

Illinois Secure Choice Savings Program



INVESTMENT and ADMINISTRATIVE CONSULTING SERVICES

Wendy Carter, Vice President, Defined Contribution Director

Peter Gerlings, CFA, CAIA, Senior Vice President

Tim Barron, CAIA, Senior Vice President, CIO

December 14, 2016

 Segal Rogerscasey

Thank You!

We are honored to have been selected by Illinois Treasurer's Office as a finalist candidate in your search for a trusted advisor for the Illinois Secure Choice Savings Program.

This discussion guide presents highlights from our detailed proposal, as well as information about our qualifications to serve the Illinois Treasurer's Office.



Introductions

Understanding Your Needs

Client Focused Expertise

Appendix





Introductions

Your Strategic and Holistic Retirement Partner

Technical Resources

25+ person dedicated investment research team

Industry Expertise

47 years of institutional experience

Right Size Firm

\$400 billion AUA & AUM

Proof statement demonstrating our ability to identify superior investment managers

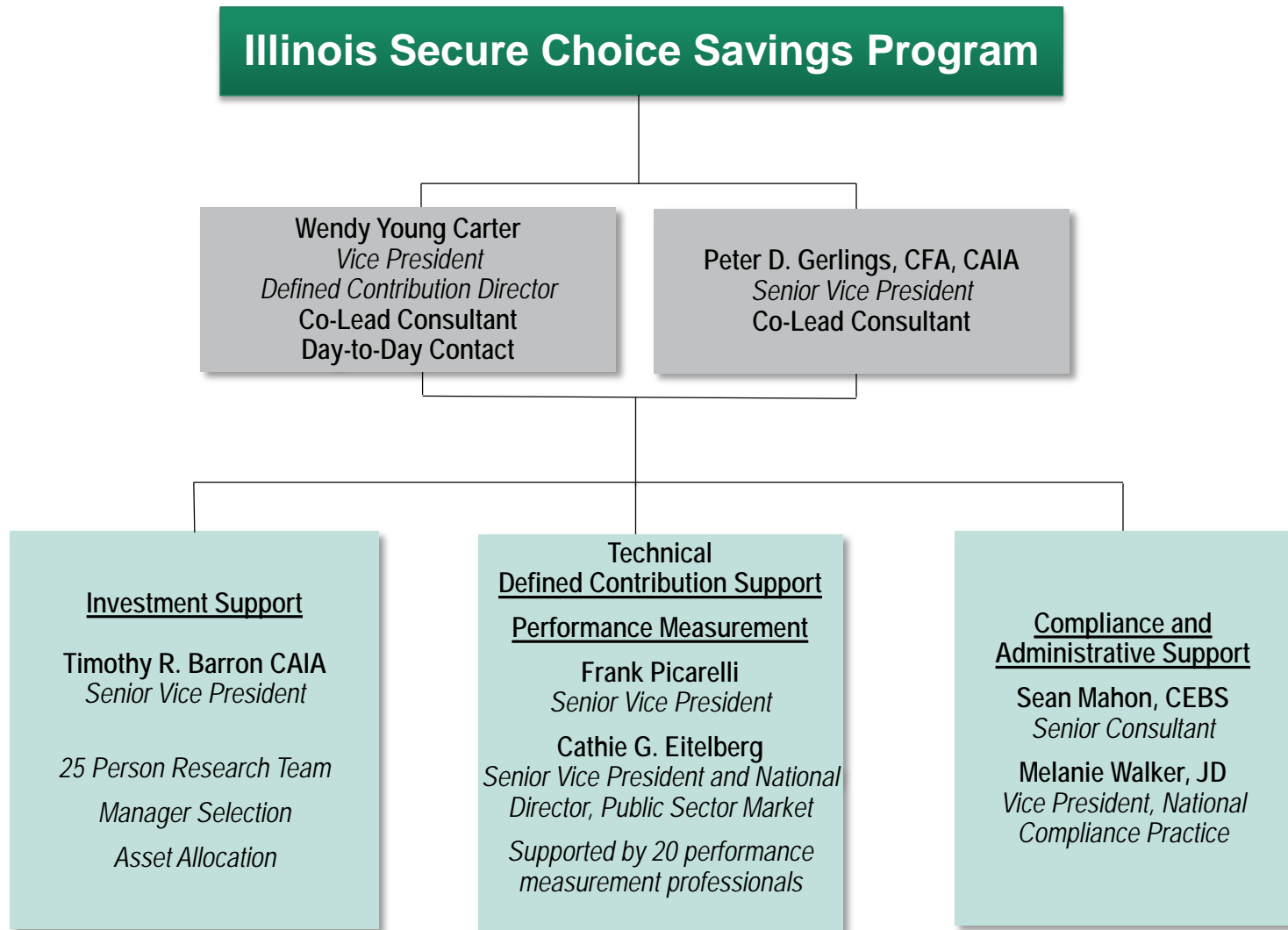
*300+ Total Clients
165 Defined Contribution Plans*

*Industry leading research team
Proactive customized services*

A partnership of trust with a track record of success

Introductions

Your Consulting Partners



Introductions

What Makes Us Unique?

- We have been directly involved in Secure Choice at a deep level
 - We believe that our experience is unparalleled
 - We strongly believe in your mission and the social good that will result

- We are the right size
 - This assignment matters to us and you would be an important client
 - We are an independent employee-owned firm that has the breadth of investment, administrative, and benefit resources needed

Our strengths mean we are able to meet your aggressive time line



Introductions

Thought Leader in State Run Retirement Plans

➤ Credibility

- Direct experience with Payroll IRA Retirement Plans
- National experience and reputation
- Senior team expertise with defined contribution experience and familiarity with retirement industry
- Active participation in retirement associations
- In touch with emerging developments
- Similar national, international and state-level programs

➤ Relevant experience with similar projects

- Oregon Retirement Savings Plan
- NCPERS (Secure Choice) www.retirementsecurityforall.org
- Ohio Public Employees Retirement System
- Maryland Secure Choice Task Force
- California Secure Choice Program Feasibility Study



Helping You Make Decisions

A Tradition of Trust



Introductions

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Understanding Your Needs

What Distinguishes Us

- We understand and believe in the purpose of these plans
- Providing opportunities for employees who would not otherwise be able to save easily, conveniently and at a low cost
- We realize the Program needs to be rolled out with a trusted and experienced partner with the capability and commitment to onboard thousands of employers
- As the saying goes, “there is only one chance to create a good first impression”



Unparalleled experience with emerging solutions for employees without access to employer-sponsored plans



Understanding Your Needs

Demonstrated Experience and Capabilities

- Big picture retirement issues
 - Original Secure Choice Plan design consultant
 - Expert in participant and employer change communications
 - Leader in plan design and funding architecture
- Similar individual participant account retirement program experience
 - The Oregon Retirement Savings Program operational design consultant as well as ongoing program administrative and investment consultant
 - California Secure Choice
 - feasibility study
 - §3121 plans
 - Multi-employer plans
 - State-wide defined contribution programs
- Understand Illinois' challenges
 - Unique program offering
 - Likely early to market with “direct” model
 - Variety of key stakeholders
 - Investment design for a large pooled program structure





Understanding Your Needs

Hit the Ground Running

- Experienced administration and operations team
- Able to meet service provider RFP process challenges
 - Short timeline
 - Managing outreach to ensure bidder universe has a full understanding of expectations
 - Preserving integrity of public service procurement in processes that require the need for alternative solutions
 - Informed to fully understand and vet proposed highly customized service approaches
 - Accounting for detailed technology applications development, e.g., portal and custom web applications
 - Conducting the process with stages
 - » Initial expression of interests
 - » Pre-qualification stage (Intent to Bid)
 - Comparing conceptually different approaches or “apples and oranges”
 - » Evaluation criteria, weighting and scoring criteria to consider all variables and differences
 - » Bidder fee proposals modeled under various scenarios and assumptions

Wendy Young Carter
Vice President
Defined Contribution Director
Co-Lead Consultant
Day-to-Day Contact

Retirement and
Defined Contribution
Support

Frank Picarelli
Senior Vice President

Cathie G. Eitelberg
Senior Vice President and
National Director, Public Sector
Market

Compliance and
Administrative Support

Sean Mahon, CEBS
Senior Consultant

Melanie Walker, JD
Vice President, National
Compliance Practice



Understanding Your Needs

Hit the Ground Running

Service provider RFP

- High level operational design / services
 - Employer
 - Program registration
 - Payroll and contribution remission
 - Auto enrollment and escalation
 - Employee
 - One account per participant
 - Self-service
 - Reduce paper
 - Meaningful and effective information

- A project plan that
 - Allows for modifications as information is received
 - Provides clear operational guidelines and expectations for all services
 - Defines communication services at all levels
 - Market awareness
 - Employer and employee
 - Outlines enforcement and compliance requirements

- Able to meet your timeline





Understanding Your Needs

Keys to Success

Lessons Learned

- Need clear operational guidelines and expectations for all services particularly for contributions and other data coming from multiple payroll locations as well as the portal application
- General perspective on tasks that are be handled by the employer or the payroll service provider and safeguards that will reduce errors and participant confusion
- Fully define communication services to support to the various employers, including educational materials and tools, call center support, on-line chat capabilities and other customer service tools
- Have online presence, functionality, and support services, including security information and specific commitments in the event of a breach as well as the certification of accounts in conformance with IRA requirements.
- Understanding of potential reception by employers/employees to the new Program, including the communications, assistance and services that can minimize initial disruption and maximize plan satisfaction on an ongoing basis





Understanding Your Needs

Technology and Infrastructure

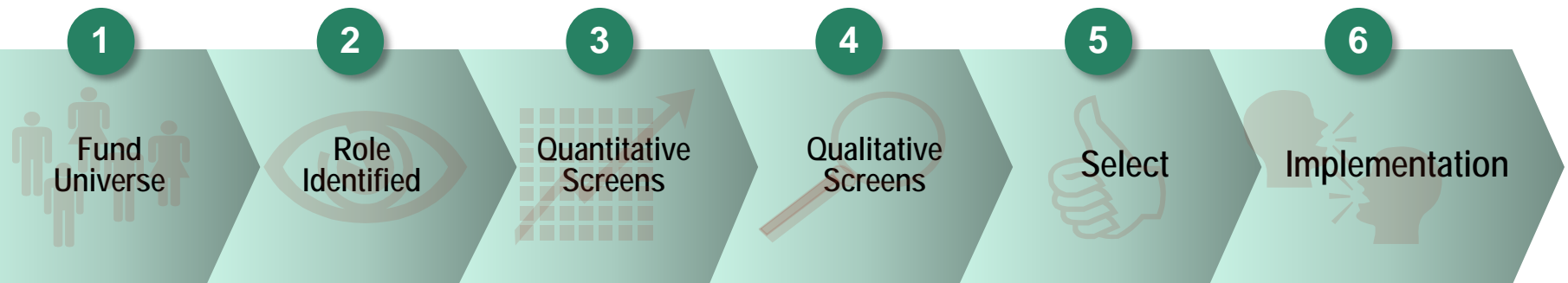
- We have technology resources to evaluate the various administrative and operational components that will be critical
 - Our technology group is able to develop portals and web applications
 - We can assist in structuring and evaluating those services which are critical to the success of offering a program to thousands of employers

- Our previous work has given us a strong foundation in taking payroll IRAs to the next stage
 - We understand the operations and parameters of payroll IRA programs
 - Operations
 - Account balance recordkeeping and associated processes (contributions, withdrawals)
 - The mechanics of auto-enroll and auto-increases processes

Understanding Your Needs

Select Low Cost and Simple Funds

Identify best-in-class investment options



- Meet to address the criteria for conducting the search
- Screen funds in accordance with selected criteria
- Analyze and differentiate the best of class alternatives
- Provide fund evaluation report and recommendations
- Work with service provider to implement new fund offering

Understanding Your Needs

Focus On Cost, Simplicity and Maximum After-Fee Performance

- Low-cost, passive index funds are a core component of nearly all of our defined contribution client fund options
 - Complemented where appropriate with active managers with superior net-of-fee performance potential
 - Especially in a low return environment, fees can make an enormous difference with respect to retirement preparedness
 - Segal not only is able to evaluate, recommend and monitor low-cost passive strategies to its defined contribution clients, we also use our \$500+ billion in assets under advisement as leverage to negotiate fee savings wherever possible
- We view index funds as broad market proxies, and therefore that index funds should have very low tracking error relative to their respective benchmarks
 - For example, we would expect an index fund benchmarked to the S&P 500 to have very little deviation in returns relative to the S&P 500
 - For equity strategies, this is usually easily accomplished, but for fixed income and international strategies, there are greater challenges
- Behavioral research shows participants are overwhelmed by large numbers of options
 - Participants are often unsure of their financial and investment knowledge
 - Many are uncomfortable with their ability to select funds successfully
 - Accordingly, we strongly believe that fund lineups should be as streamlined as possible

Understanding Your Needs

Focus On Cost, Simplicity and Maximum After-Fee Performance

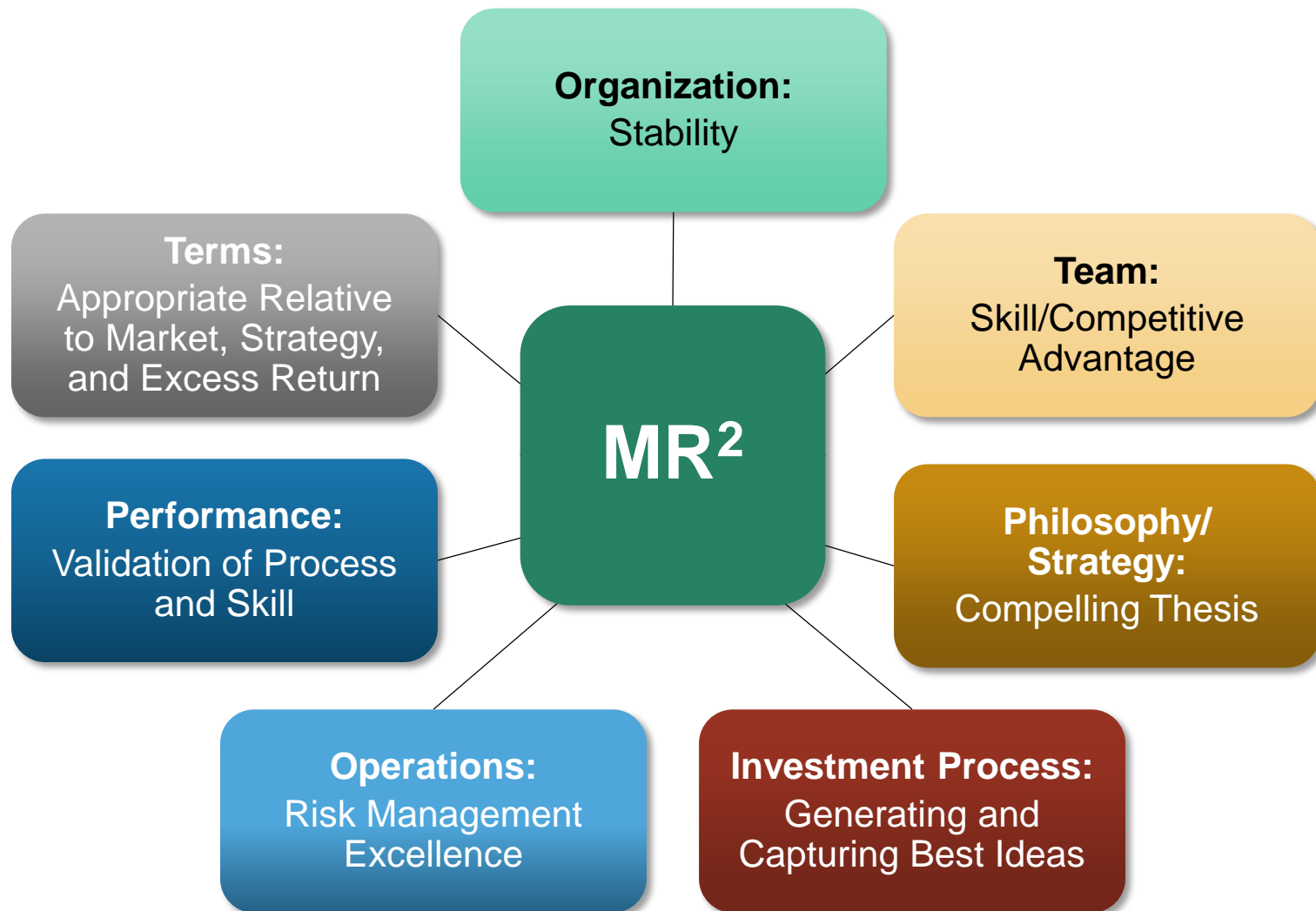
Low Cost, Scalable Investment Vehicles

- U.S. Equity Index Funds
- Target Date Funds
- Cash Vehicles
- MyRA Capital Preservation Vehicles
 - Principal-protected savings vehicle promoted by US Treasury Department
 - Earns 10-year Treasury Yield
 - » Currently around 2.5%
 - » Much higher than government money market funds
 - For up to \$15,000 in individual investor assets



Understanding Your Needs

Identifying Top Tier Fund Options

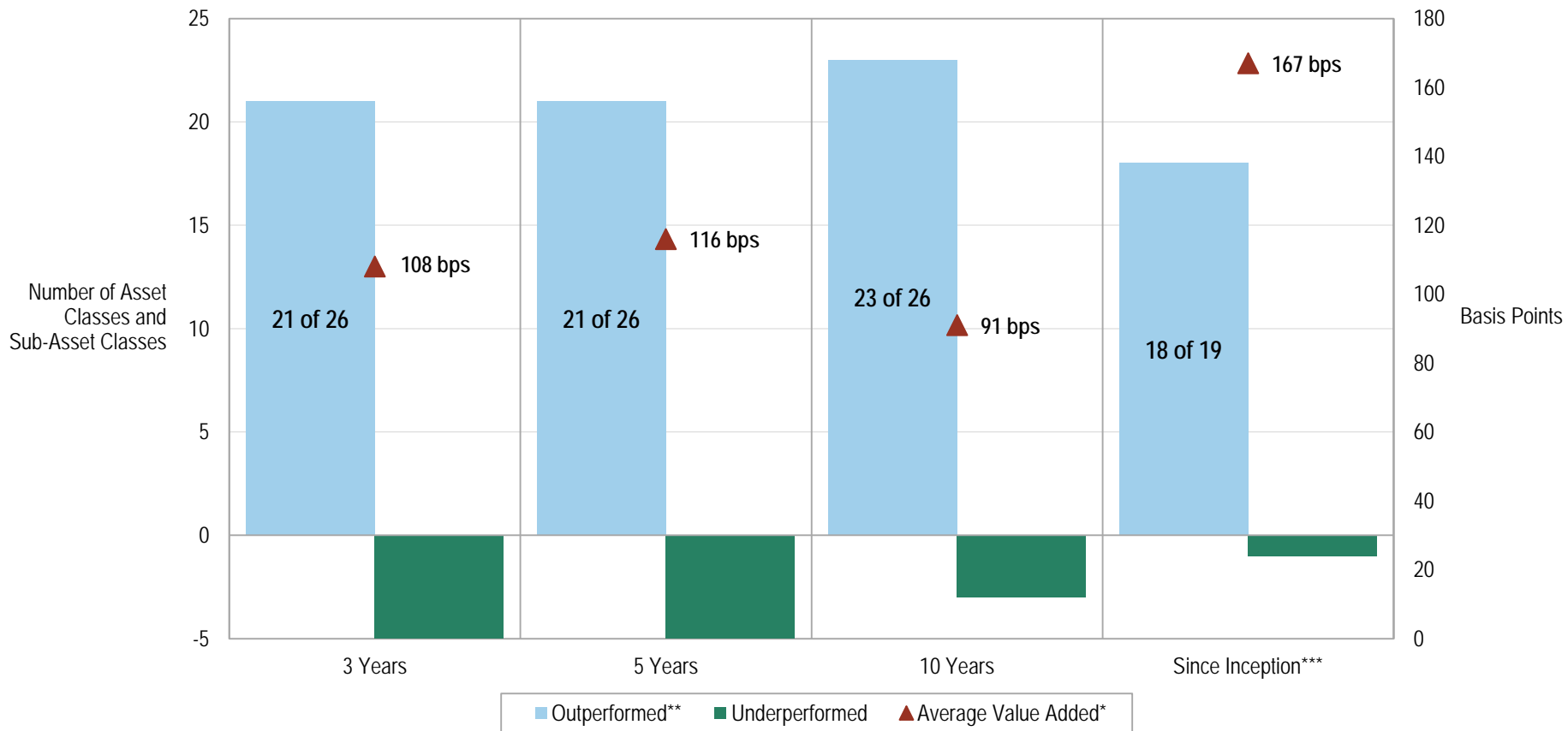




Understanding Your Needs

Track Record of Success

Equity and Fixed Income Recommended-Rated Managers Over/Under Performance (As of 12/31/15)



* The average value added represents results calculated as geometrically-linked average returns of Recommended-rated managers less the performance of representative passive benchmarks. Returns are presented gross of fees. Past performance does not guarantee future results.

** Represents number of asset classes and sub-asset classes with positive outperformance for that period.

*** Inception January 2000

Understanding Your Needs

Monitoring & Analysis

Ongoing program monitoring

- Continuous oversight of investment program
- Continuous investment manager due diligence
- Provide independent research opinions and papers
- Documentation of all meetings and decisions

Performance analysis and reporting

- Quarterly reporting
- Assess performance against peers and benchmarks
- Provide manager risk analysis
- Fee and revenue sharing analysis



Understanding Your Needs

Fiduciary Governance

SRC's expertise will help minimize risk. We will provide:

- Experienced guidance through the design, implementation and ongoing monitoring phases of the program
- Training & updates on trends/issues impacting Secure Choice programs
- Ongoing review and discussion of industry best practices on governance and oversight





Introductions

Understanding Your Needs

Client Focused Expertise

Appendix



Client Focused Expertise

Research Coverage: Stable Value Consulting

Stable Value Research Framework SRC focuses on firms with an established presence in the stable value market as well as best in class investment products.

The research framework has two components:

- 1. Quantitative:** Quantitative metrics are particularly important when evaluating stable value funds in order to capture the multiple layers of a bond portfolio with an insurance overlay, or wrap contract. The metrics assess the underlying investment portfolio, wrap contract execution and diversification.
- 2. Qualitative:** The qualitative assessment requires in-depth discussions with the stable value teams, as well as leveraging SRC's proprietary manager research for a holistic view of the asset management firm.

QUANTITATIVE
<ul style="list-style-type: none">• Performance:<ul style="list-style-type: none">✓ Market value and book value performance✓ Absolute, relative, peer group and market cycle performance evaluation✓ Balanced risk/reward profile✓ Crediting rate volatility
<ul style="list-style-type: none">• Asset Allocation:<ul style="list-style-type: none">✓ Asset class representation✓ Credit quality distribution✓ Diversification
<ul style="list-style-type: none">• Wrap Contracts:<ul style="list-style-type: none">✓ Wrap provider exposure
<ul style="list-style-type: none">• Fees:<ul style="list-style-type: none">✓ Appropriateness given the wrap contracts and underlying fund structure✓ Competitive within peer group

QUALITATIVE
<ul style="list-style-type: none">• Underlying Investment Portfolio:<ul style="list-style-type: none">✓ Investment philosophy centered around conservative bond management✓ Well-defined investment process✓ If applicable, sub-advisory structure and manager due diligence process✓ Active versus passive✓ Risk management
<ul style="list-style-type: none">• Wrap Provider/Contracts:<ul style="list-style-type: none">✓ Underwriting provisions and investment guidelines✓ Credit quality✓ Commitment to the wrap business✓ Wrap capacity contingent on asset management
<ul style="list-style-type: none">• People & Organization:<ul style="list-style-type: none">✓ Established and reputable firm✓ Experience managing asset allocation products✓ Tenure and investment professional stability✓ Alpha Rating—SRC's proprietary manager research

Client Focused Expertise

Research Coverage: Target Date Investment Fund Expertise

Manager Profile Report

The T. Rowe Price Retirement Series (“TRP Retire”) seek to address longevity and inflation risk by utilizing a higher equity allocation than the industry average. T. Rowe Price utilizes plan sponsor input, client relationships, participant behavior, and the participant database from its recordkeeping service to design target date fund objectives that balance the challenges of sponsors and participants. The Asset Allocation Committee meets monthly to discuss tactical asset allocation adjustments based on subjective relative valuations over a 6- to 18-month time horizon. TRP Retire allocates to the same 17 funds in all vintages and the 2010 to 2025 vintages have an additional fund allocation, the Inflation Focused Bond, to protect against inflation. Effective December 29, 2014, the T. Rowe Retirement Income Fund will change its name to T. Rowe Price Retirement Balanced Fund and maintain the static 40% equity and 60% fixed income allocation. Additionally, T. Rowe Price is suggesting plan sponsors consider the 2005 vintage as a default for participants born before 1942 and exclude the Income fund from the default program.

QUANTITATIVE

- **Performance:**
 - ✓ Strong performance post-2008 due to higher equity allocation
 - ✓ Materially greater risk (volatility) compared to peers
- **Asset Allocation:**
 - ✓ Broad asset class representation
 - ✓ Well diversified along entire glide path
 - ✓ Steady allocation to Real Assets starting at 4.5% in accumulation and decreasing to 2.45% at retirement
 - ✓ Bond and stock inflation protection funds were added to the series in 2010
- **Wrap Contracts:**
 - ✓ S³ Rating: C
 - ✓ All underlying funds are actively managed, with the exception of Equity Index 500 that tracks the S&P 500 Index
- **Fees:**
 - ✓ Competitive fee structure for a primarily active strategies; passive index fund utilized for U.S. large cap stock exposure due to market efficiency

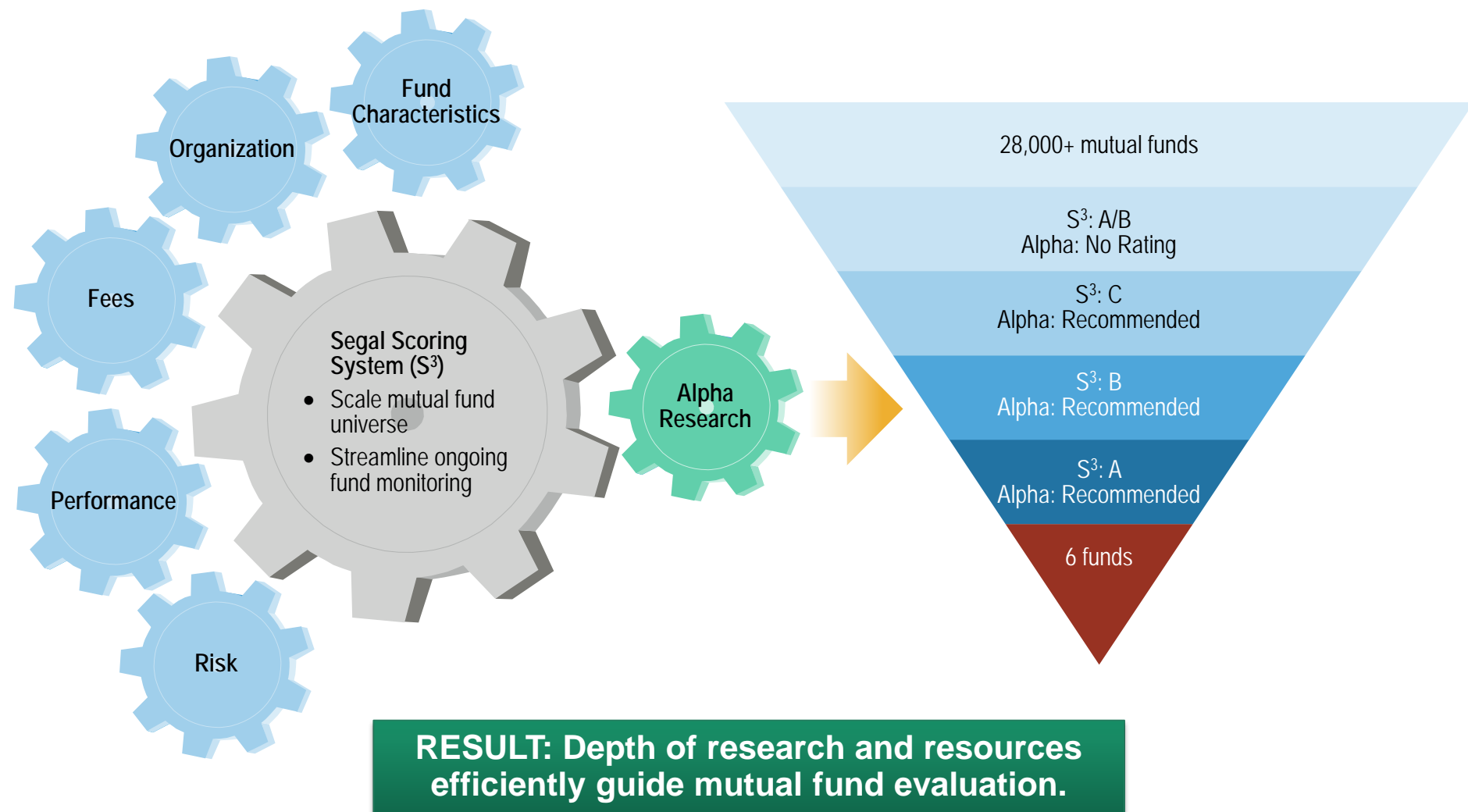
QUALITATIVE

- **Glide Path Methodology:**
 - ✓ Well-defined portfolio construction process
 - ✓ Strategic asset allocation adjusts at the end of each quarter toward the target allocation at retirement
 - ✓ Gradual roll-down from accumulation to retirement compared to peers due to the “through” glide path to 30 years post-retirement
- **Structure & Review:**
 - ✓ Structure is consistent with the objective to address longevity and inflation risk; increased probability of higher short-term volatility due to the equity allocation
 - ✓ Monthly meeting to assess +/-5% tactical asset allocation adjustments
- **People & Organization:**
 - ✓ Firm founded in 1937; headquartered in Baltimore, MD
 - ✓ Asset Allocation Committee is chaired by Richard Whitney, director of Asset Allocation, with two Asset Allocation portfolio managers, five equity portfolio managers, three fixed income portfolio managers, and the vice chairman of the Board of Directors
 - ✓ Long history of asset allocation strategies with the Retirement Funds launching in 2002
 - ✓ Portfolio managers average 20 years of investment experience

* NOTE: Information contained in this document is of confidential nature and may not be redistributed without the explicit consent and authorization of Segal Rogerscasey.

Client Focused Expertise

Best-in-Class Mutual Fund Evaluation Process



Client Focused Expertise

Best-in-Class Mutual Fund Evaluation Process

- SRC's proprietary quantitative mutual fund grading system provides the foundation for mutual fund evaluation
- DC Research Team evaluates both qualitative and quantitative data
- S³ identifies and grades funds by evaluating equally weighted metrics in five main categories:

- Fund Style/Characteristics
- Manager Tenure
- Investment Performance
- Risk
- Fees



- Mutual funds receive grades:
 - A – Above average
 - B – Above average
 - C – Average
 - D – Watch List
 - F – Terminate
- Ratings evaluated on a semi-annual basis
- Our Investment Committee provides oversight

Client Focused Expertise

We Are Different From Other Consulting Firms

Strategic Orientation

We will advise our clients from a holistic standpoint, incorporating retirement planning and investment perspectives.

Tailored, Practical Solutions

We have extensive experience developing solutions for various institutions and will keep you apprised of industry trends.

Senior Level Resources

Our senior consultants work with you throughout the engagement to share their knowledge and experience; those you meet today are the team that will deliver for you.

Supported Implementation

Our analysis and recommendations are supported by research, ongoing benchmarking and performance measurement. Advice is executed with seamless implementation.

Our clients describe us as independent, objective, analytically rigorous, and trustworthy.

Questions and Discussion

Thank you for your time.



 Segal Rogerscasey

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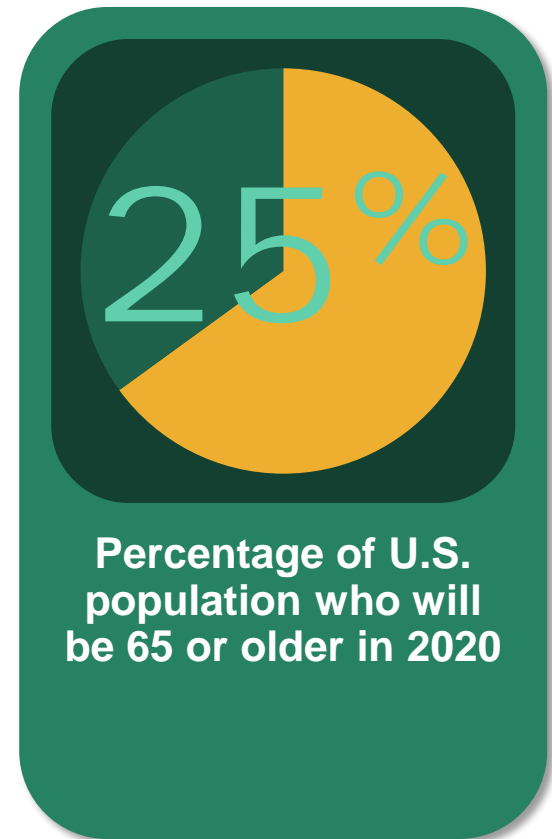
Client Focused Expertise

Appendix



Background

Retirement Security Landscape

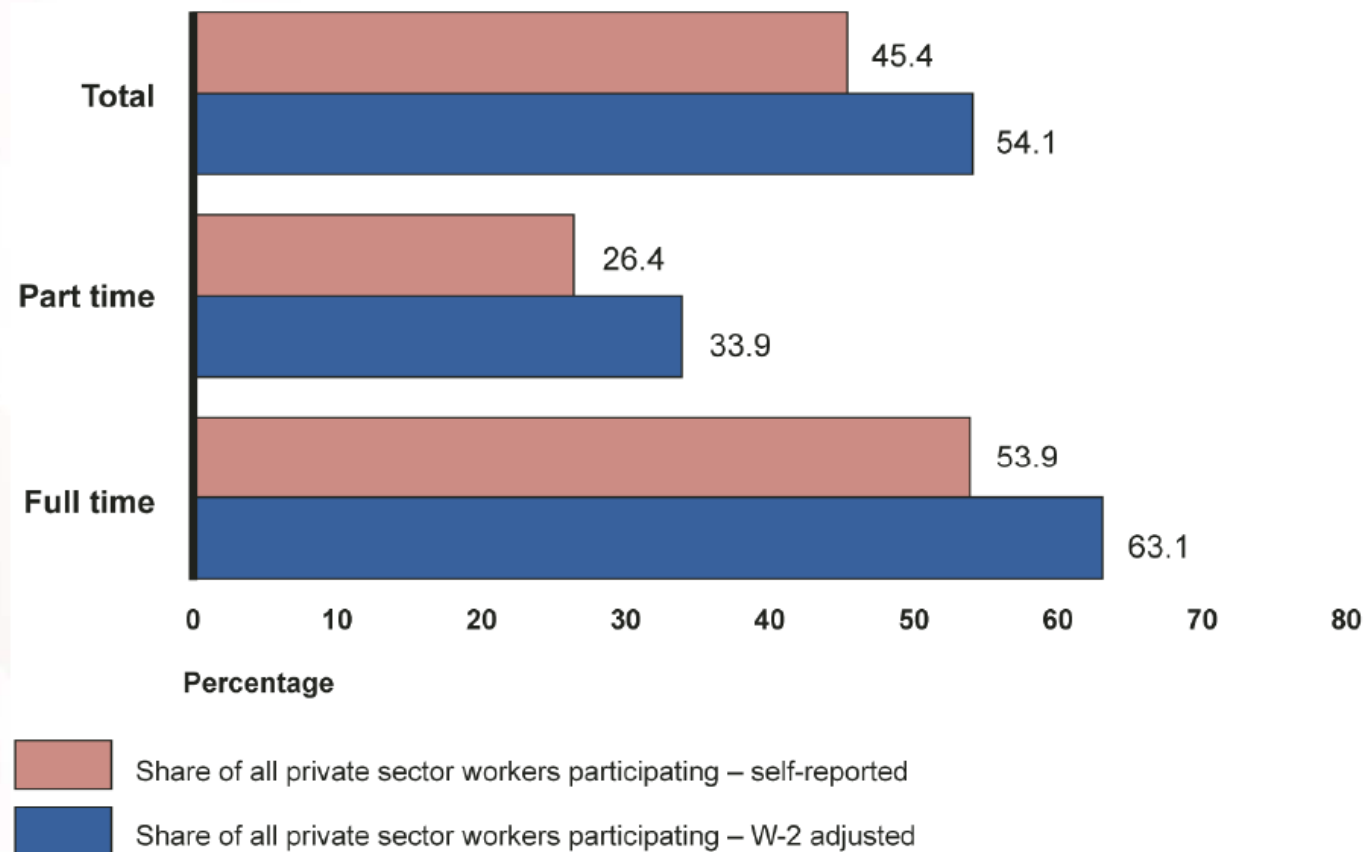


**Deliberate and prudent retirement plans are
required to provide retirement security**

Background

Private Sector Environment – Many Workers Lack Coverage

Share of Private Sector Workers Participating in a Workplace Retirement Savings Program, 2012



Source: GAO analysis of 2012 data from the Survey of Income and Program Participation and the U.S. Census Bureau. | GAO-15-556

Background

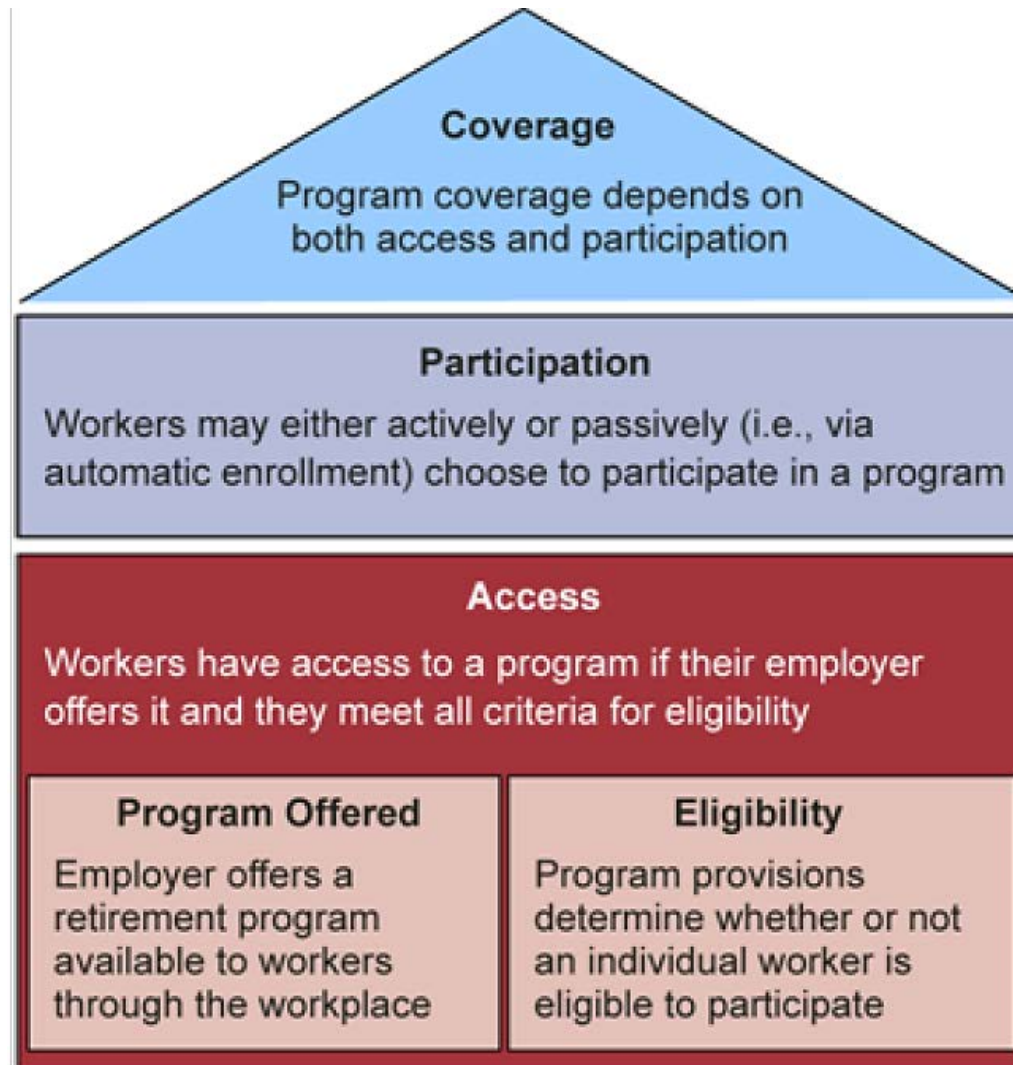
Private Sector Environment – Impact on the Economy

- Nationally almost half of full-time workers are NOT participating in a workplace based retirement plan
- Median Balance at retirement reported by different studies in the range of \$75,000-160,000—these numbers do not tell the full story
- Gender/ Ethnic Variances
 - 26% retirement savings gap between men and women
 - 75% retirement savings gap between men and women
- Type of Plan
 - Shift away from guaranteed-payment plans to variable-payment plans
 - Recent trend to “buy-out” or annuitize frozen guaranteed-payment plan benefits
- All of the above signal retirement insecurity
 - Inability to retire OR retire in place on the job
 - Limited job opportunities for next generation
 - Greater reliance on safety net programs
 - Inability to pay for government services

Background

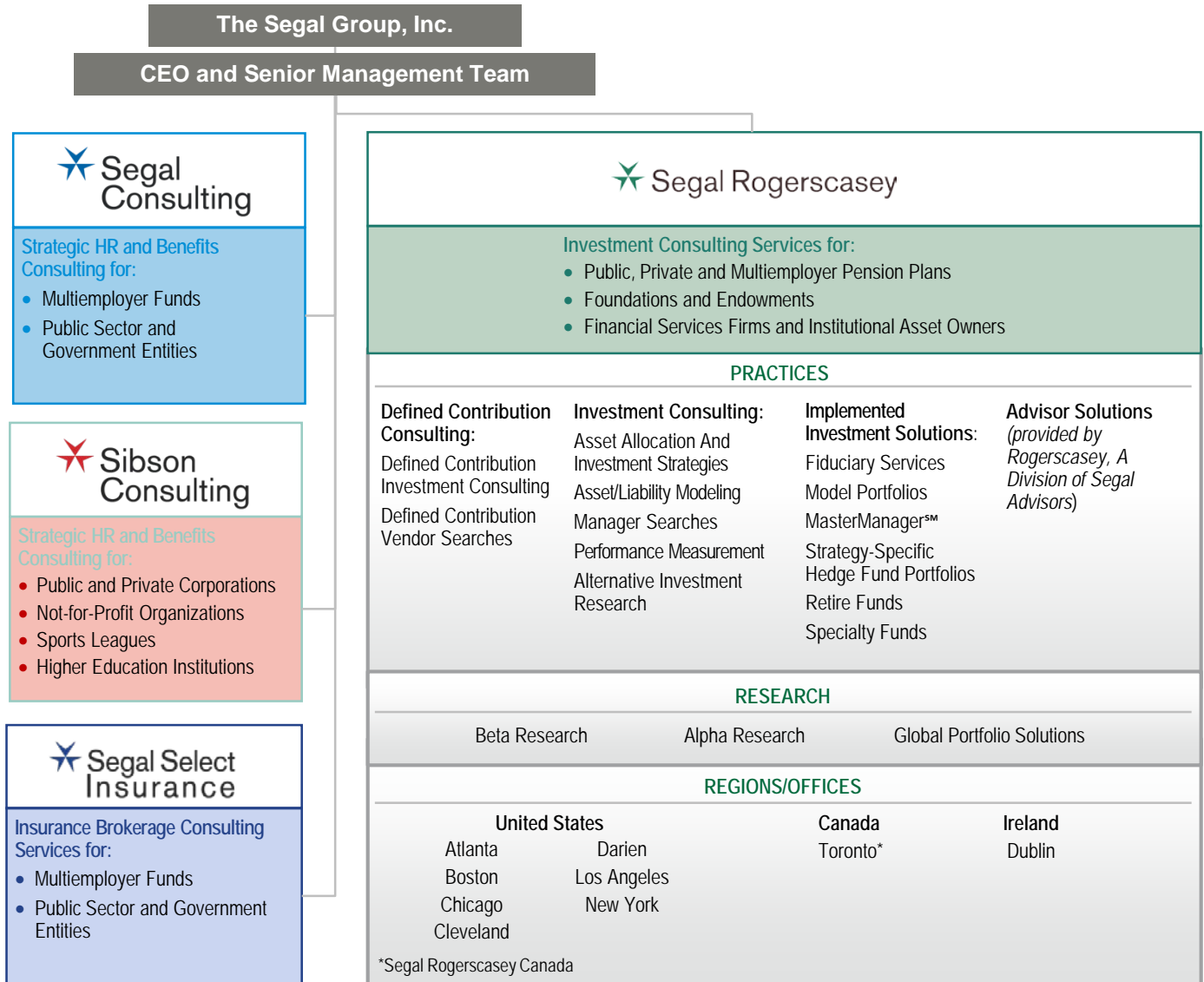
Private Sector Environment

Building Blocks of Workplace Retirement Savings Program Coverage



We Are Client Focused

- Independent, employee-owned firm
- Broadly-diversified across institutional markets
- Deep, long-standing relationships
- 165 Defined Contribution relationships with over \$71 billion in assets



Organizational Structure

John DeMairo*
President & CEO

RESEARCH

**Chief Investment Officer
& Global Portfolio
Solutions**

Tim Barron, CAIA*

Beta/ALRM Research

John Ross
Dan Westerheide

Alpha Research

Alan Kosan, JD

15 Research Professionals

INVESTMENT CONSULTING

Seth Almaliah, CFA*

Jeffrey Boucek, CFA*

John Dickson

Larry Eckman, CFA

Lawrence H. Marino, CFA

Frank Picarelli

Marc Procek*

Richard Ranallo, CFA*

Roger Williams, CFA, CAIA

Michael C. Wright*

Craig Chaikin, CFA

Rafik Ghazarian

William E. Mitchner

Rick Pietrzak, CFA

Keith Reynolds

Ryen Sherman, CFA

Pam Dubuc, CFA

Glenn Ezard

Rosemary Guillette

Michael McMahon, CFA

Scott Schwind

Peter Sullivan

Vanessa Vargas

Kristopher Katarski

Rob Hungerbuhler

8 Associates

DEFINED CONTRIBUTION GROUP

Wendy Y. Carter, CEBS

Pirie J. McIndoe, CEBS

Richard H. Reed, CEBS, AIF

ADVISORS SOLUTIONS GROUP

David Pappalardo, CAIA, MSFP

1 Associate

IMPLEMENTED INVESTMENT SOLUTIONS

Peter Gerlings, CFA, CAIA

Greg Moore, CFA

1 Associate

OPERATIONS & INFRASTRUCTURE

Chief Compliance Officer
Steven Greenspan, JD*

Infrastructure & Technology
Frank Carofano*

31 Performance Analysts; Marketing
Professionals; Support Staff

ROGERSCASEY CANADA

Ruo Tan, PhD., CFA

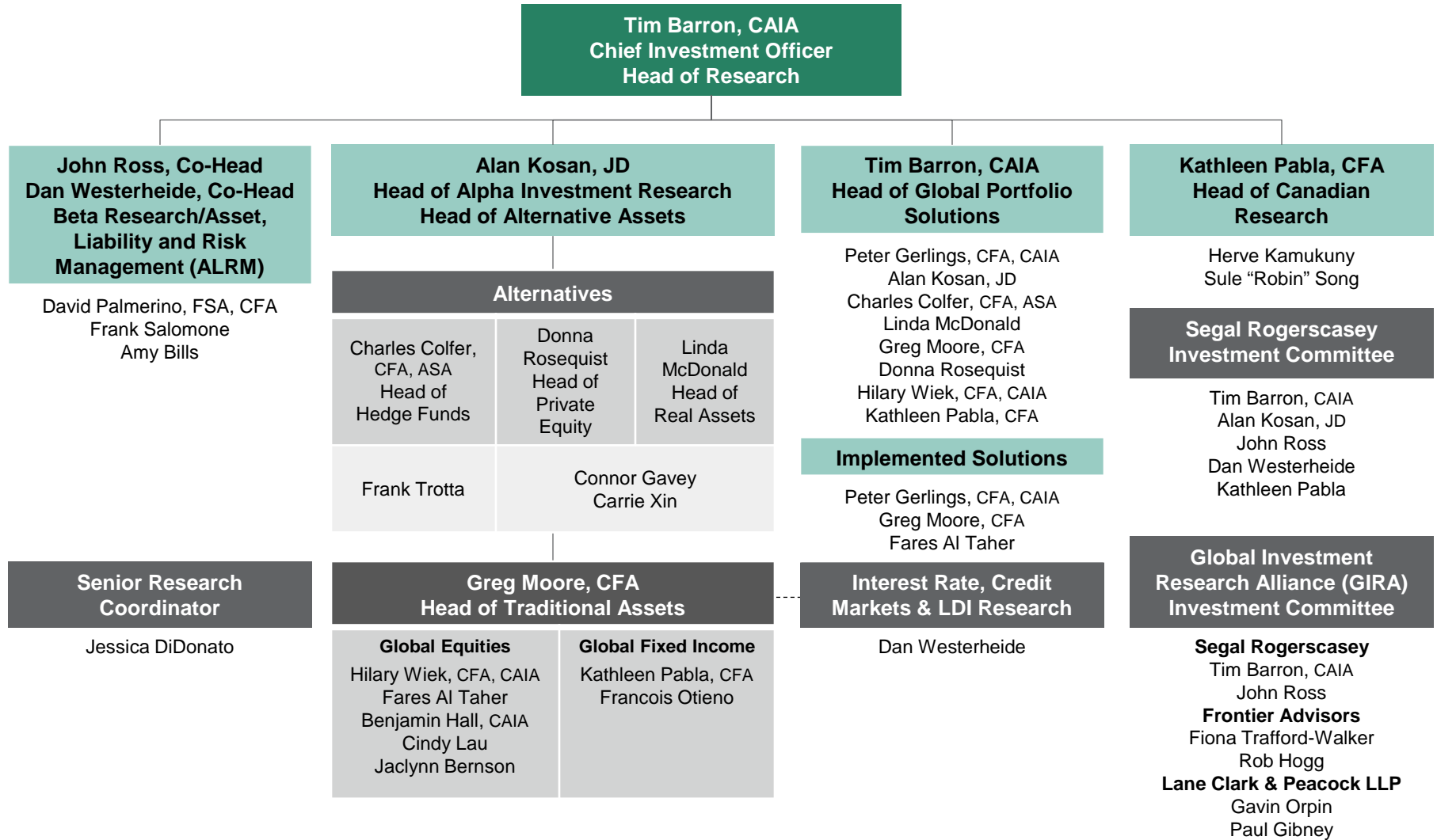
Kathleen Pabla, CFA

Joe Cerullo

2 Associates & Analysts

*Senior Management Team

Research Leadership



Global Reach



Segal Rogerscasey
4,400 strategies monitored
800 approved products
1,300 meetings p.a.

LCP (Lane, Clark & Peacock)
1,200 strategies monitored
130 approved products
350 meetings p.a.

Frontier Advisors
1,500 strategies monitored
610 approved products
1,100 meetings p.a.

Unique Structure with Experienced Leadership

Beta / ALRM Research

- Define strategic asset classes
- Formulate views on strategic asset classes
- Anticipate macro investment themes
- Formulate capital markets assumptions
- Formulate objective-driven investing
- Develop annual research agenda
- **Team Leaders:**
 - John Ross – *21 years of experience*
 - Dan Westerheide – *16 years of experience*

Alpha Research

- Define investment strategy coverage
- Generate/document due diligence
- Source/monitor best-in-class investment strategies
- Seek new alpha sources
- Develop annual research agenda
- **Team Leader:**
 - Alan Kosan – *32 years of experience*

Global Portfolio Solutions

- Portfolio implementation
- Synthesize top-down research with bottom-up research to generate optimal portfolios for clients
- Through education, communicate optimal strategies to clients
- Develop annual research agenda
- **Team Leader:**
 - Tim Barron – *35 years of experience*

One research group focuses on three distinct elements of investment return drivers:

Beta Exposure, Alpha Generation, Implementation Efficiency

Manager Ratings and Recommendations

Manager Research & Ranking Process (MR2)

- Managers are formally ranked according to a proprietary “7 Principle, 34 Factor” model
- Products are assigned actionable rankings as: Recommended, Not Recommended and Sell
- Under Consideration and Hold are temporary classifications that require further action by Research

RECOMMENDED

- Sound, convincing, and stable philosophy and process
- Exceptional investment professionals
- Emphasizes investment results
- Places client interests ahead of business and asset growth
- Full conviction in strategy’s ability to generate superior investment results

Included in manager searches

NOT RECOMMENDED

- Unstable and/or unconvincing philosophy and process
- Investment professionals have questionable investment acumen and/or limited investment experience
- Low conviction in ability to generate superior investment results
- Ineligible due to timing vs. an adverse opinion

Develop an exit strategy;
Excluded from manager searches

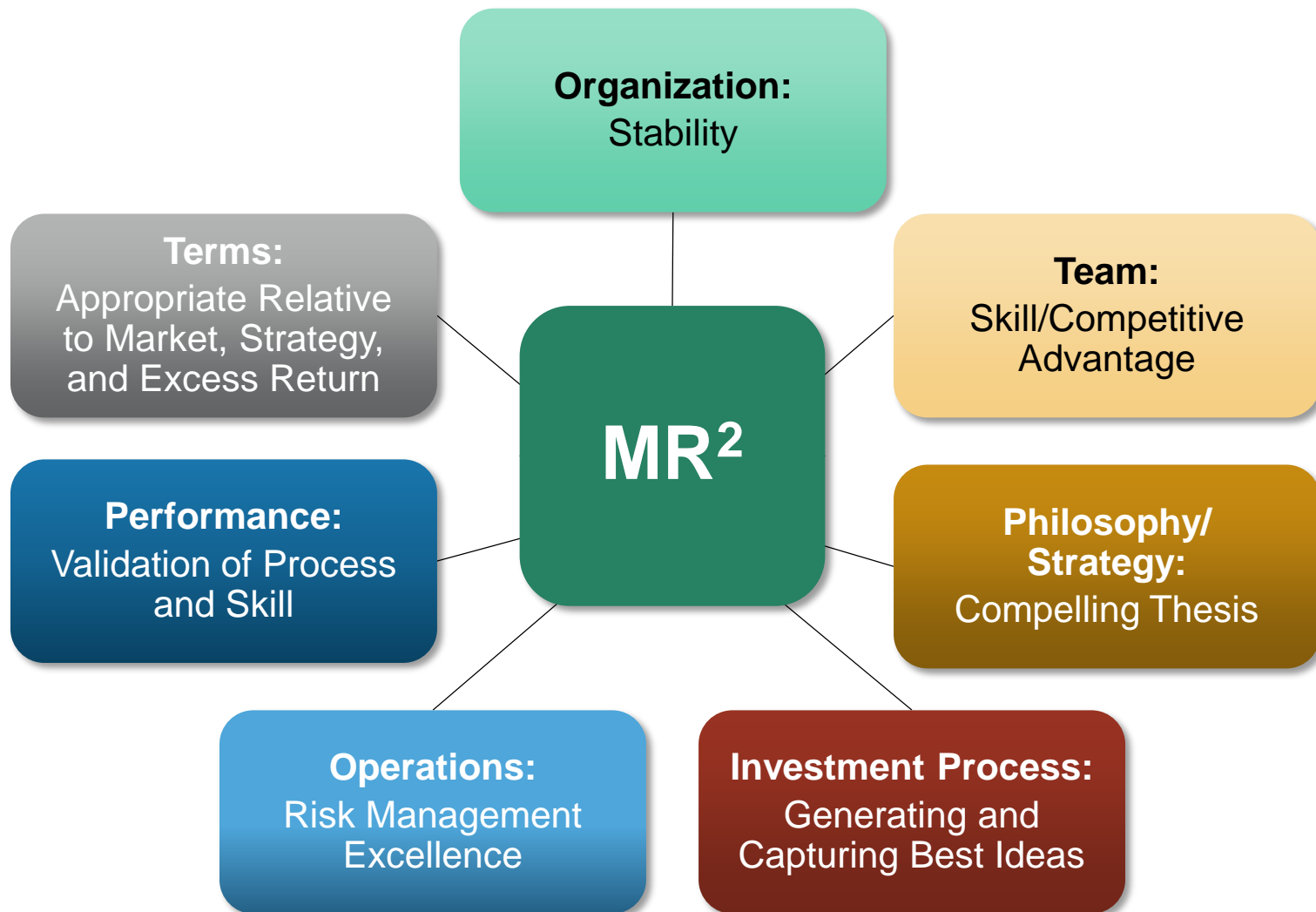
SELL

- Philosophy and process considered unstable and/or unconvincing
- Ineffective investment professionals, high investment professional turnover and/or severe organizational distress

Recommend an immediate divestiture



Disciplined Approach = Success



Manager / Fund Coverage

- Original and fundamental research of managers, their organizations and investment processes
- 1,300 meetings, annually
- Quantitative and qualitative due diligence
- Intensive ongoing monitoring
- Superior focus on risk, attribution and style

MANAGER UNIVERSE & RANKINGS

Style	Segal Rogerscasey Database ¹	Products Broadly Covered ⁵	Recommended Products
U.S. Equity	3,606 ²	1,578	190
International/Global/Emerging Market Equity	3,002 ²	725	135
U.S. Fixed Income	2,167 ²	659	171
International/Global Fixed Income	1,039 ²	104	71
Hedge Funds/GTAA	6,038 ²	150	75
Private Equity	4,655 ³	400	164
Hard Assets	6,115 ⁴	500	180
Totals	26,622	4,116	986

¹ Individual active products in database. In addition, SRC has access to over 23,000 mutual fund and institutional products via Morningstar Direct & Lipper.

² eVestment Alliance data

³ Thomson One and Segal Rogerscasey data

⁴ Includes eVestment Alliance, Preqin and Segal Rogerscasey data

⁵ Enhanced research familiarity



Manager / Fund Coverage

Equities

- Public Equities
- Long/Short Equities
- Private Equity: Buyouts & Venture
- REITs

Fixed Income

- Liquidity (cash equivalents), Currencies
- Sovereign, Core, High Yield, EMD, ILBs, Structured
- Relative Value, Event-Driven, Fixed Income Arbitrage
- Private Equity: Mezzanine

Real Assets

- Core & Opportunistic Real Estate
- Infrastructure
- Timber, Farmlands
- Gold, Commodities

Opportunistic

- GTAA
- Tactical Trading (Global Macro)
- Managed Futures/CTA's
- 'Special Situations' or 'Opportunistic' Private Equity

Governance, Oversight and Compliance

Investment Policy Committee

Reviews all capital market assumptions. Prepares SRC's "Market Outlook" paper.

Alpha Manager Review Committee

Reviews research manager due diligence and provides final approval of all "Recommended" manager ratings.

Fiduciary Investment Review Committee

Reviews all discretionary client relationships. Provides independent oversight to ensure consistent implementation of investment roadmap/guidelines.

Fiduciary Operations Committee

Identifies, researches and implements efficiencies/best practices regarding fiduciary account operations.

Request for Proposal Committee

Reviews all new business opportunities. Focus includes, but is not limited to, conflicts and value add proposition.

Client Focused Expertise Keeps You Informed

Perspectives
JANUARY 2015 VOL. 23 ISSUE 1
Mitigating Risk in DC Retirement Plans: The Time to Act Is Now
By Pirie McIndoe and Rick Reed

Spotlight
March 2015
Defined Contribution Plan?

Present 8 percent or more of compensation¹ — magnitude of that investment in their employer/ objectives for their DC plans or identified arms. In many instances, the design of plans lay, has never been subjected to a strategic estment. Instead, organizations typically or retirement readiness — in an ad-hoc response to specific requests from the perfectly understandable because taking a taking. However, inertia about DC plan are the primary source of retirement organizations sometimes fail to lift the DC opportunity to materially increase the return

cess and other, less well-known contribu- plan's effectiveness and determining what with a process under which the plan can questions:

DC Digest
Defined Contribution Plan News
Fall 2015 for Higher Education Plan Sponsors

DC Digest is a quarterly compendium of key trends, developments and professional insights that our defined contribution (DC) experts believe may be of interest to plan sponsors for further review and analysis. To go to any of the six sections in this publication, click on the text in the bar below. (A navigation bar also appears at the top of all subsequent pages.)

Featured Content | Plan Design & Administration | Plan Utilization & Effectiveness | Investing | The Vendor Marketplace | The Legal, Legislative & Regulatory Landscape

INVESTMENT Insight
March 2016
Active versus Passive — Version 5.0: Thoughts on How You Can Get on Base

In recent months, there has been a rising chorus from investors revisiting the question of whether active equity management can achieve the goal of outperforming the passive, or indexing, alternative. Driven by the impact of fees upon results, poor relative returns and the difficulty in finding and retaining managers that can consistently outperform the many types of markets, more investors have been defaulting to the cheaper and seemingly easier solution of just owning a market basket of securities. In this *Investment Insight*, Segal Rogerscasey examines the hits and strikeouts of the ongoing debate between active and passive management.

Tenets of the School of Passive Investing
To begin, there are several concepts that the fans of passive management will invariably mention as supportive of their investment religion that we should acknowledge at the outset to eliminate any possibility of confusion and establish an unemotional baseline.

Axiom: Investing in a broad and liquid market is a zero-sum game. When all the active participants are considered as a whole, the results will be zero correlation to the passive

"The first thing any person has to know is how to handle himself."
— Baseball coach **Connie Mack**

Sibson Consulting
Strategic Human Resources Consulting

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Home > Publications & Videos > Hot Topics > DOL Issues Final Regulations Redefi...

April 6, 2016
DOL Issues Final Regulations Redefining Investment Fiduciary

On April 6, 2016, the Department of Labor (DOL) issued final regulations, called the "Conflict of Interest" regulations, redefining who is a fiduciary under Section 3(21)(A) of the Employee Retirement Income Security Act (ERISA) as a result of giving investment advice.

The **guidance package** consists of:

- New final regulations, which replace regulations originally issued in 1975,
- Two new class exemptions from the prohibited transaction rules, including one for advisers who enter into "best interest contracts" (BIC Exemption), and
- Revisions to existing class exemptions.

The package is generally applicable as of April 10, 2017 (a year from now), but a longer transition period — to January 1, 2018 — applies to certain portions of the two new class exemptions that require additional time to implement (e.g., with regard to IRAs, use of the contract in the BIC Exemption).

The primary goal of the new regulations is to expand the definition of investment fiduciary so that many investment advisers who were not fiduciaries under the existing regulations will become fiduciaries under the new regulations. This is accomplished by a much broader definition of what constitutes investment advice. For example, no longer will an adviser avoid fiduciary status because the adviser is not giving investment advice on a "regular" basis, or because the advice is not a "primary basis" of the investment decision. The regulation also expands the fiduciary definition to include advisers to IRAs.

The new regulations are directed primarily at investment advisers that manage plans with

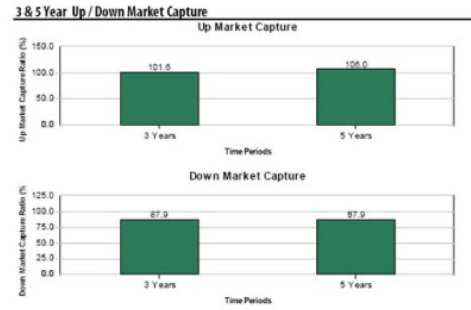
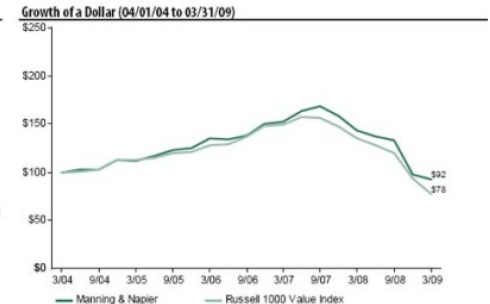
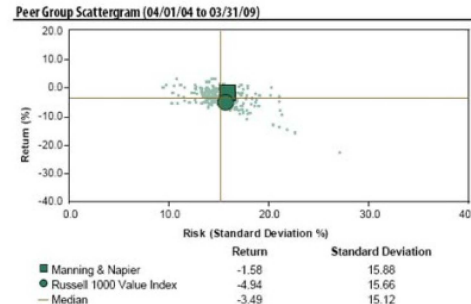
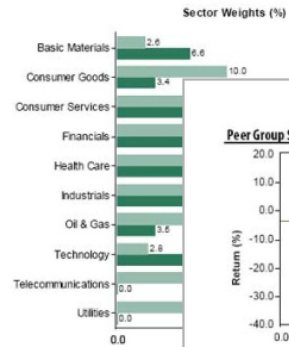
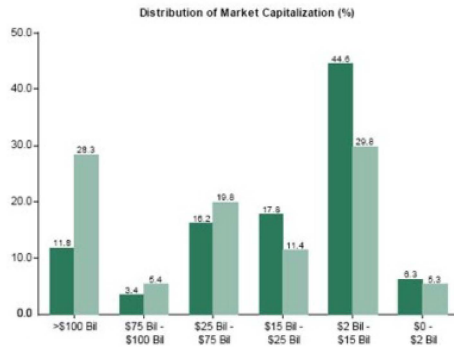
Compliance Services
Sibson helps our clients navigate the maze of federal, state and local laws and regulations related to benefit plans.
[Learn more about our compliance services](#)

Contact an Expert
Serena Simons
SVP, National Retirement Compliance Practice Leader
[Contact Serena](#)

Customized Reporting

Top Ten Equity Holdings	Portfolio Weight (%)	Benchmark Weight (%)	Active Weight (%)	Quarterly Return (%)
GOOGLE INC.	5.32	0.00	5.32	13.14
EMC CORPORATION	4.64	0.20	4.45	8.88
MICROSOFT CORPORATION	4.03	0.00	4.03	-4.74
SOUTHWEST AIRLINES CO.	4.01	0.13	3.88	-26.51
UNITED PARCEL SERVICE, INC.	3.89	0.00	3.89	-9.79
CISCO SYSTEMS INCORPORATED	3.40	0.00	3.40	2.88
WEYERHAEUSER COMPANY	3.40	0.16	3.24	-9.11
CARNIVAL CORPORATION	3.28	0.21	3.07	-11.18
3M COMPANY	3.15	0.00	3.15	-12.62
DISNEY (WALT) COMPANY	3.05	0.84	2.21	-19.96
% of Portfolio	38.17	1.54		

Portfolio Characteristics	Portfolio	Benchmark
Wtd. Avg. Mkt. Cap (\$)	31,881,951,052	72,356,591,478
Median Mkt. Cap. (\$)	8,116,616,500	2,513,992,000
Price/Earnings ratio	13.00	10.44
Price/Book ratio	2.25	1.74
5 Yr. EPS Growth Rate (%)	18.79	12.02
Current Yield (%)	2.62	4.49
Beta (5 yrs. monthly periodicity)	0.97	1.00
Number of Stocks	56	643



Our Statement of Core Values

- We are dedicated to total client satisfaction
- We deliver excellence, superior quality and value in everything we do
- We recognize that our most important asset is our employees and encourage their professional growth
- We require the integrity, professionalism and contributions of our employees for our success
- We are committed to the importance of our employees' quality of life and a balance between their personal and work lives
- We will achieve superior performance, as measured by return on investment, through systematic, substantial and profitable growth
- We are committed to operating as an independent consulting firm
- We assume responsibility as a corporate citizen and support cultural and charitable causes and organizations

A winning team committed to excellence for our people and clients

Wendy Young Carter

Vice President, Defined Contribution Director

Expertise

Ms. Carter is a Vice President and Defined Contribution Director in the firm's Washington, D.C. office. She has over 30 years of retirement plan consulting and financial services experience with special expertise in public sector defined contribution plans. As the firm's Defined Contribution Director, Ms. Carter also specializes in enhancing the design and operation of government defined contribution plans.

Professional Background

Prior to joining the firm, Ms. Carter was the Vice President of a major life insurance company, where she assisted defined contribution plan managers for 15 of the firm's largest clients (with assets exceeding \$14.5 billion and almost 500,000 DC plan participants). Ms. Carter also worked for a national benefits consulting firm, where she was the Principal and National Practice Leader of the company's public sector defined contribution consulting practice.

Education/Professional Designations

Ms. Carter received a BA in Political Science from the College of William and Mary. She is a Certified Retirement Administrator and a Certified Retirement Counselor, as well as a member of the International Foundation for Retirement Education. Ms. Carter is also a member of the National Association of Government Defined Contribution Administrators (NAGDCA) and a member of its Best Practices Task Force.

Published Works and Speeches

Ms. Carter has published numerous articles on defined contribution plan topics in professional journals and speaks regularly at professional and industry conferences.

Recent articles and speeches by Ms. Carter include:

- "Behavioral Economics - How Participants Make Decisions," Connecticut Conference of Municipalities (CCM), October 2015
- "Strategies to Prevent (or Slow) DC Plan Leakage - The Current State to Innovative Plan Design to Influencing Participant Behaviors and Outcomes," Connecticut Conference of Municipalities (CCM), September 2015
- "Employer Responsibility in DC Plans," Michigan Public Employer Labor Relations Association, September 2015
- "Cornucopia: From ESG to RPP to OCIO," Segal Rogerscasey Consultant and Investment Management Summit, June 2015
- "Behavioral Economics - How Participants Make Decisions," National Conference on Public Employee Retirement Systems (NCPERS) Annual Conference, May 2015
- "Helping DC Plan Participants Manage "Longevity Risk" *NAGDCA Newsletter*, January 2015

Wendy Young Carter
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Peter D. Gerlings, CFA, CAIA

Senior Vice President, Implemented Investment Solutions

Expertise

Mr. Gerlings is the Senior Vice President, Implemented Investment Solutions, in Segal Rogerscasey's Boston office. He has over 20 years of institutional investment experience. He is responsible for Segal Rogerscasey's Multi-Manager Solutions platform, which includes MasterManagerSM, target-date retirement funds and model portfolios for financial intermediaries. Mr. Gerlings is also a member of the firm's Manager Review Committee, which evaluates both traditional and non-traditional manager recommendations and the Editorial Board, which is charged with developing, leveraging and sharing our thought leadership in the investment community.

Professional Background

Prior to joining Segal Rogerscasey, Mr. Gerlings worked in the London office of K2 Advisors, a leading hedge fund of funds manager. While at K2, he helped develop a series of portable alpha, real return and liability-driven investment solutions. From 1993 to 2007, Mr. Gerlings worked at New England Pension Consultants, where he focused on manager research for both traditional asset strategies and later alternative assets, including hedge funds, private equity and real estate. In addition to his research responsibilities, he also consulted to various sophisticated pension, endowment, foundation, Taft-Hartley and family office clients in Europe and the United States.

Education/Professional Designations

Mr. Gerlings received his B.A. from the University of Nebraska at Omaha and his MBA from Boston University. He holds the CFA Institute's Chartered Financial Analyst (CFA) designation as well as the CAIA designation from the Chartered Alternative Investment Analyst Association. Mr. Gerlings is also a member of the Boston Security Analysts Society.

Peter Gerlings
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Timothy R. Barron, CAIA

Senior Vice President, Chief Investment Officer

Expertise

Mr. Barron is the Chief Investment Officer of Segal Rogerscasey, responsible for management of the firm's research department and oversight of all investment activities. Mr. Barron was previously President and CEO of Rogerscasey and its head of Research. He joined Rogerscasey in 2002 and has 35 years of experience in the investment industry.

Professional Background

Before joining Rogerscasey Mr. Barron was Director of U.S. Institutional Client Development at Muzinich & Co., a high yield bond investment specialist firm. Prior to that, he was a Principal at Morgan Stanley Dean Witter Investment Management. He was a Managing Director and Senior Consultant at BARRA RogersCasey, where he led a team providing consulting services to a variety of clients and had held a similar role at Watson Wyatt Asset Consulting. Mr. Barron was also the Chief Investment Officer for the Virginia Retirement System, and the Executive Director of the City of Richmond Retirement System.

Education/Professional Designations

Mr. Barron has a BA in Philosophy from Emory University and an MBA in Finance from Georgia State University. He holds the CAIA designation and is a member of the CAIA Association. Mr. Barron is the past chairman of the Finance and Investment Committees of the Girl Scouts of Southwestern Connecticut and has been a team co-captain for the Ridgefield Relay for Life.

Published Works and Speeches

Mr. Barron is a frequent speaker and panelist at industry events and webinars, and has presented at conferences hosted by the IFEBP Investments Institute, the New England Institutional Investor Forum, the Association of Investment Management Sales Executives and the Managed Funds Association. Mr. Barron has authored articles and spoken on a variety of investment trends and topics, including:

"Real Assets"

- "Liquid Alternatives"
- "Alternatives in a Changing Fiduciary Landscape"
- "Real Assets in Your Portfolio"
- "Manager Selection - How to Identify Talent"
- "Update - The Industry and Segal Rogerscasey"
- "Investment Office Roundtable"
- "Cheap Oil to Keep the U.S. Economic Gears Running Smoothly"
- "Private Markets Update"
- "Capital Market Expectations"
- "A Discussion on Environmental, Societal, and Governance Investing"
- "The Global Trends in Financial Services"
- "How to Identify Talent in Managers"
- "Returns in a Low Interest Rate Environment"
- "Roundtable on Portfolio Construction"
- "Using Behavioral Economics Principles to Help Retirement Plan Sponsors"

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