Honorable Mention

By Editorial Staff *Thu, Aug 3, 2017*

Brief or late-breaking items from AllianceBernstein, BrightScope, ARIA Retirement Solutions, Cerulli Associates, Betterment, and MetLife.

Plan sponsors look past their recordkeepers for TDFs, new study shows

Plan sponsors are increasingly decoupling from their own recordkeepers' proprietary target-date funds and choosing funds from other providers, according to a new study of the TDF landscape by AllianceBernstein L.P. and BrightScope.

Sponsors are drawn by the "enhanced diversification, lower fees, multiple managers" and other benefits that TDF providers from outside the recordkeeping bundle are able to offer them. Those benefits include access to low-cost collective investment trusts (CITs) or passive offerings.

Between 2009 and 2014 (the most recent year for which data is available), recordkeepers' proprietary TDFs share of the plan sponsor market has declined to 43% from 59% while the share of non-proprietary target-date funds on platforms has leapt to 41% from 25%.

This reverses the trend that began in 2006, when the passage of the Pension Protection Act gave birth to TDFs as "qualified default investment alternatives." Recordkeepers who offered prepackaged, proprietary TDFs with prices already bundled with the plans' administrative costs" had first-to-market advantage.

Today, about 78 firms offer more than 139 different TDF series, but the market is highly concentrated. At the end of 2016, according to Morningstar's 2017 Target Date Fund Landscape report, Vanguard had TDF assets of about $280 billion, Fidelity followed with $193 billion and T. Rowe Price was third with $148 billion. American Funds was a distant fourth, with $53.6 billion.

Between 2009 and 2014, the number of plans using TDFs grew by 16% and assets grew by 229%, with most of the growth in plans of more than $500 billion in assets.

The use of collective investment trusts (CITs) has gained in defined contribution plans, with some recordkeepers introducing CITs or other passively-managed target-date funds to reduce fees. Since 2009, the use of CITs in TDFs has risen to 55% from 29%.

Other key findings include:

- In plans with over $1 billion in assets, the penetration of proprietary target-date funds was 31.7% in 2014, down from 38.4% in 2009 and from 34.4% in 2013. More than 60% of smaller plans (under $100 million in assets) still used proprietary target-date funds from their recordkeeper in

2014.

- Three plan providers—Nationwide, Empower and Hancock—have increased the use of their proprietary TDFs.
- From 2009 to 2014, the use of low-cost target-date collective investment trusts (CITs) nearly doubled as a percentage of TDF assets, to 55% from 29%. Usage of TDF mutual funds fell to 42% from 68% over the same period.
- Some recordkeepers, such as Vanguard, T. Rowe Price and Wells Fargo, for example, have broadened distribution by placing their TDFs on other recordkeepers' platforms. Those firms' TDF series lost market share on their own recordkeeping platforms between 2009 and 2014, but grew their share of the overall TDF market.

The survey taps BrightScope data that spans more than 6,000 401(k) plans, representing more than $2 trillion in assets and 25 million participants as of 2014. A copy of the report is available at http://bit.ly/2tQQ3wu.

Tom Streiff joins Aria Retirement Solutions

Aria Retirement Solutions, provider of the RetireOne platform, today announced the appointment of Thomas F. Streiff as an independent director of the firm. Most recently he was a Senior Managing Director and head of Retirement Income Products and Distribution for TIAA-CREF & Nuveen.

Prior to joining TIAA, Streiff spent 6 years as an Executive Vice President and head of Retirement Solutions for PIMCO. Prior to PIMCO he was a Managing Director at UBS where he spent time as Head of Insurance Sector Relationships in the Investment Bank and Head of Investment Solutions at UBS Wealth Management.

Streiff is a member of the Advisory Board of Vestigo Ventures (Fintech) and an immediate past member of the Board of Directors of the Insured Retirement Institute (IRI). The author of over 100 articles for the financial trade press and co-author of three books, he is a Certified Financial Planner, Chartered Life Underwriter, and Chartered Financial Consultant. He holds a bachelor's of science in Nuclear & Mechanical Engineering from University of Utah and a master's in business administration from Pepperdine University.

Place Millennials in decisive marketing roles: Cerulli

If you weren't an early-adopter of strategies for selling to Millennials, there's still time to be a fast-follower. But you'll have to hurry. And if you think strategies that worked with Boomers will work with Millennials, you're kidding yourself, according to the latest The Cerulli Edge–Global Edition.

"The values, priorities, and expectations of Millennials, currently aged 20 to 35, differ from those of their Baby Boomer parents, currently aged 51 to 69," according to a release this week from the Boston-based global consulting firm. "Managers that have not started factoring in these differences risk disappearing from the radar of the Millennial cohort, which will be worth an estimated US$19-24 trillion (€22-27 trillion) by 2020."

Three-quarters of Millennials conduct at least 20% of their engagement with their wealth managers through digital mediums, compared to 54% for Baby Boomers, according to Cerulli's research. In five years, the proportions are projected to have risen to 95% and 73% respectively.

Asset managers firms should start appointing Millennials to decision-making posts and should start making greater use of data mining and artificial intelligence to learn how Millennials think, the Cerulli release said.

Betterment triples AUM in about 18 months, to $10 billion

Betterment announced this week that its assets under management have passed $10 billion, up from only about $3 billion at the start of 2016. It claims to be the first independent online financial advisor to reach that mark. The company said it manages investments for more than 270,000 customers, up from about 150,000 customers only 18 months ago.

Betterment charges 25 basis points to 40 basis points on its AUM, depending on the level of service, so its gross revenue on $10 billion would be $25 million to $40 million. Visitors to the site are currently offered a waiver of first-year fees.

The firm, headquartered near Madison Square in lower Manhattan, was launched in May 2010. "It took us a little over a year after our launch to reach $10 million in AUM," said Betterment founder and CEO Jon Stein in a release. We now typically attract more than that in a single day."

To attract larger deposits, the web-based "robo-advisor" recently added access to licensed advisors on the phone and through in-app messaging, as well as tools to make investing more tax-efficient.

Betterment offers globally-diversified portfolios of exchange-traded funds (ETFs) with algorithm-generated advice tailored to each investor's stated risk-tolerance and financial goals. Customers can open and customize regular investment accounts, traditional, SEP or Roth IRAs, trust accounts, and accounts for retirement income. Betterment's platform also serves advisors and provides 401(k) services.

MetLife funds research on expanding financial services in emerging markets

Two organizations funded by the MetLife Foundation have released a new report examining how partnerships between mainstream financial institutions and fintechs are expanding access to the formal financial economy to unserved and underserved people in emerging markets.

The report, "How Financial Institutions and Fintechs Are Partnering for Inclusion: Lessons from the

Frontlines" was produced by The Center for Financial Inclusion at Accion (CFI) and the Institute of International Finance (IIF). It identifies four key financial inclusion challenges in emerging markets that mainstream financial institutions address through fintech partnerships:

- Gaining access to new market segments
- Creating new offerings for existing customers
- Data collection, use, and management
- Deepening customer engagement and product usage

The report features successful tech-based collaborations. One partnership sends SMS nudges to bank customers in Colombia and another uses a cryptocurrency-enabled digital ledger to record mobile wallet transactions in India.

The new report is part of a two-year initiative from CFI and the IIF, with support from MetLife Foundation, to help advance the financial services industry's ability to reach unserved and underserved populations.

The project, titled "Mainstreaming Financial Inclusion: Best Practices," is intened to help financial institutions reach lower income market segments. The project will identify and transmit practical guidance that financial institutions can use to serve the poor.

The Center for Financial Inclusion at Accion (CFI) is a think tank dedicated to improving the financial lives of the world's three billion who are unserved or underserved by the financial sector. Its report was based on 24 interviews with firms and experts from around the world, and highlights 14 partnerships in 14 countries.

U.S. ETF assets approach $3 trillion in first half of 2017

Passive funds (and, recently, institutional share classes of active funds) dominate the sales charts today, but some asset managers hope to revive active management by offering environment, social and governance (ESG) funds, according to the July 2017 issue of The Cerulli Edge – U.S. Monthly Product Trends.

The total value of mutual fund assets grew by 9.2% or $152.8 billion in the first half of 2017, to $13.6 trillion. Flows were positive in all six months. ETF assets grew 16.7% or $243.7 billion to just under $3 trillion.

In response to rising demand from both retail and institutional clients, many asset managers launched ESG investment products or strategies in recent years. Such products could help create opportunities for active managers, despite the continued growth of indexing.

Non-profit organizations and their constituents are asking for ESG investment options, and other institutional investors and even individuals are likely to follow. According to a recent Cerulli survey, half of consultants expect stronger demand for ESG from nonprofits than from any other type of institution.