



3(38) Fiduciary Services - Investment Management Methodology

Klaas 401K is the brand name under which Klaas Financial Asset Advisors, LLC ("Klaas") provides advisory services to plan sponsors and participants of qualified retirement plans. The Klaas 401K Investment Management Team has created a structured solution to help employers establish and maintain their 3(38) plans. Within 3(38) plans, Klaas is designated as the discretionary investment manager of retirement plan assets. This gives Klaas the responsibility of investment selection, monitoring, and replacement of investment options, lifting this burden from plan sponsors that traditionally hold this responsibility. The Klaas 401K Investment Management Team works to provide investment options that function well for both participants and employers. We focus on providing an investment lineup that achieves longevity to help participants prepare for retirement.

The Klaas 401K Investment Management Team selects each investment option for the plan, and then monitors the lineup. If any investment option fails to meet our expectations, we will perform an analysis to determine if it has gone off track long-term, or if the investment has been flagged for an attribute that does not take away from the overall purpose of the investment option in the plan lineup. This focus helps to curate a list of high-quality investments for participants and helps to minimize the turnover of investment options. Minimizing turnover in investment lineups can help participants in building long-term allocations, increase business efficiency, and reduce the chance of chasing returns.

Each step in the investment management process is vital to delivering a simplified investment lineup that achieves these goals. A brief introduction to the process performed by the investment management team is provided below.

Selection

Investment options are selected from the universe of investment options defined by the plan sponsor or the recordkeeper. Plan lineups are typically composed of mutual funds and exchange-traded funds. Using data sourced from Morningstar, Inc., we develop a comprehensive list of investment options that focuses on benchmark adherence, competitive performance, and appropriate risk characteristics. We use four key considerations to select the appropriate investment options for your lineup:

- **Cost** - The expenses within the investment options are borne on the plan participant. These have a substantial impact on long-term performance and may be one of the highest considerations in the investment selection process. Typically, investment options that are selected may be in the top decile of lowest costs compared to peers.
- **Size** - The size of the fund is how much money the fund oversees and manages. Using a fund that is large enough shows stability in the solution. Funds that are too small or that lose substantial assets may be at risk of being closed. Typically, investment options that are selected have at least \$100 Million or more in managed assets.

- **Age** - The investment option should have enough history to compare against peers and the assigned benchmark. Typically, investment options that have at least 5 years of history.
- **Share Class** - The investment option should be a share class that works efficiently within the plan. Typical investment options have transparent and low-cost fee solutions. In some cases, ETFs may be used as the low-cost solution as plans are able to use these investment vehicles.

Comparisons

Once an investment has been selected and implemented within the plan lineup, ongoing monitoring of the investment begins. The oversight of the investment is done by comparing the fund to its assigned benchmark and to its peers. Reviewing the investment by comparing it to set targets allows for effective oversight along with other important considerations for the investment. Each comparison is carefully selected and evaluated with each investment:

- **Benchmark Selection** - Benchmarks are selected for each asset class the Investment Policy Statement outlines for the plan lineup. The benchmark that is selected should be comprised of investments that represent the asset class it is replicating. For example, the Target Date investment options utilize the S&P Target Date Index, a standardized benchmark used to track invest portfolios. This index utilizes a glidepath that reduces exposure to riskier assets as a participant ages and gets closer to normal retirement age.
- **Peer Group Selection** - Peer groups are used to compare the current investment lineup against other fund options. The peer group is curated from the Morningstar Category™ that is applicable to the asset class. The peer group is then refined to a list of appropriate comparable investments. Some funds within the Morningstar Category™ are not investible to plan participants, or are different share classes that are more expensive, and therefore, not competitive.

Evaluation

Once the investment lineup is set, and the Benchmark and Peer Groups have been established, regular evaluations will be made to ensure that all investments maintain their quality. Some of the recurring data that the investment management team will review may include:

- **Performance** - The return of the investment option may be compared to both the assigned benchmark and the appropriate peer group. This is reviewed over a 1-Year, 3-Year and 5-Year timeframe.
- **Tracking Error** - The tracking error of an investment option compares the risk directly to the assigned benchmark. Higher tracking error shows investment options that may be deviating from the assigned benchmark. This is reviewed over a 1-Year, 3-Year and 5-Year timeframe.
- **Investment Objectives** - Investments may drift in their asset allocation or shift the way the fund is managed. Funds that drift out of alignment from the assigned benchmark may be replaced in the lineup.

- **Management Changes** – Fund managers may have turnover within the investment lineup. As these shifts happen, new managers or management teams may need to be reviewed to ensure established practices continue within the investment option.
- **New Entrants** – New investment options may become available within the marketplace overtime. New funds may be considered if there is a more competitive edge over the existing investment within the lineup.

These evaluation points are critical in the ongoing oversight of the plan investment lineup. Our approach refrains from using a scoring system as the primary source of identifying problematic investments. Often in plans, investments are swapped due to perceived underperformance by a simplified scoring system, despite that the investment was still a high-quality option that is achieving its long-term goals. Frequent turnover can create instances where plan investments “chase returns”. This may happen when an investment begins to underperform and is subsequently replaced by an investment that has recently performed better. This process may continue to be repeated, even though the act of shifting investments frequently may be at the detriment to plan participants while creating administrative work to implement the changes.

Communication

In addition to the investment management oversight of the investment lineup, Quarterly Investment Manager Reports will be sent as a source of summary information on the plan investment lineup. Commentaries on the investment markets and updates on investments within the plan lineup will be included in this report. A detailed breakdown of each investment will also be provided within the report to share important data that the investment management team is reviewing.

Disclosures:

Klaas 401K Retirement Plan Services are offered by Klaas Financial Asset Advisors, LLC, a registered investment adviser registered with the United States Securities and Exchange Commission. Registrations do not imply a certain level of skill or training. The above provides a brief description of the Klaas 401K 3(38) Retirement Plan Services. Please see our Form ADV Part 2A Disclosure Brochure for additional information.