Defined Contribution
Institutional Investment
Association

Multi-Asset, Multi-Manager, and White Label Investment Options

September 2017

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Streamlining the Defined Contribution Investment Menu

Participants Use a Small Number of Options Despite a Large Number of Offerings

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1980s
- Equity
- Balanced
- Fixed Income
- Guaranteed Investment Contract (GIC)
- Company Stock

1990s
- US Equity
- Non-US Equity
- Style Equity
- Sector Equity
- Balanced
- Fixed Income
- Stable Value
- Money Market
- Company Stock
- Self-Directed Brokerage Account (SDBA)

2000s
- Target Date
- US Equity
- Market Cap-based Equity
- Non-US Equity
- Emerging Markets
- Managed Accounts
- Fixed Income
- Real Assets
- Stable Value/Money Market
- SDBA

2010s
- Target Date (Custom or Off the Shelf)
- Passive US Equity
- Active Multi-Manager US Equity
- Passive International Equity
- Active Multi-Manager International Equity
- Passive Fixed Income
- Active Multi-Manager Fixed Income
- Active Multi-Manager Real Assets
- SDBA

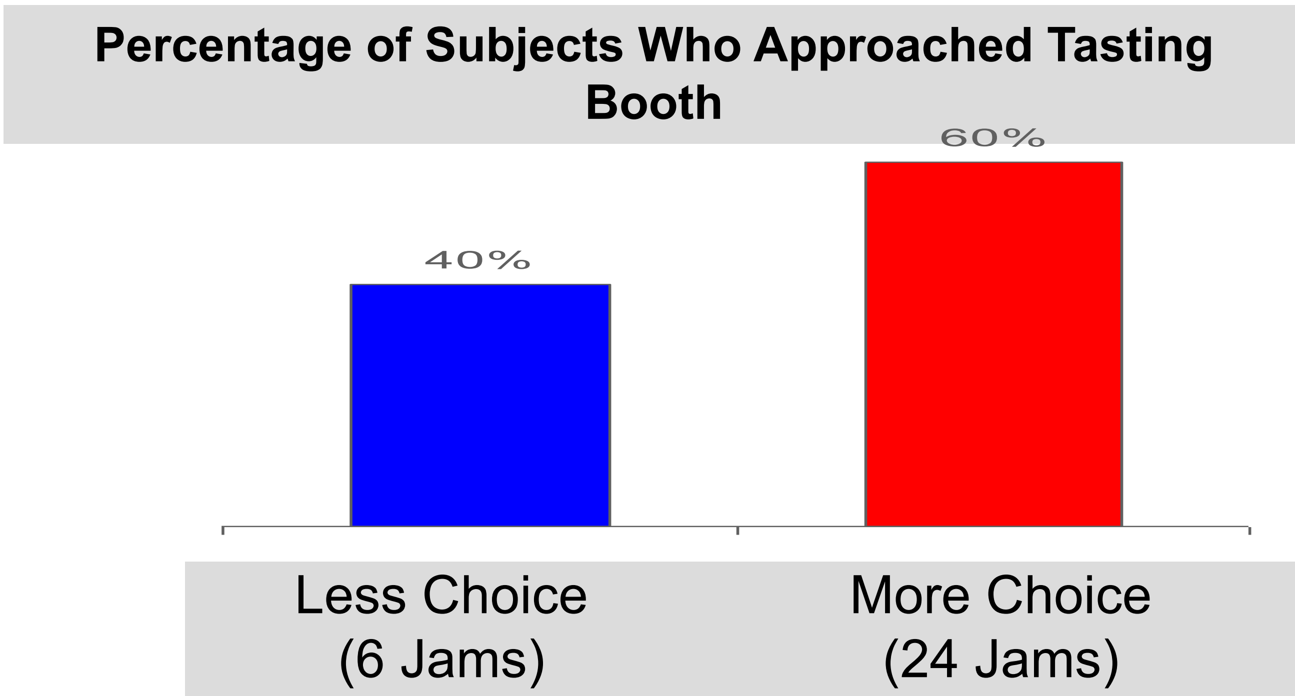
✓ DC investment menus expanded dramatically during the “freedom of choice” era of the 1980s and 1990s based on the belief that more choice helped participants diversify their holdings.

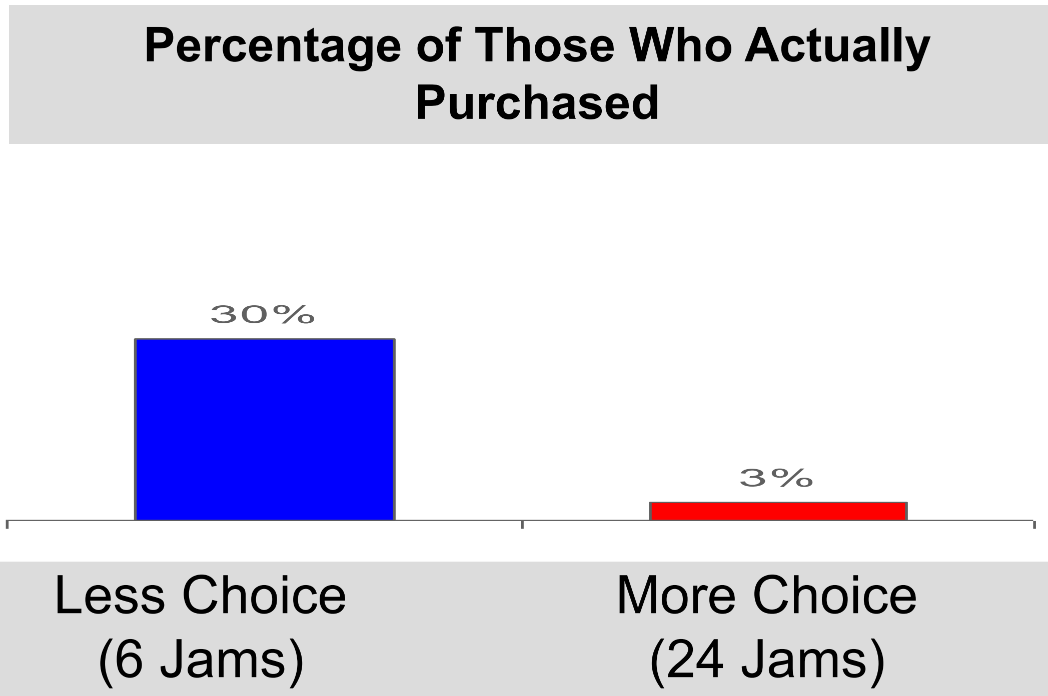
✓ The average number of investment options offered continued to increase through the 2000s, reaching a high of 18.9 in 2011 and currently at 18.1 in 2015.

However, the average 401(k) participant uses a relatively small number of options - typically 3 to 4.

Source: Russell, SEI and Vanguard “2016 How America Saves”. Number of investment options offered counts each target date and risk series as a single option.

Too Much Choice is Overwhelming





- ***The Jam Study is consistent with the decline in participation as choice increases in the core investment menu***
  - Despite attracting more subjects by offering more choice in jams, subjects were less likely to purchase a jam given more choice

- Portfolios should be designed based on the risk and return characteristics of individual investment strategies. However, many participants allocate **evenly** among the available fund options – regardless of their type

- Presented with ***increased*** choice on the investment menu, participants are more likely to select the lower-risk alternatives available to them.

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Investment Menu Components

LCG	LCC	LCV
MCG	MCC	MCV
SCG	SCC	SCV

- Non-U.S. Equity
- Emerging Markets
- Infrastructure
- Commodities
- Real Estate
- TIPS
- Corporate Bonds
- Treasuries
- Stable Value or Money Market

Sample of a Simplified Investment Menu

- U.S. Large Cap Equity
- U.S. SMID Cap Equity
- All Country Intl. Equity
- Real Assets
- Core Fixed Income
- Stable Value or Money Market

Source: Russell Investments

SIMPLIFYING THE INVESTMENT MENU USING MULTI-MANAGER STRATEGIES AND WHITE LABELING

Multi-Manager strategies can:

- Provide more efficient exposure to a broad asset class
- Expand diversification by increasing the underlying investment exposures used for participants
  - *This may include the use of asset classes not previously offered as an investment option for participants*
- Potentially expedite the process of adding or removing a particular underlying strategy from the investment option
- Reduce extreme style exposures and narrow extreme performance outcomes
- Allow for more robust "building blocks" for custom target date solutions and managed account solutions

White labeling can:

- More accurately name the investment strategy
- Avoid potential confusion surrounding "brand names"
- Also be used for single-manager strategies

Trends In Menu Simplification, Multi-Manager And White Labeling

Menu Simplification and Multi-Manager strategies

- "67% of DC-focused consulting firms support or actively promote both multi-manager/white label fixed income and equity options" (61% for real asset strategies) – PIMCO Survey
- "20% of plan sponsors plan to consolidate the number of options in the next 18 months, and those interested in adding alternatives appear likely to do so in a multi-manager framework" – SEI Survey
- 30% of plan participants say they want to "do it themselves". This suggests a meaningful minority of participants continue to look to the core investment menu to allocate their contributions. – JPMorgan Survey

White-labeling

- 17% of plans are currently utilizing white-labeling – Aon Hewitt
- (Only) 37% of sponsors believe in the importance of brand in their participant communications – Aon Hewitt
- (Only) 23% of plan sponsors believe a "white label" solution is more difficult to communicate (to participants) – Aon Hewitt
- 31% of plan sponsors have moved to a custom target date fund – Aon Hewitt