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## Callan Taps Managers for New Collective Trusts

by Whitney Kvasager

Investment consultant Callan Associates is drawing on nine money managers to stake a claim in the expanding universe of collective trust fund and target date products. The firm announced Wednesday that it has partnered with AST Capital Trust to introduce open architecture target date collective funds, among the few consultants to do so amid the new wave of such products.

The Callan GlidePath series will be maintained by AST, which earlier this month partnered with Delaware Investments to launch that firm's first collective trusts. The Callan funds will be available every five years, from 2005 to 2045, with plans to extend the series to include a 2050 fund for young employees new to the workforce.

Unlike other new collective trusts, Callan's will use nine investment management firms for various asset classes, from small-cap equity to Treasury inflation protected securities. The managers are Capital Guardian, Dodge & Cox, Goldman Sachs, Mellon, Prudential Investment Management, Pyramis Global Advisors, State Street Global Advisors, Wellington Management and Western Asset Management.

The reason, says Greg Allen, Callan president and director of research, is to have more flexibility than bigger firms offering similar target date products.

"Those funds have been receiving massive inflows and because of their proprietary structure and they are running against their capacity," he says. "The problem is that a lot of these big firms have small-cap equity managers that are closed. What do you do when your small-cap equity manager is closed and you don't have the capability to get a new one?"

Steve Ferber, executive v.p. of AST Collective Investment Trusts says the new products have captured a handful of clients but declined to say how much in assets had been captured or give the number of investors.

The portfolios will also use direct real estate funds rather than real estate investment trusts – an asset class not often found in collective trusts. Allen says his firm recommends direct real estate to defined contribution plan clients and that it will work for collective trusts too.

"We frankly counsel our clients that REITS are a poor substitute for direct real estate investing. REITS are more like small-cap stocks than real estate," he says.

Steve Deutsch, director of separate accounts at Morningstar, agrees that Callan has differentiated its new vehicles.

"The style of open architecture or multiple style portfolios has been a well-accepted practice to try and put together a winning combination of a diversified portfolio," he says. "The other thing I really like about the Callan product is that there is direct real estate. That's really interesting and good, because REITS correlate more strongly to stocks. So direct real estate will have an added oomph to the product."

He says the new products will bolster Callan's business and expect similar ones to hit the market in the upcoming days. The Morningstar database lists Wilshire Associates as the only other consultant offering a comparable product with its multi-manager portfolios.

"It is definitely a natural extension of Callan's business, they're just taking advantage of predominant, easy trends to extend their expertise," Deutsch says. "Collective investment trusts are largely perceived as institutional products, and Callan definitely has excellent access to the institutional realm. And if you put it together with a target date product, that also is a very large trend at this point in time."

The Callan funds are among those offered in recent days by firms capitalizing on renewed interest in collective funds and a move towards target date products.

Collective funds are nothing new but are now valued and traded daily, allowing them to fit within 401(k) plans. Adding to their appeal are expectations that the Pension Protection Act will designate them as a qualified default alternative to mutual funds in 401(k) plans.

In some ways, collective trusts mirror mutual funds, pooling clients' money to invest in a range of styles. But they may only be managed by banks or trust companies – the reason firms must partner with companies like AST. And collective funds are subject to restrictions that limit the amount of information it's legal to publish about them – critics' most prevalent complaint. Managers and trust companies counter that by setting up systems to regularly report the health of the funds directly to investors.

Some observers say collective trusts are drawing business away from mutual funds. AST says 41% of defined contribution plans last year offered collective funds, up from 32% in 2003. The number of plans using retail mutual funds has dropped to 54% from 65%.

Target date funds' mix of assets differs for each investor but usually becomes more conservative as he or she nears retirement. Observers say target date funds are increasingly delivered via collective trusts.

Last week, Fiserv Trust Company and Greenwood Capital launched two new funds that already had \$15 million in assets from a pair of clients. Just a week earlier Delaware and AST announced their new funds. UBS also last month rolled out new target date collective trust funds.

Firms already offering collective trusts have seen a spike in clients. Charles Schwab's assets under management in target-date collective trust funds for 401(k) plans have jumped almost 50% since January to surpass \$2 billion. Fidelity introduced three collective trust funds last spring; those have captured \$3 billion. Invesco National Trust Company's collective fund assets jumped to \$37 billion last year, up from \$10 billion in 2003.