
MARCH 19, 2020

**AGENDA ITEM 3
ACTION ITEM**

SCHOLARSHARE INVESTMENT BOARD

Resolution to Approve Amendment to Agreement No. SIB 15-10 with TIAA-CREF Tuition Financing, Inc. for Program Management Services for ScholarShare 529

Recommendation

ScholarShare Investment Board (SIB or Board) staff recommends the Board adopt Resolution No. 2020-01 approving an amendment to Agreement No. SIB 15-10 with TIAA-CREF Tuition Financing, Inc. (TFI) for program management services for ScholarShare 529 (Plan).

Background

In 2011, following a competitive request for proposals process, TFI was selected to provide program management services for the Plan. Agreement No. SIB 15-10 (Contract) with TFI provides for an initial five-year term, with options for five (5) one-year extensions. In March 2019, the Board approved an amendment to the Contract to extend the term for one year. The Contract is set to expire in November 2020.

Discussion

SIB staff reviewed both quantitative and qualitative factors in determining the recommendation to grant a one-year extension to the Contract with TFI. As part of the review process, SIB staff sought input from SIB's 529 industry consultant, AKF Consulting Group (AKF), and SIB's investment consultant, Meketa Investment Group (Meketa).

Following a review of the analyses provided by AKF and Meketa (Exhibit A and Exhibit B, respectively), SIB staff has found that since TFI assumed the position of program manager in November 2011, ScholarShare 529 remains competitively positioned amongst the 529 industry relative to asset and account growth, investment structure, and fees. ScholarShare 529's growth performance and overall positioning is in-line within the industry. Investment portfolios and underlying mutual funds have performed well relative to benchmark, industry, and peer group plans. TFI has consistently met three of the four Board-approved marketing performance account and asset benchmarks for the Plan. However, in addition to TFI continuing to lag the 529 industry annual asset growth rate benchmark, in 2019, they also did not meet the total new account opened and total new contributions collected benchmarks. While overall performance and comparison factors for ScholarShare 529 are generally positive and places the Plan competitively within the 529 industry, there are opportunities for growth and improvement. As a result, SIB staff has determined that a one-year extension to the Contract is warranted.

Presenters

Julio Martinez, Executive Director, ScholarShare Investment Board
Andrea Feirstein, Managing Director, AKF Consulting Group
Eric White, Principal, Meketa Investment Group

RESOLUTION NO. 2020-01

RESOLUTION OF THE SCHOLARSHARE INVESTMENT BOARD RELATING TO THE APPROVAL OF AN AMENDMENT TO AGREEMENT NO. SIB 15-10 WITH TIAA-CREF TUITION FINANCING, INC. FOR PROGRAM MANAGEMENT SERVICES FOR THE SCHOLARSHARE 529 COLLEGE SAVINGS PLAN

WHEREAS, the ScholarShare Investment Board ("SIB" or the "Board") was created under Education Code section 69980 et seq. (the "Golden State ScholarShare Trust Act" or "Act");

WHEREAS, the Board, pursuant to Education Code Section 69982(b), has authority to contract for goods and services and engage personnel as necessary for the purpose of rendering professional, managerial, and technical assistance and advice to the Board;

WHEREAS, the Board, pursuant to Education Code Section 69981(c)(10), may authorize the Executive Director to enter into contracts on behalf of the Board or conduct any business necessary for the efficient operations of the Board;

WHEREAS, a program manager is needed to provide management services for California's ScholarShare 529 College Savings Plan (the "Plan"), which includes maintaining and managing investments, performing administration and customer service, and providing marketing;

WHEREAS, the term of the Board's existing contract, Agreement No. SIB 15-10 (the "Agreement"), with TIAA-CREF Tuition Financing, Inc. ("TFI") for program management services for the Plan expires on November 6, 2020;

WHEREAS, the Agreement provides for five optional one-year extensions to the term of the Agreement with one extension option remaining; and

WHEREAS, following a review of the analyses prepared and provided by the Board's investment consultant and 529 industry consultant, SIB staff has determined that a one-year extension term to the Agreement is warranted.

NOW, THEREFORE, BE IT RESOLVED, that the Executive Director is hereby authorized to execute necessary documents and take whatever steps necessary to obtain all required approvals for an amendment to the Agreement with TFI to extend the term of the Agreement for one additional year, expiring on November 6, 2021.

Attest: _____
Chairperson

Date of Adoption: _____

ScholarShare Investment Board

Annual Plan Review Summary

March 19, 2020

Today's Discussion

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Plan Review Background

- In 2012, ScholarShare Investment Board (“Board”) engaged TIAA-CREF Tuition Financing, Inc. (“TFI”) to provide Program Management Services for the ScholarShare529 Plan (“ScholarShare”):
 - TFI has a five-year engagement with five one-year extension options
 - The Board has previously approved four one-year extensions
 - The Board now has an option to exercise the fifth and final extension before proceeding with a Program Manager rebid
- In contemplating another extension, the Board has once again asked AKF to assess the competitiveness of ScholarShare
- AKF’s Plan Review compares ScholarShare to the National markets and/or a specified Peer Group across the following:
 - Asset and account growth rates
 - Investment design and breadth of options
 - Passive and Active Age-Based Fees
- Results of the Plan Review support another extension with TFI:
 - ScholarShare compares favorably against the industry on all aspects
 - This presentation summarizes details of the extensive Plan Review Memo delivered to ScholarShare staff

Overview of Peer Plans

Direct Plan	Program Manager	Assets ¹	Morningstar Plan Rating	State Tax Benefit
California	TFI	\$9,881,339,298	Gold	No Benefit
Connecticut ²	TFI	\$3,502,048,160	Bronze	Deduction
Illinois	Union Bank	\$7,018,725,223	Gold	Deduction
Kansas ³	American Century	\$7,072,291,658	Neutral ⁴	Deduction (Tax Parity)
Michigan	TFI	\$6,143,328,978	Silver	Deduction
New York	Ascensus	\$28,552,731,643	Silver	Deduction
New Hampshire	Fidelity	\$14,328,643,038	Silver	No Income Tax
Wisconsin	TFI	\$3,689,867,111	Bronze	Deduction

¹Assets data sourced from College Savings Plans Network (“CSPN”) as of December 31, 2019

²Connecticut is a Peer Plan for investment structure and fee comparisons but not growth comparisons

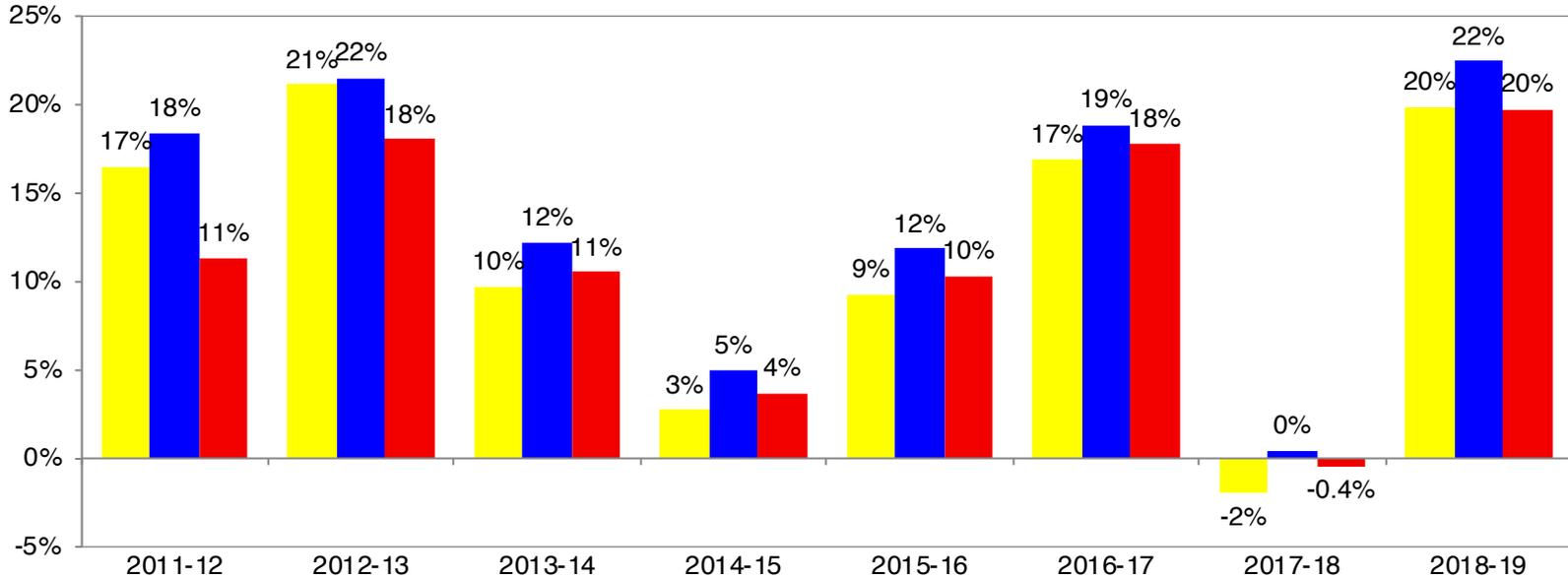
³ Kansas represents three Direct-sold Plans: Schwab 529 College Savings Plan (“Kansas Schwab”) with \$5,095,951,779 in AUMs, Learning Quest Education Savings Plan Direct with \$1,434,722,723 in AUMs, and Schwab Learning Quest 529 Plan with \$541,617,156 in AUMs. While we have included all three Direct-sold Plans for growth comparisons, we believe that Kansas Schwab has the highest concentration of California accounts. We have used Kansas Schwab for the investment structure and fee comparisons

⁴ Kansas Schwab and Learning Quest Direct are both rated Neutral by Morningstar

Section 1.

Relative Growth Comparisons

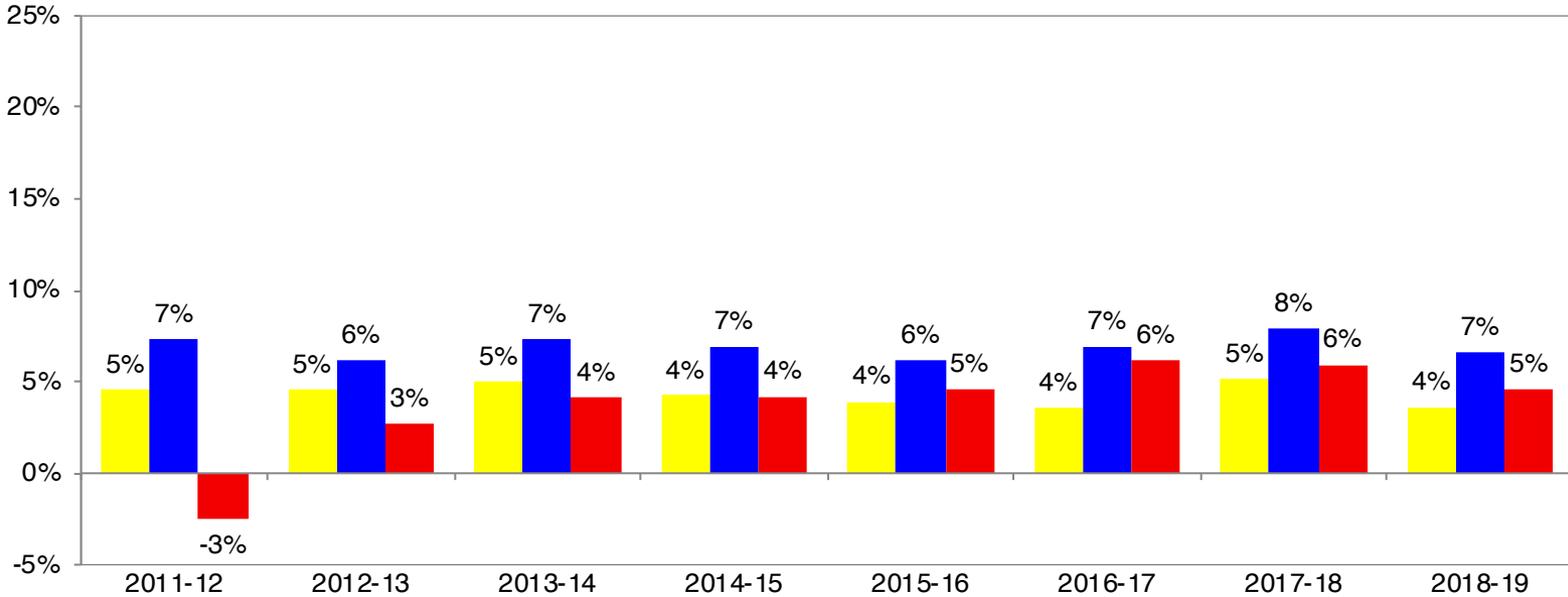
California vs. National Asset Growth: 2012 – 2019



Average Annual Asset Growth			
	National Total Savings	National Direct	California
Past 8 Years	11.50%	13.58%	11.18%
Past 7 Years*	10.80%	12.91%	11.16%

* Removes the impact of the 2012 transition year

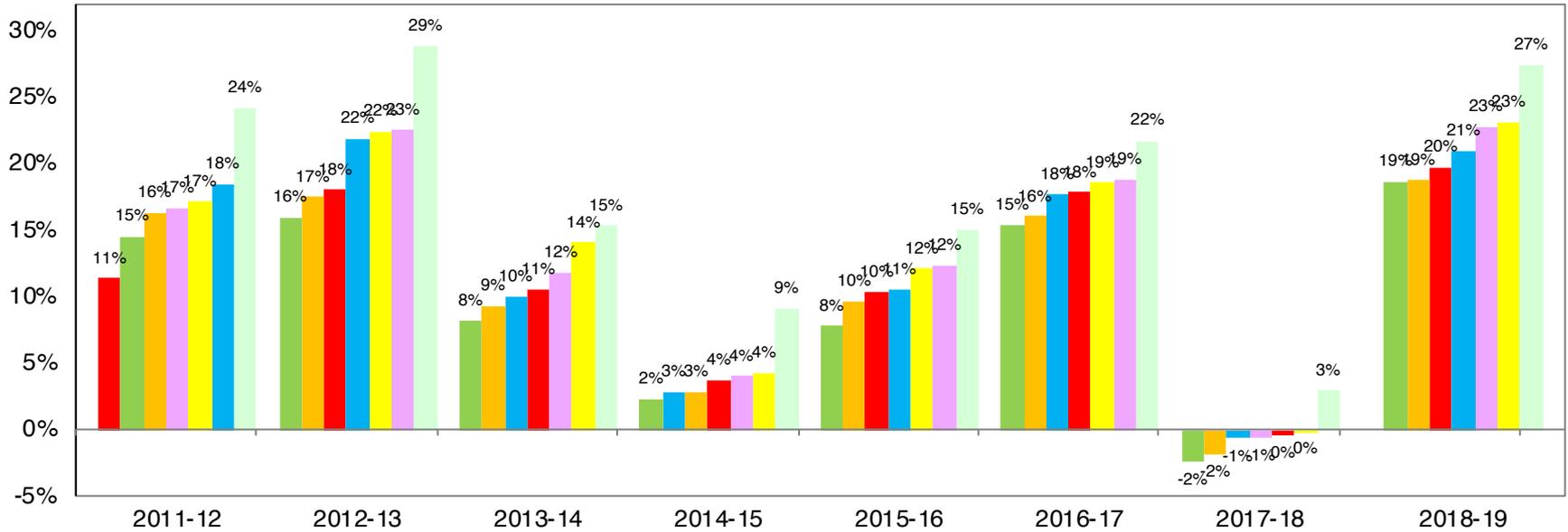
California vs. National Account Growth: 2012 – 2019



Average Annual Account Growth			
	National Total Savings	National Direct	California
Past 8 Years	4.29%	6.87%	3.69%
Past 7 Years*	4.32%	6.92%	4.61%

* Removes the impact of the 2012 transition year

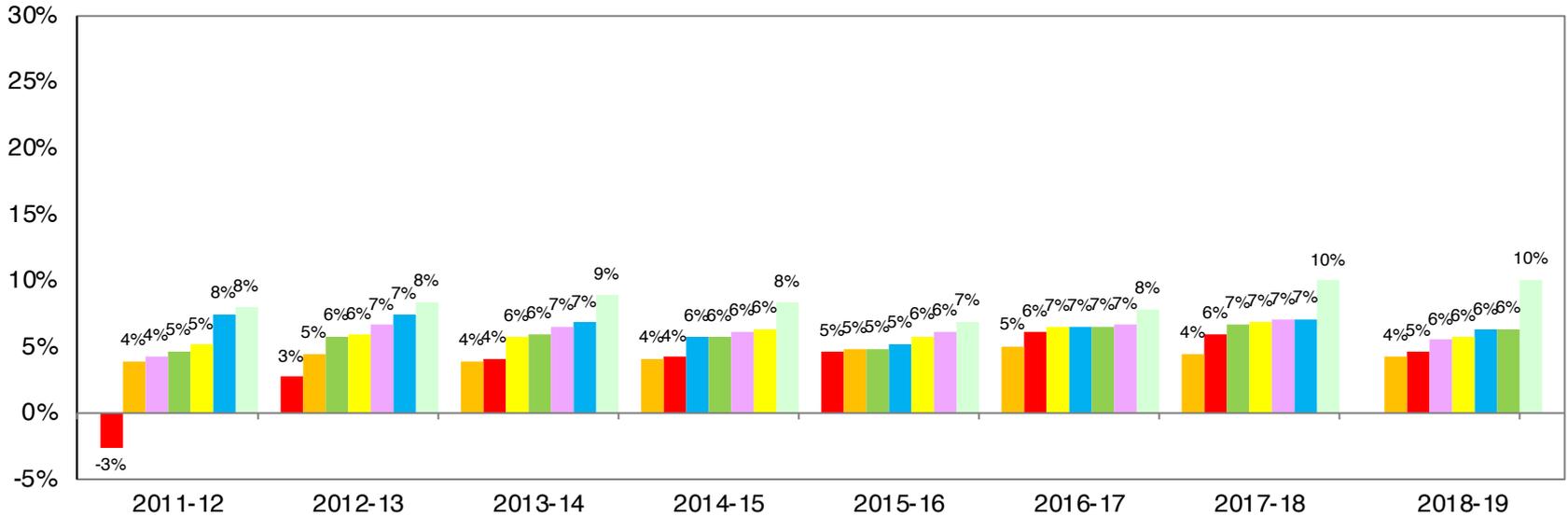
California vs. Peer Plan Asset Growth: 2012 – 2019



Average Annual Asset Growth							
	New Hampshire	Michigan	California	Kansas	Wisconsin	New York	Illinois
Past 8 Years	9.83%	10.84%	11.18%	12.43%	13.27%	13.68%	17.76%
Past 7 Years*	9.17%	10.08%	11.16%	11.59%	12.79%	13.20%	16.88%

* Removes the impact of the 2012 transition year

California vs. Peer Plan Account Growth: 2012 – 2019



Average Annual Account Growth							
	California	Michigan	New Hampshire	New York	Wisconsin	Kansas	Illinois
Past 8 Years	3.69%	4.40%	5.85%	6.00%	6.11%	6.58%	8.56%
	Michigan	California	New Hampshire	New York	Wisconsin	Kansas	Illinois
Past 7 Years*	4.47%	4.61%	6.02%	6.13%	6.38%	6.45%	8.65%

* Removes the impact of the 2012 transition year

Section 2.

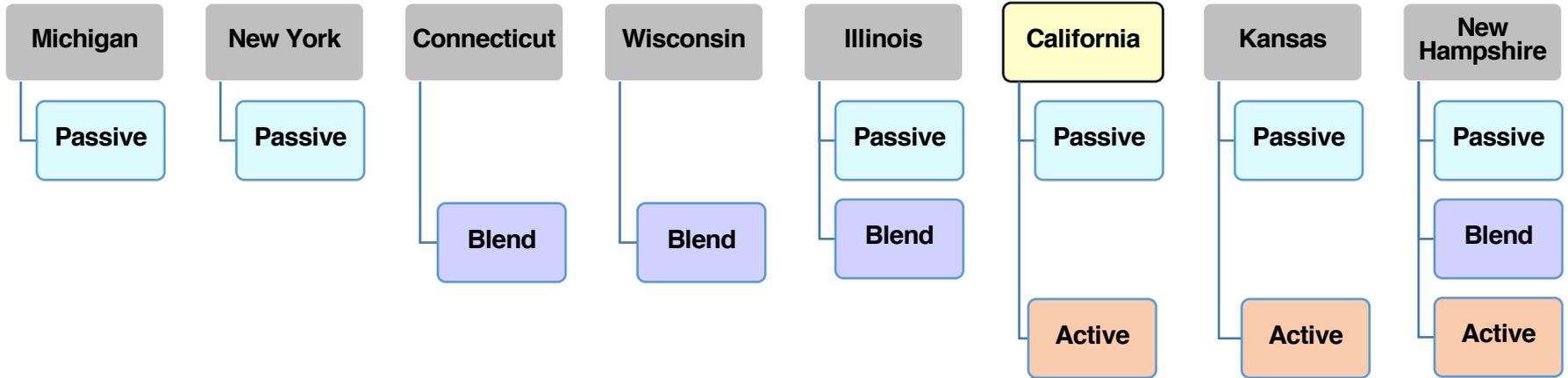
Investment Structure Comparison

Summary Observations

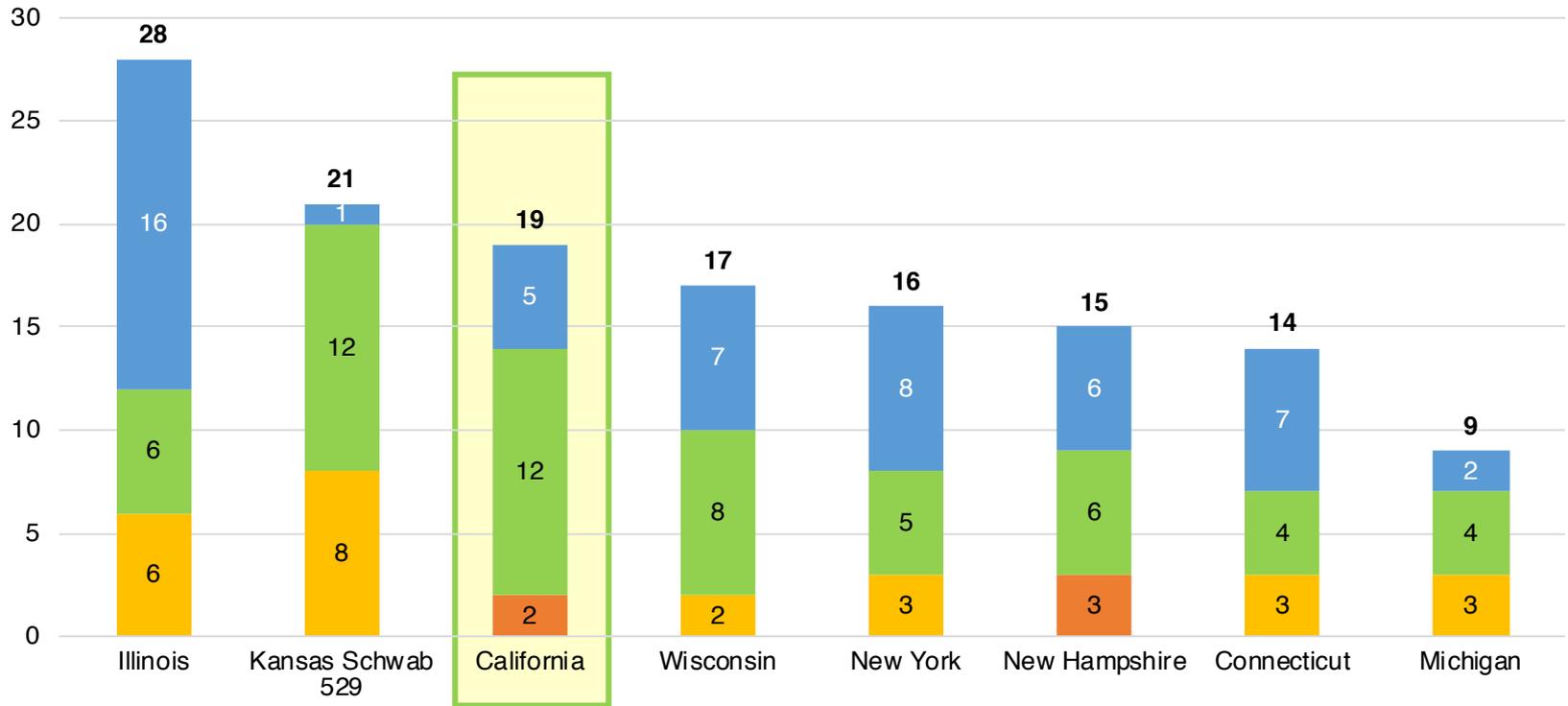
- Despite TFI, the Plan offers open architecture using high quality underlying funds
- Enrollment-based options use a progressive glidepath
- Breadth of static and individual options offer additional investment choice
- ScholarShare offers passive and active management in its age-based options

	Open Architecture	Progressive Glidepath	Number of Static and Individual Options
California	Yes	Yes	17
Connecticut	Yes	No	11
Illinois	Yes	No	22
Kansas Schwab	Yes	No	13
Michigan	Yes	No	6
New Hampshire	No	Yes	12
New York	No	No	13
Wisconsin	Yes	No	15

Management Style Choices in Age-Based Options



Breadth of Investment Options



Direct Plan	Total	Age-based	Enrollment-based	Static	Individual
California	19	--	2	12	5
Average of Peer Plans	17.4	4.2	2.5	7.1	6.5

Section 3.

Fee Comparison

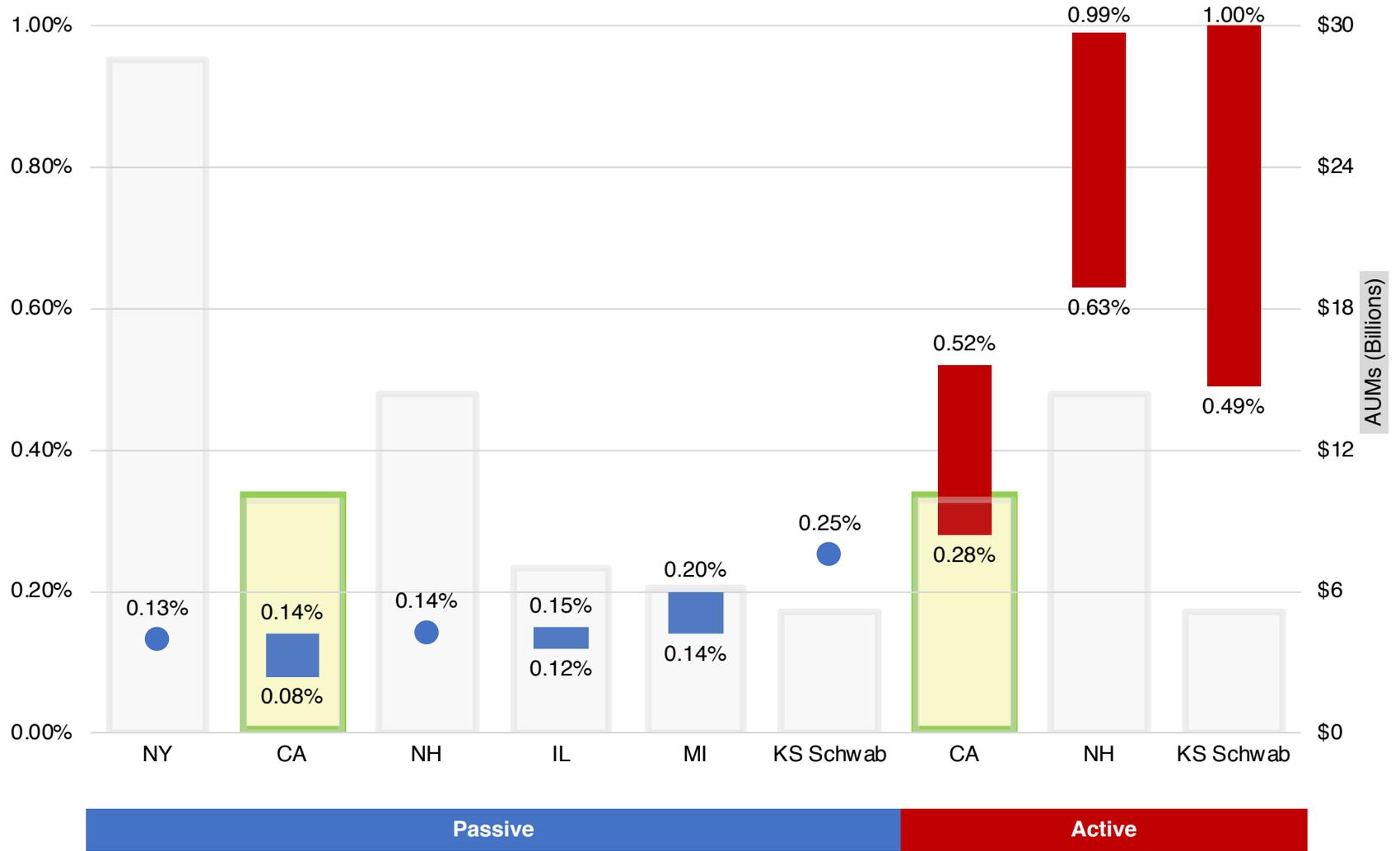
Summary Observations

- **ScholarShare passive age-based fees compare very favorably to Peer Plans:**
 - **Price competitiveness boosted by the 0.02% Plan Manager fee reduction**
 - **Passive fees fall below larger Plans in New York and New Hampshire**
 - **Active fees remain lower than New Hampshire, which uses an entirely proprietary fund line-up**

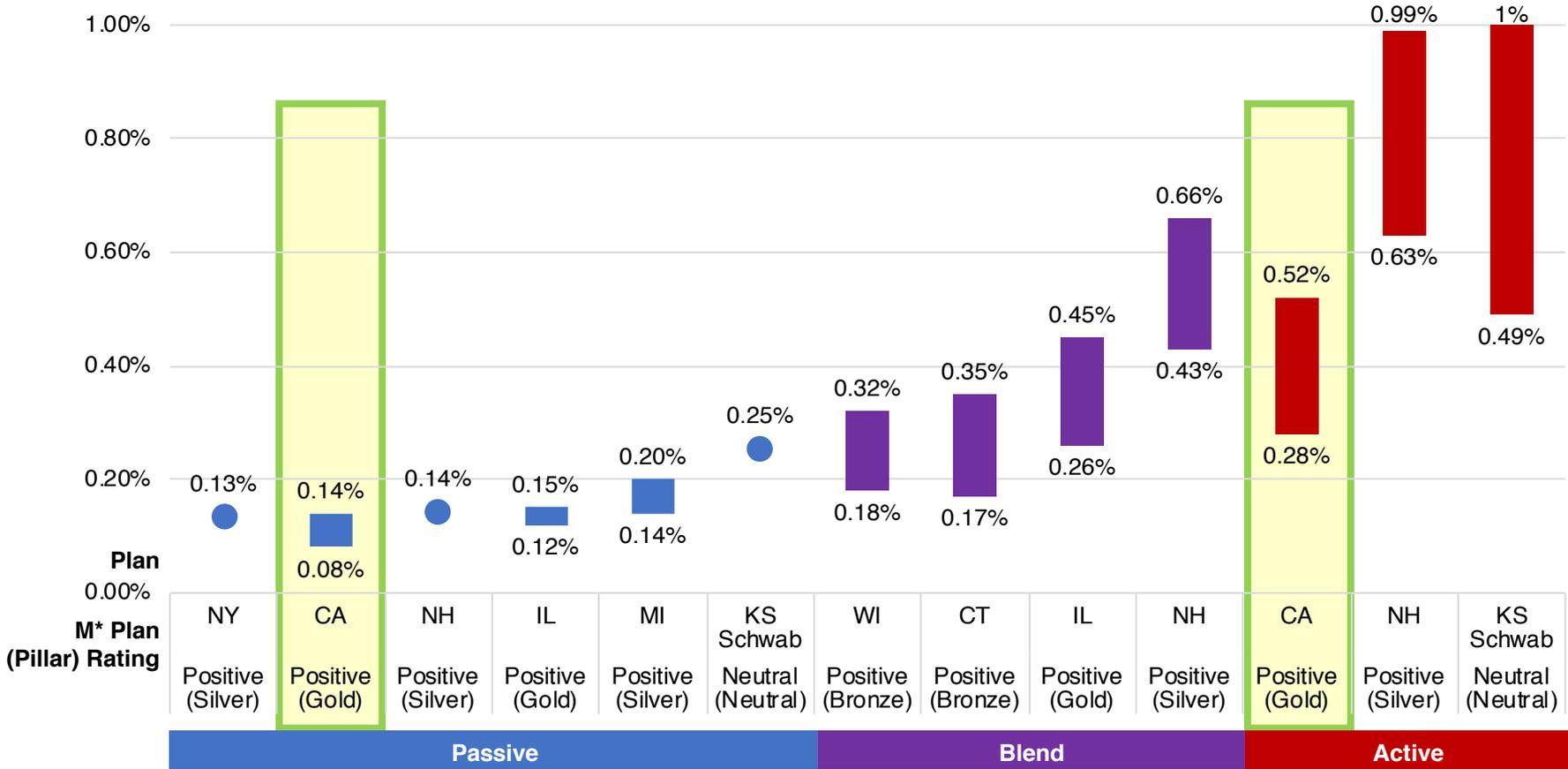
Direct Plan	Total Assets ¹	Age-Based Total Fees	
		Passive	Active
New York	\$28,552,731,643	0.13%	--
New Hampshire	\$14,328,643,038	0.14%	0.63% – 0.99%
California	\$9,881,339,298	0.08% – 0.14%	0.28% – 0.52%
Illinois	\$7,018,725,223	0.12% – 0.15%	--
Michigan	\$6,143,328,978	0.14% – 0.20%	--
Kansas Schwab 529	\$5,095,951,779	0.25%	0.49% – 1.00%
Range of Fees	--	0.08% – 0.25%	0.28% – 1.00%

¹CSPN as of December 31, 2019

Comparison of Passive and Active Age-Based Fees



Comparison of Age-Based Fees



Section 4.

Conclusion

Concluding Observations

- **ScholarShare is well-positioned in the industry:**
 - **Fifth largest Direct Plan in assets and sixth largest in accounts**
 - **Asset and account growth rates on par with National markets and Peer Plans**
 - **Investment design and breadth of options in line with industry standards**
 - **Attractive passive and active fees as compared to Peer Plans**
- **With TFI as Program Manager, ScholarShare has made consistent improvements:**
 - **Annual asset and account growth improved between 2012 and 2019 (11% to 20% and -3% to 5%, respectively)**
 - **Voluntarily adopted an enrollment-based structure with no cost impact to investors**
 - **Continued fee reductions over time, exemplified by the recent 0.02% Plan Manager fee reduction**
- **Enhancements culminated in improving ScholarShare's Morningstar rating over time:**
 - **Performance and Parent Pillar ratings improved to Positive, resulting in five Positive Pillars in 2019**
 - **Plan rating improved from Bronze in 2012 to Gold in 2019**
 - **ScholarShare compares favorably to other Gold Plans nationwide**
- **Plan Review results support another extension of the Management Agreement**

California versus Morningstar Gold-rated Plans

Plan	Management Styles	Progressive Glidepath	Breadth of options	Age- or Enrollment-based Fees		
				Passive	Blend	Active
California	Active Passive	Yes	<u>19 Total</u> 2 Enrollment-based 12 Static 5 Individual	0.08% – 0.14%	--	0.28% – 0.52%
Illinois	Blend Passive	No	<u>28 Total</u> 6 Age-based 6 Static 16 Individual	0.12% – 0.15%	0.26% – 0.45%	--
Utah	Passive*	No	<u>12 Total</u> 5 Age-based 6 Static 1 Individual	0.146% – 0.178%	--	--
Virginia	Blend	Yes	<u>16 Total</u> 1 Enrollment-based 7 Static 8 Individual	--	0.09% - 0.46%	--

*Utah offers a customized age-based option with fees ranging between 0.18% and 0.573% depending on the underlying funds selected

AKF Legal Disclosure

Pursuant to Municipal Securities Rulemaking Board (“MSRB”) Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients and potential clients which include, among other things, Conflicts of Interest and Legal or Disciplinary events of AKF and its associated persons.

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AKF represents that in connection with the issuance of municipal fund securities, AKF receives compensation from its client issuers for services rendered on an hourly, retainer or fixed fee basis. Consistent with the requirements of MSRB Rule G-42, AKF hereby discloses that such forms of compensation may present a potential conflict of interest regarding AKF’s ability to provide unbiased advice regarding a municipal fund security transaction. This potential conflict of interest will not impair AKF’s ability to render unbiased and competent advice or to fulfill its fiduciary duty.

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If AKF becomes aware of any potential or actual conflicts of interest after this disclosure, AKF will disclose the detailed information in writing to the client or obligated person in a timely manner.

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Appendix

Comparison of Age-Based Fees

Direct Plan	Morningstar Price Pillar Rating (Plan Rating)	Total Assets ¹	Age-Based Total Fees		
			Passive	Blend	Active
California	Positive (Gold)	\$9,881,339,298	0.08% – 0.14%	--	0.28% – 0.52%
Connecticut	Positive (Bronze)	\$3,502,048,160	--	0.17% – 0.35%	--
Illinois	Positive (Gold)	\$7,018,725,223	0.12% – 0.15%	0.26% – 0.45%	--
Kansas Schwab	Neutral (Neutral)	\$5,095,951,779	0.25%	--	0.49% – 1.00%
Michigan	Positive (Silver)	\$6,143,328,978	0.14% – 0.20%	--	--
New Hampshire	Positive (Silver)	\$14,328,643,038	0.14%	0.43% – 0.66%	0.63% – 0.99%
New York	Positive (Silver)	\$28,552,731,643	0.13%		
Wisconsin	Positive (Bronze)	\$3,689,867,111	--	0.18% – 0.32%	--
Range of Fees	--	--	0.10% – 0.25%	0.17% – 0.66%	0.30% – 1.00%

¹CSPN as of December 31, 2019

MEMORANDUM

TO: ScholarShare Investment Board (SIB)
FROM: Eric White, CFA, Kay Ceserani
Meketa Investment Group
DATE: February 28, 2020
RE: TIAA Tuition Financing, Inc. (TFI) Peer Comparison Review

Summary

Meketa has conducted a peer comparison review of the ScholarShare College Savings Plan as of 12/31/2019. The review included an examination of the Plan's relative performance at both the Age-based and individual fund level, the asset allocation of Age-based options, available investments, and other considerations. To accomplish this, we looked at ScholarShare's Age-based portfolios' risk-adjusted performance compared to the following peer groups: (we do note, the Non-TIAA peer groups were adjusted this year to account for Program changes or insufficient data due to glidepath structural changes.)

- The Morningstar median direct plan
- Other TFI managed plans
- Other plans with passive and active portfolios of similar size and characteristics to ScholarShare

We also examined the Plan's underlying mutual funds relative to their respective benchmarks and peer groups. We focused our analysis on the relative performance of the Plan's Age-based options as we believe this is the most important differentiator between competing plans within the 529 industry. We highlight the reason for this belief in more detail in the *Discussion* section (below). Generally, our findings are positive. In most circumstances, the performance of the Plan continues to be equal to or superior to plans in the industry, as well as the peer groups created for comparison purposes on a risk-adjusted basis. As is expected, we found that asset allocation was the main driver of relative performance. In some cases, the Plan's asset allocation aided relative performance, whereas in other cases, it weighed on performance. Overall, the Plan has a strong asset allocation and reasonably strong performance from underlying funds. We believe the results should be viewed positively.

Discussion

Meketa was tasked with evaluating the performance of the Plan since the engagement of TFI as program manager through the end of 2019. Our analysis focused on the two areas we believe are most pertinent, from an investment perspective, in comparing one 529 plan to another: 1) the Age-based options and 2) the underlying funds. Most of our review focuses on the relative

performance of the Plan's Age-based options relative to the industry as measured by the MorningStar Direct Plan Median and other peer group comparison plans that we view as good proxies for comparison; namely, other TFI managed plans and other plans with passive and active portfolios of similar size and characteristics to ScholarShare.

Our analysis focused heavily on the performance of the Age-based options for several important reasons:

- The majority of assets and flows are in and toward Age-based options.
- Individual options are often used as building blocks of the Age-based options and are thus incorporated into the analysis.
- Asset allocation is the largest determinant of a portfolio's risk and return. Asset allocation is determined at the Plan level for Age-based options.
- There are four main factors in determining the outcome of any savings program: size of the investment, timing of the investment, asset allocation, and fund selection. When looking to compare plans, Age-based options represent the only area where the Plan determines two of the four factors.

One issue that arises when comparing Age-based options across plans is the fact that plans differ on how often they segment their age bands. For example, one plan may have a single 0-7 age band, while a different plan may have 0-4 and 5-8 age bands. In recognizing this issue, Meketa utilizes Morningstar's 529 portfolio categories. In 2019 MorningStar changed the classifications for 529 investment portfolios. Universe data was reorganized around portfolio structure: Age-fixed and Age-progressive. Additionally the groups were further broken down from the original four buckets (Age 0-6, Age 7-12, Age 13-18, and Age 19+) to nine (Age 0-4, Age 5-6, Age 7-8, Age 9-10, Age 11-12, Age 13-14, Age 15-16, Age 17-18, and Age 19+).

While the new groupings allow for more of an apples-to-apples comparison, there continues to be a data void as states have migrated to more progressive glidepaths over the last several years. This poses a challenge as these new portfolios have a short track record eliminating our ability to compare ScholarShare to them.

The remainder of this memo will focus on Age-based performance analysis relative to the industry as measured by the MorningStar Direct Plan Median, other TFI managed plans and other passive and active portfolios of similar size and characteristics to ScholarShare. In addition, we will briefly look at the underlying fund performance relative to their benchmarks and peer groups.

ScholarShare vs. Morningstar Direct Plan Median

We compared the performance and risk of the ScholarShare Age-based options to those of the Morningstar Direct Plan Median. Our analysis finds that both the active and passive portfolios produce solid risk-adjusted results versus the Morningstar median.

- The active portfolios were rewarded for the additional risk taken on, producing results in-line with or above the Morningstar median across all stages of the glidepath.

- Asset allocation, low fees and active management all contributed to results.
- The passive portfolios also produced in-line or above median risk-adjusted results for all age-based portfolios.
 - Asset allocation and low fees are the primary drivers of results.

ScholarShare Relative 3-Year Performance and Risk vs. Morningstar Median

	Active		Passive	
	Return	Risk	Return	Risk
Age 0-4	Above	Higher	Above	Lower
Age 5-8	Above	In-line	Above	In-line
Age 9-10	Above	Higher	Above	In-line
Age 11-12	Above	Higher	Above	In-line
Age 13-14	Above	Higher	Above	Higher
Age 15	Above	Higher	Above	Higher
Age 16	In-line	Lower	In-line	Lower
Age 17	In-line	In-line	Above	Lower
Age 18+	Above	Higher	Above	Higher

Other TFI Managed Plans

Meketa compared the performance of ScholarShare to other 529 plans managed by TFI for which they have been the program manager for three or more years. This peer group consists of the Michigan, Wisconsin, Georgia, and Oklahoma 529 plans. Our analysis finds that all the Plan's actively managed age bands perform in-line with or outperform all actively managed peer group age bands. This indicates that for a participant desiring active management, they would have received similar or better risk-adjusted results being in ScholarShare than in the other peer group plans.

Non-TFI Managed Plans

Meketa compared the performance of ScholarShare to other 529 plans not managed by TFI but which had certain characteristics that make them similar to ScholarShare. We broke this analysis into two segments: one for plans with actively managed portfolios and one for plans with passively managed portfolios. The passively managed peer group consists of the Maine and Massachusetts plans; while the actively managed peer group consists of the Maine, Massachusetts, Alaska, and Alabama plans.

For the passively managed Age 0-6 and Age 7-12 bands, ScholarShare's performance was in-line or better than the peer group with the exception of the MA enrollment portfolios that had a heavier

allocation to equity. ScholarShare on average generated higher returns than Maine, yet did so with a higher level of volatility. This can be attributed to differences in asset allocation.

Relative to other non-TFI actively managed plans, ScholarShare, as a whole, largely outperformed its peer groups. For all age bands, ScholarShare outperformed on either an absolute or risk adjusted basis. ScholarShare's actively managed Plan continues to stand out for its strong performance relative to peers and the Morningstar median.

Underlying Fund Performance

In addition to evaluating ScholarShare's Age-based portfolios, Meketa also reviewed the underlying mutual funds, which comprise both the building blocks of the Age-based options and the stand-alone fund options for the Plan. Since the revamping of the ScholarShare Plan with TFI as program manager, only three mutual funds have been on Watch status for performance reasons. This is unlike other Meketa clients utilizing actively managed funds wherein often a third or more of the funds are on Watch status. Given the realities of actively managed mutual funds, this achievement will surely end; however, it is a surprising and impressive accomplishment over the measurement period.

When evaluating the efficacy of actively managed funds, two key questions are paramount:

1. Has the fund outperformed its stated benchmark on a risk-adjusted basis?
2. How has the fund performed relative to its peers?

Question one is important due simply to the fact that an investor chooses active management to accomplish just that. An investor can usually replicate the performance of a benchmark at very low cost (through a passive index fund), so an active manager unable to outperform the benchmark on a risk-adjusted basis hinders an investor through both foregone returns and higher fees. Question two tries to address (regardless of the answer to question one) whether the active manager is superior to other funds available to the investor.

In general, the actively managed funds within the ScholarShare Plan have outperformed both their respective benchmark and peer groups. Of the actively managed funds in the Plan, 7 out of 13 (or 53%) have matched or outperformed their respective benchmarks (as of 12/31/2019) since the inception of TFI as program manager. In addition, 12 out of the 13 funds (or 92%) have produced results in the top half of their respective peer groups, of which 8 funds (or 62%) have performed in the top quartile of their peer group. This is exceptionally good performance.

Based on this, we can see that the underlying funds in the ScholarShare program, in aggregate, can answer affirmatively to both questions. The measurement period happens to coincide with a period, regarded by many in the asset management industry, of being quite challenging for active portfolio management. The fact that over 50% of the actively managed funds outperformed their respective benchmarks over this period is even that much more impressive given the difficulty of the environment.

Meketa also evaluated the passively managed underlying mutual funds, which act as building blocks for the Age-based options and represent stand-alone funds within the Plan. We measured how closely



the funds tracked their respective benchmarks and concluded that all passively managed funds have tracked their respective benchmark well within what we consider a tolerable level of deviation.

Conclusion

Meketa has reviewed the performance of the ScholarShare program since the inception of TFI as program manager. Over this period, the Plan has performed well on both an absolute and relative basis. The Plan's Age-based portfolios consistently perform in-line with or outperform the Morningstar Direct Median Fund and the custom peer groups Meketa created for comparison purposes, on a risk-adjusted basis. In addition, the Plan's underlying mutual funds have performed extremely well versus both their benchmarks and peer groups.