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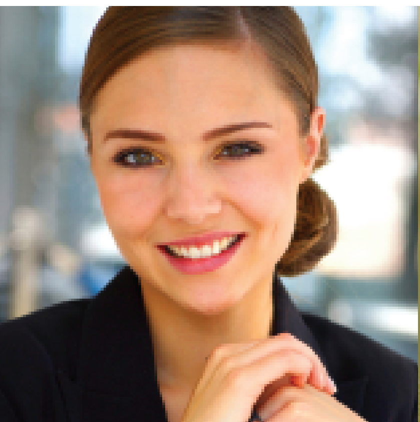
A BPAS COMPANY




Innovative Solutions for Collective Investment Funds

New trends in retirement investing

For the past two decades, mutual funds have been a dominant force in the financial services industry. This trend has been fueled by some of their well-publicized advantages: mutual funds provide access to professional money management, a convenient means of diversification, automatic reinvestment of dividends and other benefits.

Yet for all of their advantages, the retirement plan industry is starting to focus on some of the drawbacks presented by mutual funds and excessive fee litigation. These issues have become more glaring as total assets continue to climb and greater attention is paid to transparency and fee-related issues.

Here are a few points to consider:

- Through a negotiation process, many mutual funds are willing to pay various forms of "revenue sharing" including 12b-1, shareholder servicing and sub-transfer agent fees. If an agreement isn't established to recapture these revenues, this revenue essentially remains with mutual fund families. Across the industry, this may amount to millions of dollars in fees that could arguably be returned to investors.

- Mutual fund expenses are spread across all fund shareholders, regardless of the capacity in which they hold the fund. This means that retirement plan investors pay part of the fund's higher marketing, distribution and operating costs attributable to servicing retail accounts.

- While mutual fund share classes do provide some degree of flexibility, they are still a very arbitrary way to "pay for" retirement services. For example, many mutual funds offer A and R share classes which provide various levels of revenue sharing (such as 35 and 60 basis points, respectively), but may not offer a 'pure institutional' share class. This is fine if the provider's aggregate cost for servicing a plan happens to be exactly 35 or 60 basis points – *but what if the true cost is 29 basis points?*

- While the Investment Company Act of 1940 includes many important protections for investors, its reporting and disclosure obligations create significant operating costs. These costs are borne by all mutual fund investors. And considering the regulatory, compliance and reporting requirements of mutual funds, it is difficult to cost-effectively offer these portfolios with less than $100 million in assets. This has created a flurry of fund mergers, closings and liquidations in recent years, which can be confusing and frustrating to retirement investors.

- As detailed in fund prospectuses, mutual fund expense ratios and policies can be quite confusing. There is a gross expense ratio, a net expense ratio, voluntary waivers that can change at virtually any time, and other variables. Mutual fund redemption fees, minimum required investments, fund openings and closings, and required holding periods can further complicate the playing field.

"The Collective Investment Fund business is unique since it requires you to understand the qualified plan marketplace. HB&T brings this perspective to client relationships."

- Stephen S. Hand,
President & CEO,
Hand Benefits & Trust

- Some studies indicate that the transaction-heavy nature of mutual funds – including activity from thousands of retail investors and the cash they must keep on hand to satisfy large redemption requests – can reduce their ultimate returns.

- The expense ratio for a mutual fund is the same whether a retirement plan has $20,000 or $20 million invested in the fund. While plan sponsors routinely negotiate trustee, advisory and recordkeeping fees with service providers, this process has largely ignored mutual fund expense ratios. Plans at the largest end of the defined contribution market are looking for more flexibility to negotiate investment management fees rather than accept the cost of off-the-shelf mutual fund products.

While mutual funds will continue to be used for some time within the retirement plan industry, sophisticated plan sponsors and industry professionals are beginning to explore other options.

What is a Collective Investment Fund? And what advantages do they offer?

A Collective Investment Fund is a fund operated by a trust company that handles a pooled group of trust accounts. Collective Investment Funds are for the exclusive use of qualified retirement plans. The concept is to lower costs and achieve economies of scale by combining the assets of many qualified retirement plans, while avoiding the high transaction costs created by retail investors. These pooled funds are grouped into a master trust account under the control of the trust company, which acts as trustee, guardian, executor and administrator.

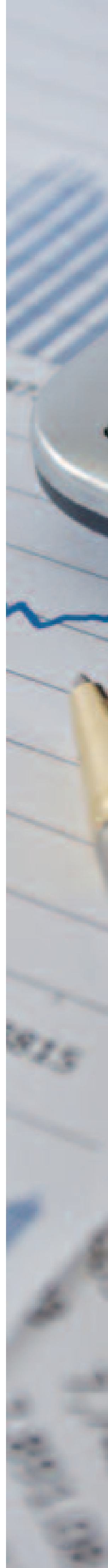
Hand Benefits & Trust (HB&T), a BPAS Company, is an innovator in the design, trading and registration of Collective Investment Funds. HB&T unitizes collective trusts and prices them daily, so they can be traded by any retirement service provider through the National Securities Clearing Corporation (NSCC) trading platform.

Collective funds offer a variety of advantages for plan participants, plan sponsors and retirement service providers. These include:

- **Low expense ratios and transparent pricing.** Collective Investment Funds are offered with institutional pricing, which is often much lower than the pricing for retail mutual funds – providing a cost savings to plan participants. (They can also offer additional share classes that feature varying levels of payments for advisors, brokers and third party administrators.)

- **Flexibility in fund holdings.** Collective Investment Funds are not subject to the stringent asset allocation guidelines required by the Investment Company Act of 1940. In addition to relieving many costly reporting and disclosure obligations, this gives collective fund managers greater flexibility in the mix of cash, fixed income and equity securities they can hold compared with most mutual funds – allowing managers to react quickly to changing market conditions.

- **Transparency in fund holdings.** A full listing of holdings for a collective trust is usually readily available, while most mutual funds only publish top holdings on a quarterly basis.



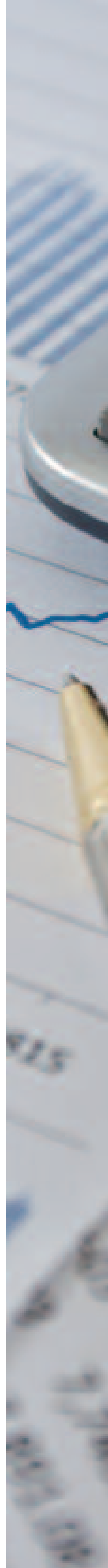
"HB&T's ability to help streamline and scale back our offices allow us to confidently grow our business with Collective Trusts."

◆ **Simplified tracking.** Collective Investment Funds are the fund of choice for most recordkeepers. Since these accounts generally do not declare splits or dividends, they are easy to administer from an accounting perspective. And in contrast to mutual funds, which often see a precipitous price drop in December when capital gain distributions are declared, capital gains within collective funds are simply factored into the fund's daily net asset value.

Historically, collective funds have been heavily used within fixed income products – including stable value GIC collective funds. However, today over 70% of total dollar volume in collective funds comes from non-stable value products.

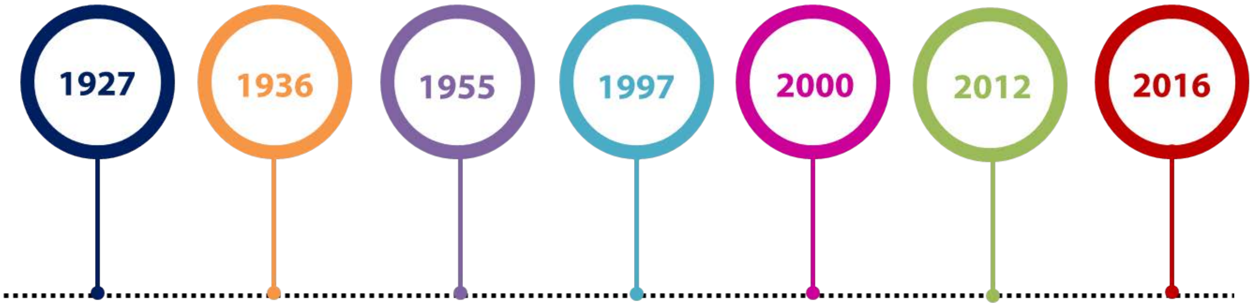
What are some real-life applications of Collective Investment Funds?

Collective Investment Funds versus Mutual Funds – A comparison		
	Collective Investment Funds	**Mutual Funds**
Regulating Bodies	OCC, IRS, DOL	SEC
Controlling Document	Written plan (declaration of trust)	Prospectus
Fees	Fees are flexible and can vary by share class. Most collective funds include a 'pure institutional' share class, which provides maximum flexibility and low overall costs.	All investors in a given share class pay fund's expense ratio, which is taken at the mutual fund level.
Enrollment Requirements	Signed investment management or trust agreement with pooled fund language	According to prospectus
Availability	Not available to general public; exclusively for qualified retirement plans	Available to general public; not exclusive to retirement plans
Type of Investor	Depends upon type of fund and tax status of plan (generally IRC 401(a) qualified plans)	Any restrictions specified in prospectus
Fund Board of Directors	Governed by the Board of Directors for the trust company	Yes
Compliance Issues	Responsibility of the trust company	Responsibility of fund's Board of Directors
Portfolio Composition	Pooled	Pooled
Valuation	Periodic or Daily (daily increasingly prevalent)	Daily
Performance Information	Provided by investment manager and third party	Provided by third-party repository
Clearing	NSCC	NSCC
Advertises Directly?	No	Yes




"After being cast aside by
many 15 or 20 years ago,
collective funds are coming
back to reshape the
DC plan marketplace."
- Stephen S. Hand,
President & CEO,
Hand Benefits & Trust

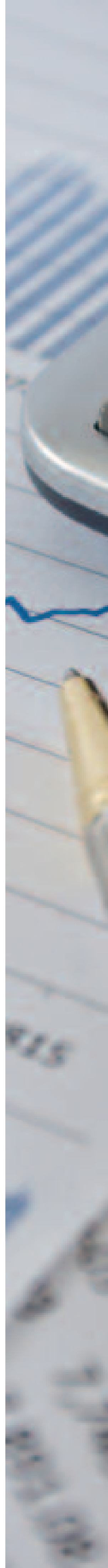
History of Collective Trust Funds



- **1927:** CTFs introduced
- **1936:** CTF use expanded in DB plans
- **1955:** CTF use grew when FED gave authorization to banks to combine assets from pensions, profit sharing and stock bonus
- **1997:** NSCC-DTC decide to allow CTFs to trade daily on Exchange CBU-BPAS-HB&T founding members NSCC
- **2000:** CTFs begin trading on the NSCC's Fund/SERV platform
- **2012:** DOL requires Plan administrators to standardize strategy, risk, performance, and expense disclosures
- **2016:** Fiduciary Rules favor Collective Trusts

Because of their versatility, collective funds are now being used in some creative ways. Here are some examples:

- The plan sponsor of a very large set of 401(k) plans held a substantial position in an actively managed equity mutual fund. After negotiating with the fund's manager, a collective trust was created to mirror the fund, at a substantially lower expense ratio – immediately benefiting plan participants.
- A third party administrator has decided to transition its model portfolios to a series of target date funds through a collective trust framework. This "single CUSIP" approach will eliminate a vast amount of operational work previously performed on model portfolios – improving service, reducing costs and eliminating a significant area of liability for the firm (including fund changes and model realignments).
- A special, faith-based and socially responsible (SRI) collective trust have been created in partnership with a professional association whosemembers seek an investment option consistent with their beliefs.These collective funds are available to members of the association and other plan sponsors who have interest in the fund.




"Lower expenses, higher returns, fee transparency drive more plan sponsor 401(k) plans into Collective Funds"

- A mutual fund company elected to create a series of lower cost collective investment funds, not lower cost mutual funds, to eliminate retail investors in their lower cost funds.

- A money management subsidiary of a major financial services corporation created a series of lifecycle collective trusts to offer its investment services in the retirement plan marketplace more cost effectively.

A solution for firms vying in the "investment only" side of the DC marketplace

The defined contribution space is attractive to asset management firms for several key reasons. This includes consistent cash flow driven by new contributions, the market's rapid rate of growth, and positioning to capture rollover dollars. However, access to the investment only marketplace also requires an in-depth knowledge of the distribution channels that Third Party Administrators, consultants, brokers and Registered Investment Advisors utilize.

For firms who seek to distribute their investment expertise within the defined contribution market, Collective Investment Funds can be an ideal answer. They involve more modest asset requirements, can be launched at a lower overall cost, and can be made available immediately to service providers through the NSCC platform. Reporting, disclosure and literature requirements are also more streamlined.

Why work with HB&T for your Collective Investment Fund needs?

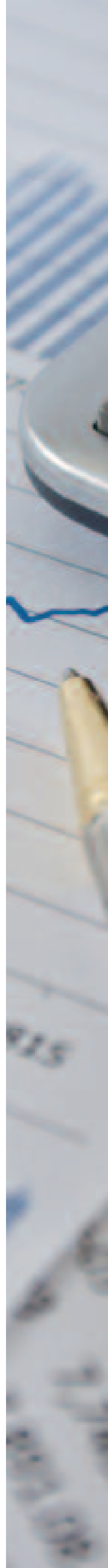
Hand Benefits & Trust (HB&T) has been providing employee benefit trust services to plan sponsors since 1963, and has been administering pooled Collective Investment Funds since 1964. Most all of HB&T's Collective Investment Funds are sub-advised by outside Registered Investment Advisors, who are responsible for the distribution of these investment vehicles within the qualified plan marketplace.

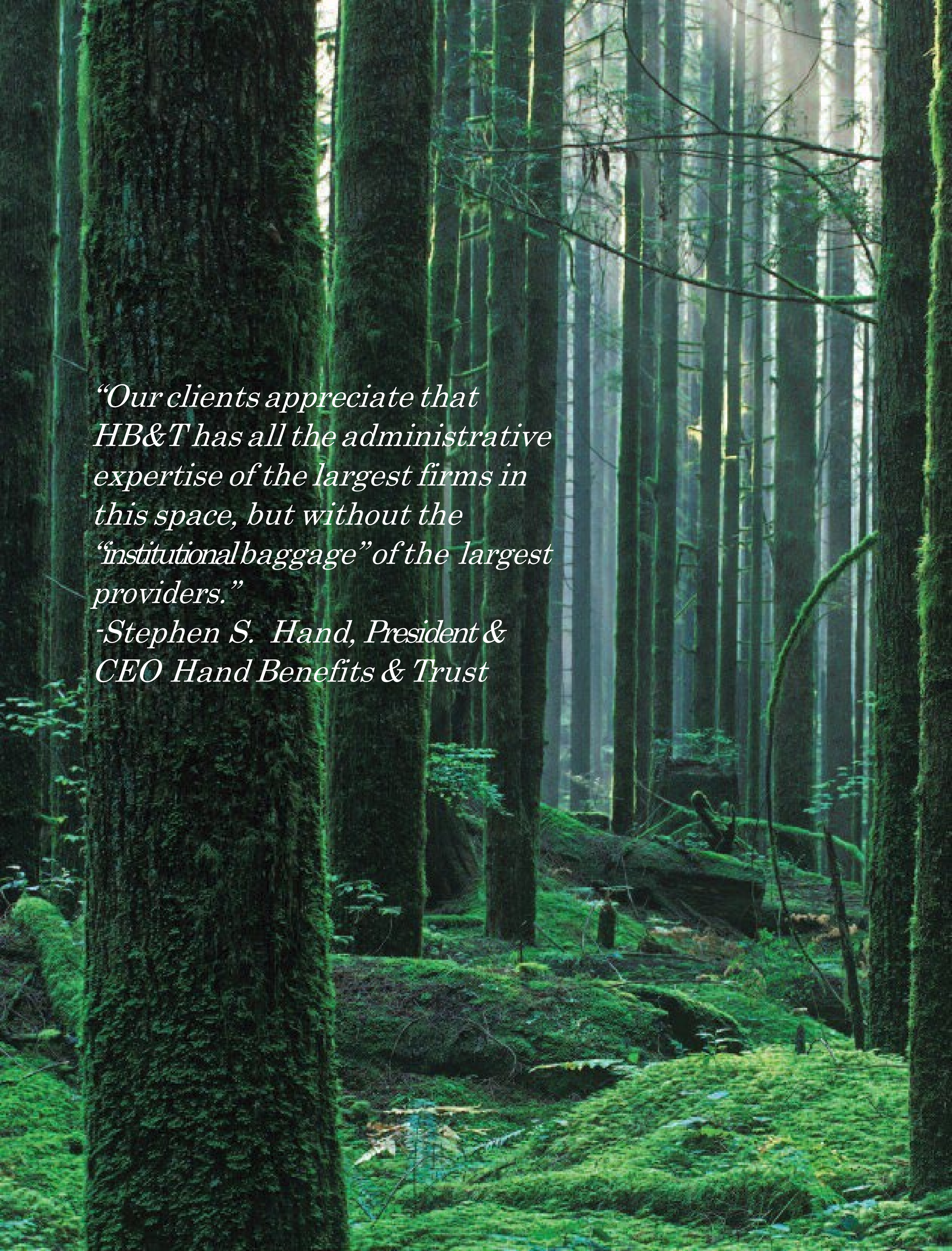
While there are other firms vying in the Collective Investment Fund space, here are some key advantages that clients appreciate about HB&T.

- We are a pioneer in the creation of Collective Investment Funds and have a high level of expertise in technical and compliance areas.

- We are owned by an NYSE-traded institution that has a proven track record dedicated to the Employee Benefit Service industry.

- We are an emerging player that will complement your offering without the "competitor perception issues" that can come from partnering with the largest firms.





"Our clients appreciate that HB&T has all the administrative expertise of the largest firms in this space, but without the "institutional baggage" of the largest providers."

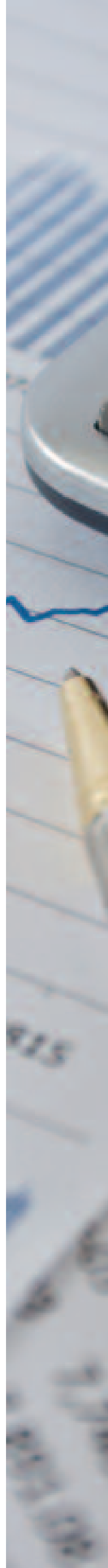
-Stephen S. Hand, President & CEO Hand Benefits & Trust

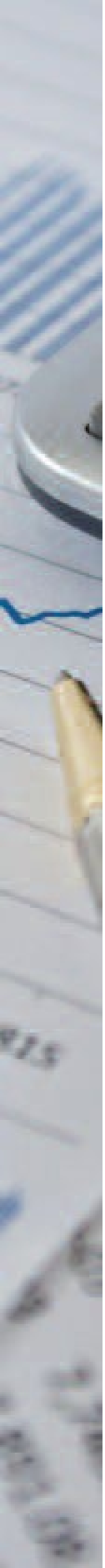
- We are truly "open architecture" in regard to interacting with multiple custodians.
- We are accessible and accountable, and pride ourselves on client service.
- Since we participate in the defined contribution administration business ourselves, we understand the many nuances of this market.
- Our fees are reasonable and competitive.
- We have broad personal knowledge of distribution channels which helps us advise clients on building their business through a network of DC platforms. DC platforms include broker dealers, custody & trust providers, and Third Party Administrators.

What are our operational capabilities?

HB&T takes a collaborative approach working with advisors to manage Collective Investment Funds. Following are some operational highlights:

- We use the most robust trust system in the marketplace.
- We unitize the portfolios daily, perform all of the sub-transfer agent work, distribute net asset values each evening, and make the funds eligible on the NSCC trading platform. This allows collective funds to be traded by virtually any daily valuation recordkeeper, with service fees paid to TPAs and brokers.
- Our flexibility allows us to work with virtually any advisor. We integrate with a number of major custodians.
- We have established daily procedures for our advisor partnership model. This covers important protocols such as the exchange of position, income and transaction files; cutoff times; file formats; and other key matters.
- We serve as trustee, fund administrator and transfer agent for the funds – providing one-stop-shopping for our clients (a decided advantage of HB&T) and partner with major custodians to provide complimentary service.





How do I obtain more information?

If you would like more information on Collective Investment Funds or the Services of HB&T, please contact Stephen Hand or Gregg Zimmerman.

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