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UNIQUE CHALLENGES FACING MID-MARKET PLANS

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Time And Cost Among Challenges For Mid-Market Plans

BY: **Joe Hornyak,** *Executive Editor, Benefits and Pensions Monitor*

When Shirley Tang-Jassemi, chief financial officer for the Canadian Forces Morale and Welfare Services pension plan, was charged by its investment committee to review and revise its legacy investment policy, the focus was quickly put on portfolio diversification, she told a *Benefits and Pensions Monitor* Meetings & Events session on outsourced chief investment officers (OCIO).

However, as a mid-market plan with assets at that time in 2014 of about $266 million to fund the retirement of 3,500 active and retired plan members, the challenge was carrying this out. Even with its single manager for its traditional 60 per cent equities and 40 per cent fixed income portfolio, it lacked the internal resources to implement a diversified multi-manager portfolio review.

Her plight is not unusual in the mid-market. Tom Johnston, president of CI Institutional Asset Management, a division of CI Investments Inc., thinks a growing number of mid-market plans are looking to outsource the fund management role to address the long-term interests of their investors and achieve better investment outcomes. "Managers who can bring together cost efficiencies, including within a multiple manager framework, and risk management/monitoring facilities could create value for clients across a number of strategic drivers," he says.

Derek Dobson, chief executive officer and plan manager of the Colleges of Applied Arts and Technology (CAAT) Pension Plan, has talked with several mid-market plans and says they do share common issues. One is the high overhead cost of running pension plans, particularly defined benefit plans. The complexity of meeting regulations and the cost of valuation, fiscal responsibilities, and investment oversight is driving costs for mid-market plans. Another is time. "Whether you are a small plan or a large plan, you have a lot of obligations and the time needed to allocate to governance and working with consultants is not a small or medium exercise. The time needed to do them properly and meet fiduciary requirements is significant," Dobson says.

And, as was the case of the Canadian Forces Morale and Welfare Services pension plan, in many cases mid-market plans simply lack the investment expertise needed in a world where investments are growing more complex.

However, there are ways to simplify asset mix implementation through traditional asset managers. "Another route that small to mid-sized pensions can take is a new generation of balanced funds, target date funds, and custom multi-asset products," says Jafer Naqvi, vice-president, fixed income and multi-asset, at Greystone Managed Investments. "These solutions can integrate alternative investments and offload implementation and liquidity management to the investment manager, while also providing cost synergies and clear performance accountability."

Derisking is another issue with a different solution for each plan, says Michael Augustine, managing director, fixed income, at TD Asset Management. "Choosing to de-risk internally or fully transfer pension risk management is very plan-sponsor specific. It requires significant thought and preparation to explore all options and understand associated costs," he says.

Finally, Andrew Kitchen, managing director, Canada institutional, at Russell Investments, sees plan sponsors of this size of pension plan really looking for help in developing a stronger governance model. "Sponsors want greater risk control and more dynamic management of their portfolios built around the specific goals and objectives of the plan. This requires access to more sophisticated tools to manage their pension exposures as well as customized advice to achieve a more sophisticated portfolio tailored to the needs of their plan."

In the articles that follow, four firms describe different approaches mid-market plan sponsors can use to address challenges such as governance, accessing alternative asset classes, managing their plans with limited resources, and de-risking given the need to generate alpha to meet funding requirements and obligations to plan members. ❖

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Trust and Confidence:

Addressing The Fiduciary Burden Of Mid-size Plans

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A fiduciary duty is the highest standard of care at either equity or law. An individual placing their utmost trust and confidence in you to manage and protect property or money makes you that fiduciary.

For plan sponsors, investment committees or boards of trustees, this relationship is all too real. You have accepted the confidence of your plan members to protect their pension, but the game is changing, and suddenly that fiduciary responsibility might seem like a heavy burden. New pressures exist today that were not present twenty years ago. And those pressures increase for fiduciaries of mid-sized pension plans.

All investors face the continuation of a low interest rate environment, on-going market volatility and ever more complex market risks to manage, yet the need to find appropriate investment return has never been higher. Investors must make the assets work harder, while still controlling risk effectively.

There exists an increasingly complex array of asset management tools and products, yet mid-sized plans are likely also facing an increased emphasis on cost management. Many organizations face cost constraints and administrative cut-backs, while others have to retool after staff retirements and organizational change through mergers and acquisition. Experience, staff and history leave the building not always to be replaced.

Unlike large pension plans that have full departments dedicated to the management of the pension plan, fiduciaries in mid-sized plans likely also have a day job. With some knowledge of pension law, pension plan funding, setting an investment policy, choosing and monitoring an investment manager, plus an awareness of regulatory changes and complex investment opportunities, these plan sponsors are being asked to do more with less in increasingly demanding times.

The increasing range of options available for investment and risk management, increasing regulatory complexity and oversight makes it virtually impossible to for a lay plan fiduciary to keep on top of all things at all times.

Understanding the issues, taking the appropriate actions in a timely manner, balancing the needs of all the stakeholders and accruing a level of technical knowledge is becoming an ever-increasing challenge. Indeed, delivering a pension promise has never been more difficult for plans that do not have large teams of dedicated resources. As a result, more sponsors of mid-sized pension plans understand that there are better ways to run their core business, while delegating those areas where internal resources and knowledge are strained. One solution that is gaining in popularity is to hire a fiduciary management partner, otherwise known as an OCIO ("Outsourced Chief Investment Officer").

Many sponsors perhaps, see outsourcing as a giant leap. But unless you are already picking individual stocks on behalf of the company's pension plan, you are likely using an investment manager and, in fact, already outsourcing. The concept of a fiduciary management solution simply takes this a little further.

Thoughts of losing control, higher costs, diminished internal responsibility and quality of product are common objections to "outsourcing". However, with the right approach and right provider, such concerns are rarely justified. Remember that effective out-sourcing, is merely re-assigning a task and a delegation of some of your day-to- day duties.

In practice, a fiduciary burden can be shared with a fully aligned co-fiduciary, costs are managed, control increased and expertise imported into the sponsor's team. Fiduciary management helps organizations by providing an integrated holistic solution. The solution incorporates advice on the setting of an appropriate investment strategy, the construction and dynamic management of a well-diversified portfolio built around the plan's goals, objectives and risk tolerance, as well as the implementation of that portfolio. Such implementation would typically include the selection, appointment and implementation of third party asset managers, continuous oversight and management of the asset managers. The provider would also help maintain documentation and regulatory filings such as an investment policy statement, revisiting each component of program as needed through the continuous management and liaison with the plan sponsor.

It is important to note, that the plan sponsor is not

ceding all control to the OCIO provider. The OCIO, or fiduciary manager, will act as an advisor to the plan in strategic matters, but the over-all control in those strategic decisions often stays with the client. For example, an OCIO will perform an asset-liability consulting exercise based on the sponsor and plan's goals and objectives, but the ultimate approval of any investment policy recommendations from the study remains with the client.

Typically, the pension committee will refocus its efforts on more strategic issues, rather than spending a periodic committee meeting on the minutia of the portfolio. By retaining control of the strategic elements and delegating the day-to-day control to a provider who monitors in real-time, the committee enhances control over its investments by using a full time fiduciary manager.

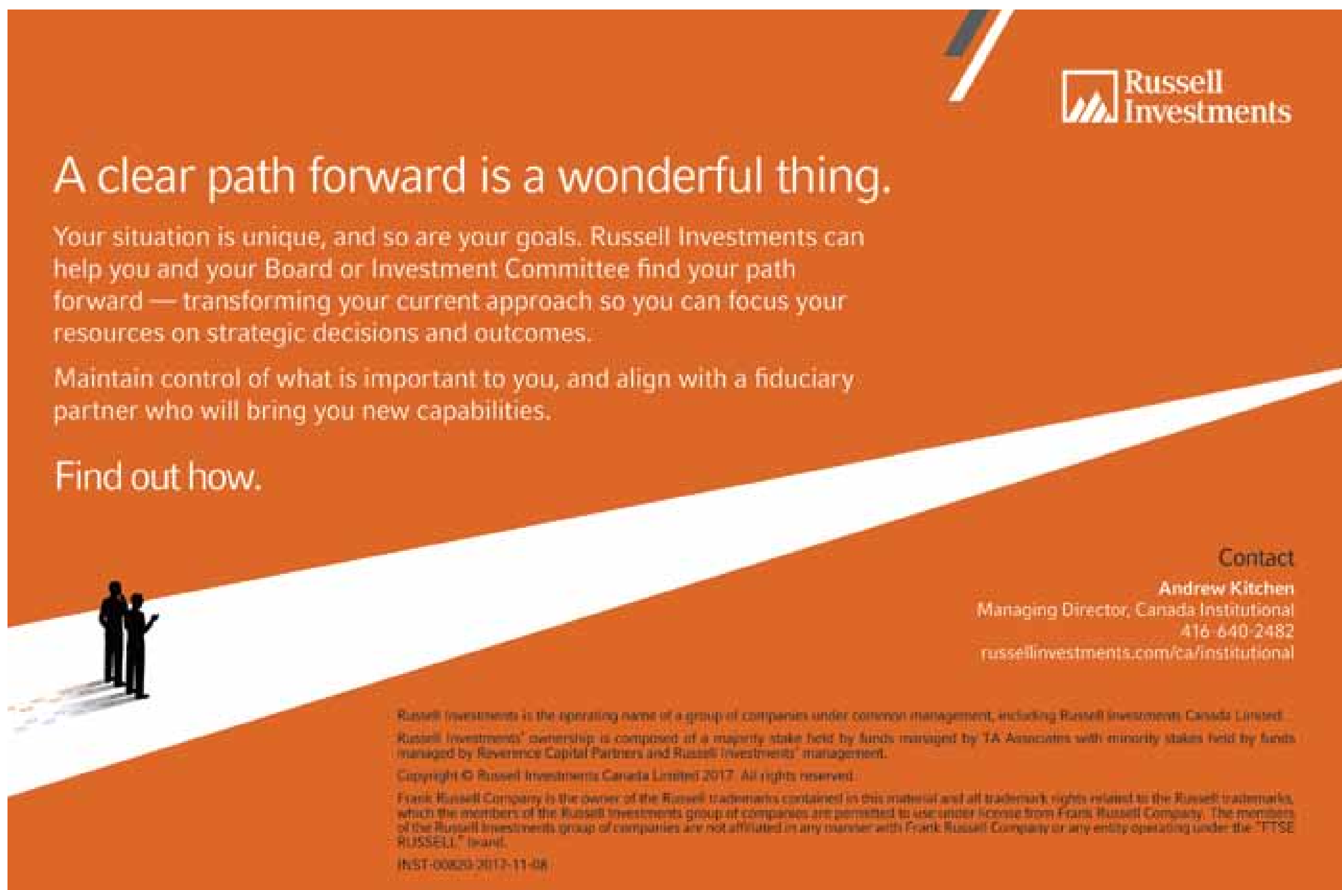
Because a fiduciary manager acts in similar capacities on behalf of many clients, its ability to negotiate better manager fees on a larger pool of combined assets should allow the mid-sized pension plan to participate in economies of scale. This pooling also benefits in terms of product. An OCIO provider can provide access to many different asset classes, allowing the plan the implementation of a more sophisticated and risk controlled solution than would otherwise be available on a stand-alone basis.

As ever, selecting any advisor or partner can be daunting. Sponsors should ensure that their provider can fulfill its claims and promises. Does the potential partner have qualified and experienced personnel to provide strategic advice? Does each candidate have proven investment consulting and portfolio implementation capabilities? Does the firm have global and local resources & understanding? Is the firm's core focus on investment structure, research and implementation? Is the fiduciary manager / OCIO offering core to their business and their beliefs?

Because the pension plan sponsor is outsourcing functions that are not core to their business, they need to ensure that these functions are core to the ultimate provider (e.g. high proportion of total revenues from OCIO sources). Does the provider fully acknowledge and accept its role as a legal co-fiduciary partner?

An appropriate provider will learn about the nuances of the pension plan, your needs as a sponsor and your beliefs as a firm. They will be a trusted advisor and partner, who can both advise on strategic matters, relieve the day-to-day headaches of implementation, maintenance and oversight, while providing real-time control.

Cost efficiency, risk control, sophisticated implementation, operational efficiency and an increased ready access to intellectual capital are the some of the benefits a mid-sized pension plan can find in an OCIO implementation. The result is a co-fiduciary partner fully aligned to your mission. ❖



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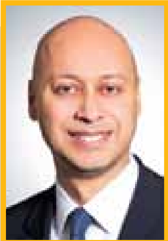
Two Paths, One Destination



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Helping to decide whether to de-risk internally or fully transfer pension risk

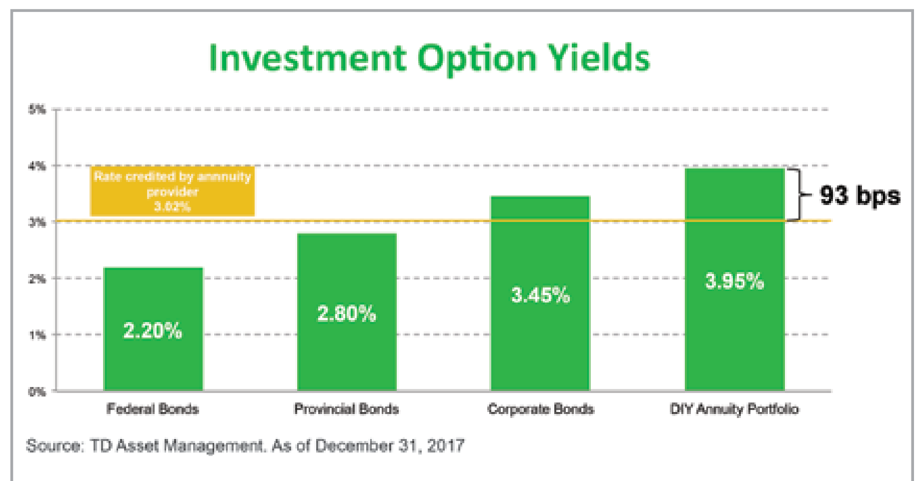
In the pension world, the recent increase in yields coupled with the tailwind of last year's favourable equity performance, have helped plans achieve a more favourable funded status. However, despite improved funding positions, pension plans may still face significant headwinds as market volatility remains a real threat. Against this backdrop, many plan sponsors are looking at ways to address pension risk. Plans have a few options when it comes to pension risk management, including plan design changes, a partial risk transfer through an annuity buy in, a full pension buyout through annuitization or de-risking internally. The main consideration is whether to fully transfer the risk or not. In this article we explore the merits and costs of transferring risk versus retaining and managing it.

De-risking through annuitization

For many plan sponsors, the costs associated with a full pension buyout have been an obstacle to transacting. Evaluating the cost of annuitization is relative. For some, "cost" is relative to the plan's funded status. If a plan is fully funded (or slightly overfunded) on a solvency valuation basis, then annuities are viewed as fair value and plan sponsors are more willing to annuitize. This is generally easy to evaluate. For others, "cost" is relative to the risk adjusted return proposition.

Plan sponsors with that view think about the economic or opportunity cost of purchasing annuities versus how they could otherwise invest their plan assets while minimizing the risk retained. This is a little more difficult to evaluate.

The general lack of transparency on annuity pricing requires plan sponsors or their consultants to perform periodic price discovery directly with providers. They can also use the data collected and published quarterly by the Canadian Institute of Actuaries ("CIA"). This data includes actual annuity purchases that have taken place and bona fide annuity quotations where the purchase does not take place, both of which inform the guidance the CIA provides around proxy annuity rates. For example, at December 31, 2017, the preliminary guidance based on the three most competitive annuity provider quotes for an illustrative medium duration (duration 11.1), non-indexed group of annuitants was an average credited rate of 3.02%. This data allows for a comparison to other investment instruments/options as shown in the chart below. For a plan sponsor considering purchasing an annuity for a similar duration profile group



Source: TD Asset Management. As of December 31, 2017

of plan members, the 3.02% rate would be equivalent to the yield they could expect to earn by investing in a fairly conservative liability matching portfolio of 65% provincial bonds and 35% corporate bonds.

Rationalizing the rate

Since insurance companies operate within smaller risk budgets, portfolios are constructed with prudence and conservatism. As a result, this low tolerance for volatility may be passed along in their product pricing. Consider again the plan sponsor seeking to purchase the medium

duration group annuity. As shown in the chart below, if the annuity provider were to invest in a combination of public bonds and private debt, they may be able to earn a yield of approximately 3.95%[1].

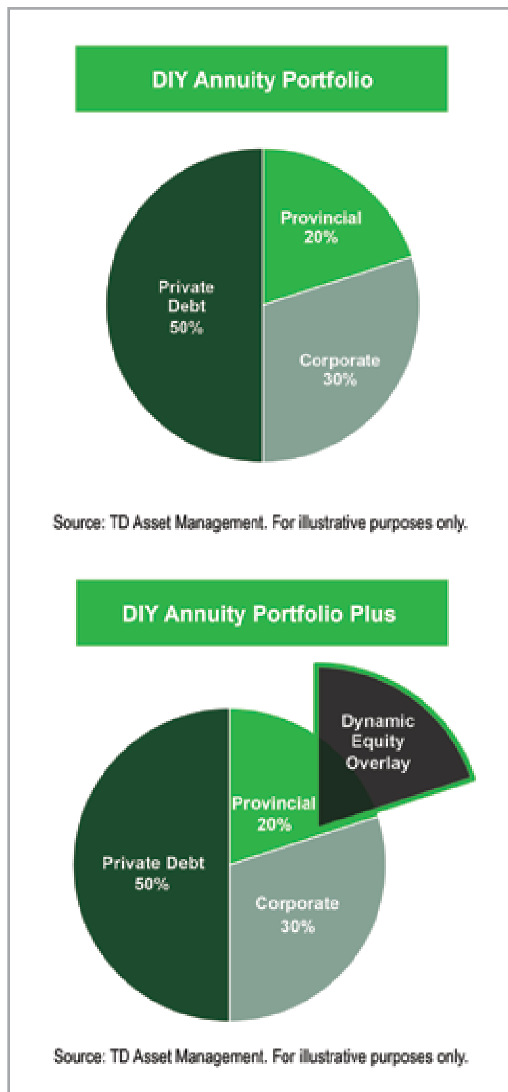
From the insurer's perspective, the approximately 90 bps difference between what they earn and what they credited to the plan sponsor is required to cover expenses, asset defaults, profit margins and capital charges. From the perspective of a plan sponsor who is comfortable with risk, but would also consider the purchase or exchange $100mm worth of plan assets for these annuities, this represents an opportunity cost of approximately $10mm[2]. Moreover, on January 1, 2018 a new regulatory capital regime (LICAT) came into effect for insurance companies that amongst other things significantly increases the capital insurers are required to hold when investing in long term assets[3].

A Do-it-yourself annuity portfolio

While plan sponsors have long had access to assets such as commercial mortgages, real estate and equities, the high-barrier-to-entry primary ingredient in an insurer's annuity portfolio is private debt. Fortunately, improved access to private debt, through vehicles like pool fund trusts, means that plan sponsors can build their own annuity portfolio—a do-it-yourself (DIY) annuity portfolio, sometimes referred to as a "hibernation" portfolio[4].

Since the group payout annuity has no surrender, withdrawal or portability features, annuity providers typically match these illiquid liabilities with a high allocation to illiquid credit. If a plan sponsor were to structure their plan's assets similarly, it might look something like the chart below:

- 50% private debt to harvest long-term illiquidity premiums
- 30% public corporate debt
- 20% provincial bonds & strips for rebalancing liquidity and long tail protection



The obvious benefit to creating a DIY annuity portfolio is that a plan sponsor can save the $10mm opportunity cost. The other benefit is that the savings can be used to help manage the harder to hedge, longer duration actives and/or deferred vested liabilities that often remain after annuitization.

A tailored strategy

The other benefit of the DIY annuity portfolio is that there is flexibility to "right risk" the portfolio as part of a more tailored strategy. This allows the plan sponsor to change the investment strategy or amount of risk in the future. For example, if a plan is looking for additional growth to, say, close a funding deficit or perhaps pre-fund future longevity costs, there may be some appetite for a limited amount of risk taken in a disciplined fashion.

To this end, an interesting way to tailor the strategy is to create a DIY annuity portfolio with a dynamic equity overlay ("DIY annuity portfolio Plus"). By implementing an equity overlay where gains are periodically/tactically harvested and redeployed to the DIY annuity portfolio, a plan could continue to seek the benefits of an appreciating equity market while the plan's underlying liabilities enjoy a high degree of protection.

While a buy-in annuity may be viewed as part of the asset portfolio, it unfortunately cannot be used as collateral for any sort of overlay. However, when the plan continues to own the assets of the DIY annuity portfolio, overlays remain possible. The DIY annuity portfolio Plus strategy can easily be integrated into a broader de-risking glide path strategy allowing the plan sponsors the ability to adjust the size of the equity exposure over time.

The benefit of choice

Whether plan sponsors choose to de-risk internally and effectively manage the risk in a DIY annuity portfolio, or fully transfer pension risk, significant thought and preparation is vital to properly prepare and take advantage of market opportunities as they arise. Through effective collaboration with their consultants and asset managers, plan sponsors will have the opportunity to maximize the benefits from the path they have chosen. ❖

1. Based on indicative data using TD Emerald Private Debt PFT and TD Emerald Long Private Debt PFT
2. Approximated as $100mm x 93bps x 11.1 years duration.
3. Effective January 1, 2018, the OSFI Life Insurance Capital Adequacy Test (LICAT) guideline replaced the Minimum Continuing Capital and Surplus Requirements (MCCSR) Guideline, in place since 1992. For example, under MCCSR where a rating is not available for a long-term bond or private placement, from a specified rating agency, the factor used should be based on the insurer's internal rating. The minimum factor that may be used is generally 2%. For example, under LICAT if it is not possible to infer a rating for a bond or loan the risk factor to be used is 6%.
4. A do -it-yourself annuity portfolio can be augmented with longevity risk protection for an even more comprehensive solution.

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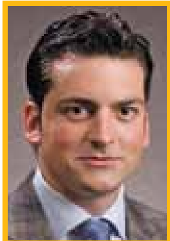
Tool Kit For Mid-Market Pension Plans



Marchello Holditch
Vice President,
CI Investment Management

As we enter 2018 with high valuations for equities, a tight credit spread, rising interest rates and a shrinking money supply, the expected returns for a traditional balanced portfolio comprised of conventional asset classes are diminished. Against this backdrop, Canada's mid-market pension plans face significant challenges.

As *Figure 1* shows, in 1995 attaining a required return of 7% could be achieved using solely investment-grade fixed income. As interest rates declined, plans could simply move into a balanced portfolio of primarily investment-grade bonds and developed market large-cap equites to achieve their required return. Today, this approach no longer suffices. To achieve the same expected return, a plan would essentially need to allocate all of its capital to equities.

Following this strategy has the potential to achieve extreme results, on the upside or downside, as the potential downside for every asset class is increasing (a high degree of correlation) and as inflation may return temporarily to trigger lower bond prices (with the yield curve steepening).

With multi-asset and multi-manager capabilities, CI Investments can help you navigate the challenges presented by today's market and find ways to attain your pension plan's risk and return objectives using a variety of investment tools and strategies.

CI Multi-Asset Management (CIMAM) is responsible for managing CI Investments' customized multi-asset, multi-manager solutions. Based in Toronto, the team oversees approximately $42 billion of assets invested in customized solutions for families, pensions, endowments and foundations and is led by portfolio managers Alfred Lam and Yoonjai Shin.

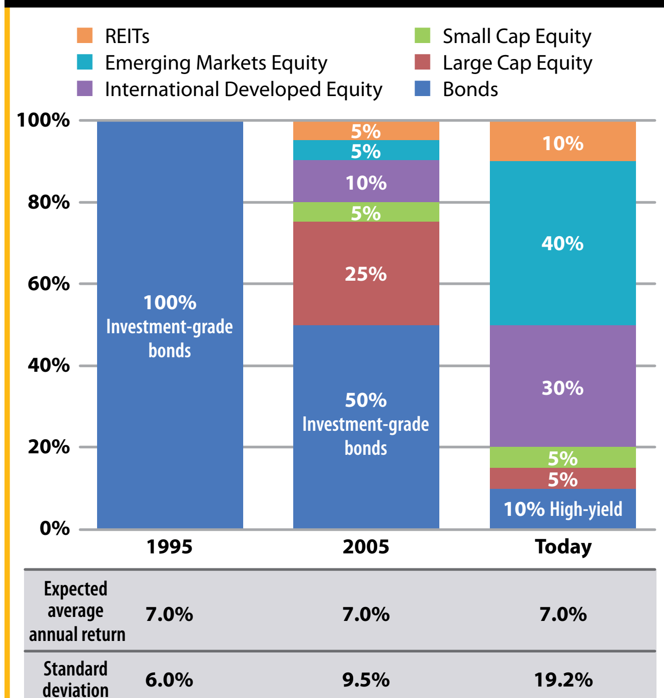
Strategic asset allocation

The team believes that each multi-asset portfolio should be constructed using long-term capital market expectations that are forward-looking and valuation-driven. It applies a strategic asset allocation strategy to form the basis of and overall structure of each portfolio and regularly reviews the strategic asset mixes to ensure that they are reflective of the evolving market environment. It uses its own capital-market expectations driven by valuations and fundamentals, and incorporates research from State Street Global Advisors (SSGA), a global investment manager with over US$2 trillion assets under management. The strategic asset mix is crafted and revisited with ongoing dialogue between the two teams.

Include alternative asset classes and strategies

CIMAM's asset allocation is not limited to the conventional asset classes found in a traditional balanced portfolio. Alternative asset classes allow enhanced upside and downside characteristics and, hence, stronger risk-adjusted performance. Gold bullion for example has been out-of-favour for years, suggesting gold isn't currently over-bought; it is expected to perform well in risk-off environments. The addition of infrastructure and real estate provides the potential for inflation-protected and steady income.

Figure 1: What you need to do for 7%



	1995	2005	Today
Expected average annual return	7.0%	7.0%	7.0%
Standard deviation	6.0%	9.5%	19.2%

As December 31, 2016. For illustrative purposes only.
Source: Research Affiliates, Bloomberg, Larry Berman.

In response to today's low-yield environment and increased volatility in the bond markets, the CIMAM team will reposition its income-oriented portfolios more frequently to benefit from quickly changing valuations. The team's diversified and flexible approach allows it to respond appropriately to changes in valuations as well as to key fixed-income drivers such as duration, term structure, credit risk and foreign currencies.

The income portfolios use asset classes not found in traditional balanced portfolios such as corporate high-yield bonds, emerging market sovereign bonds and floating rate loans. The team also utilizes derivatives to enhance the upside and downside characteristics of the sovereign bond portion. By selling call options on a covered basis, the portfolio can earn additional income. Also, the team may take a long position in call options in lieu of bonds, or own put options to limit any downside.

Managing currency risk

A portfolio's return can also be significantly affected by currency values if an investor's entry or exit point occurs at a time when the relevant exchange rates are at extreme levels. Given the unpredictable and volatile nature of currency markets, the CIMAM team regards foreign currencies as a meaningful source of portfolio risk, which is best managed using a disciplined, valuation-based framework. The team applies a mean reversion-based strategy that adjusts currency exposure by increasing exposure when cheap and reducing exposure when expensive – effectively buying low and selling high. Inputs that go into determining the long-term fair value of exchange rates include purchasing power parity, historical averages and productivity differentials.

When both global equity and fixed income valuations are at high levels, asset allocation alone may not provide sufficient downside protection. The CIMAM team employs portfolio insurance strategies using derivatives, while paying close attention to the implicit and explicit costs of these strategies. For example, portfolios using equity put options as protection can benefit from spikes in market volatility without any significant performance drag if the markets continue to reward risk taking.

Selecting the managers

CI Investment Management is responsible for manager research and oversight of CI Investments' $144 billion in assets (as of December 31, 2017). The manager structure of CI Investments' customized multi-asset, multi-manger solutions is crafted and revisited with ongoing dialogue between CI Multi-Asset Management and CI Investment Management. Currently, CI Investments has relationships with 22 portfolio management firms that provide investment management of specific asset classes based on different styles. I lead the manager research and oversight function and believe that active management at the security level can also help plans achieve their risk and return objectives.

Managers are selected based on a proven philosophy and process, a strong team, solid track record, and how well the portfolio management teams complement each other and add value to the overall portfolios.

True active management can help limit downside

Managing volatility and protecting against market downturns becomes increasingly important as we progress through the later stages of the economic cycle. CI Investment Management favours managers who excel at security selection and who aren't afraid to deviate from the benchmark (high active share) to achieve attractive returns and potentially lower volatility.

Once managers are selected, CI Investment Management follows a defined oversight process and regularly monitors the performance and positioning of the portfolios. CI Investment Management holds a formal, bi-weekly meeting to discuss shorter-term performance and any major changes in portfolio positioning or holdings. On a quarterly basis, detailed performance attribution is created using holdings-based and factor-based methods. CI Investment Management meets with the portfolio managers at least twice a year to review and discuss performance, investment process and resources, and to gain further insight into their investment outlook, strategies and portfolio positioning. A portfolio manager or strategy may be replaced in the event of a major change in leadership (such as a key portfolio manager leaving the firm), business (the firm being bought, sold or merged with another organization), process (a key change in the way securities are evaluated) or performance (several periods of underperformance).

In addition to employing the services of active managers, CI Investment Management has access to a broad range of internal and external factor-based exchange traded funds as an alternative approach to achieving specific objectives such as gaining exposure to certain factors, adjusting styles or reducing volatility. ❖

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Incorporating Alternative Investments Efficiently and Effectively

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With current interest rates well below historical averages and elevated equity valuations, forward-looking expected returns are declining for many investors. By our estimates, investment returns over the next 10 years for a traditional portfolio mix of 60% equities and 40% bonds could be 1.5% to 2% lower than the last decade.

Pension plans invested in diversified stocks and bonds are left with three options:

1. Increase equity risk and/or credit risk to enhance returns
2. Accept lower returns
3. Seek alternative and private investments

The largest defined benefit and defined contribution pension plans in Canada have been incorporating alternative and private assets into their asset mix at an increasing rate. This shift has been driven by the potential for higher returns as well as additional diversification and risk mitigation benefits. In Canada, the most popular alternative asset classes for pension plans have been direct real estate, infrastructure and private debt, including mortgages.

Private Market Premiums

Private market premiums refer to the incremental compensation that private investments can provide. The premiums are derived from factors, including infrequent trading of private assets, higher costs related to access, and fewer providers of capital in private markets. Infrequent trading of private markets has the potential to lead to incremental returns. For example, we can think of an investor faced with two investments of similar risk. Investment A trades in public markets and can be converted to cash on demand through an exchange. Investment B trades in private markets meaning the ability to buy and sell involves more uncertainty and time. The investor should demand a higher return for investment B as they have given up the option of immediate conversion to cash.

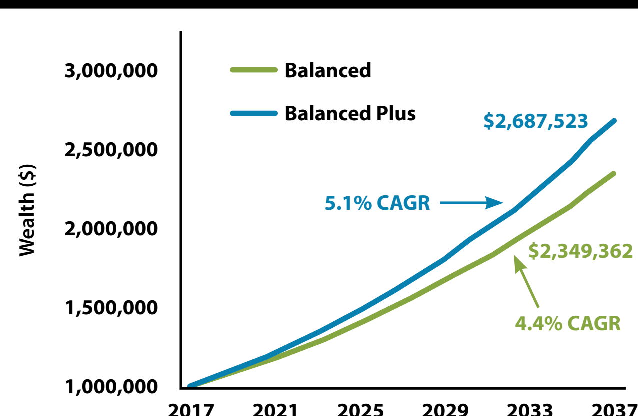
Challenges Faced by Mid-Sized Plans

In recent years, mid-sized defined benefit and defined contribution pension plans have also adopted alternative and private assets at an increasing rate. With less scale, staff and administrative resources, there can be a challenge with the additional governance, liquidity planning, risk management and fees often associated with alternatives.

The challenges are often faced in day-to-day implementation and not seen in theoretical asset mix or asset liability optimization. As an example, private asset classes are often associated with a funding period to gain target allocations or redeem assets for rebalancing or disbursement needs. Investment staff or their advisors are required to coordinate trading and settlement across managers and custodians. Questions can also arise as to the optimal mix of proxy assets during the funding period.

By definition, private markets do not provide the same level of data as public markets. As a result, due diligence and underwriting to access private markets requires higher costs. These higher costs require higher commensurate returns to justify the time and energy. Larger pension plans often have enough scale to manage assets in-house or to implement at lower fee thresholds through third parties. Mid-sized pension plans have been faced with a higher fee structure for their plan in order to harvest the benefits of private markets.

Figure 1: Monte Carlo Simulation Of Traditional Balanced Versus Balanced With Private Markets



Source: S&P/TSX. MSCI. Morningstar Direct. Investment Property Databank. Mercer MPA. FTSE TMX. S&P. Greystone. No assurance that expected returns will be achieved. Past performance is not a guarantee of future performance.

Are Alternatives Worth The Challenge?

Figure 1 illustrates the median growth of $1,000,000 from a Monte Carlo simulation of 50,000 potential market outcomes over a 20-year period. Projected returns are compared for a traditional 60/40 balanced fund against a balanced fund with direct real estate, infrastructure and private commercial mortgage debt.

The premium from alternatives is a 0.7% higher return for the balanced fund with alternatives. Equally important is the lower volatility of the balanced fund with alternatives (6.9%) versus the traditional balanced fund (8.0%). This incremental return is achieved without an increase in expected portfolio volatility.

Finding incremental return potential with lower risk is meaningful for both plan sponsors and plan members. In DC programs, this incremental expected return increases the probability of achieving sufficient retirement account values. The benefit from alternatives for DC plan members can be more material to savings outcomes than decisions around active versus passive, manager selection and even customized portfolio mixes. For defined benefit programs, incremental return can bring portfolios closer to long-term required returns. With an increased focus on liability relative risk, this return can come in the form of more stable cash flow generating investments.

A Simpler Path for Mid-Sized Pensions

Single manager structures provide a number of opportunities for simplifying and efficiently integrating alternative investments. A single manager can help gain fee scale and provide a single point for managing contributions and redemptions. Where a single manager can be retained for multiple asset classes, including equities and bonds, sponsors can delegate the administration of capital calls and redemptions completely and gain additional fee scale. A single manager structure can also aid in governance and oversight as any unintended costs or risks will become visible in total plan returns. The accountability for efficient implementation and alignment of interests can be partially shifted to the asset manager.

For defined contribution plans, target date and balanced fund structures with alternatives overcome liquidity challenges of member-driven allocations.

With expectations for lower future returns, mid-sized plans are seeking greater and more diversified alternative asset class exposure. The good news is that solutions are coming to market that help manage the operational, administrative, oversight and scaling roadblocks that many mid-sized programs faced in the past. ❖

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