What’s Old is New: White-Labeling Trends in the DC Marketplace

Moderator
Winfield Evens, CFA®
Director of HRO Investment Solutions & Strategies
Aon Hewitt

Speakers
Jeffrey S. Coons, Ph.D., CFA®
President, Co-Director of Research
Manning & Napier

David Heiny
DC Practice Leader
Artisan Partners

Kendall Frederick
Senior Manager, Finance Integration
Hanesbrands, Inc.

Erik Linvog
Manager Benefit Investments
Daimler Trucks North America
Poll of the Audience

• What is your DC plan’s approach to White Labeling?
  1.) We do it today
  2.) We have considered it, and may do it in the future still
  3.) We have considered it, and have rejected the approach
  4.) We have not formally considered the approach yet
  5.) I am not sure what you mean by White Labeling
White-Labeled Plan Lineup—Overview

**Typical Approach**
*Full Fund Name Utilized*
- PIMCO Total Return—Administrative
- Vanguard Institutional Index—Plus Shares
- American Funds EuroPacific Growth—R6
- JPMorgan SmartRetirement® Blend 2030—R6

**White-Label Approach**
*Plan-Specific Fund Name Utilized*
- Bond Fund
- U.S. Stock Index Fund
- International Equity Fund
- 2030 Retirement Fund

Full transparency can be provided via fund fact sheets, as shown on following slides.
Participant Communications

Typical Mutual Fund Branded Approach

White-Labeled Approach

HISTORICAL PERFORMANCE
- Calvert Equity Portfolio;I
- Russell 1000 Growth TR

LIPPER CLASSIFICATION
- Large-Cap Growth Funds
- Funds that invest at least 75% of their equity assets in large, faster growing companies that are inside the U.S.

LIPPER RATINGS
- 1 Year: 2.15
- 3 Years: 15.06
- 5 Years: 23.05
- 10 Years: 27.71

FUND OBJECTIVE
- The Fund seeks growth of capital through investment in stocks of issuers in industries believed to offer opportunities for potential capital appreciation which meet the Fund's investment and social criteria.

ANNUAL FEES
- Net Expense Ratio: 0.60%

RELATIVE RISK
- Conservative
- Moderate
- Aggressive

PORTFOLIO STRUCTURE
- Underlying Fund Holdings
- Fund Name: American Funds AMCAP Fund
- % of Fund: 65.81
- Fund Name: T. Rowe Price Growth Stock Fund
- % of Fund: 49.69

ASSET ALLOCATION
- Asset Allocation may equal less than 100%
Participant Communications

White-Labeled Examples
Fund-of-Funds—Overview

**Example**—Combine three sub-advisors into a single plan option

**Benefits Include:**
- Results in a streamlined set of institutional funds
- Easier for participants to understand and utilize
- Easier for the plan sponsor to manage and optimize

Approach common with large plans

Over 40% of Aon Hewitt’s RK clients utilize at least one fund-of-funds
Thinking Outside the Box with White-Label Customization

Utilizing a white-label approach allows for customized investment structures that reflect the most current institutional thinking, despite being outside the traditional asset allocation methodology.

One such example is globalized equity exposure. In an environment where active management has been tested, institutions are spending their active risk budgets in categories that have earned their spot.

Manager Changes Can Lead to Unintended Results

The Benefit
Flexibility to make manager changes with minimal participant disruption

The Challenge
The desire to always have the “best” manager may lead to hiring and firing managers, often times, based on short-term performance results

The Challenges With Changing Managers

Multi-Manager Portfolio Construction

Hypothetical example

The Benefit
Diversify the category with institutional investment managers

The Challenge
Combining managers in a complementary way to avoid the potential for over diversification and index-like returns

Active Share: Effective Tool for Evaluating Managers and Structuring Portfolios

Data shown is for illustrative purposes only. Active share can range from 0% to 100%. A high active share indicates that a portfolio's investments significantly differ from the benchmark, while the investments of a portfolio with a low active share largely mirror the benchmark. Please note that diversification does not assure a profit or protect against loss in a declining market.
Pursuing Retirement Objectives Through Complementary Approaches
Hypothetical example

The Challenge
Combining managers in a complementary way to help avoid the potential for over diversification and index-like returns and allow for flexibility to manage risk in a changing market environment.

Potential Solution
Incorporate an allocation to an active, flexible (non-benchmark-centric) investment approach.

50%
Objectives-Based U.S. Equity Manager

- 36% U.S. Large Cap
- 8% U.S. Mid Cap
- 6% U.S. Small Cap

Data shown is for illustrative purposes only.
Pursuing Retirement Objectives Through Complementary Approaches

Portfolio Objective:
To seek long-term capital appreciation while mitigating downside risk through investments in the U.S. Equity market.

Objectives-Based Manager Mandate:
To meet the portfolio objective through active investment in the broad, U.S. Equity market. This manager will be enabled to seek results in line with the portfolio objective by adjusting the portfolio in accordance with the risks and opportunities presented by the prevailing market environment in a benchmark-agnostic manner.

Benchmark-Centric Manager Mandate:
To deliver market (passive) or above-market (traditional active) returns based on the opportunity set presented in the stated market benchmark, over a full market cycle. These managers attempt to minimize risk relative to the benchmark by maintaining similar profiles as their stated benchmarks, and can include a style, capitalization, sector, and security constraint perspective.
Prevalence of White-Labeling

24%

11% All Funds
5% Some Core, No Premixed

1% All Core Funds
3% All Premixed, No Core

3% All Premixed, No Core

Source: Aon Hewitt Pulse Survey in Summer, 2014
White-Labeling—Pros & Cons
As Noted by Plan Sponsors

What are the factors for selecting a white-label approach?

- Lower total fees: 43%
- Ease of participant communications: 57%
- Ease of changing managers: 64%
- Combine multiple managers into one fund: 71%

What are the barriers preventing adoption of white-label funds?

- Communication challenges: 23%
- Concern over negative employee reaction: 23%
- Wish to retain name of fund provider: 37%
- Have not considered the approach: 53%
Final Thoughts

• Implementation requires thoughtful coordination between the:
  – Plan sponsor
  – Investment consultant
  – Plan administrator
  – Trustee

• The white-label approach provides plans with a variety of benefits, including:
  – Simplified decision framework for participants
  – Better diversification
  – Improved active management
  – Opportunities for cost reductions