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

October 30, 2013
9:45 am – 10:45 am

Mr. Randy L. Murphy
Sr. Manager, Equity Compensation
salesforce.com, inc.
www.salesforce.com

Ms. Linda Ruiz-Zaiko
President
Bridgebay Financial, Inc.
www.bridgebay.com
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
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?