Collective Investment Trust Overview

As you may have noticed, over the past several years, certain mutual funds in the MSRP investment line-up have been replaced with collective investment trusts (“CITs”). You may have asked yourself, “why?” or even, “What is a collective investment trust?” The following is intended as a primer of what a CIT is and why the MSRP Board has sought to make these changes. As always, you should contact your tax, legal, and investment advisors if you have specific questions as to what investment is right for your particular situation.

Why is the Board making these changes? One of the ways the Board has historically been able to reduce your costs has been to proactively work with the investment providers to ensure that Plan assets are invested in the lowest cost institutional share classes available in each of the mutual fund options offered by the Plans. As the Plans have reached the lowest cost institutional share class available for many of the mutual funds in the investment line up, the Board sought other ways to reduce fees to Plan participants, including investigating other investment vehicles available to the Plans.

As a result of an investment vehicle analysis and the Board’s biennial review in 2017 both presented to it by the Board’s financial advisor, Segal Marco Advisors, the Board first decided to replace the T. Rowe Price Target Date mutual funds (other than T. Rowe Price Balanced Fund) with the T. Rowe Price Target Date CITs. Further, as part of its ongoing performance review process, the Board also removed American Century Equity Growth Fund and American Growth Funds of America and replaced these underperforming options in the 457(b), 401(k), and 401(a) Match Plans with the T. Rowe Price U.S. Equity Research Trust and the William Blair Large Cap Equity Growth Commingled Investment Fund, respectively. It is currently expected that in August 2021, the passively-managed mutual funds managed by Fidelity and Vanguard and offered in the 457(b), 401(k), and 401(a) Match Plans will transition to CITs managed by State Street Global Advisors (“SSGA”). *You can learn more about the SSGA transition by reviewing the Q2 Statement Article, located under on MarylandDC.com under Resources and Announcements.*

Why aren’t CITs being offered in the 403(b) Plan?

Under current law, 403(b) Plan assets may only be invested in annuities and mutual funds held in custodial accounts. Therefore, these investment vehicles are not permitted options in the 403(b) Plan. Therefore, when the Board determines to make a change, if the mutual fund version of a CIT supports a change, it will select the mutual fund version from that investment provider. However, where a mutual fund version does not support the change (for instance, where there would be no fee savings to participants and there are no performance issues associated with the change), the Board may determine to remain in the current investment option. This is the case with the SSGA transition, wherein the Fidelity and Vanguard investment options will remain in the 403(b) Plan.

To the extent federal legislation passes which would allow 403(b) plans to invest in CITs, the Board expects to revisit the issue to determine if a transition to CITs would be in the best interest of the 403(b) Plan participants.

What is the difference between mutual funds, collective investment trusts, and separate accounts?

The investment lineup in the Plans currently includes mutual funds, CITs, and one separately-managed account (the Investment Contract Pool, or ICP). The following highlights some of the key differences between these three types of investment options.

Mutual Funds

A mutual fund is a collective investment vehicle through which multiple investors hold a diverse portfolio of securities, with each investor owning shares in the mutual fund itself.

- **A mutual fund is registered with, and is regulated by the Securities and Exchange Commission (SEC).** As a result, each registered mutual fund is required to have a prospectus describing how it operates and what it can invest in.
- **Mutual funds are overseen by an independent board of directors.** Material changes to a mutual fund's operations must typically be approved by this independent board, and in some cases by the SEC and the fund's shareholders.
- **Investors in mutual funds own shares in the mutual fund** but generally have no direct interest in the underlying investments made by the fund.
- **Mutual funds have multiple share classes that vary by both (i) the fees and expenses charged to investors and (ii) the persons who are allowed to invest in the share class.** Mutual fund share classes that are limited to plans and other institutional investors typically have lower fees than share classes available to retail investors.
- **Mutual funds have ticker symbols** (specific five-letter abbreviations that identify each mutual fund), so you can easily research a fund's performance online or in a newspaper.

Collective Investment Trusts

Like mutual funds, CITs are collective investment vehicles through which multiple investors invest collectively in securities. In some cases, CITs are managed to replicate the holdings of mutual funds also offered by the same financial organizations. But there are some key differences:

- CITs are managed by a bank or a trust company and are regulated by the Office of the Comptroller of the Currency, a federal agency that regulates national banks or, for state-chartered trust companies, by the comparable state regulator. **CITs are not regulated by the SEC**.
- **CITs are not required to have an independent board overseeing their operations**, and while the bank or trust company operating the CIT owes a fiduciary duty to its investors, the bank or trust company will have more flexibility than the manager of a mutual fund in restricting withdrawals and redemptions.
- **Only retirement plans are allowed to invest in CITs**. CITs do not have retail investors (i.e., individual investors who come into the CIT other than through a retirement plan).
- **A CIT does not have a prospectus**. Information about the CIT is typically limited to a "fund fact sheet" reviewed by the CIT sponsor and available to you from the Plans. Although a CIT has detailed plan and trust documents, these documents are not routinely made available to participants in the Plans.
- **A CIT does not have a trading symbol**. Performance information about a CIT will generally be available only through information provided to you by the Plans.
- CITs may have lower expense fees and charges than a comparable mutual fund, in part because they do not have retail investors and are not subject to the regulatory requirements applicable to mutual funds.

Separate Accounts

A separate account is an investment option that is available only to the participants of the retirement plan in which it is offered. At present, the Investment Contract Pool (ICP) is the only investment option in the Plans which is a separate account. Galliard Capital Management manages the ICP in accordance with a contract between Galliard and the Board and the ICP Investment Policy and Guidelines. Pursuant to the contract, Galliard manages a portion of the assets in the ICP and directs the allocation of the remaining ICP assets to sub-managers chosen by Galliard.

There are some key differences between a separate account, on the one hand, and mutual funds and CITs, on the other:

- Although the manager and any sub-managers of a separate account will typically be regulated by the SEC as investment advisers, the separate account itself is not registered with the SEC or the Office of the Comptroller of the Currency (or a state bank regulator). **A separate account is overseen by the fiduciaries (in our case, the Board) of the plan that offers the separate account as an investment option.** Our Board approves the ICP guidelines, which govern the investments held by the ICP managers, and, in accordance with the broader MSRP Investment Policy, reviews these ICP guidelines at least annually.

- **Only participants in the Plans (except for the 403(b) Plan) are allowed to invest in a separate account.**
- **A separate account does not have a prospectus.** Information about separate accounts offered by the Plans, such as the ICP, is limited to a “fund fact sheet” distributed by the Plans.
- **A custom fund does not have a trading symbol.** Performance information about a separate account will generally only be available only through information provided to you by the Plans.
- **Separate accounts with a manager and several sub-managers allow the Plans to offer participants diversified exposure to separate underlying fund managers via a single investment option.** For instance, the ICP has five investment managers (including Galliard) that each actively manage a portion of the ICP.