Item 12

Managed Accounts 101

Fiduciary Training
February 2017

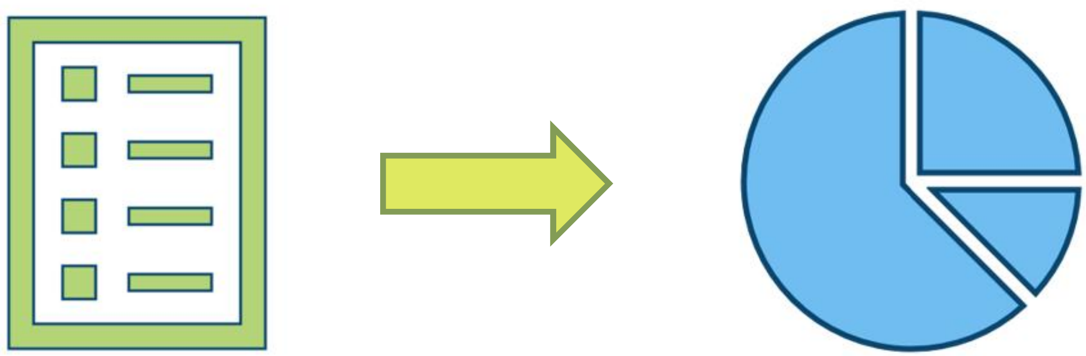
Agenda

Introduction

- Background
  - Many retirement plans offer investments to retirement plan participants with the intent to mitigate the confusion of building a properly allocated portfolio. To date, industry adoption has centered around balanced portfolios, risk-based portfolios and target date funds (the industry's most popular retirement plan solution).
  - Initially, balanced funds and risk-based portfolios were the most prevalent asset allocation strategies. Both offered a blend of equities and fixed income assets.
  - Over the past decade the industry has seen the meteoric rise of age-based target-date funds in defined contribution plans.
  - Managed accounts are the latest entry into the industry and seek to incorporate participant-specific information into the portfolio construction process.

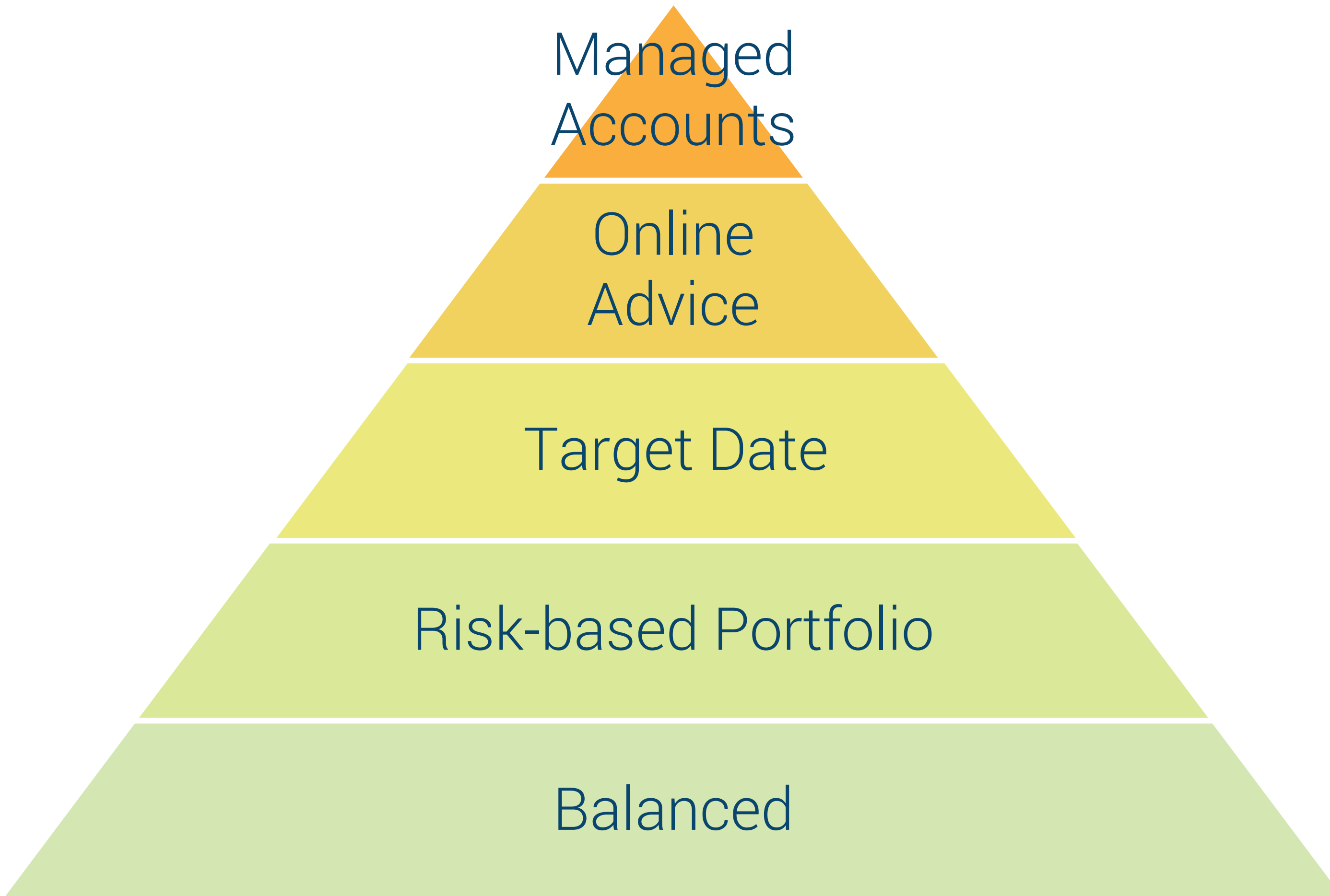
What Are Managed Accounts

- Introduction
  - A managed account is a service where a professional investment team creates an asset allocation solution for a plan participant.
  - Managed accounts are designed to hold all of an investor's plan assets in a professionally designed and diversified portfolio.
  - Specific participant information, such as age, contribution rates, salary, risk tolerance, retirement date, and spending needs can be incorporated into the recommended portfolio allocation.
  - Generally, portfolios are constructed using the plan's core investment menu.
  - In-depth census files provide many of the variables needed to optimize the portfolio.
  - Many programs will confirm, update, and attempt to gather additional participant information – no less than annually – to enhance the portfolio's efficacy.



Why Do Plan Sponsors Offer Managed Accounts

- Reasons to Offer Managed Accounts
  - Participants are intimidated when it comes to building their own investment portfolios, and rightfully so.
  - Plan's offer different solutions; managed accounts are viewed as the most personal solution to an individual's needs:



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How Are Managed Accounts Used In Retirement Plans

- Managed accounts are typically offered in conjunction with one of the following:
  - Target date funds (usually serving as the plan's QDIA)
  - Risk-based portfolios (conservative, moderate, aggressive, etc.)
- Most plans offer managed accounts as an "opt-in" service.
- As fees decline, we expect to see a trend of increasing adoption of managed account programs as a plan's default investment.
- Target date funds offer participants access to portfolios based upon their age and/or expected retirement age.
- Risk-based portfolios offer participants static portfolios (allocations do not change over time) based on their tolerance for risk.
- Managed accounts take into consideration a participant's salary, deferral rate, actual retirement date, individual risk tolerance, and outside assets.
- Studies are being conducted on participant behavior in down markets as individuals approach retirement. Preliminary indications show that participants with managed accounts are less likely to "panic sell" when they have a portfolio specifically designed for their situation.

Behind The Scenes

Portfolio Construction

- Building Portfolios
  - The actual analytical methodology of building portfolios varies immensely across the industry.
  - Providers may offer as few as 8 – 10 portfolios to over 100.
  - Portfolios are optimized with sophisticated analytical software.
  - Vendors typically utilize the plan's core investments, but some will incorporate additional investments that are only available through this service.

- Typical Variables Used in the Process
  - Expected retirement age
  - Social Security benefits
  - Spousal assets/benefits
  - Income replacement
  - Savings rate
  - Decumulation rate (participant distributions in retirement)
  - Life expectancy

Participant Experience

- In addition to asset allocation and portfolio management services, managed account providers typically engage with the participant no less than annually.
- The purpose of the engagement is to confirm the service is operating with the most up-to-date participant information, as they advance through their working career.
- Providers obtain the information through printed questionnaires, email, in-person interviews, and call center interactions.
- Vendors differ on the information that is being incorporated into recommended participant allocations.

Managed Account Universe

- Record Keeper Solutions
  - Can be a proprietary managed account solution, or
  - A private label partnership with an independent managed account provider

- Independent Providers
  - Financial Engines
  - Morningstar
  - ProManage PROgram
  - GuidedChoice

Integration into a record keeper's website and communication materials is an advantage for proprietary and private label managed accounts.

Plan Sponsor Fiduciary Considerations

Best Practices For Selecting and Monitoring Providers

- Reasonableness of fees
  - How are fees disclosed to participants?
- Investment strategy
- Provider's ability to work with the plan's record keeper
- Is call center staff specifically licensed and/or trained for the managed account program?
- Provider's independence and willingness to serve as a fiduciary
- Address potential conflicts of interests
- Reporting (both to Plan Sponsor and Participants)
- Provider's footprint within the industry
- Ability to accommodate the plan's investment options

The Plan's Investment Policy Statement should address the criteria for selecting and monitoring the managed account provider.

Evaluating Portfolio Construction

- How are portfolios being built?
  - How are the Plan's investments utilized within the managed account service?
  - How many optimized portfolios are actually available?
  - How does the methodology select active versus passive investments?
  - How many asset classes are required to build portfolios?
  - Does the provider have the ability to utilize investments not currently offered in the Plan?
  - How does the service evaluate target date funds offered within the plan?

Nationwide’s Managed Account Services Overview

Nationwide ProAccount Overview

- Fresno ProAccount Usage:
  - 256 employees enrolled
  - $7.6 million of plan assets
- Product Highlights
  - Asset based fee: 0.65% to 0.40% depending on size of account (no cap)
  - 90-day trail period before fee is assessed
  - Currently, enrollment is done via hardcopy. Online enrollment coming in Q2.
  - Dedicated call center with licensed representatives
  - Asset management outsourced to Wilshire Associates
  - Wilshire provides three glidepaths: Conservative, Moderate, and Aggressive
  - Nationwide performs annual due-diligence and performance review
  - Portfolios continue to adjust through age 87

A managed approach

Nationwide Investment Advisors and Wilshire work together to make institutional-quality investing available to your participants.

Nationwide Investment Advisors (NIA)	Wilshire
1. Selects and monitors the Independent Financial Expert (Wilshire) 2. Implements investment advice generated by Wilshire 3. Monitors the Investment strategies used by Wilshire 4. Provides periodic communications and support	1. Researches investment strategies and asset classes to build asset allocations for the portfolios 2. Selects the specific investments for the portfolios and changes the funds and allocations in the portfolios to help keep in line with the time horizon and market changes

Participant benefits

Participants who select Nationwide ProAccount enjoy the confidence that comes from:

- Professional fund selection and asset allocation
- Periodic portfolio adjustments intended to help keep them on track toward their retirement goals
- No minimum account balance or cancellation fees
- Ongoing communications

Asset allocation does not assure a profit or prevent a loss in a down market.

Plan Sponsor benefits

Sponsors who add Nationwide ProAccount to their Plan can benefit from:

- A valuable "do it for me" solution for your Plan and its participants
- The expertise of an experienced institutional investment firm
- Assistance in meeting your fiduciary responsibility
- No additional cost to your Plan*

*Participants electing to enroll in ProAccount are charged an investment advisory fee as more fully described in NIA's Form ADV Part 2A

- Wilshire Associates
  - Created and maintains 42 model portfolios
  - 14 models per glidepath (conservative, moderate, aggressive)
  - Macro market/economic strategic overlay
  - Select investments from the plan's menu based upon "projected alpha"
  - Conducted "deep-dive" analysis on the County's investments
  - Utilizes both passive and active investments
  - Two variables that drive asset allocation recommendation:
    a. Personal risk preference (via questionnaire)
    b. Age
- Participant Experience
  - Participants receive annual communication encouraging them to make sure their risk profile is current.

Summary

Final Thoughts

- Strengths:
  - Managed Accounts can be a positive addition to retirement plan menus.
  - Provides “do it for me” investors an additional allocation option.
  - A more customized approach than target date funds.
  - Provides asset allocation services post retirement.
  - Personalized participant experience.
  - Participants are encouraged to stay engaged through annual communication regarding the status of their risk profile.
  - Nationwide’s ProAccount does not require a cumbersome set-up process for participants.
- Weaknesses:
  - Currently the fees for managed account services are high.
  - Nationwide’s ProAccount incorporates fewer variables than some of the industry leaders. A methodology with more inputs could potentially improve the appropriateness of participant allocations.