GRIMES AND COMPANY

grimesco.com

02.23.26 I FINANCIAL PLANNING

Retirement Plan Newsletter | Q1 2026: Constructing a Diversified Investment Lineup for a 401(k) Plan

Michael R. Maguire, CFP®, ChFC®, RICP® – Financial Advisor

A 401(k) investment lineup is more than a menu of funds— it is a core fiduciary responsibility and a primary driver of participant outcomes. A well-diversified lineup helps participants build appropriate portfolios, supports Qualified Default Investment Alternatives (QDIAs), and demonstrates prudent process under ERISA. Thoughtful construction, ongoing oversight, and clear intent are essential.

ERISA does not require plan sponsors to select the “best” investments in hindsight, but it does require a prudent process. Diversification is central to that process. A properly diversified lineup seeks to:

- Reduce concentration risk
- Offer exposure across major asset classes and risk profiles
- Enable participants to construct portfolios aligned with their time horizon and risk tolerance

The goal is not to offer every possible investment option, but to provide a coherent, well-structured set of choices.

Most well-designed 401(k) lineups are built around a set of core asset classes that collectively span global markets and risk levels.

Equity Investments
Equity options typically include exposure to:

- U.S. large-cap stocks
- U.S. mid- and small-cap stocks
- International developed and emerging markets

Fixed Income Investments

Fixed income options help manage volatility and provide income, particularly for participants nearing retirement. Common categories include:

- Core bond funds
- Inflation-protected securities

Capital Preservation Options
A capital preservation option, such as a stable value or money market fund, is typically included to meet participant liquidity and risk-aversion needs. These options are also often used for distributions and as a temporary holding vehicle.

For many plans, the QDIA is a target-date fund series and serves as the foundation of diversification for the majority of participants. When evaluating the lineup, sponsors should ensure that:

- The underlying investments in the QDIA align with the broader plan menu
- The glide path and risk exposure are consistent with participant demographics

Additionally, a diversified lineup should include active, passive, or blended investment options. From a fiduciary perspective, the focus should be on:

- Clearly defining the role of each option
- Avoiding unnecessary duplication
- Evaluating fees relative to strategy and expectations

Whether active or passive, each investment should have a clear purpose within the lineup and a measurable evaluation framework.

Constructing a diversified lineup is not a one-time event. Sponsors should establish a governance framework that includes:

- An investment policy statement (IPS) defining asset classes, benchmarks, and evaluation criteria
- Regular performance and fee reviews
- Documentation of decisions, changes, and rationale
- Periodic reassessment based on participant behavior and plan demographics

For plan sponsors, constructing a well-diversified 401(k) investment lineup requires balancing choice, simplicity, cost, and fiduciary responsibility. By focusing on core asset classes and maintaining strong governance, sponsors can create a lineup that meets regulatory expectations and helps participants pursue long-term retirement success. A disciplined, documented approach to diversification remains one of the strongest demonstrations of fiduciary best practice in a 401(k) plan.

Grimes & Company has a dedicated team that specializes in providing investment advisory services to retirement plan fiduciaries and their employees. We assist clients with investment selection and monitoring, fee benchmarking, plan design and employee education, so please reach out with any questions as to how we can help you achieve your goals.

IMPORTANT DISCLOSURES:

Past performance is no guarantee of future results. Different types of investments involve varying degrees of risk. Therefore, there can be no assurance that the future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Grimes & Company Wealth Management, LLC (d/b/a Grimes & Company) ["Grimes"]), or any consulting services, will be profitable, equal any historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Neither Grimes' investment adviser registration status, nor any amount of prior experience or success, should be construed that a certain level of results or satisfaction will be achieved if Grimes is engaged, or continues to be engaged, to provide investment advisory services. Grimes is neither a law firm, nor a certified public accounting firm, and no portion of its services should be construed as legal or accounting advice. Moreover, you should not assume that any discussion or information contained in this document serves as the receipt of, or as a substitute for, personalized investment advice from Grimes. A copy of our current written disclosure Brochure discussing our advisory services and fees is available upon request or at www.grimesco.com/form-crs-adv/. The scope of the services to be provided depends upon the needs and requests of the client and the terms of the engagement.