

The case for CITs: Unlocking AUM growth for mid-sized asset managers





Summary

As the defined contribution (DC) marketplace continues to mature, collective investment trusts (CITs) continue to be the investment vehicle of choice for plan sponsors, advisors, and consultants who are seeking lower costs, operational efficiency, and institutional pricing.

Originally utilized by large plans and large asset managers, the CIT market has certainly shifted to a broader spectrum of buy-side asset managers — particularly those managing between \$1-100 billion in size. However, this group remains underrepresented in the CIT space, creating a substantial untapped opportunity. This paper explores why expanding into CITs is not only a strategic imperative, but also a significant opportunity for asset managers aiming to deepen their presence in the Employee Retirement Income Security Act (ERISA) plan market and position themselves for scalable, long-term growth.

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The evolving landscape of the ERISA plan sponsor market

Over the past two decades, the ERISA plan sponsor landscape has undergone a significant transformation in the way plans utilize recordkeepers, custody, and investment solutions to improve cost-effective outcomes for participants.

As these plans have ballooned in size and sophistication, their investment priorities have shifted. Large and mid-sized sponsors are now emphasizing complete fee transparency, à la carte approaches to service providers, and institutional pricing structures.

This shift has fueled a move away from traditional mutual funds toward investment vehicles that offer greater cost efficiency and operational flexibility. CITs have become the go-to choice. In fact, CITs have surpassed the use of mutual funds in 401(k) plans¹ and their growth trajectory remains steep.

CITs have surpassed the use of mutual funds in 401(k) plans.

The appeal for CITs lies not only in lower-cost expense ratios, but also in their flexibility to accommodate custom pricing and streamlined reporting across plan types and platforms. Investment consultants and plan advisors are increasingly prioritizing CITs in their search processes, citing:



Lower
total plan
costs



Better alignment
with fiduciary
responsibilities



Enhanced
operational
efficiency

Importantly, these gatekeepers and advisors are looking for best-in-class managers with minimal restrictions on investor type, structure, or fee model.

For asset managers competing for mandates in this environment, offering investment products in a CIT wrapper is no longer optional. In consultant-driven request for proposal (RFP) processes, CITs are often a default expectation. Managers who do not offer their core or flagship strategies in a CIT format may be excluded from consideration entirely, regardless of investment performance or brand strength.





What are CITs and why do they matter?

CITs are pooled investment vehicles that closely resemble mutual funds in function but differ significantly in structure, regulation, and intended audience. CITs are maintained by banks and trust companies and are governed by banking regulations put forth by the Office of the Comptroller of the Currency (OCC). Whether a trust company is nationally chartered or state chartered will dictate oversight directly from the OCC and/or from banking regulators from the state where it is domiciled.

CITs are available only to qualified retirement plans under ERISA, select governmental plans, and Taft-Hartley plans. While they operate under a different regulatory framework than mutual funds (not subject to the Investment Company Act of 1940 or the Securities Act of 1933), CITs still adhere to their own compliance governance to ensure they follow well-designed policies and procedures. This different regulatory structure typically results in leaner operations, lower costs, and more adaptability to client and channel-specific needs.

This streamlined regulatory structure creates tangible advantages for plan sponsors:

- Lower overall costs
- Simplified disclosures
- Annual audits
- Ability to implement customized pricing arrangements

However, despite these advantages, some asset managers remain hesitant to embrace CITs. Concerns typically stem from internal gaps in product knowledge, perceived barriers to entry, or uncertainty about operational support. But in practice, CITs can serve as a highly efficient and complementary vehicle within a broader product ecosystem. This is especially true for asset managers that are already distributing to institutional clients, offering Defined Contribution Investment-Only (DCIO) plans, or managing separate accounts.

The key is recognizing CITs not as a replacement for mutual funds or traditional separate accounts, but as an extension that bridges the pricing gap by unlocking broader distribution opportunities in the ERISA space.

Strategic benefits of offering CITs



Access to larger mandates and scaled distribution

The defined contribution market is increasingly characterized by scale. Large plan sponsors — especially those with more than \$500 million in assets — often will not consider a mutual fund-only strategy. They do tend to get comfortable with managers and require the lowest-cost delivery vehicle. Consultants and plan advisors managing search processes for these clients typically assume that any serious contender will have a CIT version available.

Inclusion in CIT-based fund lineups and white-labeled investment solutions can unlock opportunities to participate in:

- Multi-billion-dollar recordkeeper platforms
- Sleeved opportunities where allocators desire specific market exposure
- Managed account programs and model portfolios
- Outsourced CIO solutions

Without a CIT structure, managers may simply be less visible in these channels. Conversely, adding CITs to a distribution strategy signals institutional readiness, product flexibility, and adaptability to opportunities. These are traits that consultants, advisors, and gatekeepers prize.



Fee flexibility and pricing control

CITs enable investment managers to design customized, scalable fee structures. They offer far more precision than mutual funds allow. With CITs, managers can tier pricing by asset level, platform, or plan type, creating incentives for large plan adoption and ensuring competitive positioning across diverse clients. And unlike mutual funds, the investment management component of the CIT expense ratio can vary across those share classes.

The ability to launch multiple unit classes also allows managers to meet a wide range of fee expectations without requiring additional regulatory approvals. In a market where fee compression continues to reshape the competitive landscape, this flexibility is increasingly indispensable.



Operational and compliance efficiency

CITs typically have lower operational costs and fewer regulatory burdens than mutual funds. They do have marketing and advertising constraints imposed by the OCC. However, they do not require the same level of Securities and Exchange Commission (SEC) filings or daily public reporting. While they still require robust governance and oversight, especially under ERISA fiduciary principles, much of the administrative lift is handled by the discretionary trust company.

For asset managers, this translates into:

- Relying on a comprehensive Declaration of Trust
- Streamlined operational efficiency by consolidating portfolio management duties
- Access to timely required documents and quarterly fact sheets
- Fewer compliance bottlenecks
- More time to focus on investment management and distribution strategy

Additionally, many trust companies have turnkey solutions, including National Securities Clearing Corporation (NSCC) trading, transfer agency, fund administration, onboarding support, and customized reporting. These components significantly reduce the need for in-house infrastructure.



Distribution control and strategic differentiation

CITs provide asset managers with greater control over their go-to-market strategy. Because CITs are not available to retail investors, managers can avoid many channel conflicts with existing mutual funds and tailor messaging specifically to institutional buyers. This segmentation can help protect existing share classes and manage pricing transparency across different audiences.

Furthermore, CITs can support specialized distribution initiatives, such as partnerships with aggregators, investment consultants, or outsourced fiduciary platforms. In some cases, managers use CITs as the foundation for a white-labeled fund strategy or custom target-date series, expanding influence across plan architecture.

Why managers delay adoption, and the resulting risks

Despite the compelling advantages, many asset managers have been slow to adopt CITs, especially those with limited DC penetration. Common reasons for hesitation include:

- Lack of internal expertise or resources
- Fear of cannibalizing mutual fund or separately managed account (SMA) assets
- Limited awareness of trust company solutions
- Concerns over initial costs or time to market

While understandable, these concerns are increasingly outweighed by the strategic risks of inaction. Without a CIT, a manager's flagship strategies may be excluded from institutional RFPs, target-date fund sub-advisory opportunities, or advisor-directed plan menus. As plan sponsors and intermediaries streamline their fund menus to emphasize low-cost institutional offerings, the absence of a CIT can be a deal-breaker.

Moreover, the cannibalization concern is often overstated. In reality, CITs tend to attract net new flows from clients who would never have chosen a mutual fund in the first place. Larger plans, consultant-driven clients, and fiduciary platforms increasingly avoid retail share classes altogether, but some legacy DC plans will desire to migrate to a lower cost option. Offering a CIT does not replace mutual fund flows. It diversifies the potential asset base and protects against future leakage. Also, think of a CIT as a client retention tool for which plan sponsors and their consultants/advisors acknowledge the asset manager as a solutions-oriented firm for multiple client types.

Many trust companies also offer CIT platforms integrated with major recordkeepers, enabling rapid access to widely used plan portals. This drastically shortens the time to first funding and makes it easier to scale distribution.

How to enter the CIT market

The barriers to launching a CIT are lower than ever. Asset managers no longer need to build their own trust company or internal operations from scratch. A growing number of experienced third-party trust companies offer white-label CIT platforms that provide a full suite of services, from plan onboarding to regulatory filings to platform access.

Key considerations for entering the CIT market

1

Working with the right trust company



PRO TIP

Partner with a trust company not only on the basis of cost, but on their expertise in your asset class, experience with similar managers, operational capabilities, and distribution network.

2

Aligning product strategy



PRO TIP

Focus on flagship or high-demand strategies that are already gaining traction with institutional investors.

3

Planning for consultant engagement



PRO TIP

Build a distribution plan that includes early outreach to consultants and gatekeepers providing education on fiduciary best practices and the value proposition.

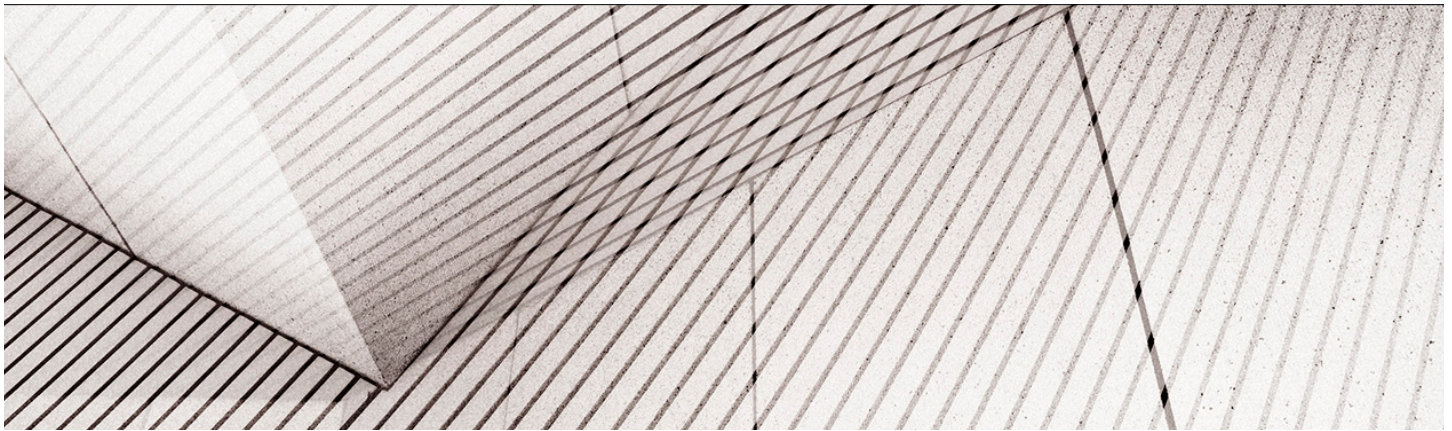
4

Ensuring pricing discipline



PRO TIP

Design tiered and transparent fee schedules that can compete with the largest incumbents.



Embrace the future of DCIO distribution

The defined contribution marketplace is evolving toward institutional simplicity. Plan sponsors, consultants, and advisors are aligned in their preferences for investment vehicles that deliver value, transparency, and operational efficiency. CITs have emerged as the vehicle of choice in this new paradigm.

Now is the time for action. Managers who move decisively to launch and promote CITs will benefit from enhanced visibility, broader distribution, and deeper engagement with the ERISA ecosystem. Those who delay risk falling behind as the market continues to consolidate around the most cost-effective and accessible investment structures.

By embracing CITs, asset managers not only future-proof their ERISA business, but also unlock a delivery solution for sustainable AUM growth, stronger plan sponsor relationships, and greater influence in one of the most important investment markets of the next decade.

For asset managers that aim to grow their retirement business, CITs are more than a tactical checkbox. They are a strategic gateway to the largest pools of institutional DC assets.

Offering CITs enables managers to:



Compete at scale in the institutional marketplace



Secure consultant and recordkeeper approvals



Position themselves as serious contenders in an increasingly fee-sensitive environment



Demonstrate commitment to fiduciary-driven solutions

Stand out from the competition and offer more

Set your firm apart, streamline your operations, and expand the availability of your funds. Matrix Trust Company, a Broadridge company, brings flexibility, insight, and know-how to every step as we help you develop, design, implement, and optimize CITs within retirement plans.

With custody, transfer agency, and fund accounting offerings, our team is here to help you better serve your clients and grow your retirement business. With our support, you can offer customized solutions that better align with retirement plan objectives and participant needs.

Contact us to learn more: **+1 855 252 3822** | **Sales@Broadridge.com**

Footnotes

¹ [Institutional Shareholder Services \(ISS\) Market Intelligence](#)

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