



Fiduciary Fitness:

Shaping Up Your Retirement Plan

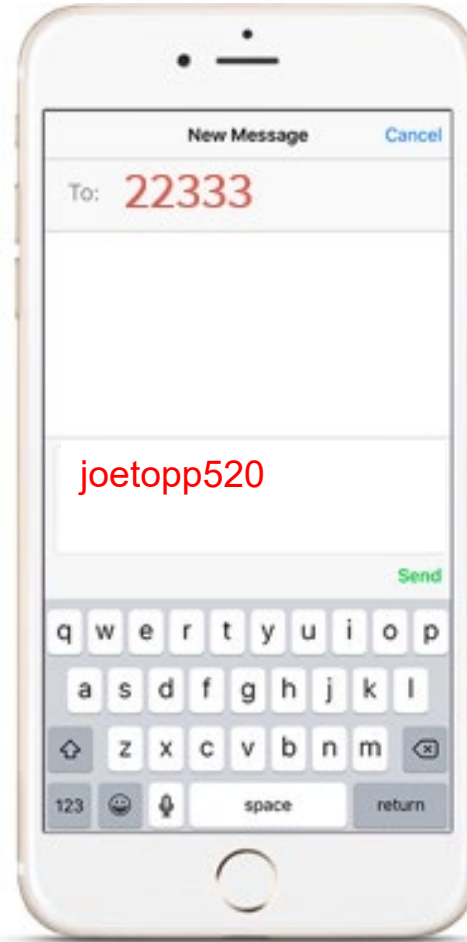
FRANCIS LLC
francisway.com



Let's Hear from You!



Web voting

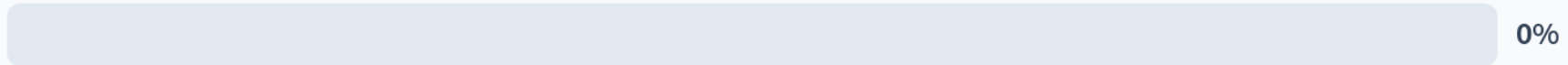


Text voting

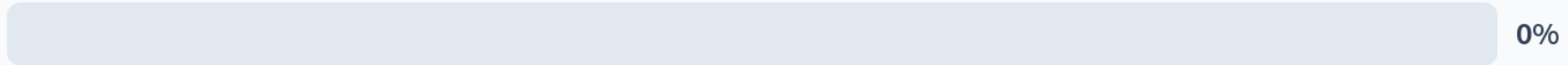
Let's Test the Polls

What is most likely to happen on Super Bowl Sunday?

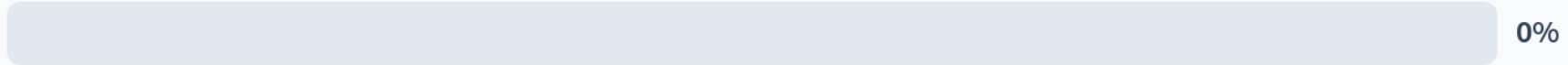
Chiefs win



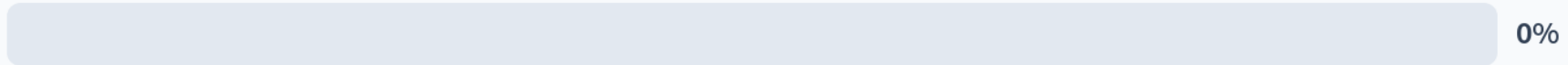
49ers win



Travis Kelce proposes to Taylor Swift on-field after a Chiefs win



Jake from State Farm is Usher's secret half-time guest



Agenda

- Understanding Your Legal Duties
- Establishing Plan Governance Process
- Building an Investment Menu
- Controlling Plan Costs

Let's Meet Joe

Joseph J. Topp
Principal
Vice President – Investment Consulting Services

- BS Accounting, Marquette University
- Certified Public Accountant (CPA®); Series 65
- Leads business development efforts
- Loves listening to live music, smoking Texas-style barbeque, and playing pickup basketball with two adult sons



Let's Meet Mike

Michael J. Francis, JD
President, Co-Founder
Principal

- BA Economics from Carleton College, Juris Doctorate from Marquette University
- Advising qualified retirement plan clients since 1988
- Featured columnist for the Milwaukee Journal Sentinel as the 401(k) Advisor since 1995
- Top 25 retirement plan advisors in the country by PLANSPONSOR Magazine in 2006 and guided the firm to be named Retirement Plan Advisor (large-team) of the Year in 2018
- Five adult children



Let's Meet Jon

Jon Nolan, CFA Vice President – Investment Consulting Services

- Joined the Francis team in 2011
- BS Business Administration from Marquette University
- Serves on the firms' investment committee
- Graduate of the Marquette University Applied Investment Management (AIM) Program
- Provides guidance to plan sponsors on all things retirement planning



About Francis LLC

Business Structure

- SEC-registered Institutional Investment Advisor
- ERISA fiduciary at all times
- No broker/dealer affiliations
- Flat dollar retainer/hourly fee structure
- Financial planners with *NO* wealth management business
- 100% employee-owned



Representative Clients¹



Poll Question #1

Which law governs retirement plans?



Your Legal Duties

Employee Retirement Income Security Act of 1974

Who Are ERISA Fiduciaries?

- **Named** – Plan Administrator, Trustee
- **Functional** – Committee Members with a vote
- **Discretionary Control** – People who exercise *any* discretionary control over plan administration or assets
- **Power to Appoint** – People who appoint other fiduciaries
- **Investment Advisors** – Anyone who renders investment advice to a Qualified Plan for a fee (direct or indirect)

Who Are NOT (typically) ERISA Fiduciaries?

- Recordkeepers
- Mutual Fund Investment Managers
- Plan Auditors and Legal Counsel
- Company Human Resources Employees

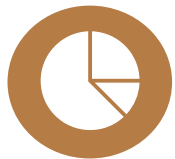
Key Fiduciary Duties



Loyalty: Act solely in the interest of plan participants; avoid self-serving actions (i.e. avoid conflicts, kickbacks, transactions with “party in interest”)



Prudency: Act with the care, skill and diligence of someone familiar with such matters (i.e. an expert regarding performance, holdings and fees)



Diversify Investments: Avoid risk of large losses to plan assets



Obedience: Follow plan documents

Penalty for failing to fulfill fiduciary duties

**Section 409 of ERISA
states:**

“(a) Any person who is a fiduciary...who breaches any of the responsibilities...shall be **personally liable** to make good to such plan any losses to the plan resulting from each such breach”

Liable if:

- Know of breach, participates, tries to conceal, or fails to make reasonable efforts to remedy
- Enables others to breach

The Cost of Conflicted Advice



Projected annual cost
to American workers =
\$17 Billion

Obama Administration study - February 2015



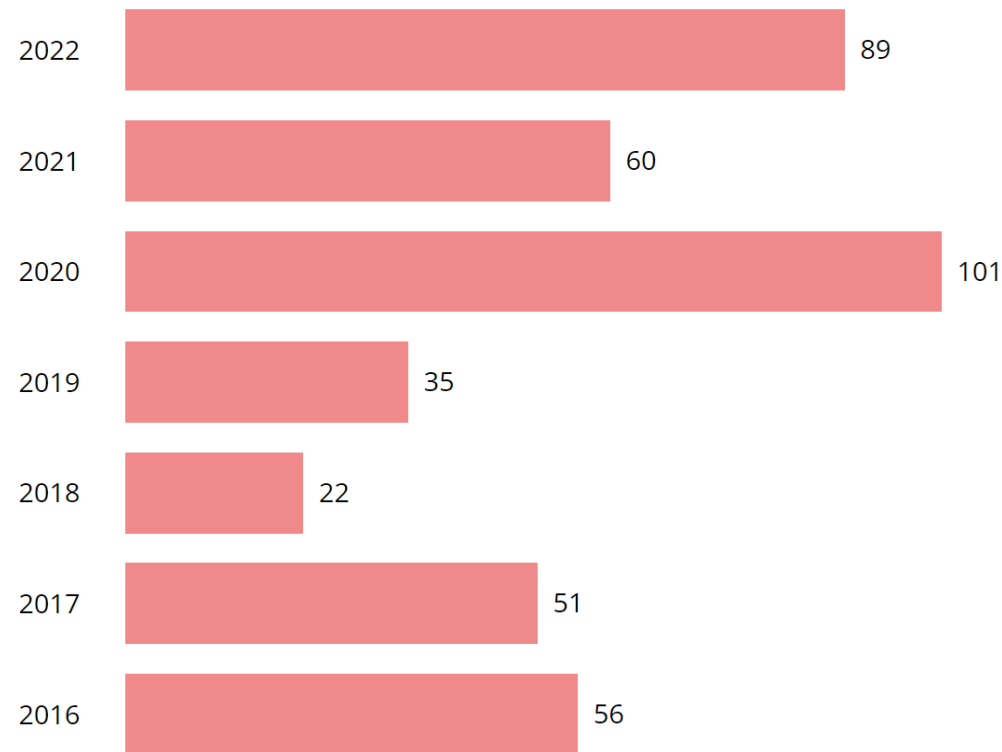
Pew Research Center

Projected cost to
American workers =
\$45 Billion

Small Differences in Mutual Fund Fees Can Cut
Billions From Americans' Retirement Savings -
June 2022

Plaintiff Law Firms Motivated by Financial Opportunity

Excess Fee and Investment Imprudence Lawsuits by Year



Source: Euclid Fiduciary

Typical complaints:

- Recordkeeper over-compensated through asset-based fees.*
- Plan Sponsor failed to consider lower-cost share classes.*
- Fiduciaries added funds with no track records or delayed in replacing poorly performing funds.*

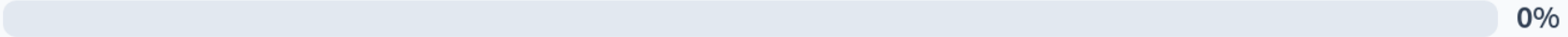
*Source: See, e.g., *White v. Chevron Corp.*, (N.D. Cal., complaint filed February 17, 2016)
PlanSponsor, *ERISA Plan Litigators Use 'More Credible' Tactics in First Half of 2023*
JPMorgan "Understanding Your Fiduciary Role – An ERISA Primer for Defined Contribution Plan Sponsors 2021"

Establishing Plan Governance Process

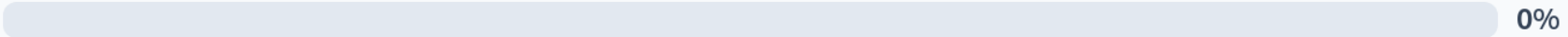
Poll Question #2

The 1988 Landmark Case, *Whitfield v. Cohen* 682FSupp. 188, 194 (S.D.N.Y. 1988) stands for what legal standard? "Prudence is determined by the..."

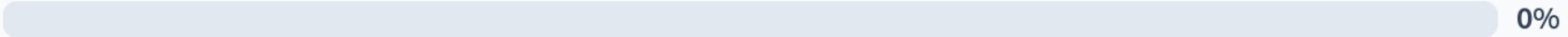
Results



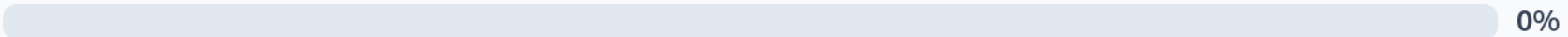
Process



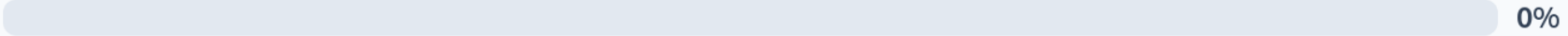
Performance



Relative cost



Expert's opinion



Process is the key

“Prudence is determined by the process, not the outcome.”

Whitfield v. Cohen, 682F.Supp. 188, 194 (S.D.N.Y. 1988)

Build an Investment Oversight Process

GOVERNANCE PROCESS

- Fiduciary Training
- Board Resolution
- Committee Charter
- Investment Policy
- Administrative Policy
- Communication Policy

ERISA Protections

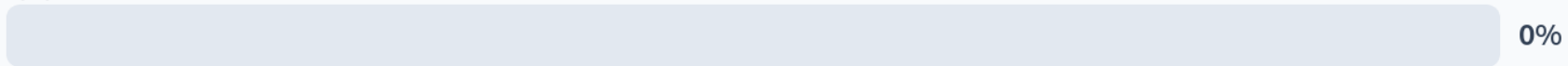
- **Establish and document plan governance structure** highlighting roles, responsibilities, and training for all plan fiduciaries.
- **Build process** for prudently selecting and continuously monitoring performance and fees.
- **Take advantage** of ERISA safe harbors [404(c) and QDIA].
- **Acquire fiduciary liability insurance** for your organization.

Building An Investment Menu

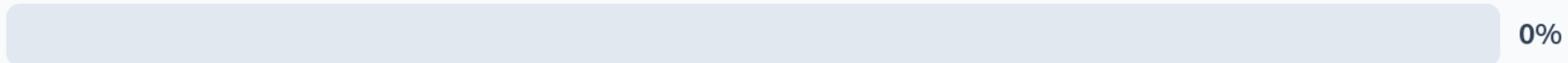
Poll Question #3

Counting target retirement funds as a single option, how many investment funds does the average U.S. retirement plan offer to participants?*

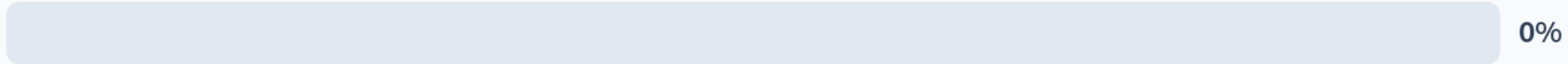
(A) 17



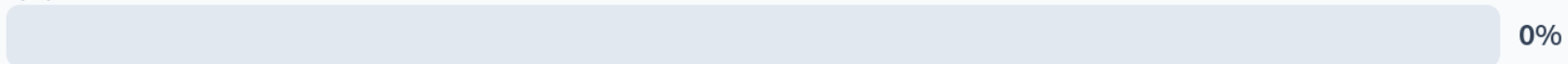
(B) 33



(C) 3



(D) 14



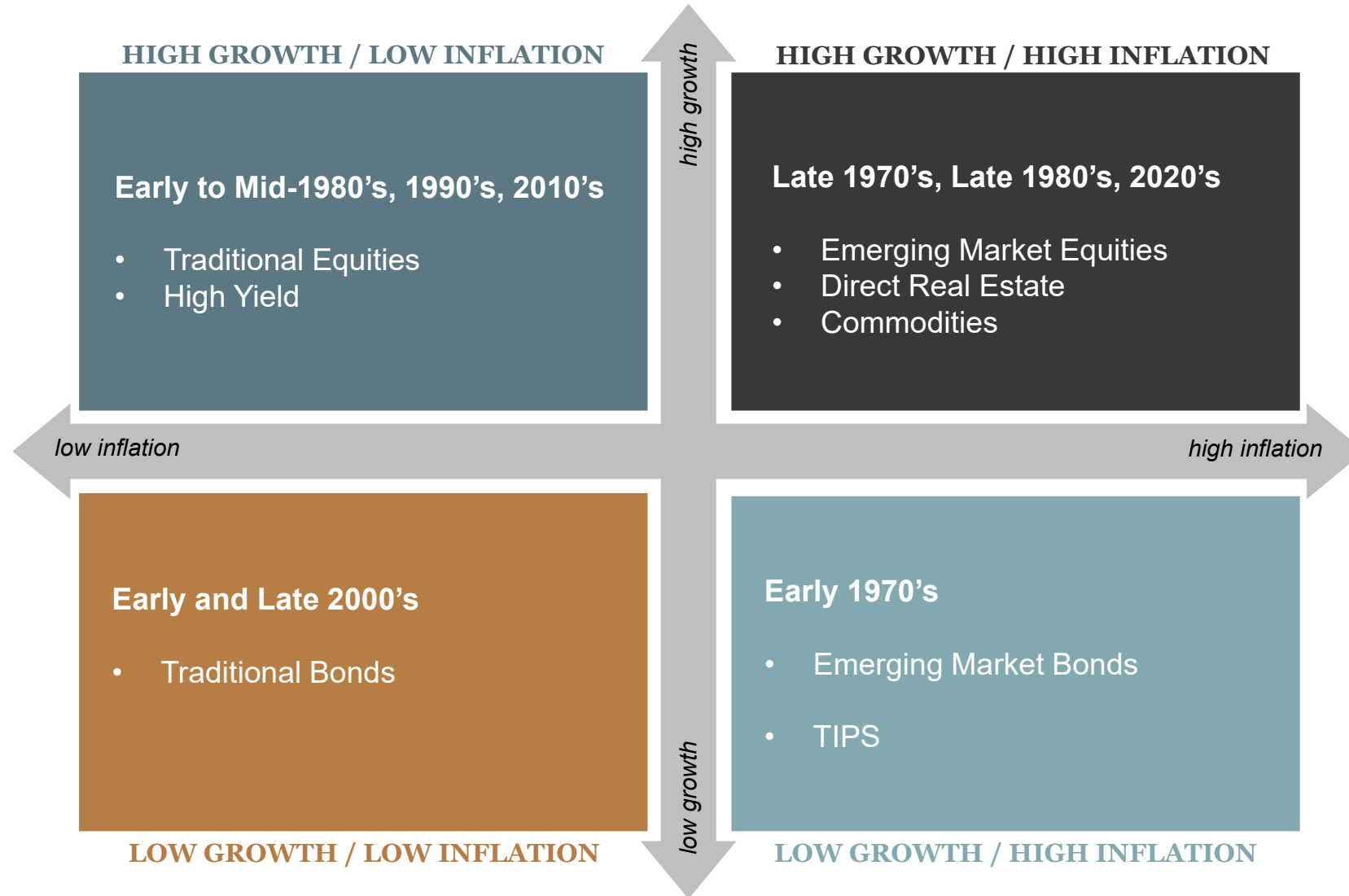
Start the presentation to see live content. For screen share software, share the entire screen. Get help at pollev.com/app

*Source: Vanguard, *How America Saves*, 2023.

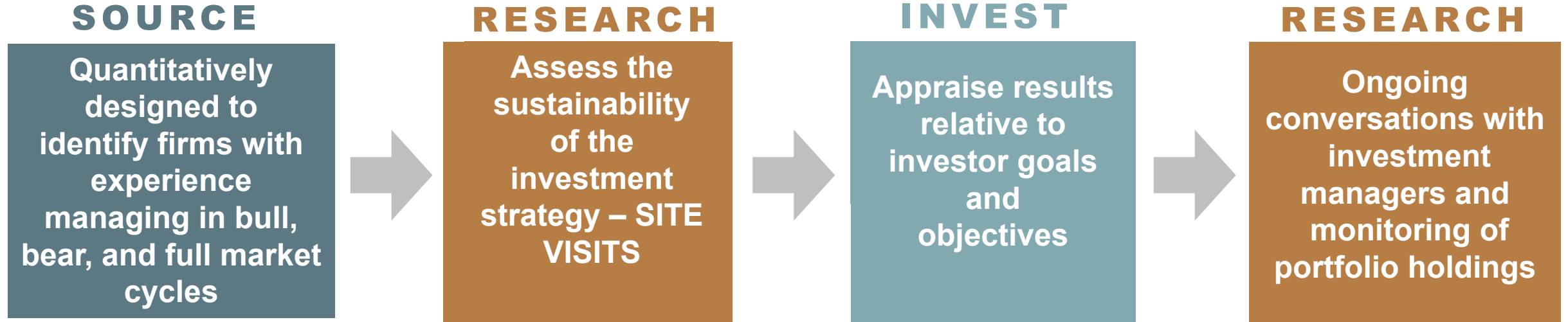
Building True Diversification



Building True Diversification



Finding Best-in-Class Managers



Finding Best-in-Class Managers

SITE VISITS


- Meetings with PMs, Analysts, CCO
- Security Analysis

DOCUMENTATION

Francis Investment Counsel (FIC) Manager Research Report		
Organization:	Putnam Investments	Date: October 23, 2019
Location:	100 Federal Street, Boston, MA 02110	
Products	Putnam Stable Value	
Attendees (roles):	Steve Horner (Lead-PM), Kevin Calabro (Analyst), Matt Gaither (Consultant Relations)	
FIC Attendees:	Jonathan Nolan, CFA	
Report Author:	Jonathan Nolan, CFA	
Strategy Summary (style box, biases, most important considerations, unique aspects):		
Putnam Stable Value Fund		
➤ Putnam seeks to provide a consistent and risk-controlled approach to stable value management, with a targeted return of 50-75 bps above money market benchmarks over a full market cycle.		
Firm Specific:		
➤ Putnam has had trouble retaining personnel across their equity platform, and although the attrition has been lower among the fixed income staff, they did recently lose "a couple of credit analysts." In order to help with communication between the analyst staff and PM team, Putnam added the role of "Director of Corporate Credit Research" in early-2019.		
Site Visit Grade (circle one):		
A+	A	A- B+ B B- C+ C C- D+ D D- F

Asset Management At the Right Price

Embedded Fees Everywhere!



Investment Name	Ticker	Front Load	Deferred Load	Expense Ratio	Minimum Initial Purchase	12b-1 Actual
American Funds Europacific Growth 529A	CEUAX	3.50	–	0.89	250.0	0.23
American Funds Europacific Growth 529C	CEUCX	–	1.00	1.66	250.0	1.00
American Funds Europacific Growth 529E	CEUEX	–	–	1.09	250.0	0.50
American Funds Europacific Growth 529F1	CEUFX	–	–	0.92	250.0	0.25
American Funds Europacific Growth 529F2	FUEPX	–	–	0.58	250.0	–
American Funds Europacific Growth 529F3	FEPUX	–	–	0.53	250.0	–
American Funds Europacific Growth A	AEPGX	5.75	–	0.84	250.0	0.24
American Funds Europacific Growth C	AEPCX	–	1.00	1.60	250.0	1.00
American Funds Europacific Growth F1	AEGFX	–	–	0.86	250.0	0.25
American Funds Europacific Growth F2	AEPFX	–	–	0.57	250.0	–
American Funds Europacific Growth F3	FEUPX	–	–	0.47	1.0 Mil	–
American Funds Europacific Growth R1	RERAX	–	–	1.57	250.0	1.00
American Funds Europacific Growth R2	RERBX	–	–	1.54	250.0	0.75
American Funds Europacific Growth R2E	REEBX	–	–	1.27	250.0	0.60
American Funds Europacific Growth R3	RERCX	–	–	1.12	250.0	0.50
American Funds Europacific Growth R4	REREX	–	–	0.82	250.0	0.25
American Funds Europacific Growth R5	RERFX	–	–	0.52	250.0	–
American Funds Europacific Growth R5E	RERHX	–	–	0.63	250.0	–
American Funds Europacific Growth R6	REGX	–	–	0.47	250.0	–

Source: Morningstar Direct, American Funds

Asset Management At the Right Price

Extend Due Diligence Across Vehicle Structures

Availability & (Regulator)	Public (SEC)	Private (OCC)	Private (SEC)
	Mutual Fund	Collective Investment Trust (CIT)	Separately Managed Account (SMA)
Type	Pooled	Pooled	Separate
Typical Minimums	\$0 to \$1M	\$0 to \$20M	\$50M+
Negotiable Fees	No	Yes	Yes
Additional Fees	None	Custody, Audit	Custody, Audit, Unitization
Ease of Access to Information	Easily Searchable by Ticker	Some Public Information Available	Unavailable Through Public Sources
Paperwork	No	Yes	Yes

Building a Monitoring Process²

Executive Summary ABC Company								Active WL Criteria			Passive Tracking Error		
								Quantitative		Qualitative			
As of September 30, 2023								Peer Gr. <50%	Peer Gr. <75%	Downside Risk	5 Yr Ret. v. MKT	Inv. Firm R2 > 85%	Inv. Personnel
Ticker	Qtr	YTD	1 Yr	3 Yr	5 Yr	Since Inc*	▲ / ▼ Indicates Positive/Negative Change From Previous Quarter						
Stable Value													
Morley Stable Value Net 25bps	N/A	0.7%	1.9%	2.4%	1.8%	2.0%	2.7%	NONE					
FTSE 3-month T-bill		1.4%	3.8%	4.7%	1.8%	1.7%	1.6%						
Intermediate Bond Index													
Fidelity US Bond Index	FXNAX	-3.2%	-1.0%	0.6%	-5.2%	0.1%	-1.7%	NONE					
Bloomberg U.S. Aggregate Bond		-3.2%	-1.2%	0.6%	-5.2%	0.1%	-1.7%						
Inflation-Protected Bond													
DFA Inflation-Protected Securities I	DIPSX	-2.6%	-0.6%	1.4%	-2.2%	2.2%	1.9%	NONE					
Bloomberg U.S. Treasury: U.S. TIPS		-2.6%	-0.8%	1.2%	-2.0%	2.1%	1.9%						
Emerging Market Bond													
MFS Emerging Markets Debt R6	MEDHX	-2.4%	1.1%	10.4%	-3.6%	0.5%	1.8%	SITE VISIT					
JPM EMBI Global		-2.6%	1.1%	8.6%	-4.3%	-0.1%	1.8%						
Balanced													
Dodge & Cox Balanced X	DOXBX	0.0%	5.7%	15.4%	10.2%	6.7%	7.5%	NONE					
60% S&P 500 / 40% Bloomberg Gov/Credit		-3.2%	7.4%	13.1%	4.0%	6.5%	6.7%						
Target Retirement Date													
Vanguard Target Retirement Income Fund	VTINX	-2.3%	3.2%	7.0%	-0.1%	2.7%	3.9%						
Vanguard Target Retirement 2020 Fund	VTWNX	-2.6%	4.2%	9.4%	1.4%	3.6%	3.6%						
Vanguard Target Retirement 2025 Fund	VTTVX	-3.0%	5.2%	11.6%	2.2%	4.0%	5.7%						
Vanguard Target Retirement 2030 Fund	VTHR X	-3.2%	5.9%	13.1%	3.0%	4.5%	4.5%						
Vanguard Target Retirement 2035 Fund	VTTHX	-3.3%	6.7%	14.6%	3.9%	4.9%	6.4%						
Vanguard Target Retirement 2040 Fund	VFORX	-3.3%	7.4%	16.2%	4.8%	5.4%	5.5%						
Vanguard Target Retirement 2045 Fund	VTIVX	-3.4%	8.1%	17.7%	5.7%	5.9%	7.0%						
Vanguard Target Retirement 2050 Fund	VFIFX	-3.5%	8.5%	18.5%	5.9%	6.0%	6.1%						
Vanguard Target Retirement 2055 Fund	VFFVX	-3.5%	8.5%	18.5%	5.9%	6.0%	7.7%						
Vanguard Target Retirement 2060 Fund	VTTSX	-3.5%	8.5%	18.5%	5.9%	6.0%	6.1%						
Vanguard Target Retirement 2065 Fund	VLXVX	-3.5%	8.4%	18.5%	5.9%	6.0%	6.0%						

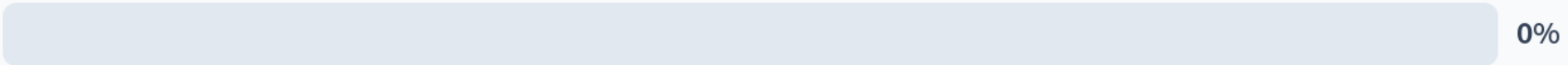
- Demonstrating Prudence
 - Benchmark-relative performance quantified
 - Cost Management
 - Watch List metrics summarized
 - Qualitative Considerations

Controlling Plan Costs

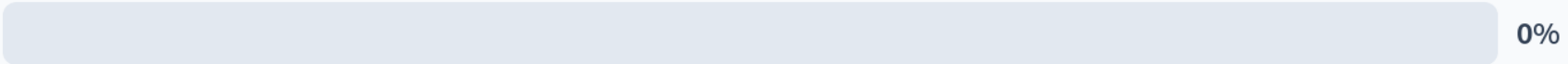
Poll Question #4

How are your Plan's recordkeeping services paid?

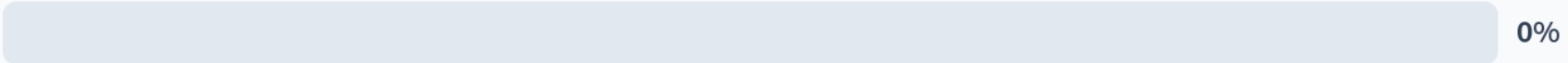
Percent of plan assets



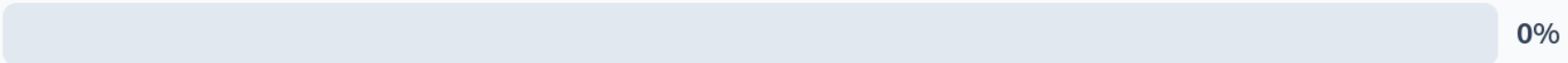
Revenue sharing



Fixed per participant



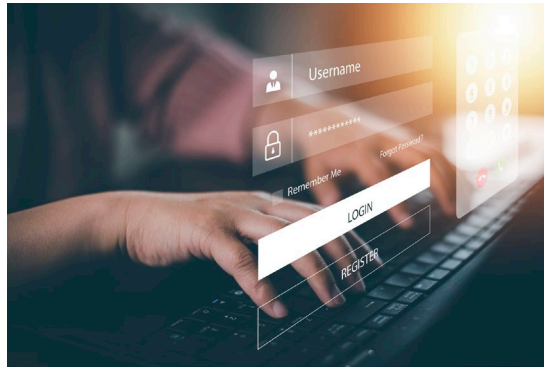
Company pays all fees



Components of Plan Cost



Asset
Management



Plan
Recordkeeper



Trust/Custodial



Retirement
Advisor



Legal
Actuarial



Plan Audit

Plan Costs: Transparent & Equitable

Beware of Embedded Fees

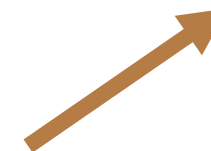
Industry Standard

- Bury service provider fees in mutual fund returns
- “Revenue Credits” used to pay service providers
- Overstates costs, understates performance
- Can lead to inequity of fee distribution

Best Practice

- Use “clean” pricing for investment strategies, with no embedded revenue sharing
- Highlight service provider fees individually, if paid by plan, include fees on participant statements
- Decouples fees from asset allocation decisions

Strongly preferred by regulators and fiduciary liability insurance providers



Sources of Recordkeeper Revenue

Base Administrative Fee

- Asset based or per account recordkept

Proprietary Products

- Asset management
- Managed Accounts

Participant direct charge

- Loans, distributions, QDRO's

Project fees or Billable expenses

- Communication activity
- Mailing costs



Recordkeeper Fees

Indirect Revenue Through Proprietary Products

Managed Accounts

- Recordkeepers sell personalized asset allocation solution, built using plan demographic data
- Layer an advisory fee on top of asset management fees
- Very difficult to benchmark & monitor performance

Stable Value

- Most prominent across insurance-owned providers
- “Guaranteed” rate tends to be below market, with profit margin for asset manager embedded in yield
- Liquidity provisions can be extremely onerous

Target Retirement Date Funds

- Use as QDIA maximizes revenue potential
- Large price reduction if plan sponsor agrees to re-enroll everyone into TDFs
- Frequently highlighted in excessive fee litigation

Non-QDIA Funds

- Prominent with recordkeepers that also offer asset management services
- Recordkeeping fee reduction linked directly to assets allocated to proprietary funds



Advisor Compensation Arrangements

DIRECT	INDIRECT
Fixed Hard Dollar	Collection of revenue sharing
Project Fees	Wealth management rollover revenue
Asset Based	Proprietary products – asset management revenue

Best practice = fixed (not tied to assets) and visible to participants



Monitor and Benchmark Fees

TOTAL PLAN ESTIMATED EXPENSES

**ABC Company
Savings Plan & Trust:**

0.29%

NATIONAL AVERAGE*: **0.71%**

FRANCIS AVERAGE**:

*Source: For Plans with 1,000 employees and \$100 million in assets. As reported in the 401(k) Averages Book 22nd Edition, 2022.

**Source: Francis LLC clients with Plan assets over \$100 million. As reported in 2021 Fiduciary Reviews.

COMPARING INDIVIDUAL SERVICE PROVIDER FEES

Recordkeeping and Trustee Expenses

RECORDKEEPING AND TRUSTEE FEE PER PARTICIPANT* **\$190**

FRANCIS AVERAGE**:

**Source: Francis LLC clients with Plan assets over \$100 million. As reported in 2021 Fiduciary Reviews.

Estimated Investment Expenses

ESTIMATED NET PLAN INVESTMENT EXPENSES* **0.14%**

NATIONAL AVERAGE** **31%**

LESS THAN 25bps: **31%**

25-50bps: **43%**

GREATER THAN 50bps: **27%**

*Net investment expenses represent a dollar-weighted average which is derived from Francis LLC's quarterly monitor report.

**Source: PLANSPONSOR 2022 DC Plan Benchmarking Survey. National average of plans with over \$200 million in assets.

Investment Consulting Expenses

FRANCIS INVESTMENT CONSULTING FEE*

NATIONAL AVERAGE PLAN** **\$88,559**

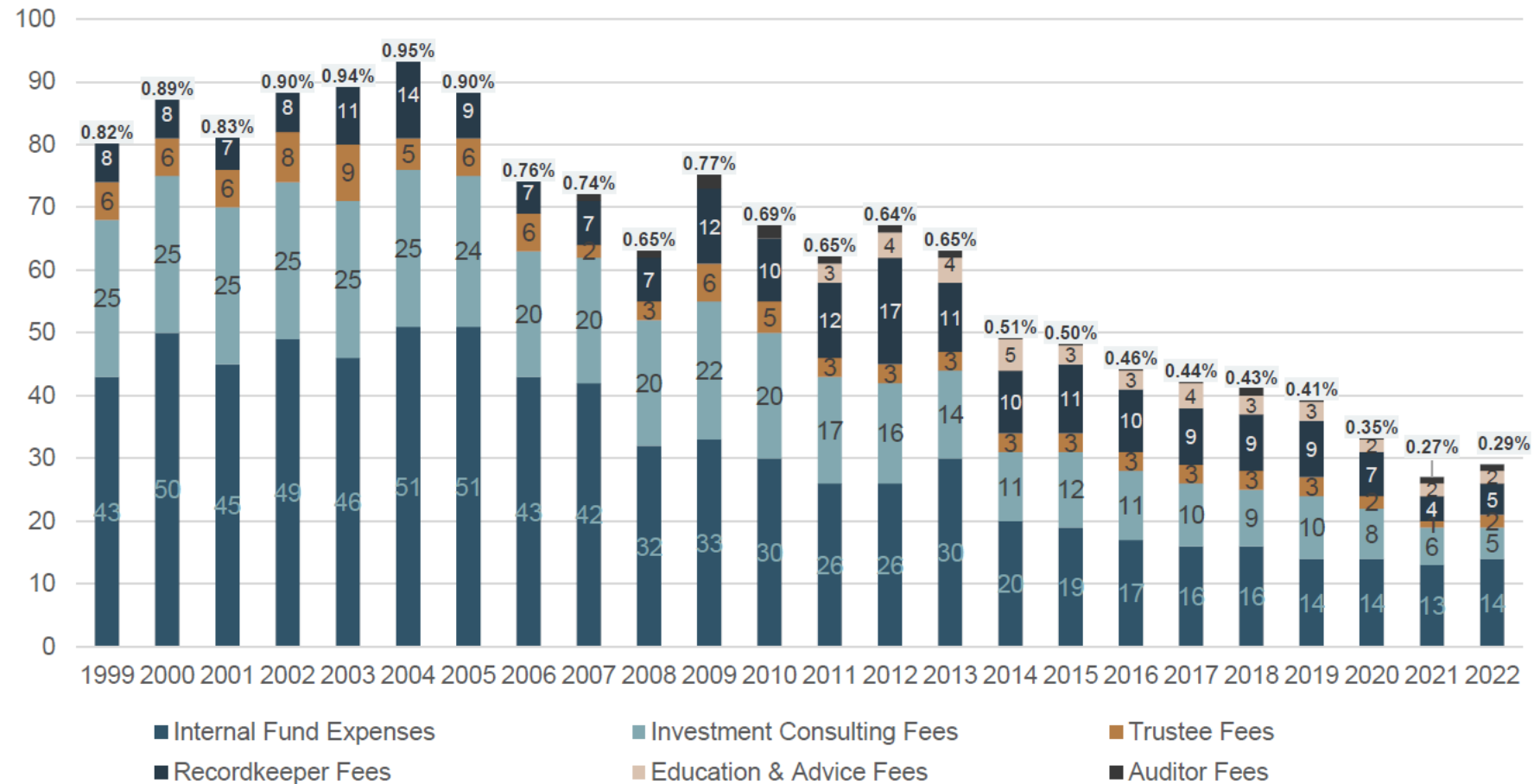
*Francis LLC fee for investment consulting services only.

**Source: Fiduciary Decisions, Inc. Report based on 208 plans with Plan assets between \$100 million and \$125 million.



Monitor and Benchmark Fees²

Historical Fees



Questions?

Let's Stay Connected



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1 The client list presented does not represent Francis' entire client list. The sample included represents clients currently engaging the firm for services similar in scope to the services proposed for your organization. There were no performance-based criteria used to assemble this list, nor is this list intended to serve as a testimonial for the services Francis currently provides. It is unknown if the clients listed above approve of Francis or its services. Francis will furnish a complete list of organizations currently served upon request.

2 Francis aggregate plan statistics obtained from proprietary compilation of clients' Annual Fiduciary Reviews relative to industry benchmarks. Results are not guaranteed for all plans, and while the information presented here is believed to be reliable, Francis cannot guarantee its accuracy or completeness.

While the information presented here is believed to be reliable, Francis cannot guarantee its accuracy or completeness. Past performance results are not necessarily indicative of future results. Francis LLC does not provide legal advice. Francis LLC is a Registered Investment Advisor (RIA) with the SEC.