
Technology Aims To Detect Style Drift in Target-Date Funds

By Editor Test *Mon, Jun 22, 2009*

UAT, Inc., a Denver-based technology firm, created a fund monitoring system that can help retirement plan sponsors find out if the sub-advisors of target-date funds in their plans are engaging in style-drift.

Most target-date fund managers are as pure as the driven snow. But sometimes they drift.

UAT, Inc., a Denver-based technology firm, is marketing a fund monitoring system that can help fiduciaries such as retirement plan sponsors find out if the sub-advisors of target-date funds in their plans are drifting from their avowed investment styles and exposing unwitting participants to higher risks.

The technology, called the Unified Compliance and Control System (UCCS), is the fund industry's first "pre-trade compliance and real-time risk management system," according to UAT president Tom Warren. UCCS includes Linedata Services' LongView Trade Order Management System and Linedata Compliance to provide supervision over sub-advisor execution orders.

"The inability to see holdings in real time has put undue pressure on compliance personnel who supervise target-date funds," Warren said. "UCCS provides the necessary real-time transparency to deal with this supervisory shortcoming in a cost-efficient manner. It's like a GPS for target-date funds."

Congress has been scrutinizing target-date funds lately because many of them, including those near maturity that were assumed to have high bond allocations, suffered large losses in the recent bear market. According to the SEC, the average loss in 2008 among 31 target-date funds with a 2010 retirement date was almost 25%.

The effective operation of target-date funds remains critical because employers can use them as default investments in 401(k) plans. More than 60% of employers now use target-date funds as a default contribution option, compared with just 5% in 2005. Target-date assets peaked at \$178 billion in 2007.

Boston-based Cerulli Associates Inc. recently predicted that target-date funds, which are designed to evolve toward a higher bond allocation as the shareholder grows older, could gather up to \$1 trillion in assets by 2012.

© 2009 RIJ Publishing. All rights reserved.