

THE RIGHT CHOICE FOR PUBLIC RETIREMENT PLANS

Understanding Collective Investment Trusts (CITS)

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CITS - The Right Choice for Public Retirement Plans

AGENDA

- Why CITs Are the Right Choice - Now
- CITs - Steady Growth
- What Public Plan Sponsors & Fiduciaries Should Know
- Game Changing Legislation - 403(b) Plan Access
- Summary - Key Considerations
- Questions?

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⌚ Why CITs Are the Right Choice

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⌚ Why CITs are the Right Choice

What is a Collective Investment Trust ("CIT")

Lower Cost and Strictly Regulated Alternative

Collective Investment Trusts ("CITs") are pooled investment vehicles much like mutual funds, governed by fiduciary trustees subject to laws tailored to retirement plan investors

CITs can offer dramatically lower fees ¹
– 50% lower than passive mutual funds
– 60% lower than active mutual funds

CITs are strictly regulated under an overlapping body of laws, including state or federal banking law, securities law exemptions, common law trust and fiduciary duties, and, typically, ERISA

These attributes make CITs a core component of governmental DC Plans

- 457(b) Plans have had access to CITs for decades.
- Legislation is needed to provide this access to 403(b) Plans.

Now let's get started....

¹ Morningstar, 2025 Retirement Landscape Report

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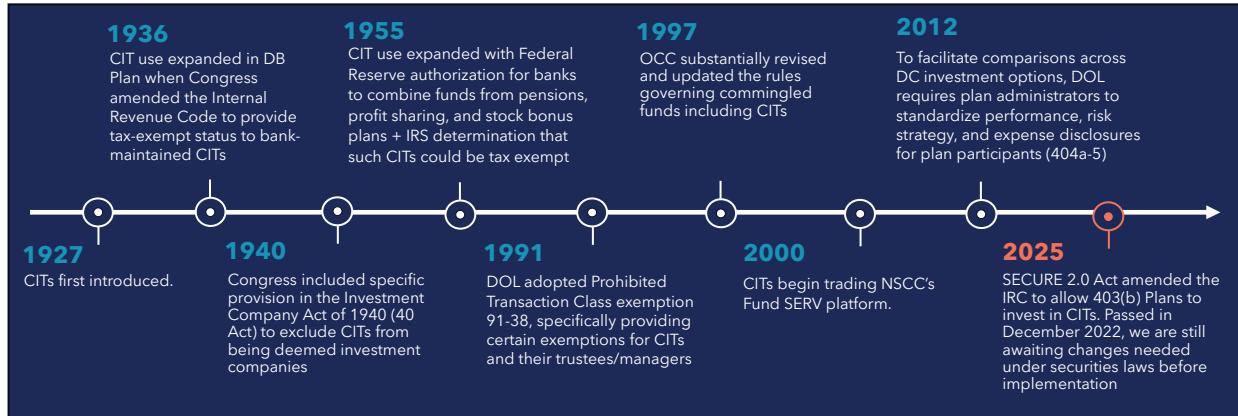


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Why CITs are the Right Choice

CIT Market Evolution - Nearly 100 Years Old



Source: 2021 Coalition of Collective Investment Trusts, Public Domain

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Why CITs are the Right Choice

Pricing and Flexibility - Fees Matter!

- Low-cost structure and pricing flexibility of CITs are integral to growth
 - “Over a 35-year career, a 1 percent difference in fees and expenses reduces an individual’s retirement savings by 28 percent”
 - For someone who otherwise would have saved \$1,000,000 by the time of retirement:



From A LOOK AT 401(K) PLAN FEES, U.S. Department of Labor, September 2019

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CITs - Steady Growth

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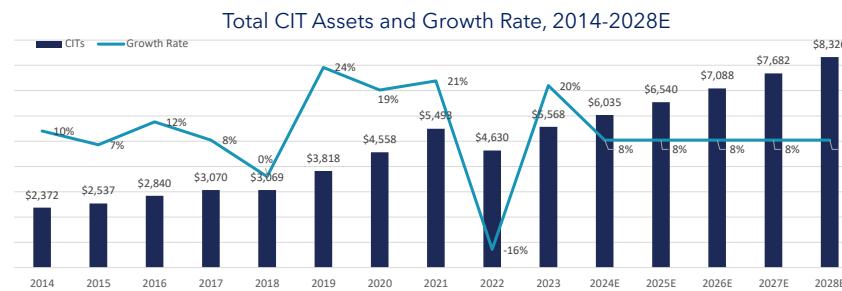
CITs - Steady Growth

Growth: DC Plans & Consultants recognize the appeal of CITs

Fastest Growing Segment in the Retirement Plan Market

CIT assets reached \$3.25 trillion in 2023 vs. mutual fund assets of \$3.1 trillion, per the latest available data. ⁺

⁺ Source: Pension & Investments and Morningstar, April 2025



Sources: Morningstar Direct, Cerulli Associates, in partnership with the Coalition of Collective Investment Trusts: The Cerulli Report – US Defined Contribution Distribution 2024. Analyst Note: 2023 CIT sizing reflects total trusteed assets. Prior year assets have been restated. The Office of the Comptroller of the Currency, which regulates collective investment funds, defines them in the Code of Federal Regulations (12 CFR § 9.18) as including two types of fund structures—bank common trusts, frequently called A1 funds in reference to the paragraph of the Code in which they are defined, and collective trust funds, similarly called A2 funds. Data shown tracks primarily A2 CTFs (available to retirement plans). A long-term capital market appreciation assumption of 6.8% was used to project CIT assets.

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Why CITs are the Right Choice

Costs & Fees

- Low-cost profiles compared to mutual funds viewed as the greatest benefit of offering CITs.
 - The ability to negotiate advisory fees ranks second, compounding notions of cost-sensitivity in the defined contribution (DC) space¹

- CIT providers ranked costs (67%) and fee negotiations (27%) as the most significant benefit over mutual funds¹



- CITs are less expensive than their mutual fund counterparts: passive CITs are 50% less costly and active CITs are 60% less costly²

Cerulli Associates, in partnership with the Coalition of Collective Investment Trusts; The Cerulli Report | U.S. Defined Contribution Distribution 2024
Morningstar, 2025 Retirement Landscape Report

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CITs - Steady Growth

Attractive Offerings & Access for DC Plans

Institutional Strategies

- More consistent cash flows help manage portfolios than equivalent retail mutual funds
- Recognize Plan Sponsor/Plan Fiduciary sophistication

Multi-Asset Offerings

- Market-wide diversification
- Increasingly used as structure for target date funds, which are often used as Qualified Default Investment Alternatives ("QDIA")

Plan Access

- Until recently, mostly used by mid to large plans
- Automated trading and NAV unitization
- Reduced or eliminated investment minimums have made CITs more accessible to smaller plans

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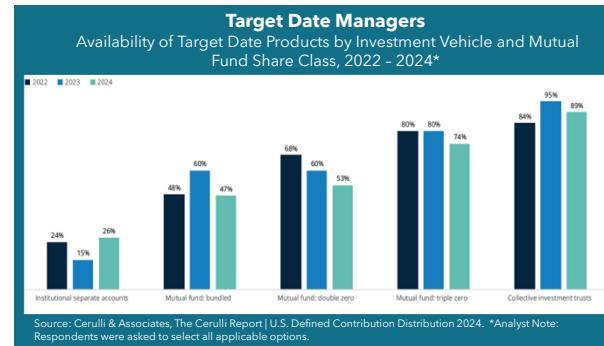
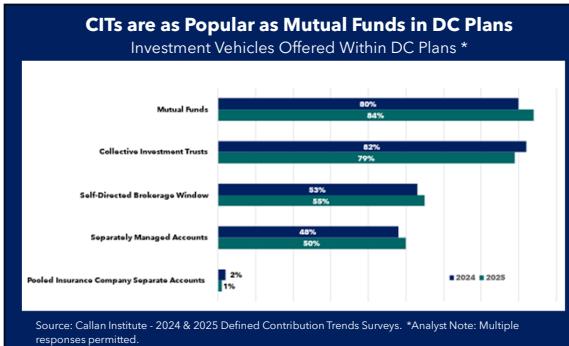
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CITs - Steady Growth

Growth: CITs are prevalent in DC Plan lineups

- DC Plans recognize the appeal of CITs, and they are the leading target date fund vehicle
 - CITs are the most widely used vehicles for target date products in 2024 (89%) followed by mutual funds (74%)



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What Public Plan Sponsors & Fiduciaries Should Know

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What Public Plan Sponsors Should Know

Vehicle Comparison

Type	CITs	Mutual Funds
Oversight	Bank regulators and subject to ERISA/DOL regulation generally when CIT includes ERISA assets	Regulated by SEC under Investment Company Act of 1940, subject to numerous investment restrictions and limitations
Information Access	Information available online for institutional investors and on Recordkeeper sites for participants; most are Morningstar rated (if 3 years or older)	Information publicly available online; most are Morningstar rated (if 3 years or older)
Costs	<ul style="list-style-type: none"> Multiple classes offered to accommodate different advisory fee structures based on services and size of plan No 12b-1 fees; generally, no redemption fees 	<ul style="list-style-type: none"> Single management fee charged; investors in different classes may pay different amounts for other services or distribution fees May include 12b-1 fees; subject to redemption fees¹
Liquidity	Daily valuation/liquidity for CITs offered to DC plans ²	Ready liquidity and daily valuation standards ²
Settlement	<ul style="list-style-type: none"> Next day settlement (Trade Date +1) NSCC clearing available 	<ul style="list-style-type: none"> Next day settlement (Trade Date +1) NSCC clearing available
Plan Access	Participation Agreement; Low or no investment minimums	Standard Application; Generally, restrict access to, or require high minimums, for lower-cost institutional share classes ¹
Plan Rollover	When employee leaves plan, CITs cannot be rolled over/transitioned into an IRA	Employee may be able to roll over mutual fund holdings from some retirement plans to another retirement plan or to an IRA
Dividends & Capital Gains	Not required to distribute dividends and capital gains; can reinvest them within the trust.	Generally required to distribute dividends and capital gains to shareholders.

¹ This comparison is general in nature only and does not account for retirement plan relationships where features of these products may be different (e.g., applicability of redemption fees).² CIT units are generally redeemed at current NAV, which may be more or less than original cost. Mutual fund shares are redeemed at current NAV, which may be more or less than original cost.

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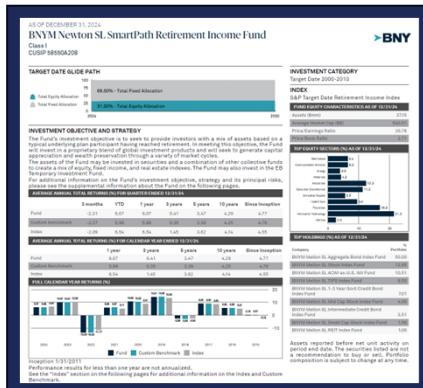
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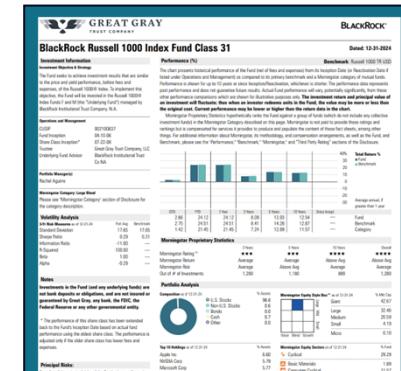
What Public Plan Sponsors Should Know

Transparency

- CITs comply with regulatory information requirements (expenses, performance, characteristics, etc.)



- CIT providers offer fact sheets for DC Plans, similar to mutual funds, that may be posted to record keeper websites for participants.
- Disclosures supplemented by market developments driving transparency
 - o Morningstar coverage (2007)
 - o Ticker symbols (2019)



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What Public Plan Sponsors Should Know

Considerations & Concerns

- Operations, Documentation, Communication
 - Administrative Considerations: Service provider support?
 - Independent custodian will work on the operational aspects
 - Transactional NAV needed if IM fee is negotiated
 - Onboarding - Typically regarded to be the biggest challenge
 - Participation Agreement, AML/KYC & Eligibility Verification, Disclosures Galore
 - Ensuring connectivity across platforms
 - Participant unfamiliarity: communication strategies & education
 - Record keepers or TPAs: Materials typically handled by these providers
 - White label options (Aggregators, OCIO)
 - Plan sponsor/designated fiduciary branding/generic asset class naming provides menu simplification and enhanced diversification; flexibility and customization



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Game Changing Legislation: 403(b) Plan Access



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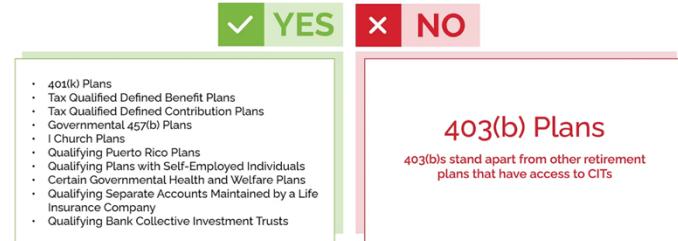


Game Changing Legislation: 403(b) Plan Access

When Will 403(b) Plans Have Access to CITs?

- 403(b) Plans do not have access to CITs which may artificially limit 403(b) participants and beneficiaries' ability to effectively save for their secure retirement
 - This is unfair and causes inconsistency across investment options for NAGDCA members that have both 457(b) Plans and 403(b) Plans as supplemental DC Plan
- Congress acknowledged this problem when it changed the tax laws in SECURE 2.0 to permit 403(b) Plans to invest in CITs
- Three years later, 403(b) plans still cannot access CITs, as corresponding changes to the securities law have not yet been made
- The Retirement Fairness for Charities and Educational Institutions Act will fix the problem by amending the securities laws to provide this access

Which retirement plans are eligible for CITs?



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Key Takeaways

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Key Takeaways

Why CITs Should Be Considered as Investment Options

Pricing & Flexibility	Lower expenses & multiple classes. Fees correspond with eligibility and the level of services provided
Regulatory Oversight	Subject to State and Federal Banking Laws, Federal Securities Law, and Federal Standards (typically ERISA)
Transparency	Fact sheets provide participants with key information (expenses, performance, characteristics, etc.)
Specialized Eligibility	Designed for Institutional Investors supporting DC Plan participants <ul style="list-style-type: none"> Requirements must be met for participation Mutual funds are generally open to all retail investors
Trading and Servicing	CITs trade NSCC and are available on all major recordkeeping platforms

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Key Takeaways

Your Plan Wants to Include CITs – What Happens Now?

- Navigating the Process
 - Adoption: Governance process
 - Starts with consultant or board members of public plan, usually sit on multiple boards
 - Conversation with the record keeper ("RK")/ third-party administrator ("TPA"): Can you accommodate?
 - Consultant will work diligently with the plan sponsor on manager selection and allocation
 - Greenlight: Standard communication requirements ensue
 - Possible plan amendment to include CITS as an eligible investment option
 - Stand alone investment options, vehicle changes, or replacing like for like?
 - Gather formation documents and ASL for Participation Agreement



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Q & A



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