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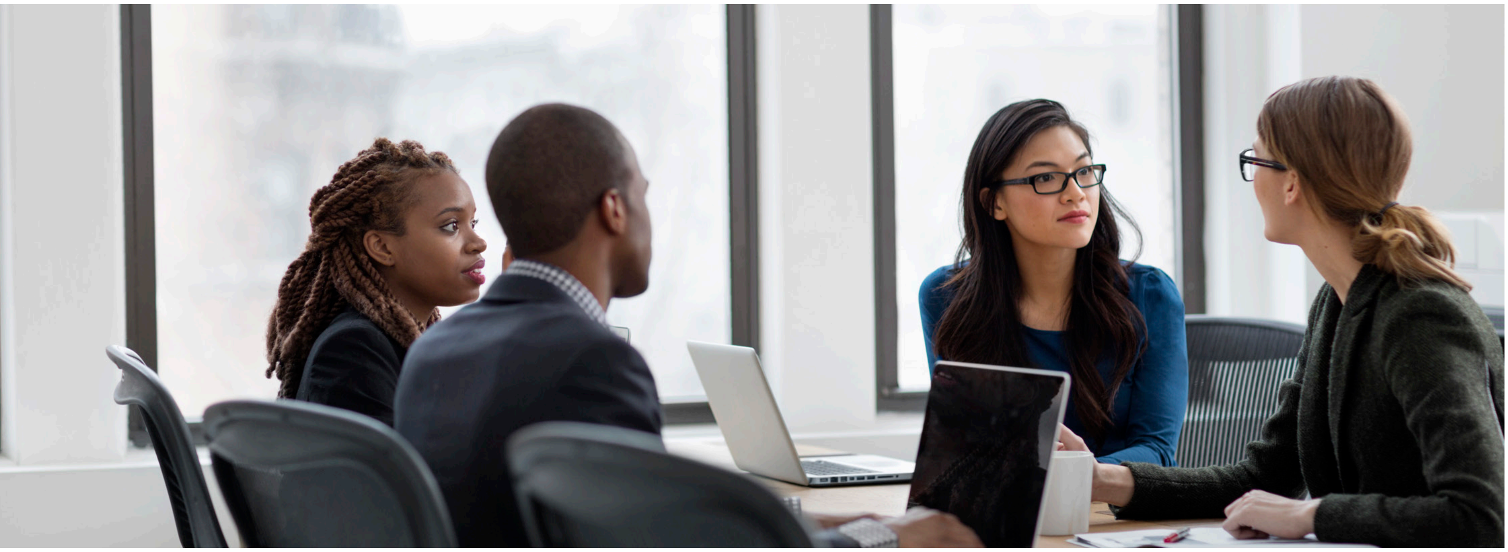

Collective Investment Trusts: Potential Benefits To You And Your Employees

Investment-related fees and expenses can be a significant cost for many retirement plans. Using CITs, however, can be a cost-effective way to provide sizable savings for plans and plan participants.

What are collective investment trusts?

Collective investment trusts (CITs) are pooled investment vehicles sponsored and maintained by a bank or trust company; they are tax-exempt and offered for investment only by retirement plans under the Employee Retirement Income Security Act of 1974, as amended (ERISA) and several other types of governmental retirement plans. CITs have become popular investment vehicles in defined contribution retirement plans because they are typically less expensive than mutual funds from an operational perspective.[1]

How do CITs compare to mutual funds?

CITs are not subject to the extensive registration, operational, disclosure, and reporting requirements of federal and state securities laws and regulations. Unlike mutual funds, CITs are also not subject to oversight by the SEC.[2] CITs and their trustees are subject to the oversight of state banking regulators or the Office of the Comptroller of the Currency (OCC) who tend to have a more streamlined process for regulatory, operational, reporting and disclosure requirements.[3] Furthermore, because CITs are offered only to retirement plans and cannot be sold to individual retail investors, the administrative, distribution, and marketing costs of CITS are also generally lower than they are for certain classes of mutual funds.

51% of assets in target date strategies are CITs, overtaking mutual funds in 2024.[4]

Key Similarities Between CITs and Mutual Funds

TRAIT	COLLECTIVE INVESTMENT TRUST (CIT)	MUTUAL FUND
Fee structure	Flexible unit class fee structures (investment management fees can be different for different unit classes of the same CIT)	Many funds have shares classes with different fee and expense structures but investment management fees must be the same across different share classes of the same fund
Sponsor	Offered by bank or trust company to qualified retirement plans; not available for investment by general public (retail)	Offered directly or through financial intermediaries (i.e., broker-dealers, insurance companies, banks, etc.) to public (retail), as well as institutions
Eligible investors	Eligible trusts: tax-qualified plans under Internal Revenue Code of 1986 (Code), Section 401 (corporate, Keogh Rule 180, Taft-Hartley); eligible government plans described in Code and Securities Act of 1933, Section 3 (a)(2); other group trusts or insurance company separate accounts that consist solely of Code Section 401 plans and eligible governmental plans Generally not eligible to participate: IRAs, 403(b) plans, Church plans not qualified under Code Section 401	No limitations on investor eligibility, subject to prospectus criteria and requirements

Regulatory Comparisons Between CITs and Mutual Funds

CONSIDERATION	COLLECTIVE INVESTMENT TRUST (CIT)	MUTUAL FUND
Regulatory Oversight	Subject to ERISA and Department of Labor (DOL) regulations, as well as state or federal banking regulations	Subject to securities laws and regulations, including registration with the SEC
Application of ERISA	Fund assets are considered “plan assets” under ERISA — subject to transaction provisions of IRC Section 4975. Under ERISA, plans must disclose their investments in CITs on a Form 5500 and participants must receive, at least quarterly, statements and information about their investments, including their investments in the CITs, if any.	Fund assets not “plan assets” under ERISA
Investment Management Governance	Managed by investment managers retained by CIT trustee, subject to such trustee’s supervision and oversight	Managed by investment managers approved by a fund’s board of directors, subject to the board of directors’ supervision and oversight
Regulatory Documents	Declaration of Trust and Investment Policy Statement or similar trust documentation that govern the operations and investments of a CIT; no obligation to file with a banking regulator on a regular basis	Prospectus and Statement of Additional Information (SAI), which are updated and filed with the SEC on a regular basis, govern the operations and investments of a mutual fund
Holdings Information	Performance and holdings information available to plan sponsors and, in many cases, publicly on a periodic basis through website postings; CITs are not subject to the same reporting and disclosure requirements applicable to mutual funds.	Performance and holdings information publicly available and filed with the SEC, typically on a periodic basis depending on the type of fund
Marketing Limitations	Not registered under Securities Act of 1933; anti-fraud restrictions apply; marketing to eligible plan sponsors	Registered under the Securities Act of 1933. Marketing and distribution subject to FINRA requirements

Potential Opportunities for Using CITs

1. Consider whether more favorably priced CITs with comparable investment strategies are available, especially if a retirement plan is currently using mutual funds as an investment option. Many mutual fund strategies have parallel CITs.

2. Consider choosing CITs that are advised by investment managers who also manage well-established mutual funds. This means rollover IRA clients can access mutual funds advised by the same asset manager if and when they exit their corporate retirement plan (Plan participants who take rollover distributions generally lose access to their CITs since they are not available to retail investors).

3. Under ERISA, fiduciaries must offer reasonably priced investment alternatives. CITs in plan lineups can help satisfy this obligation and indicate that the appropriate level of care is being taken to keep costs low. This can potentially help mitigate fiduciary liability, even if CITs do not end up being included in the plan offering.

Contact your Morgan Stanley Financial Advisor for additional information about collective investment trusts or other investment vehicles, as well as your personal tax and legal advisors to determine which strategies may be appropriate.

SOURCES

[1] “"CITs Topple Mutual Funds as Most Popular Target-Date Vehicle," National Association of Plan Advisors (NAPA), August 2024.

[2] Rule 18f-3 under the Investment Company Act of 1940. SEC rules dictate that the same investment management fee be charged with respect to all share classes of a mutual fund even when multiple share classes are offered.

[3] Under Section 9.18 of OCC regulations, national banks must prepare annual reports for their CITs based on audited financial statements. State-chartered banks are subject to similar reporting requirements under state law.

[4] “CITs Dethrone Mutual Funds as the Most Popular Target-Date Vehicle," Morningstar, August 2024.

DISCLOSURES

Although CITs may have similar investment guidelines and objectives, their performance may not be similar to their mutual fund counterpart.

CITs have gained in popularity over the last twenty plus years, but some are still new and therefore may not have the capital to support liquidity needs or full investment spectrums in the early stages of growth/launch.

This piece is purely for education purposes and not to be interpreted as Morgan Stanley soliciting business.

An investor should consider the investment objectives, risks, and charges and expenses of the collective investment trusts carefully before investing. This and other important information about the trusts is available from your Financial Advisor or Private Wealth Advisor. This information should be read carefully before investing.

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