FREQUENTLY ASKED QUESTIONS

COLLECTIVE INVESTMENT TRUSTS—TAKE A CLOSER LOOK

Collective Investment Trusts (CITs) continue to be an attractive vehicle for plan sponsors to add to their retirement plan offerings. In 2021, the Callan Institute found that 78%[1] of defined contribution (DC) plans featured a CIT—up from 75% in 2019—making CITs the second most common type of investment vehicle offered by retirement plans, after mutual funds. Plan sponsors, and their financial advisors/consultants, like CITs because they combine the cost savings of a separately managed institutional account with the convenience of a mutual fund, offering low cost and transparency, operational efficiency and easily accessible information to participants. Yet some questions still arise. Here are the answers to some of the most common questions we receive about CITs.

THE BASICS

Q: WHAT IS A CIT?

CITs are a versatile, cost-effective and competitive alternative to mutual funds for DC and defined benefits (DB) plans. They can offer participants low-cost investment options and help plan sponsors provide transparency. They are tax-exempt, pooled investment vehicles for qualified retirement plans that are maintained by a bank or a trust company that acts as the fiduciary.

Q: HOW ARE CITS DIFFERENT FROM MUTUAL FUNDS?

CITs tend to be more cost-effective than mutual funds, with lower costs associated with compliance, administration, marketing and distribution. They possess most of the basic technical features of mutual funds and are traded through the National Securities Clearing Corporation (NSCC) to mirror mutual fund structure.

Q: DO CITS HAVE LESS REGULATORY OVERSIGHT THAN MUTUAL FUNDS?

CITs and mutual funds have a similar amount of oversight but report to different entities. CITs must comply with the Employee Retirement Income Security Act of 1974 (ERISA) and are held to US Department of Labor fiduciary standards. They must be sponsored and maintained by a bank or trust company and are reviewed annually by independent auditors.

Q: HOW CAN I TELL THE DIFFERENCE BETWEEN A MUTUAL FUND AND A CIT FUND?

CITs have six characters in their symbols. Mutual funds have five or less characters.

1 Callan Associates, *2021 Defined Contribution Trends Survey*

> **CITs are versatile, cost-effective and competitive alternatives to mutual funds for defined retirement plans.**

ELIGIBILITY AND PRICING

Q: WHO IS ELIGIBLE?

CITs are available only to qualified retirement plans, subject to ERISA. Both DC and DB plans are eligible; 403(b) plans, 457(f) plans and IRAs are not eligible to invest in CITs.

Q: HOW ARE CITS PRICED?

Cost depends on plan size and type of investment vehicle. Many CITs have multiple share classes, which may lead to more flexible pricing.

Q: DO CITS HAVE HIGH MINIMUMS?

Minimum investment requirements vary depending on the CIT. Some asset managers, including AllianceBernstein, have eliminated minimum requirements, while others are reducing their minimums—making CITs more accessible in the small and mid-size market.

Q: DO CITS HAVE THE SAME LEVEL OF REPORTING THAT MUTUAL FUNDS HAVE?

While reporting may vary, most leading CIT providers offer reporting similar to that of mutual funds. Many third-party data providers, including Morningstar, offer CIT databases to monitor or analyze CITs.

HOW TO ADD CITS TO THE PLAN

Q: WHAT SHOULD BE CONSIDERED WHEN MAKING A CHOICE ABOUT CITS?

Plan sponsors, and their financial advisors/consultants, should always choose the strategy first and then match it to the investment vehicle. Consider the size of the plan's investment, the plan eligibility by vehicle, fees and any other additional factors that are relevant to the plan.

Q: HOW CUMBERSOME IS ADDING A CIT?

Trust companies act as the go-between for providers and plan sponsors. They can help streamline the process of adding a CIT to the plan—easing the amount of paperwork to be processed. In many cases, the participation agreement that is needed requires easy-to-access information such as the type of plan, the recordkeeper/trading platform, the name and number, and the plan tax ID. A signature from the Fiduciary—either the advisor or the plan sponsor—and the share class completes the process. The Trust company does the rest, and the agreement usually turns around within two weeks. The Trust company also coordinates with the recordkeeper to get the CIT added to the plan.

Q: HOW CAN A PLAN TRANSITION FROM MUTUAL FUNDS TO CITS?

As the plan fiduciary, it is incumbent upon the plan sponsor to examine all marketplace options and conduct due diligence to determine the best investment options for the plan. They should also consider the Investment Policy Statement, which may outline guidance on pooled investment vehicles such as mutual funds or CITs.

Q: CAN PLAN SPONSORS REDUCE THEIR FIDUCIARY ROLE IF THEY ADD A CIT TO THEIR PLAN?

The plan sponsor is always the plan fiduciary, but CITs can help plan sponsors fulfill their fiduciary duty to offer reasonable, cost-efficient investment options since they typically cost less than their mutual fund counterparts.

THE MAIN DIFFERENCES IN PERFORMANCE CAN BE ATTRIBUTED TO THE DIFFERENCE IN FEES AND THE SIZE/TIMING OF CASH FLOWS.

PERFORMANCE

Q: WHY IS THE PERFORMANCE OF A MUTUAL FUND DIFFERENT FROM ITS CIT COUNTERPART?

When mutual funds and CITs are managed the same, i.e. comparable asset allocation, strategy, etc., the main differences in performance can be attributed to the difference in fees and the size/timing of cash flows. As inflows into CITs increase, the overall fund size grows, and that cash flow has an impact on the performance until the fund grows to scale.

Q: ARE HOLDINGS IN CITS THE SAME AS THEY ARE IN MUTUAL FUNDS?

Again, if mutual funds and CITs are managed the same, the management of the two vehicles is the same. However, there may be some slight differences to capture the most attractive risk/reward skew.

Q: DO INFLOWS IMPACT BUYING POSITIONS, PERFORMANCE, ETC.?

The timing of flows is important. If a manager receives a large inflow on a day in which the market is up/down strongly, that manager would need to use program trades to deploy that cash pro rata over the portfolio. This could lead to performance differences from another fund, which may not be seeing the same size/direction of flows.

Q: DO CITS PAY DIVIDENDS OR INTEREST?

No. CITs are retirement-plan investments only, so they can't pay out dividends, interest or capital gains. Any variations are reinvested back into the CIT for an increase/decrease in the share price. Any capital gains continue to accrue tax-deferred for all shareholders.

Q: HOW DO PARTICIPANTS GET INFORMATION—INCLUDING PERFORMANCE?

To participants, CITs look the same as mutual funds, and education materials are the same regardless of vehicle. Performance and pricing information is readily available through Morningstar, on recordkeeper websites, quarterly statements and fact sheets. Morningstar tracks information on more than 7,327 CITs. Additionally, the number of CITs with ticker symbols is growing.

THREE REASONS TO CHOOSE CITs

1

CITS GENERALLY **COST LESS** THAN MUTUAL FUNDS, AS THEY ARE EXEMPT FROM SEC REGISTRATION, WHICH LOWERS LEGAL-, BOARD- AND COMPLIANCE-RELATED COSTS. SOME CITS HAVE NO OR LOW MINIMUM INVESTMENT REQUIREMENTS.

2

CITS OFFER **OPERATIONAL EFFICIENCY**. CITS ARE EASY TO ESTABLISH AND MAINTAIN. THEY ARE TRADED THROUGH THE NSCC TO MIRROR MUTUAL FUND STRUCTURE.

3

CITS ENABLE **EASY ACCESS TO INFORMATION** ON RECORDKEEPER WEBSITES, QUARTERLY STATEMENTS AND FACT SHEETS. SOME CITS NOW HAVE TICKER SYMBOLS.

LEARN MORE

FOR INFORMATION ON HOW TO HELP PLAN SPONSORS AND PARTICIPANTS CAPTURE THE BENEFITS OF CITS, PLEASE CONTACT ALLIANCEBERNSTEIN AT 800-243-6812.

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