

RETIREMENT Times



Did Someone Order a Large?



Any committee member sitting through their share of plan investment review meetings has heard the term “large cap” come up quite frequently. In our experience, large cap funds are top of list when the review turns to the stand-alone funds in the lineup. Given this place of prominence, it is critical to ponder its definition, its importance and how they can be utilized best in an efficient, participant-friendly manner within plan investment lineups.

Large cap is an abbreviation of “large capitalization” which refers to the market capitalization of a public company with a market value (number of shares outstanding multiplied by stock price) greater than \$20

billion. On the upper end, the market cap of the very largest stocks reaches into hundreds of billions of dollars. The largest of large cap stocks are household names such as Apple (topping the list of largest U.S. public companies with a market capitalization of \$730 billion¹), Microsoft (\$498 billion¹), Amazon (\$403 billion¹), Facebook (\$398 billion¹), Exxon Mobil (\$343 billion¹), Wells Fargo (\$293 billion¹), and Walt Disney (\$175 billion¹).

Because of their size, large caps collectively comprise the majority of total stock market capitalization even while representing only a small number of individual stocks (approximately 200) out of the thousands of publicly listed companies. For this reason large cap stocks represent a prominent role within most equity allocations whether part of a broad asset allocation fund like a target date fund or via a mix of the stand-alone funds in a plan lineup.

Now that we defined a stock as a large cap, it’s a straight forward extension that the large cap funds in a lineup hold investment positions in these large companies. They follow different strategies referred to as value, growth or blend and each of these may be actively or passively managed.

Value funds invest in stocks deemed “out of favor” or “cheap” (based on dividend yield, price-to-earnings, or price-to-book value, etc.). Growth funds invest in stocks of companies with higher earnings opportunities. Financials, Energy, Telecommunications and Utilities are sectors of the market traditionally associated with value while sectors such as Information Technology and Health Care are considered with growth. Blend funds predictably include both value and growth, and are aimed at offering a broad exposure across large capitalization stocks. The benchmark against the broad-based Russell 1000 Index contains the stocks found both in the Russell 1000 Value and Russell 1000 Growth Indices.

From a design perspective, both value and growth deserve a place in the lineup. Efficient and effective large cap includes and rounded out by a low-cost, passively managed index fund in the large cap blend category. We believe these guidelines constitute best practices of retirement portfolio construction.

continued on page 4

1as of 03/03/2017

The opinions expressed in this commentary are those of the author. This is for general information only and is not intended to provide specific investment advice or recommendations for any individual. It is suggested that you consult your financial professional, attorney or tax advisor with regard to your individual situation. Comments concerning the past performance are not intended to be forward looking and should not be viewed as an indication of future results.

All investments involve varying levels and types of risks. These risks can be associated with the specific investment, or with the marketplace as a whole. Loss of principal is possible.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Fortified Decision-Making - Structure your plan committee meetings for success

Defined contribution (DC) plan committees face increasing scrutiny on the myriad of decisions they make for their respective plans. During quarterly committee meetings, it's no longer enough to run through an agenda of basic responsibilities; now, more than ever, leading plan committees recognize that they need to address all of the issues that they are responsible for, including emerging issues. As such, committee decision-makers need to strategically plan meeting agendas that cover both the micro job of looking closely at each issue affecting the plan today, and the macro job of ensuring emerging issues that may impact the plan in the future are considered over the course of the year.



With the help of the plan's advisor/consultant and an ERISA attorney, committees should develop holistic meeting agendas that keep them informed and compliant. Since most committee members do not spend the majority of their time in the DC marketplace, they should regularly ask experts to describe new and emerging issues, and/or older issues that they may not have addressed, but should.

To begin the discussion, the checklist found below covers current and emerging agenda items that plan committees should consider over four quarterly meetings.

Q1	Q2	Q3	Q4
<ul style="list-style-type: none"> ✓ Review minutes of last committee meeting and report on action items ✓ Quarterly and annual investment reviews ✓ Annual review of service provider operations and issues ✓ Annual review of investment policy statement (IPS) ✓ Annual report to board of directors ✓ Open items 	<ul style="list-style-type: none"> ✓ Review minutes of last committee meeting and report on action items ✓ Quarterly investment review ✓ Review of participant-related issues ✓ Review of participant disclosures and notices ✓ Open items 	<ul style="list-style-type: none"> ✓ Review minutes of last committee meeting and report on action items ✓ Quarterly investment review ✓ Report on legal changes ✓ Report on industry trends ✓ Plan design review ✓ Review of plan policies ✓ Review of participant issues and complaints ✓ Review of insurance and bonding ✓ Open items 	<ul style="list-style-type: none"> ✓ Review minutes of last committee meeting and report on action items ✓ Quarterly investment review ✓ Review of costs and compensation for service providers and plan operation ✓ Review of mutual fund share classes ✓ Report on revenue sharing ✓ Open items

Q1-Q4 Unscheduled Items

There are other issues that require a committee's attention. However, not all matters need to be reviewed every year, and in other cases the issues are driven by events, including provider changes, 404(c) compliance, required plan amendments and amendments to service provider agreements.

For more information on potential agenda topics or assistance putting together your next committee meeting agenda, contact your plan advisor.



This is an excerpt of BNY Mellon Dreyfus's article Fortified Decision Making – Structure your plan committee meetings for success.

Fiduciary Risk when Using Industry Average Reports to Determine Fee Reasonableness

This is a very important and often misunderstood issue. Industry average fee data can serve as a good general "second opinion" of fee reasonableness. The industry recognizes that fees can be very plan-centric in nature. National averages may not capture the nuances of plans that drive cost (both in a positive and negative manner). Thus a more tailored approach (such as what is provided in a live-bid environment, like usage of the B3 Provider Analysis™) may not only be best practice, but can be more determinative of what a plan's actual value on the open market is at any one point in time. The detail of the B3 Analysis can be more determinative of fee reasonableness as it is based on what other providers may actually charge to provide the same services for the specific plan. It is a direct apples-to-apples comparison.

Moreover, benchmarking fees in a vacuum can paint an incomplete picture. In addition to providing benchmarking of fees, the B3 incorporates benchmarking of services and investment opportunities. All three of these elements must be viewed in conjunction with one another to fully vet "reasonableness" of an engagement. Also, the B3 Analysis serves as an educational tool for fiduciaries in addressing the various components of plan fees including revenue sharing.

Based on Department of Labor (DOL) expressed intent and related fee litigation, use of averages and estimates have not been considered sufficient for determining fee reasonableness as they likely do not reflect the specific plan considerations which may impact pricing. The DOL has stated that plans should solicit live bids on a pro-active basis. Only a periodic (every 3-4 years) robust live-bid process, like the B3 Analysis, is most likely to be considered a sufficient and prudent process for determining fee reasonableness by plan fiduciaries.

A related recent case in point involves fee reasonableness litigation against City National where the court found that in City National's determination of fee reasonableness by use of "...averages and estimates," rather than directly tracked expenses was not satisfactory.

For more information on benchmarking and the B3 Provider Analysis, please contact your plan advisor.

The B3 Provider Analysis™, RPAG's proprietary retirement plan fee benchmarking and request for proposal (RFP) system, utilizes live-bid benchmarking to provide a comprehensive benchmarking of a plan's fees, services and investments in one robust report.

Are Your Written QDRO Procedures in Place?

A QDRO, or a Qualified Domestic Relations Order, is a court mandate to divide the assets of a retirement account among divorcing spouses. While there are probably few QDROs that will need to be processed by your plan over its lifetime, it's still important to confirm that you are in QDRO compliance. ERISA Section 206(d)(3)(G)(ii) requires that a plan have written QDRO procedures in place and that the QDRO procedures are sent to the participant and each alternate payee upon receipt of a domestic relations order. Every plan sponsor should confirm that such written procedures exist and further, should easily be able to furnish the document upon request (by an IRS or DOL auditor for example). Contact your plan advisor to help you with this important task.

Did Someone Order a Large?

continued from page 1

investment positions in these large companies. They follow different strategies referred to as value, growth or blend and each of these may be actively or passively managed.

Value funds invest in stocks deemed "out of favor" or "cheap" (based on dividend yield, price-to-earnings, or price-to-book value, etc.). Growth funds invest in stocks of companies with higher earnings opportunities. Financials, Energy, Telecommunications and Utilities are sectors of the market traditionally associated with value while sectors such as Information Technology and Health Care are considered growth. Blend funds predictably include both value and growth and are aimed at offering a broad exposure across large capitalization stocks. The benchmark against the broad-based Russell 1000 Index contains the stocks found both in the Russell 1000 Value and Russell 1000 Growth Indices.

From a design perspective, both value and growth deserve a place in the lineup. Efficient and effective large cap exposure includes active value and growth and rounded out by a low-cost, passively managed index fund in the large cap blend category. We believe these guidelines constitute best practices of retirement portfolio construction.

1as of 03/03/2017

The opinions expressed in this commentary are those of the author. This is for general information only and is not intended to provide specific investment advice or recommendations for any individual. It is suggested that you consult your financial professional, attorney or tax advisor with regard to your individual situation. Comments concerning the past performance are not intended to be forward looking and should not be viewed as an indication of future results.

All investments involve varying levels and types of risks. These risks can be associated with the specific investment, or with the marketplace as a whole. Loss of principal is possible.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Communication Corner: Tax Saver's Credit Reminder

This month's employee memo reminds participants that they may be eligible for a valuable incentive, which could reduce their federal income tax liability by contributing to the company's retirement plan.

As a reminder, we post each monthly participant memo online via the Fiduciary Briefcase (fiduciarybriefcase.com).

Call or email your plan consultant if you have questions or need assistance.

Brad Knowles

405.848.8899

brad@heritagetrust.com

Kody Bollenbach

405.608.8628

kbollenbach@heritagetrust.com

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Argent Institutional. Please remember to contact Argent Institutional, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Argent Institutional is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of the Argent Institutional's current written disclosure Brochure discussing our advisory services and fees continues to remain available upon request.

A Proud Member of

