

Investment

BRIEF

An Overview of First Mercantile Collective Investment Trusts

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The purpose of this overview is to provide plan sponsors and participants with information on the First Mercantile Collective Investment Trusts as investment offerings for a company retirement plan.

What is a collective investment trust?

A collective investment trust is a trust fund sponsored by a bank or trust company (i.e., First Mercantile) that pools the contributions of participants of qualified retirement plans. For some trusts, First Mercantile hires independent money managers to sub-advise these trusts in a manner that reflects the investment objective that First Mercantile has specified for the trust. For others, First Mercantile invests the trust's assets in shares of mutual funds or exchange-traded funds (ETFs) in a manner that reflects the investment objective that First Mercantile has specified for that trust.

A collective investment trust is not a security in which the general public can invest, but instead is limited to participants of qualified retirement plans for which First Mercantile serves in a fiduciary capacity. Each collective investment trust may also hold a percentage of its assets in cash equivalents (i.e., a money market fund or cash) to facilitate transfers for participants who wish to buy or sell on any given business day without facing the delays associated with the settlement of securities transactions, periodic distributions and for the payment of trust-related fees and expenses.

How much cash does a collective investment trust keep to facilitate transfers?

Cash equivalents typically represent 3% or less of the total market value of the collective investment trust.

How is a collective investment trust valued?

Each collective investment trust may hold equity securities, fixed income securities, mutual funds, ETFs or a combination of these, in addition to the cash equivalents. First Mercantile establishes an initial unit value, called a unit of participation, for each trust. The units of participation in a collective investment trust are analogous to shares of a mutual fund. They represent the ownership interest of the investor in the overall trust. As the price of the underlying securities within a given trust fluctuates, so will the unit value of the collective investment trust.

How is the unit value calculated?

The unit value in a collective investment trust is calculated daily based on the market value for all assets held in the trust at the end of the trading day less accrued fees and expenses. The trust's unit value is found by dividing this total value by the total number of units investing in the trust. Unit values are updated each business day to reflect the prior day's activity. A participant's market value is calculated by multiplying the number of units of the collective investment trust in which he/she is invested by the daily unit value for that trust.

How do our collective investment trusts assist in fulfilling a plan sponsor's fiduciary responsibilities?

The collective investment trusts offered on the First Mercantile platform provide participants with a diverse slate of investment options in which to invest their retirement account contributions. The diversification offered helps participants manage portfolio risk by potentially

minimizing the negative impact any one trust may have on the entire portfolio. Most collective investment trusts are considered diversified under the Employee Retirement Income Security Act (ERISA) and provide fiduciary support to plan sponsors because of the professional management and the regulations that apply to trust investments and their managers.

The First Mercantile Advisor Review Committee (ARC) oversees a stringent selection and monitoring process to ensure that each collective investment trust meets its criteria for inclusion on the First Mercantile investment platform. The ARC develops an investment policy statement for each collective investment trust managed by a sub-advisor to serve as a guideline for trust transactions and to monitor performance on an ongoing basis. The performance for each collective investment trust is evaluated against an appropriate benchmark and peer universe on an ongoing basis to determine when and if replacement is necessary.

What trust information does a plan sponsor receive?

Plan sponsors can easily access monthly investment returns, fund profile sheets, and fund unit values through the plan sponsor web site. First Mercantile also informs plan sponsors when a collective investment trust is placed on the ARC Watch List, when a trust reaches search status, and when a trust is to be replaced. Quarterly investment summary reports for each plan are also available from the plan's investment consultant.

What trust information does a participant receive?

Each participant will receive a trust profile sheet for each collective investment trust in the initial enrollment packet. Monthly investment returns and daily trust unit values are found on the participant website.

Investment returns differ from any returns published by the news media because the collective investment trust is a separately managed trust just for First Mercantile clients, which includes a level of cash equivalents. Also, since a collective investment trust is not a registered security, it is not available as an investment vehicle for the general public, and therefore its returns are not published.

What about a prospectus?

First Mercantile does not prepare a prospectus for any collective investment trust. First Mercantile is exempt from providing participants with a prospectus for each collective investment trust as stated in Section 3(a)(12) of the Securities Act of 1933 (Securities Act). This Section exempts from registration any interest or participation in collective investment trusts maintained by a bank or trust company in connection with a qualified retirement plan. Therefore, since interests in a collective investment trust are not subject to the Securities Act, participants and beneficiaries (and any other investors) are not provided a prospectus.

What about fees?

Each trust profile sheet discloses the Annual Investment Expense for that particular collective investment trust. Each plan sponsor receives a Plan Application that shows all plan-related fees, including investment fees for each investment option. It is the plan sponsor's responsibility to disclose all plan fees to any participant upon request.

If you have questions about investment fees, please contact your investment consultant.