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# Annual Conference

OCTOBER 27-30, 2013 | LAS VEGAS

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## Case Study:

# An Evaluation of Target-Date Funds for the Salesforce.com 401(k) Plan

October 30, 2013

9:45 am – 10:45 am

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# Salesforce.com

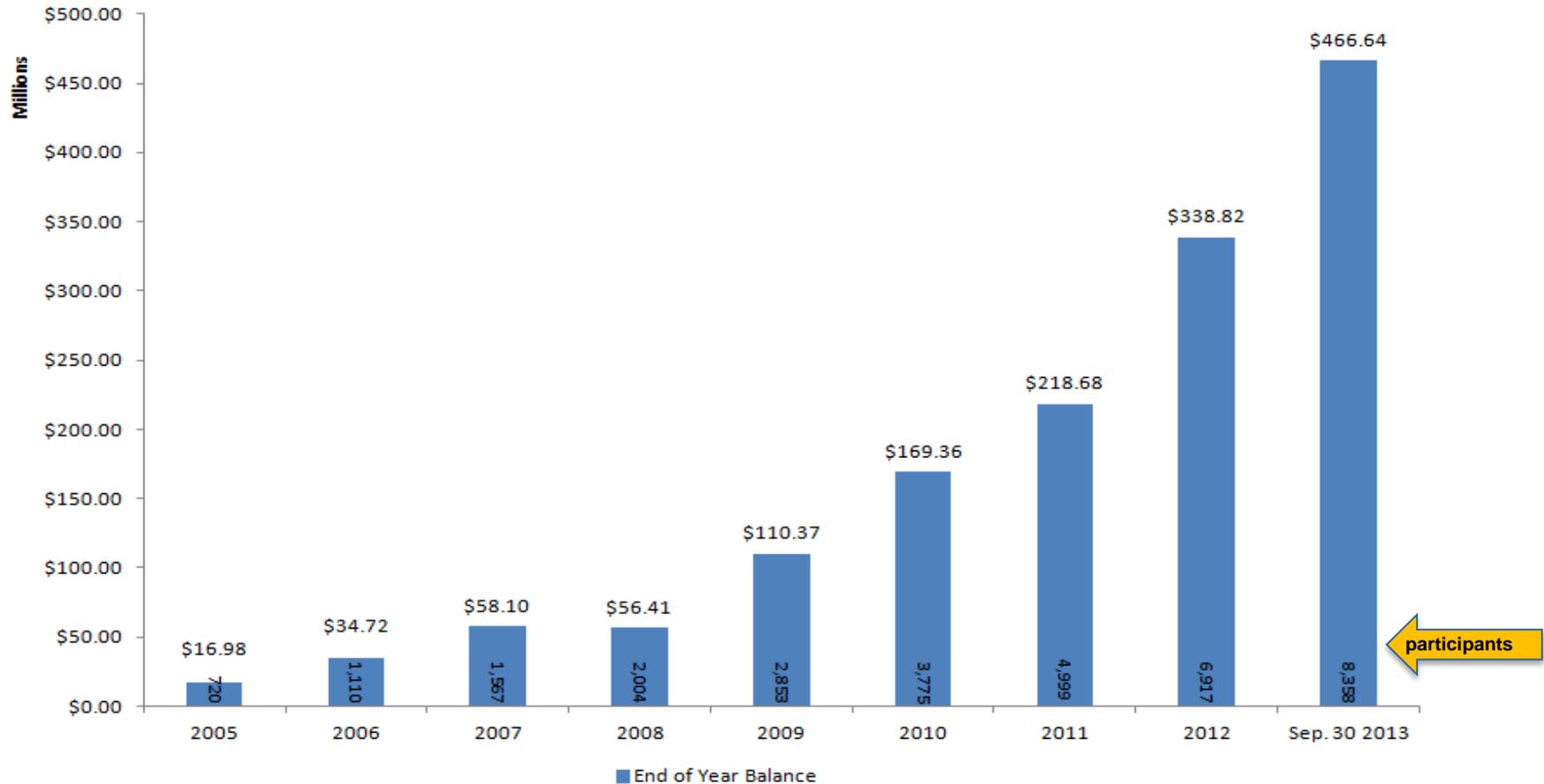
CRM (NYSE)

- Salesforce.com is the enterprise cloud computing leader. Our social and mobile cloud technologies—including our flagship sales and CRM applications—help companies connect with customers, partners, and employees in entirely new ways
- Salesforce.com revenue of \$3.05 end of FY2013 (1/31/2012)
- Over 100,000+ successful customers from large, medium and small business use our products and services to better identify, engage and collaborate with their clients
- ~12,000 employees including the acquired employees from ExactTarget (July 2013: ~2,000 employees). 8,500+ employees in the United States.

# Salesforce.com 401(k) Savings Plan

- Over 8,000 participants
- Median age of participant: 35 years old
- Service provider: Recordkeeping, Funds, Education
- Proprietary, non-proprietary, active, index funds
- Brokerage window
- Auto-enrollment (with opt-out), auto escalate
- QDIA – Target-Date Funds
- Employer match
- Roth 401(k)
- 404 (c)
- Regular participant education program
  - Onsite and webinars

# Salesforce.com 401(k) Plan Growth



# 401(k) Committee Structure / Process

- **Salesforce 401(k) Committee**
  - Governed by Committee Charter
  - 8 member committee with members representing major business units
    - Sales, Technology, Finance, HR, Legal
  - Members are changed on rotational basis
  - Outgoing members are encouraged to recommend their replacement
- **Investment Consultant**
  - Independent, institutional, third-party, ERISA co-fiduciary
  - Investment Policy Statement
    - Selection, monitoring, watch list process
    - Periodic fee reviews, re-negotiating fees as plan grows
- **Recordkeeper/Administration**
  - Provide all recordkeeping
  - Perform year-end services: 5500
  - Communication with employees including on-site education

# Salesforce 401(k) Sub-Committee

- **Goals & Objectives:**
  - Conduct comprehensive due diligence on largest fund option in plan
  - Confirm or determine if current TDF series is best fit for plan and participants
  - Select best-in-class manager with proven track record, strong asset allocation, quality institutional investments, reasonable fees, well-suited to participants
  - Continue ongoing monitoring process
- **401(k) Sub-Committee**
  - Designated to evaluate and oversee target date fund evaluation
- **Investment Consultant**
  - Provided analysis and evaluations
- **Target Date Fund Managers**
  - Finalists made presentations to Sub-Committee

# DoL (EBSA)

## Target Date Fund Tips for Fiduciaries

- February, 2013 Department of Labor's (DoL) Employee Benefits Security Administration (EBSA) released "*Target Date Retirement Funds - Tips for ERISA Plan Fiduciaries*"
- Fiduciaries should have a proactive, well-documented selection, monitoring and evaluation process for target date funds
- TDF evaluation criteria should be documented in the Investment Policy Statement

# DoL (EBSA)

## Target Date Fund Tips for Fiduciaries

- ✓ Establish Process and Criteria to Compare and Select TDFs
- ✓ Actively Review and Monitor
- ✓ Understand Glide Path, Asset Classes and Underlying Investments
- ✓ Know the Impact of Fees and Expenses
- ✓ Consider Proprietary, Non-Proprietary or Custom Solutions
- ✓ Implement Effective Employee Communications Programs
- ✓ Use Third Party Resources
- ✓ Document Due Diligence and Decision-Making Process

# Target Date Funds Overview

- TDFs are asset allocation funds
- PPA 2006-Qualified Default Investment Alternative (QDIA)
- Fastest growing investment option in most DC plans
- Designed to provide asset allocation solution for participants
- Focuses on retirement date as the investment horizon
- Includes a broad range of asset classes
- Active, passive or hybrid investment strategies
- Pre-packaged or custom solutions

# Target Date Funds Overview

## **Glide path describes the change in asset allocation over time**

- Risk/return profile of fund changes over time
- 30-40 years from target date, glide path is weighted to higher return and higher risk (more stocks)
  - Priority: **Capital Growth and Long-Term Appreciation**
- As fund approaches target date (close to retirement), allocation shifts to lower risk and lower return (more bonds)
  - Priority: **Capital Preservation and Income Generation**

# Key Considerations for Salesforce

- Active, passive or hybrid management
- Quality of investment management firm and expertise
- Asset class diversification
  - Broad asset classes used
  - How manager selects asset classes
  - Asset classes to include or exclude:
    - Domestic Equity
    - Domestic Fixed Income
    - High Yield Fixed Income
    - International Equity
    - International Fixed Income
    - Emerging Market Equity
    - Emerging Market Debt
    - Real Estate
    - Commodities
    - TIPS

# Key Considerations for Salesforce

- **Asset allocation**
  - Fundamental approach or model used for asset allocation
  - How weightings are determined
  - Traditional and extended asset classes
- **Glide path**
  - Based on “to” or “through” as it approaches the target retirement date
  - Potential results of scenario analysis
- **Portfolio construction**
  - Active or passive vehicles used to create portfolios
  - Selection of underlying investments and strategies
  - Different approaches used to solve similar problems
- **Rebalancing strategy**
  - Approach to managing cash flows
  - Frequency and systematic approach to rebalancing

# Evaluation Process

## **TDF managers screened for the following criteria**

- Institutional investment management firms
- Assets and track record
- Peer universe comparisons
- Benchmark comparisons
- Investment strategy
- Asset classes
- Glide path comparisons
- MPT statistics screening
- Institutional fees

# Third-Party Resources

## Benchmarking Target Date Funds

- **Dow Jones Target Date Indices**
  - 10 indices
  - Equal weighting
- **S&P Target Date Index Series**
  - 8 indices
  - Asset weighted
- **Morningstar Target-Date Fund Series**

# Questions Plan Sponsors Should Consider

- Why did you choose the current target date fund option?
- Did you document the decision-making process?
- What participant characteristics were considered?
- How do you explain this decision to participants, auditors or DoL?

# Questions Plan Sponsors Should Consider

- What is the TDF manager's experience in managing asset allocation models?
- What is the TDF manager's investment approach and design of the glide path?
- What are the assumptions for withdrawals on or after the retirement date?
- Are these assumptions a good fit for your participants?

# Questions Plan Sponsors Should Consider

- Do the underlying funds meet the same standards and criteria in your IPS for other fund evaluations?
- How did the TDF perform during the financial crisis?
- How is it expected to react to market turbulence?
- How does the TDF manage inflation risk?
- Are fees appropriate, reasonable and were they compared?

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# Q&A?