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FOR IMMEDIATE RELEASE**DCIO Assets and Sales Are Improving While Challenges Remain***Fee Cuts and Collective Investments Threaten Margins*

October 23, 2019, Newton, NH – After a rough end to 2018—the result of falling stock prices—DCIO (Defined Contribution Investment-Only) assets rebounded in the first half of 2019 and are on track to break \$4.4 trillion by the end of 2019. Sway projects AUM expansion of 15% this year, driven by solid returns in both equity and bond markets, as well as gradual improvement in gross and net sales. Over the 12-month stretch from mid-year 2018 to mid-year 2019, the average asset manager surveyed by Sway saw its DCIO assets grow by more than 6%, as 85% of firms experienced a rise in DCIO AUM. Sway estimates DCIO assets will make up 51% of the total DC market at year-end 2019 and will reach 54% by the end of 2023. Sway’s model has assets in proprietary recordkeeper products falling to 39% market share this year and 36% in 2023. These are just a few of the findings in Sway Research’s latest research study, *The State of DCIO Distribution: 2020—Key Benchmarks, Developing Trends, Winners and Outlook*, which is based on surveys and interviews of DCIO sales leaders and DC plan intermediaries.

DCIO Sales Environment Challenging but Improving

Half the managers surveyed by Sway experienced net redemptions of DCIO assets in the first half of 2019 and in 2018, but this was an improvement over 2017 when 60% were in net outflows, and the level of net outflows is declining. Managers in Sway’s Tier 1B segment, which manage an average of \$59B of DCIO AUM, averaged DCIO net outflows of \$1.4B in the first half of 2018, but this shrunk to less than \$300M in the first six months of 2019. First-half 2019 DCIO gross sales for the average Tier 1B manager were equal to 53% of the full-year 2018 figure, suggesting these managers are on track for stronger full-year 2019 effort. Managers have had a lot of challenges to adapt to in recent years, including intense downward pressure on fees and the subsequent rise of Passive management, as well as the proliferation of Target-Date solutions.

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In response, firms have made changes to product lines—fee cuts, zero-revenue pricing, collective trusts, etc.—and sales efforts—greater emphasis on retention, enhanced coverage of aggregators and model-builders, investment in sales analytics and so on—and these moves are beginning to pay dividends.

Zero-Revenue Pricing and CITs Flourishing

DCIO sales generated via zero-revenue mutual funds (i.e., those that do not pay revenue sharing to distributors from fund fees) spiked this year, as did sales generated via CITs (Collective Investment Trusts), which are typically zero-revenue vehicles. These trends are visible across all four of the manager segments (based on DCIO AUM and investment) analyzed by Sway Research. For example, the average Tier 1A manager, which controlled \$256B of DCIO AUM as of mid-year 2019, saw the share of gross DCIO sales from zero-revenue products jump from 71% a year ago to 82% this year. Additionally, the average Tier 1A manager is capturing 26% of DCIO sales via CITs this year vs. 17% in 2018.

This year, Sway asked asset managers to rate the demand and need for an array of Retirement-specific mutual fund share classes and found that most firms now feel that shares with 100 and 75 basis point 12b-1 fees are no longer needed, while the need for 50 basis point shares is fading fast. The only share classes that a majority of DCIO executives agree are both needed and making a significant impact on DCIO sales are those with no 12b-1 fee, and the share class with the greatest need and impact on sales also has no revenue sharing (i.e., sub T/A fee). On the CIT front, half of DCIOs surveyed say demand for CITs is growing across plans of all sizes. There is substantial demand for CITs in plans with more than \$500M of assets, while they are seeing the greatest rise in demand for CITs in the \$100M to \$500M segment.

The Rise of CITs Also Brings Margin Concerns

The growth in demand for CITs presents challenges to asset management executives, including educating plan sponsors on the vehicles. Another big challenge is to avoid cannibalizing more profitable mutual fund business. More than one in five DCIO sales executives surveyed are concerned that offering lower-fee CITs will speed the erosion they are already seeing in profit margins. One solution to this is to create CITs with minimum investments to ensure the

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asset manager will receive ample investment of assets and thus generate substantial revenue, in return for the lower-fee CITs. About 4 in 5 managers surveyed currently offer CITs with minimum investments. Only about a third of firms surveyed offer CITs with no minimums.

About *The State of DCIO Distribution*

The State of DCIO Distribution is Sway Research's annual benchmarking study on the defined contribution arena. Author Chris J. Brown published the first in-depth research study of the DCIO market in 2004. Now in its thirteenth year, *The State of DCIO Distribution* provides benchmarks for asset managers as well as feedback from plan advisors. This year's report is based on surveys and interviews of DCIO sales leaders from 20 leading asset management firms with more than \$1.5 trillion of DCIO AUM, and retirement plan-focused intermediaries from 180 advisory practices with more than \$100 billion of DC AUM. Surveys and interviews were conducted in the spring and summer of 2019.

About Sway Research LLC

Sway Research provides market data and analysis that empowers financial services executives to make decisions, effect change, and grow revenue. Leading manufacturers and distributors of investment products purchase Sway's research in syndicated reports, custom research projects, and strategy engagements. Sway is the leading provider of research and intelligence on the Defined Contribution Investment-Only and Target-Date markets. Please visit www.swayresearch.com for more information.

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