
Target-Date Funds 'At a Crossroads,' Cerulli Says

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Has the target-date fund opportunity peaked for asset managers? According to a Cerulli Special Report, "Target-Date Funds: Still Viable?" there's still opportunity. However, success hinges on shelf space, product design, regulation, and performance.

"We view the industry as being at a crossroads. More than 70% of asset managers feel that they have just begun to tap this opportunity, while a small but growing percentage think it has reached its peak. The top three fund managers currently control nearly 80% of target date fund assets," says Cindy Zarker, lead analyst of the report.

The report explains that asset managers face a number of challenges in the short term and longer term. Some challenges, such as performance concerns, may soon begin to abate, reflecting a short-term reaction to the market and economic crisis, while others may plague asset managers indefinitely such as fee pressure, limited access to shelf space, and the challenge of balancing greater customization with scalability.

"We feel that asset managers will be well served to carefully assess the true opportunity against potential risks. Firms should ask themselves if they can gain critical mass without access to a recordkeeping platform. If they examine these tough questions, some may find that this is not the market for them, and fund consolidation becomes the logical option," continues Zarker.

Nearly 70% of target-date fund portfolios have less than \$100 million AUM, and most asset managers consider \$100 million to \$150 million to be the minimum level of assets for a mutual fund to be profitable.

"Target fund consolidation is needed—not because the product concept is flawed—but because target funds can be a distraction from higher potential initiatives. Hanging onto small, unprofitable funds can be a drag on an entire asset management organization consuming valuable resources from the legal department to marketing," concludes Zarker.

Despite considerable challenges, asset managers believe that open architecture will ultimately take in this market, leading to sub-advisory opportunities. This shift, along with product innovation, will allow for meaningful asset gathering.

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