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## The Bucket

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By Editorial Staff      Thu, Sep 19, 2013

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*Brief or late-breaking items from Cannex and The QWeMA Group, Nationwide Financial, The SPARK Institute and ING U.S.*

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### Two Toronto firms ally as Cannex buys The QWeMA Group

Cannex, a major provider of financial product data to distributor groups in the U.S. and Canada, said it will purchase The QWeMA Group, a consulting and software company founded by Moshe Milevsky of York University. Both firms are based in Toronto, Ontario, and both are active in the retirement income space.

Among other things, Cannex provides up-to-date pricing data on immediate income annuities and deferred income annuities. Cannex was founded in 1983. Its CEO is Lowell Aronoff. QWeMA stands for Quantitative Wealth Management Analytics.

Gary Baker, U.S. president of Cannex, told RIJ, "QWeMA was an early client of Cannex and the two have had a collaborative relationship for some time." The two companies both serve insurance product distributors, with one providing the data and the other providing tools to manipulate and analyze it with.

Cannex will gain QWeMA's personnel, technology and intellectual property in the deal, whose value was not disclosed. That will include QWeMA's valuation tools and product allocation support technology, Baker said.

The valuation tools allowed advisors to determine, for instance, the option value of a guaranteed lifetime withdrawal benefit on a variable annuity contract, which an advisor could use to decide when or whether to activate the income benefit, he said.

The product allocation support technology, developed by Milevsky, is used by distributors to create models for optimally allocating client assets to annuities and mutual funds. The underlying principle is that life annuities can protect retirees against longevity risk, variable annuities with living benefits can protect against sequence of returns risk, and mutual funds can provide retirees with liquidity and inflation protection.

### Leave MM funds in retirement plans alone, SPARK Institute tells SEC

In a letter submitted last Monday, a lawyer for The SPARK Institute urged the Securities and Exchange Commission not to force money market funds in retirement plans to abandon the traditional maintenance of a \$1 per share price and switch to a floating rate.

"The changes being considered by the SEC, if adopted, ...could result in the limited availability, or elimination, of money market funds from such plans," wrote Larry Goldbrum, The SPARK Institute's general counsel, in response to the SEC's proposal to let the NAV float as a way to prevent runs on money

market funds, which occurred during the Global Financial Crisis.

Retirement plan service providers could switch to a floating NAV, but it would involve “costs and complexities,” he wrote. Even if there’s a retail funds exemption to the Floating NAV Alternative, “in the absence of certain changes it is unlikely that service providers will make such funds available through their investment platforms and systems.” The Investment Company Institute came out against the floating NAV idea last June.

But the presidents of the Federal Reserve Banks believe that the floating NAV idea would prevent panic. According to their September 14 letter to the SEC, reported a Wolters Kluwer [blogger](#), “If properly implemented, ... a floating NAV requirement could recalibrate investors’ perceptions of the risks inherent in a fund by making gains and losses a more regularly observable occurrence.

“The floating NAV alternative reduces investors’ incentives to redeem by tempering the ‘cliff effect’ associated with a fund ‘breaking the buck.’ The first mover advantage is reduced, they explained, because redemptions would be processed at a NAV reflective of the market-based value of the fund’s underlying securities.”

The SPARK Institute also recommended that the SEC modify the retail funds daily redemption limitation so that it does not apply to:

- (1) Any redemption request made by a participant in connection with an account held in a participant-directed tax-exempt retirement plan; and
- (2) Any redemption request made by the plan sponsor in connection with removing a money market fund from a participant-directed tax-exempt retirement plan’s investment options, with mutually acceptable advance notice.

Retirement plans do not pose the destabilizing threats to the financial system that the SEC is attempting to address, because so few participants have big money market fund balances, the letter said. Only 1,536 (.00005 or .005%) of the 32.3 million plan participants in the U.S. held more than \$1 million in a single money market fund, as of June 30, 2013, according to SPARK.

SPARK also opposes the SEC’s other idea for preventing mass redemptions from money market funds: the Standby Liquidity Fees and Gates Alternative. This would allow money market funds “to maintain a stable NAV under normal conditions, but require a fund to impose a redemption fee the following business day if its liquidity falls below a certain threshold, and also permit the fund to impose a “gate” for a period of time (i.e., suspend all redemptions),” according to a SPARK release.

“Most retirement plan service providers’ systems are not capable of being adjusted overnight with respect to an individual fund in order to impose redemption fees or restrict redemptions when the fund falls below required liquidity levels on a given business day, and then immediately remove such restrictions when fund liquidity levels recover,” wrote Goldbrum. “Plan service providers will be unable and unwilling to accept such responsibility and risk with respect to the funds.”

The comment letter also urged to SEC not to adopt a “combined alternative.”

## **Nationwide Funds acquires 17 funds, \$3.6 billion in assets from HighMark Capital**

Nationwide Financial has acquired 17 equity and fixed-income mutual funds from HighMark Capital Management, Inc., in a transaction that brings about \$3.6 billion in new assets to Nationwide Funds, Nationwide Financial’s mutual fund business, according to a release.

Nationwide Funds, based in the Philadelphia area, now has more than \$52 billion in assets under management. Terms of the transaction are not being disclosed.

The acquired mutual funds include five funds that have four or five-star ratings. Several are included in model portfolios and recommended lists at their partner firms. All 17 funds will be available for trading beginning Tuesday, Sept. 17.

HighMark Capital will be the subadviser to nine of the new Nationwide Funds. The other eight will continue to be subadvised by either Bailard, Inc., Geneva Capital Management, Ltd., or Ziegler Lotsoff Capital Management, LLC.

Cambridge International Partners, Inc. was engaged as financial adviser to Nationwide Financial, and Stradley Ronon Stevens & Young, LLP was retained as its legal counsel. HighMark Capital Management and Union Bank engaged Berkshire Capital Securities, LLC as their financial adviser and Bingham McCutchen, LLP as their legal counsel.

## **ING U.S. introduces low-cost shares for retirement plans**

ING U.S. Investment Management said it has introduced no-load “R6” shares for nine of its affiliated mutual funds. The new share class is designed for defined contribution and defined benefit retirement plans as well as other institutional clients, such as endowments and foundations.

The new R6 shares are initially available for nine key funds, including the ING Small Cap Opportunities Fund, ING Mid-Cap Opportunities Fund, ING Large Cap Growth Fund, ING Large-Cap Value Fund and ING Intermediate Bond Fund. Additional funds may be added in the months ahead.

The R6 shares have no front-end sales charge, no 12b-1 fees and no third-party service fees. There are no minimums for investors in retirement plans. Certain non-retirement accounts will require a \$1 million minimum investment. ING U.S. Investment Management has more than \$30 billion in DCIO (defined contribution investment only) assets under management.

“This new share class responds to the needs of the marketplace and to our DCIO business,” said Paula Smith, vice president and head of DCIO products at ING U.S. Investment Management, in a release. “The shares support registered investment advisors who are seeking to best service their retirement plan clients as well as our institutional business broadly. R6 shares are lower cost and respond to the Department of

Labor's 'service provider' fee disclosure requirements."

Defined contribution plans such as 401(k)s, 403(b)s and 457s are eligible for R6 shares, which are also available to existing ING "Fund of Funds." Ineligible are Individual retirement accounts (IRAs), Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs) and individual 403(b) accounts.

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