GREAT GRAY
TRUST COMPANY

Collective Investment Trust (CIT) Overview

An Efficient Alternative to Mutual Funds That May Be a Smarter Choice For Retirement Plans

As the retirement plan industry has evolved, so has the structure of investment vehicles used in 401(k) plans. CITs have been available for decades (first launched in 1927) and were offered in very early 401(k) plans.

What are Collective Investment Trusts (CITs)?

CITs are tax-exempt, pooled investment vehicles sponsored and maintained by a trustee that is a bank or trust company. CITs combine assets from eligible investors into a single investment portfolio (or fund) to pursue a set of stated investment objectives and strategies.

A CIT trustee, such as Great Gray, plays a crucial role in helping to ensure that only tax-qualified retirement plans are invested in CITs; the trustee is the ultimate "fiduciary" responsible for the investment management and compliance oversight of each CIT Fund. The trustee oversees the investments made within each fund and holds primary fiduciary responsibilities. Subject to its ultimate oversight, a trustee may engage a third-party investment manager to invest the assets according to a particular agreed-upon strategy. CITs are used by plan advisors and administrators overseeing tax-qualified, defined contribution plans like 401(k)s.

History of CITs

As the retirement plan industry has evolved, so has the structure of investment vehicles used in 401(k) plans. CITs have been available for decades (first launched in 1927) and were offered in very early 401(k) plans. As of 2023, 84% of defined contribution plans have at least one CIT in them, up from only 48% in 2013. The CIT market growth is outperforming overall defined contribution and defined benefits market growth.[1]

[1] Source: Cerulli Associates, The Cerulli Report—Callan Institute's 2023 Defined Contribution Survey of plan sponsors.

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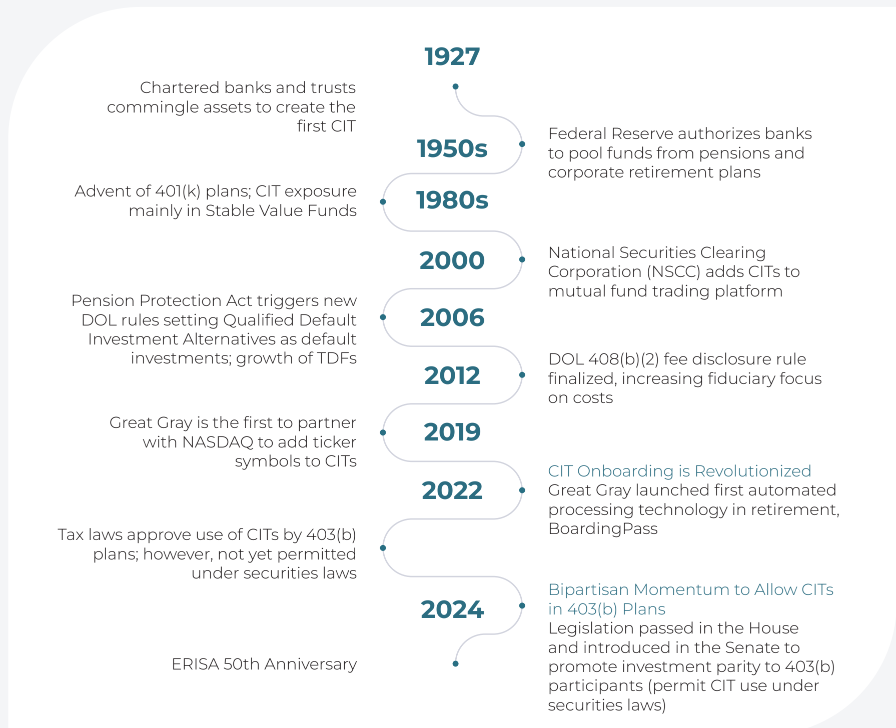

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Why Consider a CIT?

› Beneficial Expense Structure

CITs may typically be less expensive than their mutual fund equivalents due to the ability of plans to negotiate lower management fees and the ability of CITs to operate more efficiently for a variety of reasons. Whether a CIT or a mutual fund, both have an expense ratio (also called a management fee), which is the cost associated with managing the investment portfolio. The expense ratio is always disclosed and should always be part of the consideration to invest in one fund versus another. While not always the case, CITs typically have lower management fees when compared to a similar mutual fund because they are not subject to the cost associated with regulatory requirements imposed on mutual funds by the SEC. CIT fees also tend to be lower because they are negotiable, while mutual funds' fees aren't subject to negotiation.

› Tax Advantage

CITs are tax-exempt. As a result, the trustee generally is able to make investment decisions without tax considerations. Unlike mutual funds, CITs enjoy more favorable tax treatment, offering efficiency in investment growth. Because CITs are restricted to retirement investors, they do not have to abide with taxable income and gains distribution requirements applicable to mutual funds, which free CITs from restrictions that limit how mutual funds have to manage their portfolio of investments.

› Fiduciary Support

CIT trustees are fiduciaries responsible for managing the assets of the CIT. To assist in that function, a trustee may engage one or more investment advisors. The CIT trustee also accepts a delegation of investment management responsibility from the sponsor of a participating plan. By appointing the CIT trustee as an ERISA 3(38) fiduciary, the plan sponsor is relieved from fiduciary responsibility for the day-to-day investment management decisions made on behalf of the CIT, and remains responsible only for prudently overseeing and monitoring the CIT and its trustee. These regulations help to ensure that the fiduciaries comply with their duty of prudence, loyalty, and to avoid prohibited transactions.

	COLLECTIVE INVESTMENT TRUST	MUTUAL FUND
Principally Regulated By	OCC or state bank/trust regulator, DOL, IRS	SEC
Fees	Greater flexibility and generally lower fees relative to comparable mutual funds	Generally higher expense ratios with limited availability to customize fees (can only vary distribution and shareholder servicing fees among share classes)
Offering and Disclosure Documents	Declaration of Trust and Participation Agreement; fact sheets and other disclosures	SEC Registration Statement, which includes a Prospectus, Summary Prospectus. Statement of Additional Information
Trustee or Board of Directors	Trustee; ERISA Fiduciary for investment decisions	Board of Directors; Responsible for overseeing fund services in compliance with federal securities laws
Availability	Limited to tax-qualified corporate retirement plans and certain state and local government plans; they are not available to IRAs and cannot be sold directly to individual investors	General public

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Distinctions in Governance Provide Additional Safeguards for CIT Investors

› Greater Flexibility

CITs offer a level of flexibility not available to mutual funds, particularly in managing redemptions during periods of market stress. While mutual funds are generally prohibited from suspending redemption rights or delaying payments beyond seven days, CIT trustees, as fiduciaries, can temporarily delay or suspend redemptions when necessary to protect remaining investors from adverse impacts caused by large or sudden withdrawals. This authority, though rarely used, ensures fair treatment among all participating accounts and provides a valuable safeguard during volatile market conditions.

› Enhanced Investor Protections

CITs also benefit from a stronger enforcement framework compared to mutual funds. Mutual fund oversight is primarily handled by the SEC, with limited private litigation avenues focused on specific issues like adviser compensation. By contrast, CITs are governed under the Employee Retirement Income Security Act (ERISA), with fiduciary standards and prohibited transaction rules enforced by the U.S. Department of Labor. Furthermore, plan fiduciaries investing in CITs can directly enforce these rules, offering an additional layer of protection for CIT investors that mutual fund investors do not have.

The Great Gray Distinction:

At Great Gray we believe in – and are driven by – growth. In continually expanding and transforming retirement solutions with a mindset that reaches far beyond the status quo, starting with CITs. Bringing new efficiencies, new possibilities and new objectives to our clients. And to their clients.

Always listening, learning, innovating on top of a long-standing reputation for fiduciary strength and expertise. Creating what's next – for CITs and beyond – from a critical foundation of discipline and trust.

Empowering our industry, clients, and ourselves to grow confidently.

Great Gray Trust Company is poised to help you select the CIT fund to complement your fund's investment lineup. Contact our team today.

Great Gray Trust Company, LLC Collective Investment Funds ("Great Gray Funds") are bank collective investment funds; they are not mutual funds. Great Gray Trust Company, LLC serves as the Trustee of the Great Gray Funds and maintains ultimate fiduciary authority over the management of, and investments made in, the Great Gray Funds. Great Gray Funds and their units are exempt from registration under the Investment Company Act of 1940 and the Securities Act of 1933, respectively.

Investments in the Great Gray Funds are not bank deposits or obligations of and are not insured or guaranteed by Great Gray Trust Company, LLC, any bank, the FDIC, the Federal Reserve, or any other governmental agency. The Great Gray Funds are commingled investment vehicles, and as such, the values of the underlying investments will rise and fall according to market activity; it is possible to lose money by investing in the Great Gray Funds.

Participation in Collective Investment Trust Funds is limited primarily to qualified retirement plans and certain state or local government plans and is not available to IRAs, health and welfare plans and, in certain cases, Keogh (H.R. 10) plans. Collective Investment Trust Funds may be suitable investments for plan fiduciaries seeking to construct a well-diversified retirement savings program. Investors should consider the investment objectives, risks, charges, and expenses of any pooled investment fund carefully before investing. The Additional Fund Information and Principal Risk Definitions (PRD) contains this and other information about a Collective Investment Trust Fund and is available at www.greatgray.com/principalriskdefinitions or ask for a free copy by contacting Great Gray Trust Company, LLC at (866) 427-6885.

Great Gray and Great Gray Trust Company are service marks used in connection with various fiduciary and non-fiduciary services offered by Great Gray Trust Company, LLC.

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