



Tailored investment options are becoming increasingly attractive to DC schemes

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Tailored investment options are increasingly popular

March 2009 saw the launch of the 120th client specific fund via Fidelity's DC investment platform. Fidelity has offered clients and consultants bespoke investment solutions since 1997 but popularity has surged in the last year. In particular multi-fund "tailored portfolios", providing the ultimate investment flexibility, have achieved real popularity in the past six months, with nearly 50% all new client specific funds being multi-fund structures. This article highlights how Fidelity has introduced client specific fund design.

What are the different options?

There are two options when considering offering scheme participants client specific funds: a "white labelled fund" or a "tailored portfolio". A white labelled fund is a single wrapped fund which can be given a bespoke name e.g. company XYZ Active Fund'. A tailored portfolio is a multi-fund structure, blending funds - perhaps from different managers - into a single bespoke fund. As most clients are using tailored portfolios, this article focuses on this functionality.

What problems do Tailored Portfolios help solve?

Working closely with clients and consultants, tailored portfolios help to solve the following concerns:

- Administrative headaches when changing managers
- Beholden to a single manager for your default fund
- Communication challenges when making fund changes
- Scheme not valued as an employer sponsored benefit
- At £10m my scheme is too small for bespoke solutions

How are the trends developing?

1) Less is more

It is evident that clients are launching not just one tailored portfolio but in fact a suite of them:

- To reduce the number of funds available without reducing manager diversification (i.e. more than one manager in the tailored portfolio)
- To design a customised suite of funds with different risk profiles – to suit member needs across their working lives

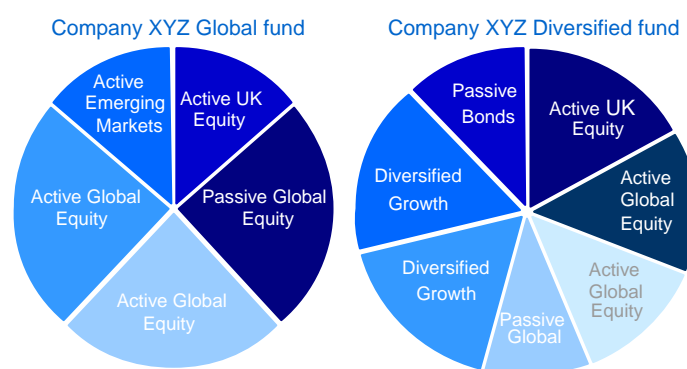
For further information on any aspect of client specific funds please contact your usual Fidelity contact or email us at DCInvestmentServices@FIL.com



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2) How many funds are being used?

During the last year the average number of underlying funds used to create a tailored portfolio was 5. Whether the number of funds used is higher or lower depends upon the complexity of the trustee's investment strategy. Two popular uses of Tailored Portfolios are creating bespoke global and diversified portfolios:



3) More complex default fund design?

A developing theme is the combination of global and diversified funds as the key to a new wave of default funds. These new consultant advised structures are designed to enable members to capture the broader range of asset classes now available to members whilst not foregoing access to equity premium.

4) What about active vs passive?

Another emerging trend is the inclusion of both active and passive funds in a single fund. From the tailored portfolios launched in the past 12 months, which included more than one underlying fund, over half contained a mixture of active and passive strategies. This brings down the overall fee and volatility of each tailored portfolio.

Tailored portfolios here to stay

Tailored investment solutions are now available to DC pension schemes of all sizes and not just limited to those with advanced governance structures. It is clear that client specific investment solutions, such as tailored portfolios, are a reality in the DC world and this trend is set to continue.