



This presentation was originally given by:

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At the 2001 Mid-Sized Pension Management Conference

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Mid-Sized Pension Management Conference

Selecting Investment Options for Participant-Directed DC Plans

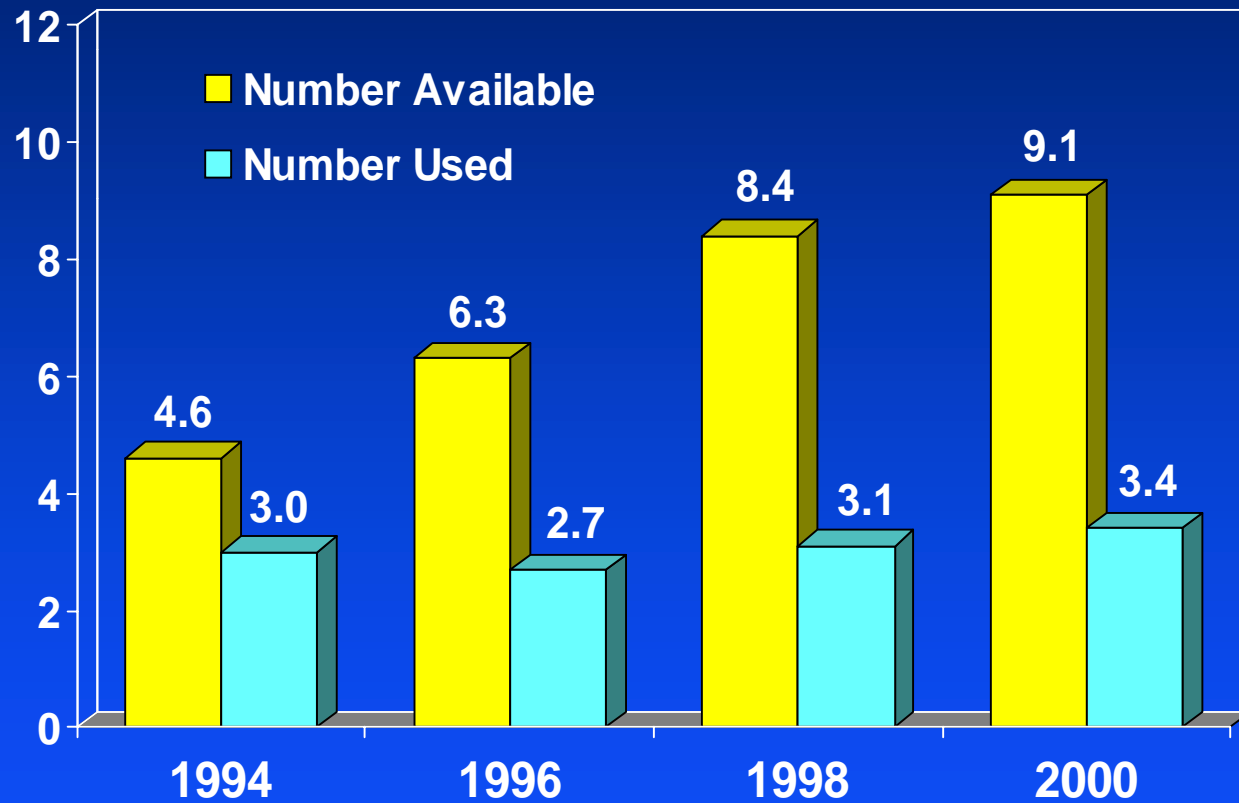
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Presentation Overview

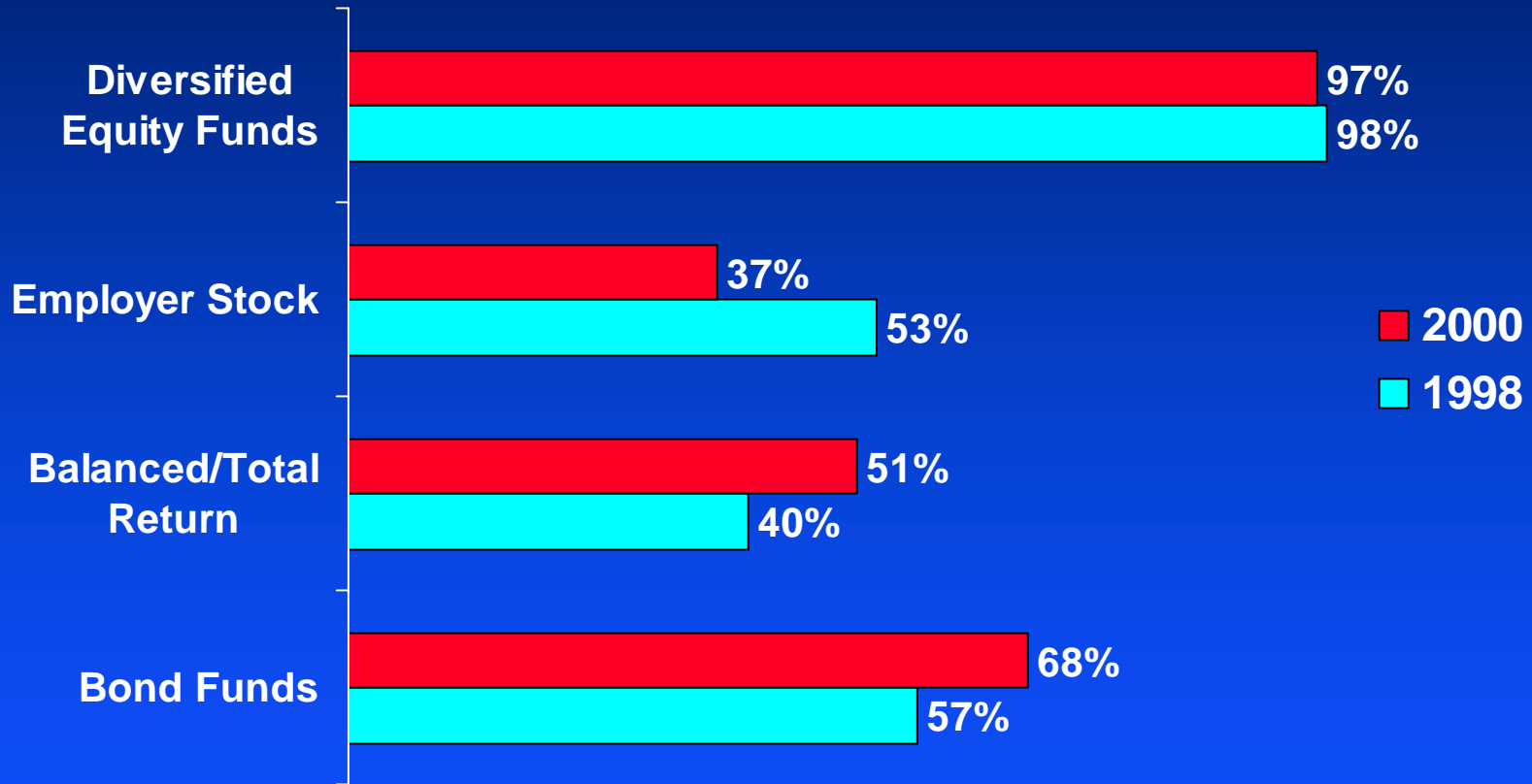
- **Industry Trends**
- **Protecting Yourself as a Plan Sponsor and Fiduciary**
- **Determining What's Best for Your Participants**
- **What's the Right Number of Investments?**
- **Reviewing Asset Classes**
- **Evaluating Individual Investments**
- **Look for Holes**
- **Tips to Consider**

Number of Investment Options



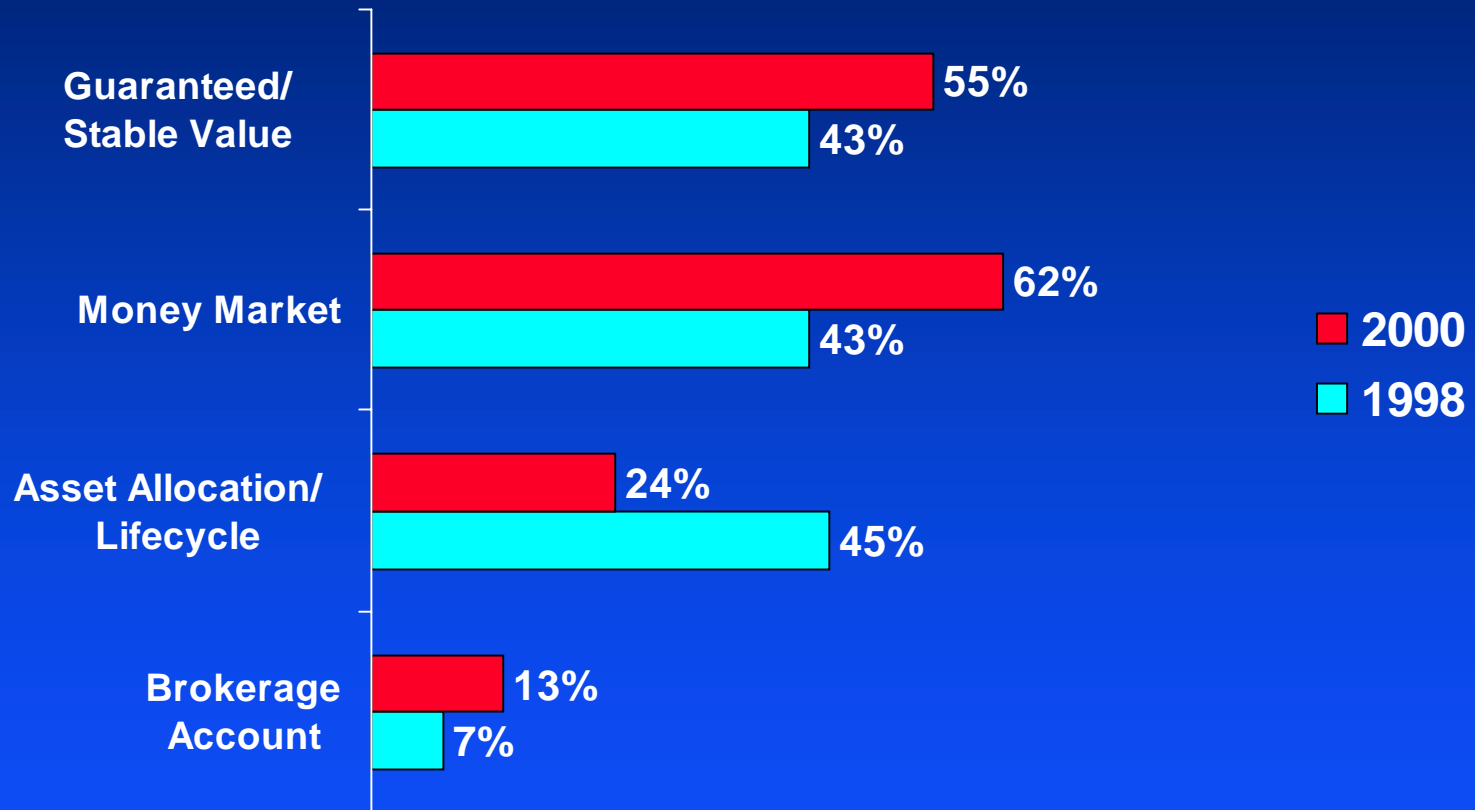
Availability of Investment Options

(% of Total Respondents of Study)



Source: Spectrem Group 401(k) Participant Attitudes & Behavior 2000

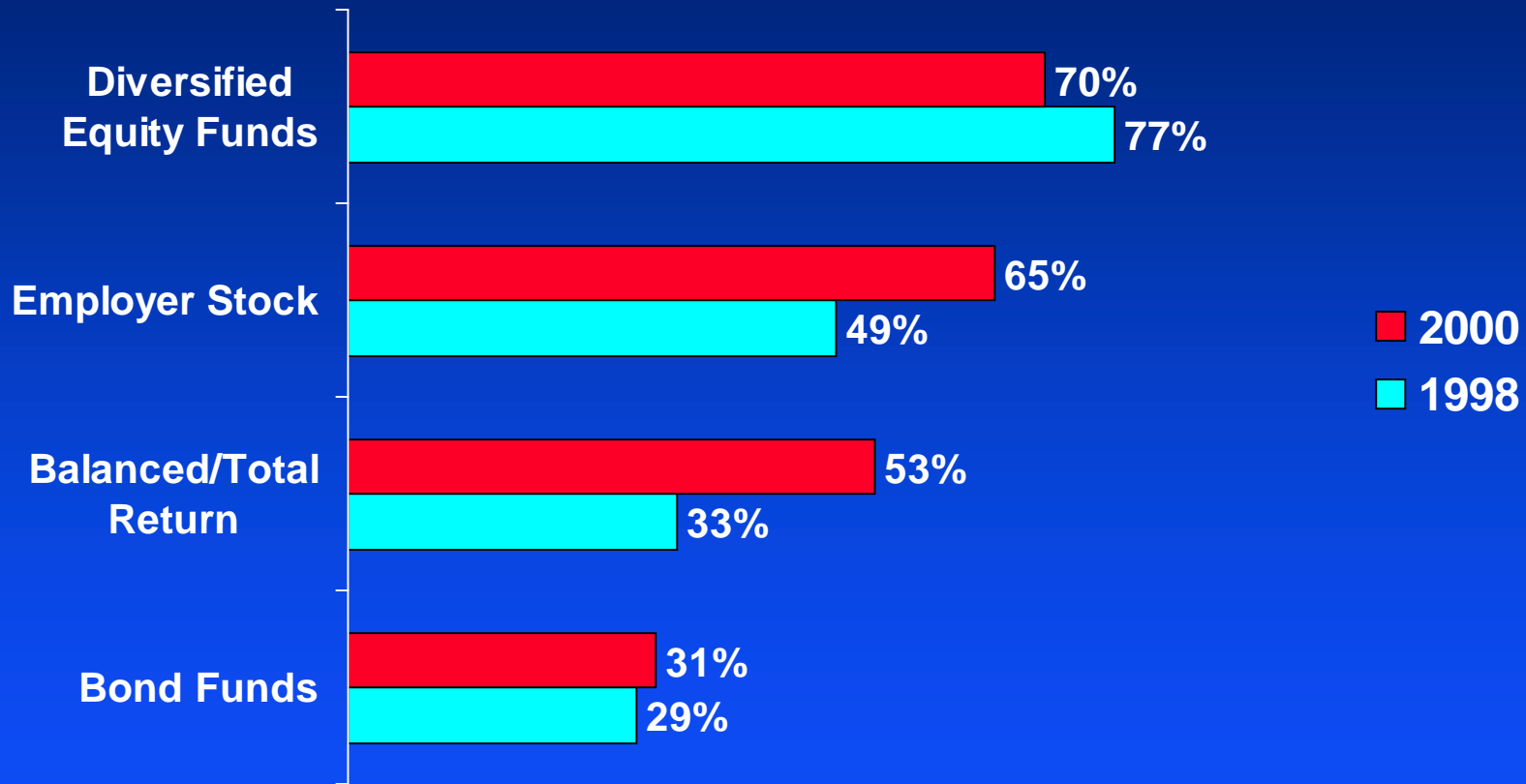
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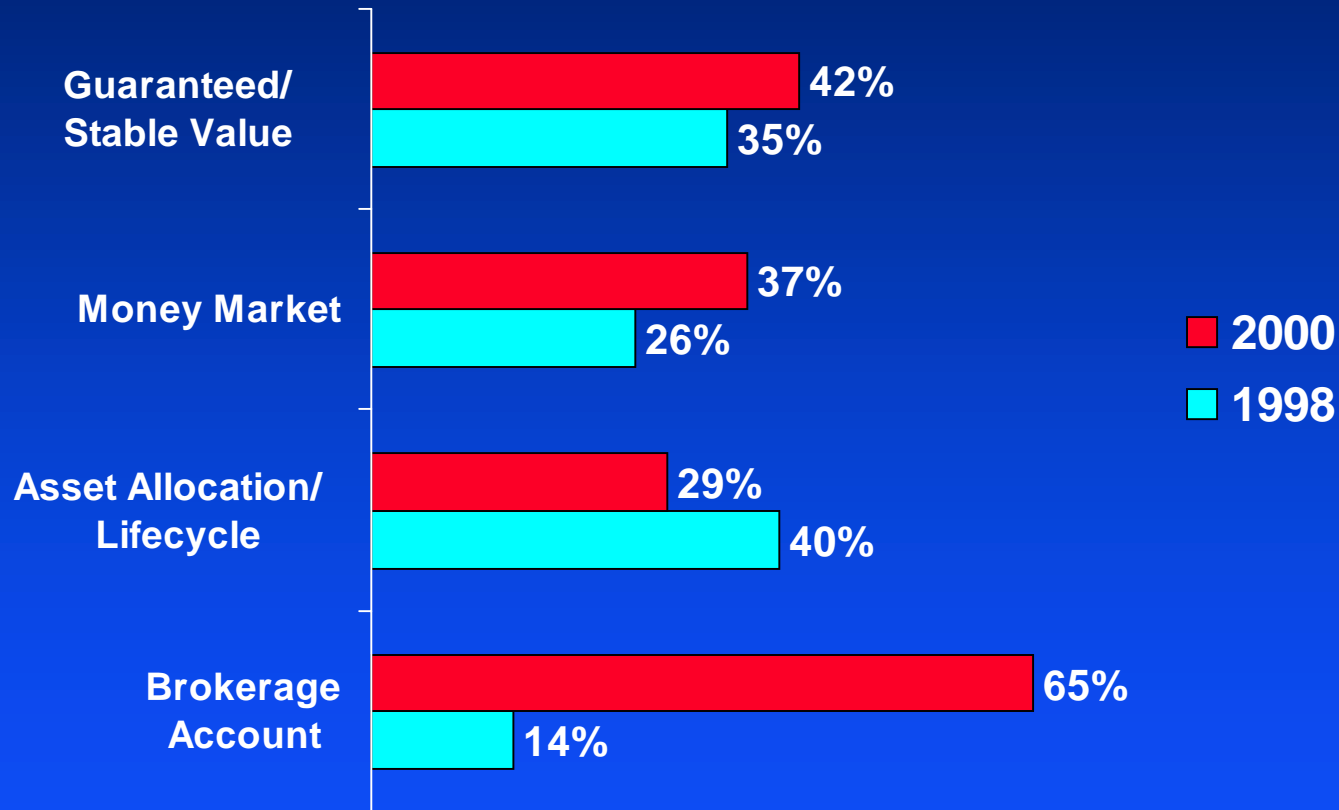
Usage of Investment Options

(% of Those with Funds Available)



Usage of Investment Options

(% of Those with Funds Available)



Source: Spectrem Group 401(k) Participant Attitudes & Behavior 2000

Trends

- **Shift Away From “Paternalistic” Management Philosophy to Participant-Directed accounts**
- **More Costs Being Shifted to Participants**
- **Participants More Knowledgeable on Investments**
- **More Choice**
- **More Education Provided by Employer**
- **Use of Technology in Participant Communication**
- **Participant Access**

Protecting Yourself as a Plan Sponsor and Fiduciary

Consider This...

- You are the Named Fiduciary of the Plan
- Select Investments That Are Designed to Further the Objectives of the Plan and Meet the Needs of the Participants
- Establish an Investment Policy and Use it
- Control Plan Expenses
- Diversify Plan Investments
- Document Your Efforts
- Use 404(c) to Your Advantage

Determining What's Right for Your Participants

Factors to Consider...

- Age of Workforce
- Single Earners vs. Dual Earners
- Savers vs. Investors
- Compensation
- Education
- Investment Knowledge

How Many Investments Should A Plan Have?

- Too Few? Consider 404(c) Guidelines
- Too Many May Lead to Confusion; Lack of Participation
- Right Number Depends on Participant Demographics
- Average Number of Funds:

| | |
|------|-----|
| 2000 | 9.1 |
| 1998 | 8.4 |
| 1996 | 6.3 |

The Universe of Choice

(A Three Tiered Approach)

Self-Directed Brokerage / Fund Window

For sophisticated investors who want the broadest choice

Additional Fund Choices

For employees who want to invest beyond the core options

Core Options

For employees who want to build their own investment mix or choose from pre-mixed asset allocation funds

Selecting Asset Classes

List Objectives First . . .

- Asset Preservation
- Income

- Conservative
- Moderate
- Aggressive

Then the Investment Types Which Qualify:

Stable Value, GICs, Money Market

Short-Term, U.S. Government

Intermediate-Term, Corporate, GNMA, Global

Long-Term, High Yield, International, Emerging Markets

Selecting Asset Classes

(continued)

- **Growth**
 - **Conservative** **Balanced, Growth & Income, Value**
 - **Moderate Risk** **Growth, Mid-Cap, International, Global, S&P 500 Index**
 - **Aggressive** **Emerging Markets, Small-Cap, Sector**
 - **International** **Regional**
- **Pre-Selected Portfolios:** **Lifestyle, Balanced**
- **Company Stock**
- **Brokerage / Mutual Fund Window**

Brokerage / Mutual Fund Window

(To Add or not To Add?)

- **How Do You Protect Them And You?**
 - Increase liability?
 - Decrease liability?
 - Appropriateness
- **Communication & Education?**
- **A Look At Usage**
 - 1.4% of assets
 - 1.8% of participants
 - 57% in mutual funds
 - 70% of plans limit exposure

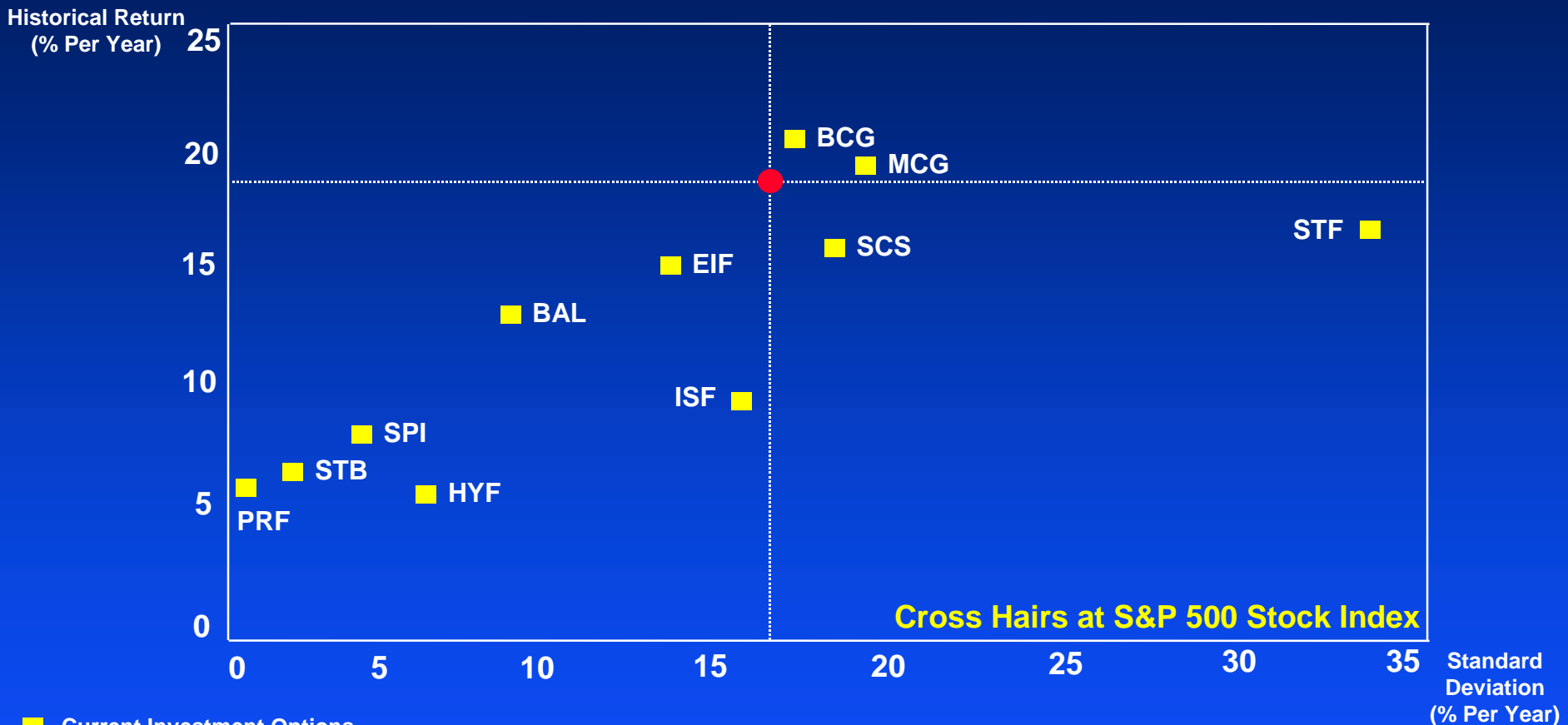
Looking for Holes in Your Line-Up

(The Portfolio View)

- Plot Your Investments on a Risk / Return Graph
- Look for Holes on the Curve
- Find Investments to Plug in and Fill the Gaps

Looking for Holes in Your Fund Line-Up

5 Years Ended 12/31/00



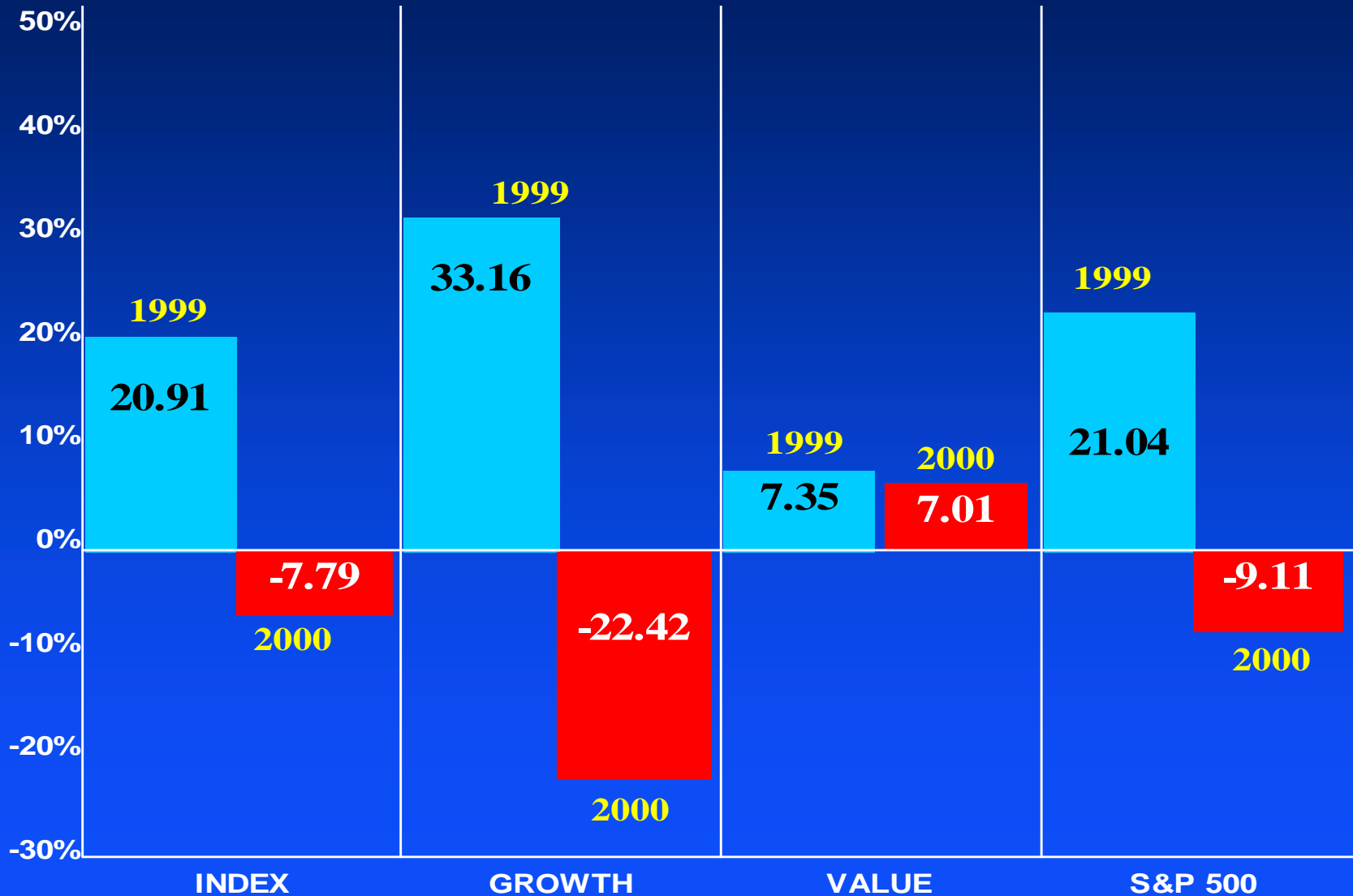
Current Investment Options

| | | | |
|-----|----------------------|-----|---------------------------|
| PRF | Prime Reserve Fund | BCG | Blue Chip Growth Fund |
| STB | Short-Term Bond Fund | ISF | International Stock Fund |
| SPI | Spectrum Income Fund | MCG | Mid-Cap Growth Fund |
| HYF | High Yield Fund | SCS | Small-Cap Stock Fund |
| BAL | Balanced Fund | STF | Science & Technology Fund |
| EIF | Equity Income Fund | | |

● SP500 S&P 500 Stock Index

The Case For Diversification

Russell 1000 Annual Total Return
as of 12/31/2000



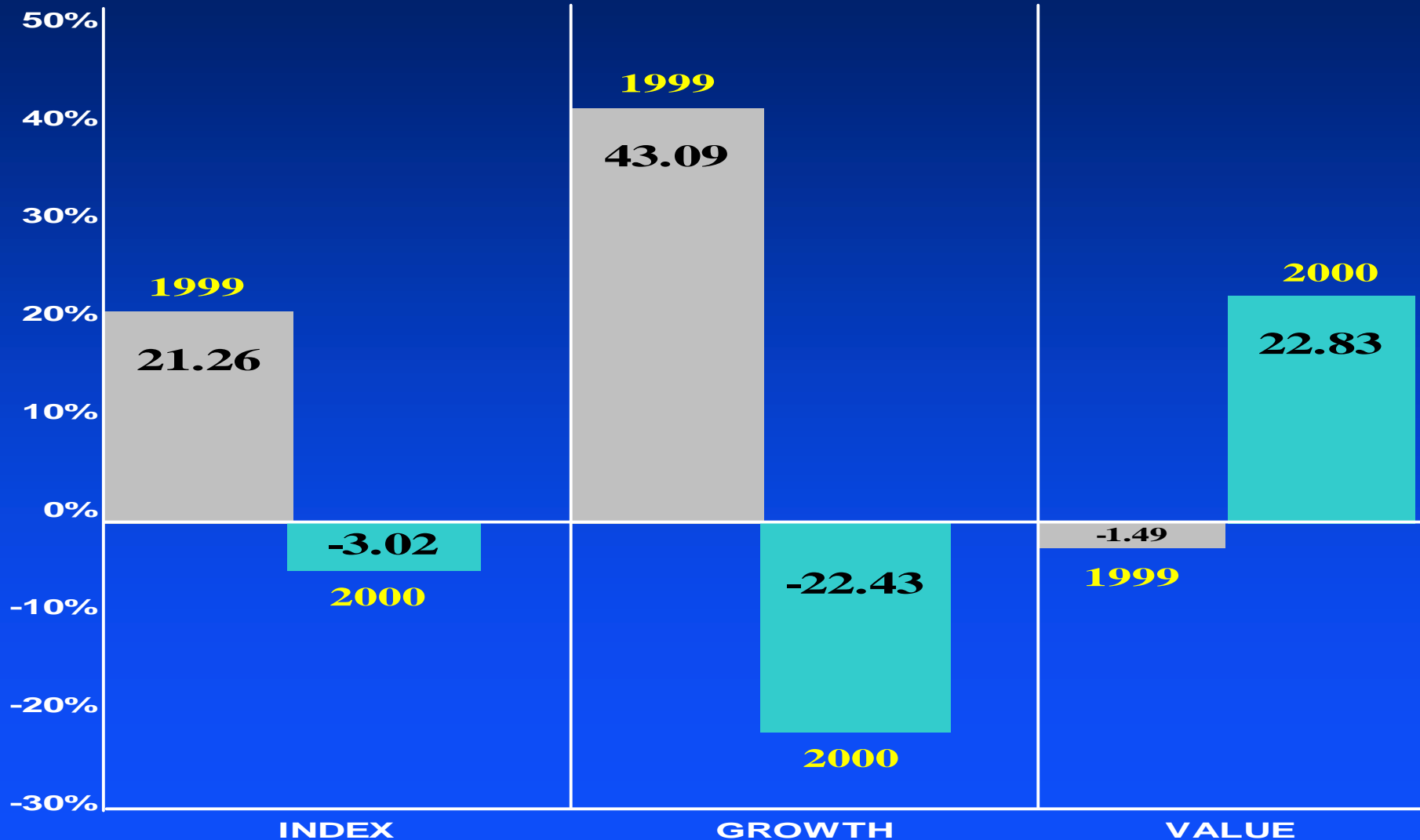
The Case For Diversification

Russell Mid-Cap Annual Total Return
as of 12/31/2000



The Case For Diversification

Russell 2000 Annual Total Return
as of 12/31/2000



Choosing an Investment Manager(s)

Be Sure to Consider...

- How Long Firm Has Been Managing Money
- Stability of Firm Management
- Tenure of Portfolio Managers
- Number, Growth, and Turnover of Clients
- Investment Management:
 - Fully Bundled
 - Alliance
 - Unbundled

Evaluating Individual Investments

Factors to Consider...

- **Portfolio Turnover**
- **High Manager Turnover Can Be a Problem**
- **Guidelines and Flexibility Permitted by Fund's Charter**
- **Size of Fund: Pros and Cons...More Difficult? But, Does Company Close Its Funds?**
- **Management Style: Team vs. Star Approach**
- **Style Consistency: Watch Those Style Boxes!**

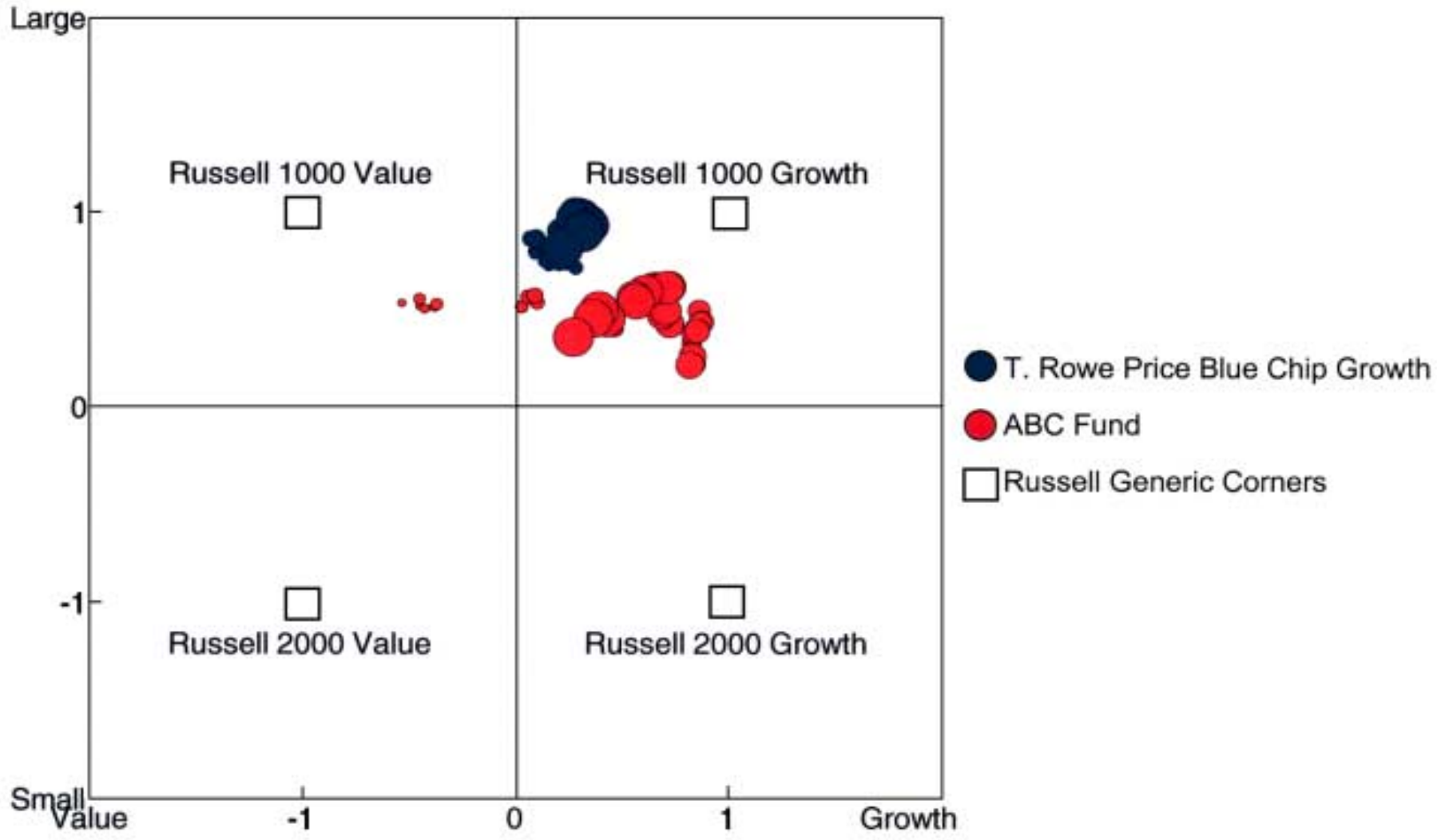
Zephyr StyleADVISOR

Zephyr StyleADVISOR: T. Rowe Price Associates, Inc.

Manager Style

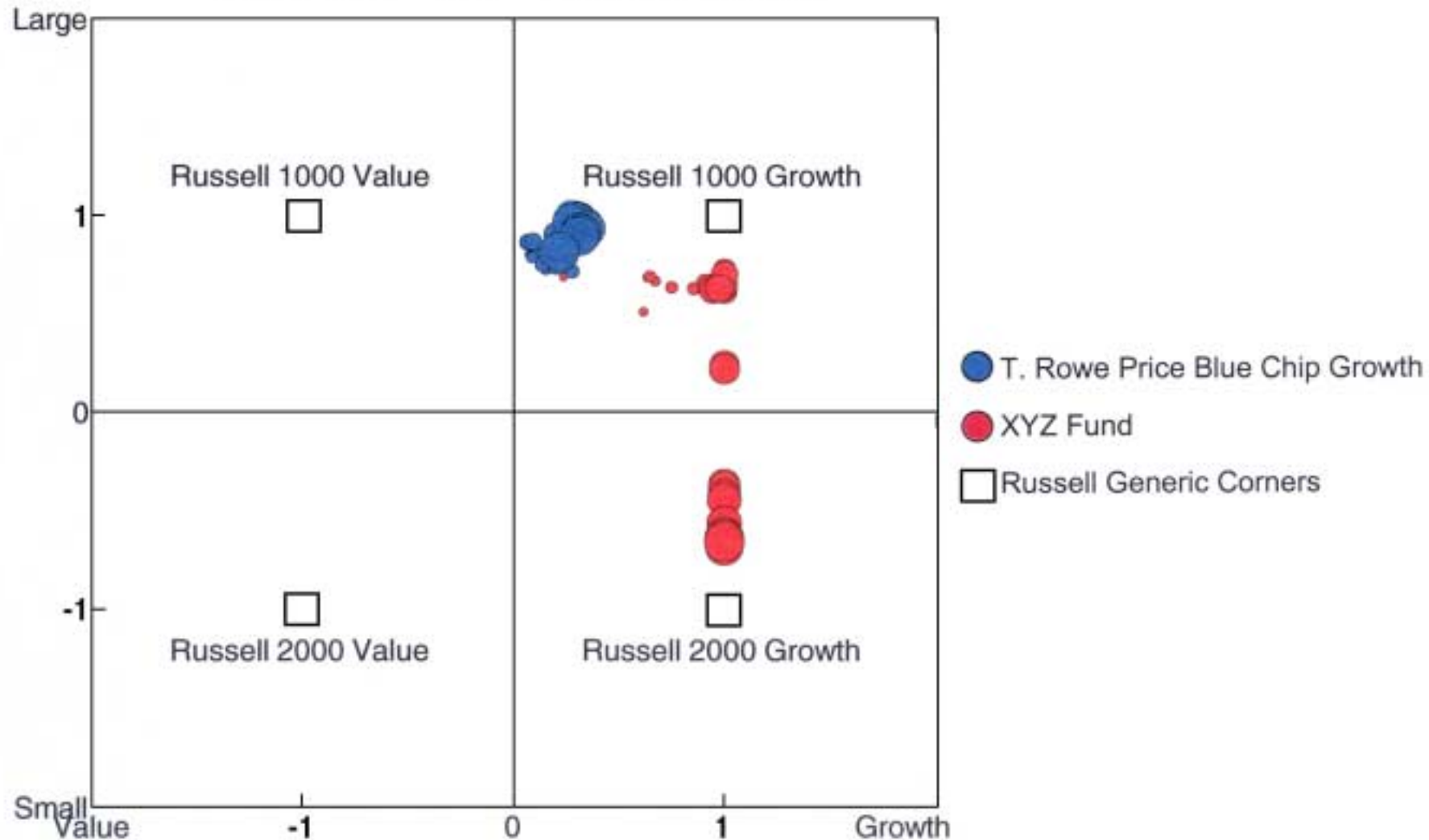
24-Month Moving Windows, Computed Monthly

December 1995 - December 2000



Manager Style

24-Month Moving Windows, Computed Monthly
December 1995 - December 2000



Evaluating Individual Investments

Factors to Consider...

- Total Return for 1, 3, 5, 10 Year Periods (Net of Fees)
- Comparison Against the Appropriate Indices
- Rank Against Funds Within Same Tightly Defined Asset Class (Morningstar or Lipper)
- Risk Assumed: Beta, Standard Deviation, Morningstar Ratings, P/E Ratio, Tech Exposure

“Top Ten” To Do List for Selecting Investments

- #10 Know Your Participants: Design an Investment Line-Up to Meet Their Needs**
- #9 Develop and Use Investment Policy Guidelines**
- #8 Develop a Balanced Array of Options: Watch For Gaps**
- #7 Start Simple: You Can Always Add More Investments Later**
- #6 Do Your Homework: Must Exercise Due Diligence in Reviewing the Organizations Offering Investment Management**

“Top Ten” To Do List for Selecting Investments

(continued)

- #5 Stay Informed on Best Fund Managers and Fund Families**
- #4 Collect All Appropriate Information From Potential Providers: Make Them Do the Work**
- #3 If You Don't Have Staff with the Expertise, Use a Professional Consultant**
- #2 Provide Solid Communications and Investment Education**
- #1 Take Your Time, Make a Well-Reasoned Decision**

Questions?