Collective Investment Trusts and their Benefits:
Why the 90-Year-Old Vehicle is Worth A Second Look

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Our philosophy for retirement starts with the notion that no individual, family, or business is the same. So no retirement plan solution should be made the same either. At Beaumont Capital Management (BCM), we believe in the power of choice within the complex landscape that makes up the retirement planning industry. It has never been both more difficult and more important than ever to understand the investment vehicles you have to choose from.

Collective Investment Trusts (CITs) are also known as commingled funds, collective investment funds or collective trust funds. Many people in the industry use these terms interchangeably but we are going to call them collective investment funds (CIFs). CIFs have been around for nearly a century but have grown meaningfully in the last few years. For a long time, CIFs were a common choice of defined benefit (DB) plans, but in recent years CIFs increasingly have become a choice of defined contribution (DC) plan sponsors too.

A CIF is a tax-exempt, pooled investment vehicle in which assets are folded into a single portfolio. It is maintained by a bank or trust company exclusively for retirement plans. CIFs have a CUSIP number, assigned by the National Securities Clearing Corporation (NSCC) just like a mutual fund has. This allows CIFs to be traded on virtually any platform, making it accessible to virtually any investor or advisor. Underlying investments can include a wide range of vehicles including, exchanged traded funds (ETFs), equities and individual bonds. CIFs have been in existence for over 90 years and are regulated by the Office of the Comptroller of the Currency. They also must maintain compliance with the Employee Retirement Income Security Act (ERISA) and the Department of Labor (DOL) requirements. With their own strategy, philosophy and objectives, CIFs seek to provide other characteristics not found in investment vehicles like mutual funds. These qualities, which we outline below, become important benefits to evaluate when recommending a retirement solution.

CIFs are already outpacing other offerings in the overall retirement market, growing at a 7-year compound annual growth rate (CAGR) of 14.4%, compared with less than 9% for the overall retirement market over the same time period. In the 2017 year, CIFs were the second largest investment vehicle in terms of 401(k) plan assets, holding almost 20% of total 401(k) plan assets.[1]

How Do CIFs Stack Up Against the Rest?

Lower Costs

CIFs generally have lower operating expenses than mutual funds. This is in part due to the fact they are restricted from advertising to the public and don't have to file prospectuses, shareholder reports and proxy statements, or perform other costly, time-consuming activities. This may come as a surprise, but they do not require registration with the Securities and Exchange Commission (SEC) or Financial Industry Regulatory Authority (FINRA). Instead, the Declaration of Trust, under which the CIF is formed, contains requirements for operations, investment strategy and any other provisions necessary. As a result, reduced fees are passed directly to plan participants. Products can cost 10-30 basis points less than mutual funds with similar benefits and features.[2]

CIFs often also have tiered pricing arrangements that grant lower fund fees as assets grow. And finally, managers are often able to maintain lower cash balances in CIFs than mutual funds, reducing a portfolio's cash drag, because redemption requests are more predictable.

Operational Efficiency

CIFs are just as easy to manage as mutual funds, especially when it comes to trading and recordkeeping. Almost all CIF providers offer daily traded and daily priced funds, monthly net and gross performance, monthly and/or quarterly holdings, and fact sheets. In some cases, banks can hire affiliated or third-party investment advisors to sub-advise their CIFs, while retaining the ultimate investment responsibility. Servicing arrangements between plan recordkeepers and either banks or asset managers that sponsor and maintain CIFs often allow trades by individual employees to be reported in aggregate form.

Another major difference with CIFs is, unlike mutual funds, the estimated cost of trading the underlying investments is included in their expense ratios. Unknown to many, mutual funds do not directly disclose their trading expenses. While the trading expenses are included in a mutual fund's performance, they are not included in the ERISA required disclosure. Mutual fund trading expenses can add as much as 1.44% to their costs.[3] By fully disclosing trading costs of a CIF, the transparency and true cost is made apparent to the sponsor and participants alike.

Transparency

With scrutiny on plan fees and increased litigation in the retirement industry, CIFs are a transparent option in a retirement plan. Daily information is posted on the record keeper's website and CIFs offer a disclosure document known as the offering memorandum, like a prospectus. It is available for the participant to look over with their advisor or plan sponsor.

More plan sponsors are moving away from revenue sharing to pay plan administrative fees. As this continues, CIFs are now heading towards full and complete transparency. In short, they look like, act like and are easy to use like mutual funds.

How do CIFs Stack Up Against the Rest?

Here is a table clearly outlining the differences between mutual funds, CIFs, and SMAs within retirement accounts. Two things we want to point out are:

1. Mutual funds, as you can see in the chart, are not subject to ERISA and as a fiduciary, this is clearly important.

2. SMAs are not available through the National Securities Clearing Corporation (NSCC) which means they can only be accessed on platforms that they have agreements with. If a security trades through the NSCC, its accessible to virtually any non-group plan, no matter what platform is used.

Characteristics	Mutual Fund	Collective Investment Fund	Institutional Separate Account
Eligibility	All Eligible Investors	Qualified Plans Only	Single Investor
Regulators	SEC	OCC, DOL	DOL, SEC
ERISA Fiduciary Standards	No	Yes (CIT trustee)	Yes
Ownership	Plan owns shares in the fund—not the fund's underlying securities.	Plan owns units in the fund—not the fund's underlying securities.	Plan owns underlying securities.
Valuation	Daily	Daily	Daily
National Securities Clearing Corporation (NSCC) Traded	Yes	Yes	No
Liquidity	Daily	Daily	Daily
Governing Documents	Prospectus and additional documents	Declaration of Trust	Custom Agreement
Fees	Not negotiable; share class management fee is defined	May be negotiable; May be scaled	May be negotiable; May be scaled
Pooled Vehicle	Yes	Yes	No
Portability to IRA	Sometimes	No	No
Ticker	Yes	No	No
CUSIP	Yes	Yes	No
Reporting	Extensive public performance information available	Performance available through recordkeeper, by trustee/manager and some CITs are reported on by Morningstar	Performance available through recordkeeper and plan sponsor

CIFs are undoubtedly a more cost effective, regulated, versatile, and competitive option for DC and DB plans. As plans continue to evolve with the times, we have also seen a similar avenue of growth for CIFs. This type of fund may or may not favor your retirement needs, but as always, we here at BCM will work with you to build a plan from the ground up with dedicated attention to specific concerns and requirements.

For more insights like these, visit BCM's blog at blog.investbcm.com

Sources and Disclosures:

[1 2] DST Systems, Erach Desai, Jason Dauwen "Collective Investment Trusts - A Perfect Storm." Understanding CITs and Their New Opportunities, DST Systems, Mar. 2017

[3] Krase, Scott. "The 7 Real Costs of Owning a Mutual Fund." ETF Trends, ETF Trends, Aug. 2017

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