# UC Retirement Savings Program (RSP)

## UC Fund Menu Project - Phase 3

**UCRS Advisory Board**

**November 21, 2014**

UNIVERSITY
OF
CALIFORNIA

# Overall Project Goals

- **Enhance value for participants**
  - Fee control / reduction
- **Reinforce oversight & monitoring**
  - Smaller menu allows more efficient monitoring
- **Improve participant experience and plan effectiveness**
  - Simpler menus are easier to understand and use
  - Easier decision making due to less duplication
  - A smaller number of choices can alleviate confusion

*Studies have shown that too much choice can prevent participants from making appropriate decisions*

# Project Phases

- **Phase 1** – Conversion to Institutional Share Classes - *Completed in 2012*
- **Phase 2** – Streamline Fund Choices - *Completed in June 2013*
- **Phase 3** – Single Core Funds menu - *Underway*
  - *Completed February 2014*
    - UC Pathway Fund glide path & Vanguard Small Cap share class change
  - *Completed June 30, 2014*
    - UC ICC Fund and UC Savings Fund merger
  - *Completed September 30, 2014*
    - UC Pathway Funds new default fund for UCRSP
    - Dreyfus Treasury Fund and UC Savings Fund merger
    - Change UC Equity Fund name to UC Global Equity Fund
  - *Targeted Spring 2015*
    - Single UC Core Fund menu

# Industry Trends

**Fund Menu Reductions**

- CalPERS – May ‘13
  - *7 Core Fund Options from 12*
- CalSTRS - 2013
  - *23 Core Fund Options*
- St. John’s University – Dec ‘13
  - *16 Core Fund options from over 300*
- Stanford University – Nov ‘09
  - *5 Core Fund options from over 100, “ultimately simplifying the investment decision-making for program participants”*

# Mega DC Plan Landscape

**DC Plan Sponsor Universe according to Pension and Investments**

**As of September 30, 2013**

| P&I Rank | Name | | Assets ($M) | # of Funds |
|---|---|---|---|---|
| **1** | **Federal Retirement Thrift Investment Board** | **$** | **375,088** | **7** |
| 2 | International Business Machines Corp. | $ | 43,917 | 27 |
| 3 | Boeing Co. | $ | 42,294 | 16 |
| 4 | AT&T Inc. | $ | 35,250 | 13 |
| 5 | Wells Fargo & Co. | $ | 28,483 | 19 |
| 6 | Lockheed Martin Corp. | $ | 27,666 | 12 |
| 7 | Verizon Communications Inc. | $ | 26,384 | 18 |
| 8 | Bank of America Corp. | $ | 25,900 | 24 |
| 9 | General Electric Co. | $ | 24,482 | 16 |
| 10 | Exxon Mobil Corp. | $ | 21,170 | 6 |
| 11 | Wal-Mart Stores Inc. | $ | 20,368 | 13 |
| 12 | United Technologies Corp. | $ | 20,182 | 16 |
| 13 | JPMorgan Chase & Co. | $ | 18,923 | 32 |
| 14 | Chevron Corp. | $ | 18,896 | 17 |
| 15 | Procter & Gamble Co. | $ | 18,204 | 13 |
| 16 | General Motors Co. | $ | 17,624 | 25 |
| **17** | **University of California Retirement System** | **$** | **17,515** | **85** |
| 18 | Northrop Grumman Corp. | $ | 17,057 | 11 |
| **19** | **New York State Deferred Compensation Plan** | **$** | **15,943** | **8** |
| 20 | Hewlett-Packard Co. | $ | 15,574 | 21 |
| 21 | United Parcel Service Inc. | $ | 13,744 | 26 |
| 22 | Kaiser Foundation Health Plan Inc. | $ | 13,716 | 19 |
| 23 | Raytheon Co. | $ | 13,661 | |
| **24** | **New York City Deferred Compensation Plan** | **$** | **13,543** | |
| 25 | ConocoPhillips | $ | 13,036 | 36 |
| 26 | Delta Air Lines Inc. | $ | 12,931 | 35 |
| **27** | **Washington State Investment Board** | **$** | **12,925** | |
| 28 | Ford Motor Co. | $ | 12,760 | 20 |
| 29 | United Continental Holdings Inc. | $ | 12,350 | |
| 30 | Intel Corp. | $ | 12,342 | 11 |
| 31 | Honeywell International Inc. | $ | 11,682 | 19 |
| **32** | **Teachers' Retirement System of the City of New York** | **$** | **11,349** | |
| | | | **Average # of Funds** | **21** |

# Best in Class DC Investment Menu

| Tier I<br>Target Date Options | Tier II<br>Passive Core Options | Tier III<br>Active Core Options | Tier IV<br>Specialty Options |
|---|---|---|---|
| | | Capital Preservation | |
| | Diversified Fixed Income | Diversified Fixed Income | |
| Target Date Funds<br>5-year increments | | Diversified Inflation | |
| | Global All Cap Equity | Global All Cap Equity | |
| | Managed Accounts | | |

# Current DC Investment Menu

| Tier I<br>Asset Allocation | Tier II<br>Passive / Enhanced Passive Core Options | Tier III<br>Active Core Options | Tier IV<br>Specialty Options |
|---|---|---|---|
| | | **Capital Preservation**<br>UC Savings Fund | |
| | **Diversified Fixed Income**<br>Fidelity Spartan US Bond Index Fund<br>Fidelity Short Term Treasury Bond Index<br>Fidelity Spartan Int Treasury Bond Index<br>Fidelity Spartan Long-Term Treasury Bond Index | **Diversified Fixed Income**<br>UC Bond Fund<br>Calvert Bond Portfolio | |
| | | **Inflation Hedge**<br>UC Short Term TIPS Fund<br>UC TIPS Fund | **Inflation Hedge**<br>Vanguard REIT Index Fund<br>Fidelity Spartan Real Estate Index Fund |
| **Target Date Lifecycle**<br>UC Pathway Funds<br>(5 Year Increments)<br>Fidelity Freedom K Funds<br>(5 Year Increments) | **US Large Equity**<br>UC Domestic Equity Fund<br>Vanguard Social Index Fund<br>Calvert Social Index<br>Fidelity Spartan 500 Index Fund<br>Fidelity Spartan Total Market Index Fund | **US Large Equity**<br>Fidelity Equity Income Fund K<br>Fidelity Equity Dividend Income Fund K<br>Fidelity Value Discovery Fund K<br>Fidelity Disciplined Equity Fund K<br>Calvert Large Cap Core Portfolio<br>Fidelity Contrafund K<br>Fidelity Growth Company Fund K<br>Fidelity Blue Chip Growth K<br>Fidelity Magellan Fund K<br>Fidelity Dividend Growth Fund K<br>Fidelity Growth & Income Fund K<br>Fidelity Capital Appreciation Fund K<br>Fidelity Independence Fund K<br>Fidelity Fund K<br>Fidelity Export & Multinational Fund K<br>Calvert Equity Portfolio<br>Fidelity Growth Discovery Fund K<br>Fidelity Stock Selector All Cap Fund K<br>Fidelity OTC Portfolio K | |
| **Balanced**<br>UC Balanced Growth Fund<br>Fidelity Balanced Fund K<br>Calvert Balanced Portfolio<br>Fidelity Puritan Fund K | | | |
| | **US Small / Mid Equity**<br>Vanguard Small Cap Index Fund<br>Fidelity Spartan Extended Market Index Fund<br>Fidelity Spartan Mid Cap Index<br>Fidelity Spartan Small Cap Index Fund | **US Small / Mid Equity**<br>Fidelity Value Strategies Fund K<br>Fidelity Value Fund K<br>Fidelity Mid Cap Stock K<br>Calvert Capital Accumulation Fund<br>Fidelity Leveraged Company Stock Fund K<br>Fidelity Growth Strategies Fund K<br>Calvert Small Cap Fund | |
| | **Global All Cap Equity**<br>UC Global Equity Fund<br>UC International Equity Fund<br>Fidelity Spartan International Index Fund<br>Fidelity Spartan Emerging Markets Index Fund<br>Fidelity Spartan Global ex US Index Fund | **Global All Cap Equity**<br>DFA Emerging Markets Core Equity Portfolio<br>Fidelity Diversified International Fund K<br>Fidelity International Discovery Fund K<br>Fidelity Overseas Fund K<br>Calvert International Equity Fund<br>Fidelity Emerging Markets Fund K | **Self Directed Brokerage Window** |

***Key***

= Current UC Core Options

= Current UC Non-Core Options

# Current UC Core Fund Menu

| Tier I<br>Target Date / Balanced Options | Tier II<br>Passive / Enhanced Passive Core Options | Tier III<br>Active Core Options | Tier IV<br>Specialty Options |
|---|---|---|---|
| | | **Capital Preservation**<br>UC Savings Fund | |
| | | **Diversified Fixed Income**<br>UC Bond Fund | **Real Estate**<br>Vanguard REIT Index Fund |
| **Target Date Funds**<br>UC Pathway Funds | | **Inflation Sensitive**<br>UC Short Term TIPS Fund<br>UC TIPS Fund | |
| **Balanced Fund**<br>UC Balanced Growth | **US Large Equity**<br>UC Domestic Equity Fund<br>Vanguard Social Index | **US Large Equity**<br>*No Current UC Core Option* | |
| | **US Small/Mid Cap Equity**<br>Vanguard Small Cap Idx Fund | **US Small/Mid Cap Equity**<br>*No Current UC Core Option* | |
| | **Global/World ex-US Equity**<br>UC International Equity Fund | **World ex-US Equity**<br>*No Current UC Core Option* | |
| | UC Global Fund | DFA Emerging Market Fund | |
| | | | **Brokerage Window** |

# Filling in the UC Core Fund Menu Gaps

| Asset Class | Current Assets | Expense Ratio | Mercer Rating | 3 – Year Returns | 5 – Year Returns |
|---|---|---|---|---|---|
| **US Large Cap Equity** | | | | | |
| Fidelity Growth Company Fund K | $190,224,440 | 0.71% | A | 16.8% (14) | 21.5% (4) |
| **US Small / Mid Cap Equity** | | | | | |
| Calvert Capital Accumulation Fund | $6,209,587 | 0.86% | A / SRI | 11.9% (56) | 20.7% (21) |
| **World ex - US Equity** | | | | | |
| Fidelity Diversified International Fund K | $89,039,783 | 0.81% | B+ | 8.9% (17) | 12.3% (38) |

Universe Ranking: 0% - 50% 50% - 75% 75% - 100%

# Future UC Core Fund Menu

| Tier I<br>Target Date / Balanced Options | Tier II<br>Passive / Enhanced Passive Core Options | Tier III<br>Active Core Options | Tier IV<br>Specialty Options |
|---|---|---|---|
| | | **Capital Preservation**<br>UC Savings Fund | |
| | | **Diversified Fixed Income**<br>UC Bond Fund | **Real Estate**<br>Vanguard REIT Index Fund |
| **Target Date Funds**<br>UC Pathway Funds | | **Inflation Sensitive**<br>UC Short Term TIPS Fund<br>UC TIPS Fund | |
| **Balanced Fund**<br>UC Balanced Growth | **US Large Equity**<br>US Domestic Equity Fund<br>Vanguard Social Index | **US Large Equity**<br>Fidelity Growth Company Fund | |
| | **US Small/Mid Cap Equity**<br>Vanguard Small Cap Fund | **US Small/Mid Cap Equity**<br>Calvert Cap. Accum. Fund | |
| | **Global / World ex-US Equity**<br>UC Global Fund<br>UC International Equity Fund | **World ex-US Equity**<br>Fidelity Diversified Intl. Fund<br>DFA Emerging Market Fund | |
| | | | **Brokerage Window** |

- **The final recommended structure for consideration results in a core line-up consisting of the UC Pathway funds, 7 passive / enhanced passive options, 8 institutionally priced core options, and the brokerage window**

# UCRSP Current-State as of 09/30/14

**UC Core Funds**

- UC Pathway Funds *(11 funds)*
- UC Balanced Growth Fund
- UC Global Equity Fund
- UC Domestic Equity Fund
- UC International Equity Fund
- UC Bond Fund
- UC TIPS Fund
- UC Short Term TIPS Fund
- UC Savings Fund
- DFA Emerging Markets Fund
- Vanguard Small Cap Fund
- Vanguard REIT Fund
- Vanguard Social Index Fund

**Non-Core Funds**

- 53 Fidelity Funds
- 8 Calvert Funds

**Brokerage Link**

| Funds | Assets | % of Plan |
|---|---|---|
| UC Core Funds | $15,195 M | 77.16% |
| Fidelity Funds | $3,758 M | 19.08% |
| Calvert Funds | $116 M | 0.59% |
| Brokerage Link | $624 M | 3.17% |
| **Total UCRSP** | **$19,694 M** | **100.00%** |

| Top 5 Funds | Assets | % of Plan |
|---|---|---|
| UC Savings Fund | $4,581 M | 23.26% |
| UC Global Equity | $4,266 M | 21.66% |
| UC Pathway Funds | $2,611 M | 13.26% |
| UC Balanced Growth | $1,536 M | 7.80% |
| UC Bond Fund | $1,038 M | 5.27% |
| **Subtotal** | **$14,032 M** | **71.25%** |

# Estimated Future-State based on 09/30/14 data

**UC Core Funds**

- UC Pathway Funds *(11 funds)*
- UC Balanced Growth Fund
- UC Global Equity Fund
- UC Domestic Equity Fund
- UC International Equity Fund
- UC Bond Fund
- UC TIPS Fund
- UC Short Term TIPS Fund
- UC Savings Fund
- Calvert Capital Accumulation Fund
- DFA Emerging Markets Fund
- Fidelity Growth Company Fund K
- Fidelity Diversified International Fund K
- Vanguard Small Cap Fund
- Vanguard REIT Fund
- Vanguard Social Index Fund

~~**Non-Core Funds**~~

- ~~53 Fidelity Funds~~
- ~~8 Calvert Funds~~

**Brokerage Link**

| Funds | Assets | % of Plan |
|---|---|---|
| UC Core Funds | $19,070 M | 96.83% |
| ~~Fidelity Funds~~ | ~~$3,758 M~~ | ~~19.08%~~ |
| ~~Calvert Funds~~ | ~~$116 M~~ | ~~0.59%~~ |
| Brokerage Link | $624 M | 3.17% |
| **Total UCRSP** | **$19,694 M** | **100.00%** |

| Top 5 Funds | Assets | % of Plan |
|---|---|---|
| UC Pathway Funds | $6,200 M | 31.48% |
| UC Savings Fund | $4,581 M | 23.26% |
| UC Global Equity | $4,266 M | 21.66% |
| UC Balanced Growth | $1,536 M | 7.80% |
| UC Bond Fund | $1,038 M | 5.27% |
| **Subtotal** | **$17,621 M** | **89.47%** |

# Phase 3 Impact Overview

**For comparison:**

**Phase 2:**

- 43,000 affected participants
  - *246,500 total number of participants*
- 128 funds closed
- $1.7B in assets moved
- Six months of communications

**Phase 3:**

- 49,998 affected participants
  - *246,671 total number of participants*
- 58 funds closed
- $3.6B in assets to be moved
- Five months of communications

# Single Core Menu, Implementation and Communication Plan

## Core Fund Menu Changes

**Single UC Core Funds**

Added to Core:

- Fidelity Growth Company Fund K
- Fidelity Diversified International Fund K
- Calvert Capital Accumulation Fund

## Implementation Plan

- Future contributions redirected to UC Pathway Funds starting at the end of Quarter 1 2015
- Balances in removed funds of the end of Quarter 2 2015 will be re-enrolled into the UC Pathway Funds

## Communication Plan

**Quarter 1 2015:**

- Our University newsletter
- New Dimensions newsletter
- UC Focus Newsletter
- Announcement Letter
- Decision Guide
- Personal Mapping Statement

**Quarter 2 2015:**

- Reminder 1 Postcard
- Website Content (ucfocusonyourfuture.com & NetBenefits)
- Fund Menu Changes Workshop
- Recorded version post online
- Reminder 2 Postcard
- Confirmation Postcard