A Recap of 2016 as You Plan for 2017

A Multnomah Group Presentation

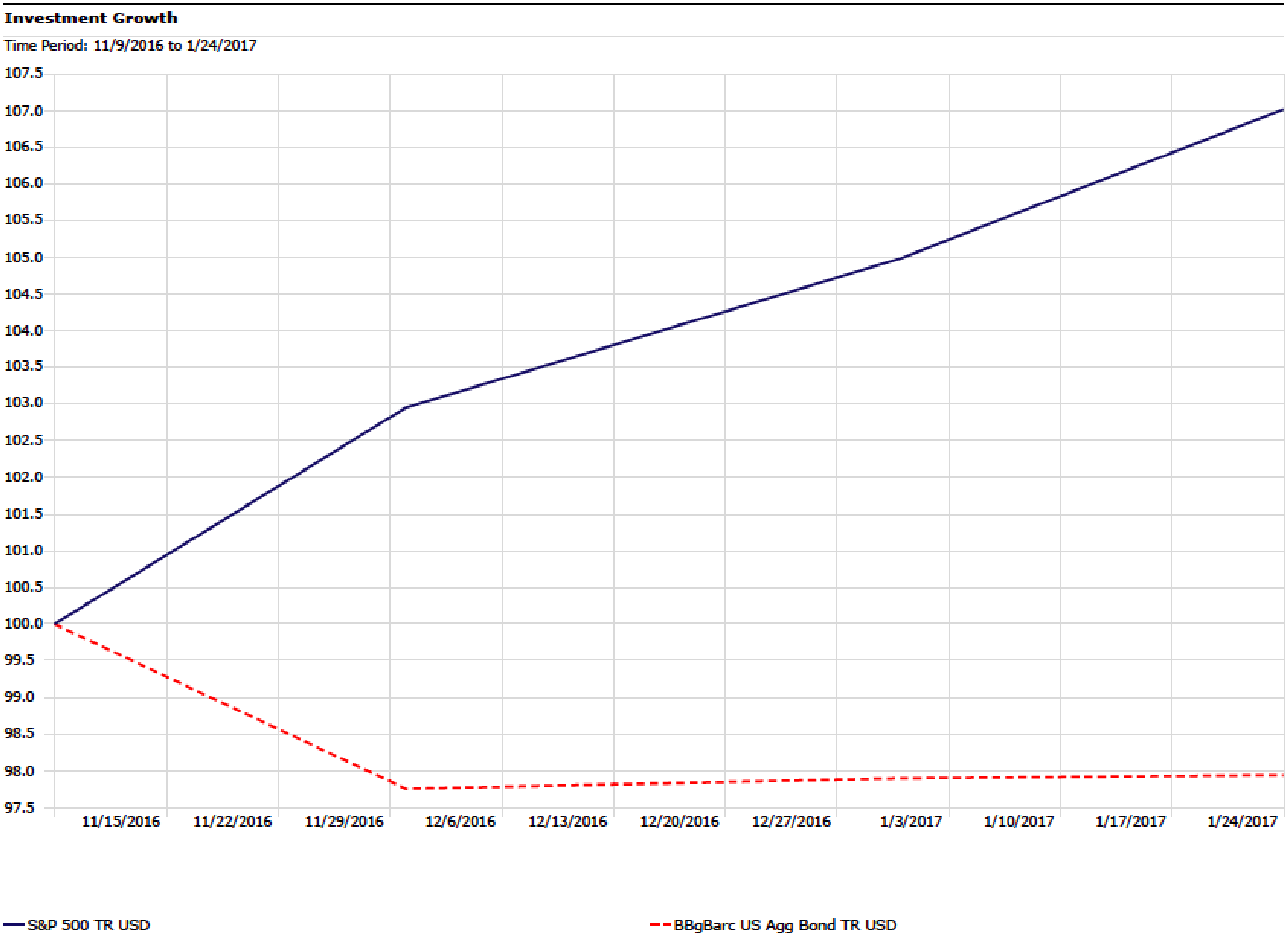
Agenda

- Recap of Top Events & Trends in 2016 & Impact on Retirement Plans
  - ✓ Presidential Election
  - ✓ New Litigation Targets & Theories
  - ✓ Changes to Money Market
  - ✓ The Demise of Revenue Sharing
  - ✓ The DOL Fiduciary Rule
- What's to come in 2017 & How Multnomah Group Can Help
- Question and Answer

Presidential Election

- Current Economic Status
  - The US economy grew at the fastest pace in two years; real GDP grew at 3.5% (quarter-over-quarter) and 1.7% (year-over-year) for Q3 2016
  - Core CPI (which strips out food and energy prices) declined to 2.1% in November 2016
  - The number of Americans filing for unemployment in December 2016 remained low; wage pressure continued to rise
  - The trade deficit widened in November 2016 to $65.3 billion as imports continued to outpace exports
  - Consumer confidence in December 2016 hit the highest level in over 15 years
  - The yield on the 10-year Treasury jumped from 1.60% to 2.45% in Q4 2016, fueled by concerns about faster economic growth, inflation, and Fed hikes
  - The Federal Reserve raised rates by a quarter point in December 2016; this was the second rate hike in a decade

Presidential Election



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Presidential Election

- Promises with a Positive Impact on Stock Performance
  - President's policies perceived as favoring economic growth and corporate profits
  - Major proposed policy change is a reduction in corporate taxes
  - Domestic infrastructure program
  - Reduced regulation (Dodd-Frank Act)
  - Markets react to impact on profits without regard to overall economic impact

- Promises with a Negative Impact on Stock Performance
  - Opt-out of TPP and renegotiation of NAFTA may limit opportunities for domestic exporters
  - More restrictive policing of undocumented aliens may increase labor costs

- Other Market Impacts
  - Higher interest rates associated with growth expectations
  - Significant currency volatility (Peso)

Presidential Election

Benchmarks	
	11/9/2016
	1/24/2017
Group/Investment	Return (Cumulative)
Unclassified	
MSCI ACWI Ex USA Large Growth NR USD	1.63
MSCI ACWI Ex USA Large NR USD	4.23
MSCI ACWI Ex USA Large Value NR USD	6.53
Russell 1000 Growth TR USD	6.23
Russell 1000 Value TR USD	8.50
Russell 2000 Growth TR USD	12.08
Russell 2000 Value TR USD	17.63
Russell Mid Cap Growth TR USD	7.54
Russell Mid Cap Value TR USD	10.12
Russell Mid Cap TR USD	8.95
BBgBarc US Agg Bond TR USD	-2.06
Russell 1000 TR USD	7.37
Russell 2000 TR USD	14.92
S&P 500 TR USD	7.02

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Presidential Election

- Regulatory Impact
  - SEC Chairman nominee Jay Clayton
  - DOL Secretary nominee Andrew Puzder
  - Deregulation and scale back of existing regulations for the financial and banking industry

Litigation Targets and Theories

- Litigation Targets
  - Colleges and Universities
  - Small Plans
- Litigation Theories – Beyond Excessive Fees
  - Fund selection (examples: money market v. stable value, active v. passive)
  - Fee arrangements with providers
- *Tibble v. Edison* Revisited
- Church Plans

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Changes to Money Market

- Basic Reforms:
  - Floating NAV for Institutional MMFs
    - Retail and US Government Funds exempt
  - Liquidity fees and gates for all non-government MMFs
  - Increased diversification and stress testing

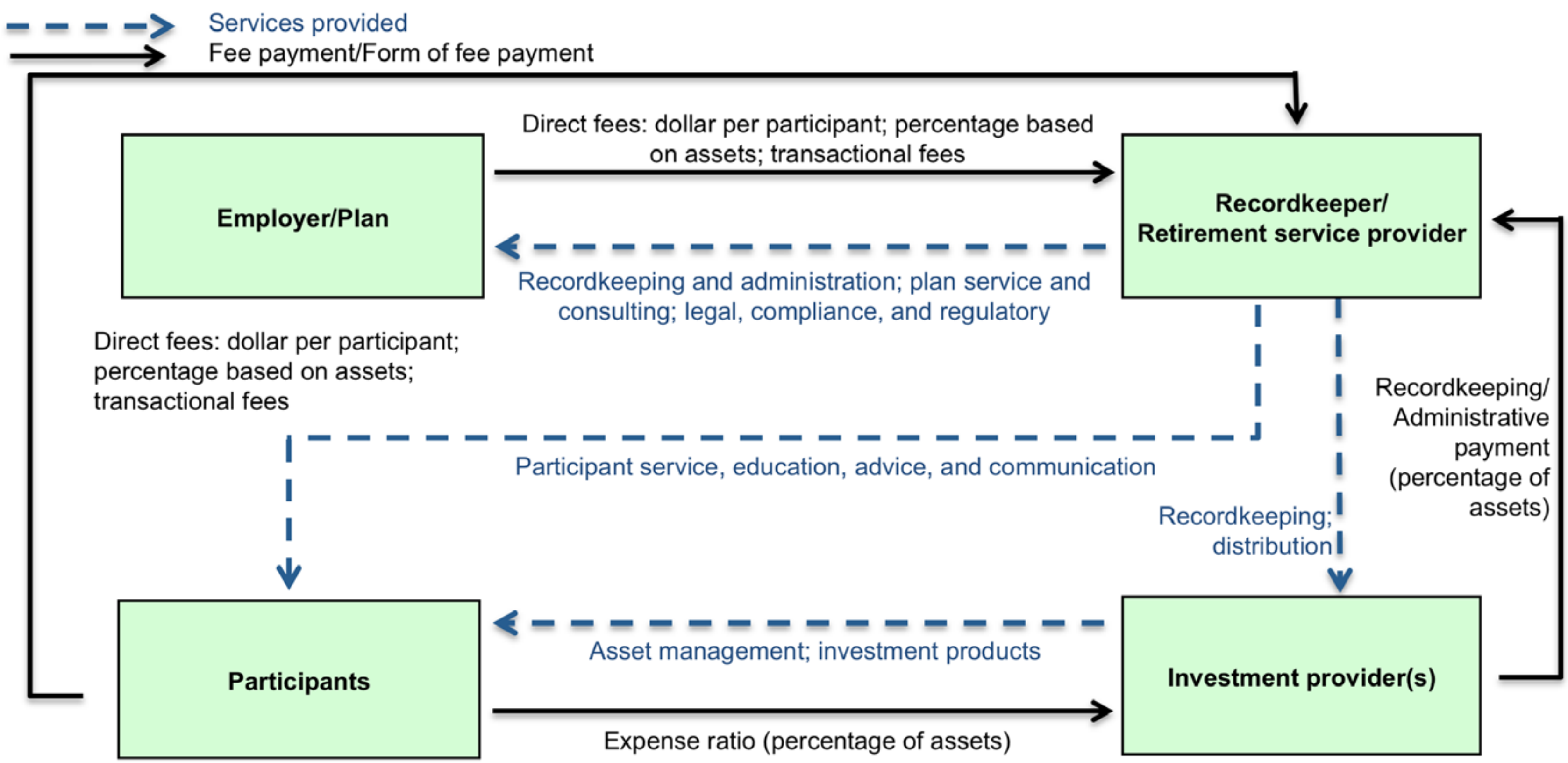
- Timeline
  - April 14, 2016 – Diversification, stress testing, additional disclosures, new SEC forms
  - October 14, 2016 – Conformance with FNAV, fees and gates

Money Market Changes: Impact on Retirement Plans

- Move to higher quality government debt and shorter duration positions will likely reduce expected returns
  - Risk and return are correlated
- Ability to trigger fees and gates at the participant and plan sponsor level
- Disclosure responsibilities
  - 408(b)(2)
  - 404(a)(5)
- Closer examination of the “cash equivalent” strategy
- Plan sponsors are likely to move to government and treasury funds to avoid redemption gates, liquidity fees, and floating NAV
- Plan sponsors will need to evaluate the role of cash equivalents in a defined contribution plan

Revenue Sharing & Other Fee Arrangements

A Variety of Arrangements May Be Used to Compensate 401(k) Service Providers



Note: In selecting the service provider(s) and deciding the cost-sharing for the 401(k) plan, the employer/plan sponsor will determine which combinations of these fee arrangements will be used in the plan.

Source: *ICI Research Perspective*, "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2012"

Trends in Retirement Plan Pricing

- ✓ Fee Equalization
- ✓ Proliferation of Zero Revenue Fund Offerings
- ✓ Per-Capita Fee Structures
- ✓ Increasing Transaction Fees
- ✓ Vendor Focus on Cross-Sell Opportunities

DOL Fiduciary Rule

- Starting April 2017, the new regulatory package is effective and includes, but is not limited to:
  - Revised definition of fiduciary under ERISA Section 3(21)(A)(ii);
  - Activities that are excluded from the definition of advice/recommendation (including activities considered to be education – not advice); and
  - Inclusion of a Best Interest Contract Exemption (BICE).

- Trump Administration and Congress may change course via:
  - No longer defending actions in court
  - Congressional Action
  - Delayed Implementation
  - Continued Implementation with Lacking Enforcement

Looking Ahead to 2017

- **Likely in 2017**: Market volatility as a result of changes in bond yields, domestic equity market allocation, and changes in currency valuation

  - ***Next Step for Retirement Plan Committees:***

    ✓ *Examine your Investment Policy to determine whether binary policy triggers are possible*

    ✓ *Enhance employee communication strategies to focus on long-term performance over short-term performance and volatility*

Looking Ahead to 2017

- **Likely in 2017**: Continued class action litigation focusing on expanded targets beyond mega 401(k) plans; cases will reach beyond the traditional excessive fees and stock drop cases

  - ***Next Step for Retirement Plan Committees:***

    ✓ *Meet quarterly and document via meeting minutes*

    ✓ *Review the plan's governing documents and update as necessary (Investment Policy, Charter)*

    ✓ *Understand and monitor fees*

    ✓ *Review and monitor investment options*

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Looking Ahead to 2017

- **Likely in 2017**: Continued low real yield on money market investments
  - ***Next Step for Retirement Plan Committees:***
    - ✓ *Examine your Investment Policy to review language on cash equivalents*
    - ✓ *Review utilization and purpose of money market in an investment menu*
    - ✓ *Evaluate “cash-equivalent” alternatives for participant use*
    - ✓ *Document the decision to retain or replace money market as an asset class*

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Looking Ahead to 2017

- **Likely in 2017**: Accelerating rate of class-action suits exploring fees and fee reasonableness combined with additional inquiries from DOL regulators on the topic

  - ***Next Step for Retirement Plan Committees:***

    ✓ *Evaluate the current aggregate “reasonableness” of fees paid by plan*

    ✓ *Review how plan costs are being allocated to evaluate fairness*

    ✓ *Document the Committee’s awareness of current fee allocation structure*

    ✓ *Regularly repeat process of measurement and allocation*

    ✓ *Review availability of alternative share classes, where appropriate*

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Looking Ahead to 2017

- **Likely in 2017**: Fiduciary rule and/or best interest standard will go forth in some capacity under the Trump administration, but likely with less enforcement and/or delayed implementation

  - ***Next Step for Retirement Plan Committees:***

    ✓ *Continue to reach out to your service providers to understand how they are handling the DOL's fiduciary rule (e.g. will they serve as a fiduciary to the plan? To participants?)*

    ✓ *After April 2017, monitor education materials made available by vendors to ensure they are objective and not bias*

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