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®
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

- Low Fees
- Risk Control
- Diversification
- Co-Fiduciary Management
LET’S EXAMINE EACH CRITERION USING THE SMART FUND TARGET INDEX AS THE STANDARD.
Inexpensive Low Fees for Broad Diversification

<table>
<thead>
<tr>
<th>Name</th>
<th>Fee (%)</th>
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<tbody>
<tr>
<td>Fidelity Low Fee Fund</td>
<td>.17</td>
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<tr>
<td>Vanguard</td>
<td>.18</td>
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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.
Safe Landing Glide Path (SLGP) Tracks the Industry at 20-40 Years From Target But is Much More Defensive Near the Target Date

Risk Control


- S&P500 Index
- TIPS
- American Funds
- T. Rowe Price
- Fidelity
- Vanguard
- JP Morgan
- American Century
- PIMCO
- SLGP

Max Drawdown Return

Years to Target Date

SLGP
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.
18% Less in US stocks.
20% More in Diversifying Alternatives.

More Foreign Bonds.

85% Equities

15% Bonds

US Stocks  Foreign Stocks  Global Real Estate  Commodities  Other

US  Foreign

SLGP  Industry
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

Diversification
Risk Control
Low Fees
Co-Fiduciary Management

Sound Design

= SMART Fund Target Index
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

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

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.
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Enlightened Fiduciaries Choose The
SMART Fund Target Index

It’s All About the Beneficiaries