

Sales of active funds to DC plans suffer as advisors seek lower fees

By Editorial Staff Thu, Oct 29, 2015

One-third of midtier consultants say they intend to increase DC plan placements of Large Cap US equity index funds, while only 14% plan to increase placements of similar actively managed funds, according to a recent survey by Hearts & Wallets.

In the first half of 2015, 70% of the 30 asset managers in the DCIO (Defined Contribution Investment-Only) market surveyed recorded positive net sales, according to the ninth edition of the Hearts & Wallets “The State of DCIO Distribution” research study.

Although that number represented an improvement over 2014, when 54% of managers had positive net flows, industry-wide DCIO sales success has not reached the levels seen prior to 2013, when 80% or more of managers regularly produced net sales, according to the Rye, NY-based research firm.

Hearts & Wallets projects the DCIO market will grow from \$3 trillion (47% of the DC market) today to \$4.1 trillion (51%) in 2020.

Participants in the DCIO market face ongoing threats from target-date funds and fee compression. According to Hearts & Wallets surveys, plan intermediaries favor replacing actively managed domestic equity offerings with index funds. One-third of midtier consultants say they intend to increase DC plan placements of Large Cap US equity index funds, while only 14% plan to increase placements of similar actively managed funds.

More than 60% of asset managers say downward pressure on management fees has negatively impacted DCIO sales at their firm in the past year; while fewer than 10% say the impact was positive. “Low expenses” are expense ratios in the lowest quartile for their category, according to nearly half of retirement advisors. About one in five advisors defined low expenses as expense ratios in the lowest decile—a price range that active funds can’t offer. Advisors in the survey work with an average of 33 DC plans, with almost \$60 million in assets.

The fee compression trend favors target-date offerings, Hearts & Wallets said. Mid-tier consultants and retirement advisors cite low costs as one of their three primary requirements when choosing a target date fund. Midtier consultants who responded to this year’s DCIO survey manage more than 100 plans and \$1 billion of DC assets, on average.

American Funds and Vanguard Group were by far the preferred TDF providers, followed by

J.P. Morgan Asset Management's Smart Retirement Target-Date Series.

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