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WEALTH MANAGEMENT

Pre-Allocated Portfolios

The Next-Generation of 401(k) Portfolio Management

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Agenda

- Key Considerations
- Pre-Allocated Portfolios as a Differentiator
- Fiduciary Implications
- Implementing the Investment Process
- Pros and Cons
- Utilization Rates and Education Strategies
- Provider Issues and Considerations
- Q&A



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Key Considerations

- Does my business model support it?
- Can I accept fiduciary responsibility?
- Do I have a cohesive investment strategy?
- Can I articulate and communicate it succinctly?
- Are my clients with a provider(s) who will support it?
- How do I implement the strategy?
- What level of engagement will I have (if any) with participants?
- In-house or outsourced?



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Differentiation

- Fiduciary acceptance and/or delegation for the plan sponsor
- Level and transparent compensation
- Customization
- Hands-on approach
- Responsibility and credit for delivering returns
- Provide experiential basis for cross-selling opportunities



Fiduciary Implications

- Acceptance of ERISA fiduciary responsibility
- Held to the standards of ERISA 404(a)
- Discretionary or non-discretionary?



Implementation

- Focus on scalability
- Borrow private client strategies and/or leverage investment committee decisions, if possible
- Develop a fixed number of portfolios
- Active, passive or a combination?
- Try to replicate across your client base as much as possible (same allocations/same funds)
- Choose whether to automatically or manually rebalance at the appropriate intervals



Pros & Cons

- Pros
 - Differentiate your practice
 - Best of breed approach
 - Eliminate conflicts and proprietary limitations
 - More control and greater exposure to certain asset classes
 - Decoupling
- Cons
 - May not qualify as a QDIA
 - Challenges of incorporating a glide path
 - Importance of being consistent and following through



Utilization Rates & Education Strategies

- Most participants don't want to do it themselves
- Adoption rates typically range between 70-100%
- High incidence of correct usage
- Enrollment/re-enrollment plays a significant role in adoption
- Education should be primarily focused around:
 - Communicating the investment process in a simplified way
 - Helping participants choose the right portfolio and using it correctly
- Helpful to review and compare performance in future periods




Provider Issues & Considerations

- Not all providers provide these capabilities
- Technology
- Competition for target-date funds
- Revenue implications
- Evolution of technological capabilities



Q&A

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