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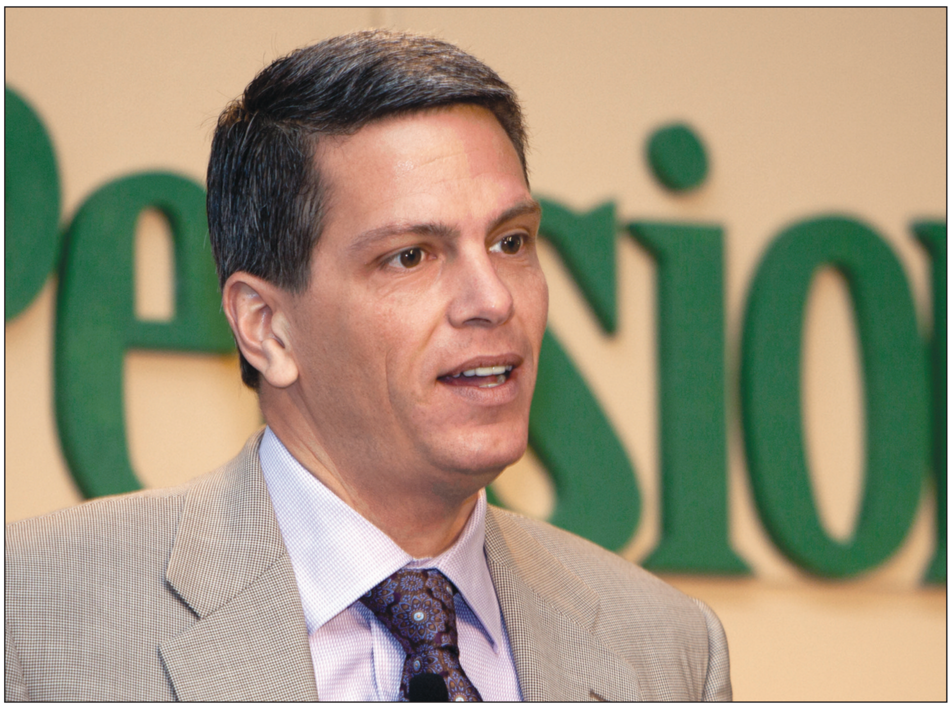
Defined Contribution

Intel hires manager for target-date, global funds

Alternatives-heavy strategies had been managed in-house

By ROBERT STEYER



David Toerge

STEADY: Stuart Odell isn't expecting AllianceBernstein to make big changes in managers or strategies.

Intel Corp. moved to external management for two big investment options that house all of the alternative investments in its $14.85 billion defined contribution plans.

Officials at Santa Clara, Calif.-based Intel hired AllianceBernstein LP, New York, as investment manager for Intel's custom target-date series, with $3.63 billion in assets, and a global diversified fund with $5.82 billion.

The target-date series is the largest component of Intel's $8.19 billion 401(k) plan. The global diversified fund is the biggest option in its $6.66 billion profit-sharing plan.

Intel is one of the most aggressive users of alternatives among DC plans.

Intel had managed the two options internally, setting the target-date glidepath and hiring various firms to manage assets in the target-date funds and the global diversified fund. DC consultants say Intel's switching to third-party management — a so-called 3(38) fiduciary — from its internal management for the custom target-date series is part of a growing strategy among large DC plans.

The percentage of alternative investments in the target-date option varies along the glidepath. The target allocation to alternatives in the global diversified fund is 50%.

The target-date and global diversified fund options incorporate hedge funds, real assets and Treasury inflation-protected securities into the investment mix. The global diversified fund's alternatives menu also includes private equity.

Hiring AllianceBernstein "represents an opportunity to enhance our investment strategy," said Stuart Odell, assistant treasurer, retirement investments. "AllianceBernstein is a large asset manager with a lot of experience. We want them to bring their investment ideas to our portfolio."

Intel will continue choosing the underlying managers for five core asset classes — domestic large- and small-cap equity, international equity, global bonds and stable value.

These core asset classes also serve as the "building blocks" for the target-date series and global diversified fund, with AllianceBernstein choosing "whether and which ones to use," Mr. Odell said.

AllianceBernstein will choose the funds and managers that aren't part of the core asset classes. For the target-date funds and global diversified fund, it will be up to AllianceBernstein to retain, replace or add managers.

"Broadly speaking, we don't expect a lot of changes to underlying managers or strategies," Mr. Odell said.

Intel will retain responsibility for asset allocation and manager selection for the alternative-investment components within the target-date fund series and global diversified fund, Mr. Odell said.

"Previously, we selected the managers and made the asset allocation decisions for all portfolios," Mr. Odell said. "Today, we think it makes more sense to have a third party do this for our custom target-date funds and global diversified fund."

Fiduciary responsibility

Putting AllianceBernstein in charge of the two options also relieves Intel of some of the fiduciary responsibility.

"As the complexity of the portfolios increased, and where we served as named fiduciary, our investment committee thought it was important to evolve our approach," Mr. Odell explained. "That was absolutely a consideration" in hiring AllianceBernstein.

AllianceBernstein officials will help Intel streamline operations with its "automated operational platform for daily cash flow management of the portfolios," he said. The firm also will provide more customized participant education than Intel had offered, he said.

Fees are "not expected to increase," Intel told participants in fact sheets describing the change in investment management.

Intel's six-member internal investment team "is not expected to change going forward," Mr. Odell said. "We still oversee a large amount of assets in other vehicles (such as its $606 million defined benefit plan) as well as the overall alternatives program, which itself requires a full staff and consultants to maintain and manage."

Mr. Odell said it took about a year of deliberations for Intel's investment committee to endorse the move to external management. The committee received 10 responses to a request for proposals issued last year.

Mr. Odell said the hiring of AllianceBernstein wasn't related to the performance of the global diversified fund or the target-date series.

The global diversified fund, introduced in January 1989, seeks to earn a 5% annualized return in excess of inflation.

For the year ended March 31, that fund returned 4.82% its custom benchmark returned 3.46%.

For the three years, the global diversified fund returned an annualized 7.58% vs. a benchmark of 6.57%. For five years, the annualized return was 7.3% vs. the benchmark of 6.13%.

Over the 10-year period, however, the fund slightly trailed its benchmark, returning an annualized 4.7% vs. the benchmark's 4.97%.

Custom target-date series

The custom target-date series, introduced in June 2004 with five funds, now holds a dozen. Those with track records of at last five years all have exceeded their benchmarks for the one-, three- and five-year periods ended March 31, according to data provided by Mr. Odell.

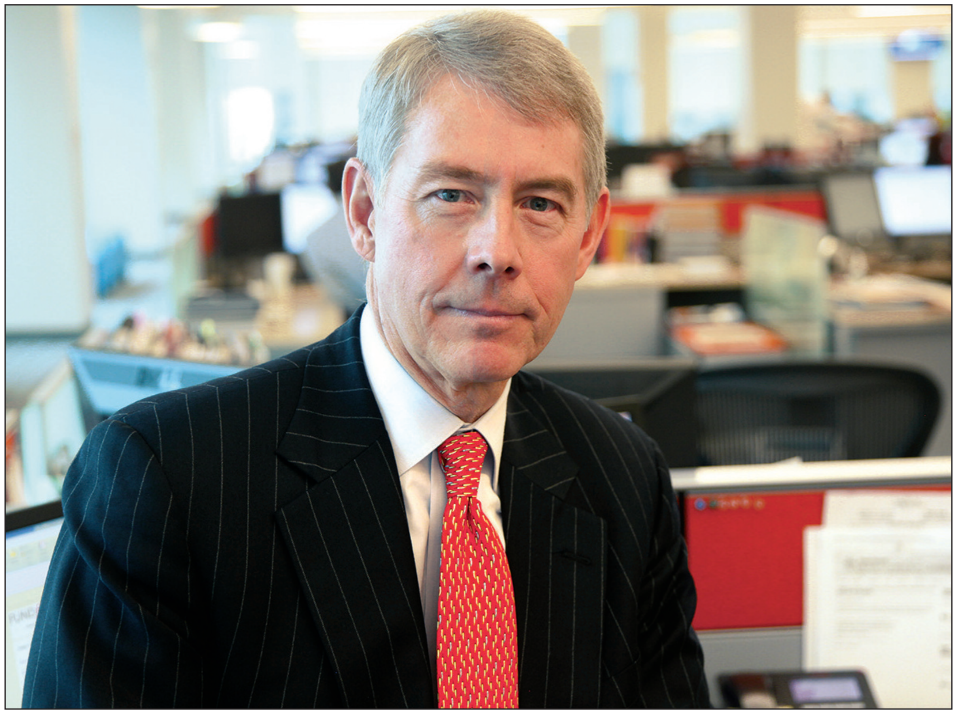
For AllianceBernstein, Intel is the first client that had used an existing custom target-date series with internal management, said Richard Davies, senior managing director for defined contribution. The firm is the investment manager for about two dozen other DC plans, all of which switched to a custom strategy from offering off-the-shelf target-date funds.

Mr. Davies described AllianceBernstein's role in the custom target-date series and the global diversified fund as "evolution — not a dramatic redo."

One example of an "under-the-hood" adjustment is revising the hedge fund component in the custom target-date series to be more tailored to specific age groups, he said. There will be more growth-oriented hedge fund investments in the funds designed for younger participants, for example. Another tweak is incorporating more real assets into the glidepaths of target-date funds held by older employees, he said.

Other early changes include adjusting the global diversified fund to "slightly more" real assets, "slightly more equity" and a slight decline in hedge funds, said Daniel Loewy, an AllianceBernstein partner who is senior managing director, chief investment officer and co-head of multiasset solutions.

AllianceBernstein is examining the possibility of incorporating some private equity into the custom target-date series, Mr. Loewy added.


Doug Goodman

EVOLVING: Richard Davies said some of the tweaks to the target-date fund glidepaths are more hedge funds for younger participants and real assets for older employees.

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***As of March 31, 2015**

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