# CITs Close Up

VIRTUS INVESTMENT PARTNERS

Collective Investment Trusts (CITs) were initially developed for qualified retirement plans as a more flexible, lower-cost alternative to mutual funds. Once reserved for defined benefit (DB) plans and the largest defined contribution (DC) plans, CITs have become a more mainstream option, and are being increasingly adopted by DC plan sponsors. Today, 75% of surveyed plans offer a CIT as a plan option compared to just 44% in 2011.[1] With $3.1 trillion under management, CITs represent over 25% of all 401(k) assets.[2] As interest in CITs has continued to grow, so too has coverage of the industry. Morningstar's database currently offers data on roughly 6,800 CITs.[3]

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## How CITs Work

CITs are tax-exempt, commingled vehicles operated by a financial institution such as a bank or trust company, which is known as the trustee. CITs are not subject to SEC oversight but are regulated by the Office of the Comptroller of the Currency (OCC) and state banking authorities, as well as the Department of Labor (DOL), pursuant to the Employee Retirement Income Security Act (ERISA).

Even though CITs are valued on a daily basis, they may only be used in 401(k) and other qualified retirement plans. Individual retirement accounts (IRAs), individual retail accounts, non-qualified deferred compensation plans, 403(b) plans, foundations, and endowments do not have access to CITs.

### Flexible Design

A key benefit of CITs is that there are few investment restrictions, making them easily customizable. They can hold almost any type of asset, including mutual funds, target-date funds, ETFs, and many alternative asset classes that are not permitted or not easily included in mutual funds, such as stable value portfolios and real estate. This flexibility has made CITs a popular choice as the underlying vehicle for asset allocation and target-date funds. And like managed accounts, CITs may qualify as Qualified Default Investment Alternatives (QDIAs) under ERISA.[4]

### Fiduciary Appeal

With the industry's heightened focus on transparency and service provider fee disclosures under ERISA 408(b)(2), CITs are being recognized as viable options that may help provide greater fiduciary oversight to plan sponsors, as well as reduce exposure to litigation. Unlike mutual funds, CIT fees may be negotiable, and since they are not regulated by the SEC, CITs do not have shareholder service, prospectus, or many other SEC-regulated expenses, thereby providing cost savings to plan sponsors and participants.

[1] *Callan Institute Survey: 2019 Defined Contribution Trends.*
[2] Barney, Lee, *More Than One-Quarter of 401(k) Assets Are in CITs,* Planadviser (September 10, 2018) (citing, *The Cerulli Report: U.S. Defined Contribution Distribution 2017: Re-Evaluating the Use of CITs in DC Plans).*
[3] Morningstar, June 2020.
[4] ERISA Regulation 2550.404c-5, Fiduciary Relief for Investments in Qualified Default Investment Alternatives.

## CITS vs. MUTUAL FUNDS vs. ETFS

Like mutual funds and ETFs, CITs are pooled investments, valued daily, that can be managed actively or passively. While these options are similar in many respects, there are some important differences.

| Features | CITs | Mutual Funds | ETFs |
|---|---|---|---|
| **Management** | > Pooled<br>> Bank or trust company | > Pooled<br>> Asset management company | > Pooled<br>> Held by participant |
| **Trading & Valuation** | > NSCC trading possible<br>> Majority valued daily | > NSCC trading<br>> Daily valuation | > Exchange traded<br>> Intra-day valuation |
| **Regulatory Agency** | > OCC, IRS, DOL | > SEC | > SEC |
| **Availability** | > Qualified retirement plan investors | > Most investors | > Most investors |
| **Fees** | > Tend to be lower and may be negotiable | > Set by asset manager<br>> Vary by share class | > Set by asset manager |
| **Portability** | > Must be liquidated to roll over | > Seamless rollover may be possible | > Seamless rollover |
| **Flexibility** | > Tiered pricing<br>> Customized fee arrangements<br>> Economies of scale, including the ability to hold multiple share classes inside one vehicle thereby eliminating the need for multiple '40 Act funds | > Single share class pricing set by prospectus<br>> One share class per vehicle<br>> No price breaks at plan level | > Typically lower expense ratio than mutual fund counterparts<br>> No price breaks |

Utilizing lower-fee options may drive down plan costs, enhance performance, and help avoid fee litigation. This certainly makes CITs attractive from a fiduciary perspective. However, unlike mutual funds, ETFs, and certain other investment vehicles, CITs are only available to qualified plans, not individual investors, and cannot be rolled over into an IRA or another account.

CITs have historically had higher minimums than mutual funds, which can be a hurdle to adoption, but the industry is moving toward lower thresholds.[5] Also, there is often flexibility with meeting minimums. For example, plan professionals and consultants may be able to aggregate smaller plans' asset allocation funds (target-date or risk-based) into one omnibus fund and then negotiate with the CIT provider based on the combined assets, thus giving smaller plans additional leverage.

The adoption of CITs has been steadily growing in the retirement industry, and there are many reasons to believe that trend will continue. Recent developments, such as the growth of CIT tickers and CUSIPs as well as expanded coverage by Morningstar and other reporting agencies, are steps in the right direction.[6]

### CITS: WEIGHING THE BENEFITS

**Benefits**

> Diversified portfolio
> Lower management and distribution costs
> Fees and investment minimums may be negotiable
> Held to bank fiduciary standard
> Not subject to SEC reporting requirements

**Limitations**

> Available only through employer retirement plans
> Difficult to track performance
> Less transparent operations
> Minimums make then unsuitable for small and micro plans
> Cannot be rolled over into IRAs or other accounts

[5]Zimmerman, Gregg, *Collective Investment Trusts (CITs) – Not Just For the Large Plan Market!,* BPAS (March 7, 2019) (referencing, *The Cerulli Report: U.S Defined Contribution Distribution 2017: Re-Evaluating the Use of CITs in DC Plans)* (with CITs and separate accounts already dominating the mega-plan market, the next $3.1 trillion in CIT assets is likely to be driven by small and mid-sized plans).
[6]Manganaro, John, *As CIT Market Expands, More Get Coveted Tickers,* Planadviser (June 3, 2020).

# Virtus CITs

Virtus Investment Partners is committed to addressing a wide range of investor needs by offering a choice of retirement planning solutions, including a diverse selection of collective investment trusts. Managed by Virtus' affiliated managers and administered by SEI Trust Company, Virtus CITs represents distinctive investment styles, encompassing core and specialized investment options across asset classes and market capitalizations.

### ABOUT VIRTUS INVESTMENT PARTNERS

Virtus Investment Partners (NASDAQ: VRTS) is a distinctive partnership of boutique investment managers singularly committed to the long-term success of individual and institutional investors. The company provides investment management products and services through its affiliated managers and select subadvisers, each with a distinct investment style, autonomous investment process, and individual brand.

### ABOUT SEI TRUST COMPANY

SEI Trust Company (the "Trustee") serves as the Trustee of each CIT and maintains ultimate fiduciary authority over the management of, and the investments made in, each CIT. Each CIT is part of a Collective Investment Trust (the "Trust") operated by the Trustee. The Trustee is a trust company organized under the laws of the Commonwealth of Pennsylvania and wholly owned subsidiary of SEI Investments Company (SEI).

For more information, please call
Virtus Retirement Sales Support at 860-263-4815.

Investing involves risk including loss of principal. There is no guarantee that the goals of a Collective Investment Trust will be met.

**Not insured by FDIC/NCUSIF or any federal government agency. No bank guarantee. Not a deposit. May lose value.**



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