

# The Risks and Rewards of Target Date Funds

Fiduciaries and Participants are Taking Most of the Risks While Fund Providers Enjoy Most of the Rewards



# Risk-Reward in Sponsor-Directed TDFs



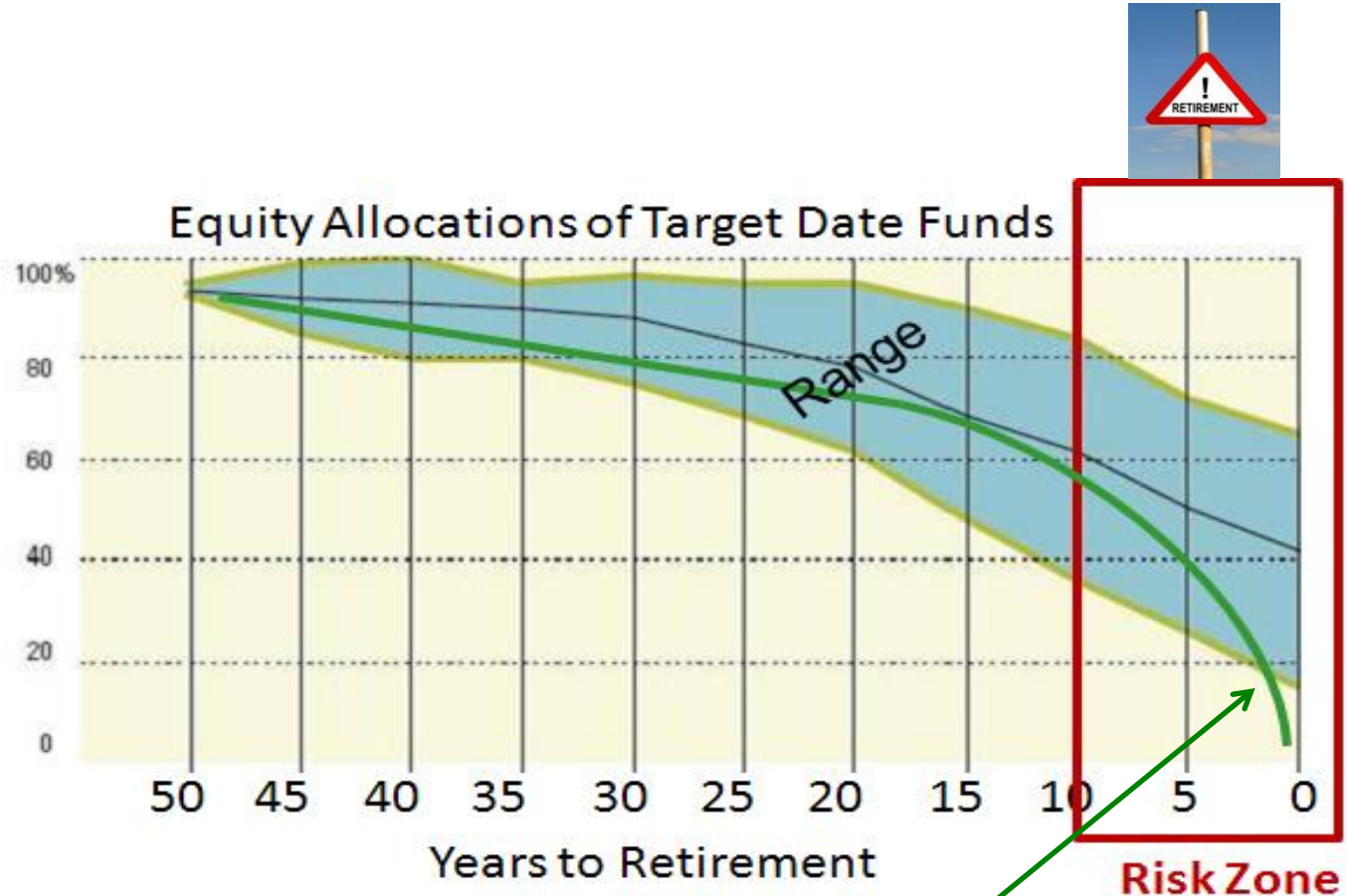
Not My Money	My Money	Not My Risk
Fiduciary	Winners & Losers	Fund Provider
No Upside	Participant	Only Upside
		
Only Downside	Fund Makes Money	Win
		
Only Downside	Fund Loses Money	Lose
Only Downside	Lose	No Downside

# What is Risk?



**The Possibility that  
Objectives Will not be Met.**

# Current Industry Glide Paths Disagree Because Objectives are Different



**Safe Landing Glide Path**

# High Risk Objectives

Likelihood of Achievement is Very Low

- Replace Pay:  
Savings, not investments, are key
- Manage Longevity Risk:  
Try the Hemlock Fund



It's a dark game that fiduciaries should not play

**NOTE: Fund Providers Have NO RISK**

# Low Risk Objectives

- 1. Do not lose participant savings**
- 2. Earn as much as you can without jeopardizing the preservation objective**

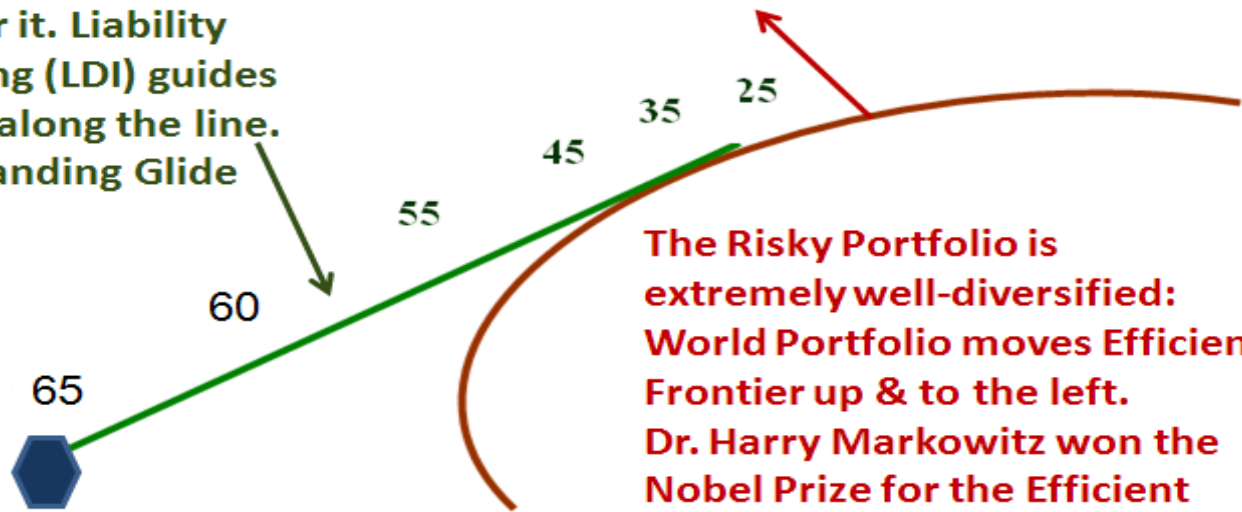


**Show me how.**

# Patent Pending Safe Landing Glide Path® Unique Investment Structure

## Using Separate, Diversified Segments

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 Risky Portfolio is  
extremely well-diversified:  
World Portfolio moves Efficient  
Frontier up & to the left.  
Dr. Harry Markowitz won the  
Nobel Prize for the Efficient  
Frontier.**

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

# Two Separate, Well-Diversified Portfolio Segments for (1) Growth and (2) Safety



Liability-Driven Investing



## The World Market Portfolio

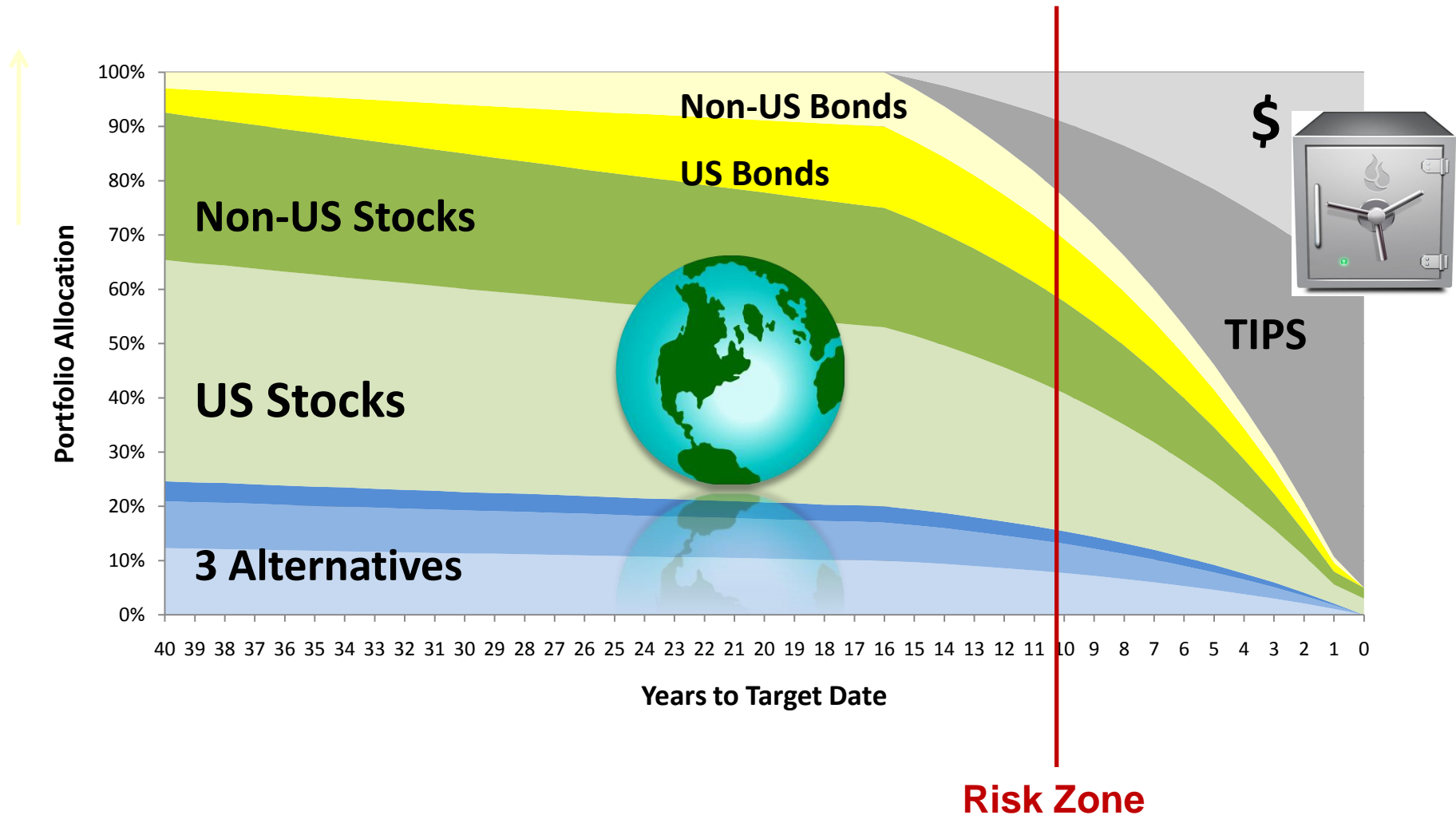
- Designed to provide **growth potential** in early years
  - Broad diversification
  - US stocks and bonds, Foreign stocks and bonds, Global real estate and commodities, Opportunistic
  - Mostly Passive

## The Reserve Portfolio: 15 years from target

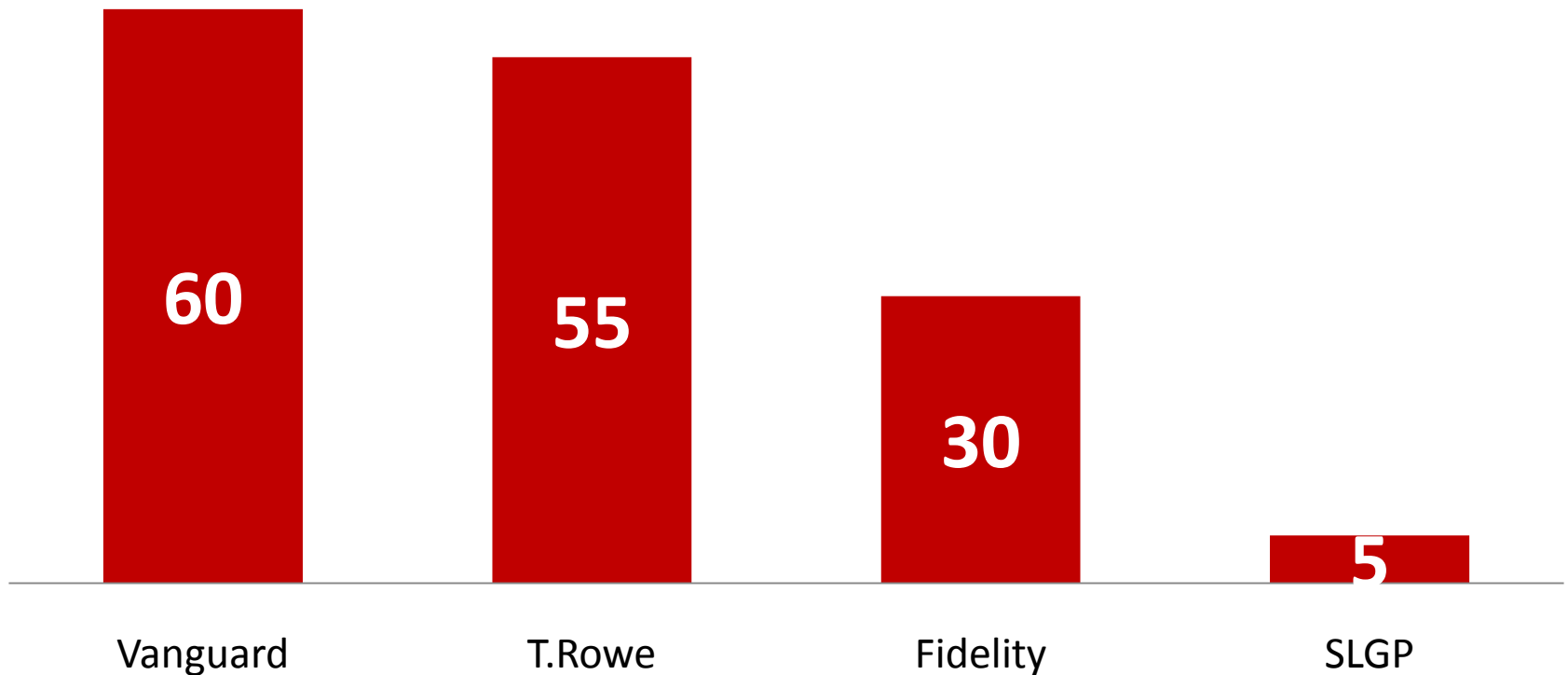
- Designed to **preserve assets** as retirement nears
  - Treasury securities to mitigate credit risk
  - TIPS to protect against inflation
  - Lock box discipline avoids whipsaws



# Safe Landing Glide Path



# Risk at Target Date: Equity Allocation



# There is no Fiduciary Upside to Equity Exposure at the Target Date

**Only  
Downside**



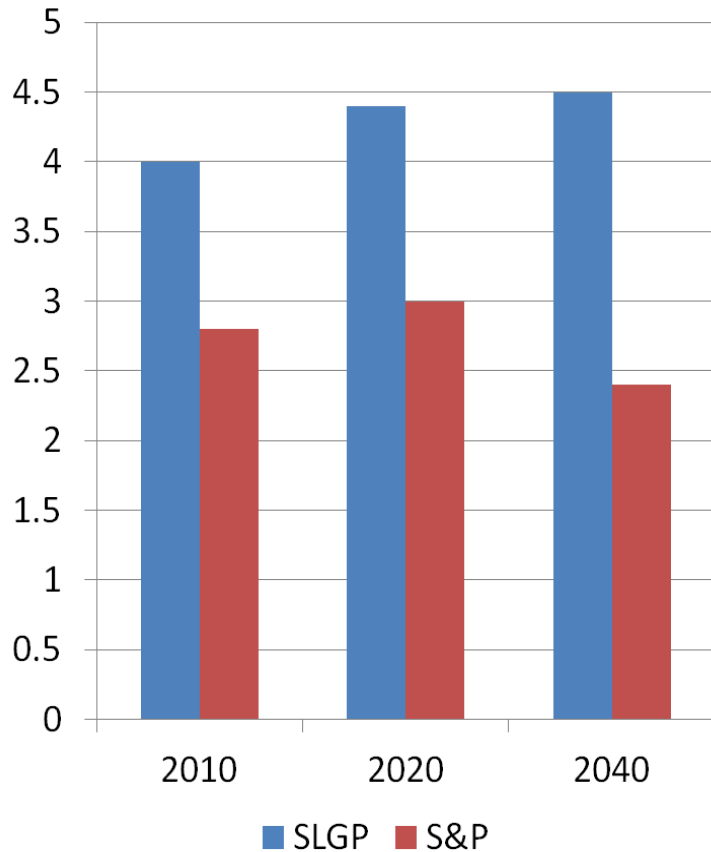
**Losses can lead to Litigation**

**Loss-Suits**

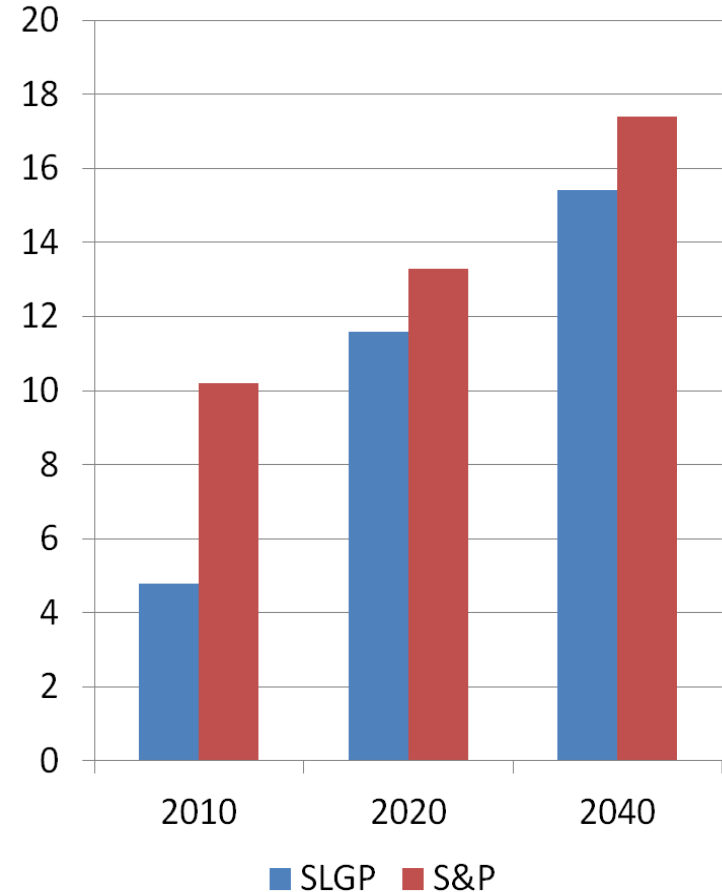
No Fiduciary has ever been sued for protecting beneficiaries.

# 5-Year Return and Risk through 12/31/10

## Return/year



## Standard Deviation



SLGP track record is Brightscope On-Target Index for 2006-2007  
And SMART collective investment funds for 2008-2010

S&P is S&P Target Date Index

# Getting SMART

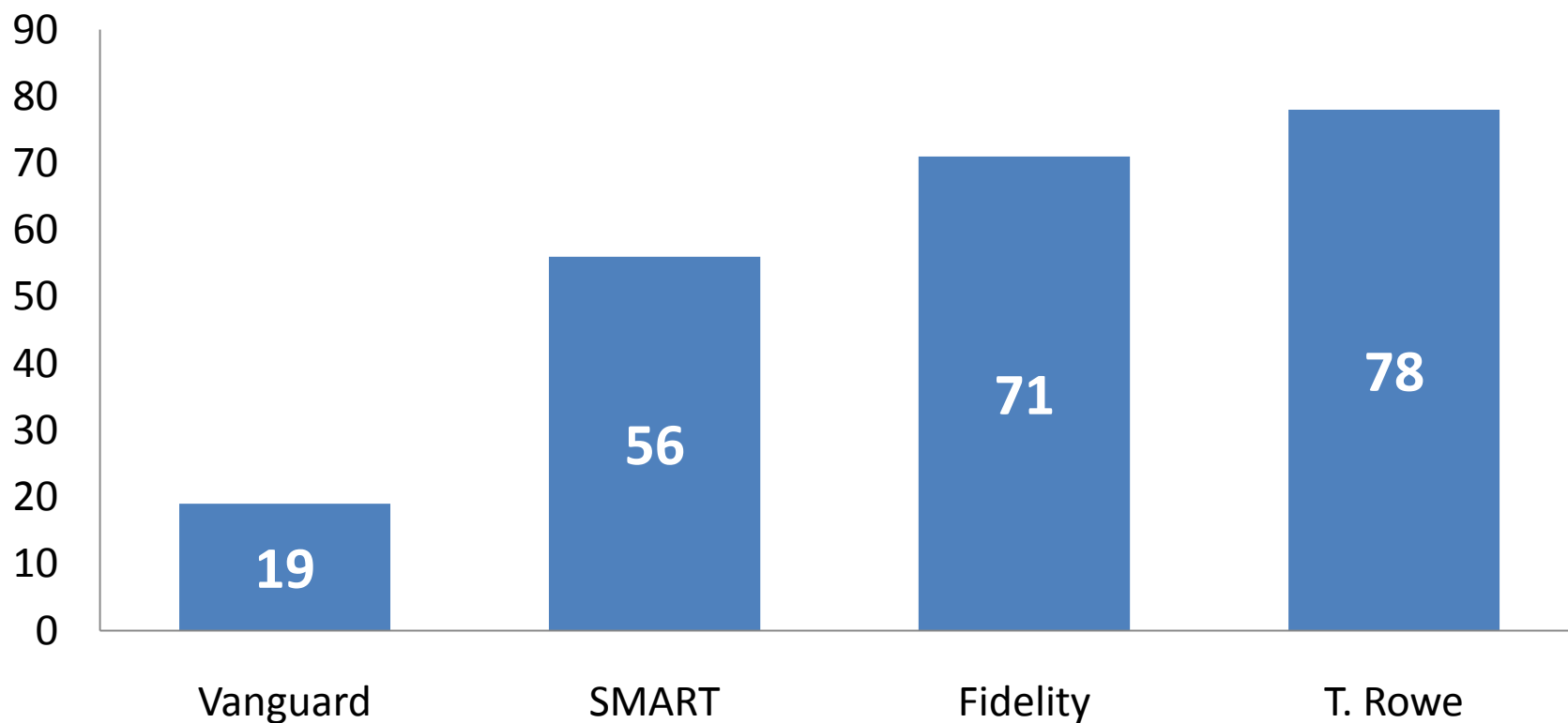
Hand Benefits & Trust

SMART Funds<sup>®</sup> follow the Safe Landing Glide Path

# About Hand and SMART

- Trustee, administrator and record keeper: Collective Investment Trusts for Enlightened Fiduciaries
- Serves as Fiduciary to the plan
- \$5 Billion under trust
- Founded in 1963. Collective trusts launched in 1971.
- Parent is Community Bank Systems (NYSE: ticker CBU)
- Founding member of NSCC for Trust Companies in 1997.
- A subsidiary of Benefit Plans Administrative Services, Inc
- SMART Funds were launched in 1998 and updated in 2008.
- SMART Funds are NSCC registered.

# Fees in basis points



Other SMART share classes: 94, 112, 142

Additional fee to move off platform: Approx 15 bps

# SMART CUSIPs

	Institutional	R1	R2	R3
2010	<b>41023R230</b>	<b>41023R735</b>	<b>41023R727</b>	<b>41023R719</b>
2020	<b>41023R248</b>	<b>41023R438</b>	<b>41023R420</b>	<b>41023R412</b>
2030	<b>41023R255</b>	<b>41023R768</b>	<b>41023R750</b>	<b>41023R743</b>
2040	<b>41023R263</b>	<b>41023R396</b>	<b>41023R388</b>	<b>41023R370</b>
2050	<b>41023R271</b>	<b>41023R792</b>	<b>41023R784</b>	<b>41023R776</b>

[http://www.bpas.com/products/inst\\_trust\\_serv\\_factsheets.htm#smart](http://www.bpas.com/products/inst_trust_serv_factsheets.htm#smart)



# Goal: Take Back Control

Fiduciaries have a responsibility to choose GOOD Target Date Funds (TDFs). Status as a Qualified Default Investment Alternative does not mean that any TDF will suffice.

Fiduciaries, not fund companies, need to establish objectives:

**Choose Safety Over High Risk**

# Tell us what you think please



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