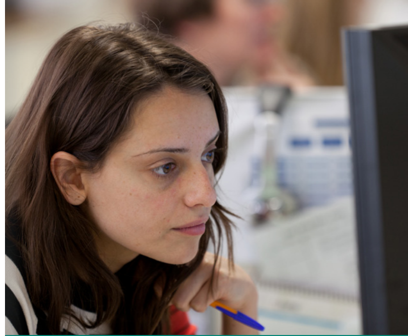
PIMCO

Your Global Investment Authority



Defined Contribution Consulting Support and Trends Survey

8th Annual
Survey Highlights 2014

For Institutional Investor Use Only

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PIMCO DC Practice at a Glance

PIMCO, founded in 1971, is one of the most respected names in global asset management, due to our focus on long-term performance, total-return approach, and close attention to client needs.

Our PIMCO DC Practice is dedicated to promoting effective DC plan design and innovative retirement solutions. We are among the largest managers of assets in defined contribution plans, offering investment management for stable value, fixed-income, inflation protection, equity and asset allocation strategies such as target-date solutions. We also provide analytic modeling, plus can help plan sponsors identify DC consultant resources. Our team is pleased to support our clients and the broader retirement community by sharing ideas and developments for DC plans in the hopes of fostering a more secure financial future for workers.

Survey Overview: 2014

- PIMCO's DC Practice has prepared the 2014 Defined Contribution Consulting Support and Trends Survey to help plan sponsors understand the breadth of views and specific consulting services available within the DC marketplace. Our 2014 survey captures data, trends and opinions from 49 consulting firms across the U.S., which serve over 7,800 clients with aggregate DC assets in excess of $2.8 trillion.
- In the survey, we share information about the consulting firms' DC business, as well as their views on plan structure, investment defaults, core investments and retirement income.
- Given the ever-increasing dependence on DC plans as the primary source of retirement income, this survey aims to identify how the leaders in DC consulting are helping their clients design and deliver successful plans.

Participant List

Arnerich Massena & Associates, Inc.
Bank of America Merrill Lynch
Bellwether Consulting
Bidart & Ross, Inc.
Blue Prairie Group
Callan Associates
Cammack Retirement Group
Channel Financial
Cook Street Consulting, Inc.
Curcio Webb, LLC
Defined Contribution Advisors, Inc.
DiMeo Schneider & Associates, LLC
Ellwood Associates
Fiduciary Investment Advisors, LLC
Francis Investment Counsel
Hewitt EnnisKnupp
Highland Associates
Innovest Portfolio Solutions LLC
Johnson Custom Strategies, Inc.
Lockton Retirement Services
Marco Consulting Group
MBM Advisors, Inc.
Meketa Investment Group
Mercer Investment Consulting, Inc.
Mesirow Financial
MJM401k, LLC
Morgan Stanley, including Graystone Consulting
Morningstar Investment Management
Multnomah Group, Inc.
NEPC
Pavilion Advisory Group
Plan Sponsor Advisors, LLC
Portfolio Evaluations, Inc.
R.V. Kuhns & Associates, Inc.
Retirement Benefits Group
Retirement Plan Advisory Group (RPAG)
Rocaton Investment Advisors, LLC
Russell Investments
SageView Advisory Group
Segal Rogerscasey
SEI
Slocum
Strategic Retirement Group
Summit Strategies Group
The Newport Group
Towers Watson Investment Services
UBS Financial Services
Wilshire Associates, Inc.
Wurts & Associates

Survey Highlights: 2014

Defined Contribution Business

- Forty-nine consulting firms participated in this year's survey. This is a decrease of two from last year (51).
- Compared to 2013, respondents report a larger DC client base, with an average of 130 clients in 2013 and 167 this year.
- The firms advise on DC plan assets totaling $57 billion on average and $23 billion at the median. This compares to $48 billion and $17 billion in 2013.
- On average, consultants provide custom target-date and target-risk services (up from 8 to 9) and multi-manager balanced services (up from 5 to 9) to more clients relative to 2013.
- Sixty-four percent of DC clients fall into the corporate plan category, with not-for-profit plans following at 22%.
- Firms with dedicated DC teams report over a third of their firm's staffing as dedicated to DC, with a median staff size of seven and average of 29 members, including:
  - Sixteen consultants
  - Six analysts
  - Seven support staff
- Eleven firms indicate they have non-U.S.-focused DC specialists.
- On average, 52% of firm revenue comes from DC business, the median being 55%.
- Fastest-growing DC areas reported by consultants include:
  - Total plan cost/fee studies
  - DC investment design
  - Investment default asset allocation creation (e.g., target dates, balanced fund)
  - DC recordkeeping searches
  - Manager selection and monitoring

Defined contribution plan structure

- Almost all firms (96%) are willing to serve as 3(21) non-discretionary advisor, followed by firms willing to accept 3(38) discretion over manager selection (73%) and 65% willing to accept 3(38) discretion over glide path.
- All firms (100%) recommend that clients offer at least one capital preservation, fixed income and equity option on the core menu. A large majority (89%) also recommend at least one inflation-protection option. On average, the optimal core menu consists of one capital preservation, two fixed income, six equity, one inflation-protection, one global balanced and one alternative option.
- Firms believe that emerging market equity (50%), followed by commodities (48%), multi real assets (42%) and TIPS (42%) would bring the most value as added asset classes within an asset-allocation strategy (e.g., target dates).
- Firms believe that global or non-U.S. equity (75%), global or non-U.S. fixed income (63%) and multi real assets (60%) would bring the most value as added asset classes within the core lineup.
- A large majority of consultants (73%) believe that plan sponsors are likely to highly likely to add global equity strategies to enhance plan sponsors' DC equity offerings.
- Over half of consultants (51%) believe that plan sponsors are likely to highly likely to add diversifying income strategies (e.g., investment-grade credit, high yield) to enhance a plan's fixed income offerings.
- Consultants believe that the perceived mitigation of fiduciary risk (72%) and the ability to hand over reins on investments (66%) are the leading drivers of growth for outsourced CIO or discretionary oversight of assets.
  - Among firms with current outsourced CIO clients, 10% of total clients, on average, have outsourced. Over the next three years, these firms believe another 9%, on average, will outsource these responsibilities.

Investment Default

- Consultants rank evaluation of the glide path structure as most important in selecting or designing target-date strategies.
- Ninety-eight percent of firms recommend that clients offer a target-date or target-risk investment tier.
  - The vast majority of consultants (79%) believe that the largest plans ($1bn+) will select custom target-date strategies.
  - Consultants anticipate to a significant extent the decoupling of target-date strategies from recordkeepers for plans over $1bn ($98%), $500mm–$1bn (94%) and $200mm–$500mm (69%).
  - Over four-fifths (82%) of consultants either support client interest or actively promote custom target-date strategies.
- Over two-thirds of consultants (67%) support or actively promote both multi-manager/white label fixed income and equity strategies. The majority (61%) support or actively promote multi-manager/white label real asset strategies.
- The vast majority of consultants (94%) believe it is important or very important to add diversifying fixed income strategies to help protect client assets in asset-allocation strategies.
  - Eighty-four percent believe it is important or very important to add inflation-protection securities (e.g., TIPS) as a risk mitigation approach.
  - At the median, consultants cite a loss capacity of 10% at retirement age, 18% with 10 years to retirement, 25% with 20 years, 35% with 30 years and 40% with 40 years.
- Compared to 2013, consultant support for managed accounts as an opt-out investment default (plus opt-in choice) has declined from 12% to only 9% of firms while support as an opt-in asset-allocation choice only has grown (up from 55% to 72%).
  - Consultants' primary concerns around managed accounts are the embedded cost of service (85%), the value added relative to the current investment default (69%), the quality of the underlying model/advice (63%) and the ability to measure participant success (50%).
- Consultants indicated they are most concerned about rising rates, a low return environment and high volatility over the secular horizon (3–5 years), with over 70% indicating they are concerned or very concerned about each of these headwinds.
- At the median, consultants expect emerging market equities to outperform (10%) all other asset classes, albeit with significantly higher volatility (26%). U.S. large and small cap equities and non-U.S. developed market equities are expected to be the next-best performers, all returning around 8% with 18%–21% volatility at the median.

Survey Highlights: 2014

Core investments

- If money market strategies require a floating NAV, consultants are likely or highly likely to replace money market with stable value (44%), switch from prime money market to government money market (33%), or make no change – keep money market option (32%).
- Nearly all consultants (91%) view active management as important or very important in global asset-allocation strategies (e.g., target dates). Moreover, the majority of firms agree that it's somewhat or very important to actively manage all asset classes, with the weakest support given to large cap U.S. equities and TIPS.
  - Consultants are concerned or very concerned about the following issues related to passive investment management: (1) perception of low cost as a litigation safeguard (53%), (2) belief that passive investing requires less oversight (48%), (3) view that low tracking error means "risk free" (45%), (4) inability to adjust to market conditions and risk pricing (44%) and (5) reliance on index volatility as sole risk management tool (43%).
  - When evaluating active managers, consultants believe the following criteria are important or very important: (1) strength of investment process (100%), (2) consistency of excess returns (93%), (3) resource depth (93%), (4) manager tenure (91%) and (5) manager alpha (89%).
- As an alternative to market-weighted index construction, consultants are most supportive of fundamental-weighted strategies, with one- third (33%) either supportive or strongly supportive.
- The vast majority of consultants feel that commodities (93%), TIPS (83%) and REITs (66%) are important or very important in creating a diversified inflation-protection or real asset core option.
- Nearly all firms (93%) define hedge funds and private equity as alternatives. The vast majority of firms also define long/short equity (88%), private real estate (88%), absolute return (84%) and currencies (70%) as alternative strategies.
  - The vast majority of consultants identified the following benefits of alternative strategies as important or very important: volatility reduction (93%), return enhancement (79%), inflation protection (76%) and equity beta diversification (73%).
  - Nearly all (98%) consultants support or strongly support the use of alternatives in custom target-date/target-risk strategies. Nearly two-thirds (63%) support or strongly support alternatives in multi-manager/white label core options and over half (51%) as a single manager, multi-strategy core option.
  - When evaluating alternative strategies, consultants identified the following characteristics as important or very important: (1) established organization (98%), (2) daily valuation (88%), (3) daily liquidity (86%), (4) three-year+ track record (83%) and (5) ample provider choice (79%).
- Over half (53%) of consultants believe the ability to offer alternatives with greater ease may influence DC plans to move from daily valuation to some or a significant extent.

Retirement income

- The majority of consultants (59%) indicate that some or most of their plan sponsor clients prefer to retain retiree assets. Over a fifth (21%) indicate that some or a majority actively seek to retain these assets. Only two firms (4%) reported that the majority of their clients prefer that retirees move out of their plan.
- Consultants rated the following investment or insurance retirement income strategies or features as important or very important for inclusion in the distribution tier: (1) retirement income modeling/education (84%), (2) one-on-one retirement counseling (69%), (3) diversified fixed income (68%), (4) at-retirement target date (63%) and (5) systematic withdrawal/installment payments (60%).
  - Over half of consultants indicate that the following retirement income strategies would have some or significant growth over the next two years: retirement income modeling/education (87%), one-on-one retirement counseling (77%), managed account for income (59%) and deferred income annuities (53%).
- Over four-fifths of consultants express concern or significant concern over portability (93%), operational complexity (93%), cost (86%) and insufficient government support (84%) for in-plan insurance options.
- When evaluating capital market retirement income options, consultants view the following as important or very important: understandability (93%), (2) fees (93%), (3) volatility (91%), (4) inflation protection (89%) and (5) risk of loss (86%).

Survey Details: 2014

Defined contribution business

- The firms continue to experience DC business growth. This year, firms serve an average of 167 clients, and the median is 75. This compares to 130 and 64 in 2013, 110 and 50 in 2012, 94 and 70 in 2011, 75 and 48 in 2010, 57 and 35 in 2009, and 49 and 32 in 2008.
- The firms advise on DC plan assets totaling almost $57 billion on average and $23 billion at the median. This compares to $48 billion and $17 billion in 2013, $49 billion and $16 billion in 2012, $59 billion and $20 billion in 2011, $64 billion and $15 billion in 2010, $56 billion and $20 billion in 2009, and $47 billion and $15 billion in 2008.
- The firms serve clients with DC plan assets totaling $298 million on average and $100 million at the median. These numbers are higher than 2013, with the average plan served at $236 million and $75 million at the median.
- On average, consultants provide custom target-date and target-risk services (up from 8 to 9) and multi-manager balanced services (up from 5 to 9) to more clients relative to 2013.
- On average, 64% of DC clients fall into the corporate plan category, with not-for-profit plans following at 22%. The remainder includes public and multi-employer plans.
- At the median, firms are staffed with 34 people: 14 consultants, 12 analysts and 8 support staff. Firms that have a dedicated DC team are staffed, at the median, with 7 people: 4 consultants, 2 analysts and 1 support staff.
- Eleven of the 49 surveyed indicated they have non-U.S.-focused DC specialists. Of these, 8 indicated a DC specialist focused in Canada, 5 in the U.K., 4 in Australia and 3 in the Netherlands. Consultants also indicated DC specialists focused in Bermuda, Hong Kong and Dubai.
- On average, 52% of firm revenue comes from DC business, the median being 55%. These figures are up relative to 2013 when DC represented 51% of revenue on average and 50% at the median.
- All of the firms surveyed (100%) provide investment policy development/documentation and manager selection and monitoring services. In addition, most provide investment design (96%), total plan cost/fee studies (90%), investment default asset allocation creation (88%), recordkeeping searches (86%), guaranteed/annuity product evaluations (82%), and ongoing investment default risk and glide path management (78%). Over two-thirds provide communication consulting (76%), discretionary oversight of investment selection and monitoring (73%), and plan/benefits design services (67%). Of note, over a quarter will act as an outsourced CIO and provide discretionary oversight of both plan administration and investments (29%).

Survey Details: 2014

- When selecting the areas of greatest growth over the past year, almost two-thirds of firms (61%) said total plan cost/fee studies was the most common. This is followed by just over half of firms (51%) stating investment design, then investment default asset-allocation creation (47%), recordkeeping searches (43%), and manager selection and monitoring (43%). Consultants selected discretionary oversight of investment selection and monitoring (35%) and ongoing investment default glide path management (29%) as among the remaining top growth areas. Nearly one-quarter also noted plan/benefits design (22%) and investment policy development/documentation (22%).

- Almost all firms (96%) are willing to serve as 3(21) non-discretionary advisor, followed by firms willing to accept 3(38) discretion over manager selection (73%) and 65% willing to accept 3(38) discretion over glide path. Notably, just over a fifth of firms (21%) will act as named fiduciary over the entire plan.

Defined contribution plan structure

- All firms (100%) recommend that clients offer a core fund tier (with both active and passive investment choices), and nearly all (98%) suggest a target-date or target-risk investment tier be provided. The vast majority do not recommend a separate investment tier for passive only or active only.

- All firms (100%) recommend that clients offer at least one capital preservation, fixed income and equity option on the core menu. A large majority (89%) also recommend at least one inflation-protection option. On average, the optimal core menu consists of one capital preservation, two fixed income, six equity, one inflation-protection, one global balanced and one alternative option.

- Firms believe that emerging market equity (50%), followed by commodities (48%), multi real assets (42%) and TIPS (42%) would bring the most value as added asset classes within an asset-allocation strategy (e.g., target dates). Over a third also suggest the addition of global or non-U.S. fixed income (38%), high yield fixed income (38%), emerging market debt (35%) and private real estate (35%).
  - In 2013, firms felt that emerging market debt, commodities and risk mitigation strategies (e.g., tail risk hedging) would add the most value, respectively, to an asset-allocation strategy.

- Firms believe that global or non-U.S. equity (75%), global or non-U.S. fixed income (63%) and multi real assets (60%) would bring the most value as added asset classes within the core lineup. One-third or more of firms suggest also adding emerging market equity (46%), TIPS (40%) and guarantee or annuity products (33%) to the core lineup.
  - In 2013, firms felt that global or non-U.S. equity, TIPS and global or non-U.S. fixed income would add the most value, respectively, to a core menu.

- A large majority of consultants (73%) believe that plan sponsors are likely or highly likely to add global equity strategies to enhance plan sponsors' DC equity offerings. Slightly over half (51%) believe that plan sponsors are likely or highly likely to combine all non-U.S. equity offerings, while 45% believe they may combine equity styles (value and growth).

- Over half of consultants (51%) believe that plan sponsors are likely or highly likely to add diversifying income strategies (e.g., investment-grade credit, high yield) to enhance a plan's fixed income offerings. Notably, consultants believe plan sponsors are approximately equally likely or highly likely to choose hedged (23%) versus unhedged (21%) global fixed income strategies.

- Consultants believe that the perceived mitigation of fiduciary risk (72%) and the ability to hand over reins on investments (66%) are the leading drivers of growth for outsourced CIO or discretionary oversight of assets. Over a third note that sponsors desire multi-manager custom strategies and prefer to fully delegate this outside (40%) and that clients outsource DB already and wish to do the same with DC (38%). Notably, only 17% of consultants do not see demand for these services increasing.

- Among firms with current outsourced CIO clients, 10% of total clients, on average, have outsourced. Over the next three years, these firms believe another 9%, on average, will outsource these responsibilities.

- Over four in five firms either actively promote (26%) or support (55%) client interest in re-enrollment. These results compare similarly to 2013, with overall support of re-enrollment up slightly.

- On average, 6% of clients have re-enrolled participants, with 11% projected to re-enroll over the next three years.

Investment default

- In order of importance, consultants report that plan sponsors consider these factors as they evaluate target-date or target-risk strategies: (1) glide path structure, (2) diversification of underlying investments, (3) quality of underlying investments, (4) fees and (5) probability of meeting an income goal. Notably, the probability of meeting an income goal has risen in importance, with half (50%) of consultants indicating it is very important versus only 20% feeling this strongly in 2013. The top five factors in 2013 were: (1) glide path structure, (2) quality of underlying investments, (3) diversification of underlying investments, (4) fees and (5) risk of loss/maximum drawdown.

- The vast majority of consultants (79%) believe that the largest plans ($1bn+) will select custom target-date strategies. In the $500mm–$1bn plan segment, firms expect custom (36%) and hybrid active/passive (28%) to be selected most. Plans in the $200mm–$500mm segment may select packaged (57%), hybrid active/passive (30%) or custom (13%). By contrast, plans with under $200mm may be more likely to select single manager active followed by passive strategies.

- Consultants anticipate to a significant extent the decoupling of target-date strategies from recordkeepers for plans over $1bn ($98%), $500mm–$1bn (94%), and $200mm–$500mm (69%).

- Over four-fifths (82%) of consultants either support client interest or actively promote custom target-date strategies. Over two-thirds of consultants (67%) support or actively promote both multi-manager/white label fixed income and equity strategies. Additionally, the majority (61%) support or actively promote multi-manager/white label real asset strategies and 46% support multi-manager/white label alternative strategies. Of the strategies listed, managed accounts for both accumulation and retirement income garnered the least support, with only 37% of consultants supporting or actively promoting.

- Overall, firms expect growth in custom, white label and managed account structures over the next three years. Consultants estimate, on average, that 6% of their clients have already implemented custom target-date strategies and that an additional 10% will do so in the next three years. Fixed income and equity white label options have seen the most uptake, 6% and 7%, respectively, and are expected to grow the most, 7% and 8%, respectively, of the multi-manager/white label options. Of all the structures, consultants expect managed account accumulation availability to be implemented by the most clients (11%) over the next three years.

- The vast majority of consultants (92%) believe that it would not make sense to offer more than one set of target-date strategies. The remainder of consultants said it may make sense if the target-date sets differ (e.g., active vs. passive, guarantee, conservative vs. aggressive).

Survey Details: 2014

- The vast majority of consultants (94%) believe it is important or very important to add diversifying fixed income strategies to help protect client assets in asset-allocation strategies. Additionally, 84% believe it is important or very important to add inflation-protection securities (e.g., TIPS). Other risk mitigation approaches received tepid support.
- At the median, consultants cite a loss capacity of 10% at retirement age, 18% with 10 years to retirement, 25% with 20 years, 35% with 30 years and 40% with 40 years.
- At the median, consultants select 8% as the maximum volatility at retirement age, 10% with 10 years to retirement, 16% with 20 years, 20% with 30 years, and 25% with 40 years.
- Compared to 2013, consultant support for managed accounts as an opt-out investment default (plus opt-in choice) has declined from 12% to only 9% of firms while support as an opt-in asset-allocation choice only has grown (up from 55% to 72%).
- A large majority of consultants have concerns around both the embedded cost of service (85%) and the value added relative to the current investment default (69%) in a managed account service. Nearly two-thirds of firms (63%) are concerned about the quality of the underlying model/advice, and half (50%) are concerned with the ability to measure participant success. Almost half of consultants (48%) also noted as primary concerns the difficulty to benchmark and the higher participant engagement required.
- Consultants indicated they are most concerned about rising rates, a low return environment and high volatility over the secular horizon (3–5 years), with over 70% indicating they are concerned or very concerned about each of these headwinds. Consultants are also concerned or very concerned about the risk of a sudden market drop (70%) and inflation (52%).
- At the median, consultants expect emerging market equities to outperform (10%) all other asset classes, albeit with significantly higher volatility (26%). U.S. large and small cap equities and non-U.S. developed market equities are expected to be the next best performers, all returning around 8% with 18%–21% volatility at the median. Non-U.S. (4%), high yield (6%) and emerging market bonds (5%) are all expected to outperform U.S. bonds (3%) and TIPS (3%) yet with higher volatility (8%–13%) compared to U.S. bonds and TIPS (5% and 6%) at the median.

Core investments

- If money market strategies require a floating NAV, consultants are likely or highly likely to replace money market with stable value (44%), switch from prime money market to government money market (33%), or make no change – keep money market option (32%). Notably, a large percentage are somewhat or highly likely to replace money market with either short-term fixed income tailored for DC plans (tighter guidelines, lower estimated volatility) (65%) or short-term fixed income (49%).
- Nearly all consultants (91%) view active management as important or very important in global asset-allocation strategies (e.g., target dates). Moreover, the majority of firms agree that it's somewhat or very important to actively manage all asset classes, with the weakest support given to active management of large cap U.S. equities and TIPS.
- Consultants are concerned or very concerned about the following issues related to passive investment management: (1) perception of low cost as a litigation safeguard (53%), (2) belief that passive investing requires less oversight (48%), (3) view that low tracking error means "risk free" (45%), (4) inability to adjust to market conditions and risk pricing (44%) and (5) reliance on index volatility as sole risk management tool (43%).
- As an alternative to market-weighted index construction, consultants are most supportive of fundamental-weighted strategies, with one-third (33%) either supportive or strongly supportive. Consultants support or strongly support equal-weighted approaches (26%) and GDP-weighted approaches (15%).
- When evaluating active managers, consultants believe the following criteria are important or very important: (1) strength of investment process (100%), (2) consistency of excess returns (93%), (3) resource depth (93%), (4) manager tenure (91%) and (5) manager alpha (89%). Consultants are least concerned with brand, with slightly over half (51%) feeling it is not important.

- The vast majority of consultants feel that commodities (93%), TIPS (83%), and REITs (66%) are important or very important in creating a diversified inflation-protection or real asset core option. Over half believe private real estate (59%) and natural resource equities (52%) are important or very important strategies to be included.
- Nearly all firms (93%) define hedge funds and private equity as alternatives. The vast majority of firms also define long/short equity (88%), private real estate (88%), absolute return (84%) and currencies (70%) as alternative strategies. Unconstrained equity (28%) and bond (26%), REITs (23%) and tactical asset allocation (21%) are among the least likely to be defined as alternatives.
- The vast majority of consultants identified the following benefits of alternative strategies as important or very important: volatility reduction (93%), return enhancement (79%), inflation protection (76%) and equity beta diversification (73%).
- Nearly all (98%) consultants support or strongly support the use of alternatives in custom target-date/target-risk strategies. Nearly two-thirds (63%) support or strongly support alternatives in multi-manager/white label core options and over half (51%) as a single manager, multi-strategy core option.
- When evaluating alternative strategies, consultants identified the following characteristics as important or very important: (1) established organization (98%), (2) daily valuation (88%), (3) daily liquidity (86%), (4) three-year+ track record (83%) and (5) ample provider choice (79%). Similar to their evaluation of active managers, consultants do not place much importance on a strong alternative brand, with 71% indicating brand is only somewhat important or not important.
- Over half (53%) of consultants believe the ability to offer alternatives with greater ease may influence DC plans to move from daily valuation to some or a significant extent. Notably, one-third of consultants believe that plans will move away from daily valuation to some or a significant extent in order to send a message that the DC plan is for retirement.

Retirement Income

- The majority of consultants (59%) indicate that some or most of their plan sponsor clients prefer to retain retiree assets. Over a fifth (21%) indicate that some or a majority actively seek to retain these assets. Only two firms (4%) reported that the majority of their clients prefer that retirees move out of their plan.
- Consultants rated the following investment or insurance retirement income strategies or features as important or very important for inclusion in a distribution tier: (1) retirement income modeling/education (84%), (2) one-on-one retirement counseling (69%), (3) diversified fixed income (68%), (4) at-retirement target date (63%) and (5) systematic withdrawal/installment payments (60%). Notably, stable value ranked higher than managed accounts and guaranteed annuities.
  - In 2013, at-retirement target date, conservative fixed income, and diversified fixed income, respectively, ranked as most important.
- Over half of consultants indicate that the following retirement income strategies will have some or significant growth over the next two years: retirement income modeling/education (87%), one-on-one retirement counseling (77%), managed account for income (59%) and deferred income annuities (53%). Forty-three percent of consultants expect some or significant growth in managed payout funds, living benefits (Guaranteed Minimum Income Benefit or Guaranteed Minimum Withdrawal Benefit), income funds and immediate annuities (out-of-plan).
- Over four-fifths of consultants express concern or significant concern over portability (93%), operational complexity (93%), cost (86%) and insufficient government support (84%) for in-plan insurance options. These concerns are virtually the same as those reported in 2009–2013.
- When evaluating capital market retirement income options, consultants view the following as important or very important: (1) understandability (93%), (2) fees (93%), (3) volatility (91%), (4) inflation protection (89%) and (5) risk of loss (86%).

About PIMCO and Our DC Practice

Based in Newport Beach, California, PIMCO is a global investment management firm with over 2,000 dedicated professionals focusing on a single mission: to manage risks and deliver returns for our clients. For four decades, we have managed the retirement and investment assets for a wide range of investors, including corporations, governments, not-for-profits, and other organizations, as well as for individuals around the globe.

As of 31 December, 2013 our:

- Clients include more than two-thirds the Fortune 100
- Investment professionals on staff exceed 700
- Global presence includes offices in 13 locations
- Total assets under management exceed $1.92 trillion
- DC assets under management over $191.4 billion

Our PIMCO DC Practice is dedicated to promoting effective DC plan design and innovative retirement solutions. We are among the largest managers of assets in defined contribution plans, offering investment management for stable value, fixed-income, inflation protection, equity and asset allocation strategies such as target-date solutions. We also provide analytic modeling, plus can help plan sponsors identify DC consultant resources. Our team is pleased to support our clients and the broader retirement community by sharing ideas and developments for DC plans in the hopes of fostering a more secure financial future for workers. If you have any questions about the PIMCO DC Practice, please contact your PIMCO representative or email us at pimcodcpractice@pimco.com

Past performance is not a guarantee or a reliable indicator of future results. This report is provided for information purposes and should not be construed as a solicitation or offer to buy or sell any securities or related financial instruments in any jurisdiction.

All responses and data are as of 31 December 2013, unless otherwise noted.

Absolute return portfolios may not fully participate in strong positive market rallies. Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and the current low interest rate environment increases this risk. Current reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed**. Currency rates** may fluctuate significantly over short periods of time and may reduce the returns of a portfolio**. Equities** may decline in value due to both real and perceived general market, economic and industry conditions. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. Certain U.S. Government securities are backed by the full faith of the government, obligations of U.S. Government agencies and authorities are supported by varying degrees but are generally not backed by the full faith of the U.S. Government; portfolios that invest in such securities are not guaranteed and will fluctuate in value. **Inflation-linked bonds (ILBs)** issued by a government are fixed-income securities whose principal value is periodically adjusted according to the rate of inflation; ILBs decline in value when real interest rates rise. **Treasury Inflation-Protected Securities (TIPS)** are ILBs issued by the U.S. Government. REITs are subject to risk, such as poor performance by the manager, adverse changes to tax laws or failure to qualify for tax-free pass-through of income. **Commodities** contain heightened risk including market, political, regulatory, and natural conditions, and may not be suitable for all investors. **Stable value** wrap contracts are subject to credit and management risk. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. **Diversification** does not ensure against loss.

PIMCO does not offer insurance guaranteed products or products that offer investments containing both securities and insurance features.

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