HOW CITS ADD VALUE: ENHANCING RETURNS BY COSTING LESS

With return potential likely to be much lower in the years ahead, it's critical for DC plan participants to squeeze everything they can out of their investment portfolios. CITs can help, with their cost-efficiency and transparent design.

THE NEED TO GET MORE FROM PORTFOLIOS

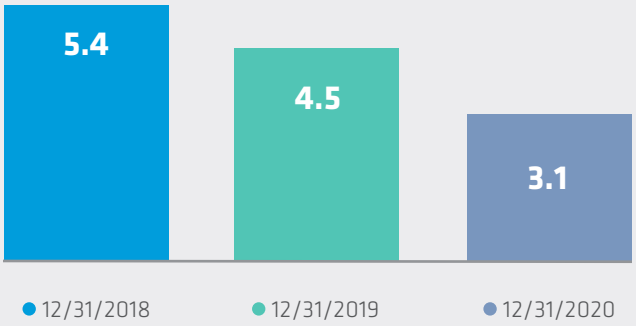
Expected returns from traditional strategies such as the classic 60/40 stock/bond portfolio have tumbled in recent years, and stretching for higher-returning sectors may bring unwanted risks. At a time when keeping every percentage point of return is critical, improving the cost side of the equation can help—and that's where collective investment trusts (CITs) come in.

Cost-efficient CITs have seen their popularity swell over the past 10–15 years, as plan sponsors have deployed investment options in these vehicles to reduce plan costs and boost operational efficiency. Given the modest returns we expect ahead, those benefits—and CITs' transparency—are even more important.

Delivering actively managed strategies through CITs may offer an added advantage. Broadly speaking, passive investing offers low-cost access to market beta, but return dispersion within passive categories is wide—often wider than the fees paid to active managers. And in a market where avoiding ill-timed drawdowns is critical, active management offers the flexibility to manage risk and tap evolving opportunities.

RETURN POTENTIAL OVER THE NEXT DECADE HAS FALLEN SHARPLY

FORWARD RETURN PROJECTIONS: TRADITIONAL STOCK/BOND MIX OVER 10-YEAR HORIZON (PERCENTAGE)

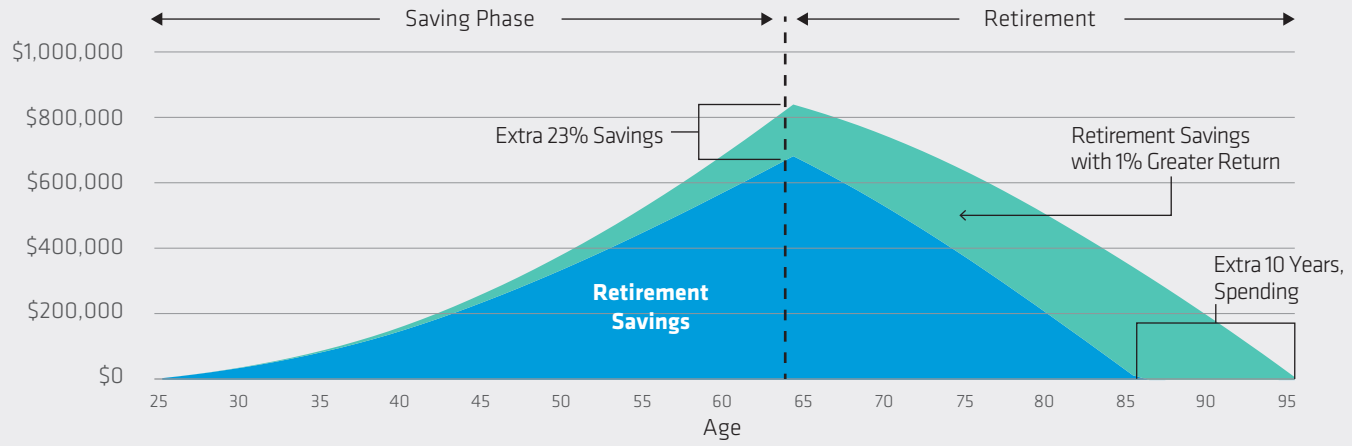


Data do not represent past performance and are not a promise of actual results or a range of results.
Bonds are represented by 60% global investment-grade bonds and 40% global sovereign bonds; stocks are represented by a universe similar to the MSCI World Index; both are reported in and hedged into US dollars.
As of December 31, 2020
Source: AB

THE POWER OF MODEST RETURN IMPROVEMENTS

Improving investment returns by just 1% per year on average over the course of your working career has the potential to make spending last for 10 more years. That can make the difference between participants sustaining their lifestyles in retirement or not.

IMPROVING RETURNS BY 1% CAN SUSTAIN SPENDING FOR 10 ADDITIONAL YEARS



Results are simulated. This is a hypothetical illustration only. The savings phase simulates a defined contribution participant salary of $40,000 at age 25, linearly increasing to $65,000 by age 65, making yearly contributions of 6% of salary at age 25 increasing by 0.5% per year to a maximum 15% with a 100% company matching contribution up to the first 6% of salary. In the spending phase, assuming an estimated $22,750 (35% of final salary) benefit from Social Security, $35,750 (55% of final salary) is deducted at the beginning of each year. A yearly investment return of 5.6% is assumed until age 40, then linearly decreasing to 2.5% at age 80 and remaining constant thereafter. In the "1% Greater Return Scenario" a yearly investment return of 6.6% is assumed at age 25, linearly decreasing to 3.5% at age 80 and remaining constant thereafter. Inflation is assumed to be a constant 1.9% and dollar values are expressed in real purchasing power terms.
Source: AllianceBernstein

CONSIDER ADDING CITs TO THE PLAN

For plan sponsors, and those who advise them, evaluating and determining the best investment strategy is the first step in determining which vehicle to use. Here are some of the key considerations:

+ Size of the plan's investment
+ Eligibility of certain vehicles for the plan
+ Associated fees

CIT BENEFITS: NOT EXCLUSIVE TO BIG PLANS

Some believe that CITs are only accessible to large institutional retirement plans with their buying power. But small and midsize plans benefit, too, because many asset managers have either reduced or eliminated required asset minimums. CITs are a versatile, cost-effective and competitive alternative to mutual funds for defined contribution plans. They offer most of the convenience of a mutual fund, with lower fees and flexible pricing. We expect CITs to remain the best choice among the available options for many plan sponsors.

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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