

Webinar:

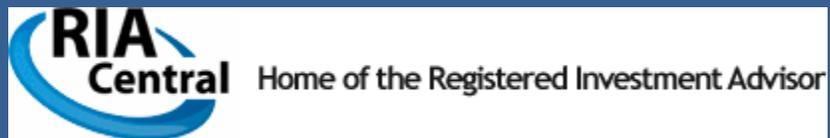
Target Date Funds Have Lost Their Luster What Should Fiduciaries Do?

Thursday, September 15, 2011

4:00 p.m. ET



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Agenda: Your Hosts



- Ron Surz: The industry as it is, and the way it should be.



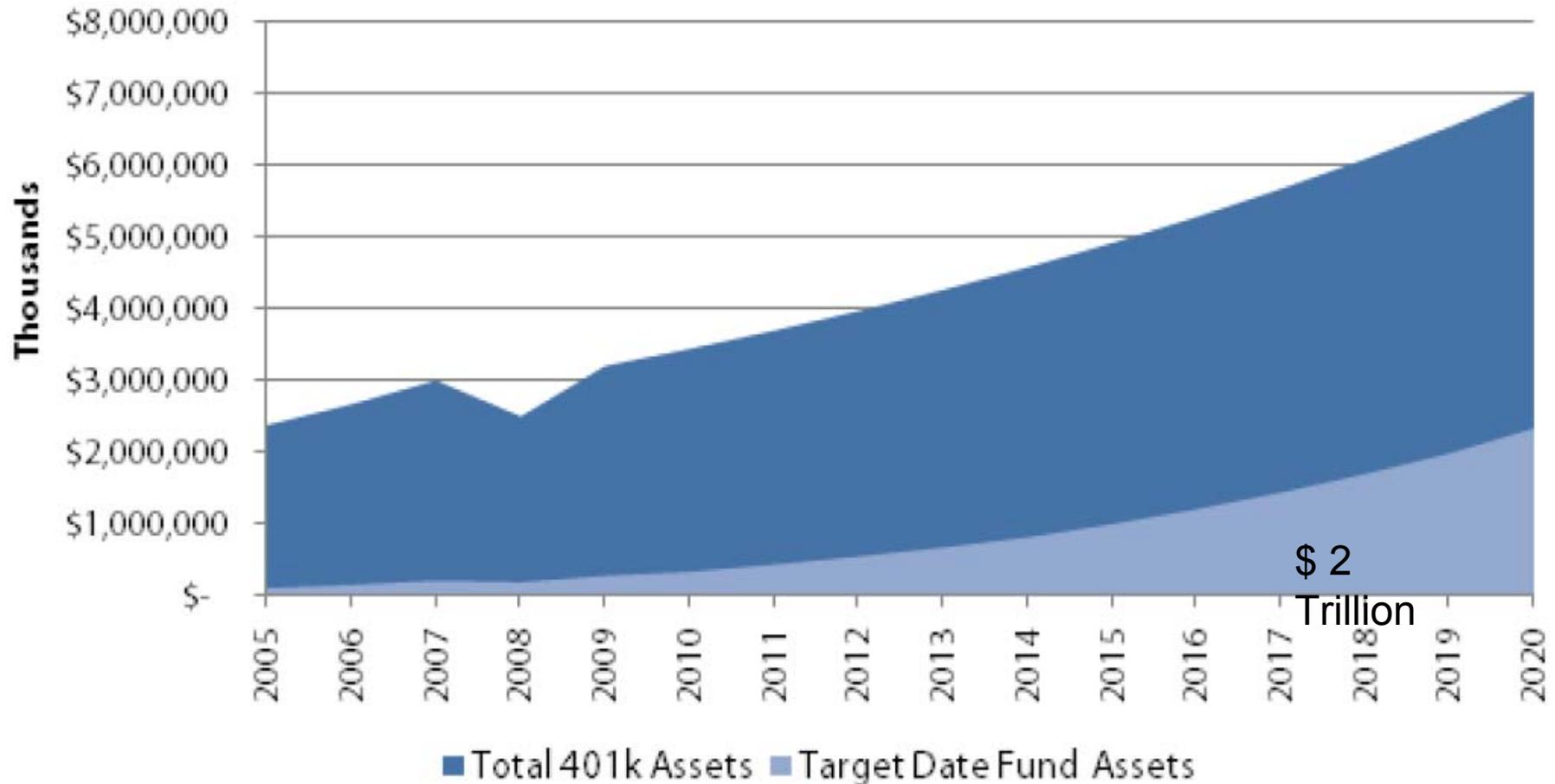
- Gary Silverman: “Go Anywhere” as a Core for Target Date Funds



- David Hand: The role of Collective Investment Trusts in 401(k)s

Still Projected to Grow, But...

Projected Growth in Target Date Fund Assets in the 401k Marketplace



Source: BrightScope Projections

The Glitter is Off of Target Date Gold

Pensions&Investments

August 1, 2011

Few 'very satisfied' with target-date funds, survey finds

PLANSPONSOR®

August 13, 2011

Only 34% of defined contribution sponsors see target-date funds as the best QDIA for their plan, down from 57% a year earlier.

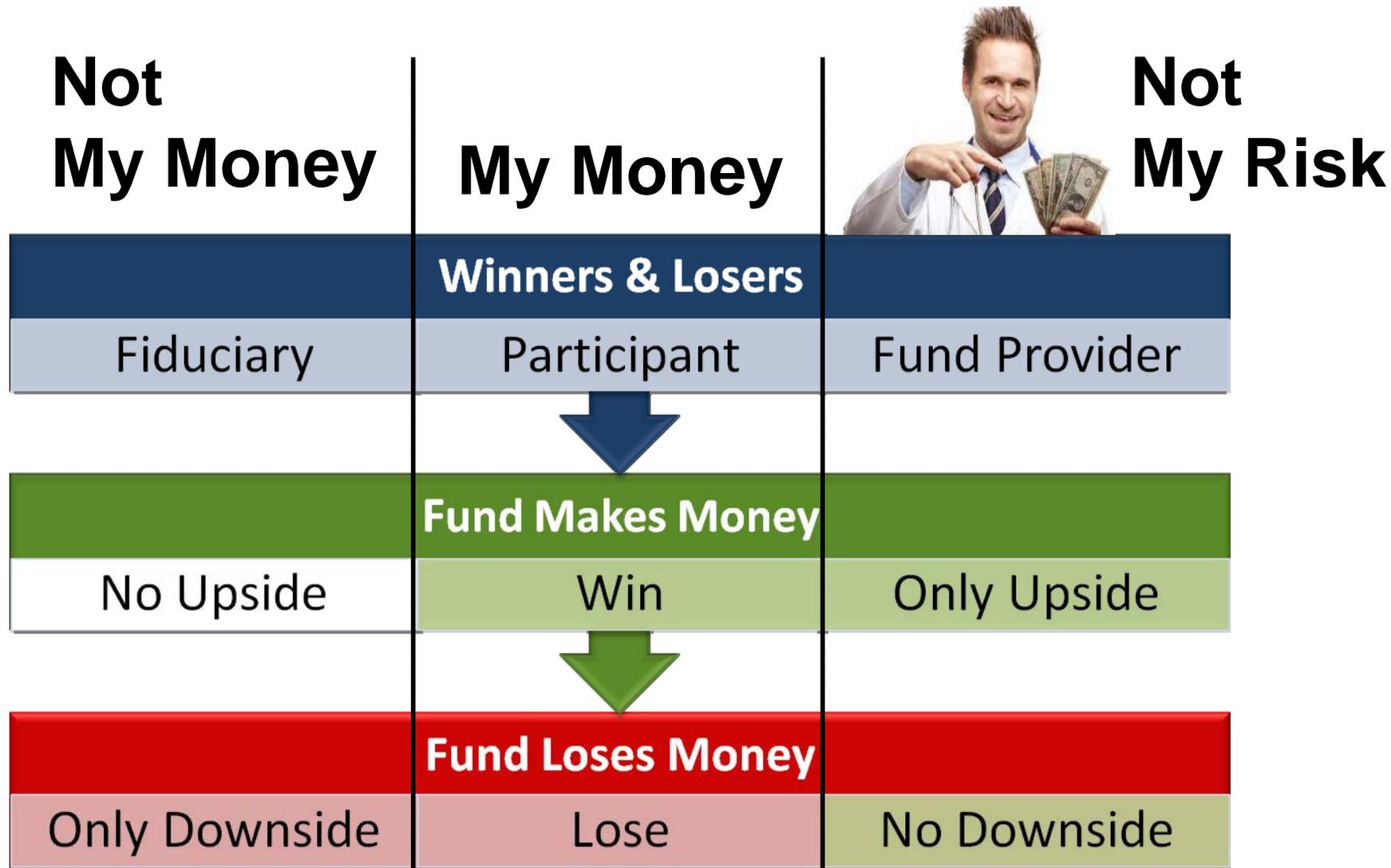
Confusion and disagreement bedevil target date funds. Risk takers (fiduciaries) are uncomfortable.



Fiduciaries and Participants are Taking Most of the Risks While Fund Providers Enjoy Most of the Rewards



Risk-Reward in Sponsor-Directed TDFs

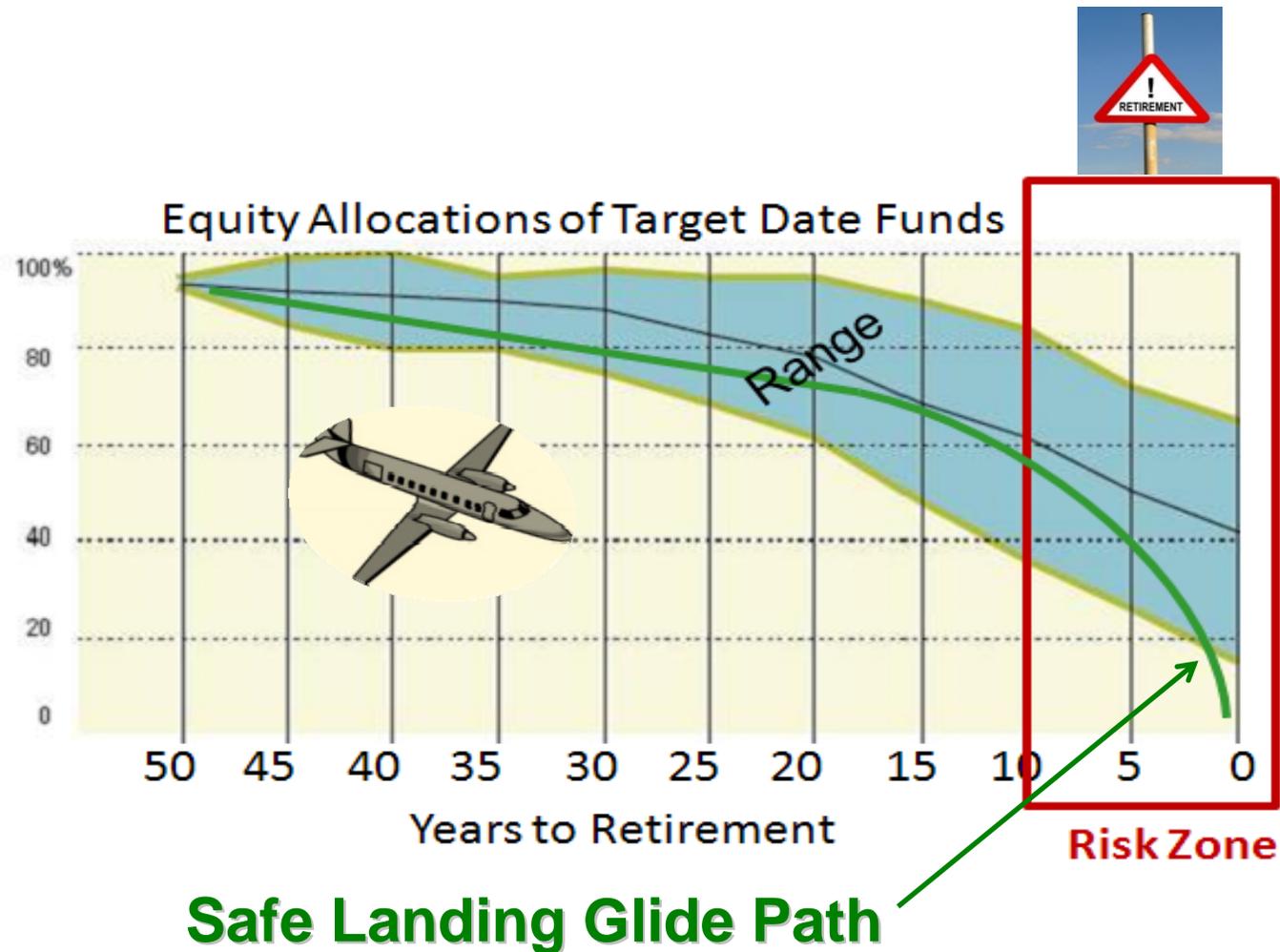


What is Risk?



**The Possibility that
Objectives Will not be Met.**

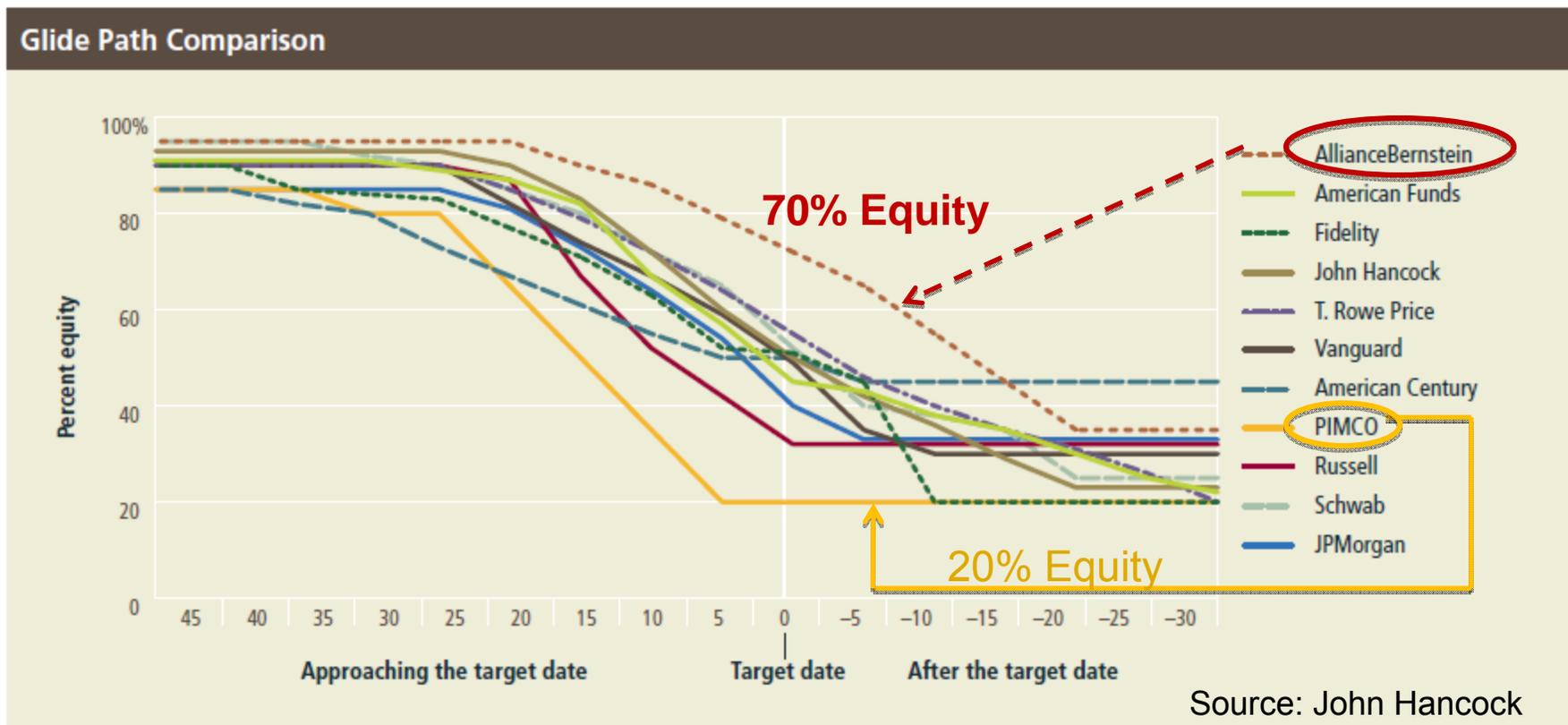
Current Industry Glide Paths Disagree Because Objectives are Nonsense



A Detailed Look at the Disagreements



We're landing above the ground !!



Actions speak louder than words. Profits are the goal.
Equity shops pitch equities. Bond shops pitch bonds. What's best for the participant?

High Risk Objectives Achievement is Unrelated to Investments

- **Replace Pay:**
Savings, not investments,
are key
- **Manage Longevity Risk:**
Try the Hemlock Fund



It's a dark game that fiduciaries should not play. There's a reason that factsheets & prospectuses never document these professed objectives.

Assumptions, DoL Recommends

- Savings for the Typical Participant (Pay Replacement Objective)

- Current savings
- Other sources of retirement income
- Desired pay replacement at retirement
- Current pay and projected pay increases
- Savings pattern through time, employee plus employer



- Spending for the Typical Participant in Retirement (Longevity Risk Objective)

- Spending discipline, perhaps as a fixed percent of current market value
- Other assets, like Social Security
- Life expectancy
- Life events, like medical costs, college funding, whatever ... stuff happens

- Capital Markets

- Asset classes: stocks, bonds, ...
- Sub-asset classes: styles, countries, alternatives
- Risk & return & correlations
- Glide path shape: linear, geometric, step, Mobius strip

Everything should be as simple as possible, and no simpler.

Albert Einstein

Low Risk Objectives

- 1. Do not lose participant savings**
- 2. Earn as much as you can without jeopardizing the preservation objective**

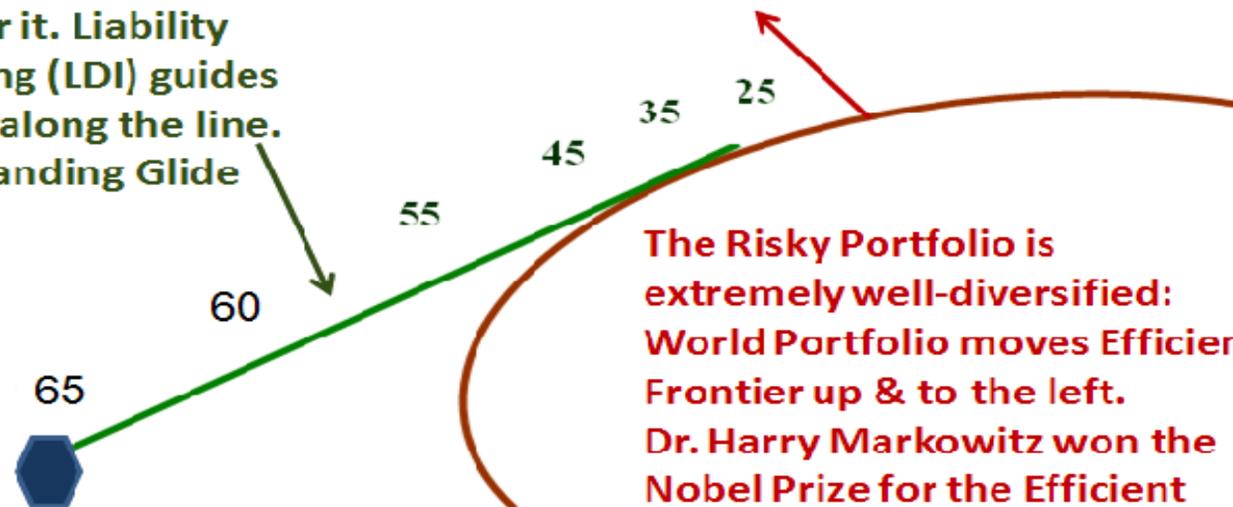


Show me how.

Patent Pending Safe Landing Glide Path[®] Unique Investment Structure

Using Separate, Diversified Segments

The "Capital Market Line."
Dr. William F. Sharpe won a
Nobel Prize for it. Liability
Driven Investing (LDI) guides
the allocation along the line.
It is the Safe Landing Glide
Path[®].



The Risky Portfolio is
extremely well-diversified:
World Portfolio moves Efficient
Frontier up & to the left.
Dr. Harry Markowitz won the
Nobel Prize for the Efficient
Frontier.

The Reserve Asset protects against losses,
both absolute & against inflation:
TIPS and Treasury Bills

Two Separate, Well-Diversified Portfolio Segments for (1) Growth and (2) Safety



Liability-Driven Investing



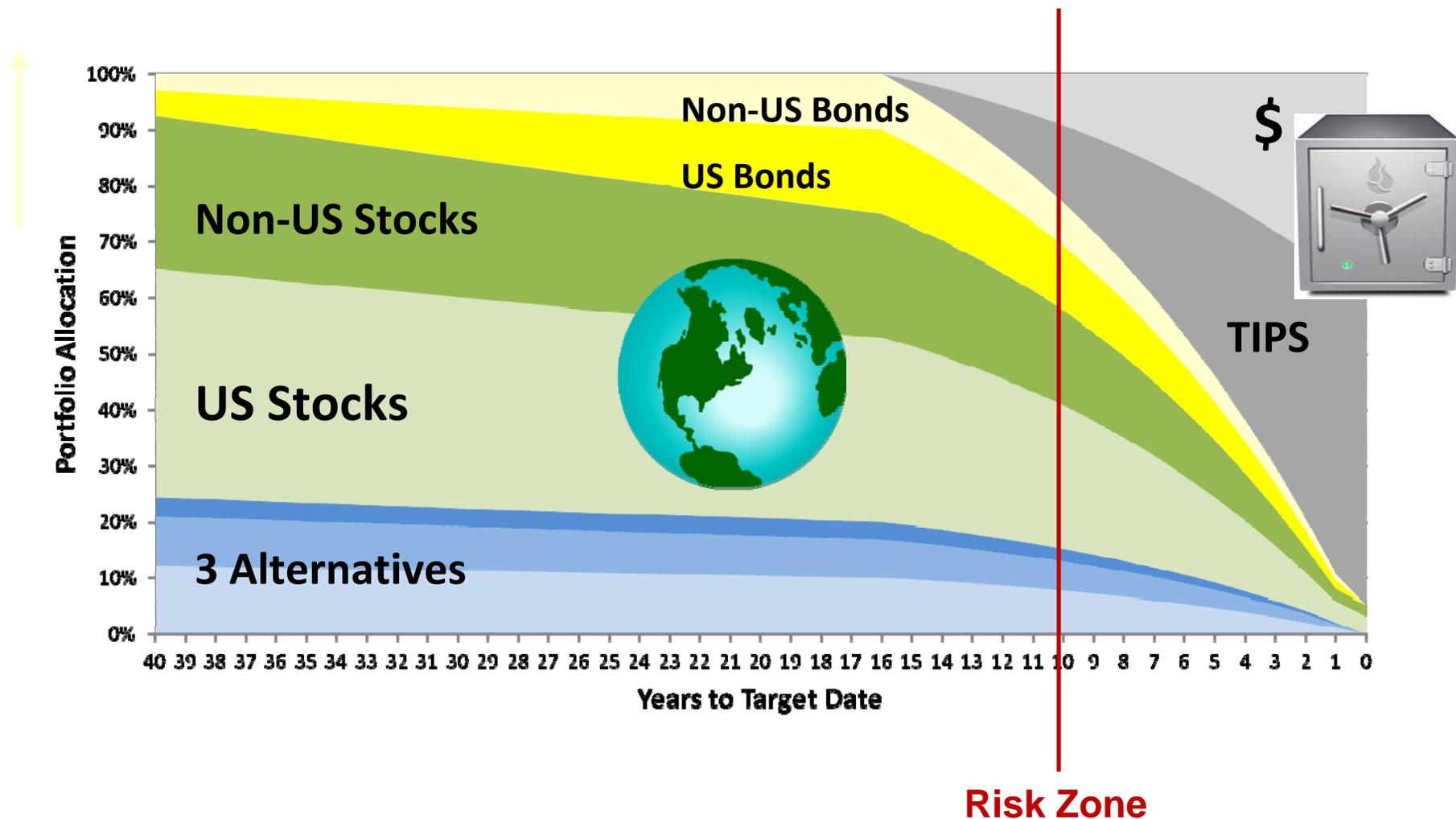
The World Market Portfolio

- Designed to provide **growth potential** in early years
 - Broad diversification
 - US stocks and bonds, Foreign stocks and bonds, Global real estate and commodities, Opportunistic
 - Mostly Passive

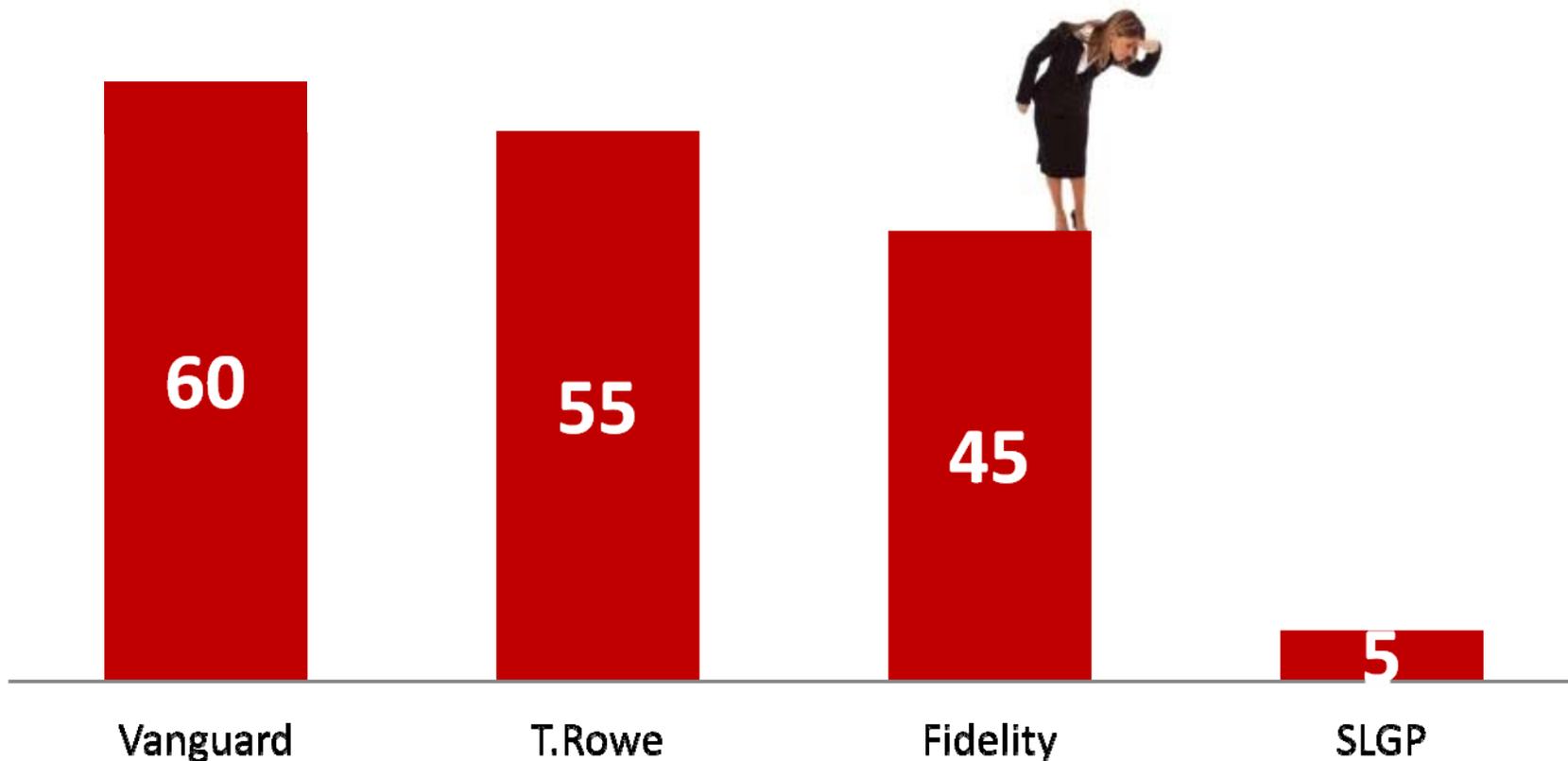
The Reserve Portfolio: 15 years from target

- Designed to **preserve assets** as retirement nears
 - Treasury securities to mitigate credit risk
 - TIPS to protect against inflation
 - Lock box discipline avoids whipsaws

Safe Landing Glide Path



Risk at Target Date: Equity Allocation



Landing Safely is Crucial



Loss-Suits

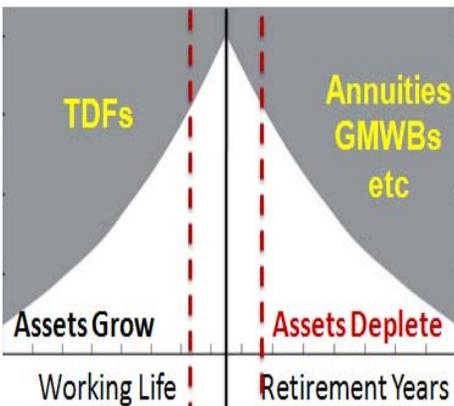


**No Upside
Only Downside
To Risk**

**Preserve and
Protect**



**Accumulation
Only**



**Participants
Withdraw at
Retirement**

Return Expectations

Hooray !!

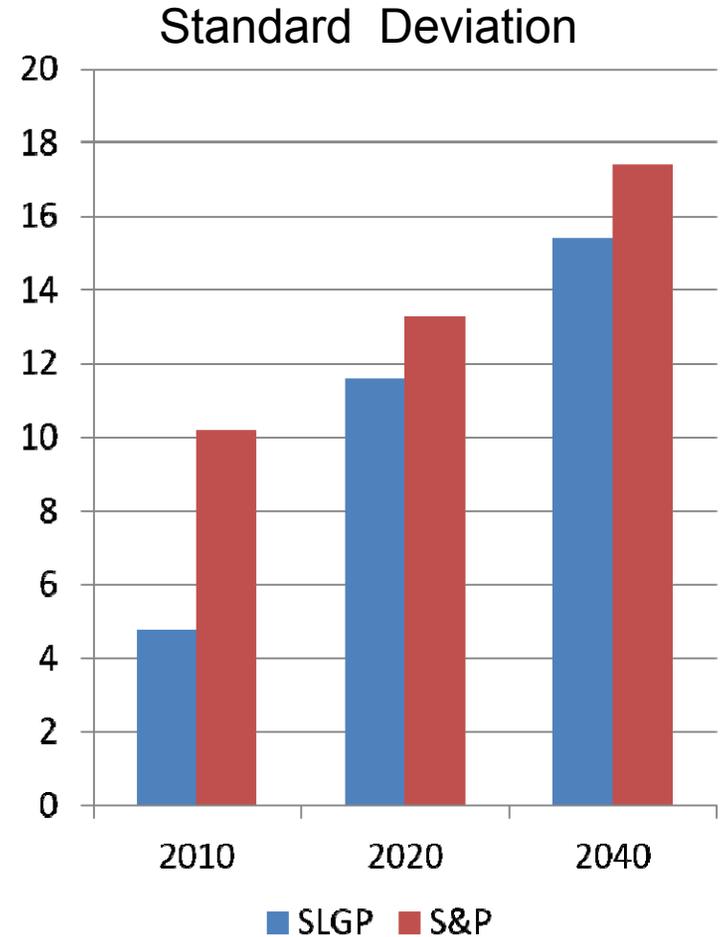
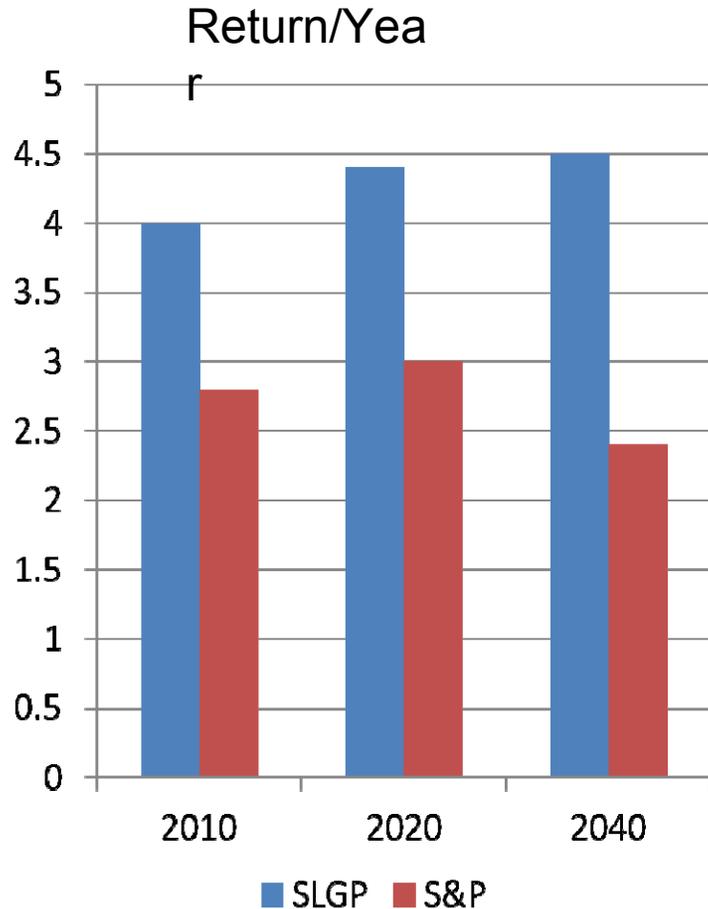


- **Risk-Adjusted Returns** will dominate the industry because of broad diversification and rigorous risk controls.
- **Unadjusted Returns** on near-dated funds will lag during good times, which is the opportunity cost of safety. Long-dated funds will dominate over a full market cycle because of broad diversification.

Concept is Reality

SMART Funds adopted the Safe
Landing Glide Path in November 2008

5-Year Return and Risk through 12/31/10



SLGP track record is Brightscope On-Target Index for 2006-10/2008
And SMART collective investment funds for 11/2008-forward

S&P is S&P Target Date Index

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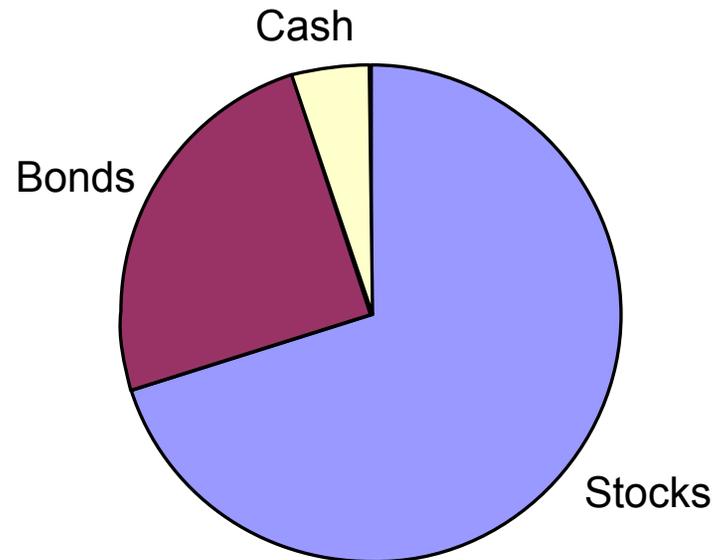
What is Strategic Growth?

Blue Prairie Group follows a proven, prudent approach to investment implementation.

1. Asset allocation is the key decision. It is a process, not just a description. It is dynamic and needs to be managed over time.
2. Reducing portfolio volatility improves investment performance and diversification within asset classes reduces risk. The difficulty in recouping large investment losses requires prudent investors to protect themselves against downside risk.
3. Costs matter – the expenses involved in running a portfolio need to be fully disclosed and kept as low as practical.
4. As fiduciaries, how we do our work and deliver our services is as important as what we do.

Our goal is to mitigate “tail risk” by prudently managing the portfolio’s asset allocation based on long-term asset class behavior as well as cyclical and secular economic and market changes. For the most part, portfolios are implemented utilizing low cost passively managed investments.

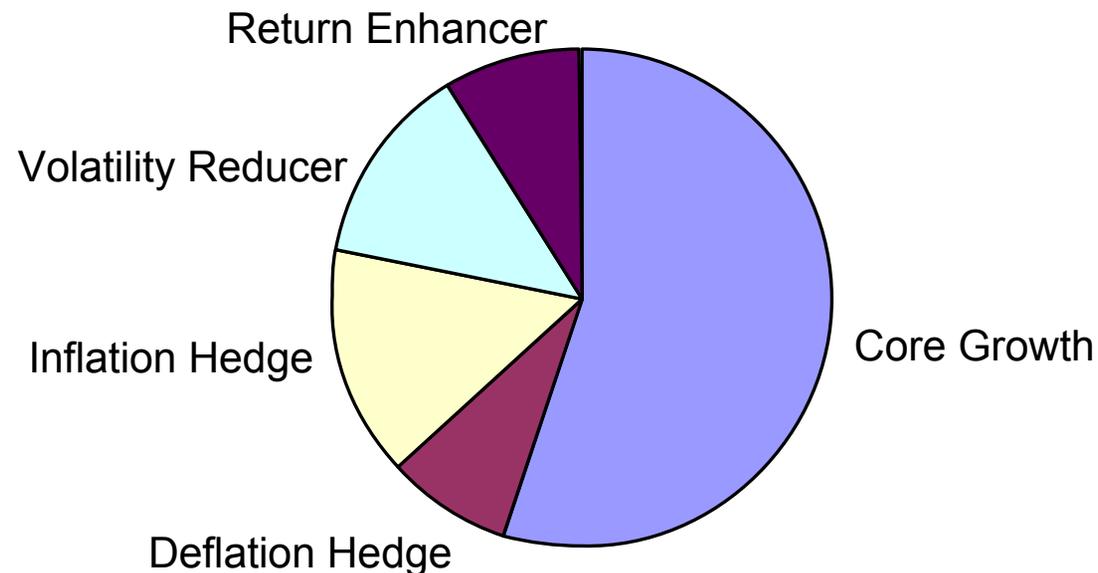
Traditional Asset Allocation



Traditional asset allocation is a description of an actual or target portfolio based on asset class membership. It is generated using historical risk, return and correlation statistics assuming a normal distribution of returns.

Hypothetical allocations for illustrative purposes only

Enhanced Approach to AA



The better approach views asset allocation as a process. It is primarily concerned with the drivers of asset class behavior. It is constructed using current and forward-looking economic data and aims to diversify across “economic risk factors”

Hypothetical allocations for illustrative purposes only

What Factors Drive Traditional AA?

- Time Horizon
- Target Rate of Return
- Liquidity Needs
- Risk Tolerance

Additional Factors In An Enhanced AA Approach

Asset Allocation is a dynamic process, not a static description

Inputs into creation of target asset allocation include:

- Long-term asset class behavior
- Secular outlook by asset class
- Current market and economic environment
- Historical valuation analysis
- Comparative valuation analysis

Inputs are not static and result in periodic changes to the target allocation, as would a change in the circumstances of the client.

Constant mix is not constant risk

Over time, the riskiness of a static allocation changes quite dramatically leaving the investor exposed to unexpected, and significant risk. Blue Prairie Group's approach to portfolio management (Dynamic Asset Allocation) addresses this issue.



Through September 30, 2009

Past performance is not indicative of future results.

* Refers to 60% in the MSCI All Country World Index and 40% in the Barclays Global Aggregate Index, rebalanced monthly. Growth of US\$1 is calculated on an inflation-adjusted basis. Returns to high-yield and investment-grade credit refer to excess returns over comparable-dated government bonds. See notes on page 25 for asset class definitions.

** Throughout this paper, unless otherwise noted, global bonds refer to government bonds and global stocks refer to developed-country equities, with returns hedged into US dollars.

Source: Barclays Capital, Bloomberg, FTSE NAREIT, Global Financial Data, MJK Associates, MSCI, Thomson Reuters and AllianceBernstein

Current Allocations

SMART FUNDS 2020

	% of Portfolio
Cash	
CASH	0.00%
Total	0.00%
Short Term Investments	
BLACKROCK MONEY MARKET FUND I	8.26%
CASH FORCE BANK INSURED DEPOSIT FUND	0.10%
HB&T SHORT TERM INCOME FUND	14.58%
Total	22.94%
Bonds	
UNITED STATES TREASURY NOTES TREASURY INFL PROTECTED SECS 1.375% 01/15/2020 OFV 393000	13.65%
ISHARES IBOX\$ INV GRADE CORP BD FD	4.48%
ISHARES JP MORGAN EMERGING BOND FUND	1.28%
ISHARES IBOX\$ HI YLD CORPORATE BOND	2.55%
TEMPLETON GLOBAL BOND FUND ADV	2.55%
FIDELITY FLOATING RATE HI INCOME FUND	2.54%
BLACKROCK US DEBT INDEX FUND F	1.92%
BLACKROCK 1-3 YEAR GOVT BOND INDEX FUND F	1.91%
Total	30.88%
Equities	
ISHARES SILVER TRUST	2.75%
MLP STRATEGIC EQUITY FUND	1.27%
PLUM CREEK TIMBER COMPANY	0.85%
POTLATCH CORPORATION	0.85%
POWERSHARES FTSE RAFI EMERGING MARKETS PORT	5.92%
POWERSHARES FTSE RAFI DEV MKT EX US S/M	1.95%
RAYONIER INC	0.84%
SPDR GOLD TRUST	2.58%
ELEMENTS ROGERS TOTAL RETURN	5.21%
TORTOISE ENERGY CAPITAL CORP	1.28%
BLACKROCK RUSSELL 2000 VALUE FUND F	1.31%
BLACKROCK RUSSELL 2000 GROWTH FUND F	1.31%
BLACKROCK RUSSELL 1000 INDEX FUND T	6.43%
BLACKROCK RUSSELL 1000 GROWTH FUND T	3.22%
BLACKROCK EQUITY INDEX FUND H	3.86%
BLACKROCK EAFE EQUITY INDEX FUND T	3.91%
BLACKROCK US REAL ESTATE FUND F	2.64%
Total	46.18%
Total Portfolio	100.00%

Economic Outlook

Key Themes

Low growth

Weakened consumer (unemployment, housing)

Weaker corporate profit growth

Developed market sovereign debt issues

Interest rates & Inflation

Portfolio Implications

If market valuations continue to increase without a commensurate increase in sustainable economic activity, we will look to sell some equities at attractive prices.

If market volatility takes the market down substantially from here, we would likely become buyers of equities.

We expect to continue pruning fixed income investments in favor of hard assets and emerging markets equities

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About Hand Benefits & Trust and SMART Funds



- Collective Investment Trusts for Enlightened Fiduciaries
- Founded in 1963. Collective trust launched in 1971.
- Parent is Community Bank Systems (NYSE: ticker CBU)
- Founding member of NSCC for Trust Companies in 1997.

Other facts about HB&T



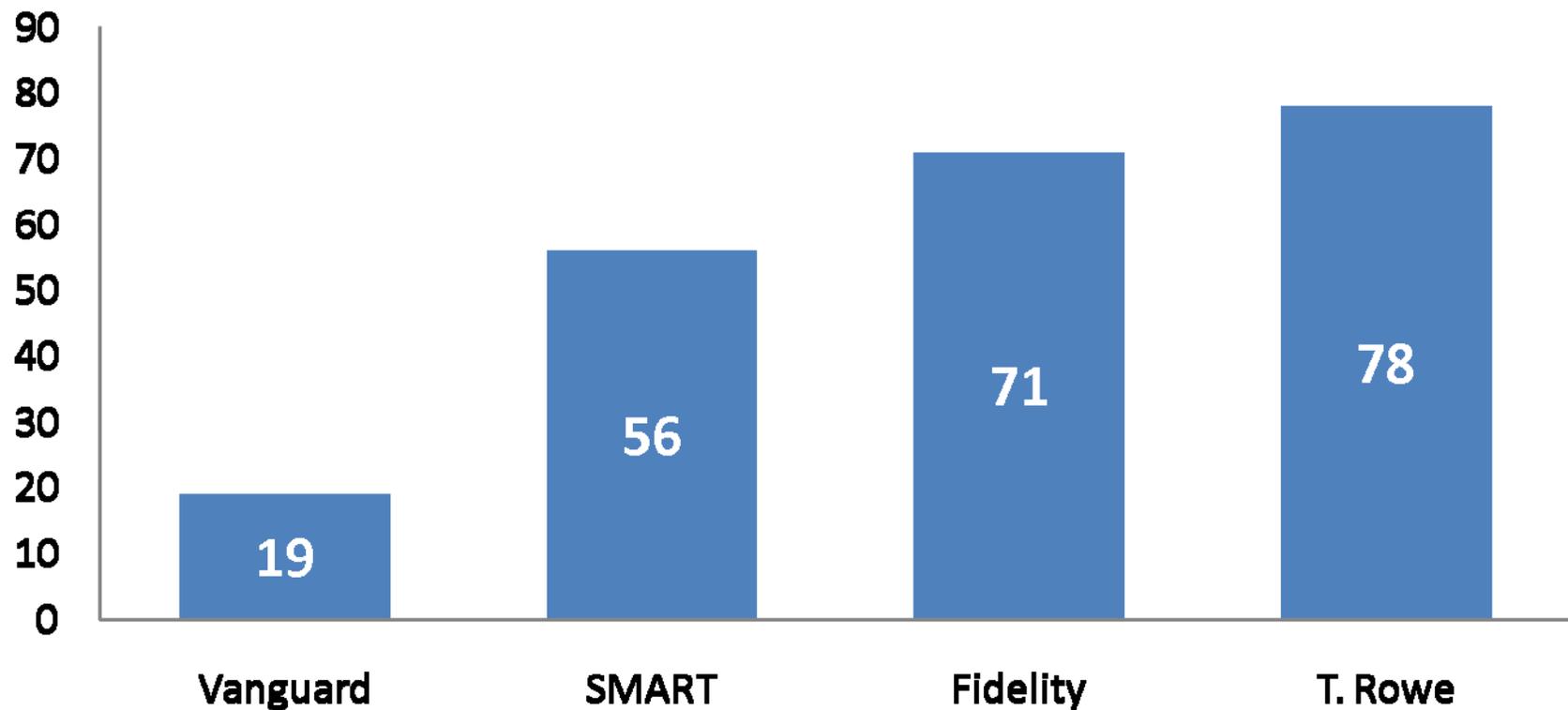
- Industry push to collectives has created new opportunities
 - Threat of litigation in large plan market is pushing plans to collectives
 - Growth in Qualified Default Investment Options
- Currently administering 170 CUSIPs
- Our funds are on multiple trading platforms including:
 - STN – MidAtlantic Capital
 - Charles Schwab Trust Company
 - Matrix – MG Trust Company
 - TD Ameritrade
 - Fidelity
 - Merrill Lynch/Bank of America
 - Reliance Trust Company
 - Wilmington Trust Company
 - Benefit Plan Administrators
 - Wells Fargo Bank (Wachovia)
 - Frontier Trust Company
 - SEI Private Trust Company
 - Great West (GWFS / GWRS)
 - Nationwide
 - Principal

SMART Funds Case Study



- Opportunity:
 - Create collective funds to bring asset allocation solutions to the DC plan marketplace
- SMART® Funds:
 - Launched risk based asset allocation collective funds in January of 1998
 - Today 2010, 2020, 2030, 2040 and 2050 target date funds with multiple share classes
 - Includes broadly diversified portfolios of global income, equity and alternative investments
 - Importance of the right glide path
- Hand Benefits & Trust serves as:
 - trustee
 - transfer agent and
 - fund administrator

Fees in basis points



Other SMART share classes: 94, 112, 142

Additional fee to move off platform: Approx 15 bps

SMART CUSIPs



	Institutional (Service fees: 0,0)*	R1 (Service fees: 0,25)*	R2 (Service fees: 25,10)*	R3 (Service fees: 50,15)*
2010	41023R230	41023R735	41023R727	41023R719
2020	41023R248	41023R438	41023R420	41023R412
2030	41023R255	41023R768	41023R750	41023R743
2040	41023R263	41023R396	41023R388	41023R370
2050	41023R271	41023R792	41023R784	41023R776

http://www.bpas.com/products/inst_trust_serv_factsheets.htm#smart

*The first service fee is typically paid to broker dealers on behalf of plan investors and the second is typically paid to the tpa or record keeper on behalf of plan investors.

Goal: Take Back Control

Fiduciaries have a responsibility to choose GOOD Target Date Funds (TDFs). Status as a Qualified Default Investment Alternative does not mean that any TDF will suffice.

Fiduciaries, not fund companies, need to establish objectives:

Choose Safety Over High Risk

Thank you for Attending

For Further Information, Contact:

Glide Path Design



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Collective Investment Trusts



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