

Immediate Improvements to your 401(k) / 403(b)



F R A N C I S

Investment Counsel LLC

Financial Executives International

February 18, 2020

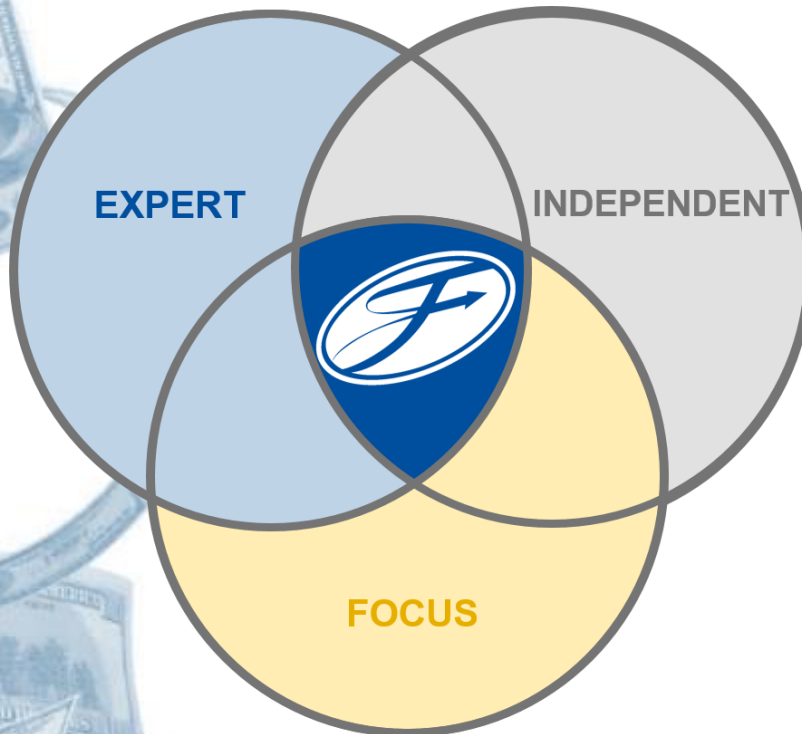
Let's Meet Cliff

Cliff Dunteman, CFA
Principal
Vice President – Investment Consulting Services

- Chartered Financial Analyst Charterholder since 2017
- Member of Francis Investment Counsel LLC Investment Committee
- Joined the Francis Team in 2008
- Over 28 years of industry experience
- Serve clients as lead relationship manager
- Focused on plan governance, investment policy statement creation and maintenance, capital market research, investment manager due diligence, plan design features, ERISA compliance research and processes, and plan costs



Francis Investment Counsel



EXPERT

- Began serving 401(k) industry in 1988
- Founded Francis Investment Counsel in 2004
- Firm dedicated to serving retirement plan sponsors and their participants

INDEPENDENT

- 100% employee-owned; six equity partners
- No affiliations, no financial product sales, no wealth management service offerings
- Conflict-free ERISA fiduciary to all clients

FOCUS

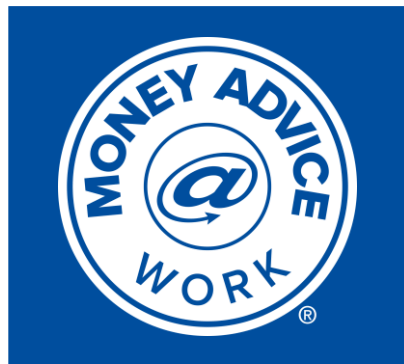
- Serving qualified plans and their participants is all we do!
- ERISA lens to all aspects of plan oversight, design, and investment monitoring
- In-depth knowledge of industry / participant perspective benefits clients through forward-looking recommendations

Two Primary Service Offerings



Investment Consulting to Plan Sponsors

- Establish and Execute Prudent Oversight Process
- Improve Outcomes and Lower Costs
- ERISA Fiduciary



Financial Wellness to Participants

- Group Financial Education
- Holistic Financial Planning & Personalized Advice
- Sales and Conflict-Free



Francis Investment Counsel

BY THE NUMBERS

Assets Under Advisement:	\$9.5 Billion
Plans Advised:	85
Total Plan Participants Advised:	90,000
Average Plan Asset Size:	\$115 Million

As of June 30, 2019

PLANSPONSOR
RETIREMENT
PLAN ADVISER
LARGE TEAM
OF THE YEAR
2018

- PLANSPONSOR's 2018 Retirement Plan Adviser of the Year
- 13-time Top 100 Retirement Plan Adviser, according to PLANADVISER's ranking
- Top 100 Institutional Consultant according to Pensions & Investments ranking
- Top 50 Institutional Consultant according to Barron's ranking
- 10-time Pensions & Investments Eddy Award winner for excellence in participant financial education

Representative Clients

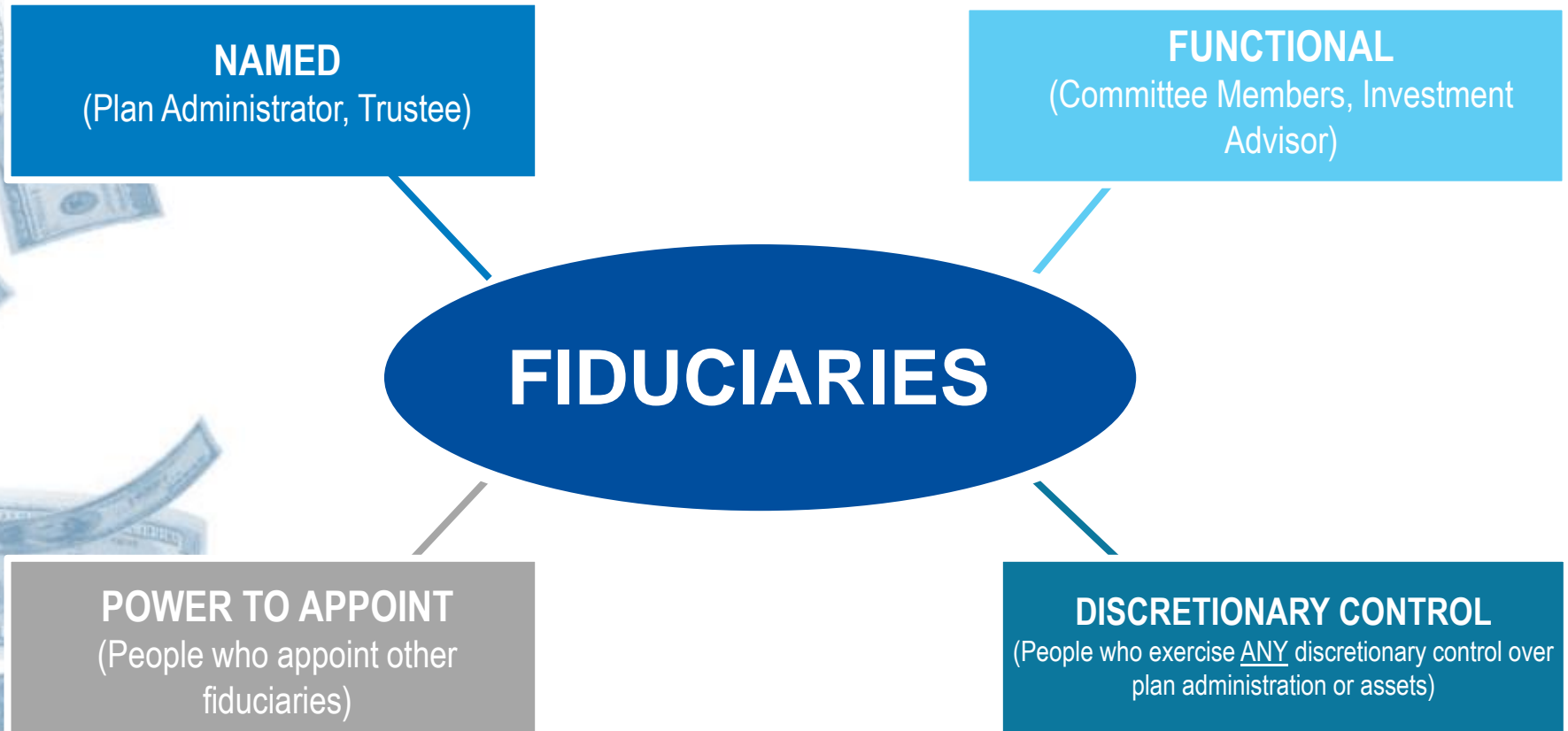


The above list does not represent Francis Investment Counsel's entire client list. The sample included represents clients currently engaging the Firm for services similar in scope to the services proposed for your organization. There were no performance-based criteria used to assemble this list, nor is this list intended to serve as a testimonial for the services Francis Investment Counsel currently provides. It is unknown if the clients listed above approve of Francis Investment Counsel or its services. Francis Investment Counsel will furnish a complete list of organizations currently served upon request.

Today we'll cover...

- ✓ Fiduciary Protection
- ✓ Investment Menu Construction
 - Stable Value
 - Foreign Debt
- ✓ Cyber Threats
- ✓ Plan Cost Management

Fiduciary Protection



Fiduciary Protection



Loyalty – exclusive purpose rule; avoid self-serving actions



Prudence – with the care, skill, & diligence of someone familiar with such matters (i.e. an expert)



Diversify Investments – to avoid risk of large loss to plan assets



Obedience – follow plan documents



Fiduciary Protection

“Prudence is determined by
the process, not the
outcome.”

Whitfield v. Cohen, 682F.Supp. 188, 194 (S.D.N.Y. 1988)



Fiduciary Protection

What to do:

1

Review/Develop Your Investment Policy Statement or Committee Charter – Roles & Responsibilities

2

Review/Develop Your Communication Process

- i. Board
- ii. Committee
- iii. Human Resources
- iv. Payroll
- v. Service Providers

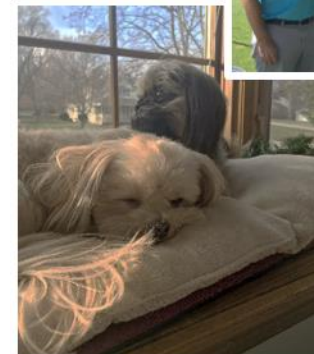
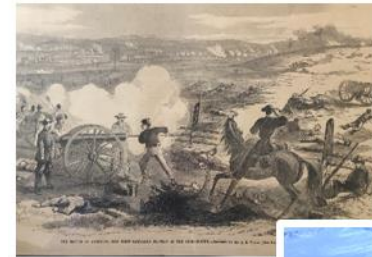
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Check Your Fiduciary Liability Policy

Let's Meet Ed

Ed McIlveen, CFA
Principal
Director of Research

- Joined the Francis Team January 2005
- CFA Charter obtained in 2009
- MBA- Finance from Marquette University 2003
- BA Gustavus Adolphus 1996
- Maintains proprietary investment manager database- Implements the philosophy and process for the selection and monitoring of investment managers in client portfolios





Investment Menu Construction





Investment Menu Construction

What to do:

1

Consider Replacing a Money Market Fund with a Stable Value Fund in a 401(k) or GIC for a 403(b)

2

Add an Emerging Market Debt

3

Remove Global Bond Fund

4

Use Active for Both Stable Value and EMD



Investment Menu Construction



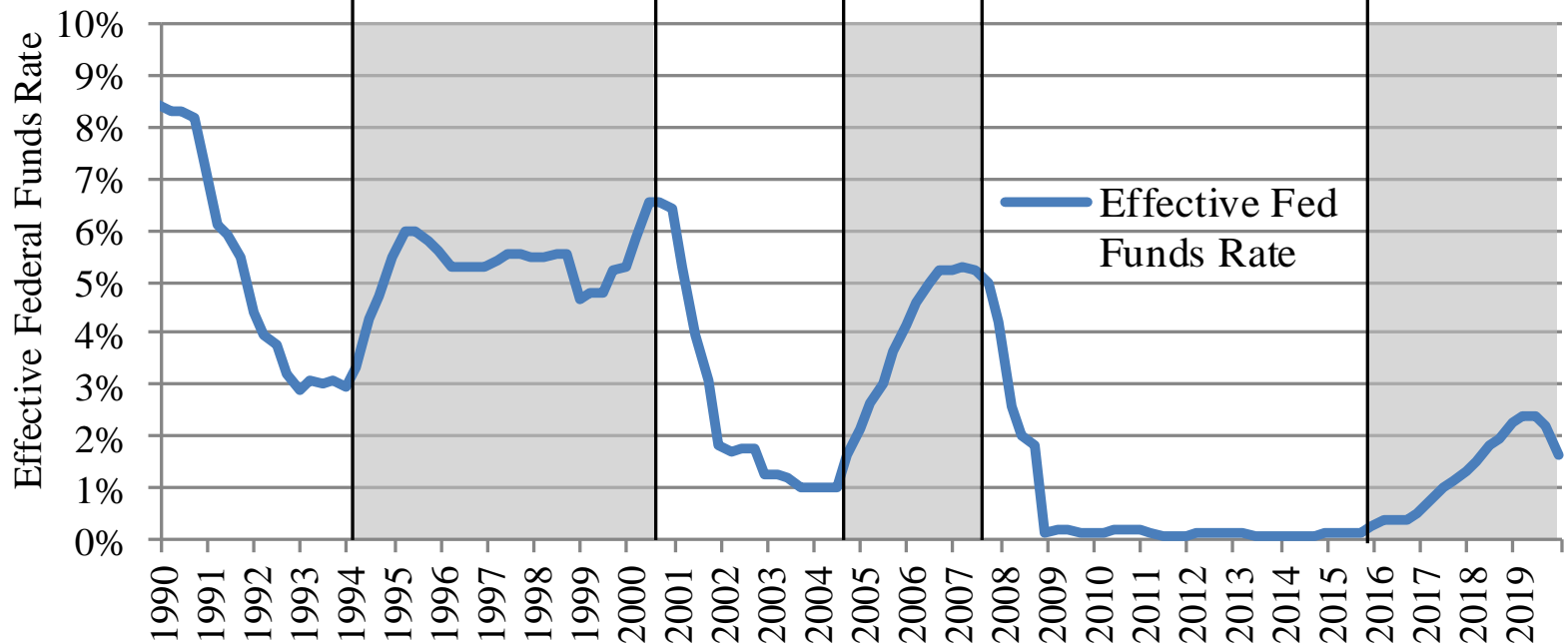
Stable Value Funds

	Stable Value Funds	Money Market Funds (MMF)
Rising Rates	Maturing assets are reinvested at higher rates, delayed gain in yield vs. MMF	MMF rates rise immediately
Falling Rates	Declining yield, delayed	MMF rates decline immediately
Credit Risk	Some, should be AA or better	Government MMF, None
Redemptions – Participants	Daily for participants	Daily for participants
Redemptions – Plan Level	Put option – usually	Immediate
Risk Management	Have numerous insurance providers when possible	U.S. Government

Stable Value Funds

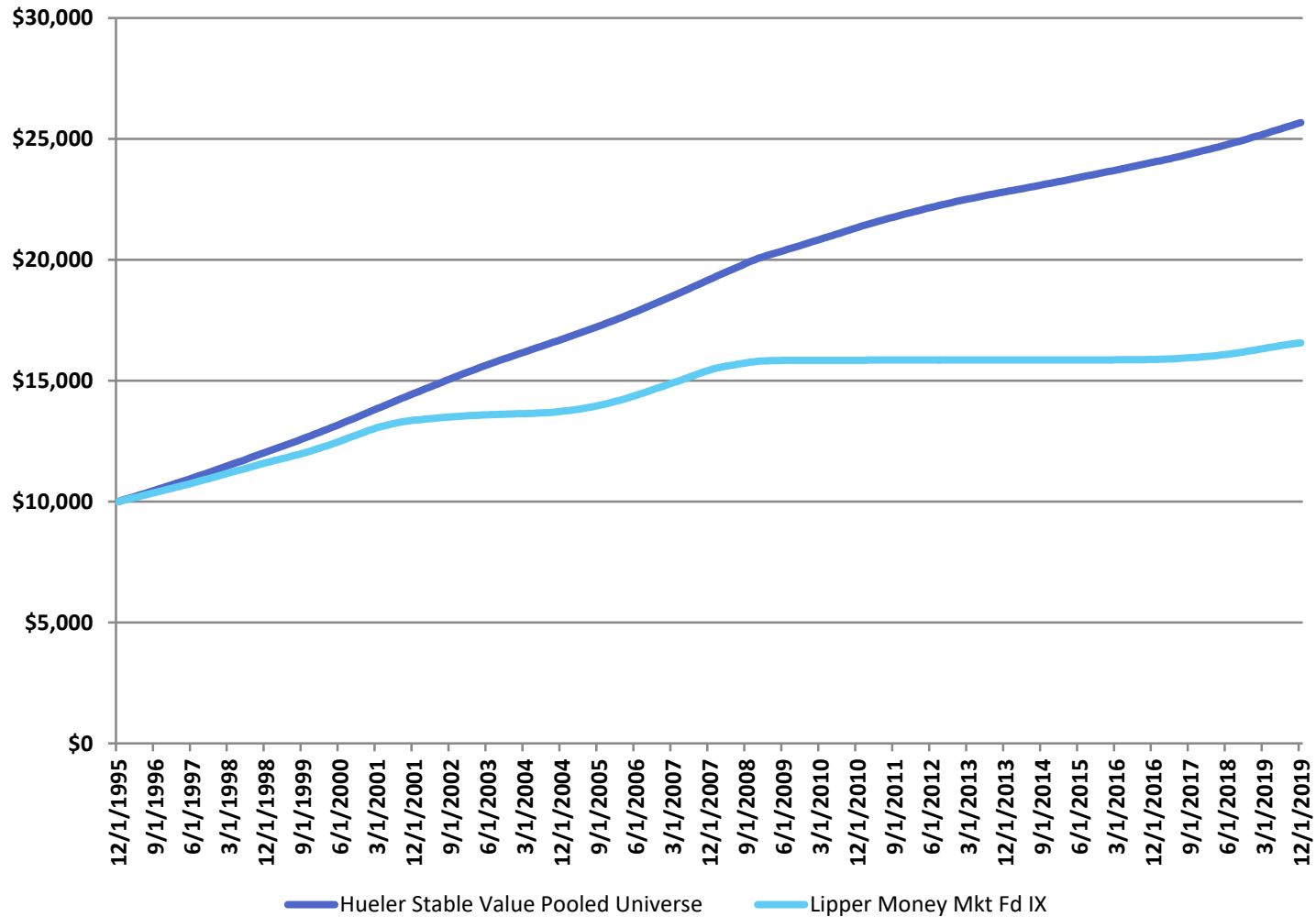
Rate Cycle Returns: Stable Value vs. Money Market (1/90-12/19)

<i>Stable Value</i> +7.6%	+6.4%	+5.5%	+4.6%	+2.8%	+2.1%
<i>Money Market</i> +5.1%	+5.1%	+2.5%	+3.7%	+0.6%	+1.0%



Returns: *Stable Value* = Hueler Stable Value Universe; *Money Market* = Lipper Money Market Universe

Stable Value Funds





Investment Menu Construction





Investment Menu Construction

Global Demographics

- Population Growth in Emerging Markets
- Africa and Asia Expected to Grow Significantly
- Europe and North America with Limited or Declining Population Growth

Expected Economic Growth

- GDP Growth in EM Middle Class and Significant source of Labor
- EM Middle Class is more than 1/3 of World GDP Today, Expected to be 2/3 of World by 2030

Sources of Diversification

- Performance Cycles Come and Go - U.S. versus International
- Adding Exposure to International Small Cap and Emerging Markets Helps to Produce an Optimal Risk-Adjusted Portfolio



Emerging Market Debt

Yield

- 5% avg. Yield in EMD vs. 2% in the Bloomberg Barclays U.S. Aggregate Bond Index
- Yield compensates for the risks for foreign investment.
 - Investing in Brazil, Mexico, Argentina, Russia, and other places you sometimes only hear about in the news for the wrong reasons.

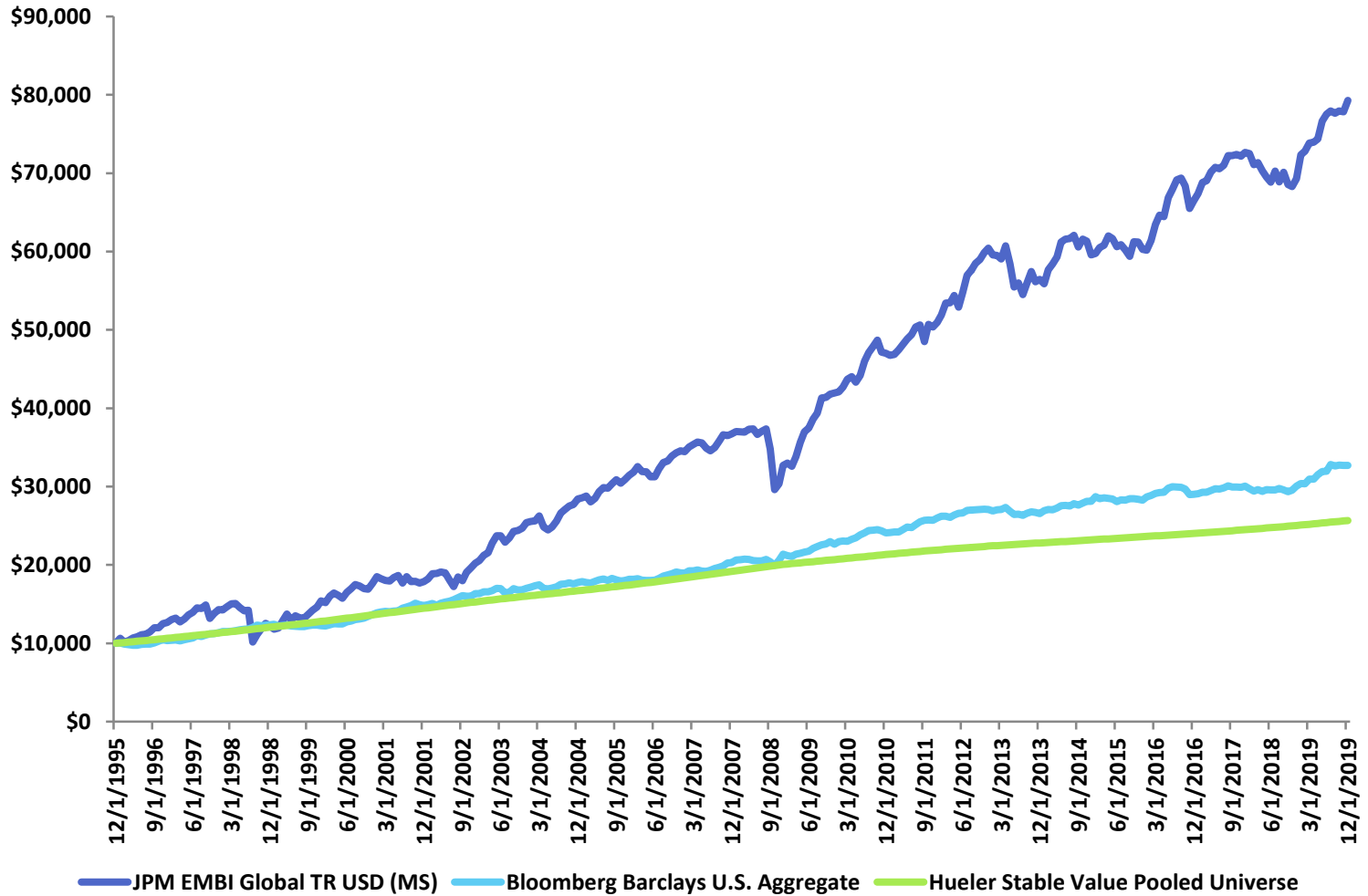
Credit Quality

- Has improved with a significant amount now listed as 'investment grade'
- EM

Risk

- Limit this to dollar denominated debt, avoid local currency
- JPM EMBI declined just over 10% in 2008 vs. the S&P 500 Index which dropped by -37.5% in 2008

Emerging Market Debt





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Landscape for Cyber Crime in Retirement Plans



90%

Of online bank traffic (from outside) consists of hacking or phishing

44%

Of U.S. population affected by Equifax data breach

- Social Security Numbers, birth dates, and credit card information of **143 MILLION** individuals exposed

Landscape for Cyber Crime in Retirement Plans



Retirement Plans = Large Target

- Sizable account balances
- Susceptibility to identity thieves (social engineering)

68%

Of funds lost due to cyber attacks are unrecoverable

Landscape for Cyber Crime in Retirement Plans

TOP SECRET

Retirement plan service providers typically do not divulge system breaches, except to affected plan sponsors and participants

2018

Well-known provider of large 401(k) plans distributed funds from 4 participant accounts to identity thieves

2017

Well-known provider was victim of 5 thieves who obtained more than **\$300,000** from 401(k) participant accounts

2016

A retirement plan lost about **9%** of its **\$3.5 billion** in assets due to fraudulent loans from 58 participant accounts



Rising Threat of Cyber Crime

What to do:

1

Investigate Your Plan's Distribution Processes

2

Contact Your Recordkeeper

3

Educate Your Plan Participants

4

Investigate Your Insurance Protection



Best Practices with Fees

What to do:

1

Revenue Credits on Funds – eliminate or return to participants

2

Convert to per head pricing with recordkeeper

3

Obtain Flat Pricing, a specific dollar amount, not a “basis point of 0.25%” with your advisor

4

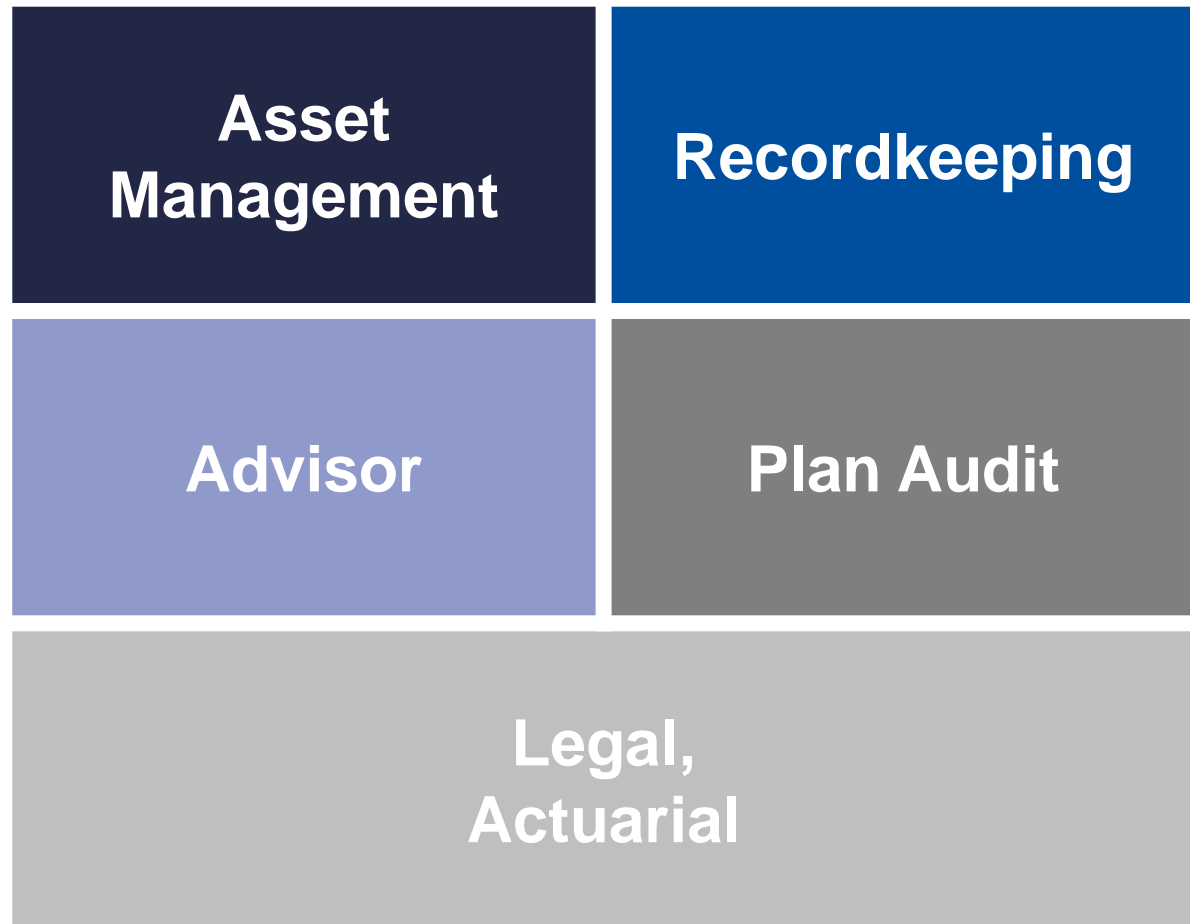
Allocate fees to participants so you can defend a fair standard

5

Review fees paid annually, benchmark to determine reasonableness serve as a catalyst to renegotiate



Plan Cost Categories





Asset Management

- Goal: Identify and utilize cheapest share class available
- Often, there's a share class designed specially for retirement plans, most frequently named "R6," featuring:

Low Expenses

**Low Investment
Minimums (if any)**

No Revenue Sharing

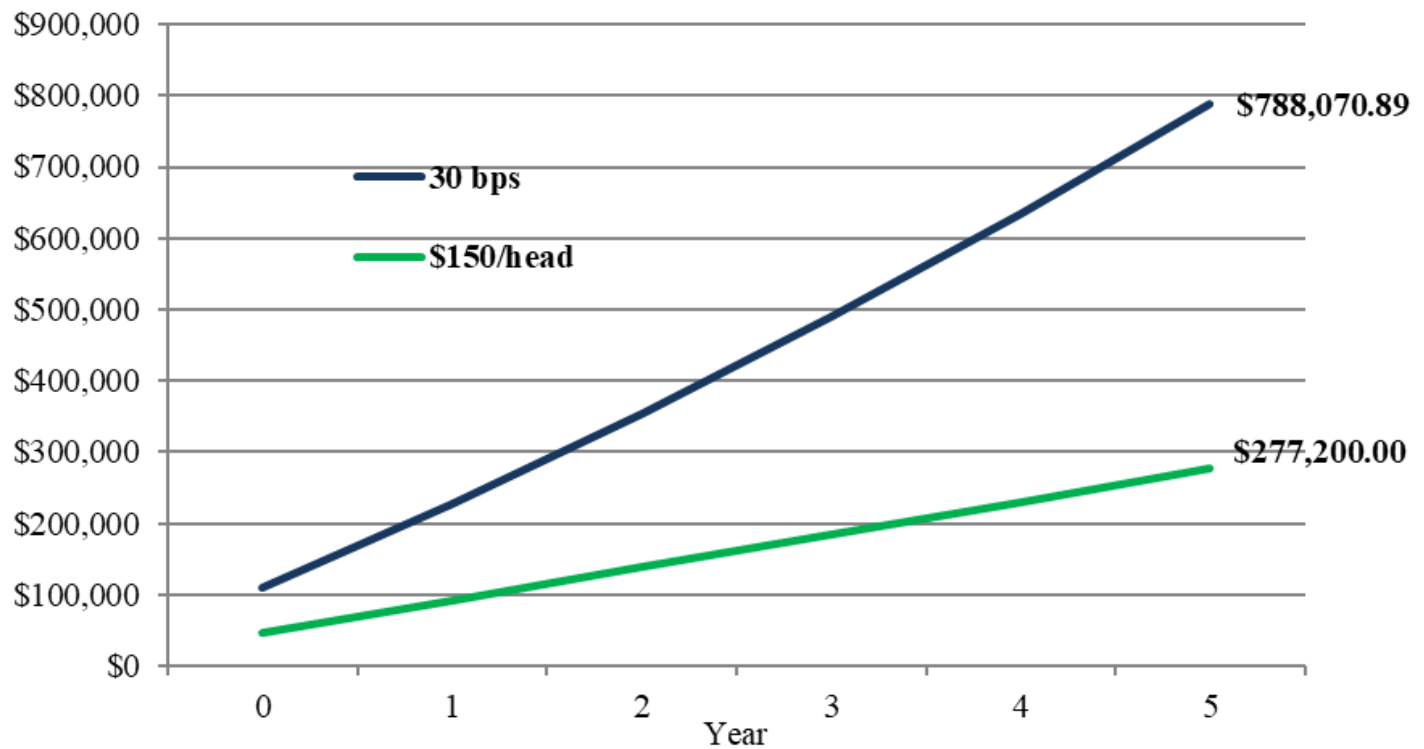
- When evaluating non-retirement share classes:
 - ✓ Verify retirement plan eligibility
 - ✓ Ensure minimums are met
 - ✓ Understand revenue sharing impact (if any)

Asset Management

Availability & (Regulator) →	<u>Public (SEC)</u>	<u>Private (OCC)</u>	<u>Private (SEC)</u>
	Mutual Fund	Collective Investment Trust (CIT)	Separately Managed Account (SMA)
Type	Pooled	Pooled	Separate
Typical Minimums	\$0 to \$1M	\$1M to \$25M	\$25M+
Negotiable Fee	No	Yes	Yes
Additional Fees	None	Custody, Audit	Custody, Audit, Unitization
Ease of Access to Information	Easily searchable by ticker	No ticker, some public info available	Unavailable through public sources
403(b) Eligible	Yes	No	Yes
Paperwork	No	Yes	Yes

Recordkeeping Fees

Asset Based vs. Per Participant Cumulative Fees Paid



Hypothetical model based on initial plan assets of \$36.7 million and 308 participants. Assumes market appreciation and contributions grow plan assets by 7% per year and participant count remains unchanged.



Advisor Fees

Asset Based

- Basis point fee
- Collection of revenue sharing

Fixed Hard Dollar

Project Fees

Education / Wealth Management Revenues



Equitable Allocation Methodology

- “Best Practices” - Bifurcated Fee Allocation:
 - ✓ Step 1 – Identify all costs to be borne by plan
 - ✓ Step 2 - Establish fix per head base annual fee (\$48-\$100)
 - ✓ Step 3 - Remaining costs to recover charged pro-rata based on account balance

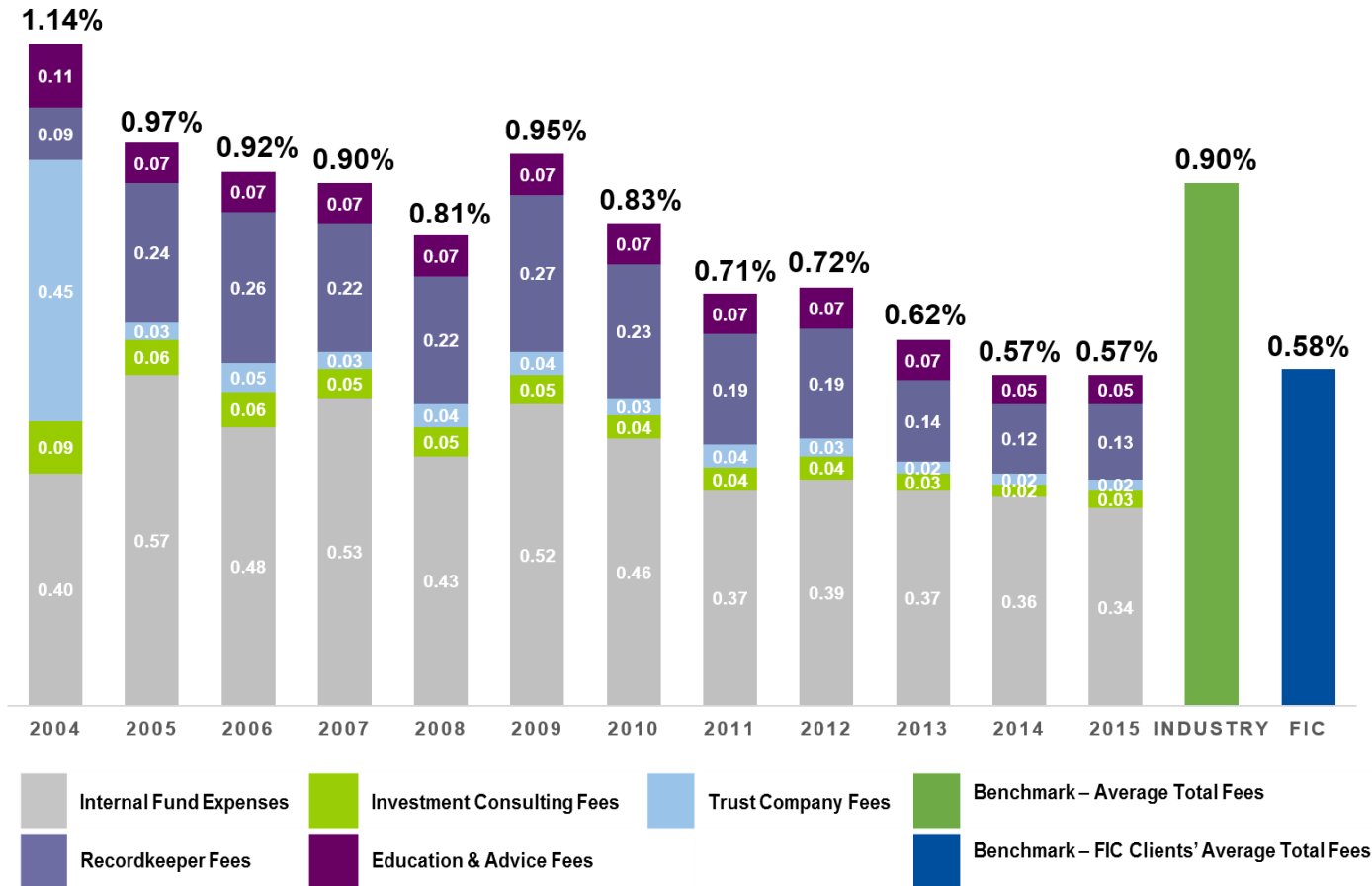


Equitable Allocation Methodology

Account Balance	\$ 25,000	\$ 100,000
Per head -Base fee	\$ 40.00	\$ 40.00
Pro rata - Asset-based fee	\$ 80.51	\$ 322.02
Total Annual cost	\$ 120.51	\$ 362.02
Cost as % of Account Balance	0.482%	0.362%



Monitor and Benchmark Fees



Industry Benchmark: For Plans with at least 2,000 employees and \$100,000,000 in assets as reported in the 401(k) Averages Book 15th Edition, 2015. FIC Benchmark: Francis Investment Counsel clients with Plan assets over \$100,000,000. As reported in 2014 Fiduciary Reviews. While the above depicts an actual client experience, the example is for illustrative purposes only and may not be representative of all client experiences. While we believe this analysis fairly demonstrates our capabilities as an ERISA plan fiduciary, the analysis presented should not be construed to be a track record as we do not retain control of the assets. Past performance is not a guarantee of future returns.



Monitor and Benchmark Fees

Benchmarking Resources

Independent Third Party

- Fiduciary Benchmarks Inc.
- FI360 (Ann Schleck)
- 401(k) Averages Book
- Consultant studies (Aon, Deloitte)

Vendor-Provided

- Recordkeeper clients
- Advisors' clients



Best Practices with Fees

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Wisconsin's Retirement Plan Experts



Investment Consulting to Plan Sponsors



Financial Wellness to Participants



**Ready to improve your plan?
Need help getting started?**

Talk to Joe Topp.

Thank you!



FRANCIS
Investment Counsel LLC



Learn more:

francisinvco.com

866-232-6457

PLANSPONSOR's 2018 Retirement Plan Advisor of the Year recognition received based on response to Asset International's 2017 PLANADVISER Retirement Plan Adviser Survey. Eligible advisors required nomination as a Retirement Plan Advisor of the Year or self-nomination by providing industry references. No submission fees required. Selection process based on quantitative variables, a sub-segment of survey questions, and survey information supplied by the advisors themselves. Finalist selection based on firms' business revenue derived from employer-sponsored retirement plans, fiduciary service capacity, commitment to fee-based compensation, utilization of outcomes-based metrics for plan success, and service to plan sponsors and plan participants. Francis Investment Counsel was selected among four finalists in the "Large Team" category. Francis Investment Counsel is not affiliated with, does not receive remuneration from, or provide remuneration to Asset International. Receipt of this award should not be construed as a guarantee of future performance or results.

PLANADVISER's 2019 Top 100 Retirement Plan Adviser recognition received based on response to Asset International's annual PLANADVISER Retirement Plan Adviser Survey. No submission fees required. Top 100 list drawn from quantitative variables, a sub-segment of survey questions, and survey information supplied by the advisors themselves. Francis Investment Counsel was recognized in the "Large Teams With \$3.5 Billion or More in Retirement Plan Assets Under Advisement" category. Francis Investment Counsel is not affiliated with, does not receive remuneration from, or provide remuneration to Asset International. Receipt of this award should not be construed as a guarantee of future performance or results.

Pensions & Investments 2018 Top 100 Institutional Consultant recognition received based on response to Pensions & Investments Annual Investment Management Consultants Survey. Top 100 Institutional Consultants determined based on completion of survey and total assets advised. No submission fees required. Francis Investment Counsel is not affiliated with, does not receive remuneration from, or provide remuneration to Pensions & Investments. Receipt of this award should not be construed as a guarantee of future performance or results.

Barron's Top 50 Institutional Consultant recognition received based on response to Barron's Institutional Consultant survey. Ranking featured top institutional consulting teams, including traditional brokerage firms, as well as registered investment advisor (RIA) firms and independent broker-dealers. Rankings determined based on a range of criteria which included institutional assets overseen by the team, the revenue generated by those assets, the number of clients served by the team, and the number of team members and their regulatory records. The advanced professional designations and accomplishments of the team were also considered. Francis Investment Counsel is not affiliated with, does not receive remuneration from, or provide remuneration to Dow Jones & Company, Inc. Receipt of this award should not be construed as a guarantee of future performance or results.

2019 Eddy Award recognition received based on Pensions & Investments annual evaluation process. Winners demonstrated program effectiveness and creativity, as well as completion of the entry form, which included a \$150 fee per entry. Number of entries varies annually but averages 130-150. Selection criteria weighted differently based upon the category, but in general, creativity and the ease of understanding complex topics was key in determining successful entries. Francis Investment Counsel completed three submissions in the entry type "Joint – Plan sponsor and service provider entering together as a team," and was recognized with a first place award in the "Financial Wellness" category, a first place award in the "Pre-Retirement Preparation" category, and a second place award in the "Special Projects" category. 2019 Eddy Awards represent the eighth, ninth, and tenth times Francis Investment Counsel has received such recognition, having previously received Eddy Awards in 2011, 2012, 2014, 2016, and 2018. In 2019, a total of 66 defined contribution plan education programs were recognized with a First, Second, or Third-Placed Eddy Award, based on the entry category, size of the plan, and educational topic discussed. Francis Investment Counsel is not affiliated with and does not receive remuneration from Pensions & Investments. Receipt of this award should not be construed as a guarantee of future performance or results.