Open Architecture Retirement Plan Solution

CLS INVESTMENTS | K*STAR

Retirement plan regulations are rapidly changing, making managing a retirement plan a complex challenge for plan sponsors, who have a duty to evaluate, select, and monitor investment offerings. Understandably, **many plan sponsors want advice from an investment professional and seek to outsource their fiduciary responsibility.**

Through CLS's (k)Star open architecture retirement plan offering, CLS provides you fiduciary support by serving as a 3(21) fiduciary to your plan and a 3(38) investment manager for CLS's ETF managed account offerings, as well as for the plan's fund lineup utilizing mutual funds or ETFs. (k)Star also provides a unique approach within the qualified retirement plan arena in that it gives you, the plan sponsor, the freedom to choose service providers for each component of the plan, yet bundles everything together into one simple, lower-cost package.

The (K)STAR Difference

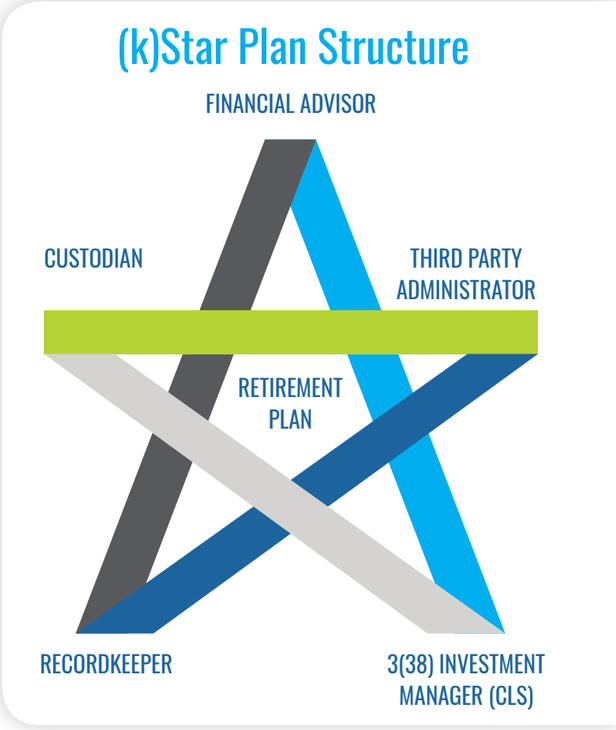
FIDUCIARY SUPPORT THROUGH A FLEXIBLE OPEN ARCHITECTURE PLAN STRUCTURE

Retirement plan services fall within two structures: bundled and open architecture. Within a **bundled** plan, all services come from one provider – usually a broker-dealer or insurance company – which typically does not assume a fiduciary role. This often leaves you responsible for choosing investment options for your plan, which results in much higher personal risk to you, as plan trustee, and your organization.

However, within an **open architecture** structure, the recordkeeper, investment manager, third-party administrator, and custodian are all separate entities. Through this arrangement, fees for services are fully disclosed and there are no proprietary investment requirements – often, the custodian has the ability to trade virtually any mutual fund or ETF. An open architecture structure also allows you to receive greater fiduciary support.

(K)STAR (OPEN ARCHITECTURE)

- No proprietary investment requirements
  - CLS can choose investment options from auniverse of 1500+ ETFs and tens of thousands of mutual funds
- Lower cost and complete fee transparency
  - You know exactly what you are paying for each component of the plan
- Ability to develop an investment strategy that best meets your needs and those of your participants
- Full fiduciary support from a 3(38) investment manager (CLS)



BUNDLED PROVIDER

- Potential hidden conflicts of interest and excessive fees
- Service levels that are difficult to evaluate
- Complicated fee structure that can be challenging to understand and increases fiduciary risk
  - Requires more of your time, analysis, diligence, and accountability

WHAT YOU GET FROM THE (K)STAR PACKAGE:

- Transfer of fiduciary responsibility for investment decisions to CLS as the 3(38) investment manager
- Investment options utilizing ETFs, which are typically lower cost than mutual funds
  - Eight ETF managed models
  - 10 ETF target date models
  - Development of fund lineup (ETFs and mutual funds)
  - Ongoing fund monitoring and replacement when appropriate
- Ability to choose your plan's custodian, third party administrator (TPA), and recordkeeper
- Detailed reporting on plan participation and performance

PARTNERSHIP WITH AN EXPERIENCED INVESTMENT MANAGER

Through CLS's (k)Star open architecture plan, CLS assumes fiduciary responsibility and provides all investment choices. CLS becomes your plan's ERISA 3(38) investment manager, which means we take on management of your plan's investment offerings according to an established investment policy. Additionally, CLS takes on an ERISA 3(21) fiduciary role for the ETF managed accounts we offer.

As a 3(21) fiduciary, CLS:

- Exercises discretionary authority or control over the management of your plan or disposition of its assets.
- Renders investment advice for a fee.
- Has discretionary authority or responsibility in the administration of your plan.

As a 3(38) fiduciary, CLS:

- Is responsible for managing your plan's assets.
- Takes over your responsibility of selecting, monitoring, and replacing investments. You are only responsible for choosing and monitoring CLS as your plan's 3(38) investment manager.

TIME, EXPERIENCE & DISCIPLINE

There are many reasons why you may not feel comfortable taking on fiduciary responsibility for selecting and monitoring the investment options for your organization's retirement plan and thus may benefit from CLS as your 3(38) partner:

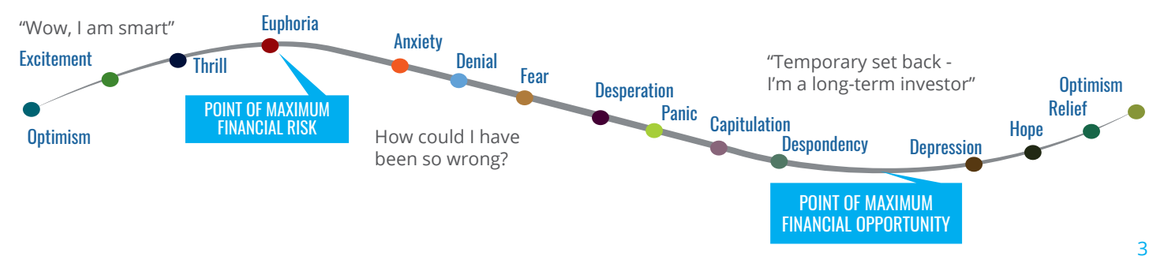
Lack of Time. Tremendous demands on your time may leave little opportunity for retirement plan management and monitoring. That is why a money manager like CLS is beneficial – ***we monitor the market and portfolios every day***.

Inadequate Experience. Many plan sponsors are understandably unfamiliar with financial markets and how to choose investment options for their plan participants. As your 3(38) investment manager, CLS will:

- Select the investment options for your plan and construct ETF managed account models that may be offered to participants.
- (If offered through your plan) construct qualified default investment alternatives (QDIA) in accordance with U.S. Department of Labor guidelines that may be used as default investment selections for participants who do not make an affirmative investment election.
- Monitor your plan's investment options and models and make appropriate changes.
- Provide regular reporting on the selection of the investment options offered to plan participants and CLS's management of the models.

Discipline. Investors often react emotionally to the markets. When investors see that an investment has performed well for the past several years, the tendency is to buy it – often after it has already increased in price. This tendency to buy high and sell low can have negative effects on your plan participants' long-term investment performance. ***CLS's management style is disciplined and attempts to remove the emotional element that often accompanies investing.***

THE CYCLE OF INVESTOR EMOTIONS



RISK MANAGEMENT

CLS uses a disciplined investment strategy that seeks to help plan participants manage risk while optimizing returns. CLS investment strategists and portfolio managers – many of whom hold the Chartered Financial Analyst designation – are ***knowledgeable financial professionals who spend countless hours conducting research and due diligence.***

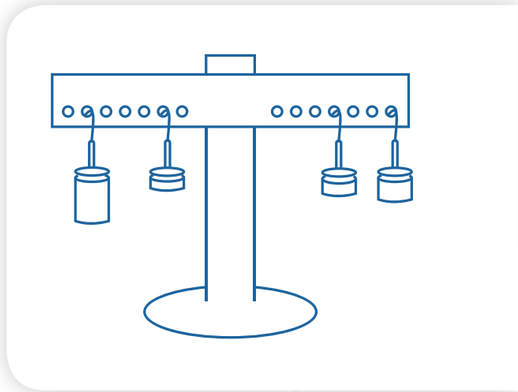
CLS believes Risk Budgeting is a critical element in crafting investor portfolios. Participants who choose to enroll in ETF managed accounts can complete a risk profile to help them determine their individual Risk Budget. That Risk Budget – which is based on individual financial goals, investing time horizon, and capacity for risk – or the participant's expected retirement date will help the participant select an appropriate ETF managed account option.

CLS's Risk Budgeting Methodology allows our portfolio managers to ***keep the level of risk within each portfolio constant, even as conditions within the investment environment change.***

Much like a scale keeps weight balanced, Risk Budgeting ensures that the amount of risk in each ETF managed model is within its specified range.

- On the left side of the CLS Risk Budgeting Scale, the model's Risk Budget is represented along a continuum from aggressive to conservative.
- On the right side, asset classes are represented along the same continuum, which accounts for the fact that some stocks assume lower risk than some bonds.

When markets change and different asset classes become attractive, moves are made within the models in an attempt to take advantage of those areas that are relatively attractive. If a move makes the model too aggressive or too conservative, a reciprocal adjustment is made to keep the modelin balance with the specified Risk Budget range.



ETF MANAGED ACCOUNTS

CLS uses a disciplined investment strategy that seeks to help plan participants manage risk while optimizing For participants who do not have the time, investment expertise, or desire to manage their own retirement accounts, CLS's (k)Star offering includes eight actively-managed ETF models and 10 actively-managed ETF target date models.

CLS started using ETFs in the late 1990s and began to emphasize them in individual portfolios in 2002. We are now one of the largest active money managers of ETFs* and favor this versatile investment option due to the multitude of potential benefits they offer:

TRANSPARENCY.

Most ETFs post their exact holdings on a daily basis, which means they usually closely track their benchmarks.

STABLE MARKET & RISK EXPOSURE.

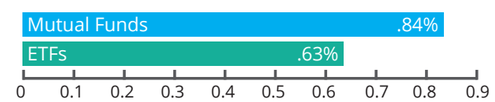
Since ETFs track an index, they can provide much more stable market exposure than a mutual fund.

DIVERSIFICATION.

ETFs are designed to track market indexes that may contain hundreds or thousands of securities.

Lower Cost. Because ETFs do not have minimums, front-end loads, or redemption fees, they can offer significant cost savings.

AVERAGE EXPENSE RATIOS: MUTUAL FUNDS VS. ETFS



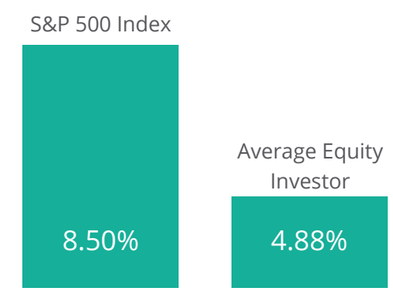
Managed account options are important within a retirement plan, as research has shown that most investors do not invest optimally on their own. In fact, a study conducted in 2018 by Dalbar, Inc. showed that, between 2007 and 2017, individual equity mutual fund investors achieved 4.88% annualized returns, while the S&P 500 returned 8.50%.

Also, according to a National Association of Government Defined Contribution Administrators, Inc. (NAGDCA) industry viewpoint, "managed accounts provide the best long-term opportunity for the participant."[3]

Plan sponsors who choose to offer professionally managed accounts gain valuable fiduciary support, often see increased plan participation, and may help their participants achieve higher returns.

**Morningstar, as of 3/31/18*

AVERAGE ANNUALIZED RETURNS, 2007-2017[1]



BENEFITS OF ETF MANAGED ACCOUNTS

Assurance of Suitable Investments through Automatic Enrollment Options

Even if a new employee does not enroll in your retirement plan, a percentage of his or her wages that you specify is automatically regularly invested into an appropriate model. The participant can still create a risk profile or opt into an alternative model, but you are assured that all participants are placed into suitable investments at initial enrollment.

Additionally, employees enrolled in plans with automatic features tend to stay in the plan longer. In fact, the NAGDCA noted that, in one major state plan, fewer than 8% of participants opted out of managed account services when auto enrollment was available at the time of employment.

Increased Participation Rates

By offering managed accounts in your retirement plan, your employees may be more likely to participate. As shown at right, if offered through their retirement plan, employees are more likely to utilize managed retirement accounts than to pursue other types of funds or advice the plan offers.

Additionally, automatic enrollment can help boost plan participation rates. According to the NAGDCA, a recommended practice is to "automatically enroll all new employees in a defined contribution plan, and place them in managed accounts."

Potential for Improved Returns

The use of managed accounts can greatly affect participant returns. For example, an AON Hewitt study found that ***plan participants who used some form of help, including managed accounts, achieved returns nearly 3% higher than those who did not use help.*** What may seem like a small difference in return can have a large impact over time.

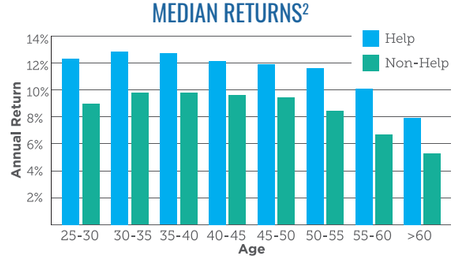
To what can we attribute these higher returns? According to a Vanguard study4 of 40,000 participants, managed accounts had a notable affect on returns due to increased equity exposure and savings rates, as well as a reduction in portfolio risk levels and costs. Of the participants surveyed:

- 60% increased their projected 10-year retirement wealth by an average of 30%
- 30% earned value through a reduction in portfolio risk
- 40% made an active savings decision at enrollment
- 33% chose to increase their savings rate by an average of 3%
- 60% saw a reduction in average fund fees
- Expense ratios were reduced by an average of 0.06%

USAGE OF VARIOUS TYPES OF INVESTMENT "HELP"[2]

	Target Date Funds	Managed Accounts	Online Advice
Company A	5.9%	9.6%	13.1%
Company B	1.4%	16.4%	3.1%
Company C	17.9%	10.1%	7.5%
Company D	2.2%	14.8%	4.3%
Company E	27.9%	13.5%	2.9%
Company F	12.7%	13.2%	5.1%
Company G	0.5%	10.7%	5.5%
Company H	3.0%	50.2%	2.4%

MEDIAN RETURNS[2]



THE VALUE OF INVESTMENT HELP[2]

ORIGINAL INVESTMENT AT AGE 45	WEALTH AT AGE 65: NO INVESTMENT HELP	WEALTH AT AGE 65: INVESTMENT HELP
$10,000*	$42,100	$71,400

*Assumes a difference in returns between investors receiving investment help and those who are not of 2.92%. This example is an illustration of how investment help could assist an individual investor. It is not meant to show the expected behavior of a portfolio. The illustration is based on sample data and does not reflect actual trading.

(K)STAR PARTICIPANT INVESTMENT OPTIONS

CORE LINEUP

To accommodate investors in your plan who feel comfortable choosing and managing their own retirement account investments, CLS offers a diverse selection of ETFs and mutual funds as part of your plan's core fund lineup. Investment options cover all investment styles represented in the Morningstar Style Box below.

Large-Cap Value	Large-Cap Blend	Large-Cap Growth
Mid-Cap Value	Mid-Cap Blend	Mid-Cap Growth
Small-Cap Value	Small-Cap Blend	Small-Cap Growth

- Lowest risk
- Medium risk
- Highest risk

ADDITIONAL ASSET CLASS CATEGORIES REPRESENTED IN THE FUND LINEUP:

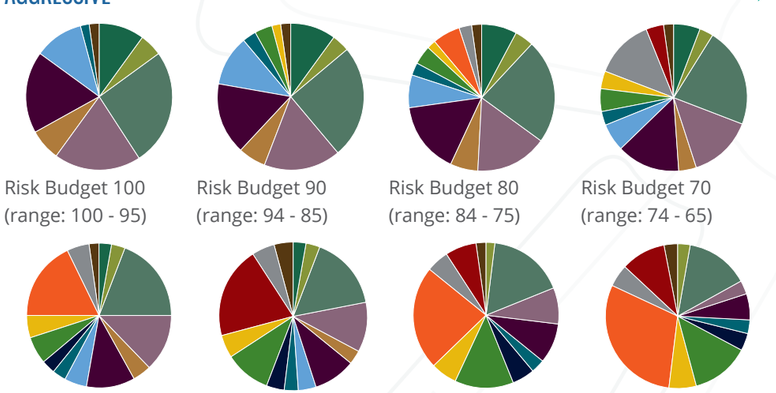
- International Large-Cap Blend
- Diversified Emerging Markets
- Balanced (Moderate Allocation)
- Total Bond Market
- Intermediate-term Bond
- Multi-sector Bond
- Short-term Bond
- Intermediate Government Bond
- Money Market

ETF MANAGED ACCOUNTS: ETF STRATEGY MODELS

For participants who do not wish to manage their own retirement accounts, CLS's (k)Star offering includes eight actively-managed ETF models.

SAMPLE MODEL ALLOCATIONS

AGGRESSIVE →

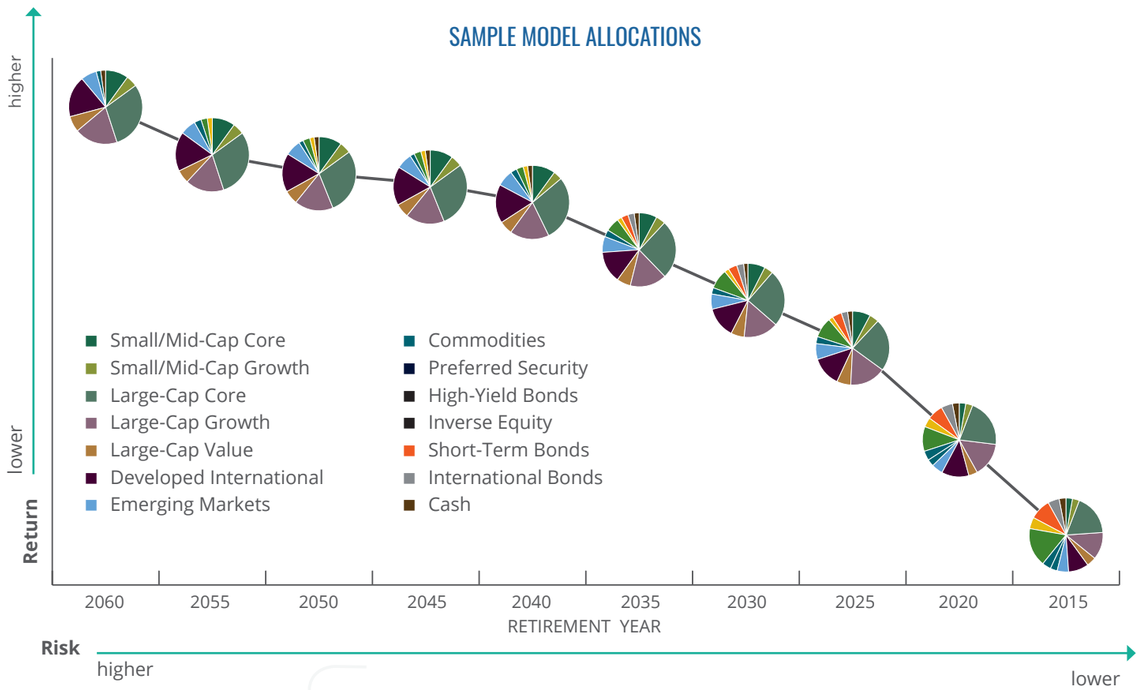


→ CONSERVATIVE

- Small/Mid-Cap Core
- Small/Mid-Cap Growth
- Large-Cap Core
- Large-Cap Growth
- Large-Cap Value
- Developed International
- Emerging Markets
- Commodities
- Preferred Security
- High-Yield Bonds
- Inverse Equity
- Short-Term Bonds
- International Bonds
- Intermediate/Long-Term Bonds
- Cash

ETF MANAGED ACCOUNTS: TARGET DATE MODELS

For plan participants who seek an actively managed portfolio based on a targeted date of retirement, CLS offers 10 actively-managed target date models.



(K)Star Process & Support

What makes the (k)Star structure stand out from other retirement plan options is the ability for multiple independent financial professionals to seamlessly work together to form one cohesive package. Below is an outline of the responsibilities of your financial advisor and CLS during the plan setup process and what you can expect from each in terms of ongoing plan maintenance.

EVALUATE

- CLS, financial advisor, and you evaluate the design, specifications, and requirements of the retirement plan.
- Recordkeeper delivers all required plan documents to you for approval, along with all documents to set up plan.

IMPLEMENT & EDUCATE

- CLS develops fund lineup/mapping (if needed) and delivers to recordkeeper.
- CLS and financial advisor conduct enrollment meetings to educate employees about the plan and managed options.

MONITOR, ANALYZE & ENHANCE

- CLS conducts daily market and fund analysis and monitoring.
- CLS reviews allocations within the ETF managed portfolios and target date funds and makes changes as necessary in response to market movement.

REVIEW & REPORT

- CLS provides performance reporting for the ETF managed portfolios 2-4 weeks following each quarter end.
- Financial advisor meets with the plan annually to review plan performance, documentation, compliance, participation, and administration.
- CLS provides Quarterly Monitoring Reports at the end of each quarter for plans utilizing CLS as a 3(38) investment manager.

SUPPORT

In addition to professional money management, here is what you can expect from CLS:

- **Enrollment Support:** Our experienced Sales Team is available to attend enrollment meetings, explain the benefits of using CLS ETF managed accounts, and help increase participation rates.
- **Marketing Materials:** CLS has a variety of marketing materials available for you to utilize with your plan participants.
- **Accessibility to Portfolio Managers:** Our team is available to answer questions, as well as participate in market reviews, webinars, and other events.
- **Frequent Communication:** CLS provides a variety of tools aimed to educate and inform both you and your participants:
  - **Weekly 3** (CLSinvest.com/weekly3)
  - **Quarterly Market Outlook** (CLSinvest.com/quarterly)
  - **Quarterly "Directions" Newsletter** (CLSinvest.com/newsletter)

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About CLS

CLS was founded with one specific mission, which has endured as our guiding principle: to be a trusted partner with financial advisors and deliver innovative investment solutions and reliable portfolio management to individual investors.

Since 1989, CLS's active asset allocation approach, broad array of customizable strategy offerings, and risk management proficiency have led financial professionals to entrust their clients' portfolios to CLS. Today, more than 44,000 investors depend on CLS to manage their investment portfolios and help them reach their financial objectives.

1989
Founded

$8.9B*
Assets Under Management

45K+
CLS clients

12
Portfolio Managers & Analysts

*as of 6/30/19

[1]Quantitative Analysis of Investor Behavior 2018, Dalbar Inc. www.dalbar.com Equity performance is represented by the Standard & Poor's 500 Composite Index, an unmanaged index of 500 common stocks generally representative of the U.S. stock market. The average investor refers to the universe of all mutual fund investors whose actions and financial results are restated to represent a single investor. This approach allows the entire universe of mutual fund investors to be used as the statistical sample, ensuring ultimate reliability. QAIB calculates investor return as the change in assets, after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. You cannot invest directly in an index. Past Performance is not necessarily indicative of future results.

[2] AON Hewitt: Help in Defined Contribution Plans: 2006 Through 2010

[3]Automatic Enrollment and Qualified Default Investment Alternatives: Are They Right for Your Plan? Our Analysis Indicates They May be Best for Both Plan Sponsors and Participants and Eligible Employees" by Great-West Retirement Services, Summer 2007 edition of The Contributor, from the National Association of Government Defined Contribution Administrators, Inc.

[4]Vanguard: The Value of Managed Account Advice, August 2015