Building Blocks - Continued from page 2
plan’s fiduciary, engage in a comprehensive review of all management processes to make certain we maintain the fundamental standards needed to foster good performance. We believe the oversight processes presently employed by the PCA Retirement Plan represent the industry’s best practices. However, even a fundamental standard can detract from performance relative to other similar plans. For instance, we believe that diversification is an essential element of good management. However, over the past two years diversified investments in non-U.S. investments, or inflation sensitive real assets, have detracted from performance. Does this mean that such diversification is a bad idea? We think not. We believe it’s important to consider the benefits the ‘fiduciary standard’ offers to investors. — Gary Campbell, President

BREXIT: - Continued from page 1
banking policy) identity. This lack of a common identity is why nationalism has become such a significant underlying issue among a number of European nations. While the news of Great Britain leaving the EU will contribute to a meaningful reduction in economic growth for this island nation, we believe its impact on U.S. growth will be quite modest. Britain is a great friend of the U.S. and could be counted on to represent the interests of the United States within the EU political power structure. That will unfortunately be lost.

A recent report from Moody’s Analytics rightly points out that “recessions are always preceded by big declines in stock prices as investors sniff out weakening sales and profits at big publically traded companies.” This does not necessarily mean that a recession is on the horizon since investors are a “fickle bunch and will sell for lots of reasons that may or may not be linked to what is going on in the broader economy.” In this case, Moody’s goes on to point out that none of the normal recession signals are indicating an impending recession. The bottom line is the U.S. economy still looks quite healthy despite the recent Brexit events. — Gary Campbell, President

Retirement PLAN REVIEW is a quarterly publication of PCA Retirement & Benefits, Inc.

2nd Quarter 2016

The BUILDING BLOCKS OF INVESTMENT PERFORMANCE

Our goal for every Core and Target Retirement Fund in the PCA Retirement Plan is for gross of fees returns to exceed the corresponding benchmark returns.

O ver the almost forty years of my experience managing assets for individuals and institutions, I feel like I have almost seen it all. But I know this is not true. For instance, our collective experience during the ‘Great Recession,’ beginning in 2007, reveals that none of us has seen it all. I suppose I need to correct the statement above and simply conclude with, ‘I have seen it all!’

One life and professional experience I have agonized over has been periods when investment results under my watch have been below average. Sadly, one of those periods recently occurred in the PCA Retirement Plan. After experiencing generally good performance in 2012 and 2013, the last two calendar years have clocked returns below our expectations. When this happens, the experience is disheartening for everyone, especially if the gross return for the period is negative. Our goal for every Core and Target Retirement Fund in the PCA Retirement Plan is for gross of fees returns to exceed the corresponding benchmark returns.

Participants in the PCA Retirement Plan can easily access information regarding net of fees fund performance relative to corresponding benchmarks at the following fund fact sheet links: pcarbi.org/core-funds and pcarbi.org/target-funds. In addition to this information, I have also started writing a quarterly summary of PCA Target Funds investment performance. We call this report the Quarterly Performance Review. You will find this document at the following link: pcarbi.org/wp-content/uploads/2014/08/Q1-Q16.pdf. Achieving good investment performance over the long-term has been a topic of considerable research. On one hand, it seems that fixing the problem of under-performance should be as simple as firing the under-performing culprit, i.e. investment manager.

BREXIT: A Summary View

The recent news of Great Britain’s popular vote to exit (aka, Brexit) the European Union (EU) came as a shock to the world on June 24th. Because it was expected that the “Remain” voters would prevail, market volatility was greater than expected and investors were generally confused about what impact this news would have on financial markets around the world. On the day the story broke, the S&P 500 closed down 3.6%. As this news has slowly been digested here in the United States, markets have rebounded. The S&P 500 was up just over 1.7% per day on June 28th and 29th. Despite what appears to be an orderly recovery after this international shock, this news is a serious matter, especially for Britain. The idea of leaving the EU was sold to the British public largely on the backs of immigration controversy and pressured over the freedom to separate itself from the EU. It is important to remember that the concept of the EU, since its inception, has been somewhat controversial since its construct has largely been based on trade economics rather than a political or monetary agreement on central
 Achieving good investment performance is a process that looks more like building a winning college football team.

Building Blocks - Continued from page 1

I wish it was actually that easy. Achieving good investment performance is a process that looks more like building a winning college football team. Such an effort requires a supportive administration with a strong budget, talented coaches, motivated and hardworking athletes, proper facilities, great support programs like weight training, and a significant fan base. While we are not trying to build a winning football team here at PCA Retirement & Benefits, Inc. (RBI), we do believe this illustrates well the confluence of factors that result in performance success over the long term. Detailed below are some of those factors.

Oversight Team - The most critical component of a successful investment management program is found in the quality of the personnel providing oversight. At RBI, we have a very clear and consistently applied philosophy regarding oversight. We believe that the individuals charged with making decisions for the PCA Retirement Plan must have professional experience in the field of investment management and have a working knowledge of all the factors affecting the plan. The management of the retirement plan is done by nineteen investment managers.

Performance Evaluations - The Asset management fees are charged on a prorated basis of the plan’s assets. The investment committee evaluates these fees quarterly by our investment consultant, Callan Associates, Inc., based on the plan’s performance relative to a benchmark and a universe of investment management peers. The RBI Investment Committee and our investment consultants at Callan work together to determine which managers we wish to appear before the committee, in person, to provide deeper insights into their performance results. The analysis of reports from our consultant and interviews with investment managers are very important inputs into our decision to either retain or dismiss one of our investment managers.

The Committee charged with the oversight responsibilities for the retirement plan are managed daily by nineteen investment managers. These managers are experts in the field of investment management and have working knowledge of all the factors affecting the plan. The management of the retirement plan is done by nineteen investment managers.

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Annuitants: Are sales incentives affecting the annuity market?

One issue in the Annuity Market, as experts see it, is in the incentives the industry creates to sell certain annuity products since their profit margins are lower. These well-constructed annuities are harder to sell because there is little or no advertising budget to market these products and the commissions associated to do little to incentivize sales. What we are left with is a high incentive to sell the inferior product. Despite this conflict some insurance companies spend significant money to market these products and highly incentivize (ie, lavish vacations, expensive outings, and extravagant perks) their agents to sell lower-quality, higher cost annuities. Are these well-constructed, low-cost annuities to be found? Yes, but these products are harder to find and they are not frequently sold. High-quality, low-cost annuities typically provide modest commissions.

To help our ministry partners steward God’s financial resources with wisdom and compassion.

To our ministry partners:

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Building Blocks - Continued from page 1

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the PCA Retirement Plan must have professional experience in the management of investment products. I have highlighted the expertise of RBI’s Investment Committee in one of our 2015 publications, [Locate/2015/09/1992ndQtrWeb15.pdf]. The individuals featured in this article are experts in the field of investment management and have a collectively long history in many types of market environments.

Competitive Fees - Asset management fees are charged against the returns that investors earn on retirement portfolios. RBI has a significant responsibility to regularly monitor and evaluate fees charged against the PCA Retirement Plan. One of the key measurements we use is the yearly overall expense ratio of the plan. This past year (2015) the expense ratio was 0.93%. This expense has been falling since 2010 (i.e. near the bottom of the Great Recessions) when the expense ratio was 1.15%. One method we use to keep fees low is the incorporation of passive fund products in certain asset classes where the personnel providing oversight. At RBI we have a very clear and consistently applied philosophy regarding oversight. We believe that the individuals charged with making decisions for the PCA Retirement Plan must have professional experience in the management of investment products. I have highlighted the expertise of RBI’s Investment Committee in one of our 2015 publications, [Locate/2015/09/1992ndQtrWeb15.pdf]. The individuals featured in this article are experts in the field of investment management and have a collectively long history in many types of market environments.

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crediting) to direct individuals to annuities that provided them with the highest commission, perk, and/or giveaway, even if it was not an ideal investment for their client. A recent study by Financial Engines confirmed this mindset. According to the study, 46% of Americans incorrectly believe their advisers were "legally required to put the best interests of their clients first when it comes to retirement."1

Investors evaluating annuities are at a significant disadvantage thanks to the legal and industry marketplace. Lower standards regarding investment advice and conflicts of interest have harmed even the best efforts to find dependable retirement income.

How can a novice investor avoid these traps?

Do it yourself — It is helpful to start the process by determining your end goal: Just what are you trying to accomplish through the purchase of an annuity? Focus on two things: what you want the annuity to guarantee and when you want the guarantee to start. Knowing this information will help you block the clutter in the sales pitch and marketing. Those working with a multicity agent should compare annuities from multiple carriers with similar provisions. However, if your agent only works with a single carrier, contact other agents and compare provisions against the other carriers, when comparing policies, make sure to compare the "specimen policy." This is a copy of the governing contract with all the important guarantees.

Do it for me — Find an impartial, fee-only, financial advisor who has indepth experience in analyzing annuity contracts. This advisor will help you identify an optimal annuity for you, but should not sell it to you.

New Fiduciary Rule — Navigating the annuity market is about to get easier. On April 6, 2016 the U.S. Department of Labor introduced a new standard called the ‘fiduciary rule.’ Although compliance with the new rule is not mandated until April 10, 2017, our next edition of the RPR will shed some light on this recent change and will elaborate on the benefits the ‘fiduciary standard’ offers to investors.

Mark Melendez, Client Services Manager

1 JWA Secure Retirement Institute; U.S. Individual Annuities Survey
2 In Whose Best Interest? What Americans know and what they want when it comes to retirement.

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ANNUITIES - Continued from page 3

The Building Blocks of Investment Performance

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