



QDIA, One Year Later: Fund Solutions for DC Plans

Presented by:

Sara Spengler

Senior Manager, Global Equity Plan Services

[salesforce.com](https://www.salesforce.com)

www.salesforce.com

Linda Ruiz-Zaiko

President

Bridgebay Financial, Inc.

ruiz-zaiko@bridgebay.com

www.bridgebay.com



QDIA Requirements

- ▶ No financial penalties or restrictions on the ability of a participant or beneficiary to transfer the investment from the QDIA to any other investment alternative available under the plan may be imposed.
- ▶ Funds must be managed by an investment manager or investment company registered under the Investment Company Act of 1940.
- ▶ Funds must be diversified so as to minimize the risk of large losses.
- ▶ Participant contributions may not be directly invested in employer securities.
- ▶ Eligible investment options:
 - Risk-based asset allocation
 - Target date or age-based asset allocation
 - Balanced Fund
 - Professionally Managed Account

Western Pension & Benefits Conference
Seattle, Washington
April 22, 2009

Sara Spengler

Sr. Manager, Global Equity Plan Services

salesforce.com

San Francisco, CA



salesforce.com

CRM (NYSE)

- Worldwide leader in on-demand customer relationship management (CRM)
- As of fiscal year ended January 31, 2009 the company reported \$1.077 billion in revenue (+44% increase from 2008)
- Subscription and support revenues were \$984.6 M (+45% increase from 2008)
- Professional services revenue increased +35%
- Founded in 1999 by former Oracle executive Marc Benioff
- 55,400 Customers, 15 Languages, 800+ Applications on the AppExchange
- 3,566 Employees as of 1/31/2009



401(k) Plan

- High participation levels (87% of eligible employees)
- Assets under \$100M and less than 2,000 participants
- salesforce.com philosophy:
 - Auto enrollment
 - Company match (discretionary)
 - Target date funds
 - No Company stock



401(k) Committee

- 7 committee members, quarterly meetings
 - Employee Attorney
 - H.R. Benefits Manager
 - 401(k) Administrator
 - CIO
 - VP, R&D
 - Corporate Treasurer
 - VP, Finance
- Diverse, enthusiastic and engaged committee
- Guided by Investment Policy Statement
- Use SEC RIA pension consultant and fiduciary
- Watch List Process, Meeting Minutes, Participant Feedback, Provider Meetings Educational and communication challenges

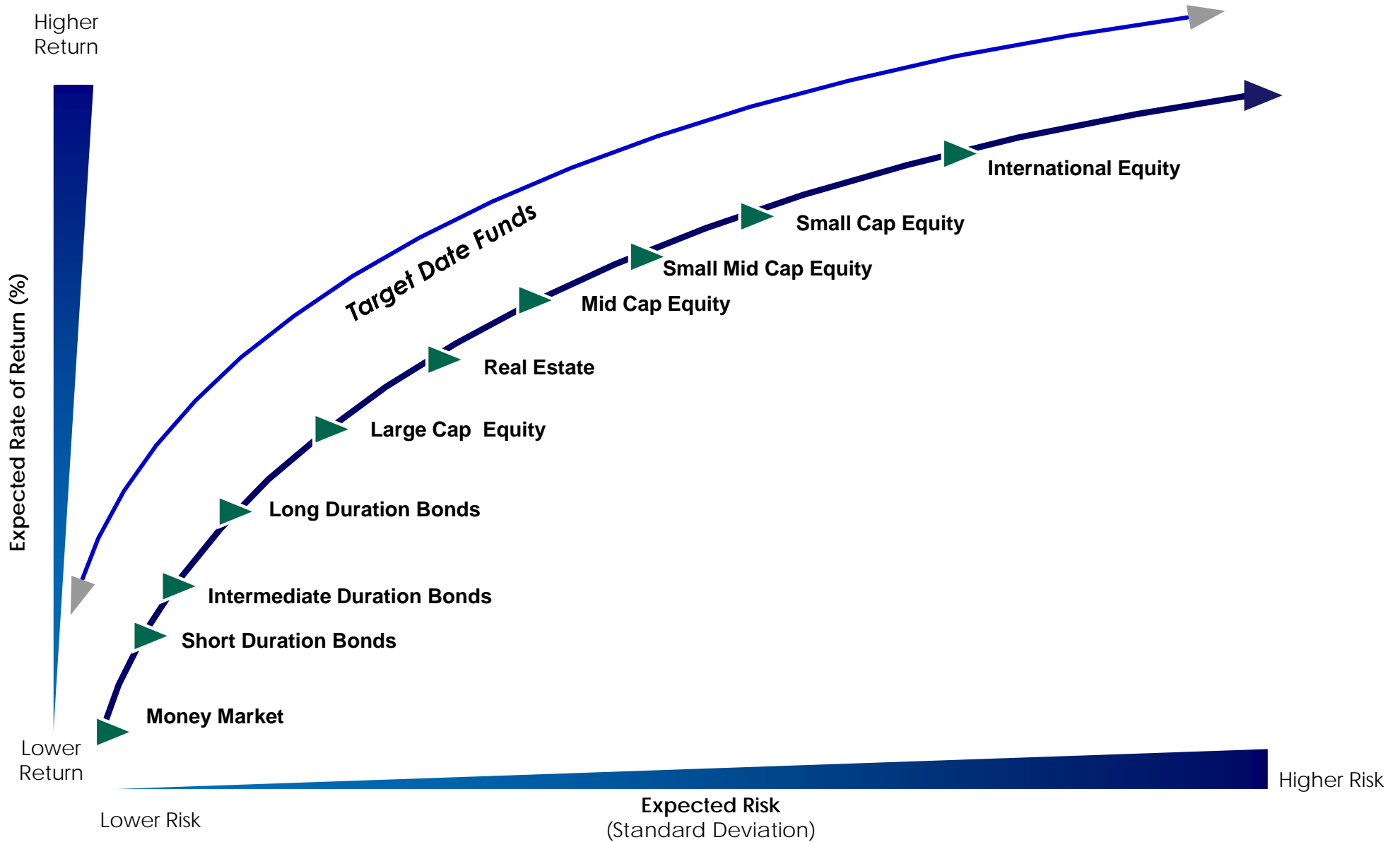


Additional Comments

- Participant reaction to market downturn
- Merging plans after acquisition



Representative Risk/Return Spectrum



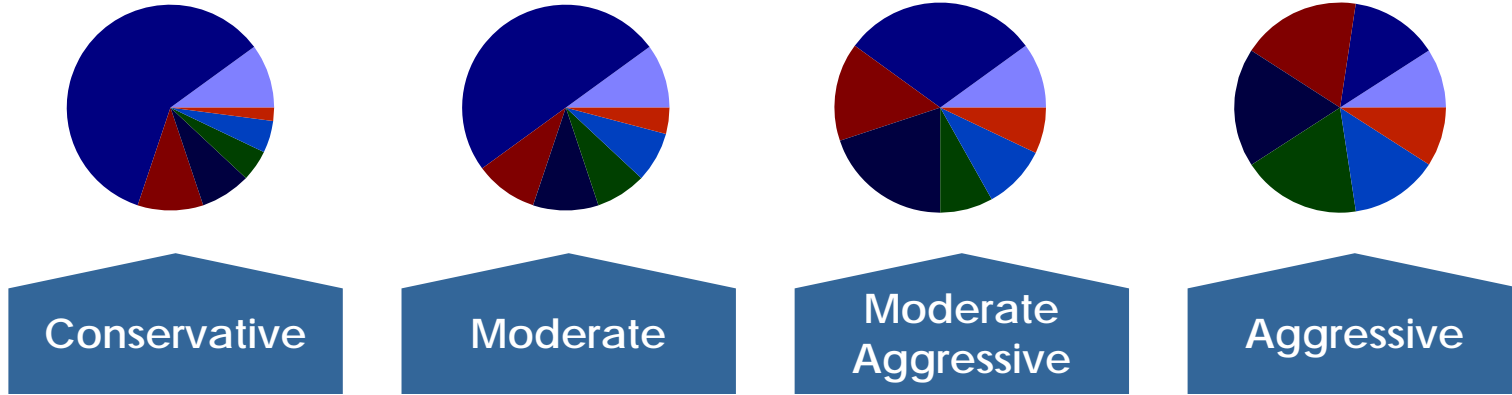


- ▶ **Automatic enrollment**
 - New or existing participants
 - Opt-out, re-auto enroll annually or once
- ▶ **Automatic deferral increases**
 - New or all participants, must opt out
 - 1% per year up to 6%
- ▶ **Automatic investments**
 - Qualified default investment alternative (QDIA)
 - Default fund, target maturity funds, or managed accounts
- ▶ **Plan assets can be used to pay for fiduciary consultants and financial advisors**

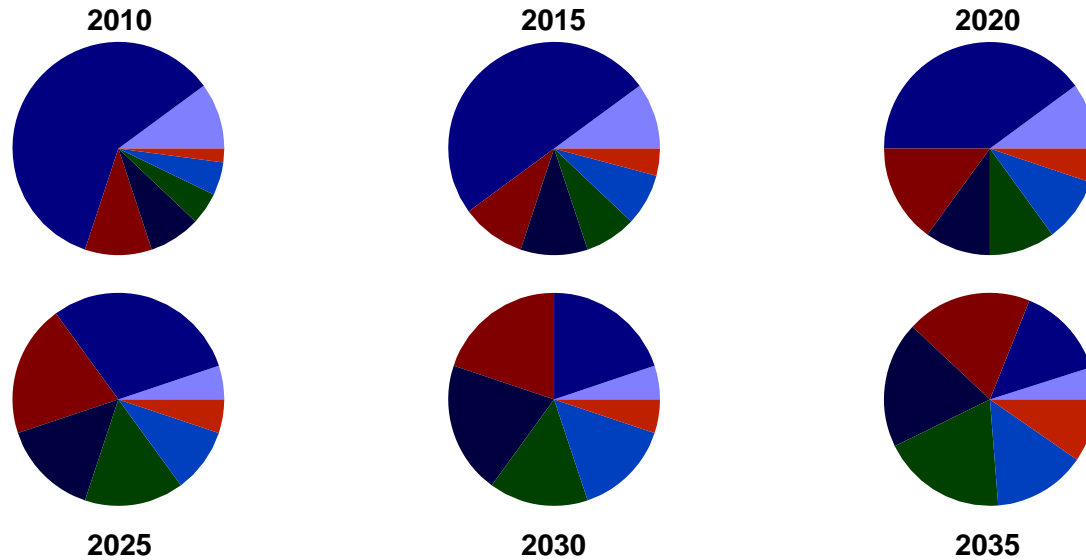




Risk Based Models



Target Date Models





▶ **Asset Allocation & Rebalancing Strategies**

- **Replicates prudent, best practice**
- **Asset allocation transitions over investor's lifetime**
- **Aid transition from capital growth to capital preservation**
- **Shift from high weighting in stocks to fixed income**

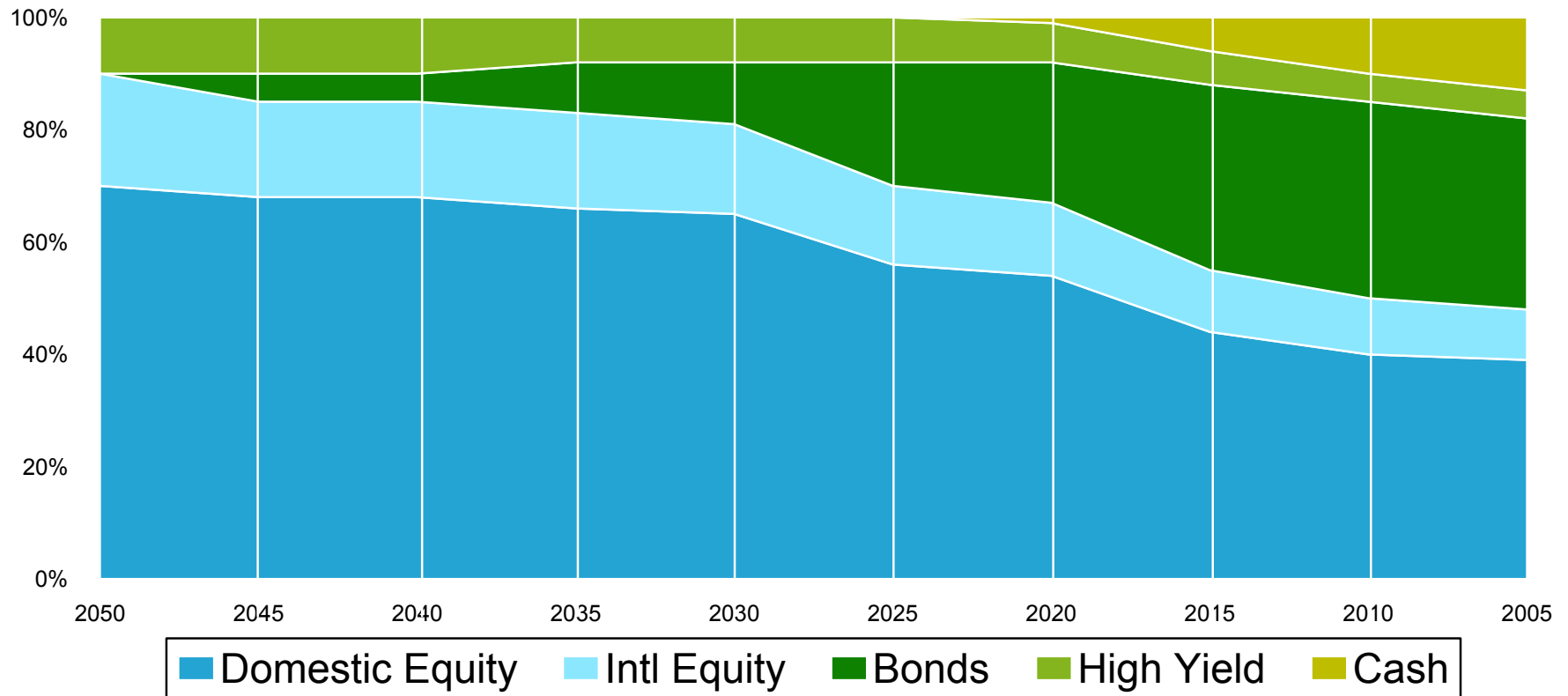


- ▶ **Glide path is change in asset allocation over time**
 - **Adjusts the return and risk characteristics over time**
 - **30-40 years from target date, glide path is weighted to higher return and higher risk (more stocks)**
 - **As approaches target date (close to retirement) then lower risk and lower return (more bonds)**



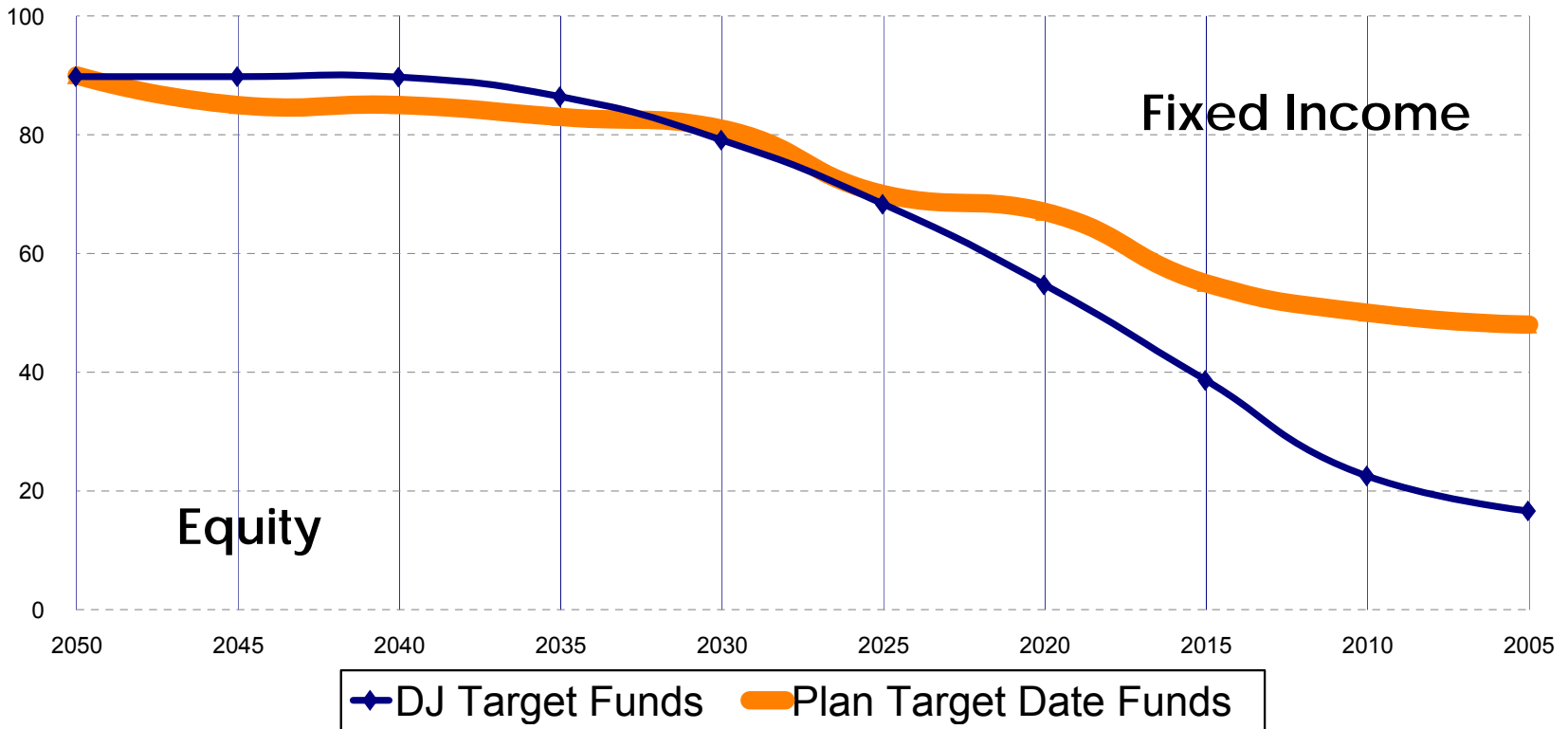


Target Date Glide Path





DJ Target Date vs Plan Target Date Glide Path





- ▶ **Asset Allocation Glide Path**
 - The right asset allocation glide path for plan participants.
 - Glide paths result from:
 - Key investment decisions regarding asset classes
 - How asset allocations shift throughout the long-term horizon for target date portfolios.
 - What glide path philosophy best suits your plan?
 - Should non-traditional assets be included?

- ▶ **Impact on participant portfolios**
 - The impact on participant portfolios and adoption rates.
 - Understanding participant behavior is essential in choosing the right target date program.





▶ **Active or passive**

- Pros and cons of indexing versus active management.
- Involves choices regarding
 - How portfolios are managed
 - Overall costs
 - Overall portfolio risk
 - Fiduciary responsibilities.

▶ **Customized or pre-packaged**

- Plan sponsor should assess
 - Incremental benefits
 - Risks
 - Costs of customized programs compared with packaged solutions.



- ▶ **Asset allocation approach of fund families is similar**
 - **Mean variance approach**
 - **Based on correlation among investments**
 - **Expected rates of return**
 - **Economic trends**
 - **Stock and bond fundamentals**

- ▶ **Diversification by investment style differs among fund families**
 - **Different weightings to growth vs. value**
 - **Capitalization weightings differ, large cap vs. small**

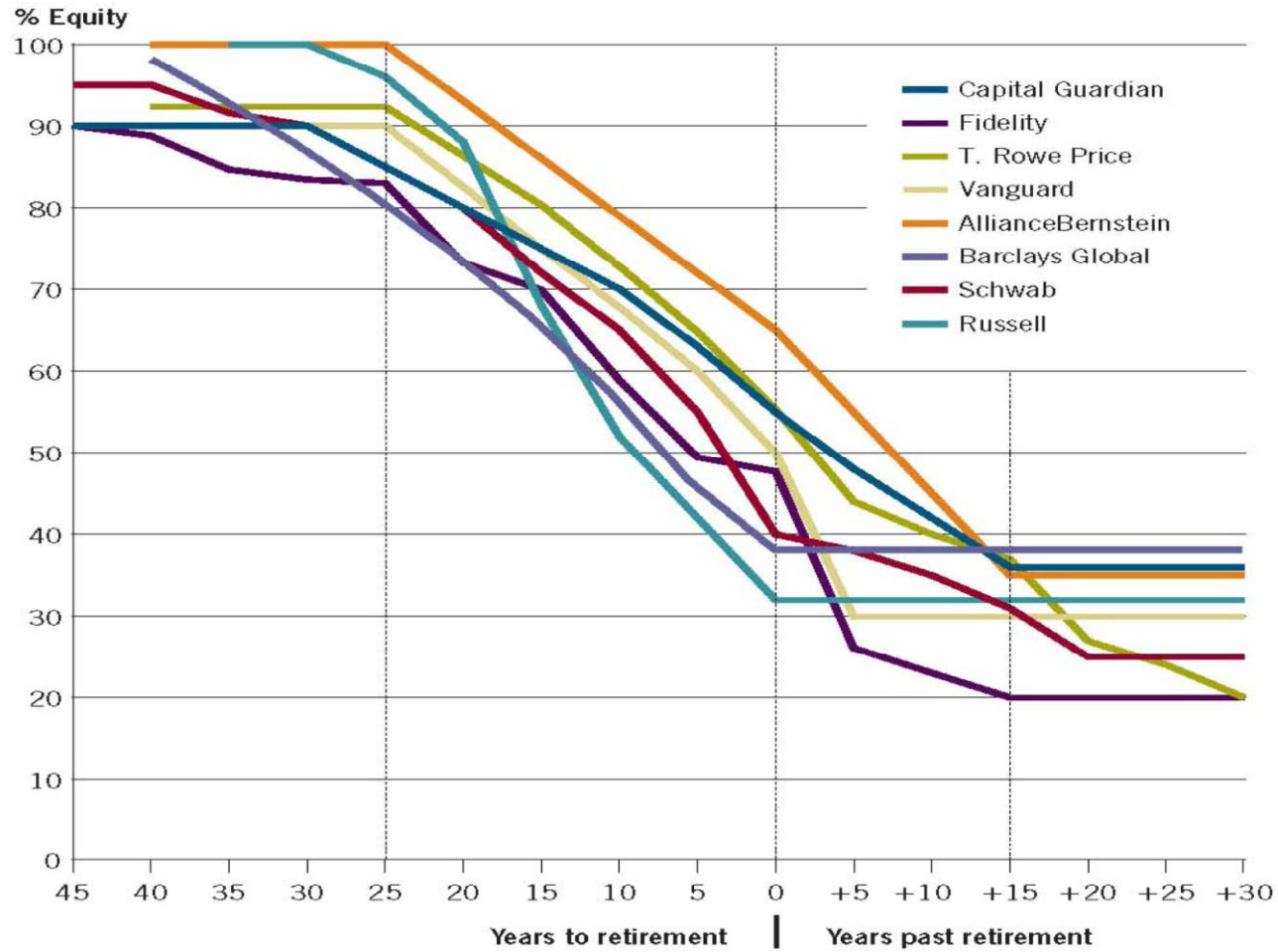
- ▶ **Frequency of rebalancing differs**

- ▶ **Short-date target funds**
 - **Widest range of equity exposure**
 - **2010 range from 20% - 70% in stocks**



- ▶ **Criteria for selection of target date family**
 - **Track record of overall fund group**
 - **Stability of management**
 - **Method of allocating assets**
 - **Funds' expenses**
 - **Characteristics of individual mutual funds**
 - **Asset allocations differ**
 - **Glide paths differ**





Source: Capital Guardian Trust Company



► **Pre-packaged “off the shelf” funds**

- **Limited transparency of quality/turnover of underlying funds, limited due diligence**
- **Products and asset classes used may differ dramatically from core funds**
- **Many include mediocre, lower rated funds**
- **May include asset classes not included in core fund options (emerging markets, sectors, regional, specialty) and contrary to Investment Committee**
- **Benchmark: Dow Jones Target Date Indices**



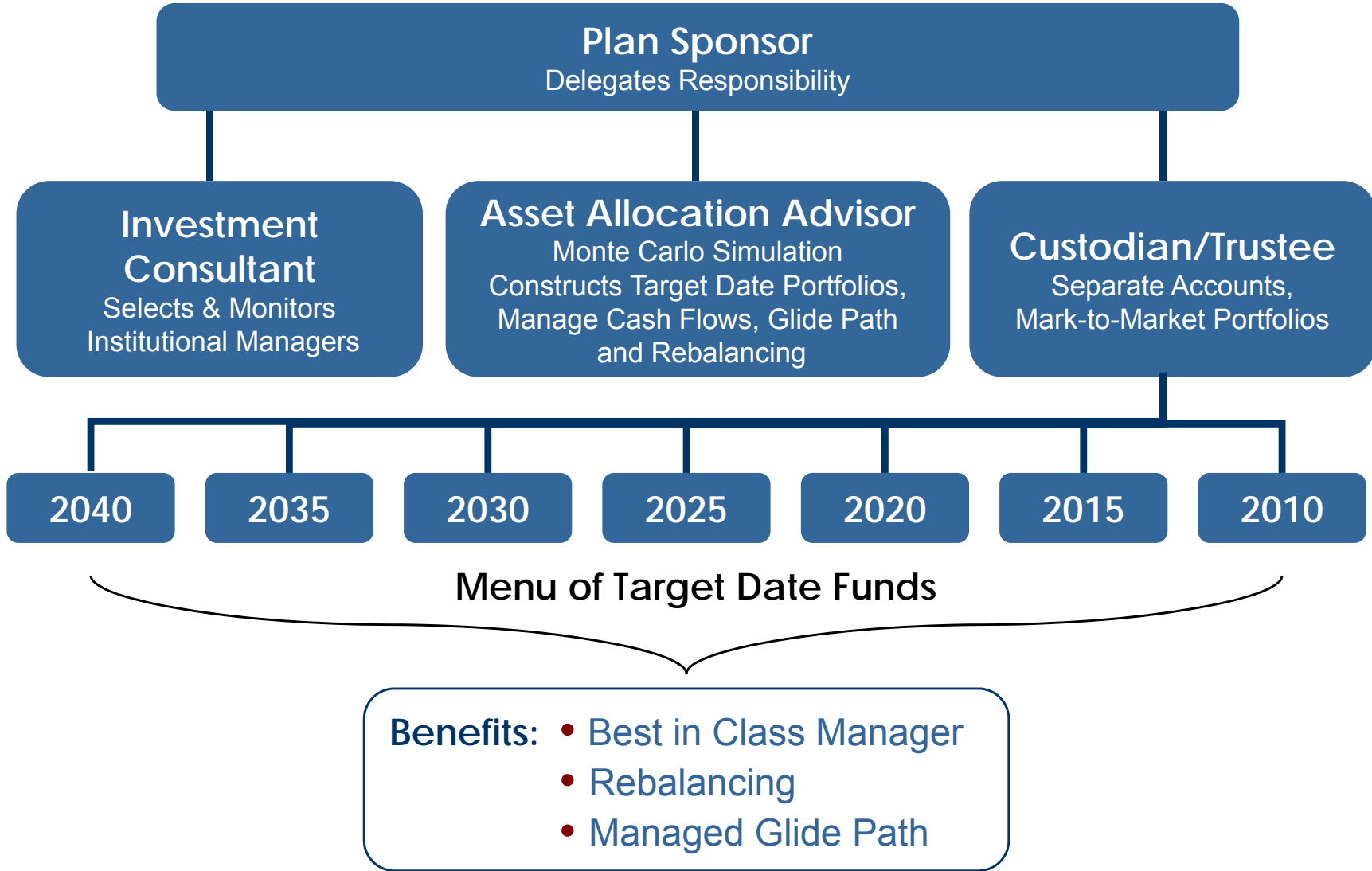


- ▶ **Custom designed funds – Mix your own**
 - **Best in class underlying funds, highest rated funds**
 - **Can mix active, index, ETF funds as appropriate**
 - **Leverages due diligence of core fund options**
 - **Transparency of fund holdings**
 - **Participants see % underlying core funds in statement**





- ▶ **Asset allocation models**
- ▶ **Plan sponsor delegates responsibilities to multiple experts**
 - **Consultant for manager selection and monitoring**
 - **Glide path manager**
 - **Recordkeeper**
 - **Trustee/Custodian**
 - **Investment managers**
- ▶ **Fund creation considerations**
 - **Separate accounts, commingled funds, institutional funds**
 - **Active or indexed**
 - **Style, core or blend**
 - **Manager monitoring, alpha, tracking error**





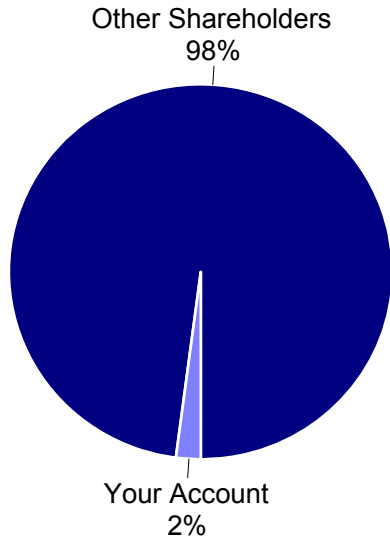
▶ Third Party Index

- **Dow Jones Target Date Indices**
 - Introduced April, 2005
 - Ten indices
 - Cover 5 year intervals to 2045
 - Composites of other Dow Jones Indices
 - Equal weight the underlying investment caps and styles
 - Does not use market-cap-weighted approach of target date funds



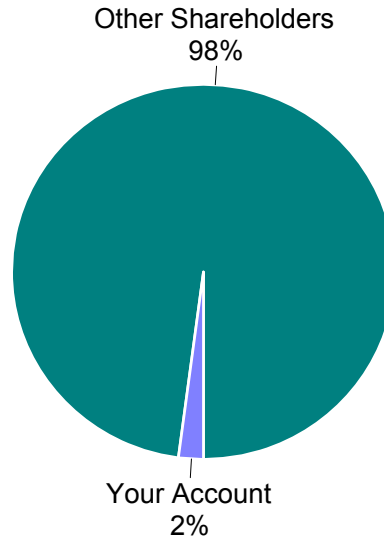


Mutual Fund



Pooled fund operated by an investment company that invests shareholder assets in accordance with a stated set of objectives

Commingled Trust Fund



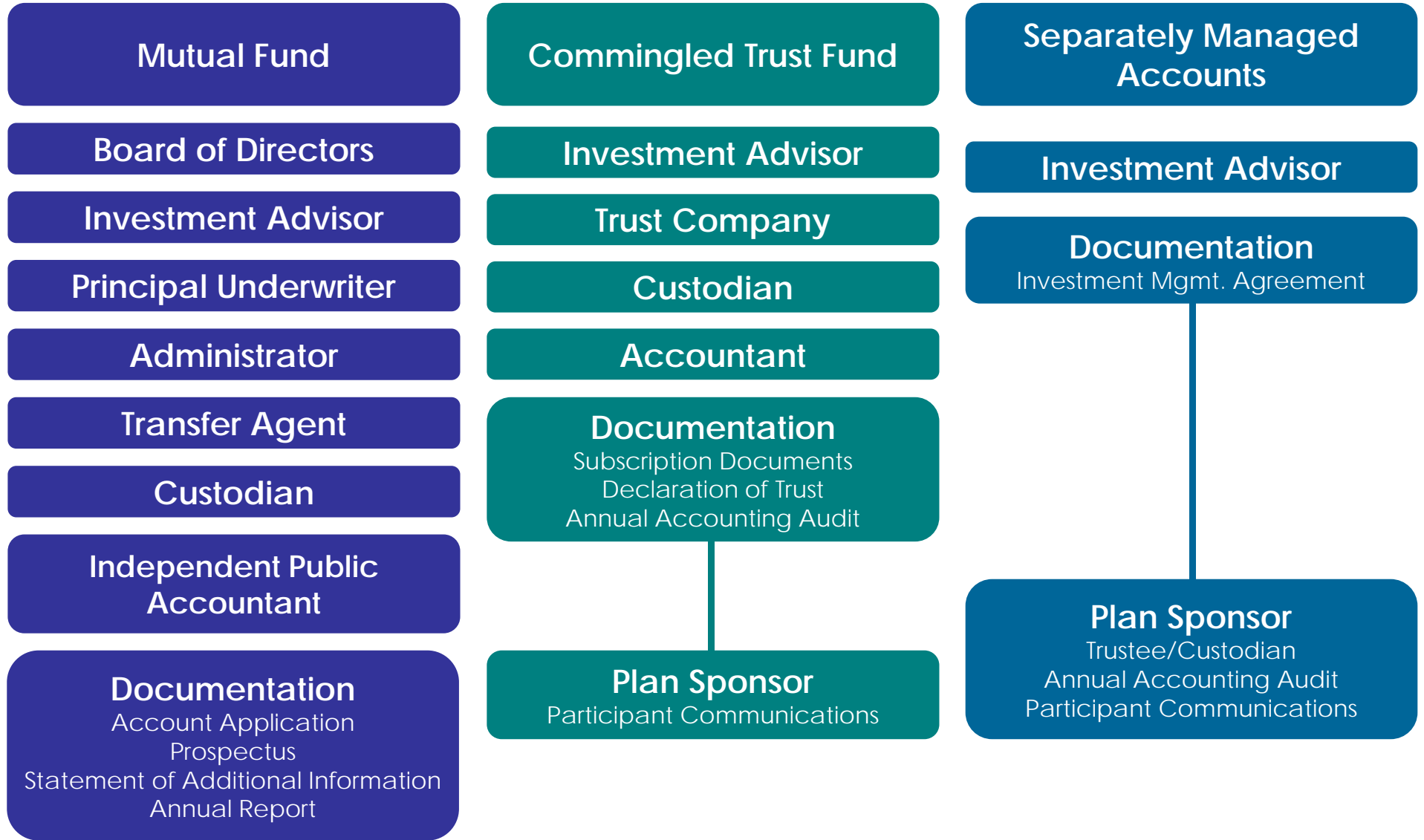
Pooled fund operated by a trust company for the collective investment of a qualified retirement plan

Separately Managed Account

Security	# Shares	Market Value
Microsoft Corp.	6,845	\$ 164,280
Texas Instruments Inc.	4,562	\$ 109,488
Applied Materials, Inc.	4,875	\$ 117,000
First Data Corp.	8,652	\$ 207,648
Yahoo! Inc.	2,685	\$ 64,440
Cisco Systems, Inc.	12,945	\$ 310,680
Sun Microsystems, Inc	8,649	\$ 207,576
Micron Technologies	2,648	\$ 63,552
Total		\$1,244,664

Portfolio managed by an investment manager to meet the specific needs and investment objectives of the plan sponsor

Source: P & I Defined Contribution



Source: P & I Defined Contribution



QDIA, One Year Later: Fund Solutions for DC Plans

Q&A



As of December 31, 2008

Holdings as of 11/30/08	(%)
Fidelity Investment Grade Bond Fund	9.40
Fidelity Disciplined Equity Fund	8.20
Fidelity Equity-Income Fund	7.90
Fidelity Total Bond Fund	6.80
Fidelity Strategic Real Return Fund	6.80
Fidelity 100 Index Fund	6.70
Fidelity Growth Company Fund	5.70
Fidelity Intermediate Bond Fund	5.40
Fidelity Short-Term Bond Fund	4.70
Fidelity Institutional Money Market	4.70
Fidelity Government Income Fund	4.50
Fidelity Value Fund	3.60
Fidelity Overseas Fund	3.20
Fidelity Diversified International Fund	3.20
Fidelity Series All-Sector Equity	3.20
Fidelity Series Investment Grade Bond	2.70
Fidelity Europe Fund	2.50
Fidelity High Income Fund	2.40
Fidelity Capital & Income Fund	2.30
Fidelity Blue Chip Growth Fund	1.90
Fidelity Series Large Cap Value	1.10
Fidelity Small Cap Opportunities Fund	0.90
Fidelity Japan Fund	0.70
Fidelity Small Cap Value Fund	0.60
Fidelity Small Cap Growth Fund	0.60
Fidelity Southeast Asia Fund	0.30
Total	100.00

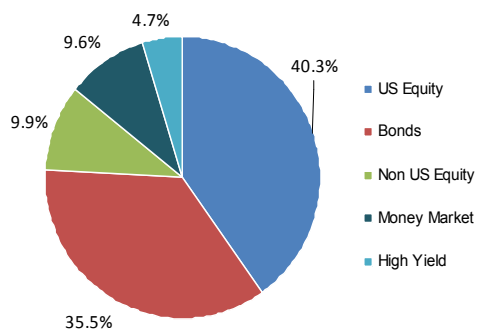
Asset Allocation	(%)
US Equity	40.30
Bonds	35.50
Non US Equity	9.90
Money Market	9.60
High Yield	4.70
Total	100.00

Overview	
Net Assets (\$M)	10,149.66
Expense Ratio	0.65%

Morningstar Ratings	
3 year	★★
5 Year	★★
10 year	★★
Overall	★★

Lipper Ratings as of 11/30/08	
1 Year	#270 out of 853 Balanced
5 Year	#213 out of 482 Balanced
10 Year	#67 out of 276 Balanced

Volatility Metrics	
Beta	0.79
R Squared	0.09
Standard Deviation	10.62



As of December 31, 2008

Holdings as of 11/30/08	(%)
Fidelity Disciplined Equity Fund	13.00
Fidelity Equity-Income Fund	12.90
Fidelity 100 Index Fund	10.50
Fidelity Growth Company Fund	8.90
Fidelity Value Fund	6.30
Fidelity Overseas Fund	4.80
Fidelity Diversified International Fund	4.70
Fidelity Series All-Sector Equity Fund	4.20
Fidelity Europe Fund	4.10
Fidelity High Income Fund	3.80
Fidelity Capital & Income Fund	3.70
Fidelity Investment Grade Bond Fund	3.50
Fidelity Blue Chip Growth Fund	3.30
Fidelity Total Bond Fund	2.70
Fidelity Strategic Real Return Fund	2.60
Fidelity Intermediate Bond Fund	2.00
Fidelity Government Income Fund	1.70
Fidelity Small Cap Opportunities Fund	1.60
Fidelity Series Investment Grade Bond Fund	1.30
Fidelity Japan Fund	1.30
Fidelity Small Cap Value Fund	1.00
Fidelity Small Cap Growth Fund	0.90
Fidelity Series Large Cap Value	0.60
Fidelity Southeast Asia Fund	0.50
Fidelity Institutional Money Market	0.10
Total	100.00

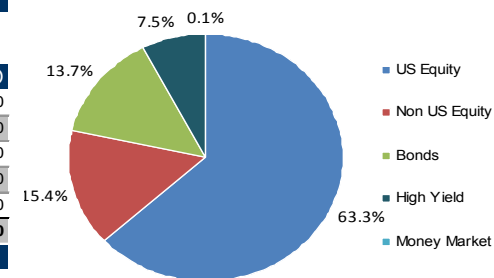
Asset Allocation as of 11/30/08	(%)
US Equity	63.30
Non US Equity	15.40
Bonds	13.70
High Yield	7.50
Money Market	0.10
Total	100.00

Overview	
Net Assets (\$M)	10,076.50
Expense Ratio	0.76%

Morningstar Ratings	
3 year	★★★
5 Year	★★★★
10 year	★★★★
Overall	★★★★

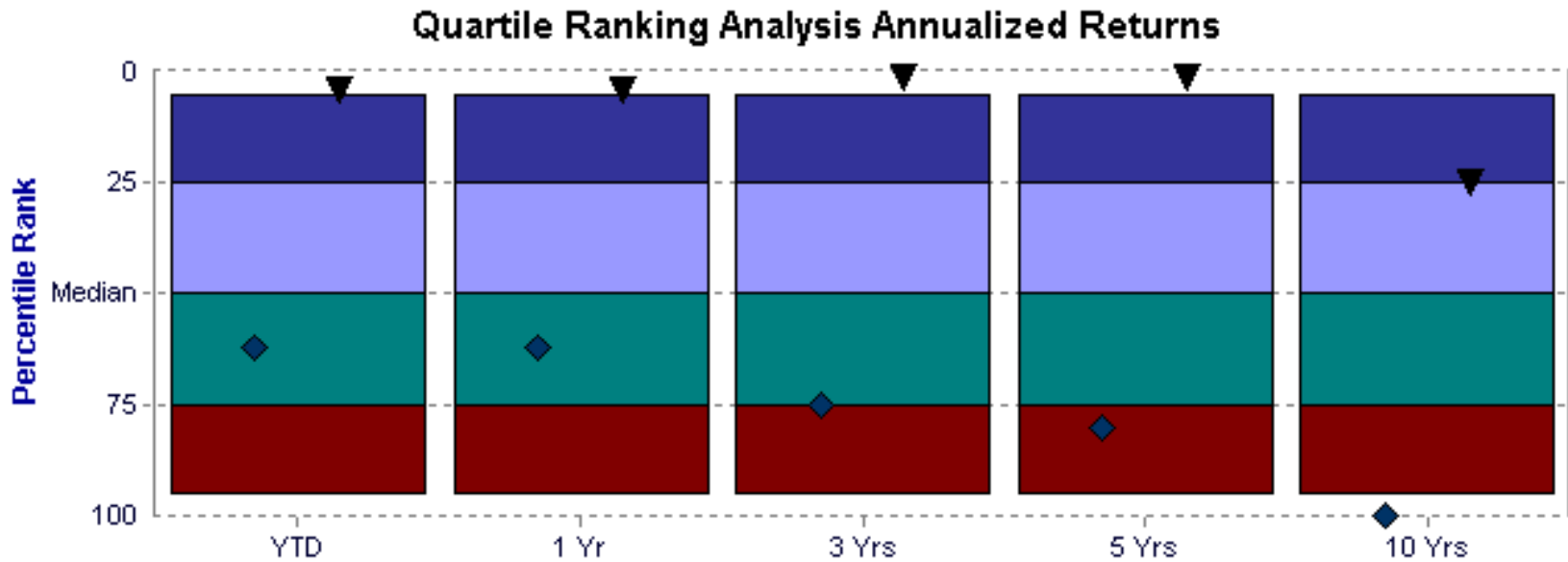
Lipper Ratings as of 11/30/08	
1 Year	#886 out of 1701 Growth & Income
5 Year	#390 out of 950 Growth & Income
10 Year	#178 out of 544 Growth & Income

Volatility Metrics	
Beta	1.00
R Squared	0.95
Standard Deviation	15.66





As of 12/31/2008

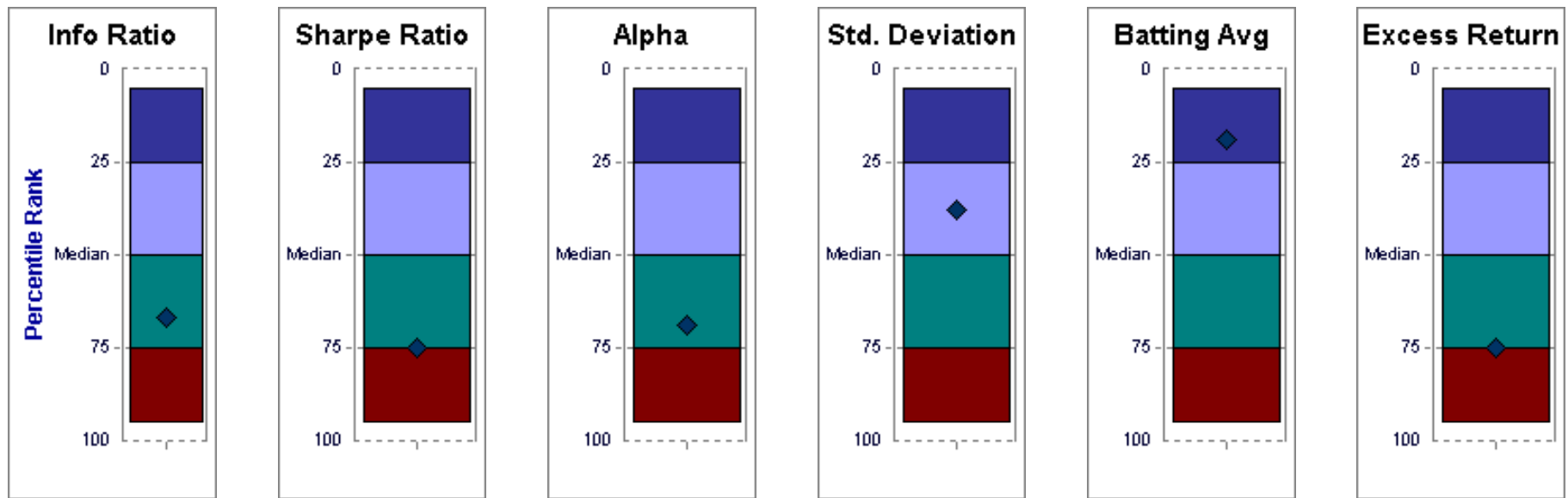


◆ Target Date 2010 Fund

▼ Dow Jones Target-Date 2010 Index



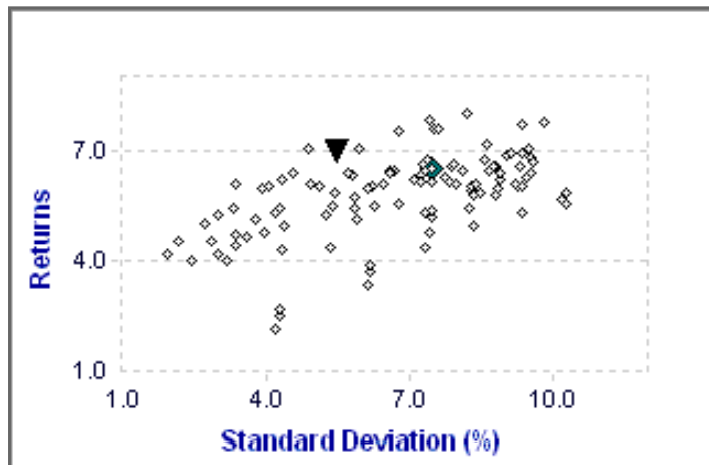
As of 12/31/2008



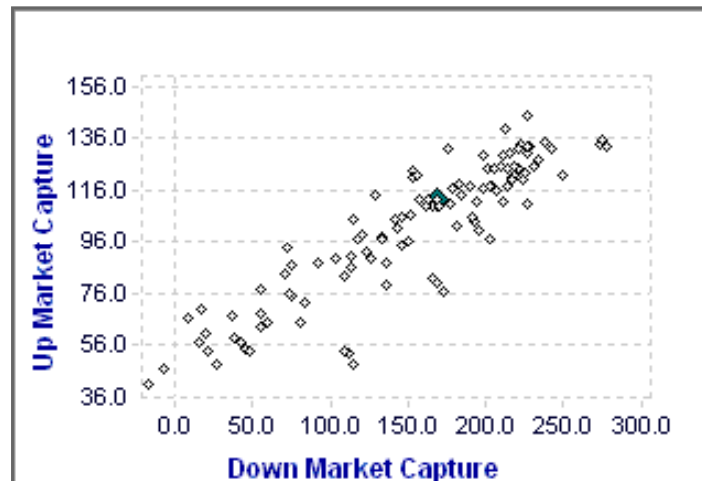
◆ Target Date 2010 Fund



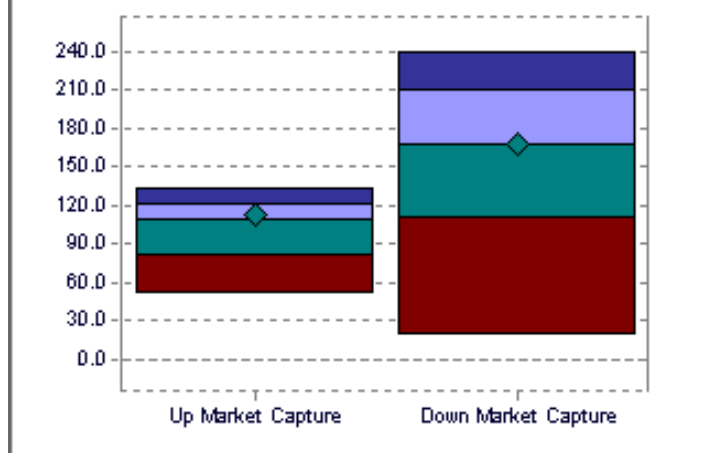
Risk Vs. Return 3 Years



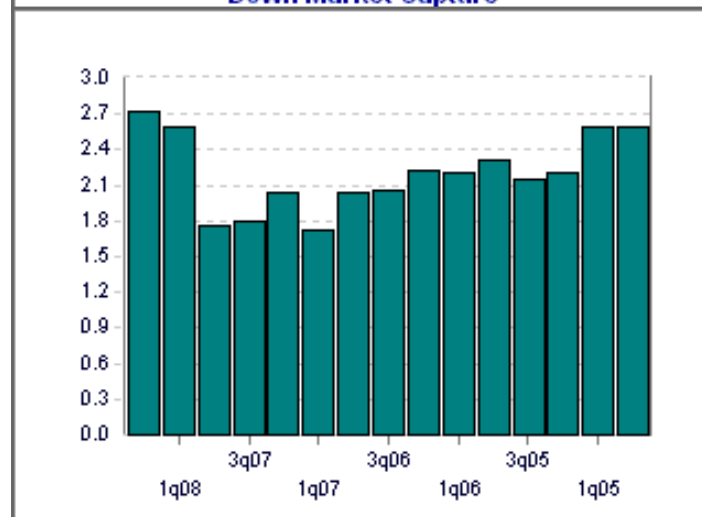
Market Capture: 3 Years



Upside/Downside Mkt Capture



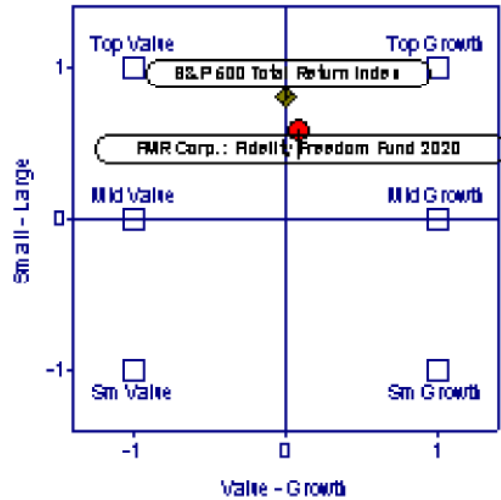
Market Capture: 3 Years



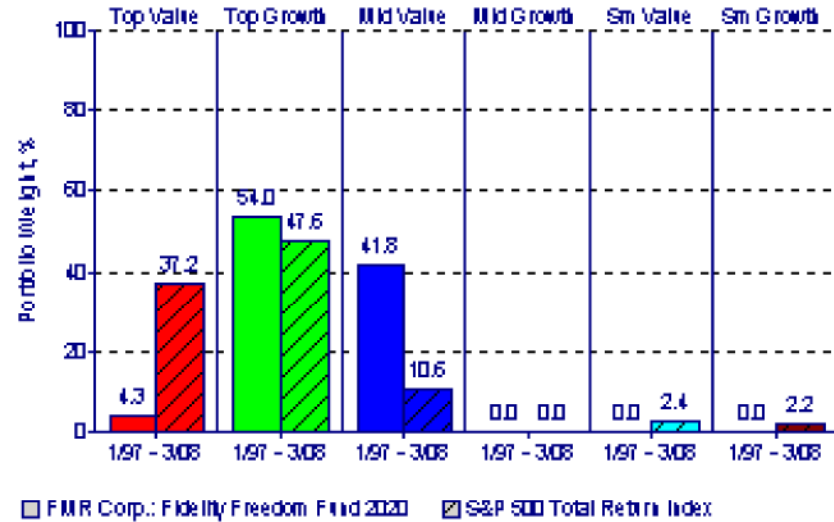
Tracking Error



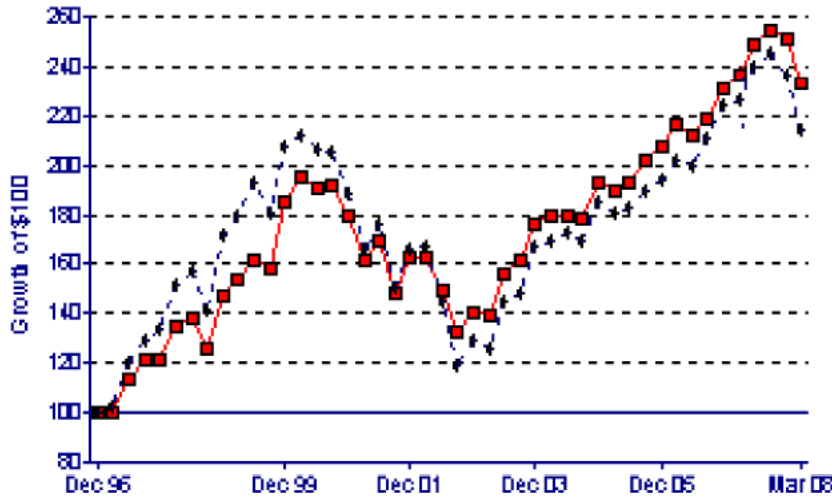
Style Map: Total Period



Asset Allocation: Total Period



Cumulative Performance: Total Period



Batting Average

