UC Retirement Savings Program Fund Menu Management

DRAFT for Discussion

UCRS Advisory Board

June 29, 2012

Discussion Topics

- Where Retirement Savings Program Assets Are Invested

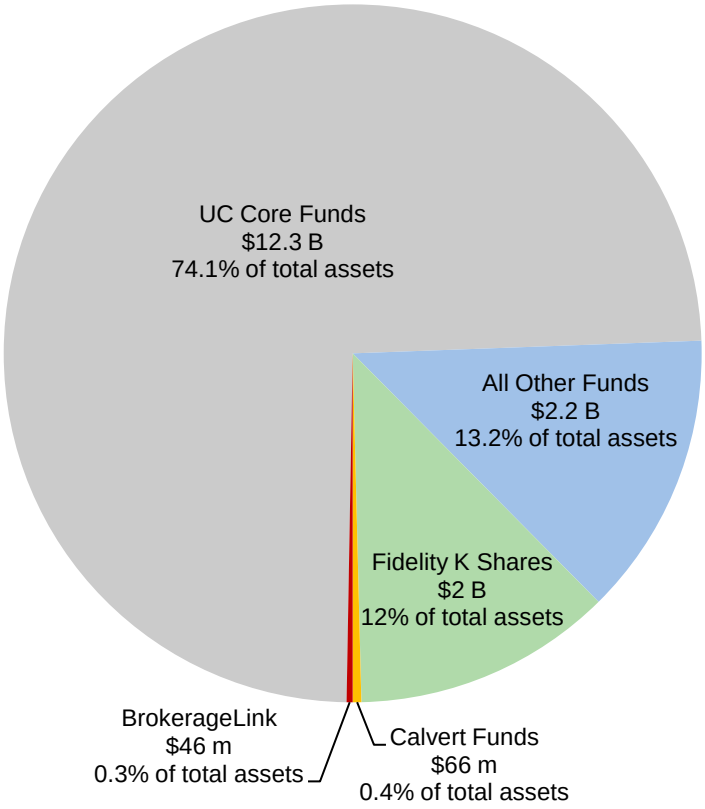
- Stewardship Process Progression
  1. Regulatory Framework (Fee Disclosure, other Department of Labor (DOL) regulations)
  2. Menu Cost Structure Review (Institutional pricing)
  3. Menu Management Strategy

- Retirement Savings Program (RSP) Fund Menu Management
  - Why Monitor? – the Fiduciary Perspective
  - Benefits of Menu Management

- Menu Management – Options for Discussion and Evaluation

Where Retirement Savings Program Assets Are Invested

UC Retirement Savings Program
Total Assets – Market Value as of as of 3/31/12



- UC Core Funds
- All Other Funds
- Fidelity K Shares
- Calvert Funds*
- BrokerageLink Accounts

Fund Group	Market Value	% of Total Assets	Unique Participant Count
UC Core Funds	$ 12,345,096,145	74.1%	273,172
All Other Funds	$ 2,191,667,160	13.2%	45,390
Fidelity K Shares	$ 2,003,183,642	12.0%	40,691
Calvert Funds*	$ 66,020,659	0.4%	3,809
BrokerageLink Accounts	$ 46,217,497	0.3%	251
Total	$ 16,652,185,103	100.0%	

*Calvert Funds Transition to Institutional shares to be effective 8/2/12

Revised 06/29/12

Plan Stewardship Progression

- Fee Disclosure Increases Transparency
  - Objective of regulation is to inform
  - DOL believes effort brings home the impact of fees to participants as well as plan sponsors

- Fund Menu Management
  - Considerations for Fiduciaries
  - Benefits

Why Monitor? – The Fiduciary Perspective

- There is a fiduciary duty to monitor benefit plans and offerings

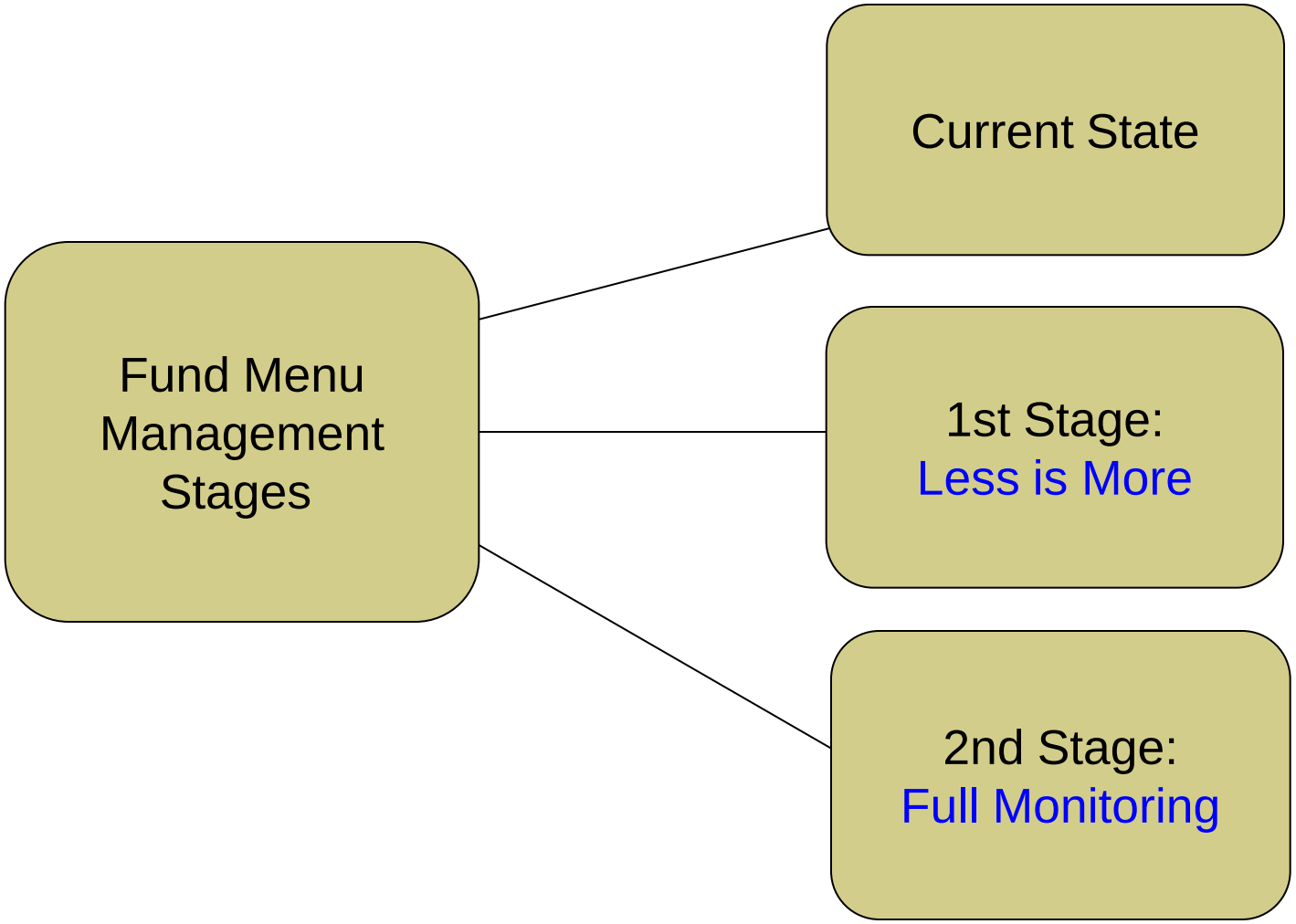
- Monitoring can take a number of forms, but the following are helpful guidelines for DC plans:
  - Diversification: investment array should offer opportunity for participants to diversify; compliance entails a responsibility to communicate the options effectively
  - Fees & Expenses should be reasonable
  - Exclusive Benefit Rule: decisions need to be made in the best interests of participants and their beneficiaries

Benefits of Menu Management

- Monitoring smaller menu is more efficient
  - Time and expense work against effective monitoring of expansive menus

- Easier for plan sponsor to communicate and for participants to use
  - Objective is to facilitate thoughtful decision-making and positive outcomes
  - Duplication abounds in large menus
  - Focus on a smaller number of choices tends to alleviate confusion
  - Studies have shown that too much choice can prevent participants from making appropriate decisions

Fund Menu Management Stages



Fund Menu Management Stages

Current:

- UC Core Menu is focus of communications and financial education
- Access to full historical fund menus
- Institutional pricing as available
- Fund additions controlled at program level
- Application & disclosure for BL* use

1st Stage:

- UC Core Menu
- Non-UC Core options limited (e.g. k-shares, institutional pricing)
- Other non-UC Core (e.g. retail, sector, etc.) only available through BL
- Participants given opportunity to retain affected funds within BL through application and in-kind transfer process

2nd Stage:

- UC Core Menu
- Non-UC Core menu structure modified
- Monitoring of non-UC Core for role & quality
- Closure of duplicative or lower quality offerings and potential additions to fulfill key asset class categories
- Broad array of permitted options available through BL as appropriate

*BL = BrokerageLink

Fund Menu Management Progression

- Current State
  - Non-UC Core options have been changed (as available) to improve pricing to institutional class
  - Plan has leverage on pricing due to plan type and asset size – Institutionally-priced options not available through retail or other channels (BL)

Fund Menu Management Progression – First Stage

- First stage - manage number of choices on platform
  - The less is more aspect of fund menu management is applied using a model that retains access for the self-determined investor – full choice is retained, with the more expensive (retail) options available through the BL if desired

- Menu management applied using pricing guidelines (no retail funds)
  - Pricing is the most objective form of monitoring
  - Institutional requirement the most obvious opportunity to demonstrate stewardship and objectively benefit participants
  - Consider permitting retail priced options only through BL and not on the Record-keeping (RK) platform
    - All non-UC Core options on RK platform would be institutionally-priced

Fund Menu Management Progression – First Stage, continued

- Non-qualifying funds no longer available on RK Platform (retail, etc.)
  - All non-institutional offerings could be closed to new contributions
  - Balances transferred in-kind to BL accounts
    - BL application process necessary
  - All non-qualifying fund balances and contribution elections not transferred to BL mapped to appropriate UC Core and/or Non-UC Core institutional class options

- This stage of fund management presents increased challenges for communication, education, and overcoming participant inertia

Fund Menu Management Progression – Second Stage

- 2nd phase of fund menu management could provide opportunity for full monitoring of all available funds on RK platform
  - Monitoring for role & quality
  - Closure of duplicative or lower quality offerings, and
  - Potential additions to fulfill key asset class categories

- Next steps …