



# Deep Dive into the Callan DC Index

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## Presenters



**Ann O'Bradovich** is a senior vice president and the manager of Callan's Chicago Fund Sponsor Consulting office. Her responsibilities include strategic planning, implementation, performance evaluation, and continuing education. Ann is a member of Callan's Management and Client Policy Review Committees and a shareholder of the firm.

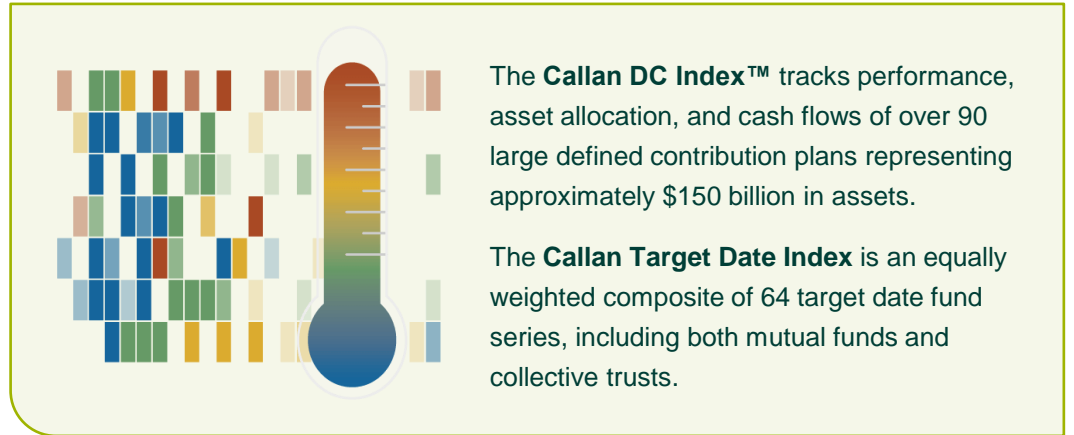
**James Veneruso, CFA, FRM, CAIA**, is a senior vice president and defined contribution consultant in Callan's Fund Sponsor Consulting group. He is responsible for research and analysis of target date strategies and assists plan sponsor clients with target date manager searches and suitability studies. He is a shareholder of the firm.

# Same Train, Different Time

“No man ever steps in the same river twice”

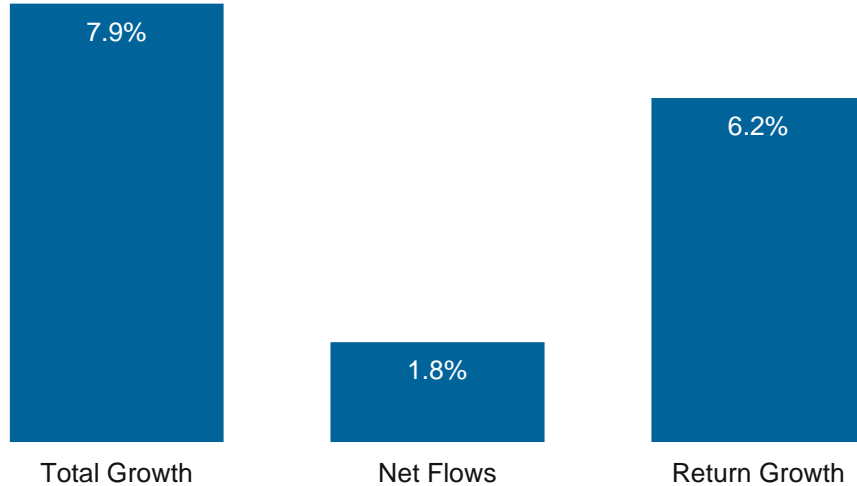
— *Heraclitus*

- Various factors drive trends and often these factors are indirect
- Client meetings provide anecdotal evidence from the “front lines”
- We will examine if there is substance to various trends within the defined contribution market
- Observations are based on the Callan DC Index™ and the Callan Target Date Index



# The DC System is Growing ... Right?

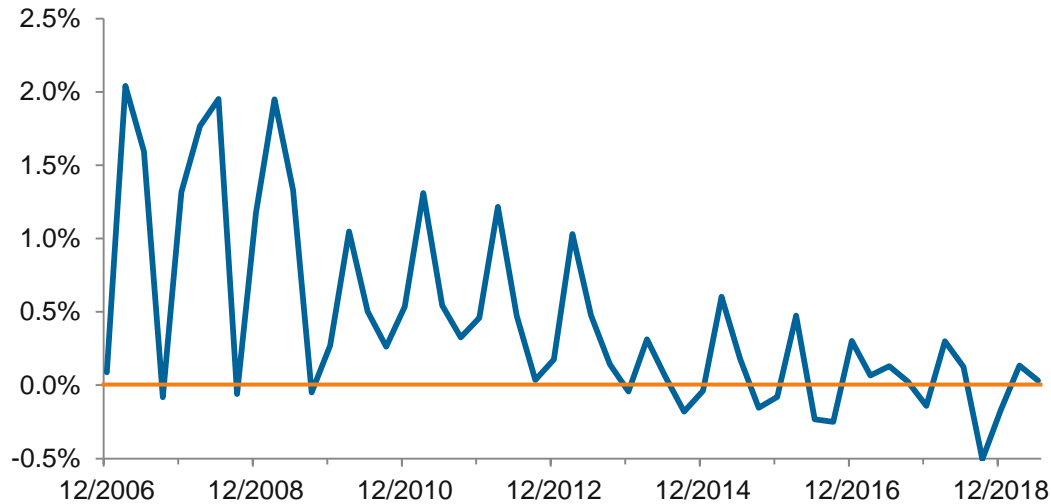
## Callan DC Index \$ Growth Sources Annualized Since Inception (1/1/06)



Growth has been robust and comes from both investment gains and inflows.

# The DC System Is Growing ... Right?

## Net Flows



Due to contribution limits, flows peak earlier in the year. Observe how the peaks have decreased overtime. Retirees usually have the largest balances.

**Keep in mind that those in their 50s and 60s make up 36% of participants but 63% of assets.\***

\*Source: "401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016," EBRI

# Demographics and Plan Design Impact Flows

2009		2010		2011		2012		2013		2014		2015		2016		2017		2018	
Target Date	36%	Target Date	40%	Target Date	47%	Target Date	63%	Target Date	71%	Target Date	82%	Target Date	70%	Target Date	61%	Target Date	73%	Target Date	59%
Non-US Eq	14%			US Fixed	16%														
Smid Cap	9%			Stable Val	14%									Stable Val	21%				
US Fixed	7%	US Fixed	11%	Money Mkt	3%	US Fixed	4%			US Fixed	4%	Real Estate	2%	US Fixed	9%	Non-US Eq	14%	Stable Val	10%
Large Cap	4%	Smid Cap	2%	Real Rtn/TIPS	3%	Real Rtn/TIPS	2%			Non-US Eq	2%	Non-US Eq	1%	Money Mkt	2%	US Fixed	7%	Money Mkt	4%
Real Estate	1%	Real Estate	1%	Non-US Eq	3%	Money Mkt	2%			Real Estate	1%	Money Mkt	1%	Real Estate	1%	Real Rtn/TIPS	1%	Brokerage	2%
EM Equity	1%	Money Mkt	1%	Real Estate	1%	High Yield	1%	Smid Cap	7%	Real Rtn/TIPS	1%	Real Rtn/TIPS	1%	Real Rtn/TIPS	1%	EM Equity	1%	Real Rtn/TIPS	1%
High Yield	0%	High Yield	0%	High Yield	0%	Real Estate	0%	Non-US Eq	1%	High Yield	0%	EM Equity	1%	EM Equity	0%	High Yield	0%	High Yield	0%
Brokerage	-1%	Real Rtn/TIPS	-0%	EM Equity	-2%	Brokerage	-0%	High Yield	-0%	EM Equity	-0%	High Yield	-1%	High Yield	-0%	Real Estate	-2%	Real Estate	-0%
Real Rtn/TIPS	-2%	EM Equity	-1%	Brokerage	-4%	Non-US Eq	-1%	EM Equity	-0%	Money Mkt	-2%	Brokerage	-2%	Brokerage	-5%	Brokerage	-4%	US Fixed	-0%
Money Mkt	-6%	Stable Val	-3%	Smid Cap	-5%	EM Equity	-1%	Real Estate	-1%	Brokerage	-4%	US Fixed	-3%	Non-US Eq	-7%	Money Mkt	-4%	EM Equity	-0%
Comp Stk	-19%	Non-US Eq	-6%	Large Cap	-32%	Stable Val	-3%	Money Mkt	-2%	Large Cap	-12%	Stable Val	-4%	Smid Cap	-16%	Large Cap	-17%	Non-US Eq	-5%
Stable Val	-37%	Large Cap	-10%	Comp Stk	-34%	Smid Cap	-14%	Real Rtn/TIPS	-3%	Comp Stk	-19%	Smid Cap	-12%	Comp Stk	-23%	Smid Cap	-18%	Smid Cap	-13%
		Brokerage	-15%			Comp Stk	-17%	Large Cap	-4%	Stable Val	-20%	Comp Stk	-21%	Large Cap	-33%	Comp Stk	-20%	Comp Stk	-15%
		Comp Stk	-17%			Large Cap	-28%	Brokerage	-5%	Smid Cap	-28%	Large Cap	-28%			Stable Val	-28%	Large Cap	-34%
								Stable Val	-9%										
								US Fixed	-27%										
								Comp Stk	-35%										

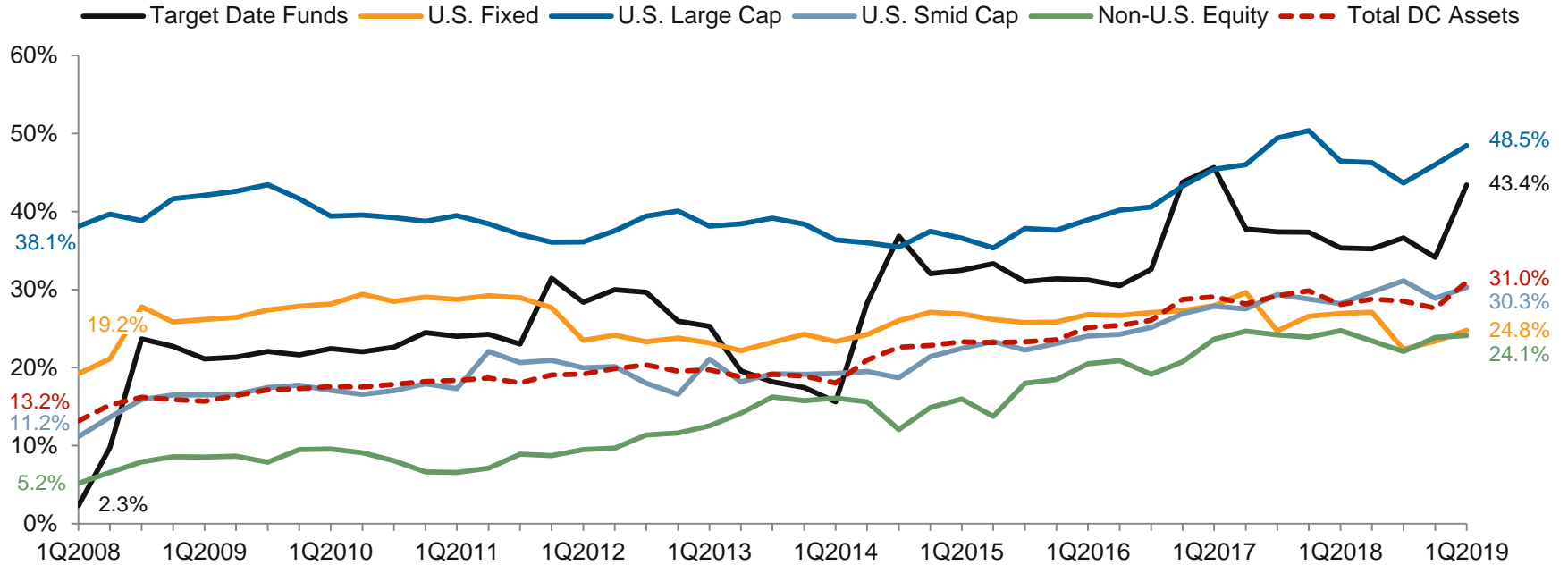


In Flows

Out Flows



# A Long Steady Shift to Passive



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## Size Matters

### Impact of size

**The bigger the plan, the more likely it is to have assets managed passively.**

- The good news for active managers: There are fewer big plans.
- The bad news: They are big plans.

**Within the DC Index 69% of assets are actively managed but ...**

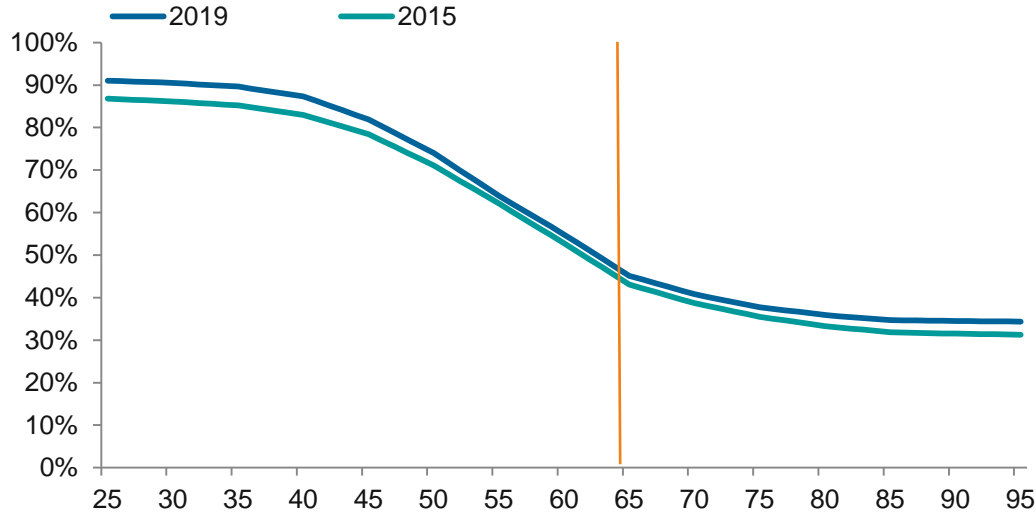
- Plans with less than \$1 billion: 72% of assets in plans are invested in active mandates.
- Plans over \$1 billion: The allocation to active shrinks to 56%.



# Keeping Up with the Joneses

Have TDF providers become more homogeneous?

## Allocations to Growth Assets

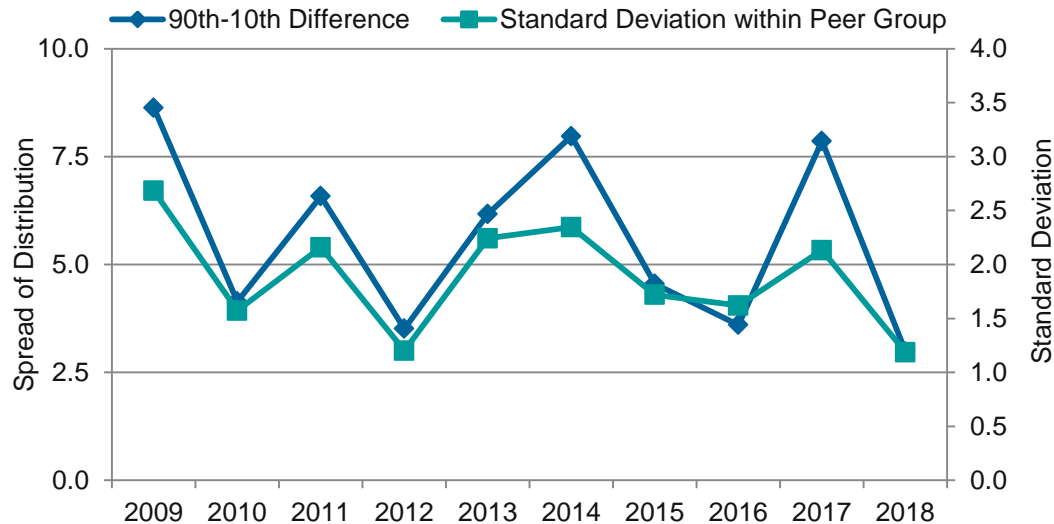


Over the past four years, providers have become more aggressive at the long end and the short end with less of a shift in between.

# Speaking of Target Date Funds

Have TDF providers become more homogeneous?

## Dispersion of Returns



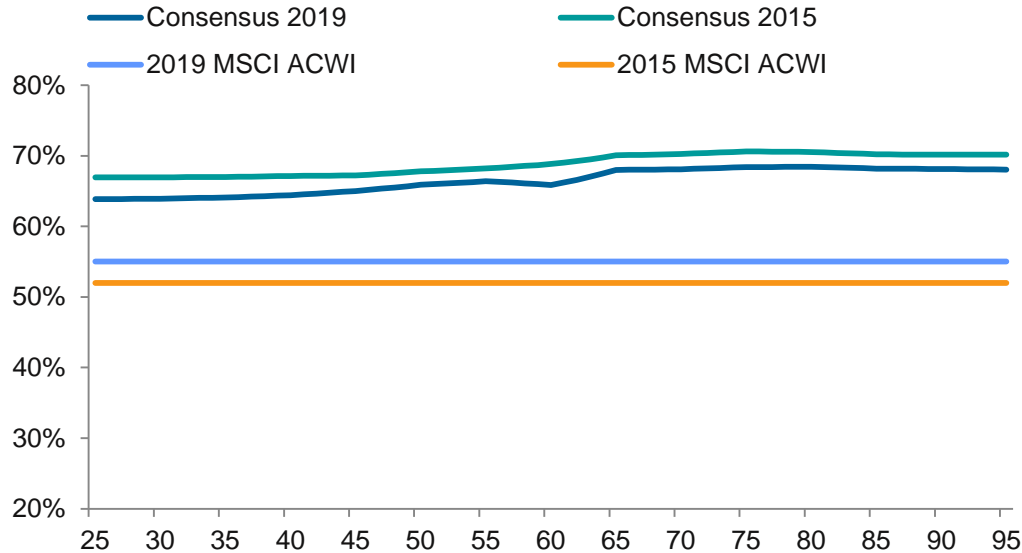
Although there is still plenty of dispersion in results, when examining the largest providers there is less variability:

**Looking at just the largest providers: the average standard deviation is 1.4 vs. 1.9 for all peers.**

# Speaking of Target Date Funds

Home country bias is still alive and well

## U.S. Equity as a Share of Total Equity



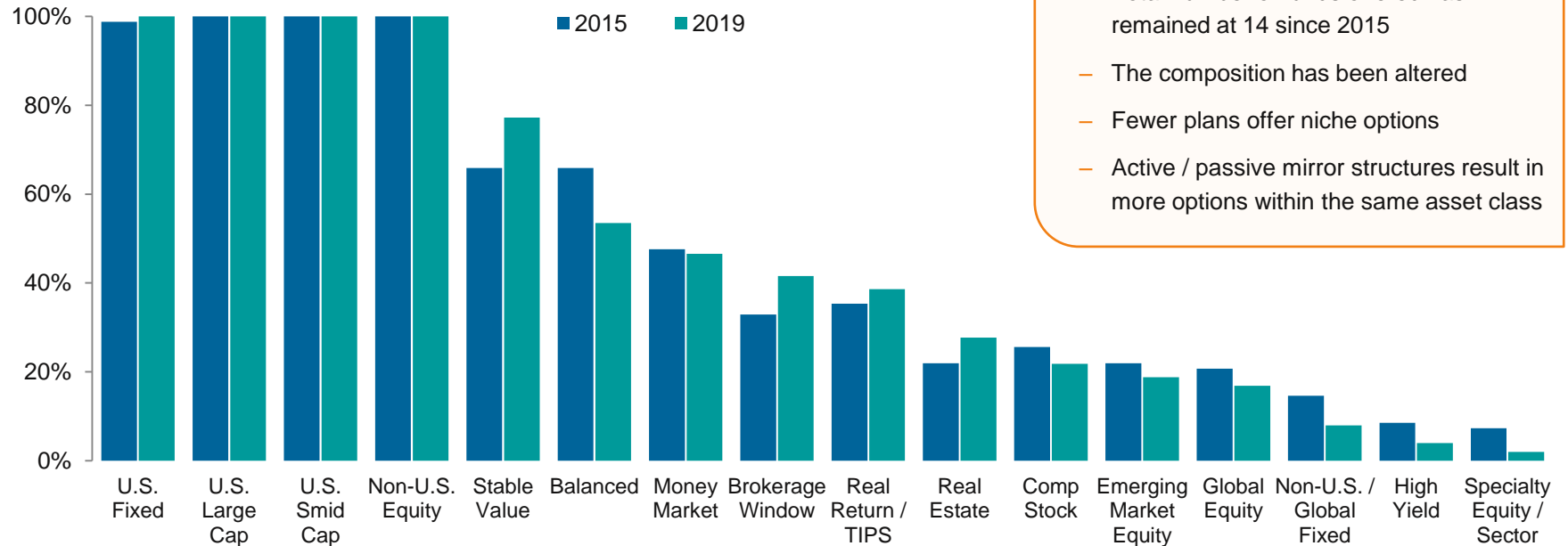
The extent of the home country bias has decreased but is still material when compared to global cap weights.

The target date home country bias pales in comparison to what participants do on their own when using the core lineup. **Their bias stood at 82% in 2015 and 83% in 2019. It has consistently been north of 80%.**

# Enough About Target Date Funds!

Trends with the core lineup

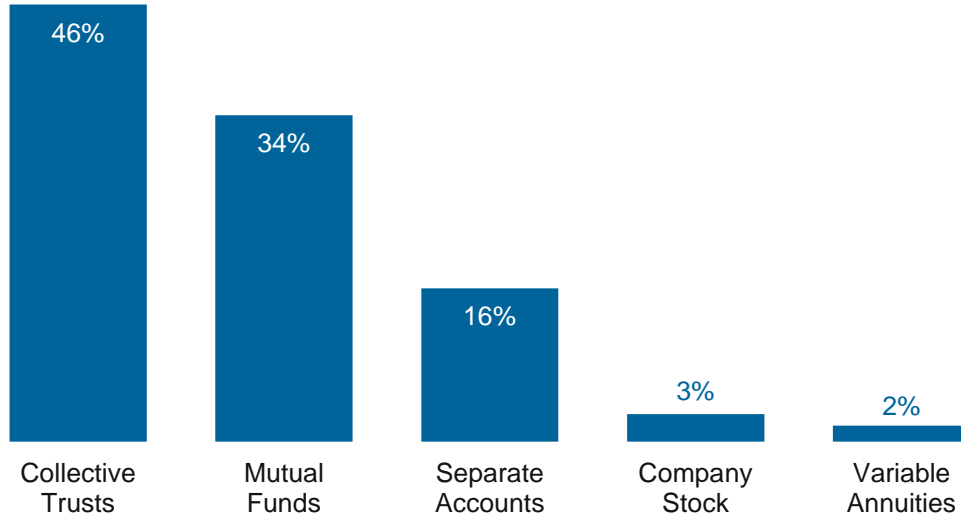
## Prevalence of Options



# Vehicular Fundicide

Where are those assets?

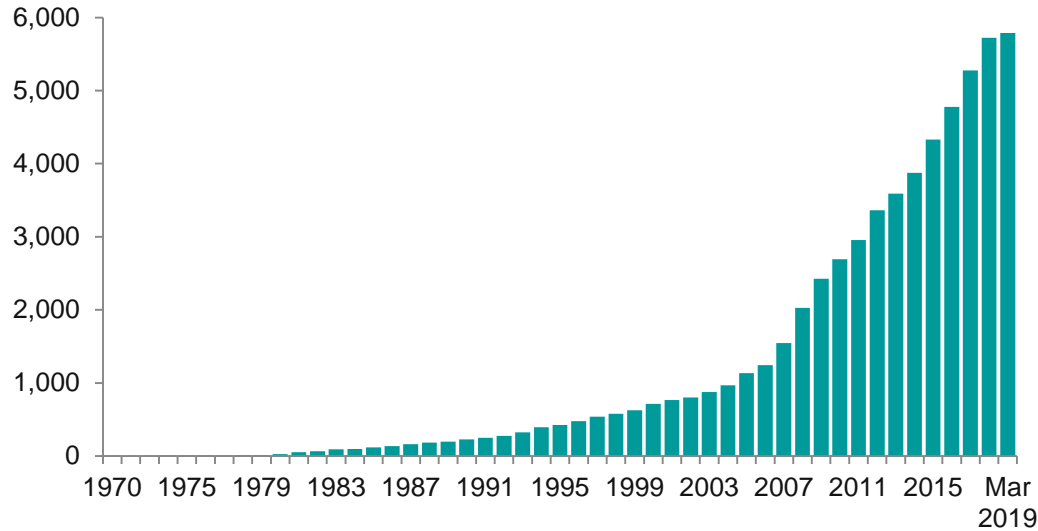
Vehicles within the DC Index (as of 2019)



Collective trust share of total assets is now above that of mutual funds.

# If You Build It, They Will Come

## Total Number of Open Collective Trusts



Collective trust products have proliferated over the past decade.

**Fun fact:** The Office of the Comptroller of the Currency has five employees assigned to collective trust oversight.

Year-end data and YTD March 31, 2019 shown



# TAKEAWAYS

- Demographics are impacting cash flows within asset classes and the DC system in general
- Asset managers have reacted to fee compression in part by utilizing vehicles with lower overhead which translates to lower fees
- Within target date funds, there has been an increase in allocations to growth assets. How will plan sponsors and participants react during the next downturn?
- In the DC market trends are slow to emerge unless there is changing regulations – open MEPs?



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