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In Pursuit of Savings: The Growing Trend of Collective Investment Trusts

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Over the past several years, excessive fees and the failure to consider lower cost share classes for utilized investment strategies has dominated the number of lawsuits against Plan Sponsors. Many Plan Sponsors and retirement plan committee members express surprise when learning that Collective Investment Trusts (CITs) have existed longer than their 40 Act Mutual Fund counterparts. In fact, CITs will celebrate their 100-year birthday in 2027[1].

For Plan Sponsors of both defined benefit and defined contribution plans, the fund evaluation process begins with thoughtful analysis of qualitative and quantitative factors. Once a committee or 3(38) investment advisor selects an investment strategy suitable for a pension plan portfolio or participant directed investment menu, the next step is to evaluate the investment vehicle (mutual fund, CIT, separately managed account, etc.), best suited to provide access to the strategy.

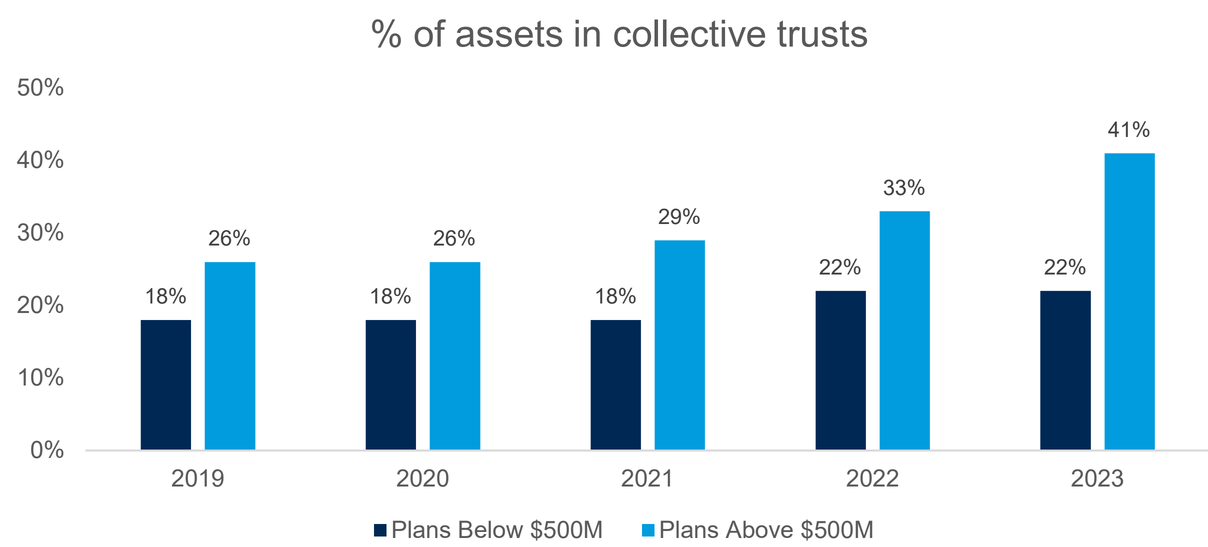
Collective trusts are similar to mutual funds given investors in both pool assets with others and own a portion of the fund. Both vehicles are daily valued and provide investors with a Net Asset Value (NAV). Additionally, both vehicles are professionally managed, audited annually and provide investors with periodically produced 'fact sheets'. However, there are several key differences between mutual funds and CITs:

Key Differences	
Mutual Funds	**Collective Investment Trusts**
Available to all investors	Qualified Retirement Plans only
Oversight by SEC	Oversight by OCC
No ability to negotiate fees	Ability to negotiate fees
Listed and utilize a 'ticker'	No tickers – utilize CUSIPs
All-inclusive expense ratio	Investment expenses + operating expenses

[1] https://www.nb.com/en/us/insights/collective-investment-trusts-what-you-need-to-know

Over the past several years, the utilization of CITs has become more common. According to data from Schwab Retirement Plan Services, in 2019, Collective Investment Trusts garnered 26% of all plan assets amongst larger plans (more than $500 million of plan assets)[2]. Comparatively, Collective Investment Trusts garnered only 18% of all plan assets amongst smaller plans (less than $500 million of plan assets)[2]. Collective Investment Trust asset growth has expanded meaningfully over the past several years and now accounts for 41% of all plan assets amongst larger plans (~58% growth over four years!)[2]. However, Collective Investment Trust asset growth amongst smaller plans has not mirrored larger plans.

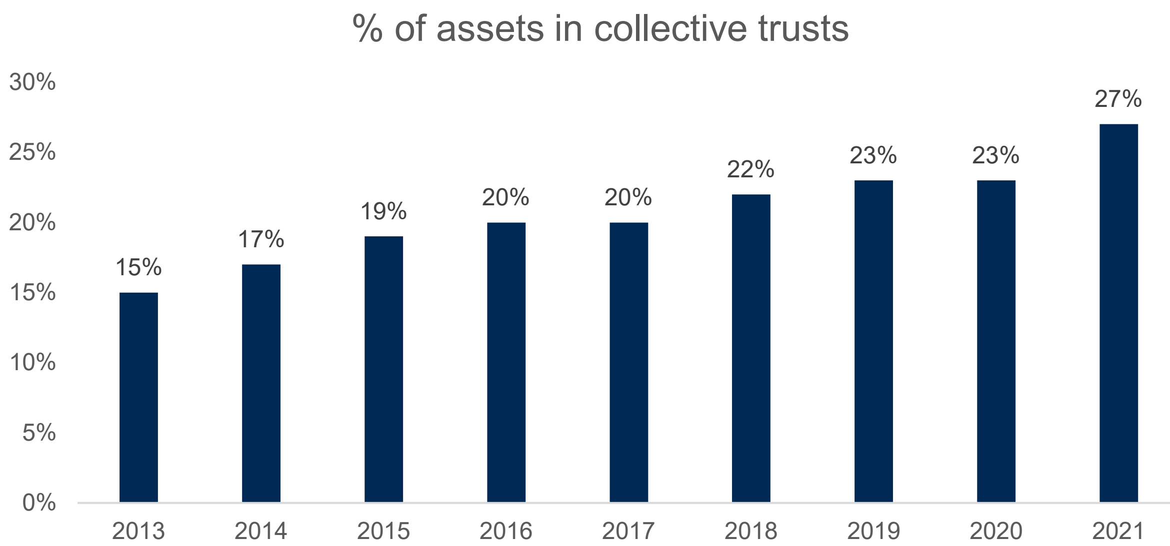
Plans Above $500M have larger utilization of collective trusts



Source: Schwab Retirement Plan Services (Mason Linderbaum), March 18, 2024

Since 2013, amongst all plan sizes recordkept with Schwab Retirement Plan Services, retirement plan assets concentrated in Collective Investment Trusts have climbed from 15% to more than 25% of all assets (*excluding Stable Value Funds)[3].

[2] Charles Schwab, December 31, 2021
[3] Charles Schwab DC Investment Menu Trends, December 31, 2021



Source: Schwab Retirement Plan Services, March 2024, presentation entitled "DC investment menu trends: Investments, Insights, and Consultant Services"

Common CIT concerns shared by Plan Sponsors include:

- **CITs Do Not Have Tickers** – Rather than a ticker, a CIT has a CUSIP which identifies the strategy. The disadvantage of a CUSIP is that most participants are familiar with tickers and can more readily find information on publicly available sources (Morningstar, Google Finance, etc.). CUSIPs by contrast cannot be entered in publicly available sources to obtain fund information. Rather, participants would obtain fund information (such as daily price movements or performance) via the recordkeeper's participant portal. While initially this annoyance may seem material, our experience has taught us that participants and Plan Sponsors have been able to quickly move past this hurdle with education and communications.

- **Different Regulator** – Familiarity with the SEC has built a level of comfort with the regulatory body. When Plan Sponsors consider the utilization of CITs, the second most common concern and hesitation for adoption is focused on regulation. The Office of the Comptroller of the Currency (OCC) regulates CITs, and while different offices there are many similarities. The OCC requires trusts to produce annual audited financial statements, both clear on the National Securities Clearing Corporation (NSCC) and have daily valuations similar to SEC registered mutual funds. However, one feature some Plan Sponsors find attractive is CITs are governed by the declaration of trust. In short, CITs are held to a Fiduciary standard, the same standard as Plan Sponsors, unlike mutual funds which are held to a lower prudence standard.

While concerns are often understandable, we often encourage the Plan Sponsor to consider the potential benefits:

- **Negotiable Fees** – A trust offers an opportunity for a variable fee structure, which may afford the opportunity for lower investment costs. With CITs in some cases, Fiducient Advisors has been able to aggregate client investible assets as a way to obtain access to lower cost share classes containing higher investment minimums. Additionally, in some cases, Fiducient Advisors has been able to negotiate preferred pricing through the creation of a standalone Fiducient Advisors share class.

Important Considerations:

- CITs are only available to qualified retirement plan investors – not individuals.
- CITs have existed for nearly 100 years!
- In most cases, the prospects of lower investment costs associated with Collective Investment Trusts outweighs Plan Sponsor hesitation.
- Larger retirement plans have adopted CITs utilization more than smaller retirement plans.
- Plans under $500M could benefit from lower investment costs for the identical investment offerings by taking advantage of Fiducient Advisors scale within the marketplace.

If you would like more information, please reach out to any of the professionals at Fiducient Advisors.

About the Author

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Taylor services institutional clients by providing counsel and guidance on portfolio design, asset allocation, manager selection, investment policy statements and performance monitoring. Prior to joining the firm in 2019, Taylor worked as a Senior Research Analyst at Ellwood Associates as well as a Consultant at Northern Trust. Taylor earned a Bachelor's of Business Administration from The College of William & Mary and is a CFA® charterholder. In his free time, Taylor enjoys testing out new recipes in the kitchen and golfing.