Allocators Panel:
What Do Investors Want?

We see some clear trends concerning the needs of institutional investors*.*

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"Breaking into the DC space is tough, but you can be a building block for a customized target-date structure. That business is growing."

In the defined benefit (DB) space, there is continued divergence between public and corporate plans.

Corporate DB plans are focused on de-risking, though there is some talk about re-risking given equity and bond trends; it's tough to make 8-8.5% otherwise. These plans are also generating demand for outsourced CIO services. Their asset allocation has made a big move toward passive strategies and toward globalization at the expense of long-only U.S. equity products. Fixed-income allocations vary widely, as plan sponsors target different places on the LDI path.

Much activity continues around public DB plans, which remain going concerns even though many are horrifically underfunded. Under continued pressure to lower expected returns, most are now targeting 7-7.5%. Public plans are also under pressure concerning the cost-benefit of their hedge fund investments. CalPERS's unwinding of its hedge fund allocation is significant; not even CalPERS could maintain the staff needed to manage hedge fund investments at that scale. There has been little demand or growth for hedge fund-of-funds from the public side over the last two years. Most new allocations have focused on direct investments.

Defined contribution (DC) plans remain a huge area of activity.

Target-date funds are getting most of the flows. Of clients in this area, 80% are focused on fees. The remainder are interested in building best-in-class platforms centered around customized target-date funds; that's where the action and the opportunity is from the standpoint of investment-only mandates. The recordkeepers still have the advantage with small and mid-sized plans, and continue to maintain the lion's share of the investment mandates in those markets. In the mega-plan market the balance continues to shift towards open architecture. The Department of Labor has mandated fee reviews for DC plans, increasing the pressure for passive options. Regulatory changes are driving projects within the DC space.

Endowments and foundations are keeping up with their peers.

While they were early to embrace alternatives, they have backed away because of liquidity and staffing issues. They rarely seek strategic advice, but many are looking at outsourced CIO options.

Institutions are showing continued interested in real assets.

This is an area of significant activity within fixed-income allocations and target date funds.

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