
Target-Date CTFs: The Next DC Gold Rush?

By Editor Test *Wed, Mar 17, 2010*

Collective trust funds (CTFs) with target-date strategies are the talk of the defined contribution world, says Cerulli Associates.

Because of their low fees, flexibility and fiduciary structure, collective trust funds (CTFs)—particularly those that serve as vehicles for target-date funds—are the talk of the defined contribution world, according to Cerulli Associates.

The Boston-based research firm's ongoing surveys show that asset managers' interest in CTFs is driven by client demand and competition from peers. The structure of CTFs apparently gives them a leg up on mutual funds in target-date products.

Any bank that acts as trustee of a CTF by definition must act as a fiduciary for the fund's assets. If pending regulations force investment managers to assume fiduciary responsibility over target-date funds, CTFs, unlike mutual funds, will already be providing this service.

Unlike 40-Act mutual funds, CTFs can invest in alternative asset classes, such as direct real estate. This means CTFs could invest in non-correlated asset classes, thus making them a better single-fund solution for target-date investors.

Alternative investments have not been used much in CTFs so far—a sign that the market is young or that trustees are reluctant to take on additional fiduciary risk.

CTFs aren't filed with the Securities and Exchange Commission, so it's hard to assess them. Cerulli encourages firms to participate in industry surveys and databases to increase transparency in this industry.

Other findings in Cerulli's latest research report include:

- In a recent Cerulli survey, 29% of respondents expect CTF asset growth in 2010 to increase by 20% or more and 53% believe it will increase by 10%-20%.
- Cerulli projects \$108 billion in private DB contributions for 2010—much of which is likely to flow into long-duration fixed-income investments.
- Variable annuity hedging strategies have expanded to the investment options that underlie the insurance guarantees. This could create opportunities for asset managers with domestic small-value or fixed income experience.