

# Investment Gateway



## Improving DC investment

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The options historically available to trustees of occupational defined contribution (DC) pension schemes – especially unbundled arrangements – to implement and deliver their desired investment strategies have, for most, been both inadequate and inefficient. This is due to a largely immature and underdeveloped DC investment market.

The Investment Gateway directly addresses this problem and can significantly improve DC investment for trustees and members alike.

The key issues that trustees have often faced in implementing and delivering their desired investment strategy are:

- **Small manager universe.** Most investment managers do not have appropriate DC products and services and/or will not accept small investment mandates – and even large DC schemes will have small assets in many of the funds they offer members.
- **Compromise on quality.** DC trustees often have to compromise in implementing and delivering their investment strategy: most DC schemes are forced, by their size and practical constraints, to appoint just one, or occasionally two, investment manager(s) to operate all the fund types they offer, rather than select specialist managers on a ‘best of breed’ basis for each different fund. This might be at odds with the trustees’ strategy for their defined benefit (DB) investments.
- **Operational inefficiencies.** The lack of uniformity in UK investment managers’ dealing cycles means that any switch of assets between investment funds, and in particular between investment managers, leaves the DC pension scheme member ‘out of the market’ for days, if not weeks, and exposed to the risks of adverse market movements. In addition, successful DC relies heavily on operational efficiency, including the interface between administrator and investment manager(s). Whilst many investment managers and administrators are interested in achieving efficiency, the lack of a common standard prohibits the market achieving efficiencies.

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As a result, trustees, many of whom are experienced DB trustees used to the sophistication and versatility of the investment market, are often constrained and frustrated in setting their DC investment strategies.

Watson Wyatt has long recognised these issues and has identified and developed the Investment Gateway approach to directly address these inadequacies and inefficiencies for the benefit of our clients.

### The Investment Gateway approach

Watson Wyatt has worked with a number of leading financial institutions to develop the Investment Gateway approach. Essentially, this approach allows a pension scheme to access a series of investment funds through a single open-architecture fund platform. These discussions have led to a number of these institutions developing a suitable fund

platform product to meet our clients' developing needs.

Not only has Watson Wyatt been instrumental in shaping and driving forward this market development, but we have also carried out significant independent research into the various providers' fund platform products.

This research gives us an unparalleled understanding of the available providers' products and their relative strengths and weaknesses.

### The structure

The Investment Gateway approach uses a single investment administration platform, or gateway, to access a comprehensive range of investment managers, across a full range of asset classes and investment styles, in an operationally efficient manner.

The same result cannot be achieved to the same effect by contracting directly with

a range of different investment managers. This is largely due to non-uniformity of dealing cycles and pricing approaches, investment managers typically adopting inefficient and different interfaces with administrators, and the sub-scale asset size of typical DC schemes.

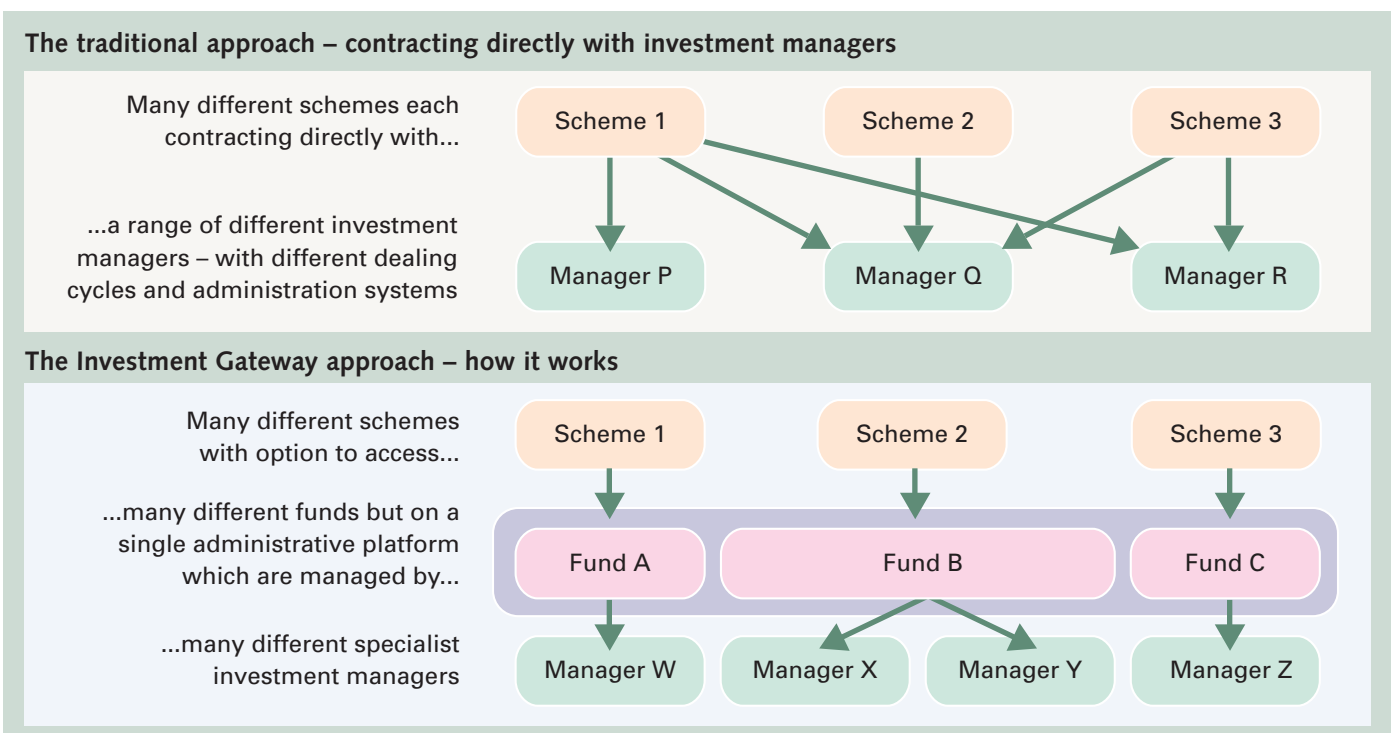
How the Investment Gateway approach works, in comparison, is illustrated in Figure 1.

The platform provider essentially provides a life company 'wrapper' to all the funds, as well as providing the necessary investment administration.

### Investment options

Using the Investment Gateway approach, trustees can set their investment strategy and select their desired investment options and investment managers in the usual manner. This Investment Gateway approach, however, would enable the trustees to more easily and more efficiently implement and

Figure 1



## Key features of the Investment Gateway approach

- Provides access to a broader range of investment managers
- Allows trustees to select specialist managers by asset class on a 'best of breed' basis
- Reduces 'out of market' exposure on fund switches between managers
- Potential for enhanced operational efficiency through the interface between investment manager and scheme administrator
- Maintains Watson Wyatt's independence and integrity, providing peace of mind and reassurance to trustees.

deliver their strategy by accessing their preferred investment options and investment managers through a single structure, and uniform administrative platform.

This has a number of advantages. Trustees would continue to make their own investment decisions and continue to be in full control but, by using a fund platform, trustees are able to offer members a better range and quality of investment solutions, delivered in a more efficient manner.

### Bespoke funds

The Investment Gateway approach also enables trustees, if they wish, to create their own bespoke funds. These are funds that are run according to a specific benchmark and structure of the trustee's choosing. Bespoke funds may be achieved by combining more than one investment manager and/or manager's funds into a single fund with a single, daily unit price.

### A seamless link to administration

The Investment Gateway approach is also simpler for the scheme administrator than a range of different investment managers. The administrator just needs to create and manage a single

interface, with resulting cost savings and operational improvements.

Watson Wyatt is developing automated, electronic dealing interfaces with a number of the fund platform providers through its own leading third-party administration service.

This significant advancement in DC administration practice enables substantial gains in efficiency and risk control. By completely eliminating manual intervention in the investment dealing process, Watson Wyatt is able to invest our clients' (and their members') money without the associated delays and additional risks associated with manual processing.

### Reduction in out of market exposure

Using the Investment Gateway approach significantly improves efficiencies in switching members' money between funds, especially where the funds are managed by different investment managers. The 'out of market' exposure in such switches could be reduced from up to two weeks down to a single day or just a matter of hours.





## Reporting and member communication

Trustees would receive a unified report from their chosen platform provider, just as they would from investment managers direct, but with the advantage of the various different funds all reported on in a single, consistent document.

The chosen fund platform provider would also generally provide fund factsheets in a consistent style on all the funds available to members, including client-specific bespoke funds. They might also facilitate web-enabled interfaces for the members to access information about their funds.

## An independent service

There are a number of potential fund platform providers in the market. Watson Wyatt researches this market and has built up an unparalleled knowledge and understanding of the various provider capabilities as well as their relative strengths and weaknesses. Using this knowledge, we can help trustees select and appoint the most appropriate provider for their particular needs and circumstance.

The Investment Gateway approach allows our clients to benefit from our truly independent position, which feeds through in the quality and impartiality of our advice.

## About Watson Wyatt

Watson Wyatt is a global consulting firm focused on human capital and financial management. We specialise in four areas: employee benefits, human capital strategies, technology solutions and insurance and financial services.

We combine human capital and financial expertise to deliver business solutions that drive shareholder value.

Watson Wyatt has more than 6,000 associates in 88 offices around the world. Corporate offices are in Reigate, England, and Washington, D.C., USA. For more information, visit us at [www.watsonwyatt.com](http://www.watsonwyatt.com)

**To find out how your DC plan can benefit from the Investment Gateway approach, please call your Watson Wyatt consultant. Alternatively, you can contact Gary Smith on +44 (0) 20 7227 2460.**