Southern Employee Benefits Conference

Fall Conference

October 1 – 2, 2012

Victor A. Bell, Jr.

Managing Principal | Senior Advisor

CAPTRUST Financial Advisors

Defined Contribution Plans:

BETTER SAVINGS RATES ACHIEVED THROUGH PLAN DESIGN

- Drive participant behavior through plan design
- Auto features, QDIA improves readiness

2012, THE YEAR OF FEE DISCLOSURE

- Continued fee compression
- Thoughtful discussions on how fees are paid
- Participant disclosures will result in questions

TARGET DATE FUNDS SEE ANOTHER YEAR OF GROWTH

- 36% of participants have a TDF allocation
- We expect changes in TDF construction that incorporate participant risk profiles
- Increasing inclusion of income solutions
- Custom solutions?

DO RETIREMENT INCOME PRODUCTS GAIN TRACTION IN 2012?

- Most retirees prefer guarantees over volatility
- Currently only 7% of plans have in-plan option
- Still need improved portability, clarity on safe harbor rules, and standards for monitoring

FIDUCIARY RISK TRANSFER FOR DEFINED CONTRIBUTION PLANS?

- The trend toward “outsourcing” fiduciary oversight and management may continue with desire to transfer risk
- Increased interest in 3(38) Fiduciary

STRIKING THE RIGHT BALANCE IN MENU DESIGN

- Confusion versus choice – balancing act
- Typical plan – 18 offerings/Participant utilization is 3 to 4 options
- Active versus Passive decision

STABLE VALUE EVOLUTION CONTINUES IN 2012

- Compressed rate environment
- Wrap capacity constraints
- Increase in overall fees due to wraps

Defined Benefit Plans:

IS 2012 THE YEAR FOR PENSION PLAN DE-RISKING?

- Compare/Contrast Cash Balance & Market Rate Cash Balance with firms’ and partnerships’ goals
- LDI and dynamic de-risking strategies can be effective
- Equity allocation down from 64% in 2004 to 47%
- Current interest rate expectations cause concerns

WHEN DO I EXTEND DURATION IN MY DB PENSION PLAN?

- LDI typically requires extending duration to match movement of assets and liabilities
- Longer duration equals higher volatility
- Given our interest rate outlook for 2012 and beyond, we expect plan sponsors will continue to grapple with the difficult decision of duration positioning

Nonqualified Plans:

PLANS ADDRESS QUALIFIED PLAN LIMITS

- Qualified plan contribution limits
- SS and qualified plans struggle to meet retirement income needs of executive group

PLAN SPONSORS EVALUATE FINANCING METHODS

- Plan Sponsors should periodically revisit advantages and disadvantages of selected funding methods: Unfinanced/Securities/Life Insurance

PLAN SPONSORS WITH “AT RISK” QUALIFIED PENSIONS MAY HAVE TO RESTRICT NQDC BENEFITS

- PPA imposed rule that plan sponsors with “at risk” DB plans cannot fund NQDC for executives
- Qualified pension plans’ funded status deteriorated meaningfully in 2011

TARGET DATE FUNDS

- We expect TDFs will continue to gain traction as they are the QDIA of choice for most plan sponsors
- Continued industry/plan-sponsor scrutiny on 100% proprietary offerings
- Increased movement into passive TDF offerings
- Increased focus on which TDF is "right" for a plan

IN-PLAN INCOME PRODUCTS

- Continued interest from plan sponsors in income products (particularly insurance-based with guarantees)
  - Very light adoption, however
- Continued administration focus on the concept of retirement income and security of retirement income
- Very little gathered in assets to-date
  - Per a survey of providers conducted by our firm, as of 6/30/12 there is less than $2bn inside of DC plans invested in these retirement income products
- Recent announcement of United Technologies launching a retirement income product (managed by Alliance Bernstein) marks the first real entrance of a "mega" plan into the product space

LOW INTEREST RATES

- Low interest rates expected to persist given Fed's continued accommodative stance most recently telegraphed to go into 2015
- Low short-term interest rates resulting in near 0% returns for money markets
- Low interest rates resulting in crediting rate compression in stable value and insurance guaranteed funds
- Low interest rates affecting capital market returns as a whole
- Low interest rates also affecting intra-market correlation throughout various segments of the capital market

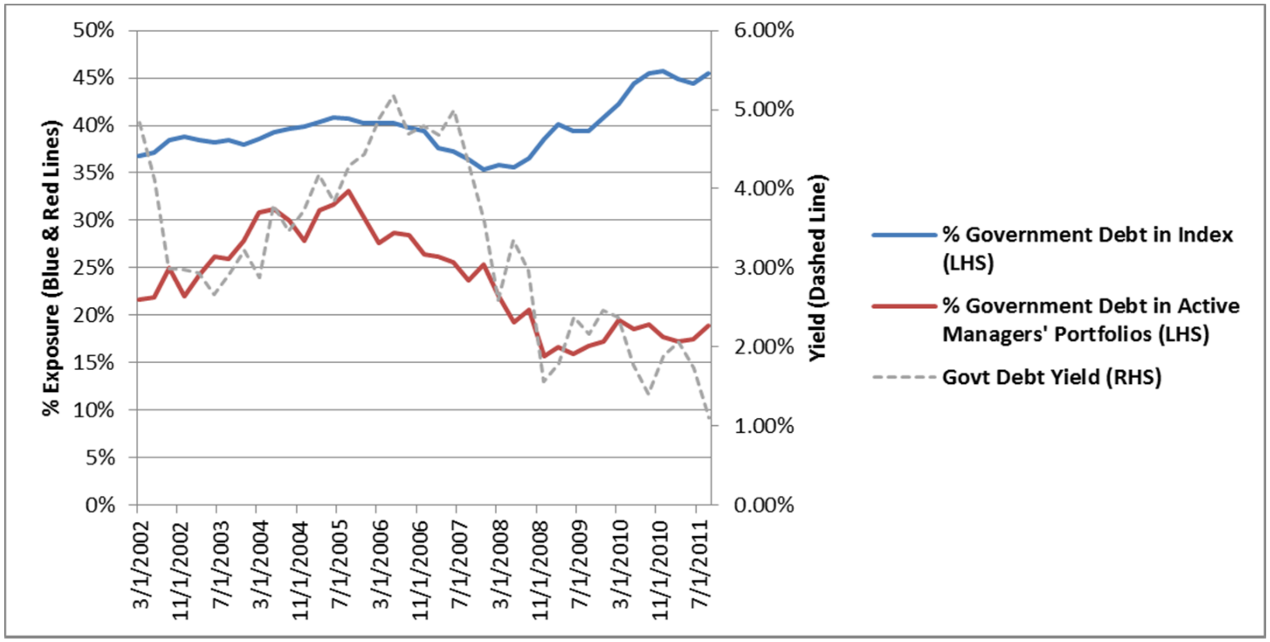
ACTIVE MANAGEMENT STRUGGLES

- Heightened intra-market correlation has hindered active managers' ability to differentiate and add alpha
- Heavy reliance on policy-makers to drive market direction has supplanted investors' focus on fundamentals
    - Risk-on/risk-off market environment
- Heavy Treasury Financing of the last 4 years has affected composition of core benchmark (Barclay's Aggregate Bond Index)
    - Correlations between core bond managers and core benchmark have declined significantly since 2007.

Fixed Income Markets Background

CHANGES TO THE INDEX & PORTFOLIOS DRIVEN BY DEBT ISSUANCE

Changing Composition of BarCap Agg Index and Managers' Government Bond Holdings

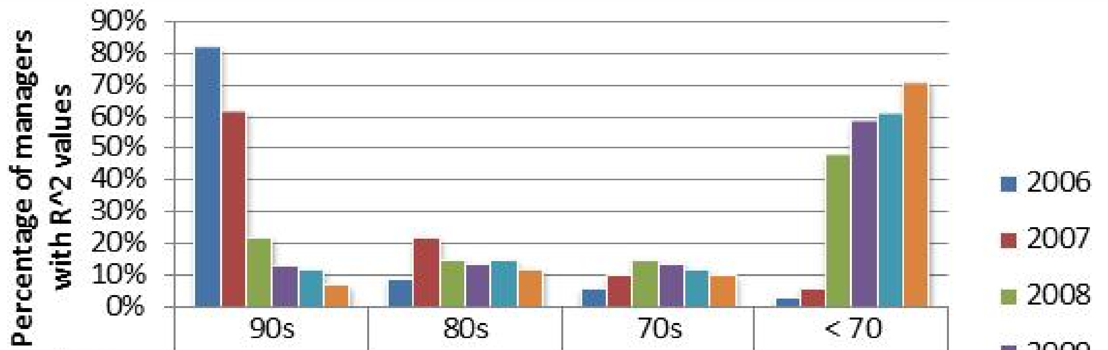


- U.S Government debt outstanding has ballooned.
- The BC Agg is a market-weighted index, therefore the percentage of government debt in the index has increased significantly.
- As yields have fallen and managers are concerned about the forward path of interest rates, their allocations to this most interest rate sensitive sector have waned.

Fixed Income Markets

UNIVERSE RETURNS LOOKING LESS LIKE THE INDEX

Morningstar Intermediate Term Bond Universe:
R^2 Distribution since 2006



	90s	80s	70s	< 70
2006	82%	9%	6%	3%
2007	62%	22%	10%	6%
2008	22%	15%	15%	48%
2009	13%	14%	14%	59%
2010	12%	15%	12%	61%
2011	7%	12%	10%	71%

- Since holdings have started to differ since the credit crisis, returns have started to differ as well
- This trend is seen by the migration of R^2 values from high to low in the last five years