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Asset Managers Capitalize on Growth of CITs to Access $35 Trillion U.S. Retirement Market

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The U.S. retirement market is the world's largest, valued at nearly $35 trillion in assets compared to $1 trillion just 40 years ago.[1] To attract new capital and increase their exposure to the U.S. retirement market, asset managers are increasingly embracing a highly in demand investment vehicle: collective investment trusts (CITs).

A decade of growth for CITs

Simply put, CITs are pooled investment vehicles. The investment vehicle is not publicly available to investors, and is offered exclusively to qualified retirement and governmental plans. CITs must be established and maintained by a bank or trust company as they can provide fiduciary oversight and investment management expertise.

CITs exploded in popularity in the last decade among defined contribution plan sponsors. In 2011, just 44 percent of large-plan sponsors used CITs in their plans. Today, that percentage has increased to 78 percent according to Callan's 2021 DC Survey.

Greater choices and flexibility

For many asset managers, launching new CIT products is a way to deliver greater diversity and choice to their retirement plan clients at an attractive price point.

Fred Alger Management, LLC (Alger) is one of the many asset managers capitalizing on the increased demand for CITs. The firm worked with SEI Trust Company, a trust company ("STC"), to launch the Alger Focus Equity CIT, a focused portfolio of approximately 50 high-conviction, large capitalization stocks. The firm plans to further expand the Alger CIT offerings with the Alger Weatherbie Specialized Growth CIT, a focused portfolio of approximately 50 smaller capitalization stocks.

When commenting on the benefits of CITs, John Carbone, Senior Vice President and Head of Retirement Investment Solutions for Alger said, "We want to offer our retirement plan clients a choice when it comes to investments in their plans, and with a CIT, we're able to package a high-conviction strategy into a vehicle that delivers an attractive pricing structure for a retirement plan."

Attractive pricing and fee flexibility

Generally, CITs have an advantage of lower cost over mutual funds due to different regulatory requirements and other factors. CITs also have the added benefit of certain fee flexibility. Plan sponsors have the ability to offer multiple fee classes for investors, based on size, relationship and other relevant factors. Unlike other investment vehicles, they are exempt from SEC regulation and are not subject to the Securities Act of 1933 or the Investment Company Act of 1940.

Additionally, CITs are traded through the National Securities Clearing Corporation (NSCC), which allows the investment vehicle to provide the same operational efficiencies as mutual fund structures.

For plan sponsors and their investors, these characteristics ultimately translate to more attractive prices and fees.

[1] Source: Investment Company Institute (ICI).

Access to diverse asset classes and international markets

CITs are available in a wide range of asset classes, and are widely used in a target date fund series. They generally offer a simpler, more attractive product structure to growing retirement plans, especially those looking for customized solutions.

Many U.S. asset managers and some firms located outside of the U.S. who are registered investment advisors with the SEC are using CITs to launch a mix of asset classes and strategies to deliver customized investment options and ultimately expand their foothold in the U.S. retirement market.

Resolution Capital, a specialist global real estate securities manager headquartered in Sydney, Australia, is among the global firms introducing CIT products to the U.S. retirement market. The investment manager recently worked with STC to launch a Global REIT CIT as part of its global fund offerings.

"We spent considerable time assessing the right vehicle for the U.S institutional market and the CIT structure allows for a very cost efficient way for US retirement plans to access our global REIT strategy, which provides exposure to a portfolio of select high quality global real estate companies," said Sonia Luton, Managing Director of Resolution Capital.

Since STC launched the CIT trust with MetLife Investment Management in 2013, MetLife has worked in partnership with STC to expand the MetLife CIT offerings to encompass a range of fixed income strategies, most recently launching a Long Credit strategy.

"Over recent years, we have made significant progress building out the CIT platform with a wide range of investment solutions for our clients," said Frank Natale, Director of Institutional Client Group at MetLife Investment Management.

Asset managers prepare for increased CIT demand

Despite the benefits of CITs and the strong adoption from DC plans, not all retirement plans are permitted to offer CITs. Currently, CITs cannot be used by most 403(b) plans, some 457(b) plans, 457(f) plans, funded welfare plans and any type of Individual Retirement Accounts (or "IRAs"). However, some of those restrictions could be changing very quickly – specifically those regarding 403(b) plans. Legislation is advancing in Congress that would allow 403(b) plans to invest in CITs.

Asset managers have already accelerated the rate at which they are bringing new CIT products to market to meet the growing demand among DC and DB plan sponsors. That demand will only continue to increase if restrictions are lifted and 403(b) plans are permitted to invest in CITs as well.

Asset managers with a strong suite of CIT products already in place will be better positioned to capitalize on the new influx of demand in the event that the regulatory barriers are lifted.

About SEI Trust Company

SEI Trust Company ("STC") is a non-depository trust company chartered under the laws of the Commonwealth of Pennsylvania, which provides trustee, custodial, operational and administrative services to various collective investment trusts. STC was formed in June 1989, is a wholly-owned subsidiary of SEI Investments Company and is regulated and examined by the Pennsylvania Department of Banking and Securities. The Trustee shall offer interests in each Trust only to parties who are eligible plans in a collective investment trust pursuant to applicable law, including, but not limited to, the applicable provisions of the Securities Act of 1933, the Investment Company Act of 1940 and the Pennsylvania Banking Code of 1965, as well as the terms of the offering documents for each specific trust.

The funds referenced are managed by SEI Trust Company, the trustee, based on the investment advice of the respective advisors as investment advisors to the funds. Collective Investment Trusts are trusts for the collective investment of assets of participating tax qualified pension and profit sharing plans and related trusts, and government plans as more fully described in the Declaration of Trust. As bank collective trusts, the funds are exempt from registration as an investment company.