ULRICH
Investment Consultants

*Two Questions Could Save Your DC Plan Millions*
*June, 2019*

After more than a decade of blistering litigation and regulatory enforcement actions, those in charge of defined contribution (DC) plans have received a clear message: Making decisions about other people's money is a serious responsibility, and failing to carefully monitor plan expenses can be costly.

Spurred in part by this litigation, many fiduciaries are paying closer attention to this issue. The DC plan sponsors we track are focused on these priorities:

- benchmarking plan fees
- following a prudent process
- keeping the sole benefit of their participants top-of-mind as they administer the plan

We believe these two questions will help identify whether your in-house plan fiduciaries are in-sync with this larger group we track or perhaps need assistance.

**Question #1: Are our plan administration costs too high?**
Executives who know the answer and act prudently not only help their participants save for retirement but also improve their companies' odds of avoiding financial penalties. Finding this answer involves comparing one's own plan administration costs to a) those observed in the marketplace, or b) to a set of competitive bids from service providers.
Fixing any issues found in this examination is pretty straightforward: Benchmark your fees. Use a vendor that has a deep recordkeeping fee database and/or the resources to blindbid your plan in the marketplace to document your true expense options. We see the benefits of these actions first-hand for our clients: for the past few years recordkeeper fee benchmarking has resulted in average fee reductions of 30%.

**Question #2: Are our DC plan participants getting the right "bang-for-the-buck" for their investment fees?**
To set the context, we are largely talking about active management fees. For DC plans, sponsors must thoughtfully consider the case for active management and document the value proposition being purchased by plan participants. Regulations are clear that the standard is not to select the lowest-cost or best-performing fund for the DC plan menu. Thus if it is not about lowest-cost or best-performing, then it has to be about "relative value."

We see two key questions that could arise in future DC fiduciary litigation about this "relative value" concept:

1. What was the expected value the participants were paying for?
2. Was the fee reasonable?

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Our message is not that all active management is bad for DC plans, but that plan fiduciaries should fully understand and document the decision to use active management. The legal and regulatory scrutiny is growing, and active management fees are increasingly central to this scrutiny.

Exclusive use of passive funds in DC plans will not be optimal for fiduciaries in the long run either. For example, some very useful asset classes (e.g., corporate fixed income) can encounter periods of illiquidity that can be counter-productive to an index fund following a mechanical buying and selling methodology. Other increasingly popular asset classes in DC plans (e.g., real assets) are not easily implemented via an index methodology.

To be sure, we have many clients that use active management in their DC plans in what appears to be a defensible manner. Some hallmarks of their approach include:

- Offering participants a “mirrored” set of active and passive investment options in asset classes where index methodologies work well, such as equities.
- Conducting regular fee reviews with their investment managers that include reviews of investment vehicle and share-class options available to the plan.
- Adhering to a strong governance program that documents plan fiduciaries conducted reasonable processes behind key decisions.

From our vantage point, plan sponsors that can make all this happen are those fortunate enough to have ample resources in terms of staff and committee members with the time and aptitude for this subject matter. We have many clients who do an excellent job managing their use of active management, and other investment consultants surely see the same in their practices as well.

Unfortunately we also see some plans that are less fortunate in terms of plan administration resources. For those plans, the option to outsource some of this responsibility may be worth some consideration.

*Source: Rod Bare, Callan*

# Taft Hartley
# Quarterly Review

**March 31, 2019**

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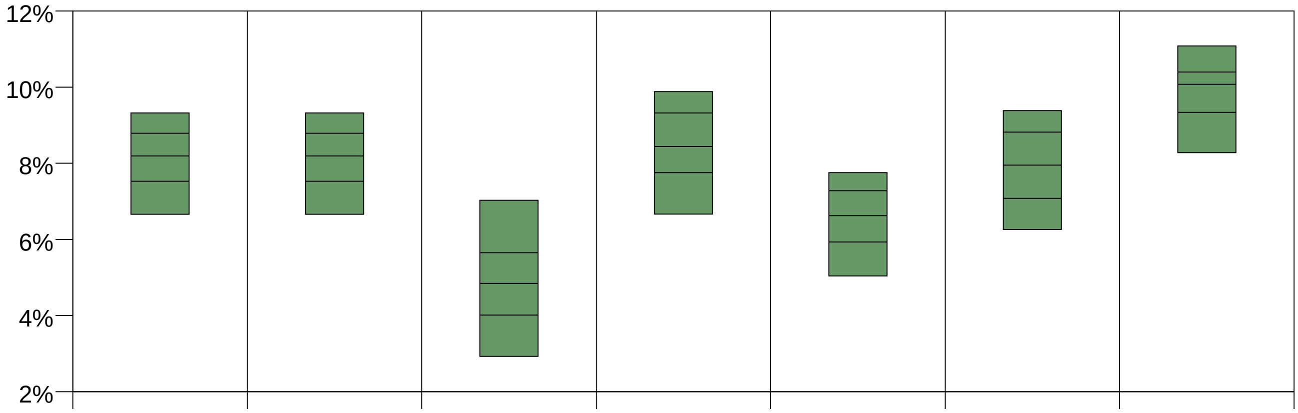
# Peer Group Performance Comparisons: Small Taft Hartley Database (<$100m)

Returns for Periods Ended March 31, 2019
Group: Callan Taft Hart Fd Spr Small DB (<100M)




| | Last Quarter | Year to Date | Last Year | Last 3 Years | Last 5 Years | Last 7 Years | Last 10 Years |
|---|---|---|---|---|---|---|---|
| 10th Percentile | 9.3 | 9.3 | 7.0 | 9.9 | 7.8 | 9.4 | 11.1 |
| 25th Percentile | 8.8 | 8.8 | 5.7 | 9.3 | 7.3 | 8.8 | 10.4 |
| **Median** | **8.2** | **8.2** | **4.8** | **8.4** | **6.6** | **8.0** | **10.1** |
| 75th Percentile | 7.5 | 7.5 | 4.0 | 7.8 | 5.9 | 7.1 | 9.3 |
| 90th Percentile | 6.7 | 6.7 | 2.9 | 6.7 | 5.0 | 6.3 | 8.3 |
| Plan Count | 108 | 108 | 101 | 101 | 100 | 90 | 86 |

Source: Callan Associates

The Floating Bar chart analyzes data in both a graphical and numerical format. The top part of the chart shows floating bars, which represent the distribution of the Callan Associates' Small Taft Hartley Database over multiple time periods. These plans have less than $100 Mil in assets.

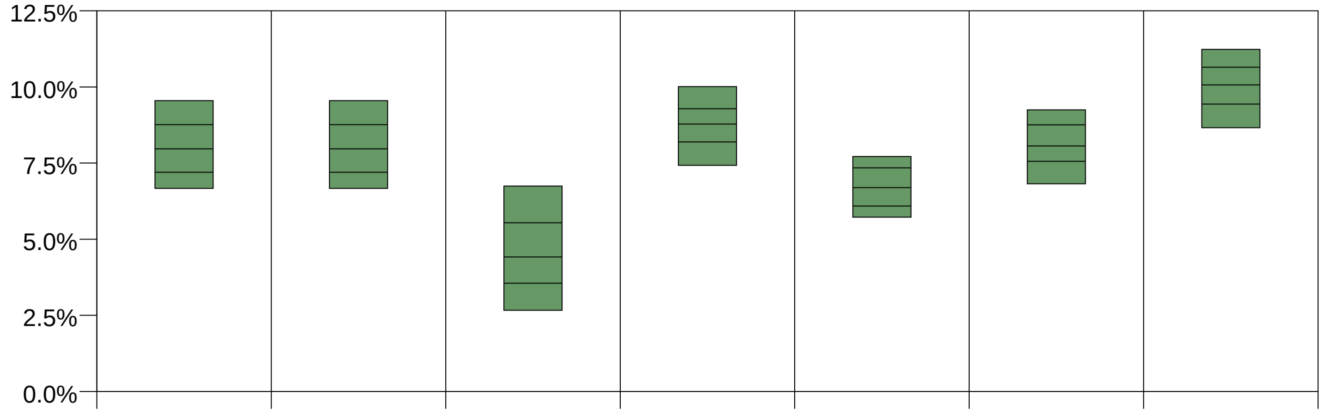
The bars represent the range of returns for all funds included in the database. The Plan Count is the number of Plans included for the specific time period. The table at the bottom of the chart displays the same data in numerical format.

The median return may be useful in comparing the returns of other Small Defined Benefit plans to the Callan Database of returns. ***Please be aware that the returns will vary significantly based on the specific asset allocation and risk tolerance of the Plan. The average asset allocation of the Small Taft Hartley database would generally be considered Moderately Aggressive. As of the most recent period, they had an average allocation to equity of 50%***

As of 03/31/2019, the Small Taft Hartley Database is comprised of 119 Defined Benefit Plans representing $5.5 Bil in assets. The average plan size was $52.6 Mil and the median plan size was $49.7 Mil.

# Peer Group Performance Comparisons: Mid Taft Hartley Database ($100m-$1B)

Returns for Periods Ended March 31, 2019
Group: Callan Taft Hart Fund Spr Mid (100M-1B)




| | Last Quarter | Year to Date | Last Year | Last 3 Years | Last 5 Years | Last 7 Years | Last 10 Years |
|---|---|---|---|---|---|---|---|
| 10th Percentile | 9.6 | 9.6 | 6.8 | 10.0 | 7.7 | 9.3 | 11.2 |
| 25th Percentile | 8.8 | 8.8 | 5.5 | 9.3 | 7.3 | 8.8 | 10.7 |
| **Median** | **8.0** | **8.0** | **4.4** | **8.8** | **6.7** | **8.1** | **10.1** |
| 75th Percentile | 7.2 | 7.2 | 3.6 | 8.2 | 6.1 | 7.6 | 9.4 |
| 90th Percentile | 6.7 | 6.7 | 2.7 | 7.4 | 5.7 | 6.8 | 8.7 |
| Plan Count | 98 | 98 | 95 | 95 | 94 | 93 | 92 |

Source: Callan Associates

The Floating Bar chart analyzes data in both a graphical and numerical format. The top part of the chart shows floating bars, which represent the distribution of the Callan Associates' Mid sized Taft Hartley Database over multiple time periods. These plans have more than $100 Mil but less than $1 Bil in assets.

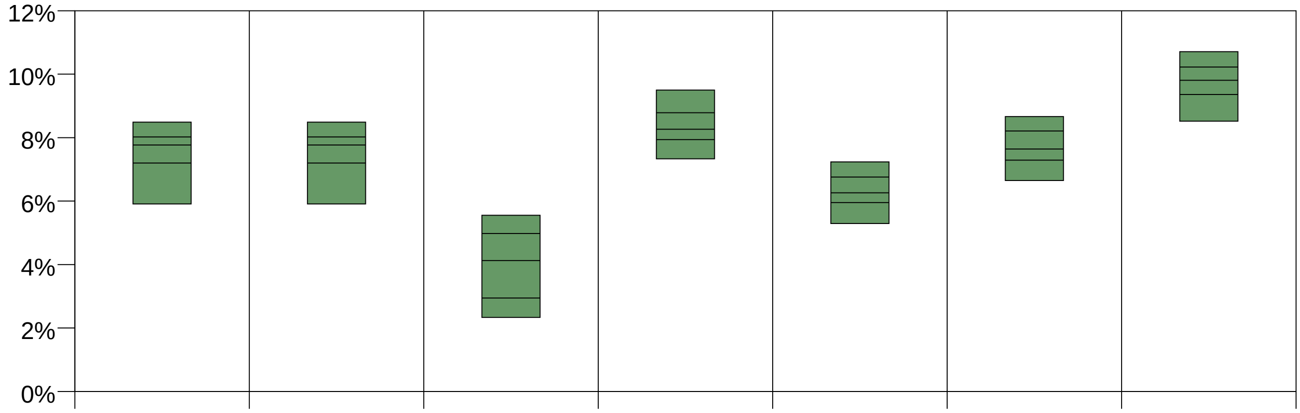
The bars represent the range of returns for all funds included in the database. The Plan Count is the number of Plans included for the specific time period. The table at the bottom of the chart displays the same data in numerical format.

The median return may be useful in comparing the returns of other Mid sized Defined Benefit plans to the Callan Database of returns. ***Please be aware that the returns will vary significantly based on the specific asset allocation and risk tolerance of the Plan. The average asset allocation of the Mid sized Taft Hartley database would generally be considered Moderately Aggressive. As of the most recent period, they had an average allocation to equity of 48%.***

As of 3/31/2019, the MId Taft Hartley Database is comprised of 100 Defined Benefit Plans representing $34.1 Bil in assets. The average plan size was $347.7 Mil and the median plan size was $253.0 Mil.

# Peer Group Performance Comparisons: Large Taft Hartley Database (>$1B)

Returns for Periods Ended March 31, 2019
Group: Callan Taft Hart Fund Spr - Large (>1B)




| | Last Quarter | Year to Date | Last Year | Last 3 Years | Last 5 Years | Last 7 Years | Last 10 Years |
|---|---|---|---|---|---|---|---|
| 10th Percentile | 8.5 | 8.5 | 5.6 | 9.5 | 7.2 | 8.7 | 10.7 |
| 25th Percentile | 8.0 | 8.0 | 5.0 | 8.8 | 6.8 | 8.2 | 10.2 |
| **Median** | **7.8** | **7.8** | **4.1** | **8.3** | **6.3** | **7.6** | **9.8** |
| 75th Percentile | 7.2 | 7.2 | 2.9 | 7.9 | 6.0 | 7.3 | 9.4 |
| 90th Percentile | 5.9 | 5.9 | 2.3 | 7.3 | 5.3 | 6.7 | 8.5 |
| Plan Count | 27 | 27 | 27 | 27 | 27 | 27 | 26 |

Source: Callan Associates

The Floating Bar chart analyzes data in both a graphical and numerical format. The top part of the chart shows floating bars, which represent the distribution of the Callan Associates' Mid sized Taft Hartley Database over multiple time periods. These plans have more than $1 Bil in assets.

The bars represent the range of returns for all funds included in the database. The Plan Count is the number of Plans included for the specific time period. The table at the bottom of the chart displays the same data in numerical format.

The median return may be useful in comparing the returns of other Mid sized Defined Benefit plans to the Callan Database of returns. ***Please be aware that the returns will vary significantly based on the specific asset allocation and risk tolerance of the Plan. The average asset allocation of the Mid sized Taft Hartley database would generally be considered Moderately Aggressive. As of the most recent period, they had an average allocation to equity of 47%.***

As of 3/31/2019, the Large sized Taft Hartley Database is comprised of 30 Defined Benefit Plans representing $86.1 Bil in assets. The average plan size was $3188.8 Mil and the median plan size was $2,110.3 Mil.

The Taft-Hartley group consists of multi-employer total funds including both Callan clients and surveyed non-Callan client funds. The perfmance of of these multi-employer funds are not and should not be construed to be indicative of returns earned by Ulrich Investment Consultants.

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