



## Collective Investment Trusts—Take a Closer Look

Collective Investment Trusts (CITs) continue to be an attractive vehicle for plan sponsors to add to their retirement plan offerings. In 2021, the Callan Institute found that 78%<sup>1</sup> of defined contribution (DC) plans featured a CIT—up from 75% in 2019—making CITs the second-most common type of investment vehicle offered by retirement plans, after mutual funds.

Plan sponsors and their financial advisors/consultants like CITs because they combine some of the more desirable features of a separately managed institutional account and a mutual fund, such as lower cost, transparency, operational efficiency and easily accessible information to participants. Yet some questions still arise. Here are the answers to some of the most common questions we receive about CITs.

### The Basics

#### Q What Is a CIT?

CITs are a versatile, cost-effective and competitive alternative to mutual funds for DC plans and defined benefit (DB) plans. They can offer participants lower-cost investment options and help plan sponsors provide transparency. They are tax-exempt, pooled investment vehicles for qualified retirement plans that are maintained by a bank or a trust company that acts as the fiduciary.

#### Q How Are CITs Different from Mutual Funds?

CITs tend to be more cost-effective than mutual funds, with lower costs associated with compliance, administration, marketing and distribution. They are similar in nature to mutual funds in that most are traded through the National Securities Clearing Corporation (NSCC) to mirror mutual fund daily pricing and trading capabilities.

#### Q How Can I Tell the Difference Between the Ticker Symbol for a Mutual Fund and a CIT?

CITs have six characters in their symbols. Mutual funds have five or less characters. Ticker symbols for CITs are a relatively new practice and not all CITs have them yet.

#### Q Do CITs Have Less Regulatory Oversight than Mutual Funds?

CITs are maintained by banks and trust companies, all of which are regulated and subject to supervision by federal or state banking regulators and the US Department of Labor. CITs and their trustees

are also subject to highly stringent fiduciary standards and conflict-of-interest provisions under the Employee Retirement Income Security Act of 1974 (ERISA). Mutual funds are generally sponsored by investment advisers, which are regulated by the SEC and subject to specific disclosure and reporting requirements. While mutual fund assets are not governed by ERISA, there are similar governing regulations to protect investors and address conflicts of interests. Both CITs and mutual funds provide annual audited financial reports.

### Eligibility and Pricing

#### Q Who Is Eligible?

CITs are available only to qualified retirement plans, subject to ERISA. Both DC and DB plans are eligible; 403(b) plans, 457(f) plans and IRAs are not eligible to invest in CITs.

#### Q How Are CITs Priced?

Cost depends on plan size and type of investment vehicle. Many CITs have multiple share classes, which may lead to more flexible pricing.

#### Q Do CITs Have High Minimums?

Minimum investment requirements vary depending on the CIT. Some asset managers, including AllianceBernstein (AB), have eliminated minimum requirements, while others are reducing their minimums—making CITs more accessible in the small and midsize retirement plan market.

<sup>1</sup> 2022 Defined Contribution Trends Survey, Callan Institute, 2022.

## AllianceBernstein CITs at a Glance\*

**\$0**

Minimum Investment Requirement

**\$13 Bil.+**

in CIT AUM

**1,500+**

Plans

**27**

Investment Strategies Offered in a CIT

**30**

Recordkeeping Platforms

\* As of December 31, 2022

### Q Do CITs Have the Same Level of Reporting That Mutual Funds Have?

While reporting may vary, most leading CIT providers offer reporting similar to that of mutual funds. Many third-party data providers, including Morningstar, offer CIT databases for monitoring or analyzing CITs.

## CIT Considerations

### Q What Should Be Considered When Selecting CITs?

As a best practice, plan sponsors and their financial advisors/consultants should generally choose the strategy first and then select the most appropriate investment vehicle. Consider the size of the plan's investment, the plan's eligibility by vehicle, fees and any other additional factors that are relevant to the plan.

### Q Do CITs Help Plan Sponsors Fulfill Their Fiduciary Duty?

The plan sponsor is always the plan fiduciary, but CITs can help plan sponsors fulfill their fiduciary duty to offer reasonable, cost-efficient investment options, since CITs typically cost less than their mutual fund counterparts.

## Holdings and Performance

### Q Why Would the Performance of a Mutual Fund Vary from Its CIT Counterpart?

Even if mutual funds and CITs are managed the same (i.e., comparable asset allocation, strategy, etc.), differences in performance can be attributed to the difference in fees and the size/timing of cash flows. As inflows into CITs increase, the overall fund size grows, and that cash flow has an impact on the performance until the fund grows to scale.

### Q Are Holdings in CITs the Same as They Are in Mutual Funds?

If mutual funds and CITs are managed in accordance with the same investment strategy, there often is not a significant difference in the funds' holdings. Slight differences may occur from time to time as investment managers respond to market conditions, liquidity needs and other external factors.

### Q Do Inflows Impact Buying Positions, Performance, etc.?

The timing of flows is important. If a manager receives a large inflow on a day in which the market is significantly up or down, that manager must balance the need to invest the cash inflow in accordance with the funds' objectives, while also taking into account market volatility. This could lead to performance differences from another fund, which may not be seeing the same size/direction of flows.

### Q Do CITs Pay Dividends or Interest?

No. While CITs earn dividends, interest and capital gains on their holdings, they are not required to pay out these earnings to participants like mutual funds must do with their shareholders. As a tax-qualified retirement vehicle, CITs can reinvest these earnings and continue to accrue the gains on a tax-deferred basis for investors.

### Q How Do Participants Get Information—Including Performance?

Similar to mutual funds, plans are required to disseminate information related to holdings to participants. This information would include documentation on the CIT's investment objectives and strategy, performance and fees/expenses. Performance and pricing information is readily available through Morningstar and on recordkeeper websites, quarterly statements and fact sheets. Morningstar tracks information on more than 8,116 CITs. Additionally, the number of CITs with ticker symbols is growing, making them even easier to track.

## Three Reasons to Choose CITs

### 1 Cost

CITs generally cost less than mutual funds, as they are exempt from SEC registration, which lowers their legal-, board- and compliance-related costs. Some CITs have no or low minimum investment requirements.

### 2 Flexibility

CITs offer operational efficiency. They are easy to establish and maintain. CITs are often traded through the NSCC to mirror mutual fund structure.

### 3 Transparency

CITs enable easy access to information on recordkeeper websites, quarterly statements and fact sheets. Some CITs now have ticker symbols.

## The Role of the Trustee and AB's Relationship with Great Gray Trust Company, LLC<sup>SM</sup>

### How Are AB CITs offered?

Many of the AB investment strategies that are available in a CIT structure are offered in collaboration with Great Gray Trust Company, LLC ("Great Gray"). For these CITs, which include the "W-Series" designation in the name, Great Gray is the Trustee. The CITs offered through Great Gray access the AB investment strategies by investing directly into the corresponding AB CIT, of which the AB Trust Company serves as Trustee, and AB is the portfolio's investment adviser.

As the CIT market continued to expand in recent years, AB recognized a need to engage with an established Trustee to create greater operational scale and make our CITs more accessible for plan sponsors. After two years evaluating and conducting extensive due diligence on various Trustee solutions, AB elected to engage with Great Gray in 2019, and launched the W-Series format of our CIT offering.

### Who Is Great Gray Trust?

Great Gray is a forward-thinking provider of Collective Investment Trusts (CITs) committed to expanding and evolving in the retirement space. Their fiduciary heritage is the cornerstone for designing and implementing dynamic, value-driven solutions for clients and participants. Great Gray is a leader in the collective investment trust market with over \$144.4 billion in collective investment fund assets they administer and/or are across funds managed by more than 65 sub-advisors and available on 40 trading platforms as of June 30, 2023. These funds represent most investment style categories, including several target-date and hard-asset funds.

### What Is the Role of Great Gray Trust as the Trustee?

Under the CIT regulatory framework, the bank or trust company that charters and maintains the Trust is the fiduciary and is responsible for exhibiting "exclusive management" over the CIT. Under the AB-Great Gray construct, Great Gray is the trustee and AB is the investment adviser. As the Trustee, Great Gray is responsible for the due diligence and selection of all CIT counterparties. Therefore, they technically have the authority to terminate AB as the investment adviser to one or more CITs; however, the agreements governing our relationship with Great Gray, as well as the unique replica fund structure, would require that substantial notice be given to AB. Although this is highly unlikely to occur, in this case AB would be able to offer displaced plans a direct investment into our CITs through the AB Trust Company.

By working with Great Gray, AB has streamlined the onboarding process for new plans seeking to invest in our CITs—easing the amount of paperwork needed to process.

## Next Steps

### 📍 How Easy Is It to Add a CIT?

Adding a CIT to a plan investment lineup is easier than you might think. In most cases, the completion of a participation agreement is the primary paperwork required. The participation agreement asks for easy-to-access information such as the type of plan, the recordkeeper/trading platform, the name and number of the plan and the plan tax ID. A signature from the fiduciary—either the advisor or the plan sponsor—and the inclusion of the share class requested completes the process. Once in receipt of the participation agreement, the Trustee (Great Gray) coordinates with AB and the plan's recordkeeper to complete the process. The process portion usually takes around two weeks.

### 📍 How Can a Plan Transition from Mutual Funds to CITs?

As the fiduciary to the plan, it is incumbent on the sponsor to examine all marketplace options and conduct thorough due diligence to determine the best investment options for the plan. The sponsor should also consider the Investment Policy Statement, which may provide additional guidance on the selection of various pooled investment vehicles, such as CITs and mutual funds. Should the determination be made to transition from a mutual fund to a CIT, Great Gray and AB can work with the plan sponsor, consultant (where applicable) and recordkeeper to facilitate that process.

## Learn More

**For information on how to help plan sponsors and participants capture the benefits of CITs, please contact AllianceBernstein at (800) 243 6812.**

The AB Collective Investment Trust Series Trust (the "Trust") is a Collective Trust formed by the AB Trust Company, LLC, as Trustee. The Trust is not a mutual fund and units of the Collective Trust are not deposits of AllianceBernstein Trust Company, LLC, or AllianceBernstein Investments Company. The Units are securities that have not been registered under the Securities Act of 1933 and are exempted from investment company registration under the Investment Act of 1940. Therefore, Participating Plans and their Participants will not be entitled to the protections under these Acts. AllianceBernstein L.P. is the Trust Advisor and provides investment management services to AllianceBernstein Trust Company, LLC, as the Trust's Trustee; the Trust's Trustee also provides customized securities processing services. Effective April 2, 2007, AllianceBernstein Trust Company, LLC, was appointed successor trustee to the Trusts.

Great Gray Trust Company, LLC Collective Investment Funds ("Great Gray Funds") are bank collective investment funds; they are not mutual funds. Great Gray Trust Company, LLC serves as the Trustee of the Great Gray Funds and maintains ultimate fiduciary authority over the management of, and investments made in, the Great Gray Funds. Great Gray Funds and their units are exempt from registration under the Investment Company Act of 1940 and the Securities Act of 1933, respectively.

**Investments in the Great Gray Funds are not bank deposits or obligations of and are not insured or guaranteed by Great Gray Trust Company, LLC, any other bank, the FDIC, the Federal Reserve, or any other governmental agency. The Great Gray Funds are commingled investment vehicles, and as such, the values of the underlying investments will rise and fall according to market activity; it is possible to lose money by investing in the Great Gray Funds.**

Participation in Collective Investment Trust Funds is limited primarily to qualified retirement plans and certain state or local government plans and is not available to IRAs, health and welfare plans and, in certain cases, Keogh (H.R. 10) plans. Collective Investment Trust Funds may be suitable investments for participants seeking to construct a well-diversified retirement savings program. Investors should consider the investment objectives, risks, charges, and expenses of any pooled investment company carefully before investing. The Additional Fund Information and Principal Risk Definitions (PRD) contains this and other information about a Collective Investment Trust Fund and is available at [www.wilmingtontrust.com/PrincipalRiskDefinitions](http://www.wilmingtontrust.com/PrincipalRiskDefinitions) or ask for a copy by contacting Great Gray Trust Company, LLC at (866) 427 6885.

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