



Retirement Times

NEWS AND UPDATES FOR RETIREMENT PLAN SPONSORS AND FIDUCIARIES

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Large Cap: What It Is and Why It Belongs in your 401(k)

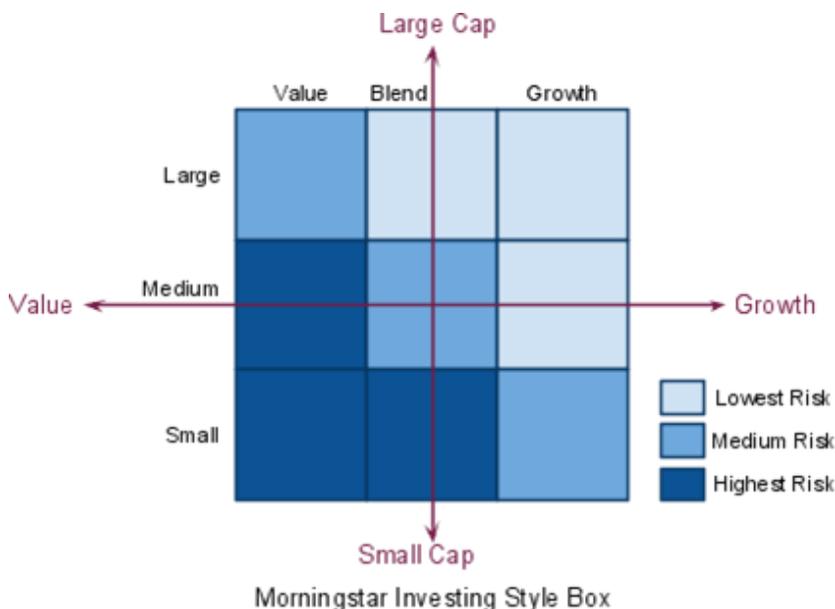
Any committee member sitting through their share of plan investment review meetings has heard the term “large cap” come up quite frequently. In our experience, large cap funds are top of the list when the review turns to the stand-alone funds in the lineup. Given this place of prominence, it is critical to ponder its definition, its importance, and how they can be utilized best in an efficient, participant-friendly manner within plan investment lineups.

Large cap is an abbreviation of “large capitalization” which refers to the market capitalization of a public company with a market value (number of shares outstanding multiplied by stock price) greater than \$20 billion. On the upper end, the market cap of the very largest stocks reaches into hundreds of billions of dollars. The largest of large cap stocks are household names such as Apple (topping the list of largest U.S. public companies with a market capitalization of \$730 billion¹), Microsoft (\$498 billion¹), Amazon (\$403 billion¹), Facebook (\$398 billion¹), Exxon Mobil (\$343 billion¹), Wells Fargo (\$293 billion¹), and Walt Disney (\$175 billion¹).

Because of their size, large caps collectively comprise the majority of total stock market capitalization even while representing only a small number of individual stocks (approximately 200) out of the thousands of publicly listed

companies. For this reason, large cap stocks represent a prominent role within most equity allocations whether part of a broad asset allocation fund like a target date fund or via a mix of the stand-alone funds in a plan lineup.

Now that we defined a stock as large cap, it’s a straight forward extension that large cap funds in a lineup hold



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investment positions in these large companies. They follow different strategies referred to as value, growth or blend and each of these may be actively or passively managed.

Value funds invest in stocks deemed “out of favor” or “cheap” (based on dividend yield, price-to-earnings, or price-to-book value, etc.). Growth funds invest in stocks of companies with higher earnings opportunities. Financials, Energy, Telecommunications and Utilities are sectors of the market traditionally associated with value while sectors such as Information Technology and Health Care are considered growth. Blend funds predictably include both value and growth and are aimed at offering a broad exposure across large capitalization stocks. The benchmark against the broad-based Russell 1000 Index contains the stocks found both in the Russell 1000 Value and Russell 1000 Growth Indices.

From a design perspective, both value and growth deserve a place in the lineup. Efficient and effective large cap exposure includes active value and growth and rounded out by a low-cost, passively managed index fund in the large cap blend category. We believe these guidelines constitute best practices of retirement portfolio construction.

as of 03/03/2017

The opinions expressed in this commentary are those of the author. This is for general information only and is not intended to provide specific investment advice or recommendations for any individual. It is suggested that you consult your financial professional, attorney or tax advisor with regard to your individual situation. Comments concerning the past performance are not intended to be forward looking and should not be viewed as an indication of future results.

All investments involve varying levels and types of risks. These risks can be associated with the specific investment, or with the marketplace as a whole. Loss of principal is possible.

Russell 1000® Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Fortified Decision-Making

Structure your plan committee meetings for success

Defined contribution (DC) plan committees face increasing scrutiny on the myriad of decisions they make for their respective plans. During committee meetings, it's no longer enough to run through an agenda of basic responsibilities; now, more than ever, plan committees recognize that they need to address all of the issues that they are responsible for, including emerging issues. As such, committee decision-makers need to strategically plan meeting agendas that cover both the micro job of looking closely at each issue affecting the plan today, and the macro job of ensuring emerging issues that may impact the plan in the future are considered over the course of the year.



With the help of your Lebel & Harriman plan advisor/consultant, committees should develop holistic meeting agendas that keep them informed and compliant. Since most committee members do not spend the majority of their time in the DC marketplace, they should regularly ask experts to describe new and emerging issues, and/or older issues that they may not have addressed, but should.

To begin the discussion, the checklist found below covers some current and emerging agenda items that plan committees should consider at their fiduciary meetings.

- ✓ Review minutes of last committee meeting and report on action items
- ✓ Investment reviews
- ✓ Review of service provider operations and issues
- ✓ Review of participant-related issues
- ✓ Review of participant disclosures and notices
- ✓ Report on legal changes
- ✓ Report on industry trends
- ✓ Plan design review
- ✓ Review of plan policies

Unscheduled Items

There are other issues that require a committee's attention. However, not all matters need to be reviewed every year, and in other cases the issues are driven by events, including provider changes, 404(c) compliance, required plan amendments and amendments to service provider agreements.



This is an excerpt of BNY Mellon Dreyfus's article Fortified Decision Making – Structure your plan committee meetings for success.

Fiduciary Risk when Using Industry Average Reports to Determine Fee Reasonableness

This is a very important and often misunderstood issue. Industry average fee data can serve as a good general “second opinion” of fee reasonableness. The industry recognizes that fees can be very plan-centric in nature. National averages may not capture the nuances of plans that drive cost (both in a positive and negative manner). Thus, a more tailored approach may not only be best practice, but can be more determinative of what a plan's actual value on the open market is at any one point in time. The detail of a robust RFP (Request for Proposal) can be more determinative of fee reasonableness as it is based on what other providers would actually charge to provide the same services for the specific plan. It is a direct apples-to-apples comparison.

Moreover, benchmarking fees in a vacuum can paint an incomplete picture. In addition to providing benchmarking of fees, the RFP process incorporates benchmarking of services and investment opportunities. All three of these elements must be viewed in conjunction with one another to fully vet “reasonableness” of an engagement. Also, the RFP process serves as an educational tool for fiduciaries in addressing the various components of plan fees including revenue sharing.

Based on Department of Labor (DOL) expressed intent and related fee litigation, use of averages and estimates have not been considered sufficient for determining fee reasonableness as they likely do not reflect the specific plan considerations which may impact pricing. The DOL has stated that plans should solicit live bids on a pro-active basis. Only a periodic (every 3-5 years) robust live-bid process, like an RFP, is most likely to be considered a sufficient and prudent process for determining fee reasonableness by plan fiduciaries.

A related recent case in point involves fee reasonableness litigation against City National where the court found that in City National's determination of fee reasonableness by use of "...averages and estimates," rather than directly tracked expenses was not satisfactory. For more information on benchmarking and conducting an RFP on your plan, please contact your Lebel & Harriman advisor.

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