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# The Ins and Outs of White Label Funds

This webinar will begin at 10 am PDT

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# Discussion Outline

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- Background
- Who should use them
- Role on the DC plan menu
- Illustrative clean sheet structure: Non-U.S. Equity
- Operations
- Approach
- Participant communications
- Key takeaways

**We expand on this topic in our white paper**

[White Label Funds: A Non-Nonsense Design Handbook](#)

published in the *Journal of Retirement*.

# About the Authors

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**Rod Bare** is a consultant in Callan's Chicago Fund Sponsor Consulting office. Rod joined Callan in 2014 and works with a variety of public and corporate defined benefit and defined contribution plan clients. His responsibilities include strategic planning, implementation, performance evaluation, and continuing education.



**Jay Kloepfer** is Director of Callan's Capital Markets Research. The Capital Markets Research group helps Callan's fund sponsor clients with their strategic planning, conducting asset allocation and asset/liability studies, developing optimal investment manager structures, evaluating defined contribution plan investment lineups and providing custom research on a variety of investment topics. He is a shareholder of the firm.



**Lori Lucas, CFA**, is Callan's Defined Contribution Practice Leader. She is responsible for setting the direction of Callan's DC business, providing DC support both internally to Callan's consultants and externally to Callan's clients, and developing research and insights into DC trends for the benefit of clients and the industry. She is a shareholder of the firm.



**James Veneruso, CFA, CAIA**, is a defined contribution consultant in Callan's Fund Sponsor Consulting group based in the Summit, New Jersey office. Jimmy joined Callan in 2007 and is responsible for providing analytical support to Callan's DC clients and consultants. He conducts research and analysis of target date strategies and assists plan sponsor clients with target date manager searches and suitability studies. He is a shareholder of the firm.

# What Are White Label Funds?

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**Simple** on the outside

**Sophisticated** on the inside

**Structured** to reinforce fiduciary standards

## Non-U.S. Equity Fund

- Intuitive naming (finally!)
- Menu simplicity
- Institutional-grade
- Fiduciary friendly



# Background

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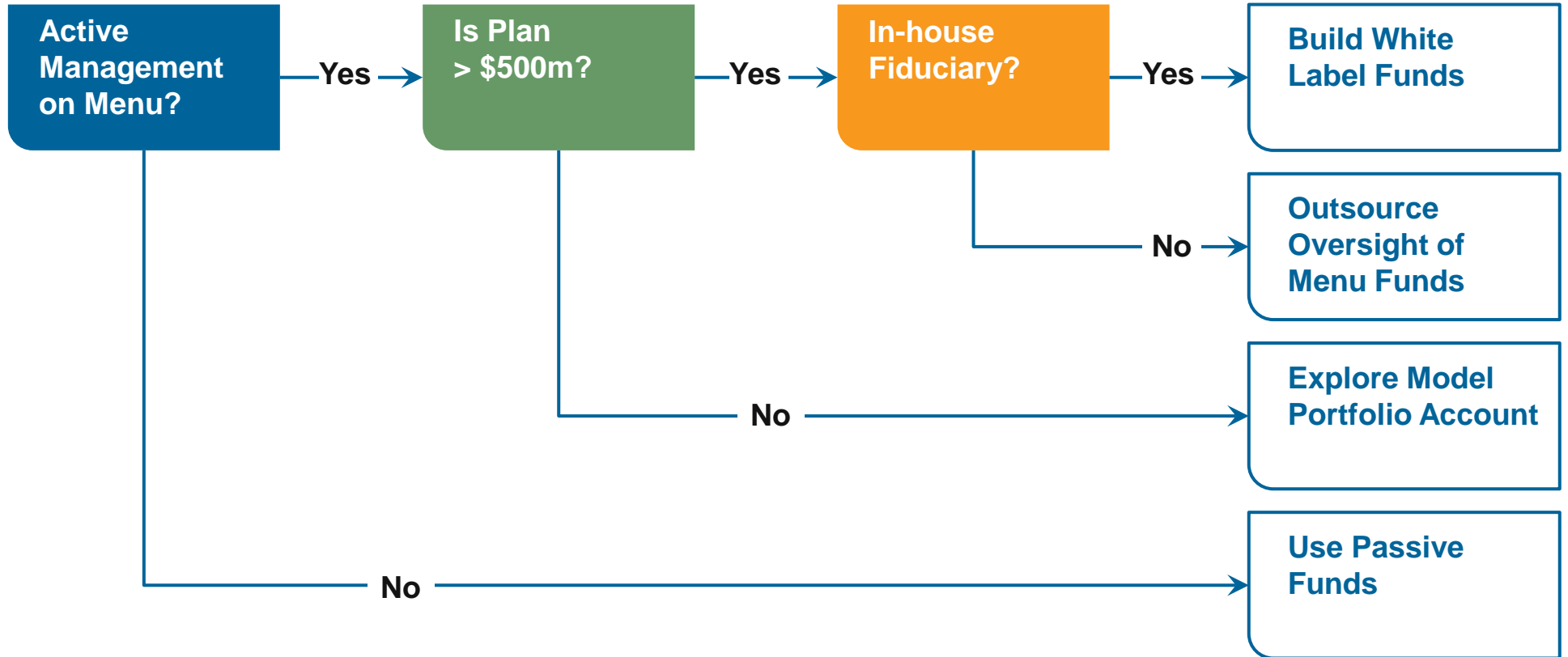
## The case for asset class funds

- Simplify the menu
- Engineer for continued DC asset growth
- Address single-manager risks
- Rebalance the styles/mind the “smart betas”
- Harness economies of scale
- Reduce the administrative burden
- Support the unbundling of QDIA solutions

## Challenges for plan fiduciaries

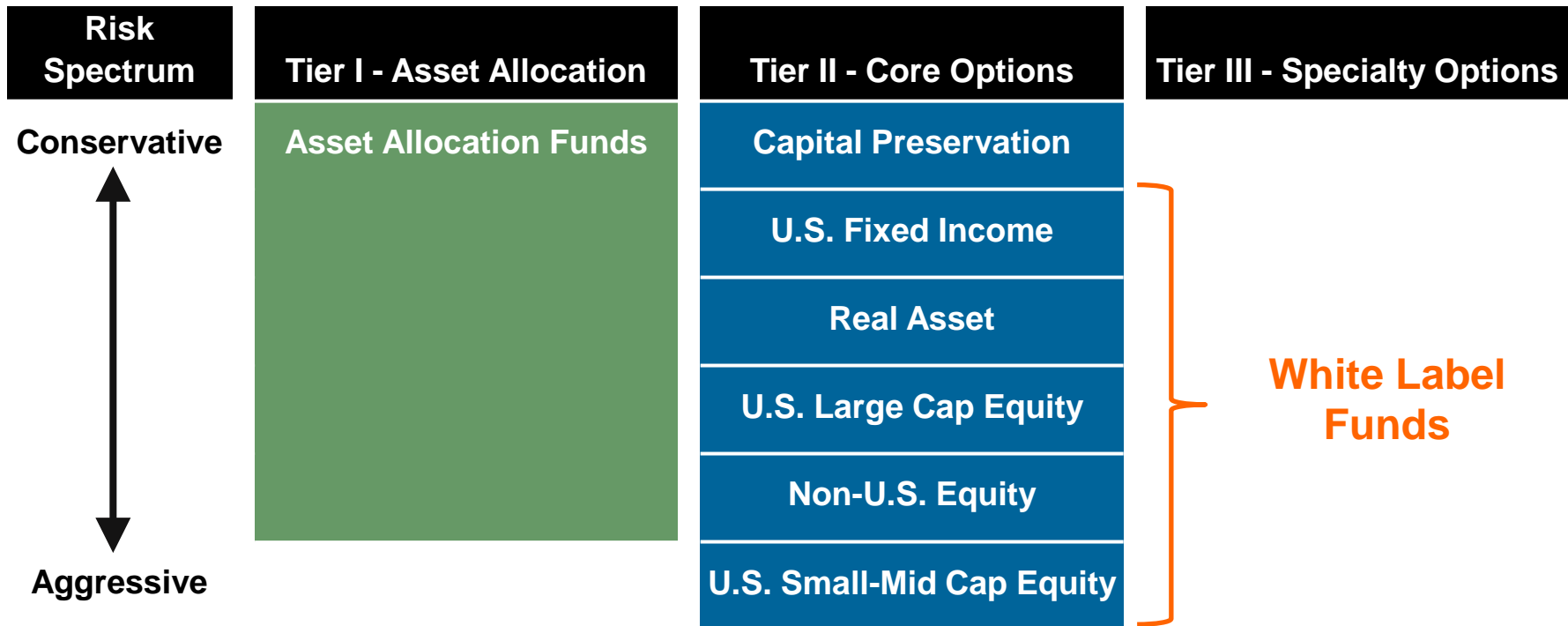
- Making the case with the committee
- Accommodating incumbent funds
- Addressing operational details
- Positioning for the future
- Upgrading plan governance
- Providing the disclosures/communications
- Monitoring relative to objectives

# The Path to White Label Funds



# Clean Sheet DC Plan Menu

Streamlining reduces choice overload



Participant Flows

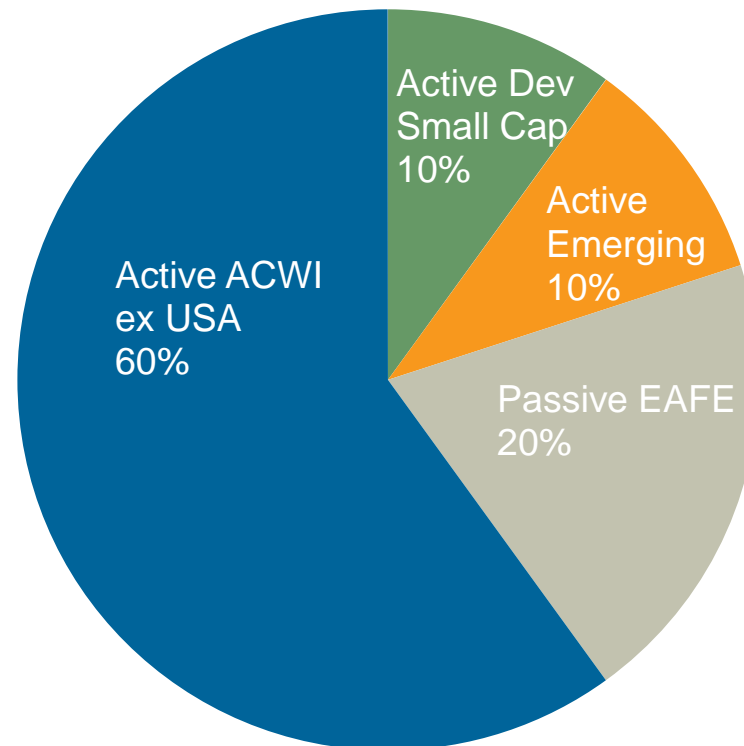
As Tier I building blocks, white label funds can scale and remain healthy, even as contributions shift away from Tier II to Tier I

# Clean Sheet Non-U.S. Equity Fund Structure

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- Setting objectives
- Benchmark selection
- Role of passive
- Emerging markets
- Small cap allocation

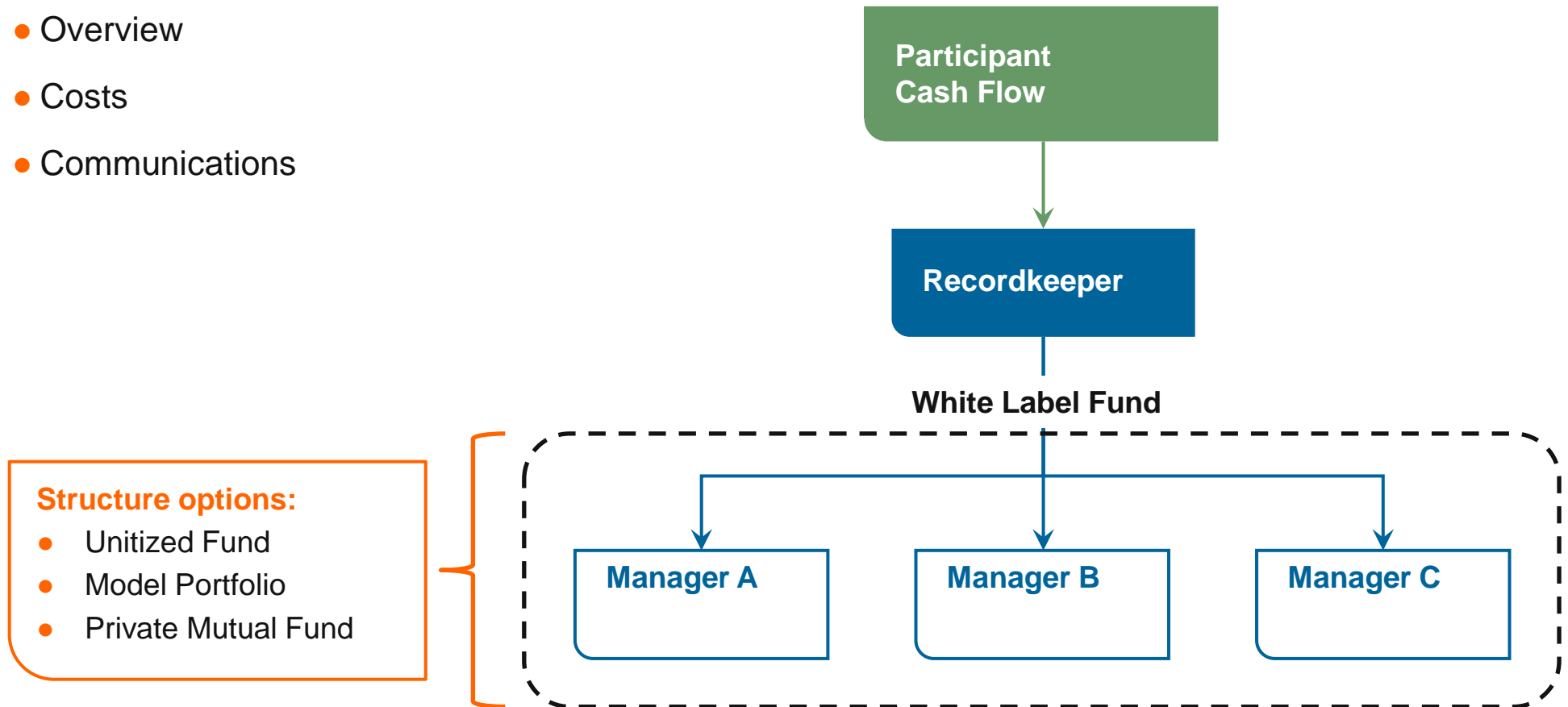
## Non-U.S. Structure





# Implementation Considerations

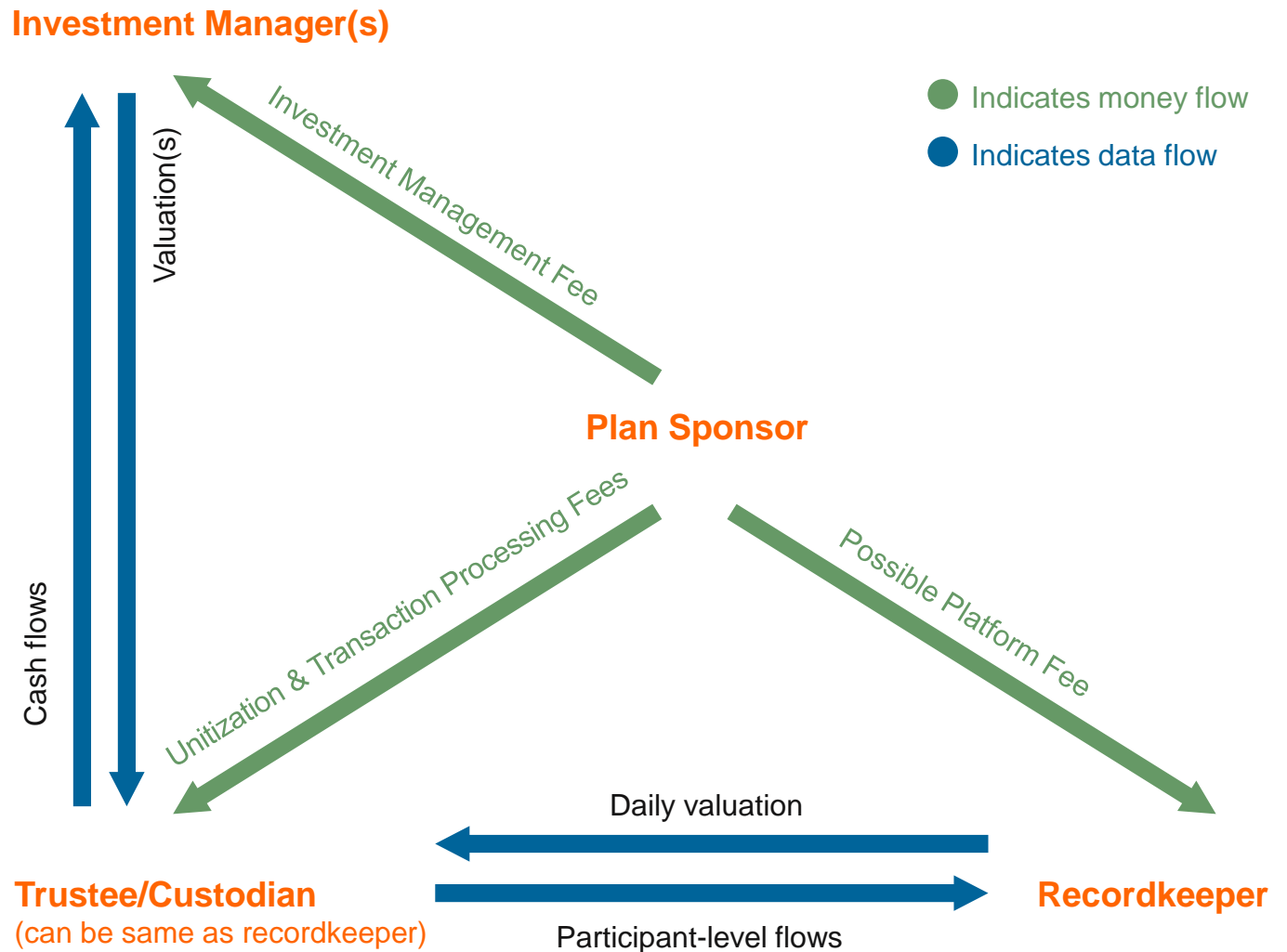
- Overview
- Costs
- Communications



# No Free Lunch

## Plan Sponsor Roles and Responsibilities

- Fiduciary responsibilities
- Service provider considerations
- Ongoing monitoring



# Participant Communications

- Factsheets
- Expense disclosures
- Setting expectations

December 31, 2016

## International Equity Option

### Investment Objective

**International Stock Option:** This option seeks long-term capital appreciation by investing primarily in stocks issued by companies based outside the United States.

### Investment Strategy

The advisors of the Funds used in this option manage diversified portfolios of stocks issued primarily by companies domiciled outside the United States. Each of the three Funds employs a different strategy that is complementary to the other two. They include a growth-oriented portfolio, a value-oriented portfolio, and a dedicated small cap portfolio. When combined, these three strategies are designed to provide diversified exposure to the international equity markets.

The advisors use a combination of fundamental, quantitative, and macroeconomic analysis to identify companies held in the portfolio. The Investment strategy is long-term and seeks to out-perform the MSCI ACWI (ex-U.S.) index over time net of fees. No assurances can be made that the option will achieve its investment goals.

### Management Information

**Blended Expense Ratio:** 0.55%

**Advisor (Investment Option):**

**Advisors (Sub-Funds):** BlackRock, Inc. (97182P324)  
 Capital Research & Mgmt. Co. (RERGX)  
 Franklin Templeton Invstmnt (FTFGX)  
 First Eagle Invstmnt Mgmt. (SGOIX)  
 Dimensional Fund Advisors (DFISX)  
 Dimensional Fund Advisors (DFCEX)

**Plan Recordkeeper:** Schwab

### Investment Characteristics

**Risk Level**

**Time Horizon**

### Investment Performance Ranking (Periods Ended December 31, 2016)

*This chart compares the option's net-of-fee performance to mutual funds with similar objectives (in this case the Lipper International Equity Objective Mutual Fund Universe). The number next to each bar indicates the option's ranking for that period. Past performance is not indicative of future results. Please see additional performance disclosures on second page.*

| Period       | International Equity Option (A) | MSCI USA IMI (B) |
|--------------|---------------------------------|------------------|
| Last Quarter | (1.74)                          | (1.57)           |
| Last Year    | 6.56                            | 4.41             |
| Last 2 Years | 4.11                            | (0.20)           |
| Last 3 Years | 1.87                            | (1.44)           |
| Last 5 Years | 7.99                            | 5.35             |

# Key Takeaways

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White label funds offer a rich, diversified exposure to active management, in a thoughtfully designed portfolio that reflects institutional best practices, addresses single manager risk, and allows for meaningful simplification of the DC fund lineup

## White Label Readiness Checklist

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### Adequate DC plan assets

Typically \$500 million or larger to offset white label “overhead” costs

### Commitment to active management

White label structure not necessary for passive funds

### Internal resources

Investment and operational skillsets available

### Sustainable scale

Stand-alone fund cash flow trends positioned to support ongoing overhead expense

### Communications

Capability at staff or service provider level to produce required disclosures



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