Allocators Panel:

What Do Investors Want?

SEI New ways. New answers.®

John Gillespie, CFA
Senior Investment Consultant,
Aon Hewitt

"Auto-enrolling into target date funds has helped many participants, who are not interested in portfolio management, invest in portfolios that de-risk over time."

The DC plan space is growing and will remain an important area of activity. Managers need to know that:

Target-date funds are here to stay. According to Aon Hewitt's 2015 Hot Topics in Retirement survey, 89% of plans have target-date funds. Their popularity is tracking their adoption as the auto-enrollment default. The Aon Hewitt 401(k) Index reveals they were the default for 50% of plans in 2007, and 85% in 2013. Of plans with target-date funds, 54% use funds managed by a recordkeeper. Only one in five use separate managers and recordkeepers.

The top 10 DC managers control 70% of total DC assets, according to a 2015 survey by Pensions & Investments. Many have good products. They also have recordkeeping operations; most offer clients a discount on administrative fees if they use the manager's proprietary products. The top 10 recordkeepers control close to 75% of total DC assets. These are obstacles for those who want to break into the business.

The typical DC plan hasn't changed much. Some non-traditional asset classes have been added, but aren't that popular. According to Aon Hewitt's 2013 Trends & Experience in Defined Contribution Plans report, categories representing more than 10% of participant assets include U.S. large-cap equity, target date/risk, stable value, and employer stock.

The most important criteria for selecting new funds are investment fees/expenses, historical performance, and investment process. Brand recognition was not a popular criteria when selecting funds.

Other key trends include:

Consolidation of fund lineups, with the aim of lowering fees and reducing complexity. For example, some plan sponsors are consolidating growth and value funds into one core option, or merging multiple funds into a fund of funds. This means fewer opportunities and lower fees, but the mandates available are larger.

White labeling to help clarify what participants are getting. For example, a plan might relabel a PIMCO Total Return as “Bond Fund” or consolidate it into a fund of funds. This opens the door to niche and alternative strategies while lessening the importance of brand.

Several challenges remain. DCIO managers that don’t have recordkeeping continue to be disadvantaged. Target-date funds will receive and retain most new flows, and fee compression will continue through indexing and/or demands for lower fees for large mandates. We do, however, think active management is still alive.

Some growing opportunities as plan consolidation increases the size of individual mandates. The growth of funds of funds will be beneficial for firms with quality niche products.

The data and research referenced in this summary are credited to the speakers involved, and do not necessarily reflect the views of SEI.