



It's All About the Beneficiaries

**TDS**  
Target Date  
Solutions

## SMART Funds<sup>®</sup> Collective Investment Trusts

Target Date Funds that Follow the  
Patent-pending Safe Landing Glide Path<sup>®</sup>

Presentation for:

**You**



# About Target Date Solutions (TDS) and Ron Surz

## Target Date Solutions

- Founded in 2009, TDS is a wholly owned subsidiary of PPCA, a registered investment advisor founded in 1992
- TDS is an outgrowth from Target Date Analytics, founded in 2007
- Co-manager of the SMART<sup>®</sup> Target Date Collective Investment Funds of Hand Benefits and Trust, Houston. Morningstar \*\*\*\*\*.

## Ron Surz

- MS Applied Mathematics, U of Ill. MBA Finance, U of Chicago
- Northrop, jamming heat seeking missiles
- Pension consultant with Becker & Becker Burke 1972-1992
- Entrepreneur and innovator ever since
- Many boards, including IMCA and Alaska Retirement System
- Author
- Developer of the Brightscope On-target Indexes and the patent-pending Safe Landing Glide Path<sup>®</sup>

# In A Nutshell

The current objective of target date funds is to make up for inadequate savings, which seems reasonable on its surface but in fact is a hope rather than an objective – an objective without a reasonable plan is a hope. Current objectives lead to too much risk at the target date.

By contrast, a much better objective is to get the participant safely to the target date with appreciated savings intact.

**Fiduciaries choose TDFs. They are sponsor-directed, NOT employee-directed. Safety first is the right fiduciary choice because there is no fiduciary upside to taking risk, especially at the target date.**

To see more, please visit [Fiduciary Corner](#) and our short YouTube video at [The Sad Comedy of Target Date Funds](#).

# Agenda

- Choices
- Change
- Cheers

# Your Choices:



**High Risk Product**



**Safety First Solution**

**“Issues” that don’t matter**

To-through, open-closed, active-passive, bundled service provider



# Product: The Big Con

## Sell Hope & Commit to Nothing

**Sell Hope:** Replace pay & manage longevity risk.

An objective with an absurd plan is a hope. One-size-fits-all-set-it-and-forget-it is an absurd plan.



**Commit to nothing:**

## Sample statements of objectives

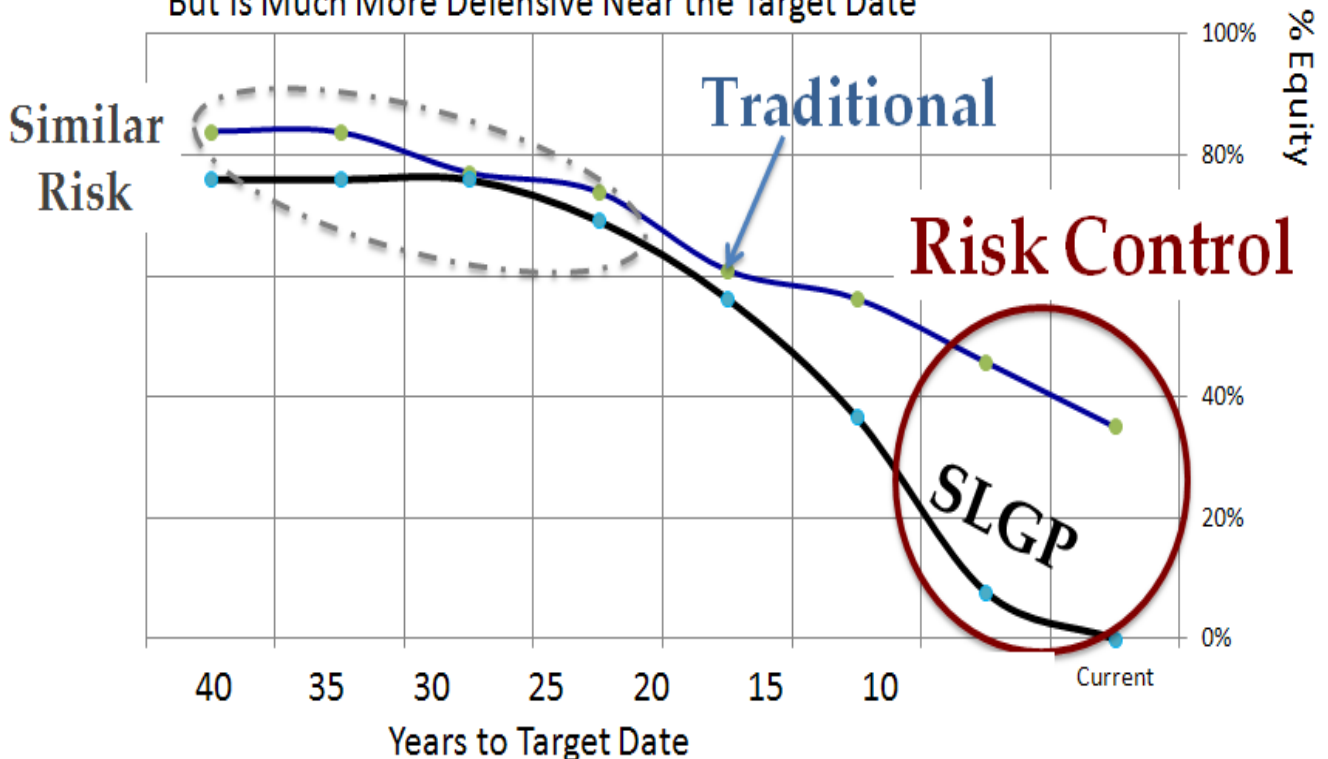
Fidelity	“seeks investment returns associated with meeting retirement income goals”
Vanguard	“seeks to provide capital appreciation and current income consistent with its current asset allocation”
T. Rowe	“seeks the highest total return over time consistent with an emphasis on both capital growth and income.”
State Street	“seeks to approximate the performance of the corresponding Custom Index”

# Solution: The Real Deal



1. Don't lose money.
2. Earn as much as you can but don't lose money.

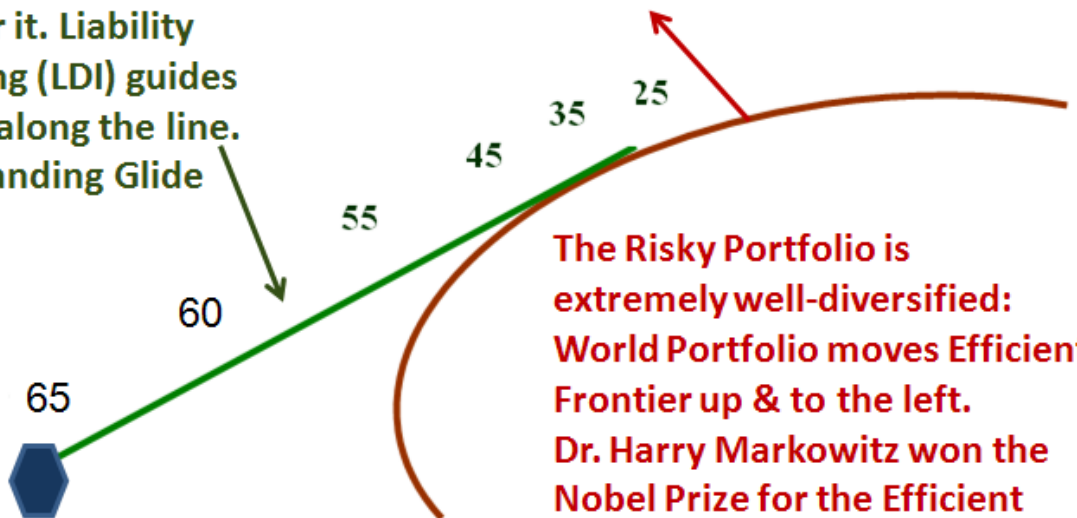
Safe Landing Glide Path (SLGP) Tracks the Industry at 20-40 Years From Target  
But is Much More Defensive Near the Target Date



# Financial Engineering

## Patent Pending

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



*Everything should be made as simple as possible, but not simpler.*

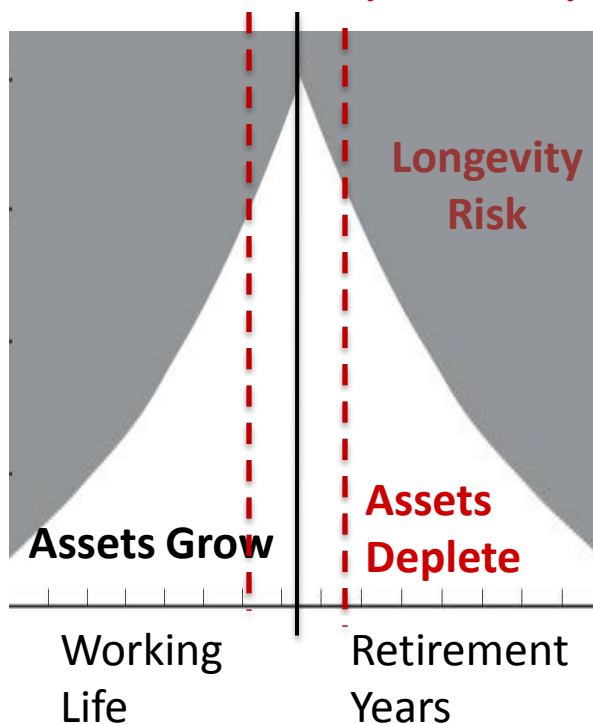
# Arrive Safely at Target Date

Most participants withdraw at retirement



With REAL “To” funds, someone needs to make a decision during the **Transition Phase (Risk Zone)**

Accumulation



(No glide path can manage longevity risk)

Distribution

Annuities  
Guaranteed Payouts  
Etc.

# Fiduciary Perspective

There is no fiduciary upside to taking risk at the target date.  
**Only downside.**

Default investments should protect those at or near retirement.

Similarly, there is no fiduciary upside to extending a glide path beyond the target date because:

1. Most participants withdraw their accounts,  
AND
2. There is no glide path that can serve into retirement



# Agenda

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- **Change**
- Cheers

# Comparisons to Fidelity

## Adopting policies for achieving prudent objectives

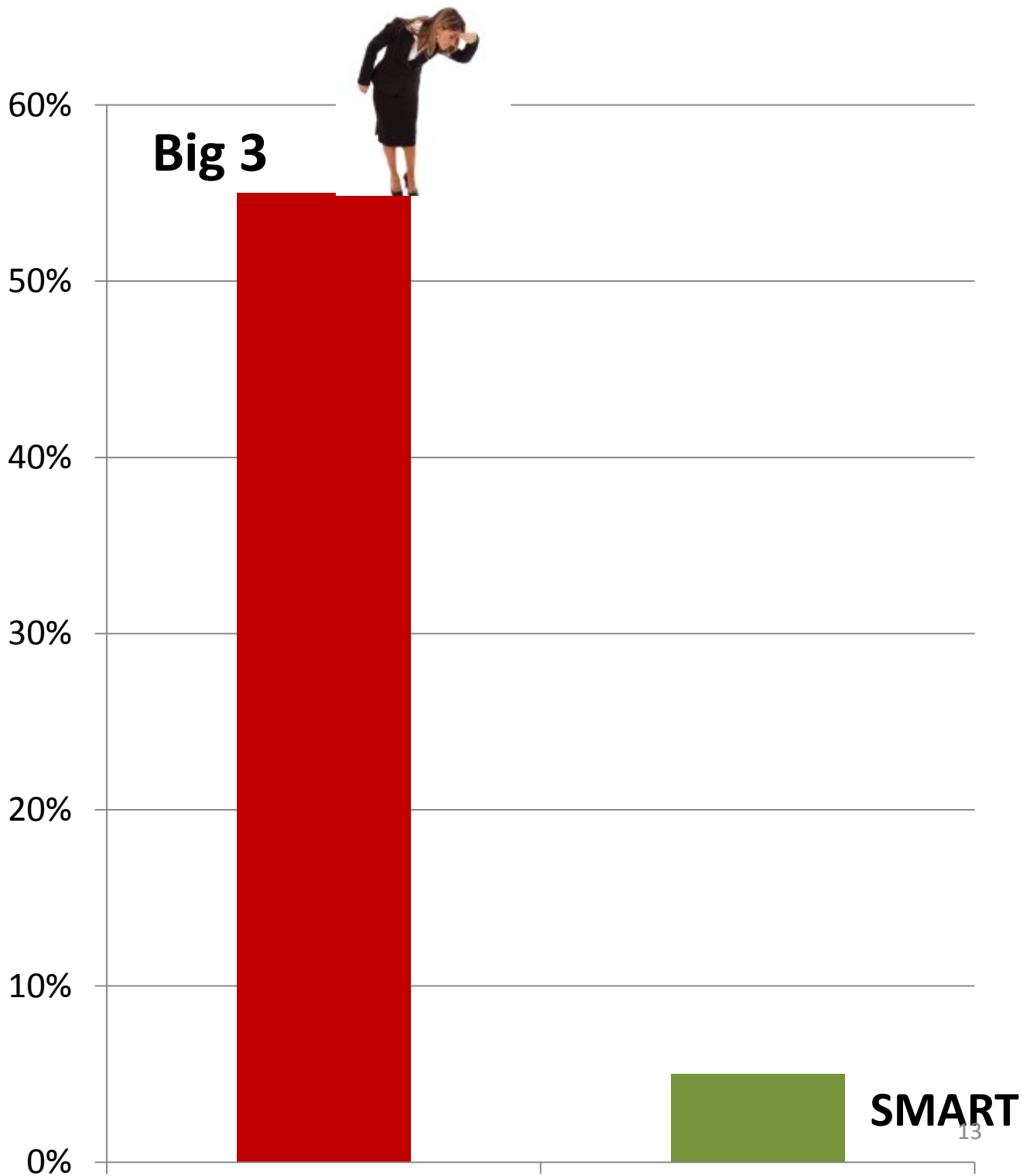
### Objectives

SMART Funds	Fidelity
1) Asset preservation plus inflation at target date. Don't lose money. 2) Risk-controlled growth	"seeks investment returns associated with meeting retirement income goals"

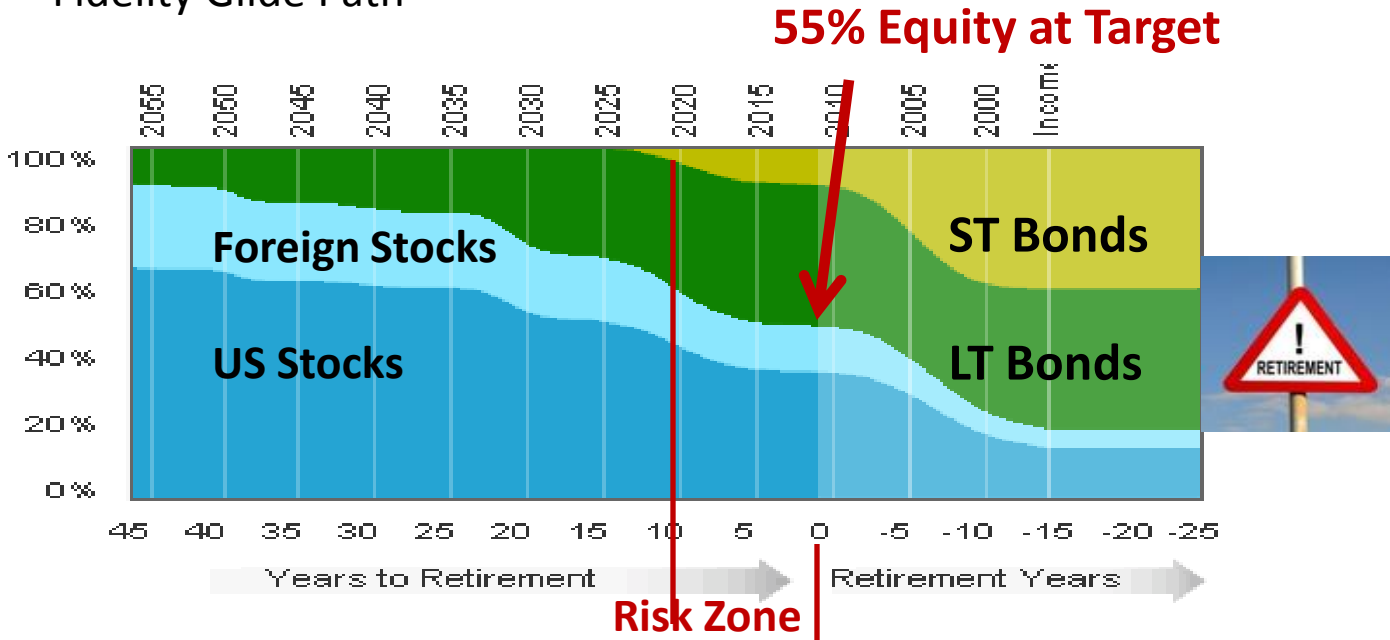
### Policies

SMART Funds	Fidelity
Liability-driven investing "To" ends at 5% equities at target Mostly Passive Open Architecture Broad diversification includes global real estate, commodities, etc Financially engineered glide path, curvilinear with lock box protection Fees are 58 bps	Growth focused. Performance race. "Through" is 55% equities at target All Proprietary US-centric mostly stocks. Bonds at target date are long-term. Wavy? 71 bps

# Risk at Target Date: Equity Allocation

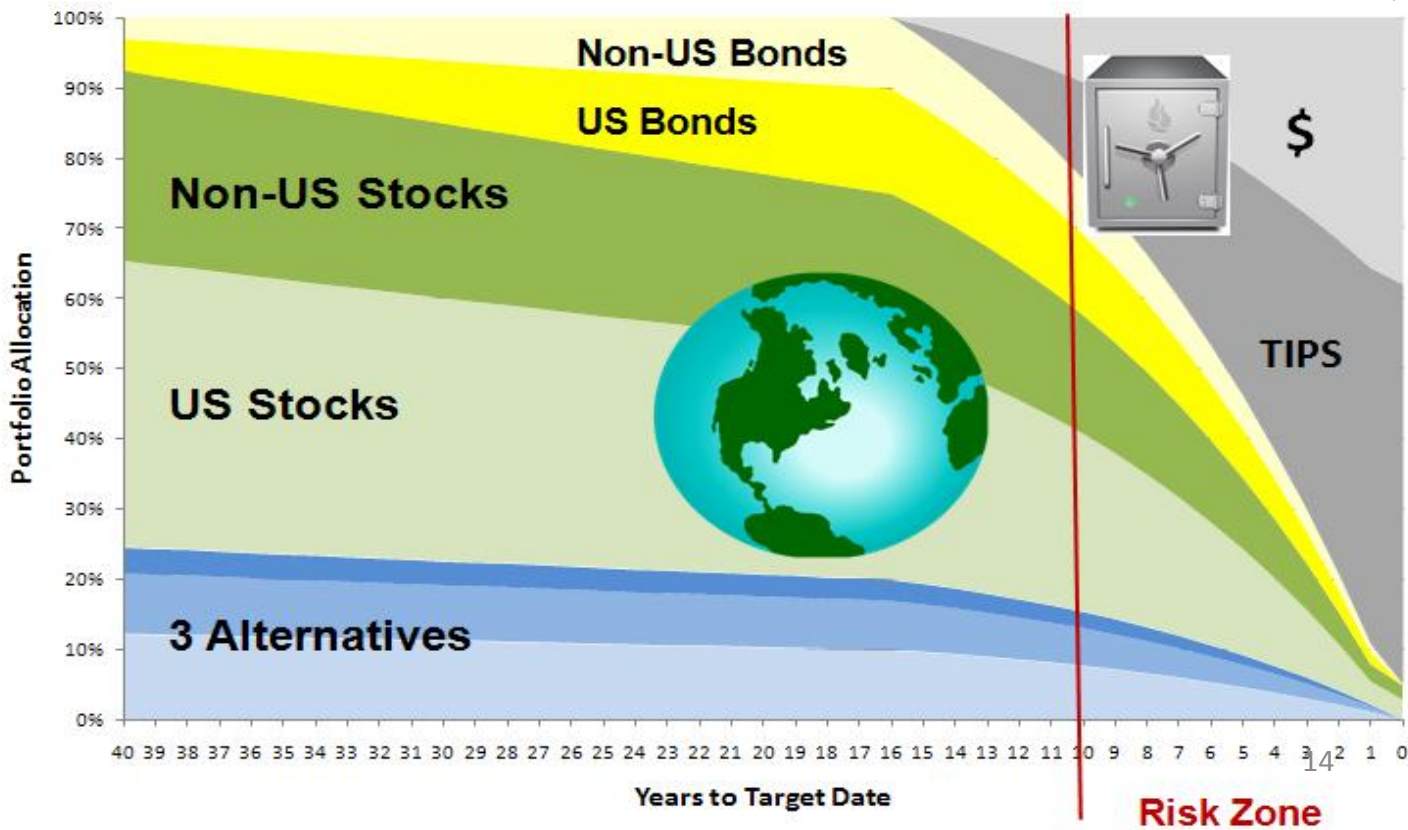


# Fidelity Glide Path



## SMART Funds Financial Engineering

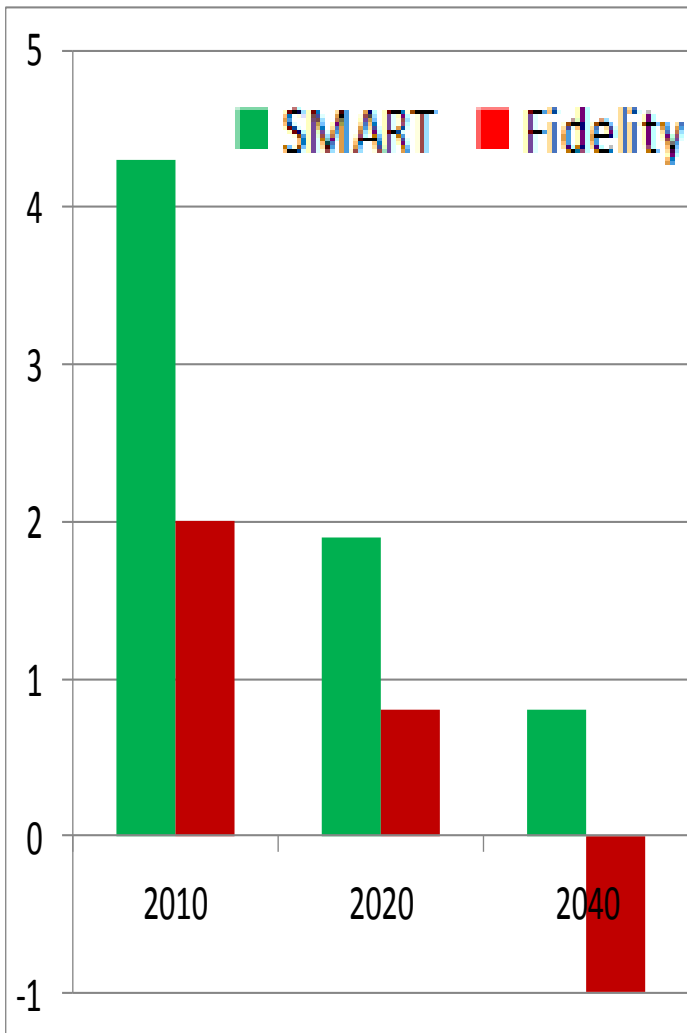
Allocations employ a 2-asset growth—preservation separation principle. In the early years, a very broadly diversified growth portfolio serves to increase wealth, but then about 15 years from target date SMART Funds employ Liability-Driven investing (LDI) principles to defend, moving monies aside into a “Reserve” lock-box of TIPS and Treasuries



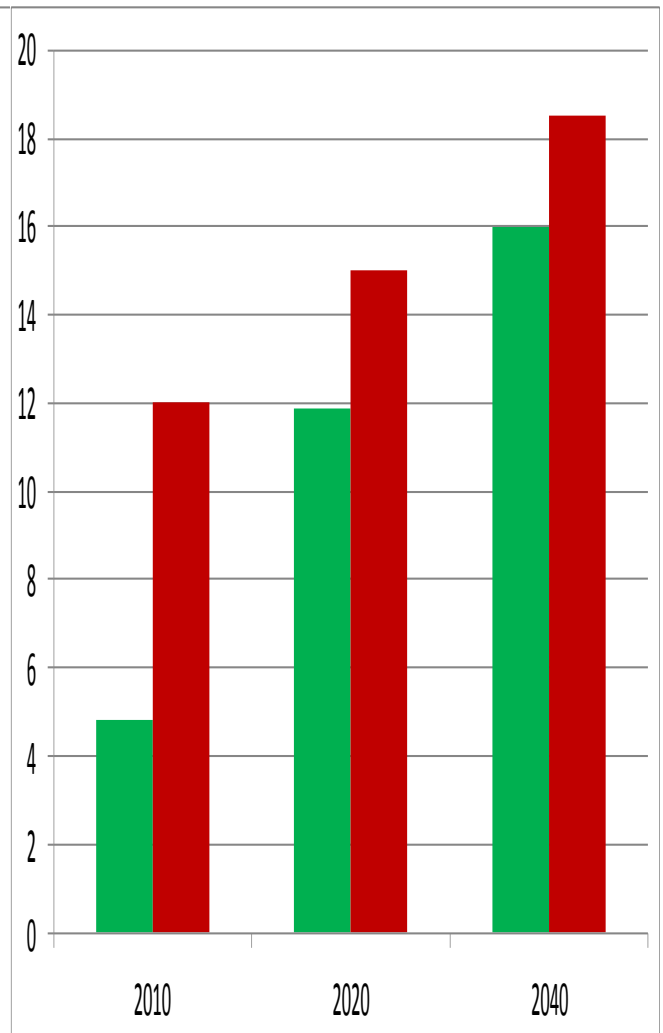
# 5-year Return & Risk through 12/31/2011

## More Return and Less Risk

Returns



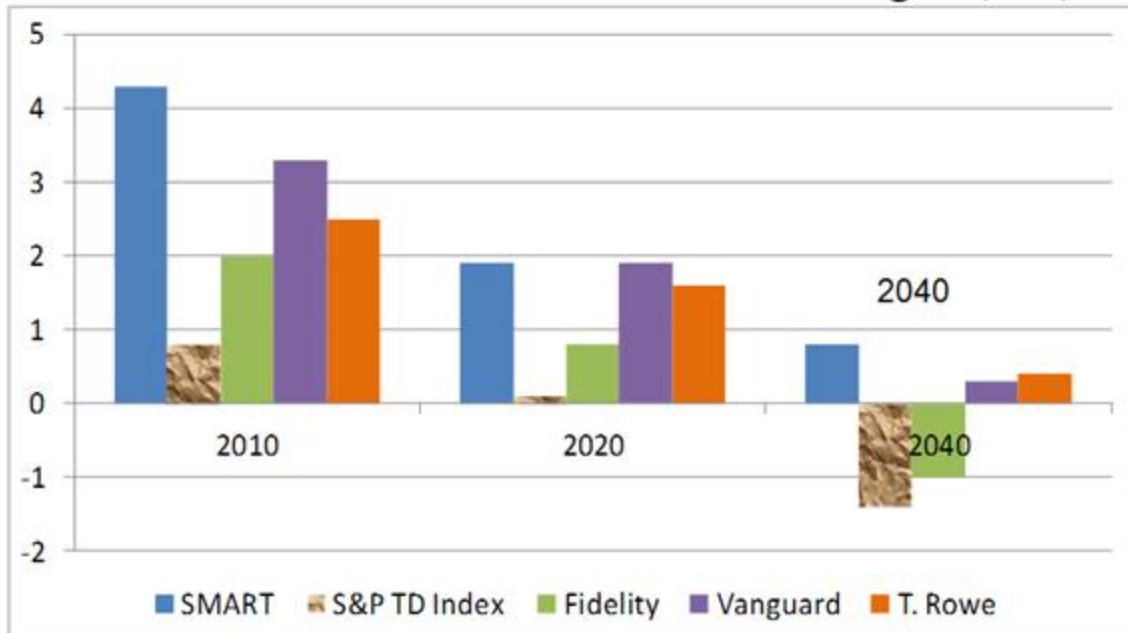
Standard Deviation



SMART began 11/08. Prior performance is for the BrightScope On-Target Indexes, developed by Ron Surz.

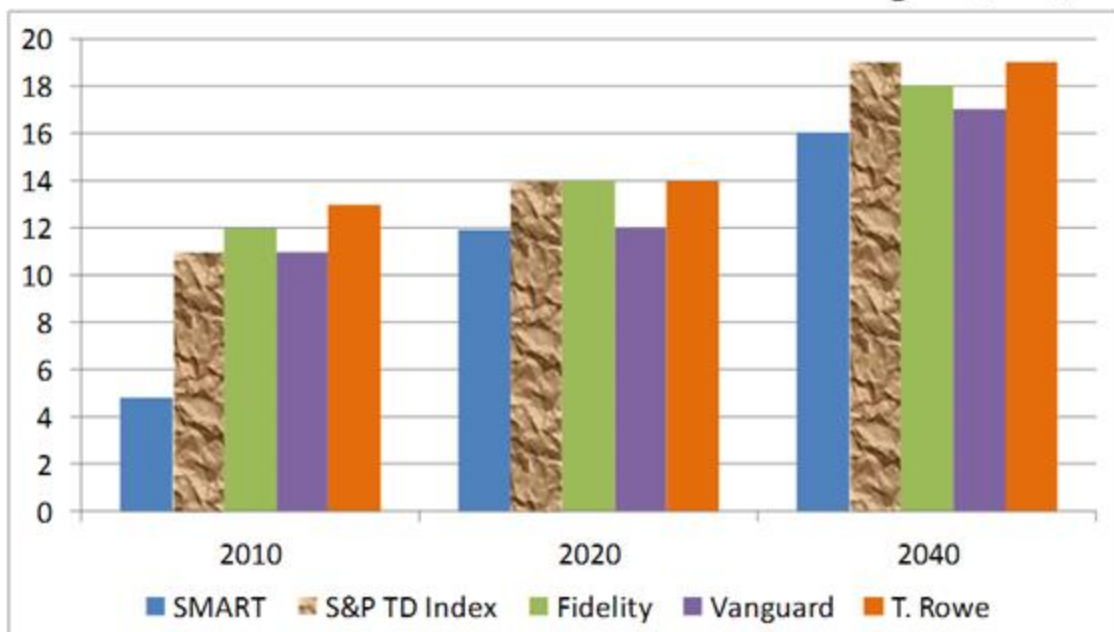
# 5-year Comparisons to the Big 3

## Annualized Returns for the 5 Years Ending 12/31/2011

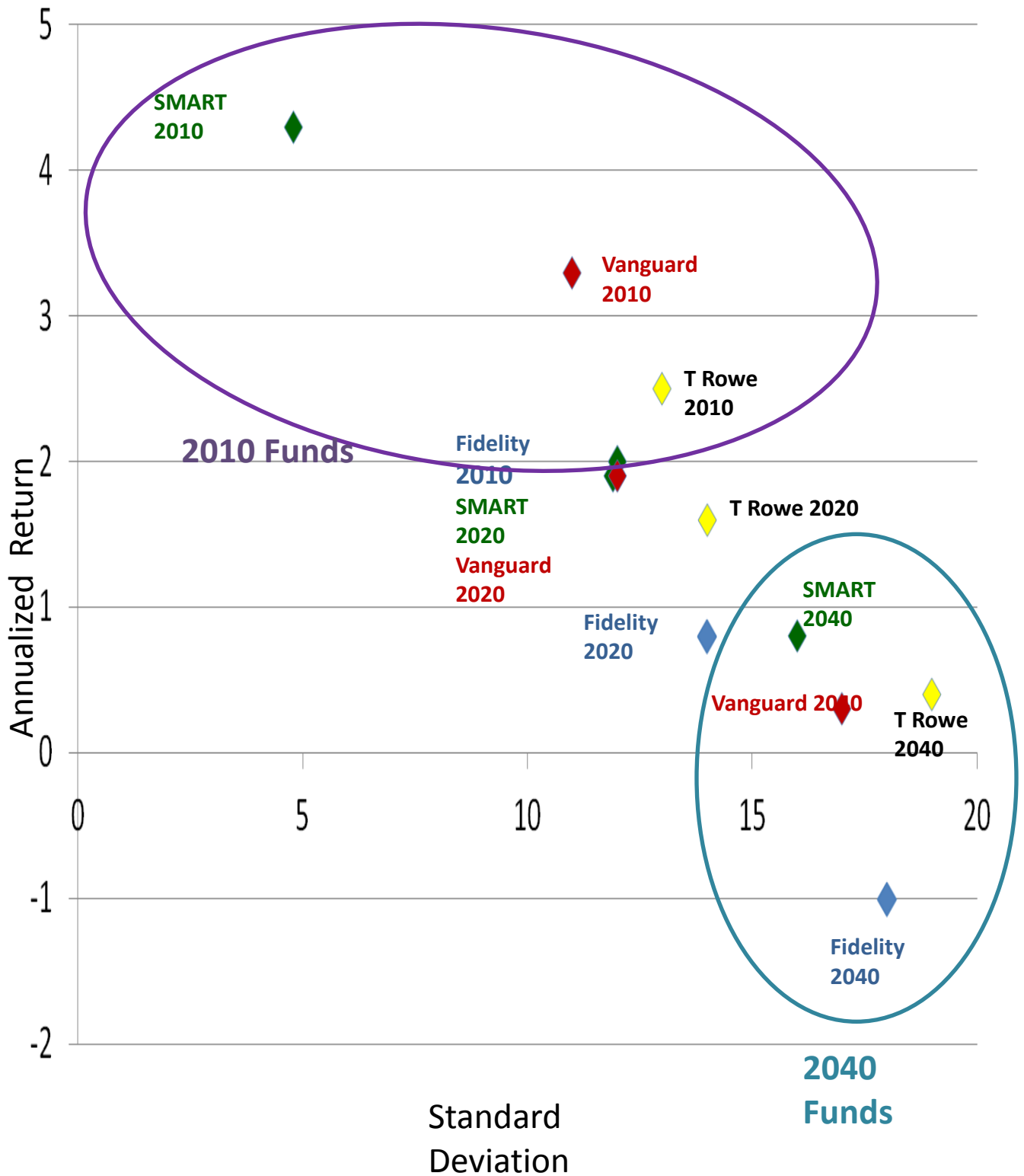


SMART track record is Brightscope On-Target Index, developed by Ron Surz, for 10/2006-10/2008  
And live SMART collective investment funds for 11/2008-forward

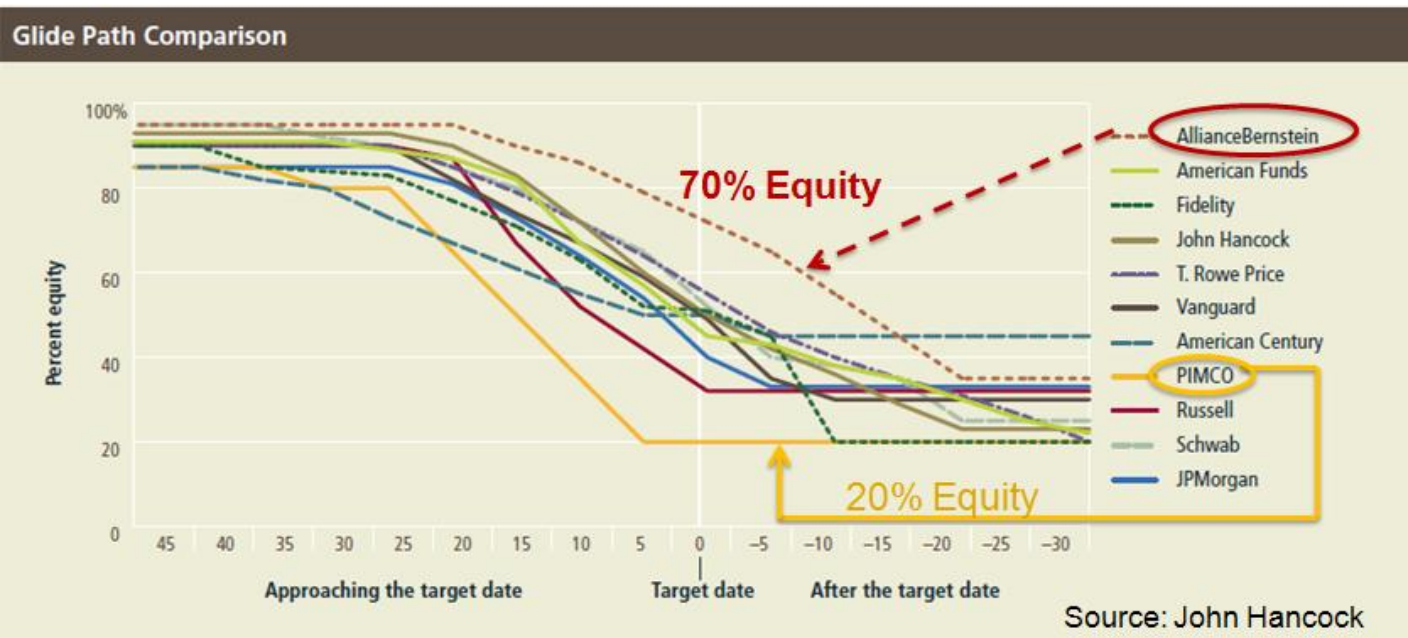
## Standard Deviation for the 5 Years Ending 12/31/2011



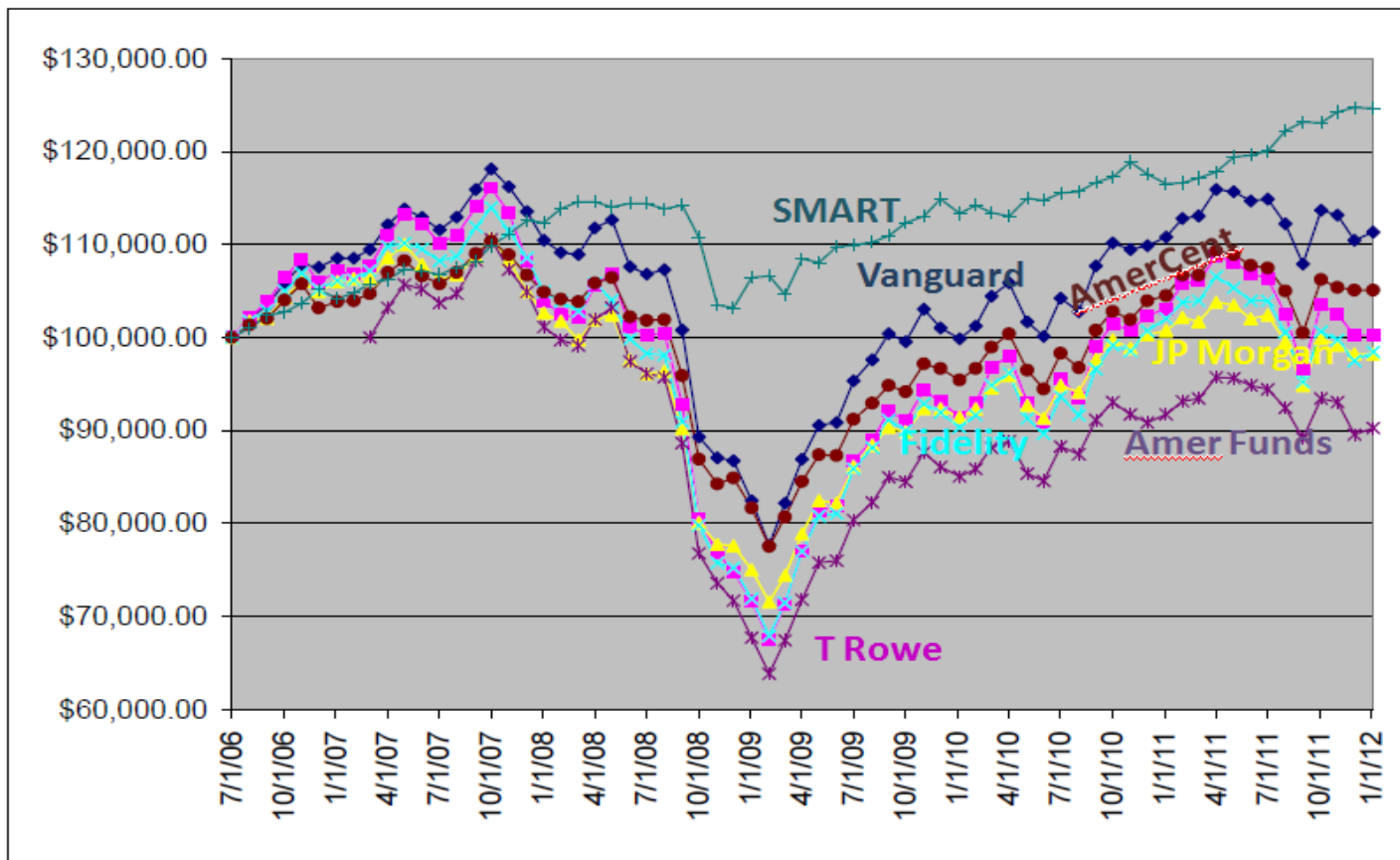
# 5 Year Risk-Reward



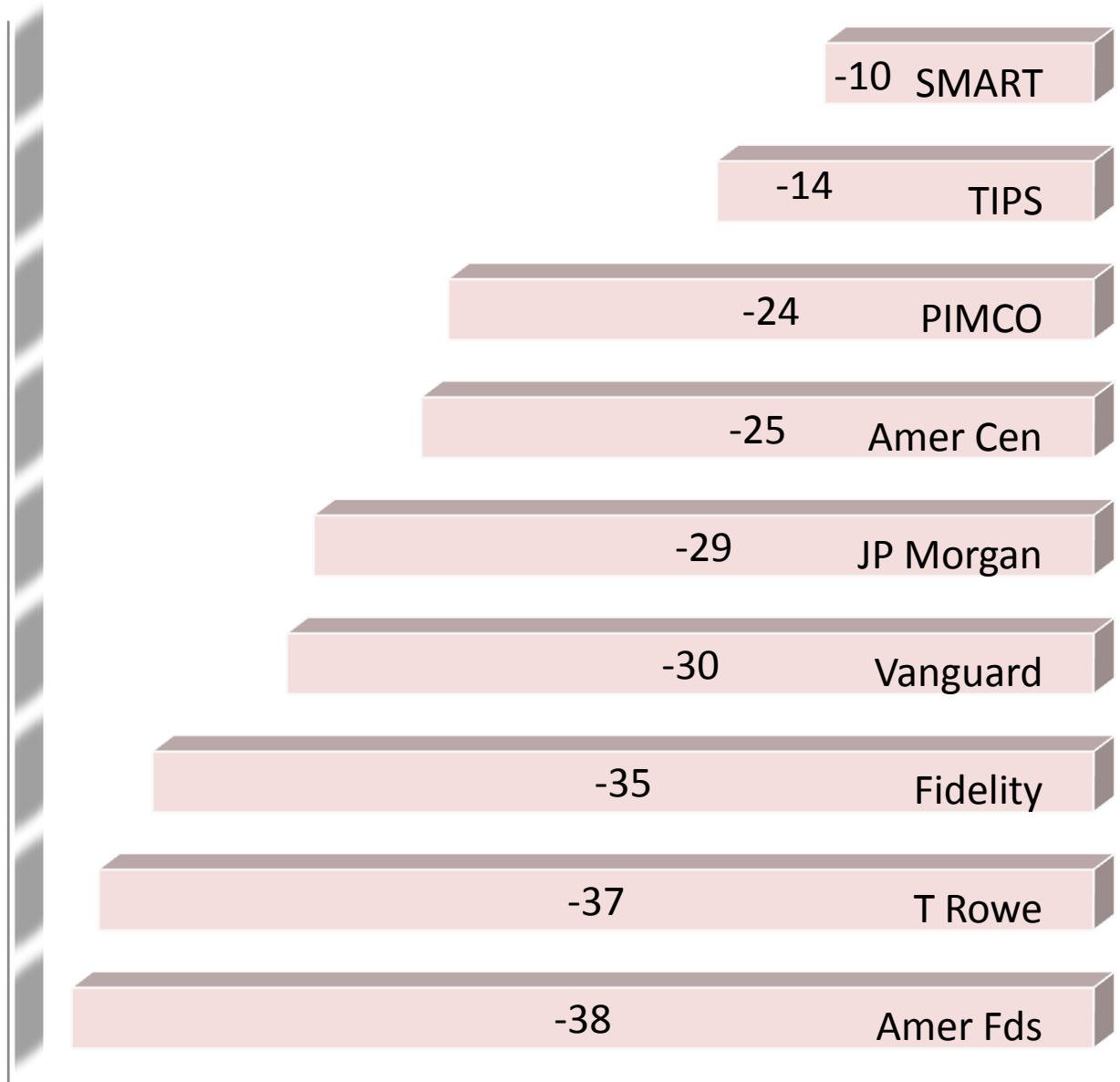
# Why do glide paths matter?



The best 2010 glide path is 25% wealthier than the average: \$25,000



# Worst Draw-downs in 2010 Funds from 2007 – 2011 (5 Years)

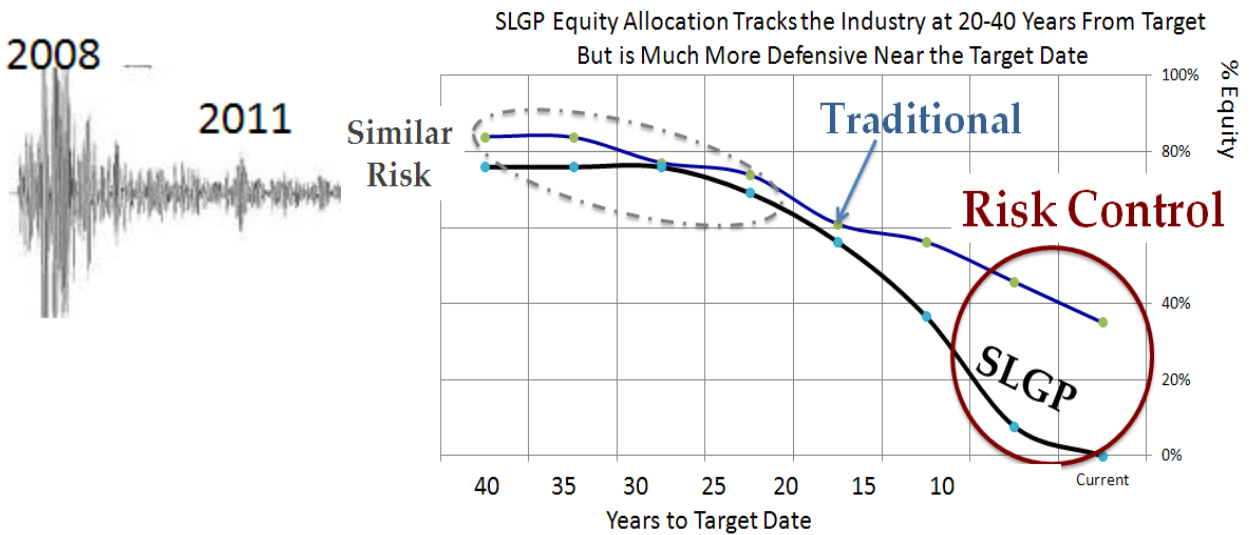


The worst draw-downs for all funds except SMART occurred in the 16-month period 11/07-2/09.

The SMART 10% draw-down occurred in the 5 months 7/08-11/08.

TIPS 14% draw-down is for the 7 months 4/08-10/08.

# The Economic Earthquake of 2008 was followed by a 2011 aftershock that demonstrates the power of protection

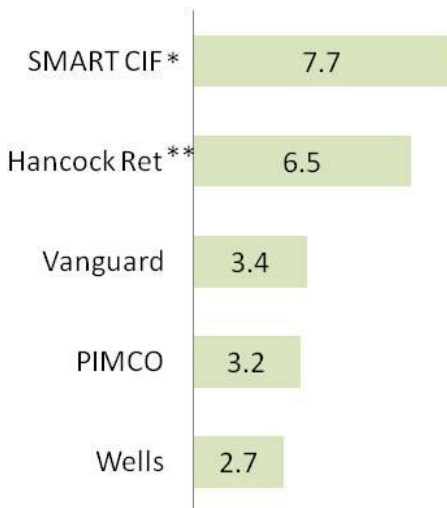


**Typical objective:** Make up for inadequate savings

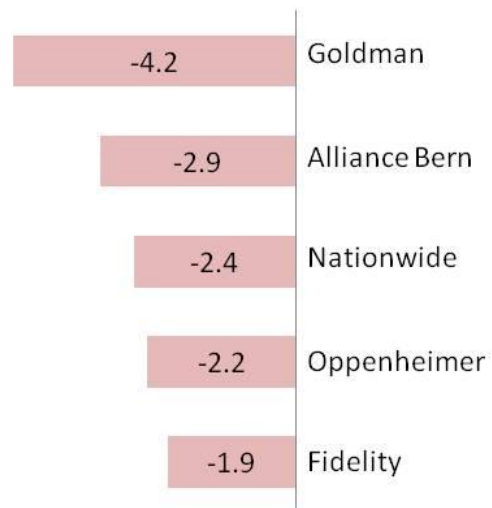
**Enlightened objective:** Bring participant safely to the target date with appreciated savings intact.

## Best & Worst 2010 (“Today”) Target Date Funds in 2011

### Best Performers



### Worst Performers



\*SMART Funds are Collective Investment Funds on Hand Benefit & Trust, Houston

\*\* Hancock Retirement is separate & distinct from Hancock Life Cycle

# Management

## Trust Company

**Hand Benefits & Trust**, Houston, is trustee, administrator and record keeper: Collective Investment Trusts for Enlightened Fiduciaries

- \$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.

## Co-managers

• **Target Date Solutions** is co-manager for glide path design. Founder & President, Ron Surz, is developer of the patent-pending Safe Landing Glide Path® and the Brightscope On-Target Indexes.

• **Blue Prairie Group** is co-manager for dynamically managing growth allocations. Using a forward-looking risk/opportunity assessment, CIO Gary Silverman, CFA, seeks to realize maximum portfolio efficiency in light of changing market and economic conditions

# SMART CUSIPs



1<sup>st</sup> 6 characters of all CUSIPs are **41023R**. Base fee is 58 bps

	Institutional (0,0)*	R1 (Service fees: 0,25)*	R2 (Service fees: 25,10)*	R3 (Service fees: 50,15)*
2010	230	735	727	719
2020	248	438	420	412
2030	255	768	750	743
2040	263	396	388	370
2050	271	792	784	776

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

<http://www.bpas.com/media/HBT/SmartFund2010R1.pdf>

\*The first service fee is typically paid to broker dealers on behalf of plan investors and the second is typically paid to the tpa or record keeper on behalf of plan investors.

# Fee Comparisons

## Morningstar Target-Date Series Asset-Weighted Average Expense Ratios

Name	Asset-Weighted Expense Ratio %	Total Assets	Industry Target-Date Assets %
Vanguard Target Retirement Series	0.19	56,172,466,946	22.46
<b>SMART</b>	<b>.58</b>		
Wells Fargo Advantage DJ Target	0.62	6,047,001,369	2.42
TIAA-CREF Lifecycle Series	0.69	3,934,078,658	1.57
NestEgg Dow Jones Series	0.69	108,598,784	0.04
Fidelity Freedom Series	0.71	85,694,489,156	34.26
Schwab Target Series	0.72	775,796,290	0.31
T. Rowe Price Retirement Series	0.79	42,092,035,956	16.83
Columbia Retirement Portfolios	0.85	24,953,752	0.01
JPMorgan SmartRetirement Series	0.85	1,623,614,319	0.65
ING Index Solution Series	0.87	478,907,405	0.19
RiverSource Retirement Plus Series	0.88	146,142,319	0.06
American Century LIVESTRONG	0.90	2,124,451,070	0.85

# Platforms

- Fidelity's WorkPlace Investment Platform
- Fidelity's Institutional Wealth Services
- TD Ameritrade
- STN/Mid-Atlantic Trust Co
- Matrix/MG Trust Co
- Wilmington Trust Co
- Reliance Trust Co
- Ascensus/Frontier Trust Co
- CBNA/BPA – HB&T affiliate r/k firm
- Wells Fargo Bank
- Schwab
- Could add: Great West & Nationwide

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Release date 6/30/2010

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## Hand SMART Funds® 2040 R1

Snapshot

Morningstar Rating™  
★★★★★

# Benefits


## Form: Collective Investment Trust

- Cost Savings
- Fiduciary
- Institutional
- Easy transition. NSCC registered.

## Substance: Safe Landing Glide Path

- There is no fiduciary upside to risk taking at target date. Only downside. It's the mother of all asymmetric risk profiles.
- Realistic and meaningful objectives.
- Financial engineering provides credible plan for achieving objectives. See sample Investment Policy Statement.

# Common Sense from the The Sixth Sense



"I see misguided fiduciaries...  
... they're everywhere...  
they walk around like  
everyone else...

They don't even know that  
they are being had by target  
date fund baloney. "

# Occupy Target Date Street

Ron Surz President Target Date Solutions November 2011

*You say you got a real solution. Well, you know. We'd all love to see the plan.*

Lyrics from "*Revolution*" by the Beatles



Despite the outcry for reform in target date funds (TDFs), little has changed. Oh sure, fees have come down a little and some providers have moved to "to" funds but nothing of real substance is different. It's time for plan participants and their supporters to express their dissatisfaction. Occupy Target Date Street. Most readers of this publication are not in TDFs. But most readers care about the little guy, the guy who lost a fourth of his savings in 2008 because he trusted that his default investment would be safe.

Contrary to popular participant belief, TDFs do not protect the vulnerable from equity loss. They sure didn't in 2008, and nothing has happened to change that. Most participants in TDFs are defaulted into this product, which means that most participants rely upon their employers to do the right thing by protecting participant assets, especially near retirement (even though they are not).

Resisting reform, the industry has forgiven itself for 2008's losses by noting that these losses were subsequently recovered. "Forget 2008" is the industry's Jedi mind trick (Star Wars Chapter 1, 1977). Fiduciaries are not falling for this insult to their intelligence. Rather a new "Occupy Target Date Street" coup is underway and "Remember 2008" is the battle cry for positive change.

Fiduciaries are duty bound to seek solutions rather than settling for high-risk products that are oblivious to history. Ignoring the past and hoping its different the next time is not an option, and it's certainly not an enlightened view of risk management. Fiduciaries are obligated to actually vet their TDF selections and to establish objectives that are truly in the best interests of employees.

So what reform do protesters want to elicit from "Occupy Target Date Street"? Here's the plan. Start by eliminating objectives that make no sense – a clean slate. **An objective without a reasonable plan of action is merely a hope.** The stated objectives of TDFs are to replace pay and to manage longevity risk. And these would be alright if it weren't for the fact that target date funds are not a sensible plan of action. One-size-fits-all-set-it-and-forget-it bears no relationship to these personal objectives. Saving enough is the right plan of action for these objectives.

Get mad. These phony baloney objectives – "hopes" – are simply hypes for product sales. All TDF products, from high risk to low risk, boast simulations that justify their unique path to the "hope." That's why there is such a wide dispersion of equity allocations at the target date – everyone is selling product. Some TDFs are selling stocks and some are selling bonds, but all are using hope and cooked-up simulations to make their pitch. It's no wonder that equity shops have the highest equity allocation at target date while bond shops have the lowest. See the glide path graphic below for details.

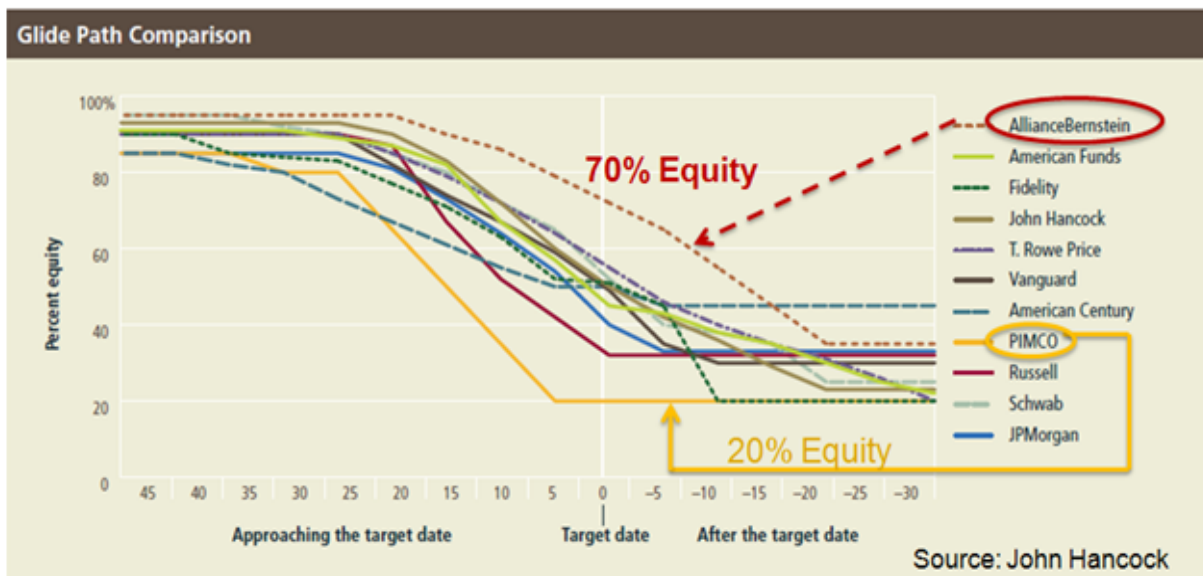
Get even. The next part of the plan is to replace hope and hype with real objectives that are actually quite simple and obvious:

- (1) Don't lose participant savings, and
- (2) Make as much as you can but don't lose participant savings

These create real reform to protect the vulnerable.

Taking a lesson from 2008, the course of action for achieving these objectives is the patent-pending Safe Landing Glide Path® (SLGP) that integrates the tenets of Modern Portfolio Theory (MPT) with the disciplines of Liability Driven Investing (LDI). Yes, this one-size-fits-all-set-it-and-forget-it glide path is the plan for achieving these straightforward objectives. The SLGP is a concept, a blueprint, for target date funds. It's like an "ideal gas" in physics. It is not a product per se - you can't buy the SLGP target date fund. But you can design a TDF to follow the SLGP. For example, the SMART Funds® are collective investment trusts that follow the SLGP, offered by Hand Benefit & Trust, Houston.

Importantly, the emphasis is placed on safety, as it should be, so asset allocation at target date is mostly TIPS and T-bills. The mission of a TDF is to get the beneficiary safely to the target date. Attempts to extend the mission beyond target date lead to the "hope" problem and ignore the fact that most withdraw their accounts at retirement.



That's the solution. That's the plan. Occupy Target Date Street. See our short movie at [Target Date Movie](#).