SEI Ups its TDF Game

By Kerry Pechter *Thu, Apr 17, 2014*

Six months ago, SEI, which specializes in multi-manager TDF funds, recruited veteran defined contribution specialist Scott Brooks (left) away from Deutsche Asset & Wealth Management to start making presentations to large DC plan sponsors.

SEI, the $232 billion asset manager in suburban Philadelphia—not far down Route 202 from the campus of fund giant Vanguard—wants to grow its target date fund (TDF) business at the expense of Vanguard, Fidelity and T. Rowe Price, who together dominate the TDF world today.

Six months ago, SEI, which specializes in multi-manager TDF funds, recruited veteran defined contribution specialist Scott Brooks away from Deutsche Asset & Wealth Management to start making presentations to large DC plan sponsors, including those with a history of offering defined benefit pensions.

Brooks, who has also worked at JPMorgan and Oppenheimer, is leveraging several recent developments to catalyze his sales calls. For instance, the Department of Labor's "Tips" for ERISA plan sponsors on TDFs inspired many plan sponsors to reconsider their current TDF options in light of their fiduciary requirements to offer low-cost funds that suit their workforce demography, risk-tolerance and needs.

In addition, according to Brooks, employers are becoming more interested in having their DC plans serve the purpose that DB plans were first designed to serve: financing the rotation of older, more expensive employees out of the workforce to make room for younger, less expensive employees. They can do that only by helping them save enough to retire.

Another conversation starter for Brooks and other TDF vendors is liquid alternatives, which include such investments as real estate, TIPS and commodities. Marketers of "liquid-alts" are eager to distribute them through DC plans, not as individual investment options but as components of TDFs.

Liquid-alts are potentially appealing to plan sponsors because they help diversify a TDF or investment portfolio. Their performance isn't necessarily correlated with the performance of stocks, bonds or cash. DB fund managers have long used liquid-alts, so the migration of the strategy to DC plans and TDFs is a natural one.

"Anytime a plan sponsor expresses an interest in liquid alts, it's an opportunity to have a conversation about custom TDFs," Brooks told RIJ recently. "We feel the liquid alts add a level of diversification in custom TDFs. We or another provider can embrace the broadest potential set of investments, to fund the glidepath. With liquid alts, which include real estate, hedge funds, private equity, commodities, you can take a pension-like approach to the design of the custom TDF. Yes, that certainly gives us a foot in the door.”

Brooks described SEI’s approach to TDF design. “We have a long history of de-risking defined benefit glidepaths. In trying to achieve a certain income replacement ratio, we take an asset/liability matching approach.

“We ask, What’s the current funding status for the individual? It’s a type of goals-based investing. We take best practices from the defined benefit world. I would broadly define us as a designer of ‘through’ TDFs rather than ‘to,’ but those terms are less applicable today than in the past.“

SEI also likes to incorporate managed-volatility funds into TDFs, Brooks said. “We are active users of managed volatility funds in our off-the-shelf TDFs. We feel managed-vol is an important component of the equity exposure, especially when the investor is in the ‘red zone.’ Although we favor the ‘through’ design, we’re sensitive to the fact that as you get close to your goal, you need to reduce risk. Volatility management is one way to do that.”

“SEI sees increased interest in this area. My position was newly created. I was brought in to lead the defined contribution business and to deliver the manager-of-managers solutions as part of that. SEI is substantially upping its game in that area. Formerly I was with Deutsche Asset & Wealth Management. I was focused on alternatives. At Oppenheimer I worked with consultants. I was always in defined contribution, but each role has been slightly different.”