Collective Investment Trusts

What you need to know.

KEY INSIGHTS

- Collective investment trusts (CITs) have rapidly gained popularity as investment options in retirement plans since the enactment of the Pension Protection Act of 2006.
- CITs are similar to mutual funds in investment strategy, but there are key differences.
- These differences typically lead to lower fees for participants.

What are collective investment trusts?

Collective investment trusts (CITs)—also known as collective trusts, trusts, commingled funds, or common trust funds—are institutional investment vehicles and are, therefore, only accessible to certain types of investors, including participants in employer-sponsored retirement plans.

CITs are investment vehicles that are managed by banks or trust companies which "pool" retirement plan assets into a single portfolio that is invested with a specified investment philosophy and strategy—very similar to a mutual fund. Also similar to mutual funds, CITs may invest in a wide range of active or passive investment vehicles, including equities, fixed income, alternative investments (real estate, commodities, hedge funds, and private equity), ETFs (exchange-traded funds), and/or additional underlying mutual funds.

How trusts differ from mutual funds

CITs are similar to mutual funds in that they are composed of pooled assets invested with a specified philosophy and strategy. However, CITs and mutual funds differ in a few key ways.

- **Different regulators.** Unlike mutual funds, CITs are not subject to Securities and Exchange Commission (SEC) registration or the Investment Company Act of 1940 (often referred to as the 1940 Act).
- **For retirement plans only.** To qualify for SEC and 1940 Act exemptions, CITs must be maintained by a bank or trust company and investors must be limited to certain types of retirement plans. Consequently, CITs are not available to individual investors and are not advertised to the public.
- **No SEC-required reporting.** Mutual funds are required by the SEC to issue prospectuses. Since CITs are not governed by the SEC, they do not issue prospectuses—but they do issue a similar document called a Declaration of Trust. This is the legal document under which a trust is formed, and it contains information about the provisions governing operations, the investment strategy, and other important information for investors.

- **Reduced cash flow volatility.** CITs generally keep lower cash balances than mutual funds because participants in defined contribution retirement plans usually invest with longer investment horizons than retail clients and inflows typically are more predictable due to periodic contributions. These factors can help reduce cash flow volatility, allowing the portfolio to be managed more efficiently while staying more fully invested versus a mutual fund.
- **Same strategy, different performance.** While the T. Rowe Price CITs use the same investment strategies as their mutual fund counterparts, performance may differ from differences such as cash flows, the ability to obtain capacity-constrained securities, and/or the inability of the trusts to purchase certain types of offerings due to Employee Retirement Income Security Act regulation, also known as ERISA.
- **Lower costs.** The institutional-only availability and exemption from SEC reporting can result in lower compliance, administrative, advertising, and marketing costs than a mutual fund with a similar investment strategy. In employer-sponsored retirement plans, these cost savings can be passed directly to you, the plan participant, via reduced fees.

FINAL THOUGHTS

CITs are similar to mutual funds in philosophy and investment strategy. CITs are available to employer-sponsored retirement plans only, varying in regulation, performance, and cost to the participant.

Read investment materials carefully before investing.

T. Rowe Price®

Important Information

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All investments involve risk, including possible loss of principal.

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