



FILLING THE GAP WITH OCIOs: A ROADMAP FOR PLAN SPONSORS



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Introduction

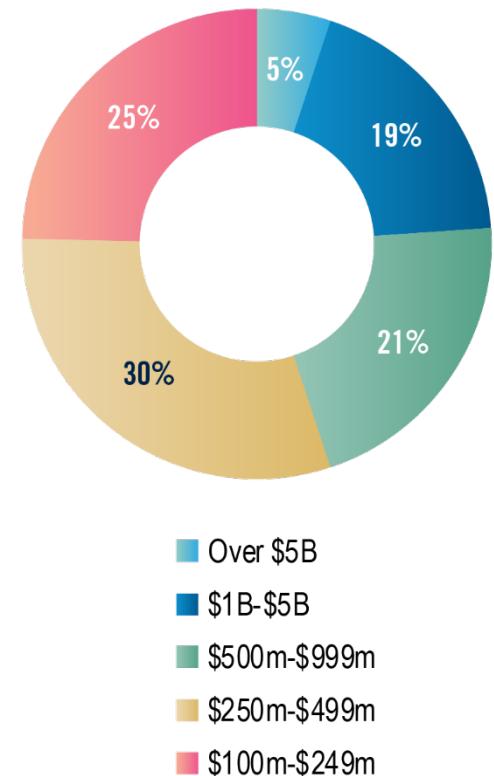
Role of an OCIO:

- An OCIO is a discretionary investment manager that shares fiduciary responsibility with a retirement plan sponsor related to the investment portfolio.

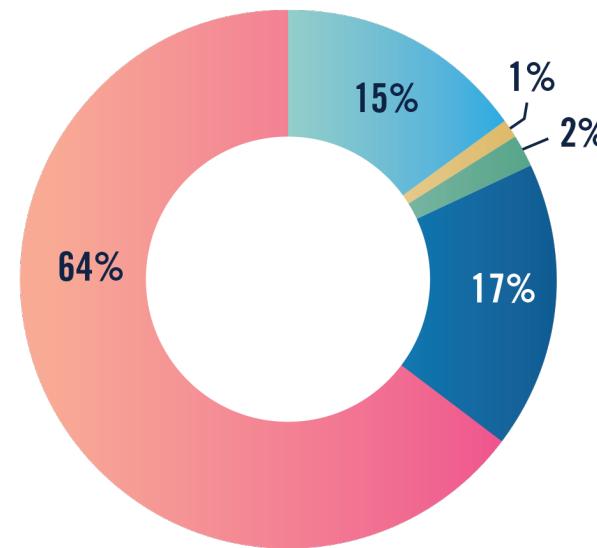
Methodology

- The research was conducted by Greenwich Associates from March 5 - July 17, 2020 using an online quantitative approach with DC plan sponsors who have at least one 401(k) plan and at least \$100m in 401(k) assets.
- An additional 5-question survey was distributed to 20 OCIO managers and was conducted by Curcio Webb from fall 2019 to summer 2020. These OCIO managers represent \$16.8 trillion in total assets and \$1.2 trillion in OCIO assets (all plan types).

Total AUM in 401(k) Plan (138)



Use of an OCIO manager is most common across DC plans with \$250m-\$500m in 401(k) assets and fewer large plans consider it as an option



Status of Using an OCIO Manager for the 401(k) Plan

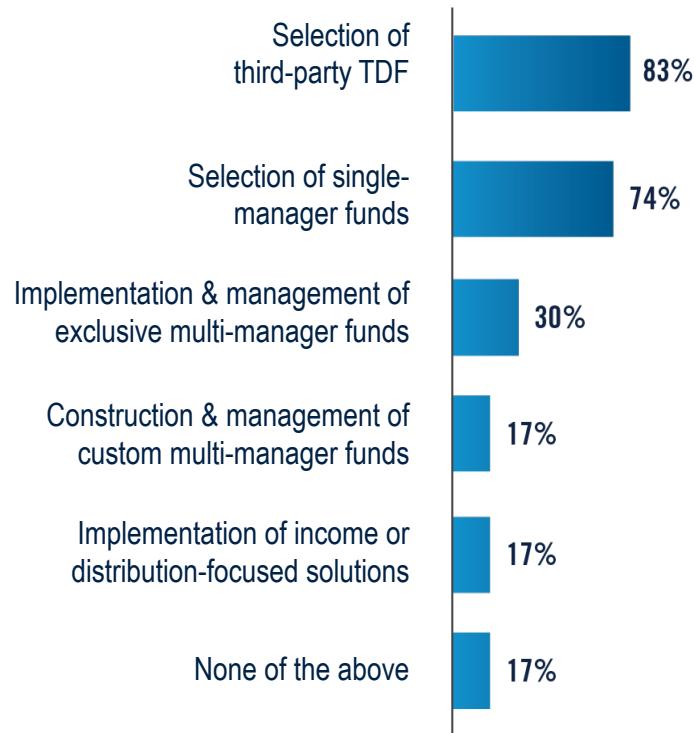


- Currently using an OCIO manager for all 401(k) plan investments
- Currently using an OCIO manager for a portion of investments
- Considering use of an OCIO manager
- Evaluated OCIO managers, but decided not to use
- Do not use & have never considered using an OCIO manager

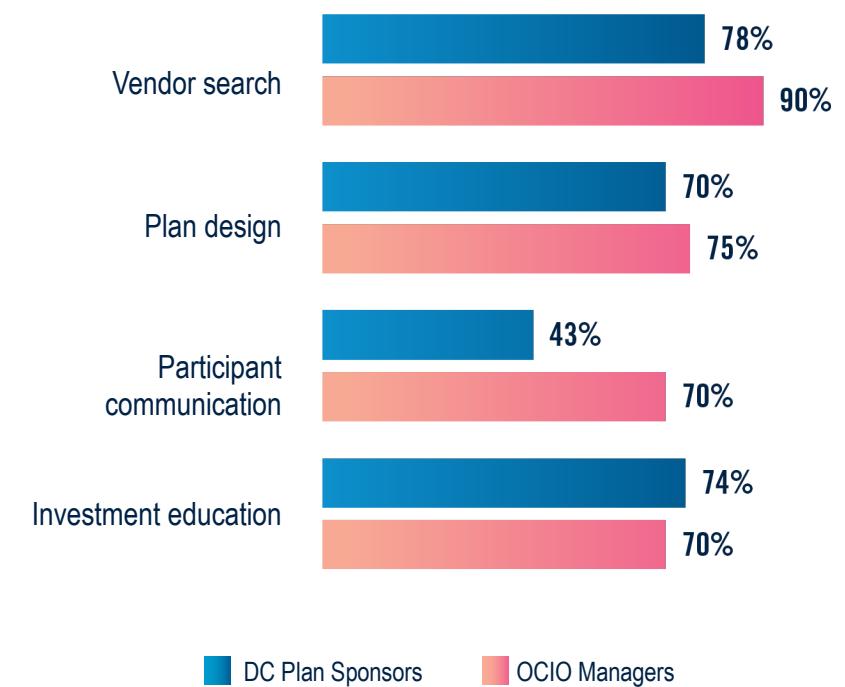
OCIOs Offer a Wide Range of Services

- Discretion on the hiring and firing of investment products from asset managers (single-asset-class funds and target date funds)
- Some OCIO firms create their own vehicles

Services Utilized by Plans That Employ an OCIO

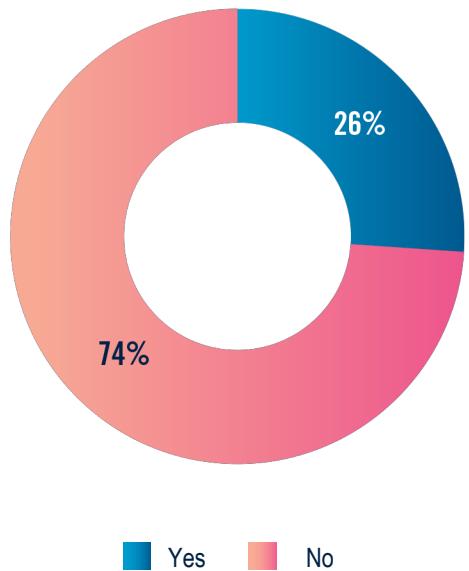


Other Services Provided By OCIO Managers



OCIO Service Performance

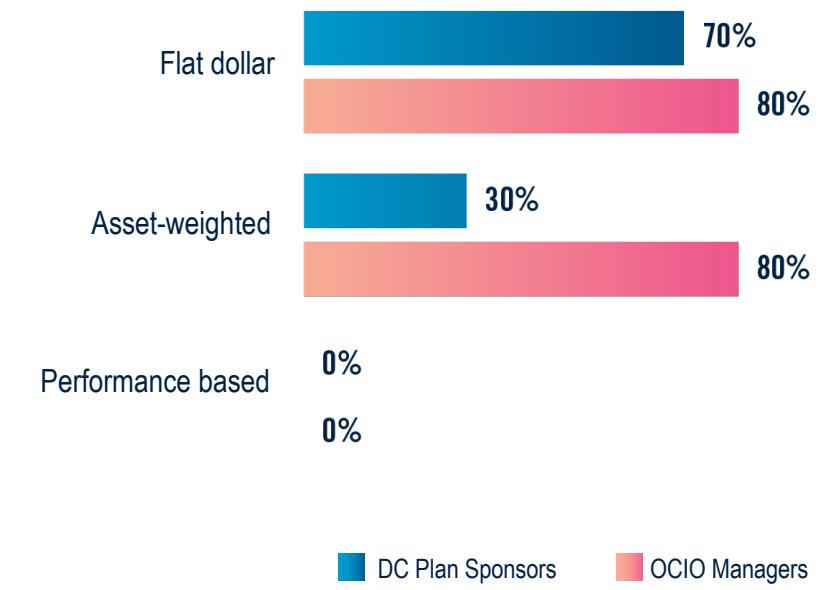
Use of Consultant When Hiring OCIO Manager



Overall Satisfaction with Current OCIO Manager



Fee Structure for OCIO Managers



Q23. Did you hire a consultant to hire and/or monitor your OCIO manager?

Q22. What is your overall satisfaction with your current OCIO manager?

Q3: Curcio Webb: How are your defined contribution OCIO arrangements typically priced?
Check all that apply. (n=20)

Q20. Greenwich Associates: What other services are provided to you by your OCIO manager (either in the role of an OCIO or in a traditional consulting role)? Check all that apply. (n=23)

Top Reasons to Use an OCIO

DC Plan Sponsors

Desire for expertise in implementing institutional-quality structures Perceived mitigation of fiduciary risk Insufficient investment sophistication Limited investment committee time Not enough resources on investment staff To lower overall costs



Perceived mitigation of fiduciary risk Not enough resources Limited investment committee time Gain efficiencies of scale Not enough investment sophistication Desire for expertise in implementing institutional-quality structures

OCIO Perspective

The most common reason DC plan sponsors do not use an OCIO manager: they want to retain control of investment decisions and they already have the expertise internally.

Top Reasons for Not Using an OCIO Manager

Want to retain control
of investment
decisions

Already have
expertise internally

Need to better
understand the OCIO
value proposition

Too expensive

Potential conflicts arise from
use of OCIO's proprietary
investment products

Higher risk of
litigation by using
an OCIO

Too hard to
implement

1

2

3

4

5

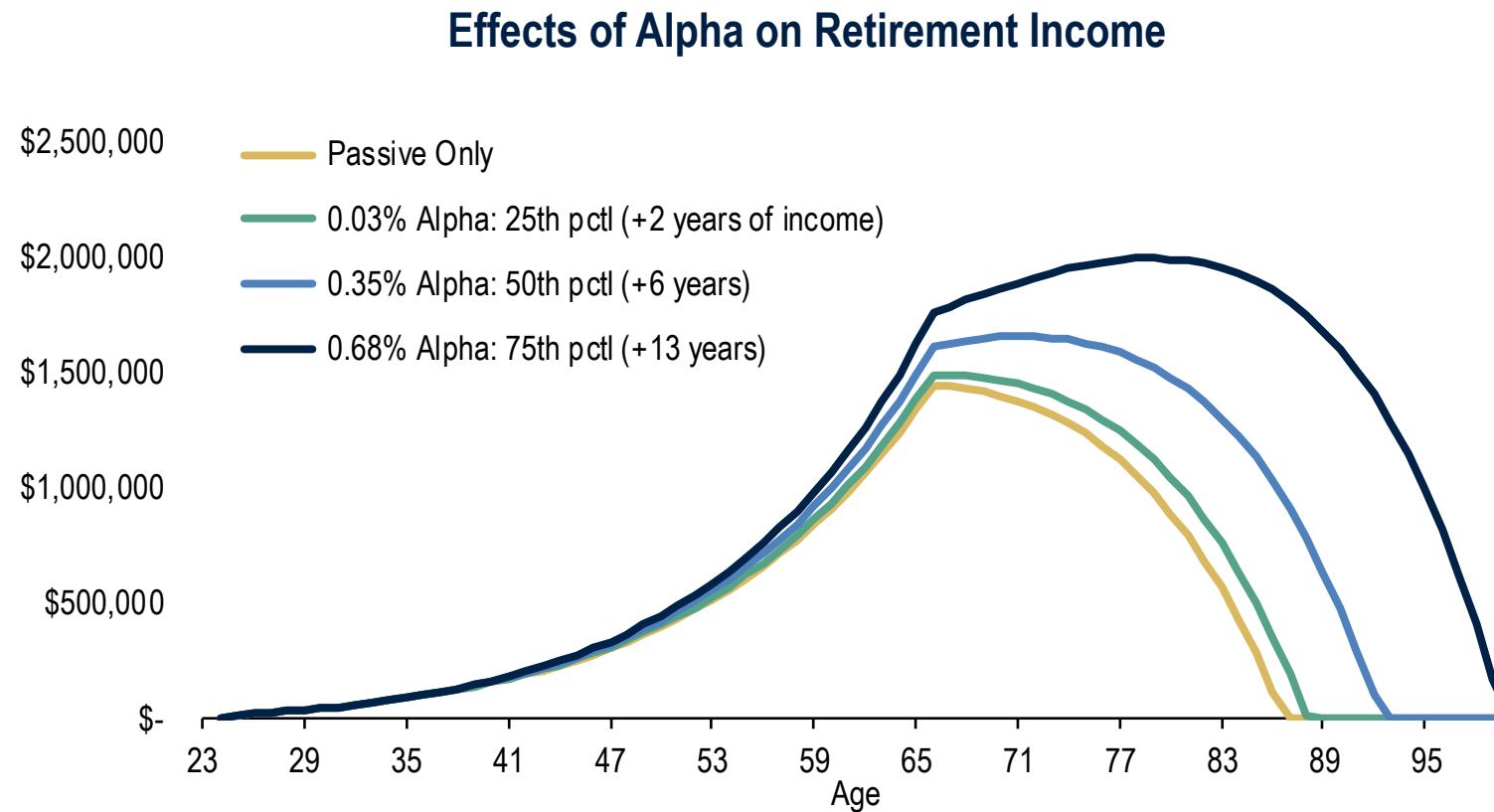
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Characteristics of Institutional Approach

Characteristics	Applications Within Defined Contribution Plans
Outcome-oriented investments	Target-date funds, stable value, retirement income solutions, and managed accounts
Broad asset class diversification	Extended sectors, alternatives, and private assets
Best-of-breed investment management	Skilled investment managers that are institutional in nature
Thoughtful mix of active and passive	Hybrid target-date strategies and customized open-architecture funds
Vehicle agnostic	Institutional mutual funds, collective trusts, and separate accounts

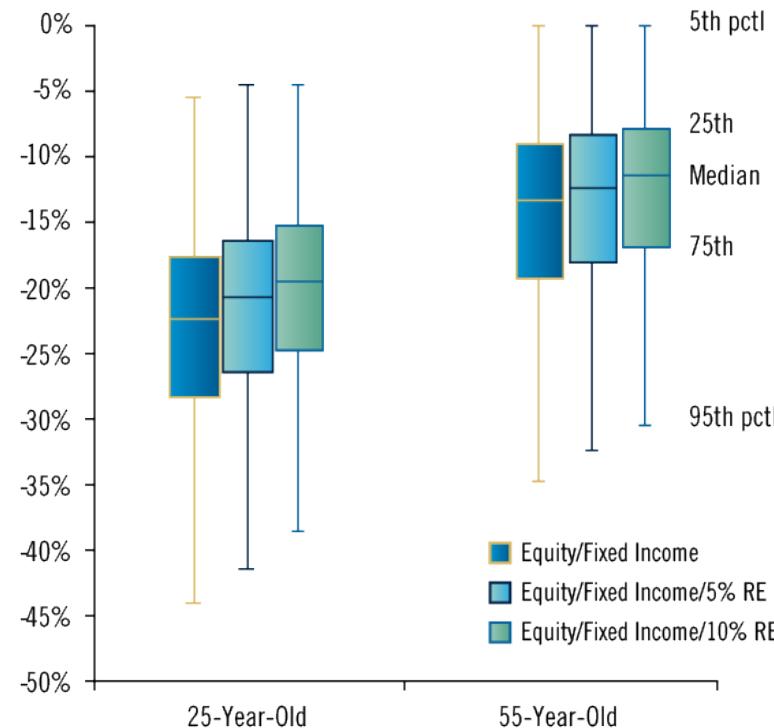
Alpha potential can be a powerful driver of additional income in retirement



Source: PGIM. Total retirement savings over an individual's lifetime. Participant assumptions: initial age of 23, initial salary of \$40,000 with 3% annual salary growth, 10% savings rate, and withdrawal rate of 71% of final salary with subsequent 3% annual cost-of-living adjustments beginning at age 66. Investment assumptions (arithmetic): annual portfolio return of 7%, passive investment fee of 0.10%, active investment fee of 0.60%, and 1.0% gross of fee alpha assumption with a tracking error of 3% normally distributed. Alpha percentiles net of fees (geometric): 0.03% at 25th percentile, 0.35% at 50th percentile, and 0.68% at 75th percentile. **Hypothetical example for illustrative purposes only.**

Improving portfolio downside protection with private real estate

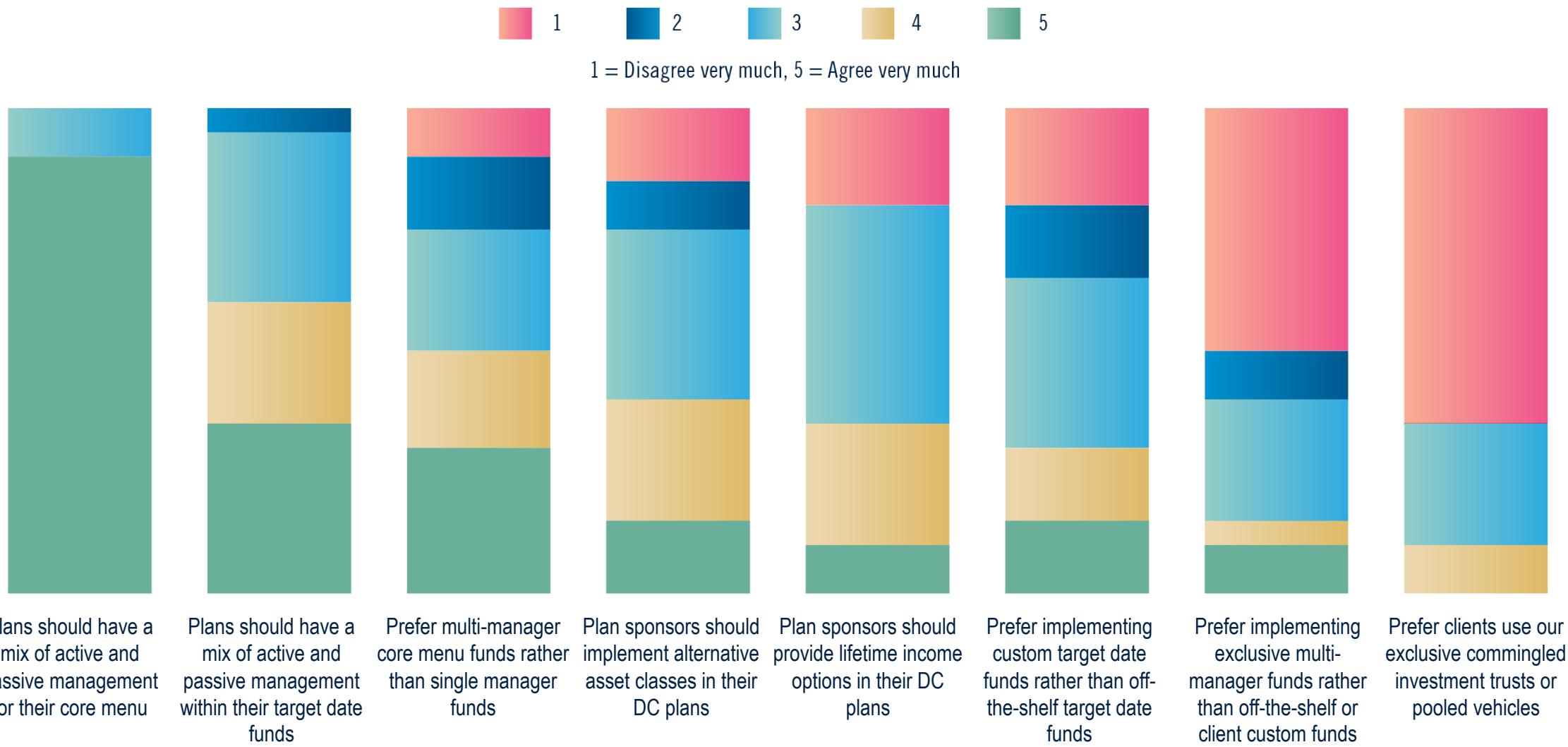
Accumulation Phase Projected Maximum Drawdowns by Age and Real Estate Exposure



	25 Years Old			55 Years Old		
	Median	75 th Pctl	95 th Pctl	Median	75 th Pctl	95 th Pctl
Equity/Fixed Income	-22.3%	-28.2%	-43.9%	-13.2%	-19.4%	-34.8%
Equity/Fixed Income/10% RE	-19.4%	-24.6%	-38.6%	-11.5%	-16.8%	-30.3%
Max Drawdown Reduction	2.9%	3.6%	5.3%	1.7%	2.6%	4.5%

Source: PGIM as of 3/31/2018. Stochastic analysis using Moody's Analytics Economic Scenario Generator compared two-asset portfolios of domestic equities and fixed income with three-asset portfolios of domestic equities, fixed income, and private real estate. Projections were done for 2 different age cohorts (25 & 55) up to an assumed retirement at age 65 using 5,000 trials. Portfolio asset allocation was modeled similar to a target-date glide path based on age. The base two-asset portfolio of domestic equities and fixed income was as follows: 85% (equities)/15% (fixed income) from age 25-35, 75%/25% from age 35-45, 65%/35% from age 45-55, and 55%/45% from age 55-65. Portfolios including private real estate held static allocations to the asset class over the glide path, coming from the existing equity allocation. Static allocations to real estate of 5% and 10% were used. Analysis is not meant for investment advice. **Hypothetical example for illustrative purposes only.**

OCIO Level of Agreement for Statements About Investment Options

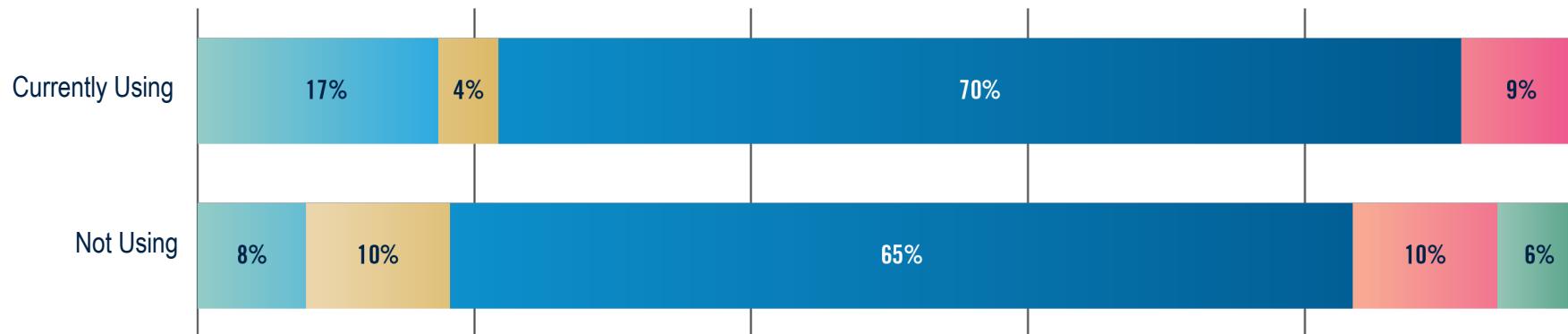


Q2: Curcio Webb: Thinking about investment options, to what extent do you agree or disagree with the following statements (5 is agree very much and 1 is disagree very much) (n=20)

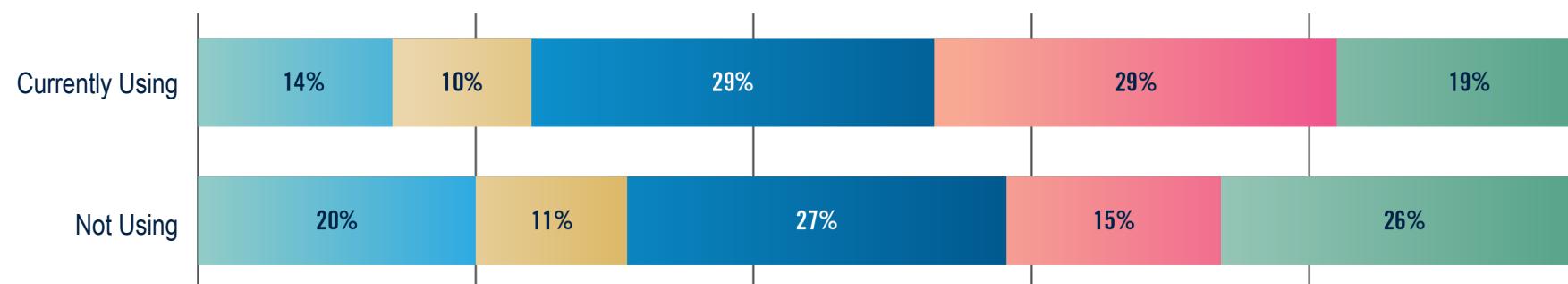
Note: Due to small sample size (n=20), the results are for directional reference only.

Comparing Investment Solutions Based on OCIO Usage

How Investment Options in 401(k) Plan Managed By Use of OCIO



How Underlying Investments in Target Date Fund Are Managed By Use of OCIO



Areas of Opportunity

WHITE LABEL
FUNDS

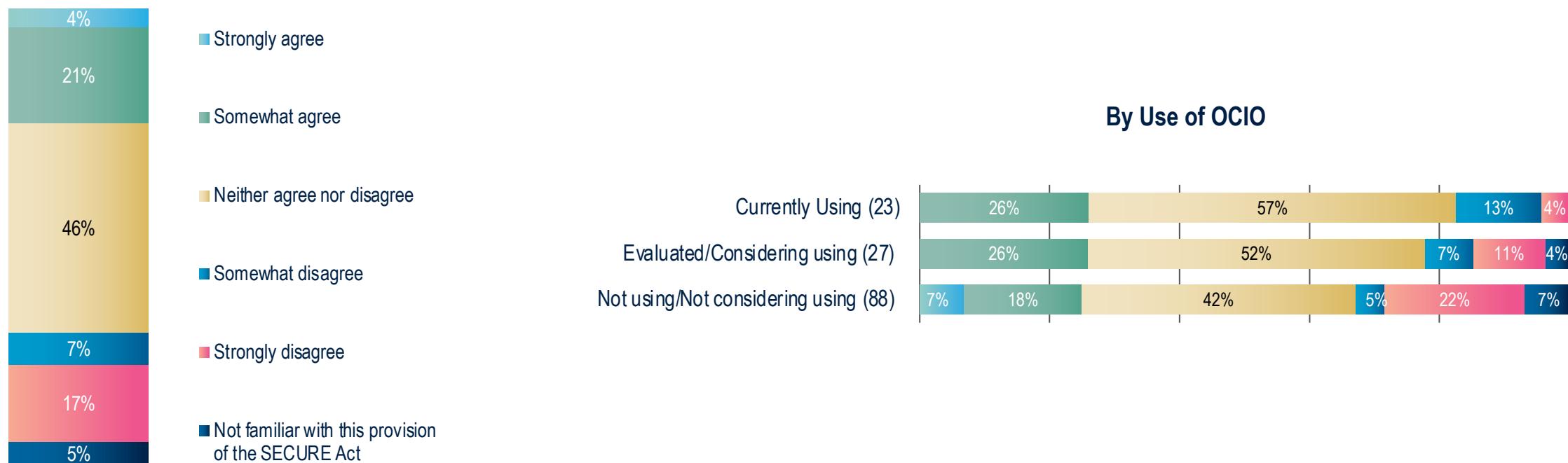
CUSTOM TARGET
DATE FUNDS

MULTIPLE
EMPLOYER
INNOVATION PLANS
RETIREMENT INCOME
ALTERNATIVES

A quarter of DC plan sponsors indicate that the SECURE Act has increased their interest in offering annuities as an investment option

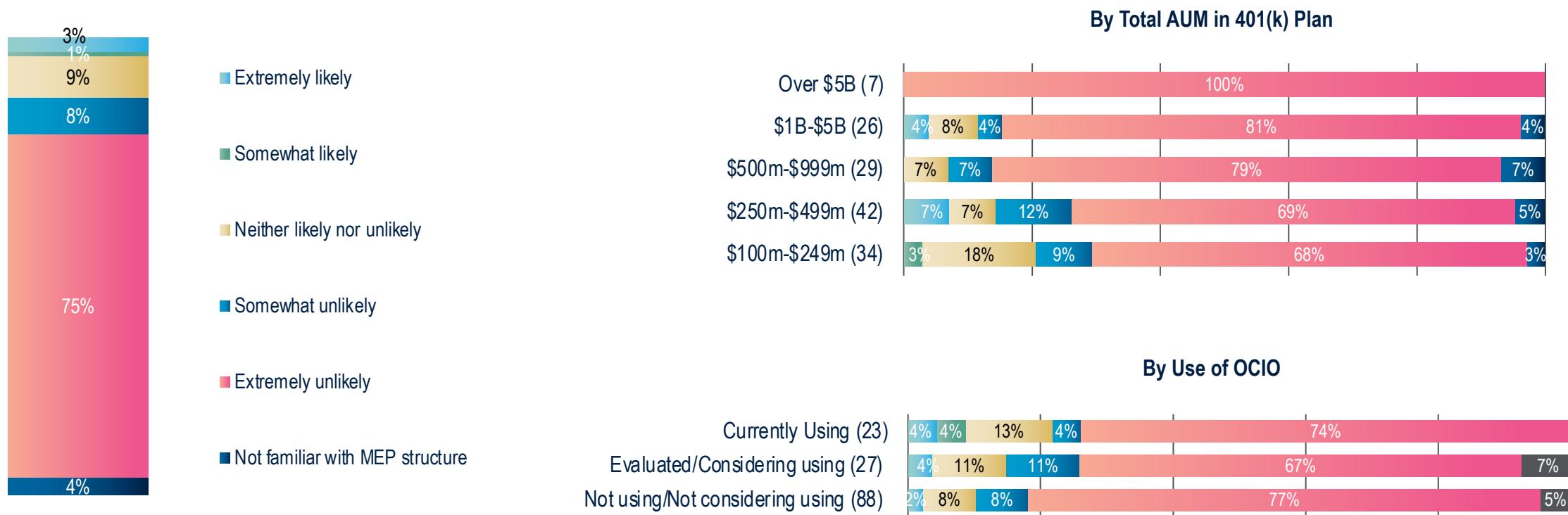
SECURE Act Impact on Use of Annuities

"The passage of the SECURE Act has increased our interest in considering offering annuities in our 401(k)."



Most DC plan sponsors think it is extremely unlikely that their organization will join a MEP structure for their 401(k) plan

Likelihood of Joining a MEP Structure for the 401(k) Plan In the Next Five Years





Q&A



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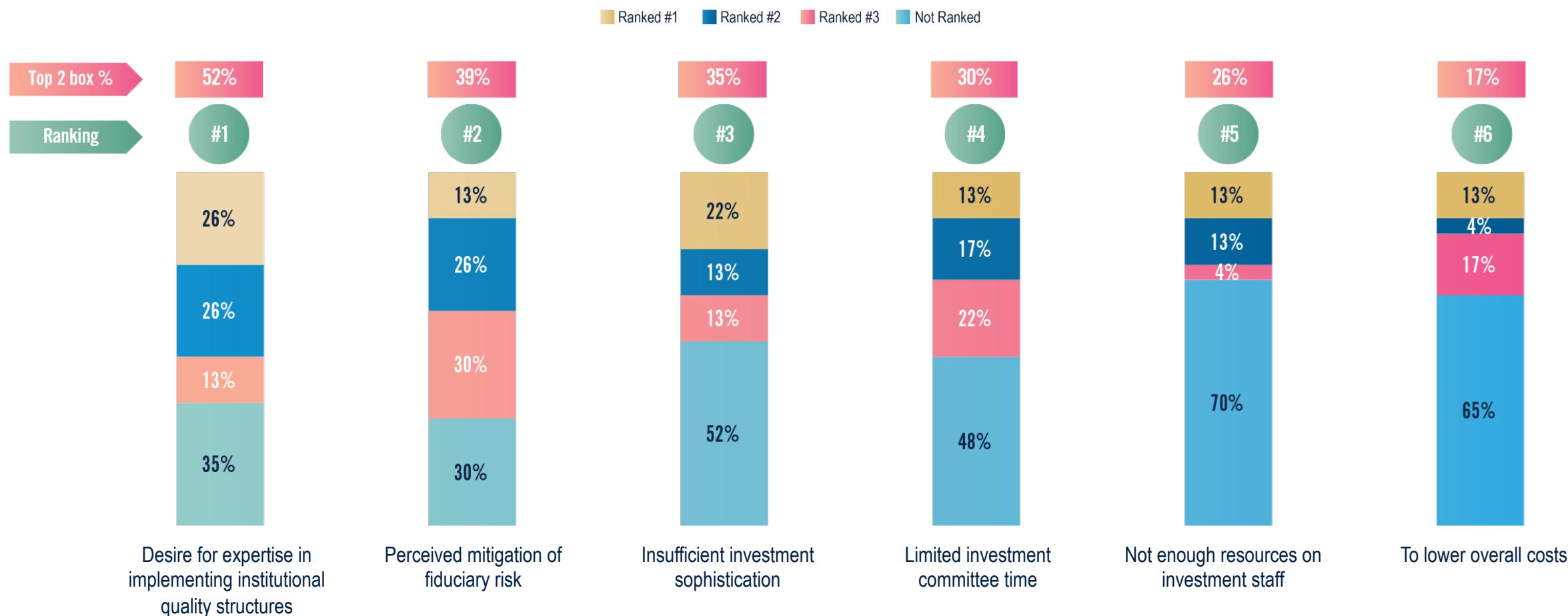
To learn more, visit PGIM.COM/DC-OCIO



APPENDIX

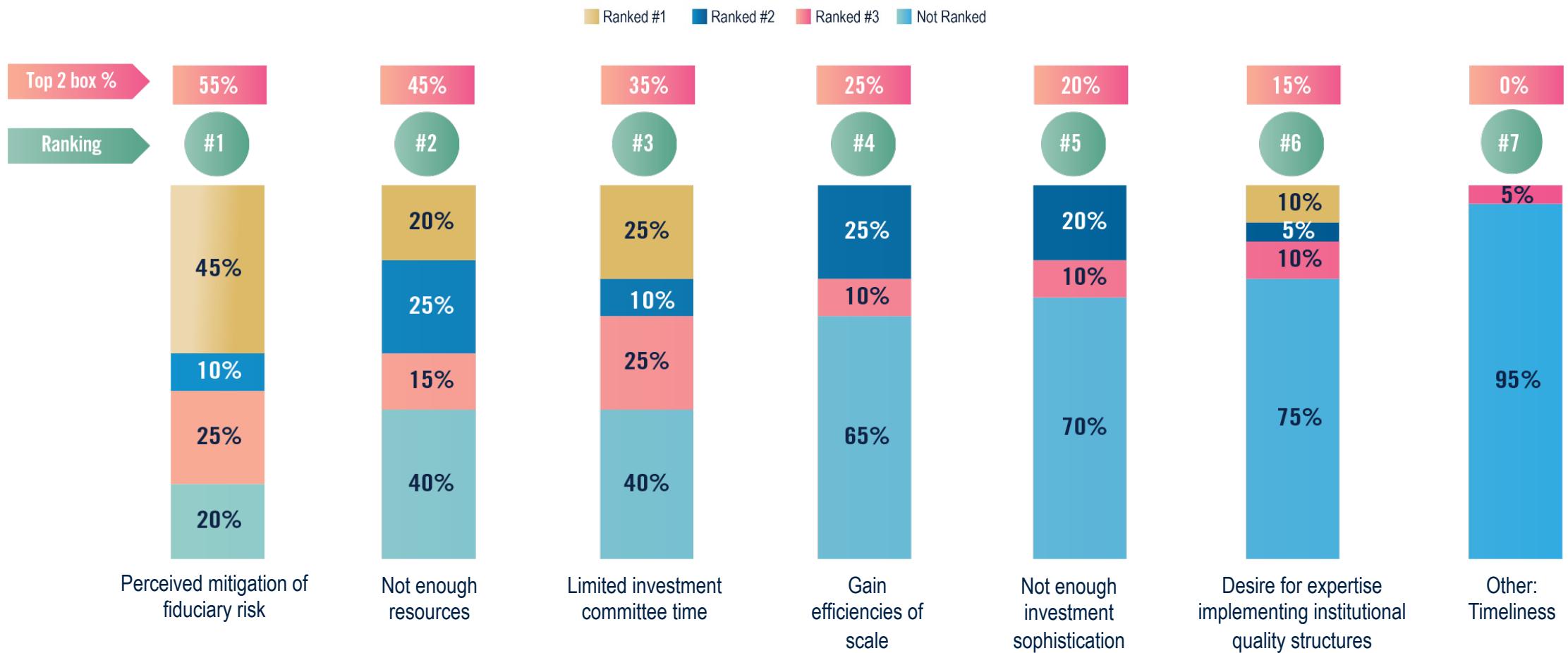
DC plans cite expertise in implementing institutional quality structures as well as perceived mitigation of fiduciary risk as their top reasons for hiring an OCIO

Top Reasons for Deciding to Use an OCIO



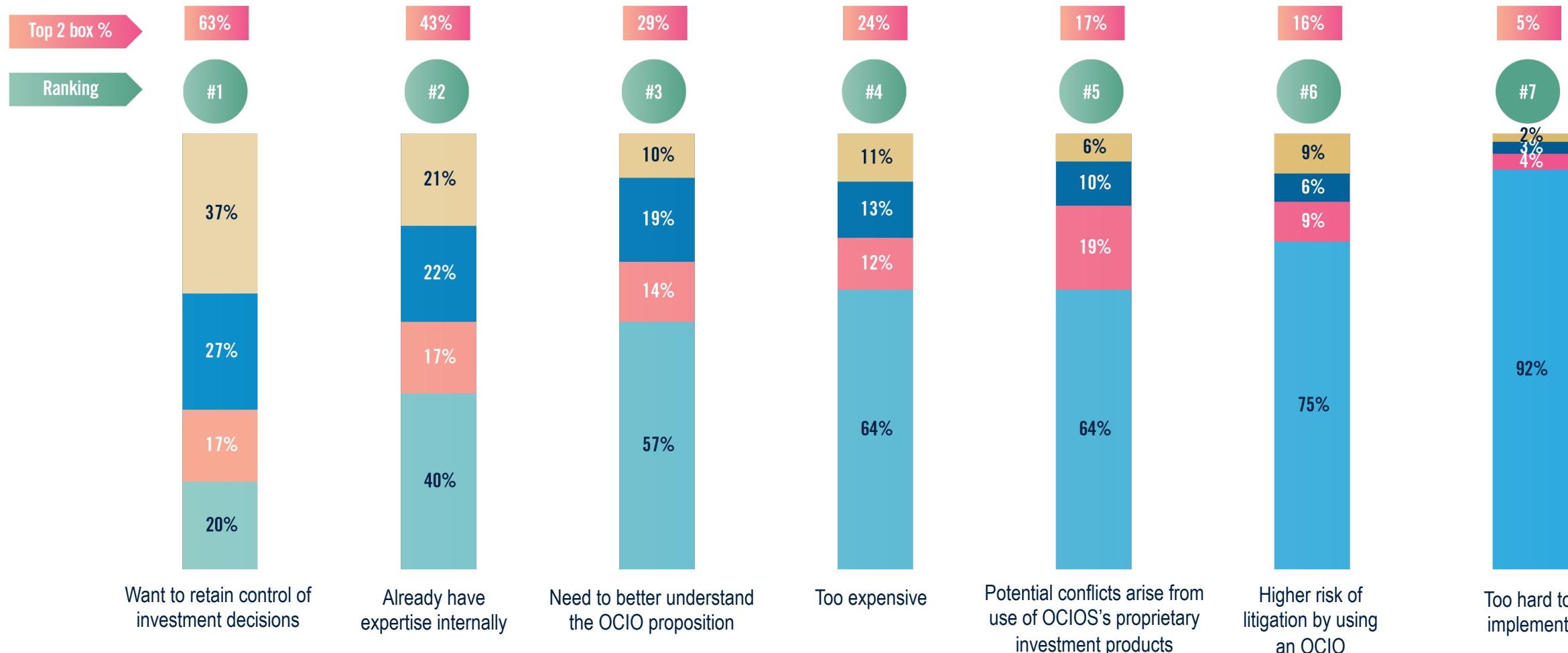
From the OCIO perspective, perceived mitigation of fiduciary risk is the primary reason they are hired by DC plans – in addition to limited resources and time

Top Reasons for Deciding to Use an OCIO



The most common reasons DC plan sponsors do not use an OCIO manager: they want to retain control of investment decisions and they already have the expertise internally

Top Reasons for Not Using an OCIO Manager



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