



# The Fiduciary Guide to Selecting a Target Date Fund

Safety    Diversification    Cost  
Managed by a Co-Fiduciary



Introducing the SMART Fund Target Index that tracks the Patented Safe Landing Glide Path<sup>®</sup>



# Setting criteria

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- The benefits of TDFs are diversification and risk control, preferably at a reasonable price.
- The key differentiator among TDFs is risk at and near the target date, because they're all similar at long dates.
- Objectives should be set by fiduciaries, not fund providers. Capital preservation should be primary.
- TDFs should have an [Investment Policy Statement](#).
- See our short 3 minute [movie](#) for more details. TDFs are the plan to retirement.
- Collective Investment Funds serve as fiduciaries to the plan, unlike mutual funds

# Criteria for Selecting Target Date Funds

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Low Fees



Risk Control



Diversification



Co-Fiduciary  
Management

LET'S EXAMINE EACH CRITERION  
USING THE SMART FUND TARGET  
INDEX AS THE STANDARD.

**Co-Fiduciary**

Inexpensive, Safe, Diversified + Well Designed



# Inexpensive

# Low Fees for Broad Diversification

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<u>Name</u>	<u>Fee (%)</u>
Fidelity Low Fee Fund	.17
Vanguard	.18

**SMART Fund Target Index is below 30 basis points and more broadly diversified. Both Fidelity & Vanguard are U.S. equity centric and too risky at the target date.**

SMART Fund Target Indexes are collective investment funds on Hand Benefits & Trust that follow the patented Safe Landing Glide Path.

Wells Fargo Advantage DJ Target Date Ser	0.62
TIAA-CREF Lifecycle Series	0.69
NestEgg Dow Jones Series	0.69
Fidelity Freedom Series	0.71
Schwab Target Series	0.72
T. Rowe Price Retirement Series	0.79
Columbia Retirement Portfolios	0.85
JPMorgan SmartRetirement Series	0.85

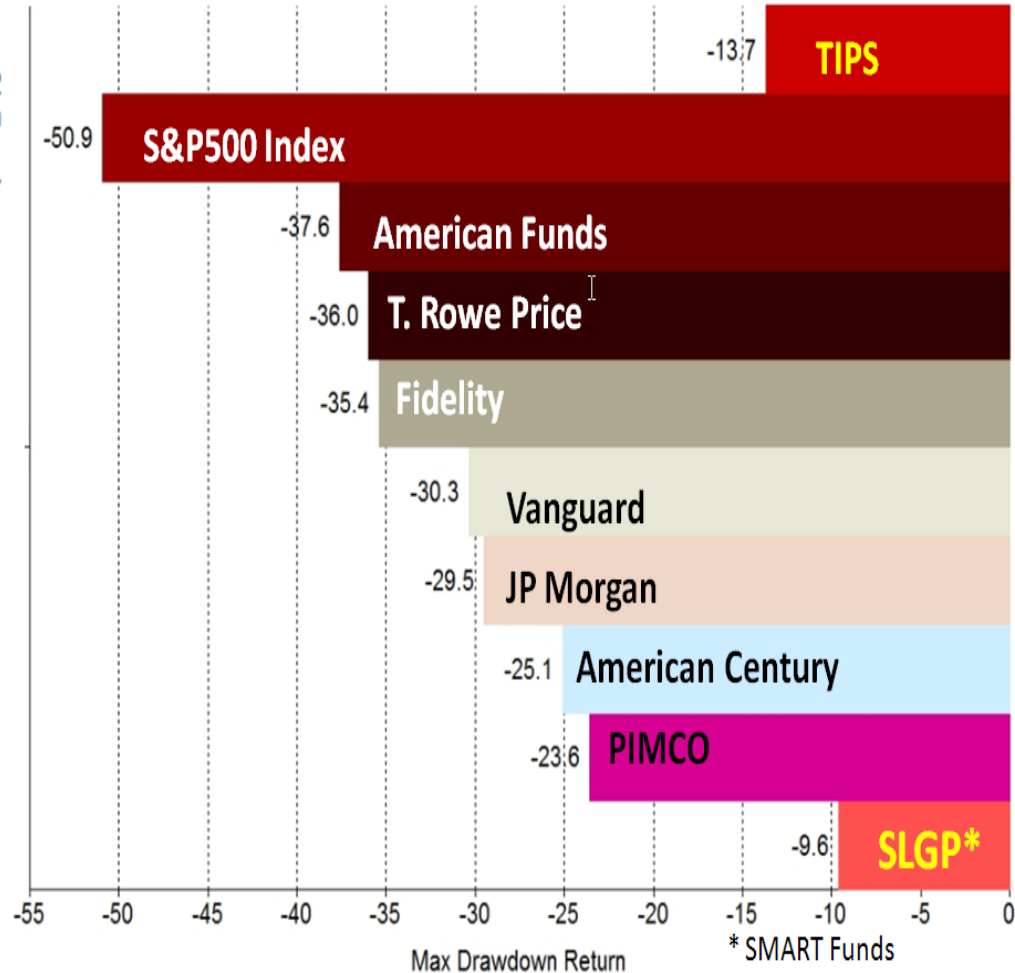
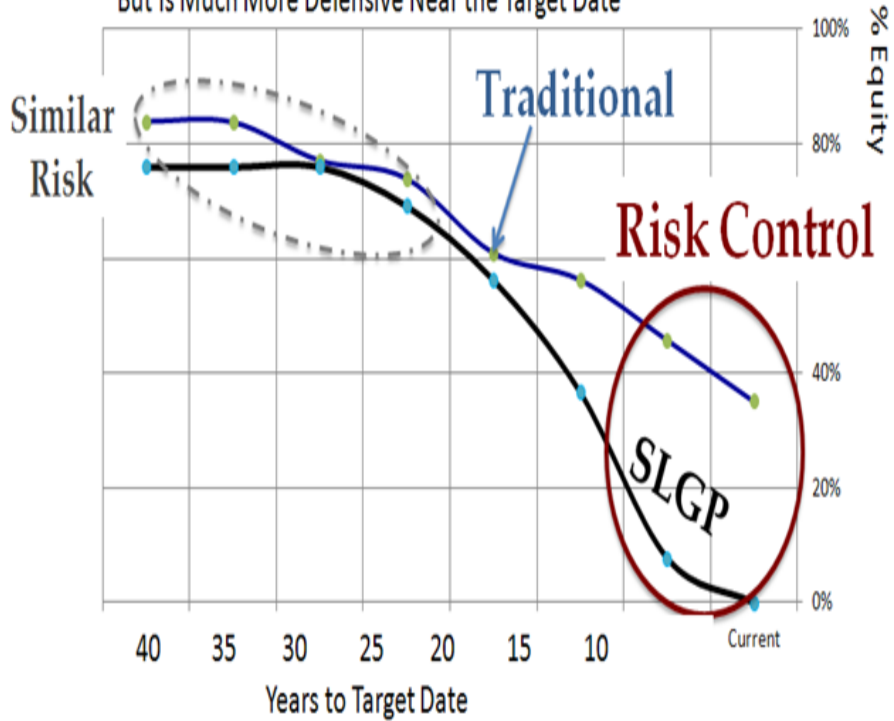


# Safe

# SMART Risk Control

2010 Fund Worst Draw-Downs January 2007 - December 2012

Safe Landing Glide Path (SLGP) Tracks the Industry at 20-40 Years From Target  
But is Much More Defensive Near the Target Date



# Fiduciaries Must be Safe at the Target Date

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- There is no fiduciary upside to taking risk at the target date. Only downside. Class action lawsuits are expected when the next 2008 occurs. “No misery” is far better than “misery loves company.”
- There is a “risk zone” spanning the 5 to 7 years preceding and following retirement during which lifestyles are at stake. Account balances are at their highest and a participant’s ability to work longer &/or save more is very limited. You only get to do this once; no do-overs. Extending retirement is not an option for most.
- Most participants withdraw their accounts at the target date, so “target death” (i.e. “Through”) funds are built for profit, and bull markets (i.e. to win the performance horse race, which fiduciaries should not bet).
- Save and protect. The best individual course of action is to save enough and avoid capital losses. Employers should educate employees about the importance of saving, and they should report to employees on saving adequacy.
- Prior to the Pension Protection Act of 2006, default investments were cash and stable value, which was too safe for young participants, but about right for old participants. Has the Act changed the risk appetite of those nearing retirement? Surveys say no.
- The only relevant demographic is the financial unsophistication of defaulted participants.

# Diversified



# SMART at Long Dates

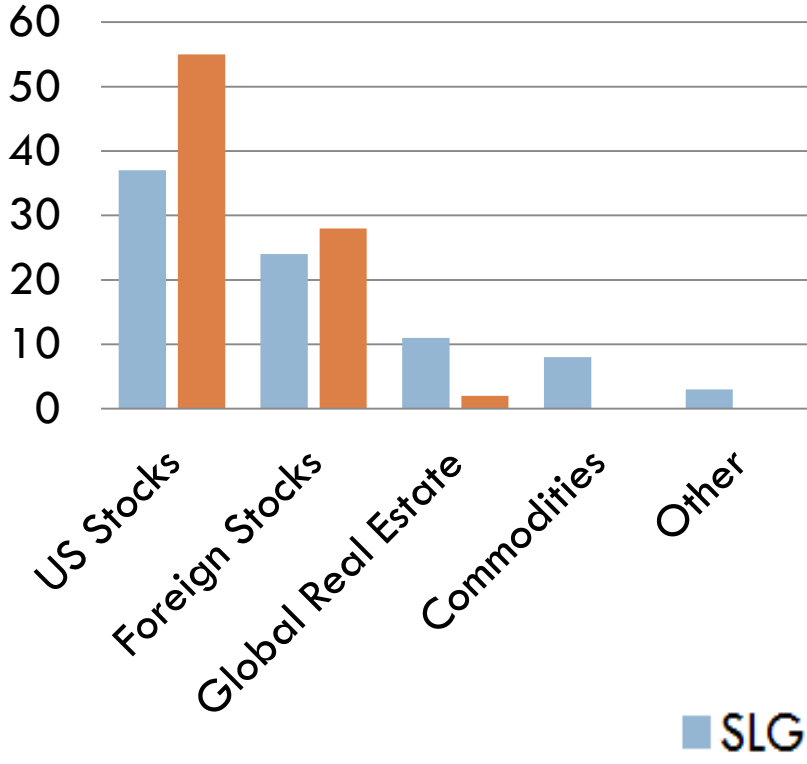
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18% Less in US stocks.

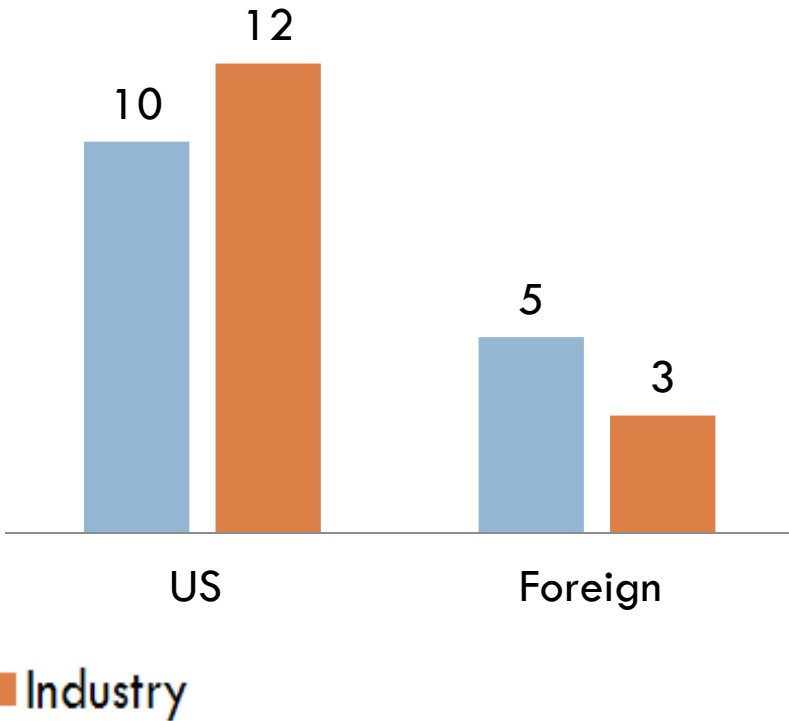
**20% More in Diversifying Alternatives.**

**More Foreign Bonds.**

## 85% Equities



## 15% Bonds





# Co-Fiduciary Management

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Unlike mutual funds, Hand Benefits & Trust, a BPAS Company, serves as a fiduciary to the plan through its collective trust fund.

# Add Sound Design to the Selection Criteria

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**Diversification**



**Risk Control**



**Low Fees**



**Co-Fiduciary Management**

**+**



**Sound Design**

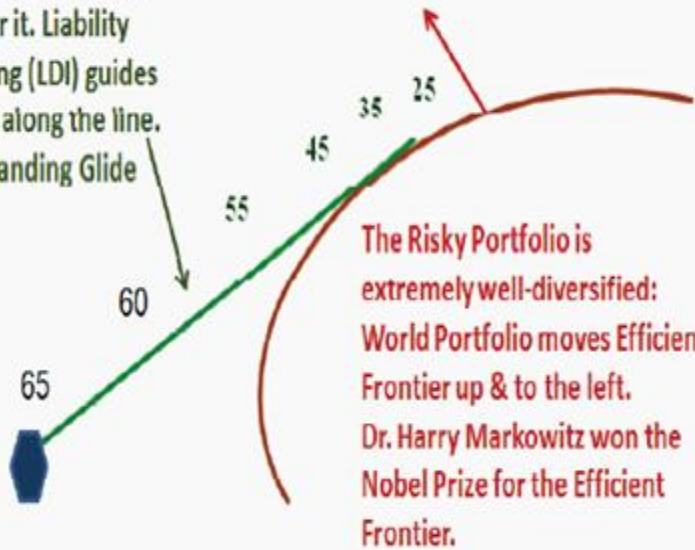
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**SMART Fund Target Index**

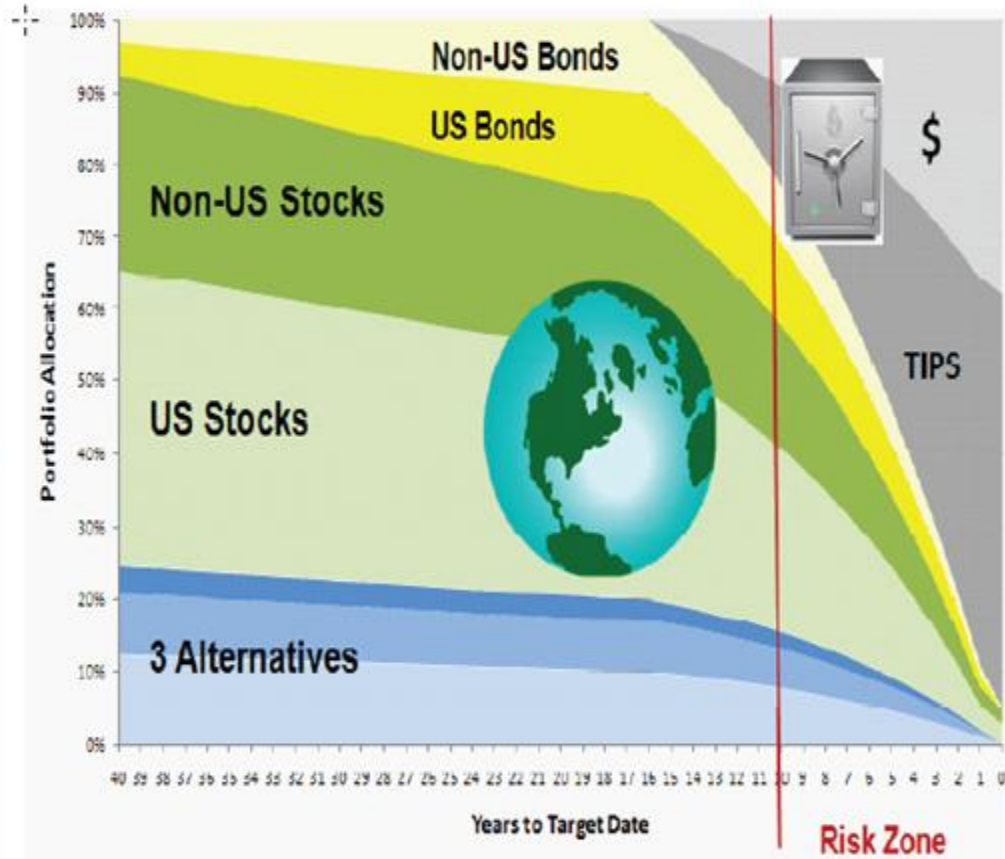
# Financial Engineering

# Global Multi-asset Allocations

The "Capital Market Line."  
 Dr. William F. Sharpe won a Nobel Prize for it. Liability Driven Investing (LDI) guides the allocation along the line. It is the Safe Landing Glide Path®.



The Reserve Asset protects against losses, both absolute & against inflation: TIPS and Treasury Bills



+

**Sound Design**

**Patent 8352349**

Numbers indicated on the Capital Market Line are approximate ages. Allocations are established as a 2-asset combination: Reserve-Risky. We estimate the worst-case loss on the Risky Asset from the indicated age to the target date, and allocate to Reserves to compensate for that loss. If worst-case Risky loss occurs, the fairly safe return on Reserves should compensate.

# Target Date Fund Benchmarks

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## **Consensus: Lemming Indexes**

are aggregates of what everyone else is doing.

Examples: Morningstar and S&P Indexes



## **Substantive Prudence: Fiduciary Index**

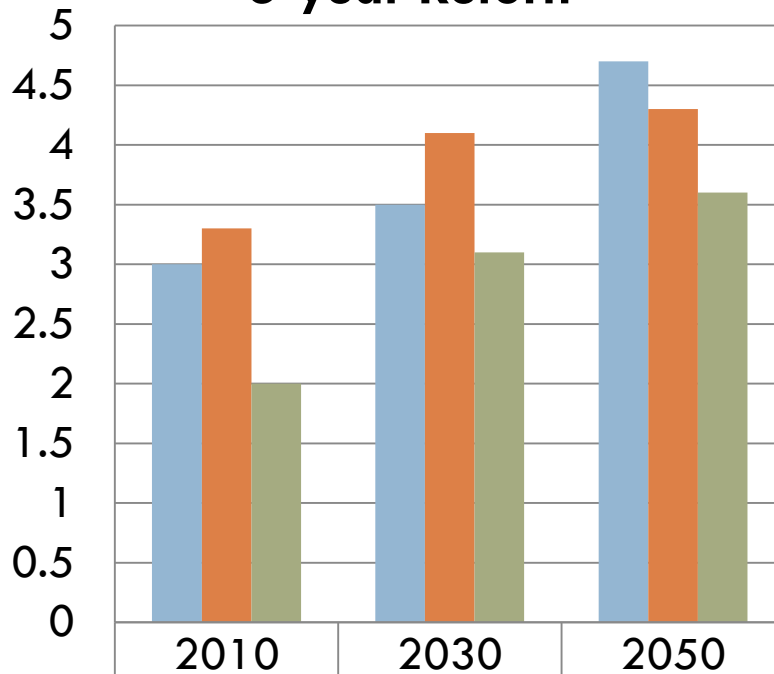
tracks best practices in diversification and risk control.

Example: Brightscope On-target Indexes based on the Patented Safe Landing Glide Path<sup>®</sup>

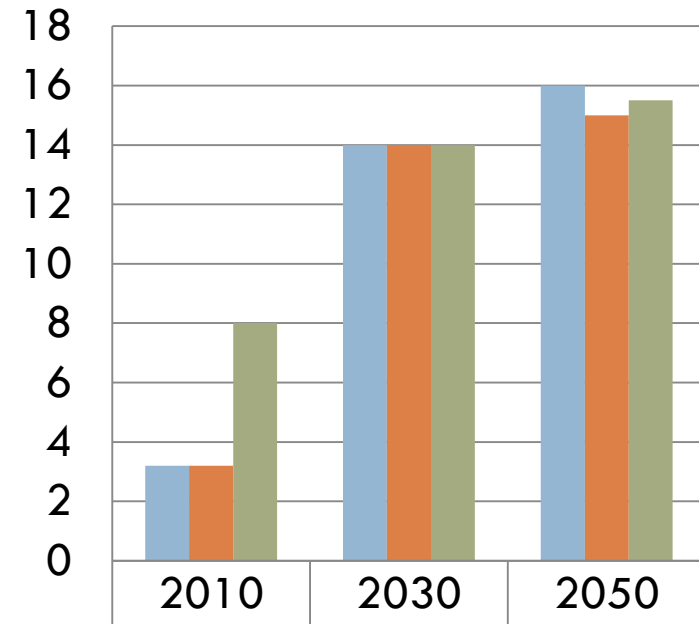
# Add Performance, but remember history is a short 6 years: 2008-2013

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### 6-year Return



### Risk



	2010	2030	2050
SMART Index	3	3.5	4.7
On-Target Index (OTI)	3.3	4.1	4.3
S&P Index	2	3.1	3.6

	2010	2030	2050
SMART Index	3.2	14	16
On-target Index (OTI)	3.2	14	15
S&P Index	8	14	15.5

SMART tracks OTI. Consensus S&P Index is higher risk near target date & has lower returns. Fiduciary indexes are more diversified at long dates, and more defensive at near dates.



# The Fiduciary Guide to Selecting a Target Date Fund

Enlightened Fiduciaries Choose The  
**SMART Fund Target Index**



**It's All About the  
Beneficiaries**