecting your investments.

So with asset allocation, we know that that's the process of deciding which fund options you're going to choose, and then making sure that you have a well-diversified investment strategy. So can we talk a little bit about that? Just dividing your money across those different options.

And so Jean, I want you to take us through just the importance of that. And having this allocation, how you're investing your money. How important that is, and how important it's to get with your strategy, and stick with your strategy. We kind of talk about time in the market, not timing the market. So can you speak to that, please?

Jean Duffy:

Yeah, just speak to this really quickly. I think we've had some pretty volatile markets with everything that's gone on in the last couple years. And what we suggest is figuring out the right risk level for you. Put your money, the percentage you want in stocks and leave it there. Don't try to guess when to be in the market, when to be out of the market, because that's a very difficult game to play.

And if you just missed just a few of the best days of a recovery cycle, you can see on the chart that you can drop your return from 10-and-a-half all the way down to five just by missing the best 30 days. So just stick with your long-term strategy is the best advice there.

Then if we go into maybe the emotions of investing on the next slide, I'll talk real quickly about that as well. Is, as individuals, humans, we are emotional. And sometimes our emotions get in the way of investing. Because we tend to react at exactly the wrong time.

So the market's doing poorly, it's doing poorly, I'm fearful, I'm panicking. Oh my gosh, what's going to happen? It gets to the bottom of that cycle and I decide to move my money out because I just can't take it anymore. So when I do that, where's the market going? It's going back up. I'm not there to get the recovery back on it.

So again, be careful not to let your emotions get in the way of your investing, because we're usually making decisions at exactly the wrong time. And the other thing I would say there, during this cycle, is also when the market's down, don't stop investing. Don't stop your 401k. Or 403B contribution. Keep putting money in.

Jean Duffy:

... 401(k) or 403(b) contribution. Keep putting money in because it's on sale now. So if it was a good buy a year ago when it was 20% higher, it's a really good buy right now. So keep investing. Don't stop investing when the market goes down.

Debra Gates:

I think that brings us to our very next point. When you're looking and you're selecting your investments, of course we always encourage you to reach out to CAPTRUST, but there are a couple of things that you want to keep in mind. You want to think about your goal. What is your goal? You want to set achievable goals, things that you can reach. And how long will your money remain invested? So when are you going to start using this money? And then you have to think about your risk. We spoke about that earlier. When you're looking at stock funds, when you're looking at the varying asset classes, how much risk can you take on? So you want to base that not only on your time horizon, but you want to look at your risk tolerance.

And then you want to look at selecting your investments. We kind of talked about this earlier. There's several different ways that you can do that. You can either do it yourself. There are a lot of tools out there. Your provider has asset allocation tools that you can use. Reach out to CAPTRUST. We are here to help you make your decision. Call our advice desk to determine what your risk tolerance is, what type of investor are you, looking at your options. And we have a great tool that we utilize to navigate the conversation because we do want to talk to you about your strategy and make sure that your strategy is

in line with your goals and your risk tolerance. Or if you're the person that says, "I want to choose a target date fund," we advise you on the way that you are. It is customized advice, looking at your financial situation so we can help you select your varying investments.

I do want to leave a little bit of time for a few questions because I'm sure the questions are racking up. But I do want to, as we are going to questions, and Wes, as you're pulling and funneling questions to us, I do want to just remind you that you can go onto CAPTRUSTadvice.com to schedule an appointment. We have evening appointments available, so that's Monday through Thursday from 8:30 AM until 8:00 PM Eastern Standard Time on Friday, 8:30 AM until 6:00 PM Eastern Standard Time. And that's with you scheduling an appointment, and we're going to reach out to you. Or you can call us directly Monday through Thursday, 8:30 to 5:30 at 1-800-967-9948 or Friday 8:30 AM until 4:00 PM.

So I know with the number of people that we have on this call, Wes, do you have questions that you would like to toss to us please?

Wes:

Thanks, Deborah. So a few main themes we'll try to get to at the time we have left that I'll pose to our panelists here. And especially since we are talking today about funding retirement, a lot of us may have heard of annuities, or maybe considering annuities, or even have annuities in our plans. So for our panelists, some quick thoughts. What is an annuity? Where do they typically fit into the retirement picture if people are considering it, some of the upsides or maybe downsides? So real quick, if whoever wants to take that there.

Jean Duffy:

I can start. Yeah. So annuities inside retirement plans really give people an opportunity to say, "Maybe pension plans aren't as prevalent anymore and I have this lump sum of money inside my employer-sponsored plan, so how can I take that and create a stream of income?" Certainly a person can always take it out at retirement and create that stream of income, so that would be available to them. I think the thing around annuities that we always stress is just make sure you understand what it is that you're purchasing because they're very complex animals.

Inside the retirement plan, we're starting to see a pickup of these, but again, they're very complex. They have additional cost to them. Sometimes employers are a little worried about adding them just because of the complexity. And there's some concern about portability. If the plan were to ever move from one record keeper to another, then that annuity obviously has to stay with wherever it was placed at the time. So I think we will see more of that in the future, but it is slow to pick up inside the employer-sponsored plan world.

Wes:

And typically, some, as Jean was saying, want that additional guaranteed income. I'm going to get X amount from social security and I know these are my expenses and to fill that gap, I want to guarantee I'm always going to get this amount. So a portion may go into annuities, but always again, evaluate carefully. Especially when you're investing outside of your plan, make sure you do your homework and understand what you are putting your money into.

Another popular term that's been tossed around a lot lately. ESG. Ellen, do you real quick want to talk about what an ESG investment is? We had a few questions on that. How to determine if they may be one in their particular plan.

Ellen Shaer:

So if it's in your plan, you will probably know that it has environmental social governance or some other socially responsible term in the name. They are in, I want to say 20% of our plan lineups. The uptake in them or the participation has not been that high. I would say the conversations are very, very broad, and they range from options that are just excluding certain types of companies like energy governance issues and some that are being a little more proactive.

Last year in 2022 with the energy market being up, I think it was 65%, a lot of the ESG funds really underperformed on a return basis. And so there has been a little bit of a pivot away from that or less interest, because frankly people want to earn the money. But we have them in our funds. We're very well versed in them. We talk to your employers about them a lot. They're just not as widely adopted as maybe they will be someday.

Wes:

Thank you so much. One of the other questions we received around is how does CAPTRUST and the research team evaluate performance of these investments within the plan and sometimes recommend changes? Similar, how does an individual evaluate an investment outside the plan so they might be able to use that same information to take that mentality? So Kat, do you want to talk about what our research team typically looks at when evaluating these investments?

Catherine Ellis:

Sure. At CAPTRUST we have our own proprietary due diligence process in which we are looking at funds from both a qualitative and a quantitative basis. The quantitative factors, which would be their peer performance and their absolute performance relative the industry and their bench would be based off of a three and five year typically. And then we're also looking at factors such as the consistency in which they deliver their performance profile, perhaps any deviation that we may be seeing over time from their performance. But it's all driven on performance based statistical data that you could pull from Morningstar. Used to be the Yahoo Finance was a really popular place, but those would all be statistical factors that you could find on your own as well.

But the qualitative side is what sets us apart and that's our due diligence that we do at the investment management level and the investment firm level, in understanding the construct of their portfolio teams, how many different portfolio managers they have, how they leverage their analysts, what type of turnover they may have? And also at the fund firm level, what is their ability to maintain? Are they going to be around for the next five to 10 years? Do we feel like they're promoting the strength of the investment strategies for their investment managers, et cetera.

And then from that we create an overall score. And that really is meant to be a guide for us and the plan sponsors that we work with to understand if everything is still in good standing, based on the factors that we originally chose the investments. If there's maybe a reason to review and understand why there's maybe deviation from our original choice, or if we need to consider replacing the fund. But if you're concerned about whether or not an investment structure is the right one for you, you are welcome to try and do the work on your own. But I encourage you to leverage the advice tools and the advisors that you have available to you and reach out and talk through the investment options that are available in your plan.

Wes:

And you can always do research on the investments available through your record keepers. There's a lot of times the fact sheets or prospectuses. I do get some questions about do does CAPTRUST have an

app? We have our website, CAPTRUSTadvice.com, and it is mobile responsive. Many of your record keepers do have apps and great tools and resources I encourage you to check out.

I did want to use this as a point to plug the Blueprint tool that all of you have access to. It's CAPTRUST retirement readiness tool to help see are you on track for your retirement goals. You would go through that with one of our retirement advisors through our advice desk. And again, you can make an appointment, you can give us a call during our normal hours. Again, you don't have to do this alone. You have access to help as part of your benefits.

We are still getting a ton of questions with 1500 people on this webinar. Unfortunately, we cannot get to them all. I did want to toss it back to Deborah to wrap us up. If we didn't get to your questions, because there's some great ones coming in, please call us. Let's talk about what's really on your mind, and instead of talking generalities, get to the root of your specific situation. So with that Deborah, I'll toss it back to you.

Debra Gates:

Thank you so much, Wes. And yes, please reach out to our advice desk. I left the number up and the website up. We are sitting and we're waiting by the phone. We want to talk to you. Schedule that appointment. But before I leave, I want to thank my panelists for coming on and spending the time with you today. I just want to know, do you have any closing thoughts as we are at one minute before we are going to end this webinar?

Ellen Shaer:

Sure.

Debra Gates:

Ellen.

Ellen Shaer:

So I would just say real quickly the importance of investments, investing principles, your asset allocation being the single most important decision you make, so where you allocate your money. It's the largest driver of returns. The various investment options which we're picking for you are secondary, and really focus on your well diversified portfolio. Think about, as Wes just said, yourself, your propensity for risk, your time horizon, your financial picture, your objectives, and choose well for yourself. Take a look at your plan and reach out to us.

Jean Duffy:

And I would like to add, encourage everyone to log into their account and make sure that they have their profile information up to date. Cybersecurity is a real thing and the best way you can do to protect yourself is make sure you're logging in occasionally. Make sure you've answered all the security questions, make sure you've set up multifactor authentication, if that's an option. And then as a side note, I would please like to ask everyone to make sure their beneficiaries are up to date.

Catherine Ellis:

Yes, once you've assessed your personal situation, you understand your goals, you've logged in and secured your account, and assigned your beneficiary appropriately, schedule an appointment. There's

no time like the present to really be working towards your goals in a way that's meaningful to you. So personalize your experience and call us today.

Debra Gates:

All right, thank you so much for attending, everyone. Have a great day and stay safe.

Disclosure: *CapFinancial Partners, LLC (doing business as "CAPTRUST" or "CAPTRUST Financial Advisors") is an Investment Adviser registered under the Investment Advisers Act of 1940. However, CAPTRUST video presentations are designed to be educational and do not include individual investment advice. Opinions expressed in this video are subject to change without notice. Statistics and data have come from sources believed to be reliable but are not guaranteed to be accurate or complete. This is not a solicitation to invest in any legal, medical, tax or accounting advice. If you require such advice, you should contact the appropriate legal, accounting, or tax advisor. All publication rights reserved. None of the material in this publication may be reproduced in any form without the express written permission of CAPTRUST: 919.870.6822 © 2023 CAPTRUST Financial Advisors*