2024 NCCMP Conference:
New Trustees Seminar

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BACKGROUND

Who We Are

COMPANY

Founded in 1970 by William Manning and William Napier with offices in New York, Ohio, Florida, and Washington

200+ employees

30+ investment professionals

$19.4 billion assets under management

Over 150 Union separate accounts with more than $4 billion in assets

One of the pioneers of lifecycle investing

Providing professional active management for your retirement account

CLIENTS

We are a fiduciary with a focus on investment excellence demonstrated by:

- Long-lasting relationships
- Proven track records
- Current accounts dating back to the 70s*

CULTURE

We are a home-grown organization guided by our three core values:

- Bold initiative
- Meaningful relationships
- Continuous growth

COMMUNITY

We are passionate about giving back to the communities where we live and serve:

- Paid volunteer days
- Employee charitable match
- Company-sponsored events

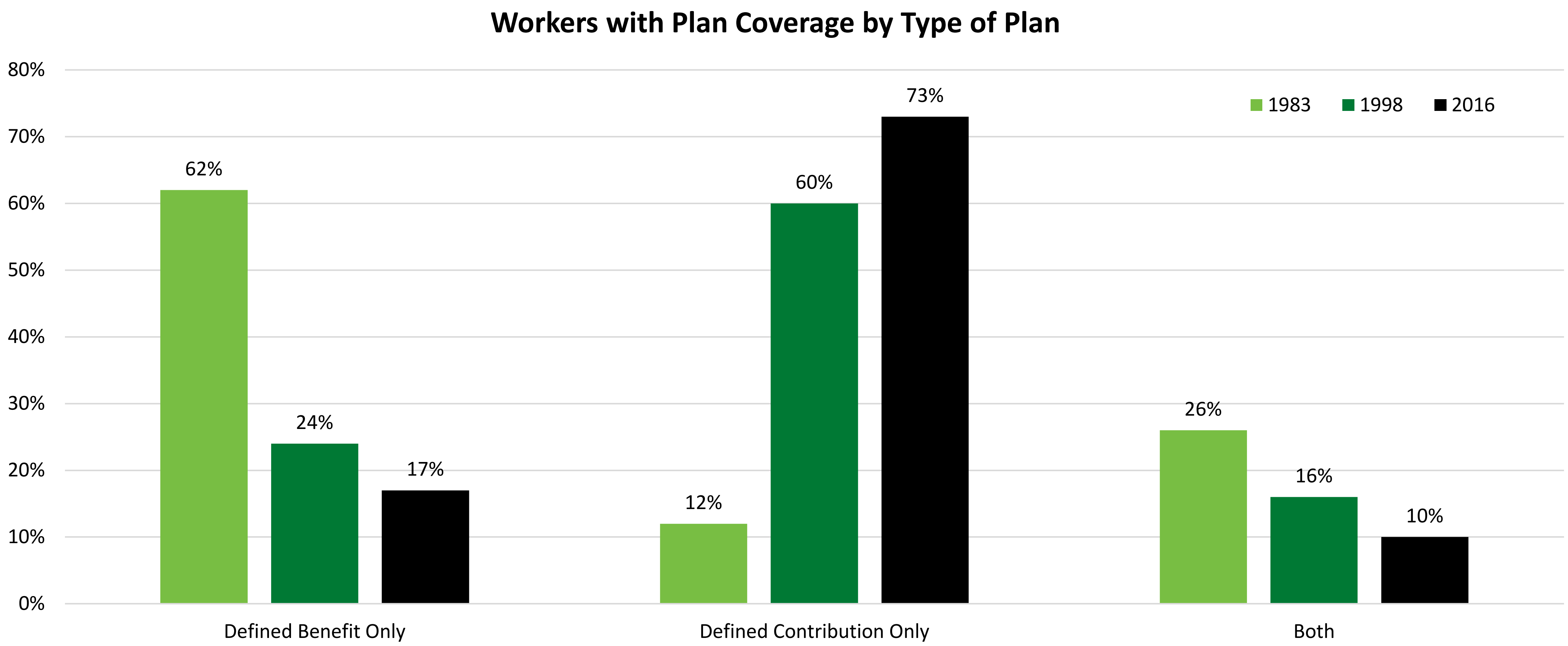
COLLEAGUES

We provide an environment that allows everyone to achieve their full potential:

- Committee for Diversity & Inclusion
- Rigorous research internship program
- Training and mentorship

Data as of 12/31/2023. Unless otherwise noted, all figures are based in USD.
*Current accounts represent current defined contribution and defined benefit relationships.

Shift in Retirement Responsibility



Source: Munnell and Chen (2017), Center for Retirement Research at Boston College.

Financial Health Impacts Work

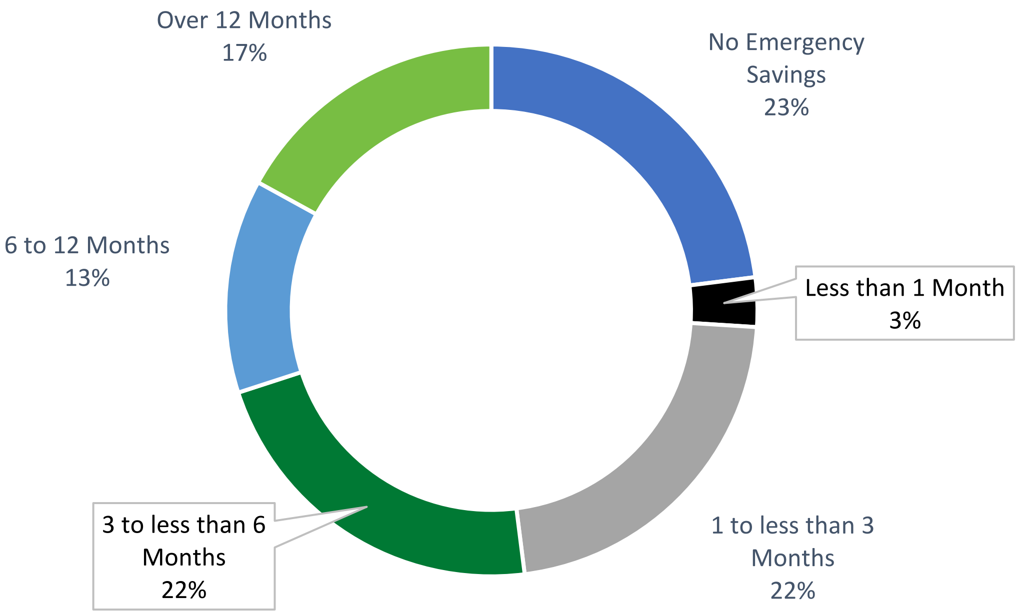
Distracted at Work Due to Financial Problems

Nearly half of employees (**45%**) that in the last year, they've been distracted at work due to financial problems.

Source: The 2022 SmartDollar Employee Benefits Study.

Basics Steps Towards Financial Wellness

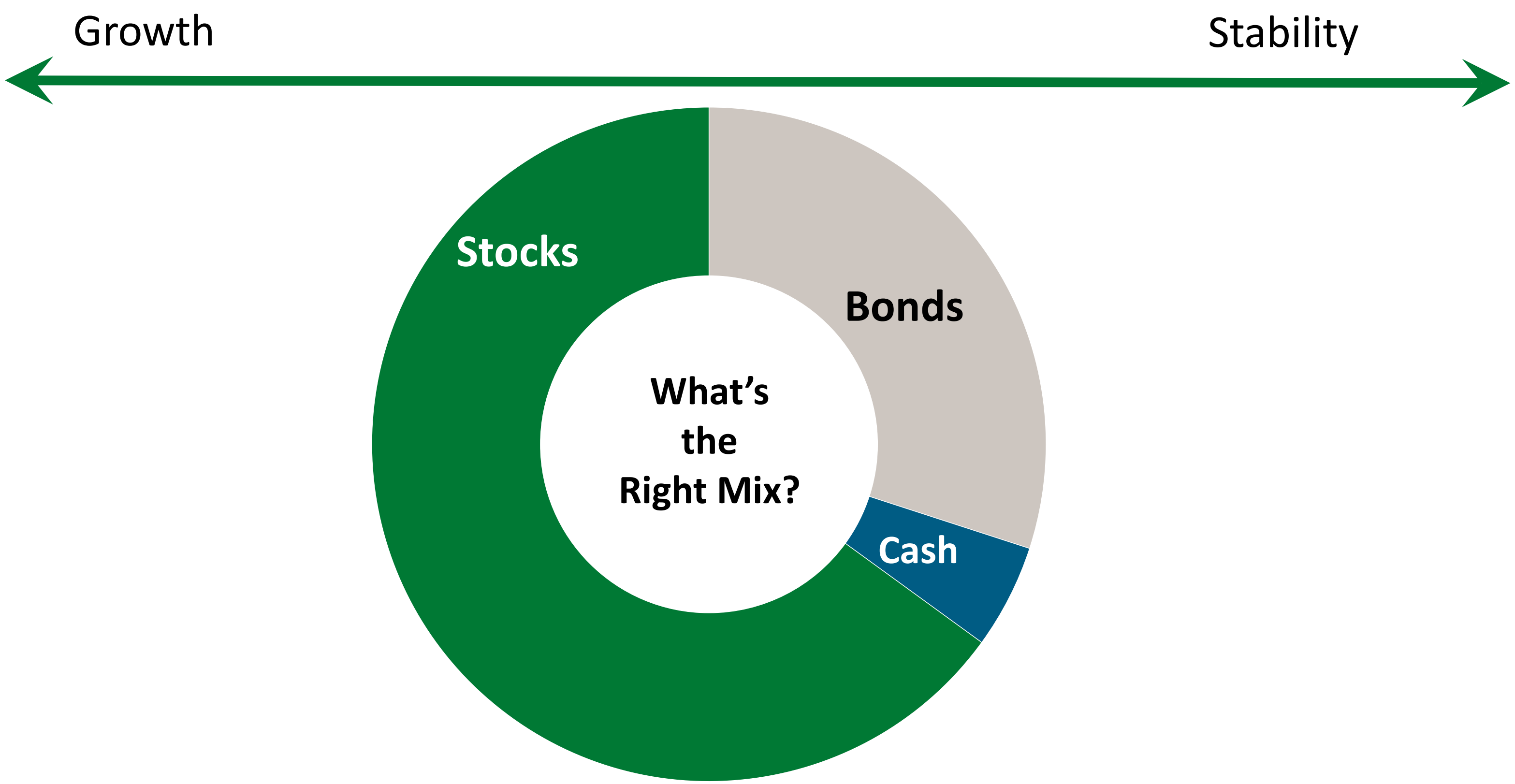
1 in 4 households have less than 1 month of savings



- Retirement account leakage is a significant issue
- According to a Government Accounting Office report, an estimated $69 billion is withdrawn from qualified retirement savings accounts each year by individuals age 25 to 55

Source: Retirement Account Leakage and Emerging Savings: Impact of COVID-19 (Full Report) (2020) Secure Retirement Institute. https://www.gao.gov/assets/700/698039.pdf

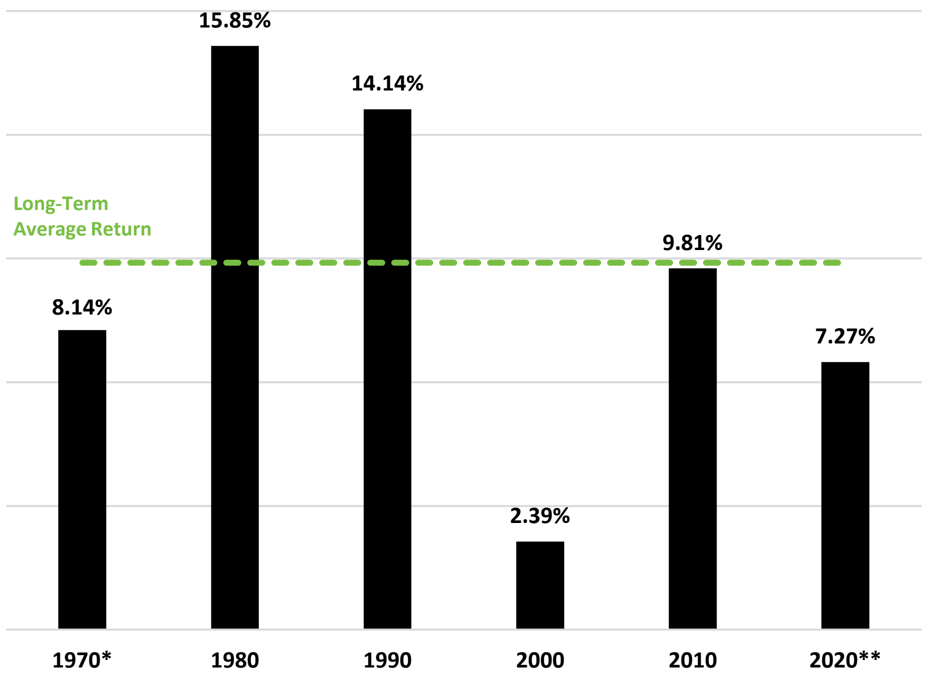
Find a Comfortable Balance



Diversification does not assure a profit or protect against loss in a declining market.

The Importance of Asset Allocation

Performance of 60% Equity/40% Fixed Income Portfolio by Decade

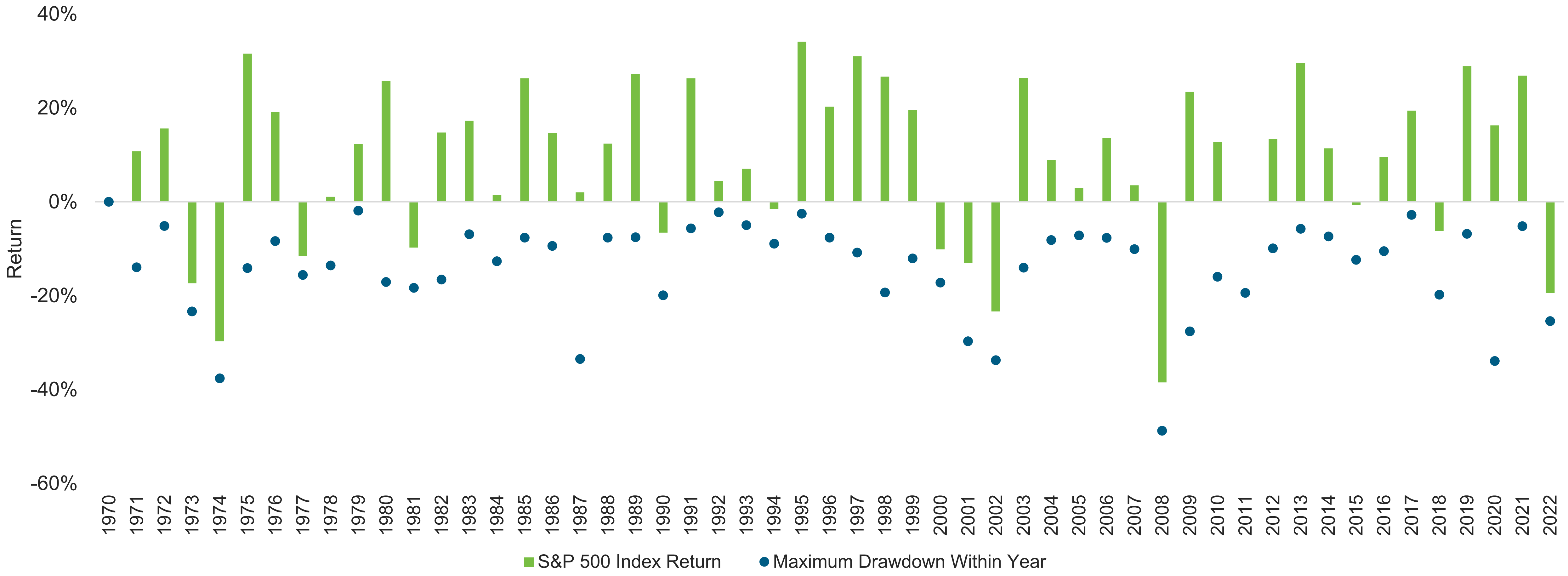


	Best Year	Worst Year
S&P 500	+ 38%	- 37%
Bloomberg Aggregate	+ 33%	- 13%

Source: Morningstar. Analysis by Manning & Napier. Long-term average return data as of 12/31/2023.
For illustrative purposes only. Stocks are represented by S&P 500 Index and Bonds are represented by the Bloomberg Aggregate Bond Index. See last page for important disclosures. An investment cannot be made directly in an index.
*Reflects the annualized return from 01/01/1976 - 12/31/1979.
**Reflects the annualized return from 01/01/2020 -12/31/2023.

Would You Buy This Investment?

Market Volatility – Extremes of S&P 500



Past performance does not guarantee future results. Analysis by Manning & Napier. Source: Morningstar. S&P 500 calendar year returns and maximum drawdown for each calendar year from 1990 through 2022. Based on weekly returns. This index is unmanaged and is not available for direct investment. Index returns do not reflect any fees or expenses.

Potential Impact of Frequent Review

Review Your Account

Monthly

Stock Allocation = 41%

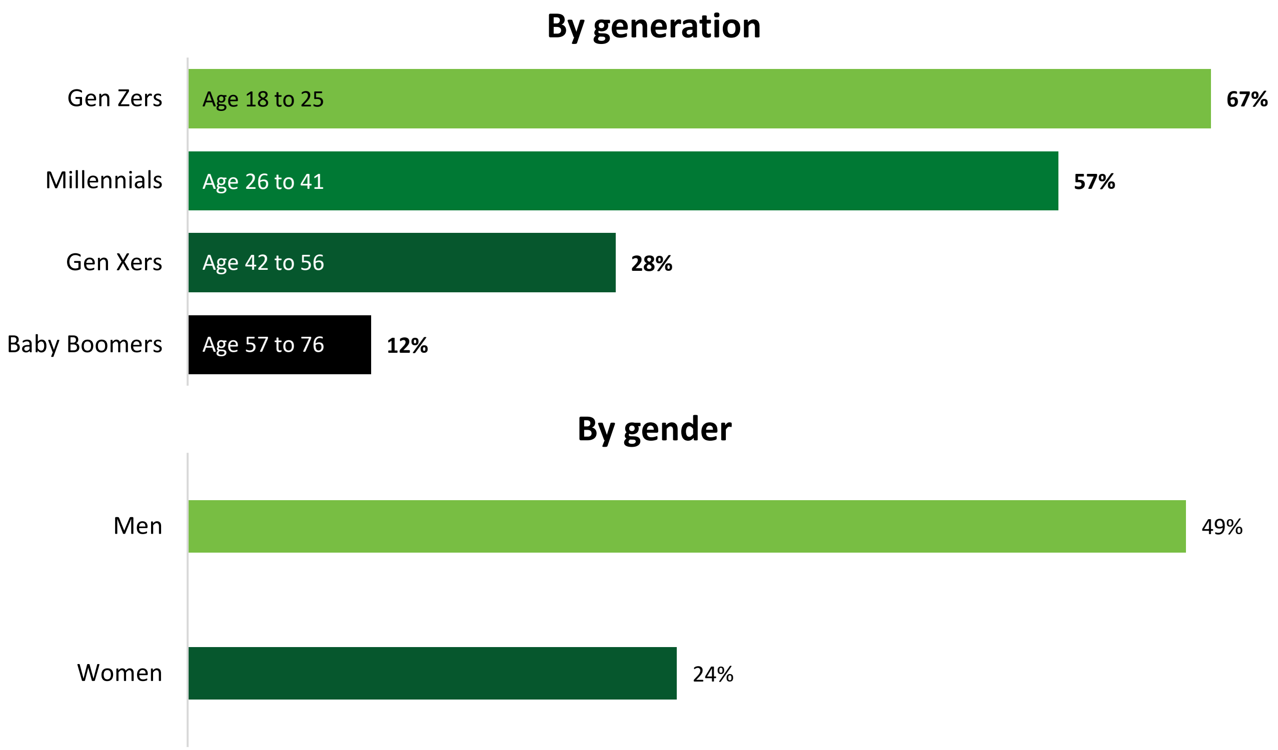
Annually

Stock Allocation = 70%

For illustrative purposes only.
Source: The Effect of Myopia and Loss Aversion on Risk Taking: An Experimental Test* by Richard H. Thaler, Amos Tversky, Daniel Kahneman, and Alan Schwartz. The Quarterly Journal of Economics, May 1997, p.647-661.

The Impact of Current Events on Investing Behaviors

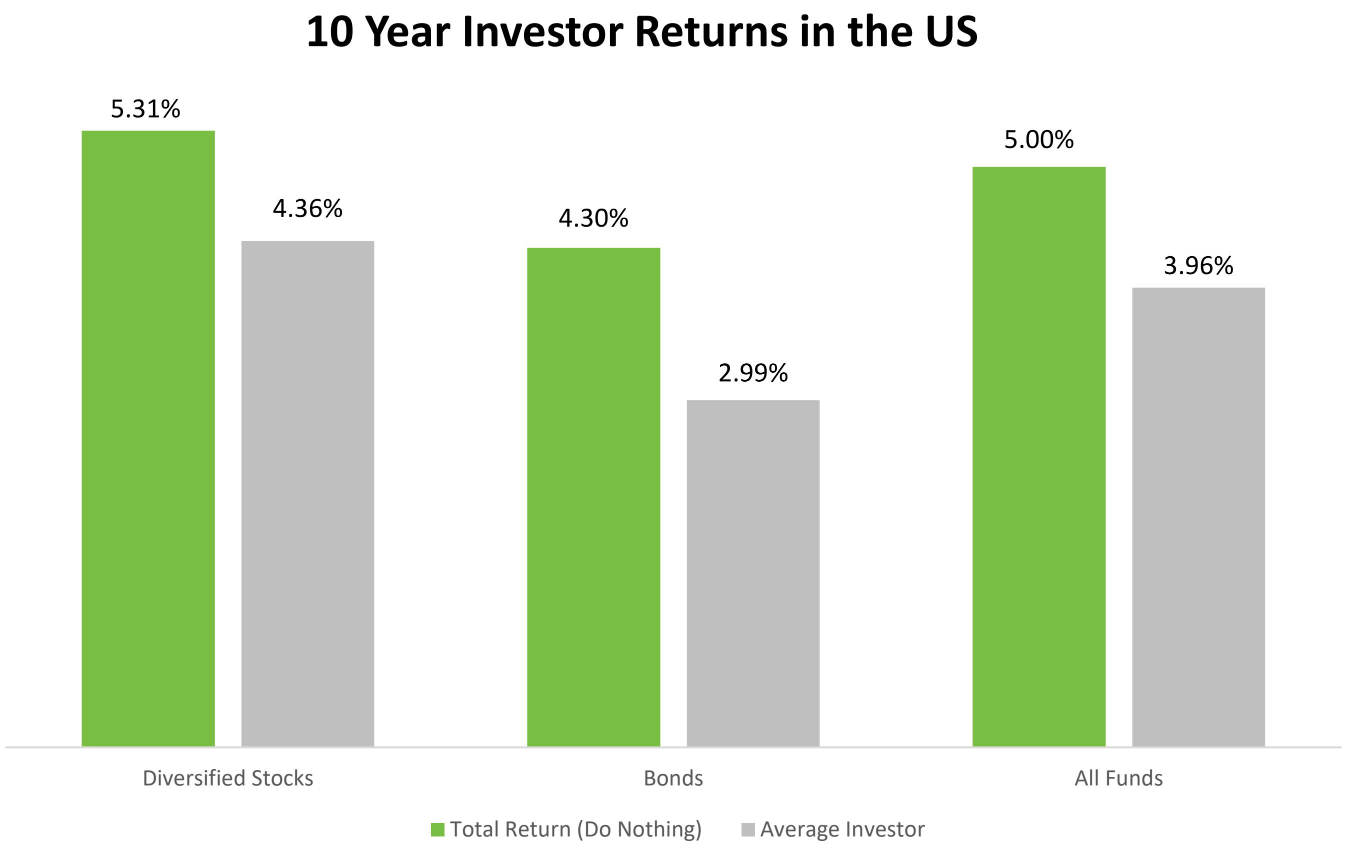
Percentage of Americans who took money out of the stock market in the past year because of current events or world news



- Resist being reactive to market news
- Education is critical as early as possible
- Apprenticeship training sessions can be an opportunity

Source: MagnifyMoney survey of 564 investors conducted in April 2022. https://www.magnifymoney.com/news/stock-market-current-events-survey

The Cost of Bad Timing



- Remain focused on your long-term goals
- Resist being reactive to market news

Past performance does not guarantee future results. For illustrative purposes only.

Source: “Mind the Gap: Global Investor Returns Show the Costs of Bad Timing Around the World”, Morningstar Manager Research, May 30, 2017. Morningstar. Data as of 12/31/2016.

How Long to Double Your Savings?

Apply the Rule of 72!

$$\frac{72}{\text{interest rate}} = \text{\# of years to double your \$\$}$$

- If you earn an interest rate of 4.5%, it will take 16 years to double your money **(72 ÷ 4.5 = 16)**
- To double your money in 10 years, you will need to earn a rate of 7.2% **(72 ÷ 7.2 = 10)**

For illustrative purposes only.

The Magic of Compounding Interest Rule of 72

Divide 72 by the interest rate to estimate the number of years it takes for your money to double

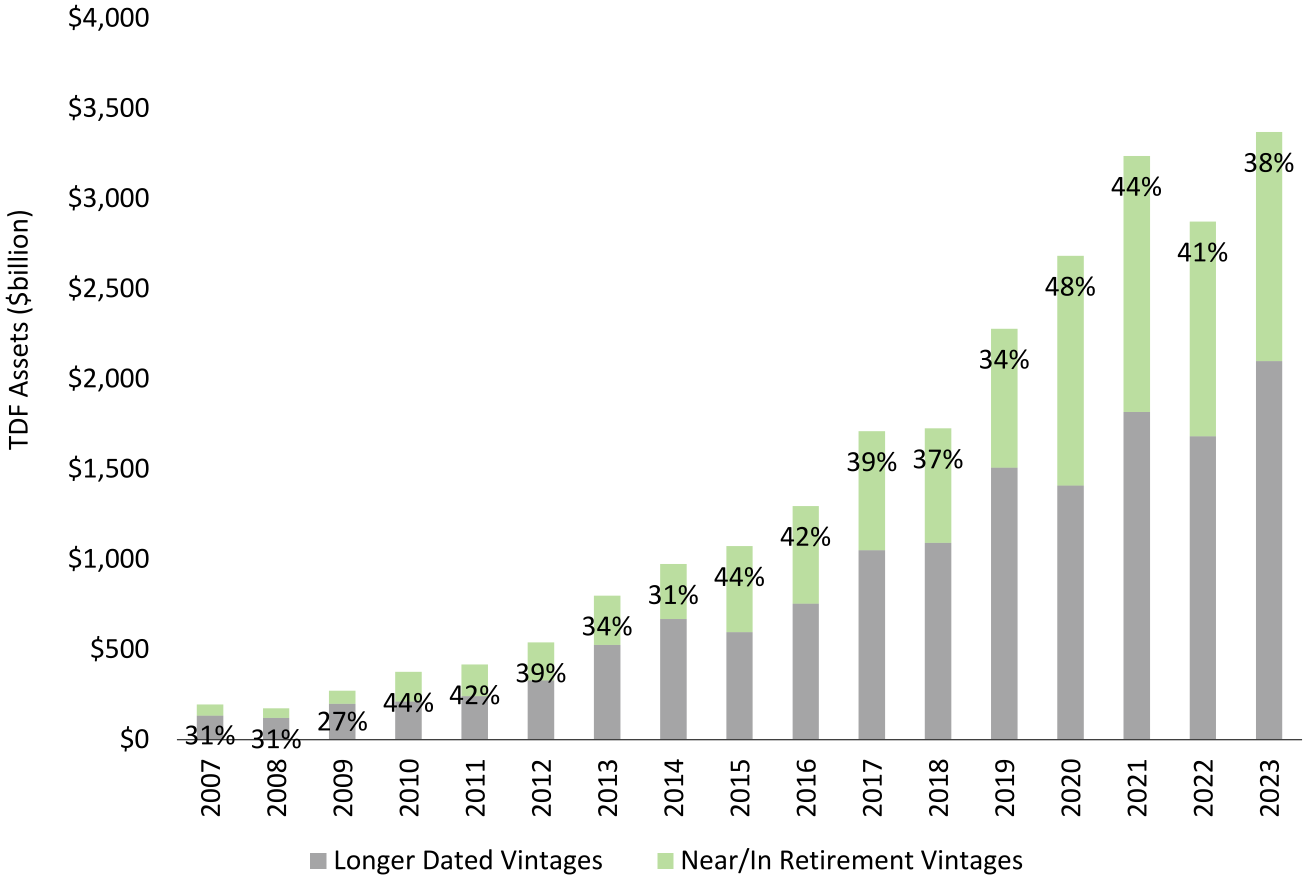
Starting age	22
Starting Amount	$10,000

Interest Rate	2.0%	4.5%	7.2%	9.0%
Double years	36	16	10	8

22	$ 10,000	22	$ 10,000	22	$ 10,000	22	$ 10,000
58	$ 20,000	38	$ 20,000	32	$ 20,000	30	$ 20,000
94	$ 40,000	54	$ 40,000	42	$ 40,000	38	$ 40,000
		70	$ 80,000	52	$ 80,000	46	$ 80,000
				62	$ 160,000	54	$ 160,000
				72	$ 320,000	62	$ 320,000
						70	$ 640,000
						78	$ 1,280,000

For illustrative purposes only. This illustration describes the effect of compounding a $10,000 lump sum at various ages and interest rates. It does not represent past or future performance.

Growth in Target Date Assets has Been Exponential



	Year End 2007	Year End 2023
Overall AUM	$195	$3,370
Assets Near/ In Retirement	$61	$1,269
% of Assets In Near/In Retirement	31%	38%

Source: Morningstar, Inc. Analysis by Manning & Napier. Unless otherwise noted, data as of 12/31/2023. The TDF Universe includes all mutual funds and collective investment trusts categorized as target date funds by Morningstar. Near/In Retirement Vintages defined as vintages within 10 years of their identified target date.

Important Disclosures

The S&P 500 Total Return Index is an unmanaged, capitalization-weighted measure comprised of 500 leading U.S. companies to gauge U.S. large cap equities. The Index returns do not reflect any fees or expenses. The index accounts for the reinvestment of regular cash dividends, but not for the withholding of taxes. Index returns provided by Bloomberg. Index data referenced herein is the property of S&P Dow Jones Indices LLC, a division of S&P Global Inc., its affiliates ("S&P") and/or its third party suppliers and has been licensed for use by Manning & Napier. S&P and its third party suppliers accept no liability in connection with its use. Data provided is not a representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. For additional disclosure information, please see: https://go.manning-napier.com/benchmark-provisions.

The S&P 500 Price Return Index (S&P 500) is an unmanaged, capitalization-weighted measure comprised of 500 leading U.S. companies to gauge U.S. large cap equities. The Index returns do not reflect any fees, expenses, or adjust for cash dividends. Index returns provided by Bloomberg. Index data referenced herein is the property of S&P Dow Jones Indices LLC, a division of S&P Global Inc., its affiliates (“S&P”) and/or its third party suppliers and has been licensed for use by Manning & Napier. S&P and its third party suppliers accept no liability in connection with its use. Data provided is not a representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. For additional disclosure information, please see: https://go.manning-napier.com/benchmark-provisions.

The Bloomberg U.S. Aggregate Bond Index is an unmanaged, market-value weighted index of U.S. domestic investment-grade debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of one year or more. Index returns do not reflect any fees or expenses. Index returns provided by Intercontinental Exchange (ICE). Index data referenced herein is the property of Bloomberg Finance L.P. and its affiliates ("Bloomberg"), and/or its third party suppliers and has been licensed for use by Manning & Napier. Bloomberg and its third party suppliers accept no liability in connection with its use. Data provided is not a representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. For additional disclosure information, please see: https://go.manning-napier.com/benchmark-provisions.

SMA-OTO305 (2/24)

Pension Funding

- Plan Assets
  - Market Value
  - Actuarial Value
- Liabilities
  - Actuarial accrued liability
  - Normal cost
  - Actuarial assumptions
- Sources of Experience Gains and Losses
  - Assets
  - Other

Pension Funding

- Unfunded Liability
  - Accrued liability – Plan assets
  - What the plan owes, minus what the plan has
- Factors that Increase/Decrease Unfunded Liability
  - Contributions
  - Benefit accruals
  - Gains and losses
  - Interest
  - Plan amendments
  - Assumption changes

Managing Risk

- Definition of Pension Risk
  - Possibility that pension benefits may become significantly underfunded
- Risk sources
  - Asset returns below expectations
  - Reduced base of contributing employers
- Approaches to improving funding
  - Higher contribution rates
  - Lower benefit accrual rates
  - Adjustable benefit cuts

Managing Risk

- Risk Versus Reward
  - Universal concept
  - Taking risk tends to lower costs / increase benefits
  - Safe asset classes generally produce lower returns
  - Reducing risk costs money
- Need for Balance
  - Too little risk leaves money on the table
  - Too much risk exposes stakeholders to dire consequences
- Monitoring as Circumstances Change

Managing Risk

- Pension Measurements
  - Funded ratio
  - Compare contributions to annual cost
    - Normal cost
    - Amortization of unfunded liabilities
  - Funding period
- Tools for Understanding Risk
  - Projections of assets and liabilities
  - Stress testing
  - Stochastic analysis

Managing Risk

- Consequences of Severe Underfunding
  - Unsustainable contribution rates
  - Very high withdrawal liabilities
  - Participant benefit losses
- Benefit Guarantees
  - PBGC insurance typically covers less than half of benefit amounts
  - PBGC is not backed by US Treasury
  - Only recent Congressional relief prevented a catastrophe
  - Cannot rely on Congress in future

Managing Risk

- Plan Maturity
  - Ratio of inactive employees to active employees
  - Plans tend to mature over time
  - Loss of active employees speeds process
- Impact of Maturity
  - Remediation measures much less effective
  - More vulnerable to asset losses
  - Can result in underfunding that cannot be remedied

Managing Risk

- Illustration of Plan Maturity – Scenario 1
  - Plan assets of $10 million
  - 100 active participants
  - 100 inactive participants
  - Assets loss of 20% ($2 million)
  - Trustees need to take action to improve funding
    - Higher contributions
    - Lower benefit accruals / adjustable benefit cuts
  - $2 million spread across 100 active participants
    - $20,000 per active participant

Managing Risk

- Illustration of Plan Maturity – Scenario 2
  - Plan assets of $10 million
  - 40 active participants
  - 160 inactive participants
  - Assets loss of 20% ($2 million)
  - Trustees need to take action to improve funding
    - Higher contributions
    - Lower benefit accruals / adjustable benefit cuts
  - $2 million spread across 40 active participants
    - $50,000 per active participant

Managing Risk

- Approaches to Reducing Risk
  - Conservative actuarial assumptions (i.e., low interest rate)
  - Aggressive funding target
    - Funded ratio over 100%
    - Funding period of less than 15 years
  - Reduce investment risk
  - Annuitize retiree liabilities
  - Cashflow matching strategy
  - Link benefit accruals to investment performance

Managing Risk

- Variable Annuity Plan
  - Powerful way to reduce underfunding risk
  - All benefits (past and future) vary with investment performance
  - Plan will remain close to fully funded
  - Employees bear risk and reward of asset performance
  - Employer costs very predictable
  - Can use gains above a specified cap to offset losses
  - Plan very likely to meet all benefit promises
  - Permissible under current law
  - Use of this approach is steadily growing

Examples of Investment Responsibilities

Asset allocation

- Decide on asset classes
- Select ranges (DB)

Investment selection

- Use of advisors/CIO
- Selection of manager/vehicle

Monitor performance

- Ongoing
- Level depends on type of investment

Select Investment Issues for Newer Trustees

1. How to think about asset allocation
2. Consideration in the selection of investment managers
3. Investment structure and how pooled vehicles are different
4. Considerations in monitoring performance
5. Outsourcing manager selection

1. Asset Allocation – Defined Benefit Plans

- How much time does your Board spend on asset allocation compared to manager performance?
- Which statement describes the objective of your investment program
    - ☐ Meet the investment return assumption used by the actuary
    - ☐ Generate a return on investments that can reasonably be expected to allow the plan satisfy its benefit liabilities and other obligations at appropriate and achievable funding levels, consistent with the plan’s investment risk tolerance
- Consider investment risk (volatility) but also other risks associated with the unique nature of the plan
    - Maturity, liquidity, funding, industry growth, etc.
    - Should asset allocation be a discussion with the investment consultant and actuary?

2. Selecting Managers – Why Use a Manager

- Delegation to a 3(38) investment manager
  - Manager has full fiduciary responsibility for its investment decisions
    - Subject to investment guidelines and plan
  - Relief for appointing fiduciary: relieved of fiduciary responsibility for manager decisions
    - Prudent appointment still required
    - Prudent monitoring still required
      - Overall performance vs. specific decisions

Selecting Managers – Prudent Appointment

- Required to act:
  - with the care, skill, prudence, and diligence
  - that a prudent person
  - acting in a like capacity and familiar with such matters
  - would use in similar circumstances

- Prudent person rule

Not exactly

- Primarily (not solely) a procedural obligation
  - Possible to avoid liability if decision turns out bad if process was appropriate

Selecting Managers – Prudent Appointment

- Did the fiduciaries adequately consider the decision
  - Consider factors the fiduciary knows/should know are relevant – diligence on managers
  - Risk/return analysis compared to reasonably available alternatives
  - Diversification
  - Liquidity/return relative to the plan’s cash flow requirements
  - Projected return of the portfolio relative to the funding objectives of the plan

- Use of experts where appropriate
  - Careful selection – diligence on qualifications
  - Understanding of the advice/making reasonable inquiries – no blind reliance

- Contemporaneous documentation to demonstrate prudence
  - E.g., investment reports and analyses, manager reports and evaluations, minutes

Selecting Managers -- Considerations

- Active vs. passive
- Team: experience, stability, depth, size
- Manager financial condition
- Fees: a consideration, but not the only one
- Performance
- Conflicts (consultant issue)
- Insurance
- Litigation/audits
- Structure of investment

3. Structure of Investments

- Separately managed account
  - Manager invests pursuant to a contract with the plan and directs the plan’s custodian to trade
  - Have an investment management agreement and investment guidelines
  - Can be more “bespoke”

- Commingled investment vehicle
  - Pooled with other investors
  - Less ability to customize strategy and legal terms
  - Open-end vs. closed end
    - Open: can enter and exit (although may be lockups, time restrictions)
    - Closed: investment (typically as a limited partner) for the life of the investment

Structure of Investments – Legal Issues in Pooled Vehicles

- General rule
  - When an ERISA plan invests in an entity the plan's assets include its investment but do not include any of the underlying assets of the entity
- Exception
  - When an ERISA plan invests in equity of an entity, plan assets include the equity interest AND an undivided interest in the underlying entity assets
- Exceptions to the exception
  - Publicly offered security (e.g., plan buys Meta stock)
  - Registered investment company (i.e., mutual fund)
  - Investment by benefit plan investors is insignificant (below 25%)
  - Venture capital operating company (at least half the assets in venture capital investments in which it has management rights)
  - Real estate operating company (at least half the assets in qualifying real estate and directly engaged in real estate management or development)

Structure of Investments – Legal Issues in Pooled Vehicles

- Why this matters
  - If not a “plan asset vehicle,” underlying manager is not a fiduciary or an investment manager to which responsibility has been delegated
  - Manager does not have the same standard of care
    - Not a fiduciary standard
    - Can be indemnified for what would otherwise be a fiduciary breach
  - Since Manager is not an investment manager, Trustees cannot “offload” fiduciary responsibility
- So is it OK to invest in a non-plan asset vehicle
  - Yes, but contractual provisions matter more
  - Do the Trustees understand the contractual provisions?

4. Monitoring Performance

- Performance
  - vs. benchmarks
  - vs. peers
  - vs. expectations in environment
- Manager following its process
- Changes
  - Personnel
  - Ownership
  - Clients
- Proxy voting
- Valuation
- Fees

What is wrong with this statement?

"How can I not fire this manager? I'm paying them all of these fees and they've underperformed since inception!"

5. OCIO

- **What is it:** hiring a manager to select the managers and vehicles
  - Trustee responsibility: hiring/monitoring OCIO, asset classes/ranges/targets, risk budget

What a traditional investment consultant might do								
Help create IPS	Manager sourcing	Manager guidelines	Portfolio monitoring	IPS/guideline compliance	Liquidity analysis	Custodian reconciliation	Valuation review	Reporting

What an OCIO could also do						
Portfolio construction	Manager selection/termination	Tactical asset allocation	Rebalancing	Manage cash flow	Legal review and negotiation	Execution of documents

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OCIO: Why Use an OCIO

Considerations

- Less control
- Cost
- May still want an OCIO monitor

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OCIO: Does it Reduce Trustee Risk?

- If an investment manager is duly appointed, the Trustees are not liable for the acts or omissions of the manager
  - Relieves of liability for investment decisions as long as the Trustees prudently hire and continue to monitor the manager

Another level of delegation/relief, **but** there is still the asset allocation question

Proskauer

Questions?

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