THE UNIVERSITY OF SYDNEY
Business School

White-labels, Brands and Trust: How Mutual Fund Labels Affect Retirement Portfolios

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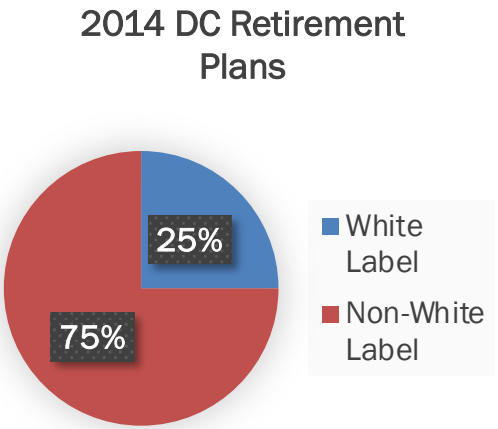
White-label Funds

- Generic mutual funds not branded to a specific investment company

(Bare et al, 2017)



(Hewitt, 2014)

Pros	Cons
Flexibility	Liability
Control over Fees	Operational Requirements
Ease of Replacing Underperforming Funds	Participant Education
Menu Simplification	Customized Communications

- White-labels can be included with other branded fund options or be the only options offered in the retirement plan

Example from New York State Deferred Compensation Plan

DO IT YOURSELF INVESTMENT OPTIONS

Category	Option Name	Investment Option Type	Gross Expense Ratio	Net Expense Ratio*
Stable Income	NYSDCP Stable Income Fund	Custom Fund	0.35%	0.35%
Bond Market Index	NYSDCB US Debt Index Unitized Account	CIT	0.0198%	0.0198%
Bond Fund	Voya Core Plus Trust Fund	CIT	0.23%	0.23%
Balanced Fund	Vanguard Wellington Fund—Admiral	Mutual Fund	0.16%	0.16%
S&P 500 Index (Large-Cap Blend)	NYSDCB Equity Index Unitized Account	CIT	0.0084%	0.0084%
Large-Cap Value	T. Rowe Price Equity Income Trust	CIT	0.33%	0.33%
	Boston Partners Large-Cap-Value Equity Fund	CIT	0.67%	0.67%
Large-Cap Growth	Vanguard PRIMECAP Fund—Admiral	Mutual Fund	0.33%	0.33%
	T. Rowe Price Blue Chip Growth Trust	CIT	0.40%	0.40%
Small/Mid-Cap Index Fund (SMID)	NYSDCB Russell 2500 Index Unitized Account	CIT	0.0225%	0.0225%
SMID Core	Vanguard Strategic Equity Fund—Investor	Mutual Fund	0.18%	0.18%
Small-Cap Value	Delaware Small-Cap Value Fund—Inst.	Mutual Fund	0.96%	0.71%
Small-Cap Growth	T. Rowe Price QM US Small-Cap Growth Equity Fund—Inst.	Mutual Fund	0.66%	0.66%
International Funds	NYSDCP International Equity Active Fund	Custom Fund	0.60%	0.60%
	NYSDCP International Equity Index Fund	Custom Fund	0.20%	0.20%
International Emerging Markets	Morgan Stanley Emerging Markets Portfolio—Inst.	Mutual Fund	0.95%	0.95%

Research Questions

- How do the presence of white-label funds and branded funds in retirement plan menus affect portfolio allocations?
- Is portfolio allocation behavior driven by perceptions of risk and return of white-label funds and branded funds?

Motivation

- Cold Style → Mutual Fund Flows → Hot Style

Cooper, Gulen and Rau (2005) find a sharp increase in fund flows to funds that change their names to hot styles

- Fluency of Company's Name → Breadth of Stock Ownership

Green and Jame (2013) find that companies that change their name to one with greater fluency have greater breadth of ownership and more fluent mutual funds have the largest fund flows

- Fund Management Company's Past Performance → Fund Inflows to Fund with Company's Name

Sialm and Tham (2015) find spillover effect of brand only to funds that include the company's name

Experimental Design

- Invited a sample of 1,250 UAS panel members
  - Currently employed
  - Participate in an employer-sponsored defined contribution retirement plan
  - Previously participated in survey modules on financial literacy and asset ownership
- Closed the survey once we reached our target for completed responses

Experimental Design

Table 1. Treatment group sample sizes

Treatment	Study	Description	N
1	1	High Trust Brand versus White-label	233
2	1	Low Trust Brand versus White-label	231
3	2	Employer Branded White-label versus White-label	260
4	Control	White-label Only	228

- Conducted pre-test to identify one high trust brand and one low trust brand
  - these brands differed on rated trust but not on familiarity or knowledge
- Participants supplied a “name” for their employer to create labels

Study 1- High/Low Trust Brand versus White-Label Fund Description Page

Important Note: All fees related to all fund investments have been waived.

On the next page, you will be asked to allocate your retirement funds to different types of mutual funds. Mutual funds are investments that pool money together from investors to purchase a collection of stocks, bonds, and/or other investment products. A portfolio manager typically oversees the investments.

You can choose among several mutual funds invested in different asset types. They are described below.

Mutual Fund Asset Type Descriptions

- **Money Market Funds**: These funds aim to earn interest for investors while protecting the value of the original investment. They hold different combinations of short-term (less than one year), high quality, liquid government and corporate U.S. dollar investments.
- **U.S. Bond Funds**: These funds mainly hold fixed income investments, including bonds issued by the U.S. Government, corporate bonds and other forms of debt backed by mortgages or other assets.
- **Large Cap U.S. Funds**: These funds invest in U.S. stocks issued by relatively large companies. Stocks from the largest 70 percent of firms, when firm size is measured by the number of shares times the market price of shares, are usually classified as large-cap stocks.
- **Small Cap U.S. Funds**: These funds invest in U.S. stocks issued by relatively small companies. Stocks from the smallest 10 percent of firms, when firm size is measured by the number of shares times the market price of shares, are usually classified as small-cap stocks.
- **Global Funds**: These funds invest in stocks of established companies operating around the world. Funds can also restrict investments to companies operating in specific global regions. A fund investing in companies located only outside of the United States is an example. Investments are diversified among many countries and industries.

Mutual Fund Names

The funds that you can choose from may be managed by one or more portfolio managers.

If you see the name of a professional investment company preceding the fund name, the fund is managed by that company.

If you see "White Label" preceding the fund name, this means the fund has been put together for your employer's retirement plan and given a generic name. The fund may include one or more mutual funds which hold the same type of investment.

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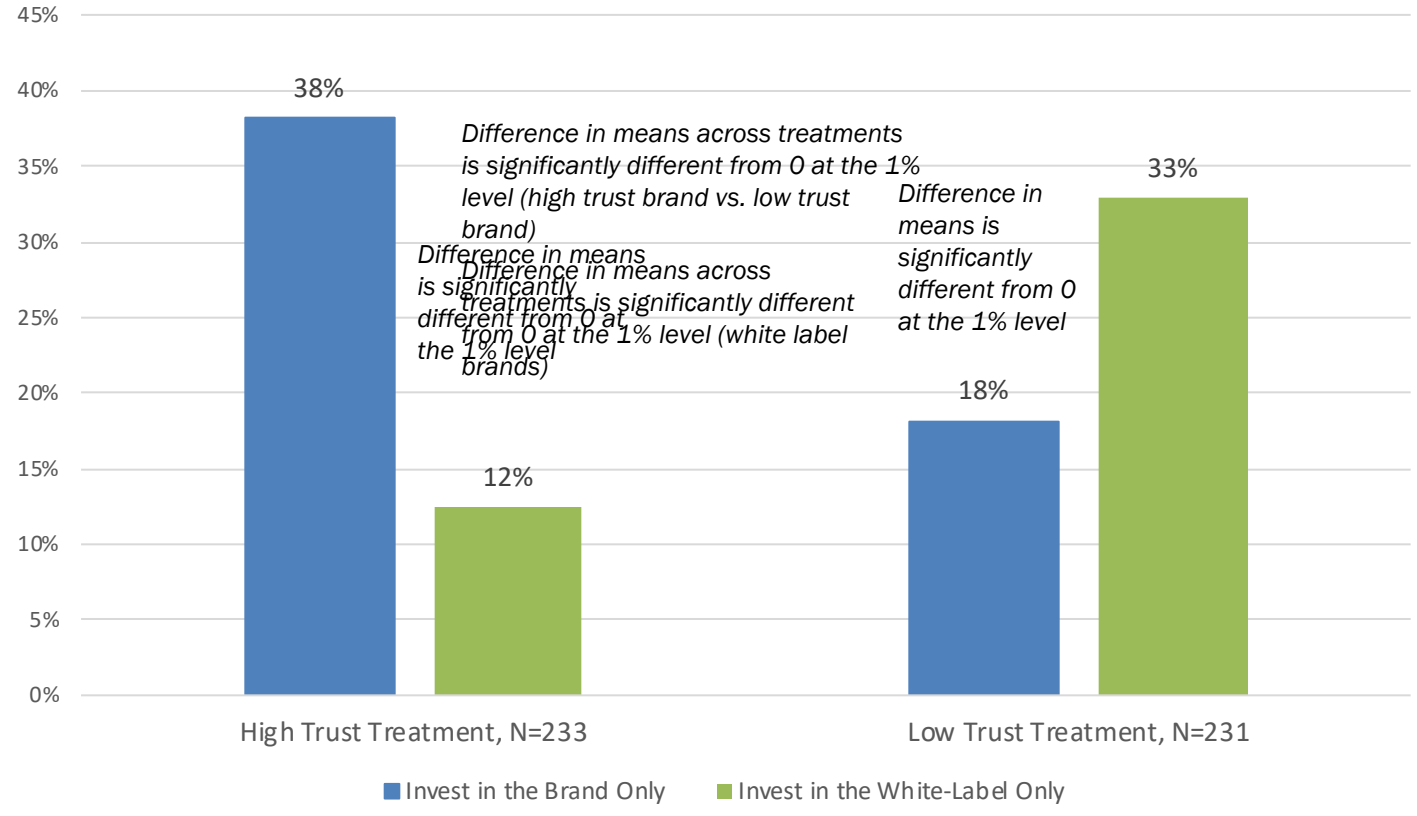
Allocation Task
(Treatment 1 Example)

Please allocate your retirement account balance among any of the investment options listed below. You may enter any whole number between 0 and 100 for any of the options below, but the sum of all the numbers must be 100. Please type the percentage you wish to allocate to each investment option.

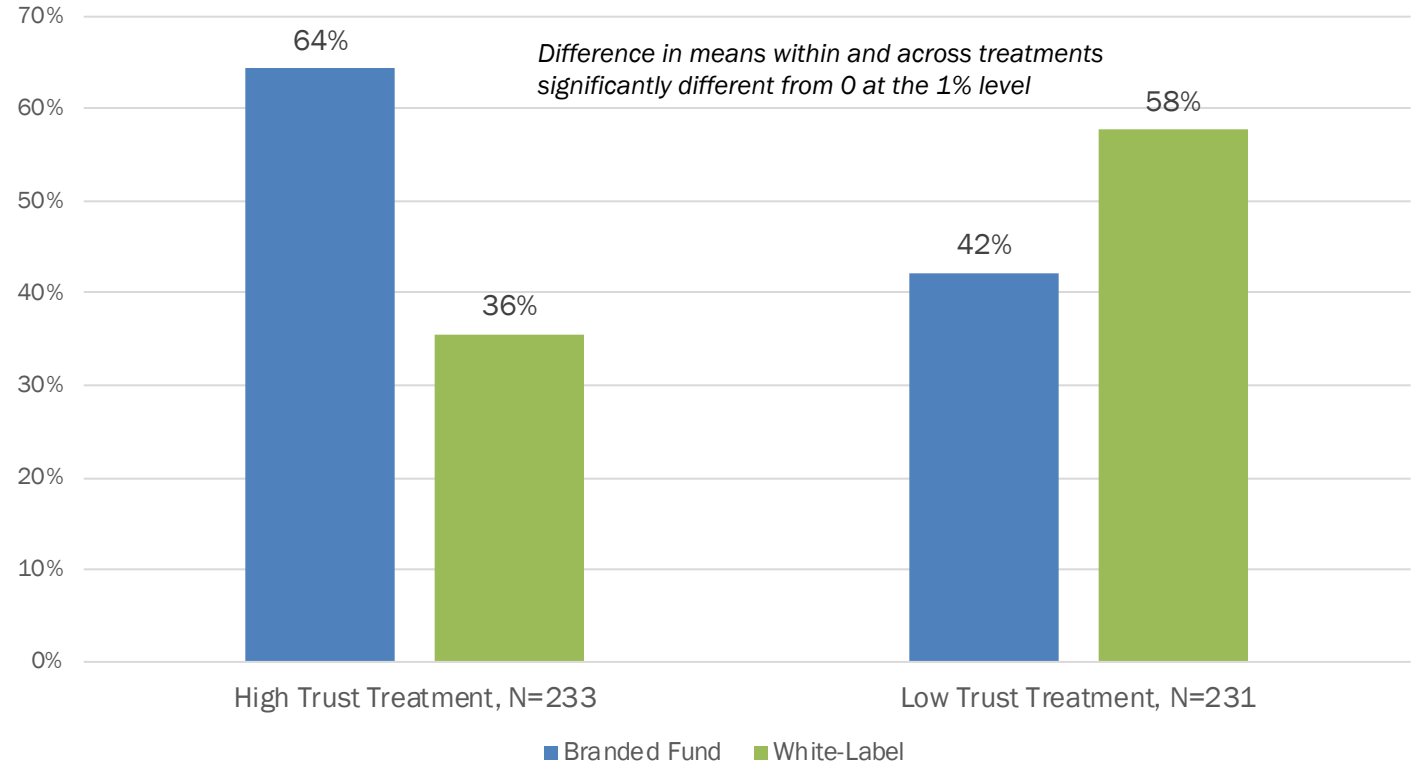
As an incentive to choose carefully, we will reward two randomly selected participants with a bonus. If you are selected, you will earn money based on the investment choices you make in this task. For more information on the prize calculation, click here.

Money Market Funds	**U.S. Small Cap Funds**
% White Label Money Market Fund	% White Label Small Cap U.S. Index Fund
% High Trust Money Market Fund	% High Trust Small Cap U.S. Index Fund
U.S Bond Funds	**Global Funds**
% White Label U.S. Bond Index Fund	% White Label Non U.S. Global Stock Index Fund
% High Trust U.S. Bond Index Fund	% High Trust Non U.S. Global Stock Index Fund
U.S Large Cap Funds	**Total**
% White Label Large Cap U.S. Index Fund	0 %
% High Trust Large Cap U.S. Index Fund	

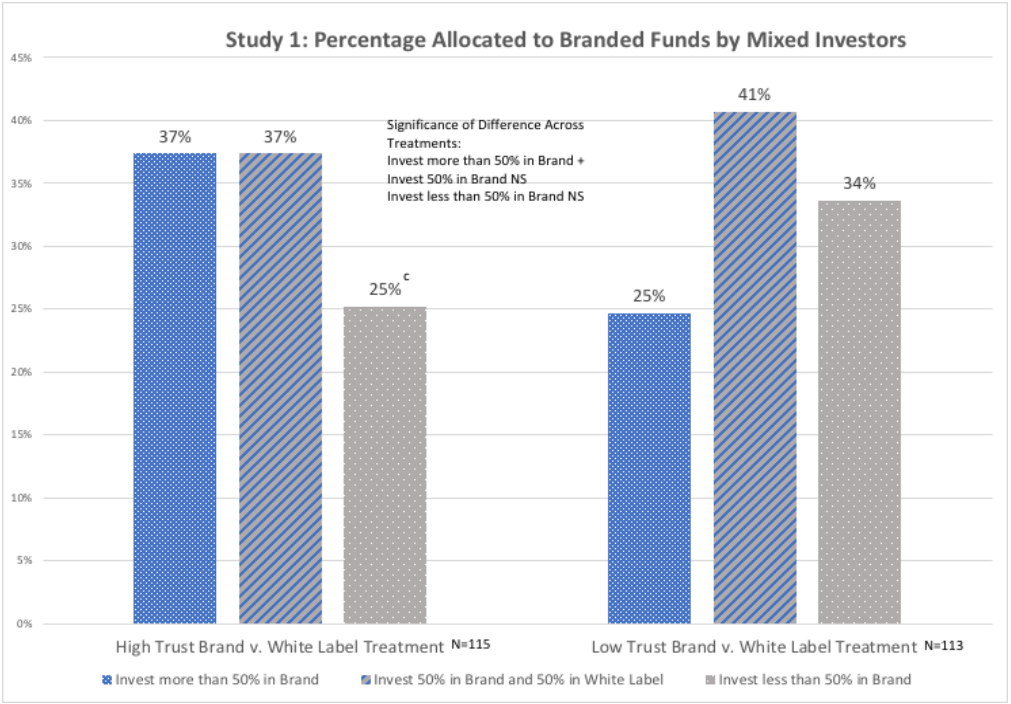
Percentage of Participants who Invest in Only One Type



Mean Total Allocation to Brand and White-Label Funds



A Closer Look at Mixed Investors



Allocations to Broad Asset Types by Treatment

Participant Allocation (Equities, Bonds, Money Markets)	Average Investment in Asset Types			
	High-Trust Brand Treatment 1	Low-Trust Brand Treatment 2	Employer Branded Treatment 3	Pure White Label (Control)
Allocation to Equity Funds	58%	58%	60%	56%
Allocation to Bond Funds	14%	14%	14%	14%
Allocation to Money Market Funds	27%	28%	26%	30%
Total	100%	100%	100%	100%

Overall asset allocations not significantly different across treatments

Distribution Builder Task

To elicit participants' expected return and risk for each asset, we ask them to give us their subjective distribution of outcomes (after one year) for each investment

We will give you examples of various retirement investments and ask you how much you think each investment will be worth in one year. We will give you a range of possible future values in a chart to choose from.

Video Instructions

In this survey, you will receive questions like this:

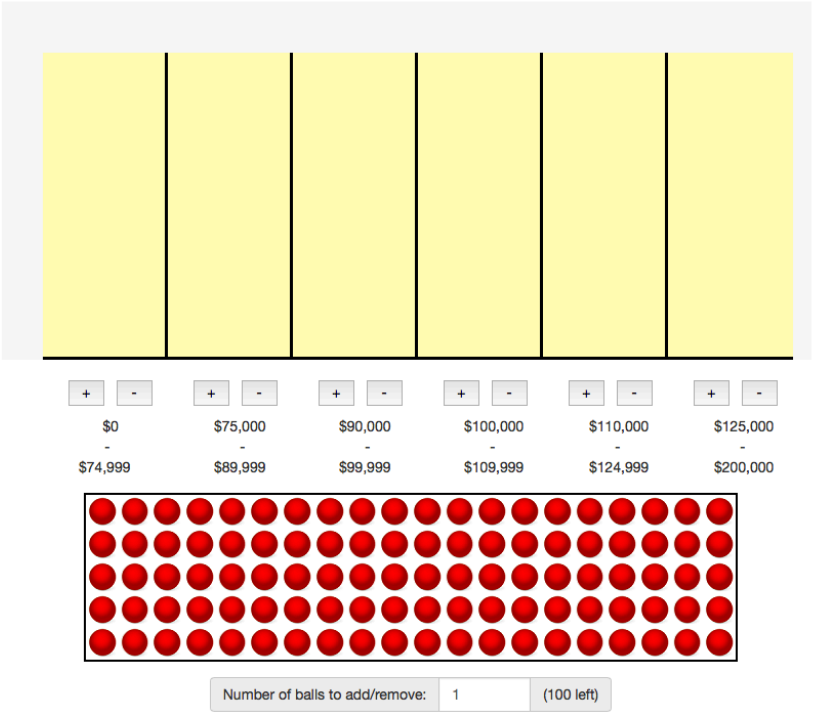
Suppose you have $100,000 in retirement savings that you can invest. How much do you think $100,000 could be worth after one year if it is invested?

Distribution Builder task
(Treatment 1, Money Market example)

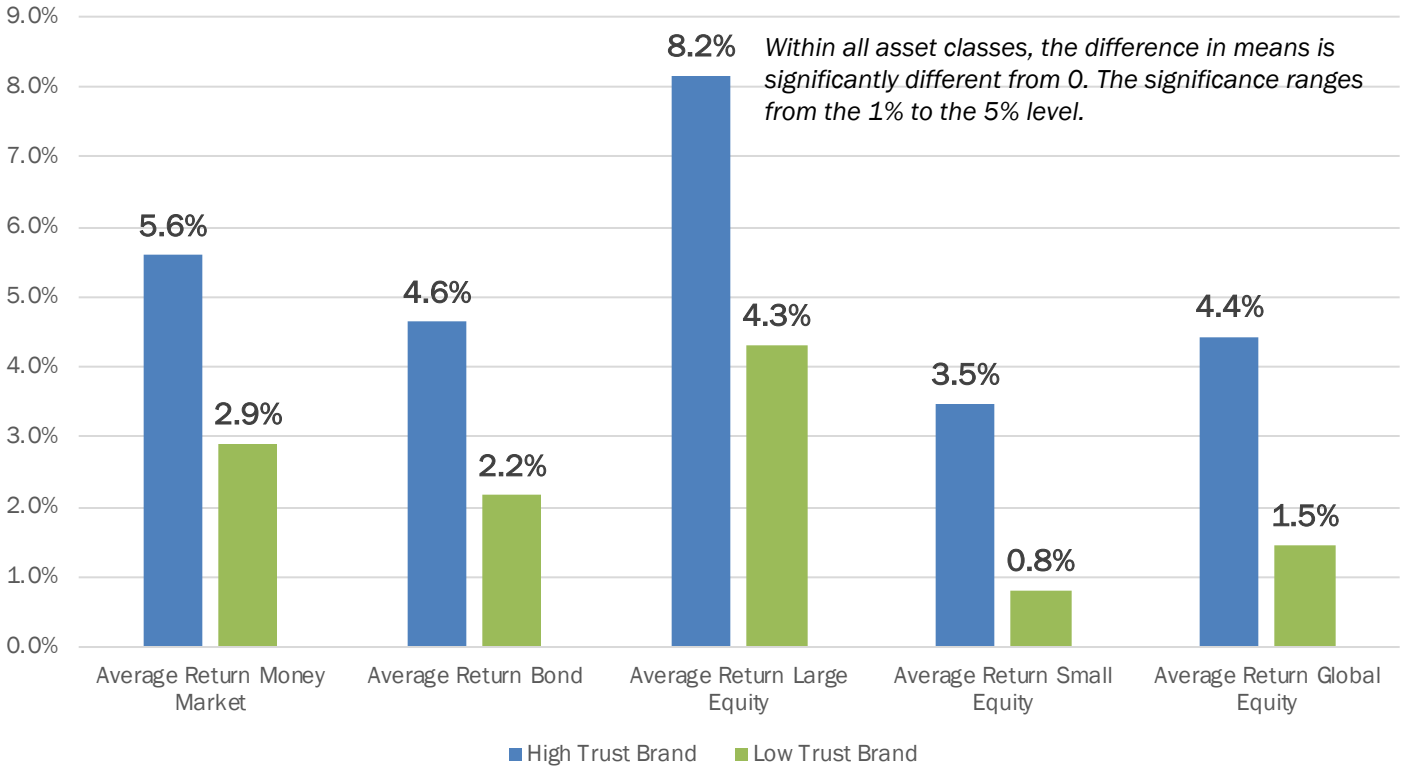
Important Note: All fees related to all fund investments have been waived.

Suppose you have $100,000 in retirement savings that you can invest. How much do you think the $100,000 could be worth after one year if it is invested in a **High Trust Money Market Fund**?

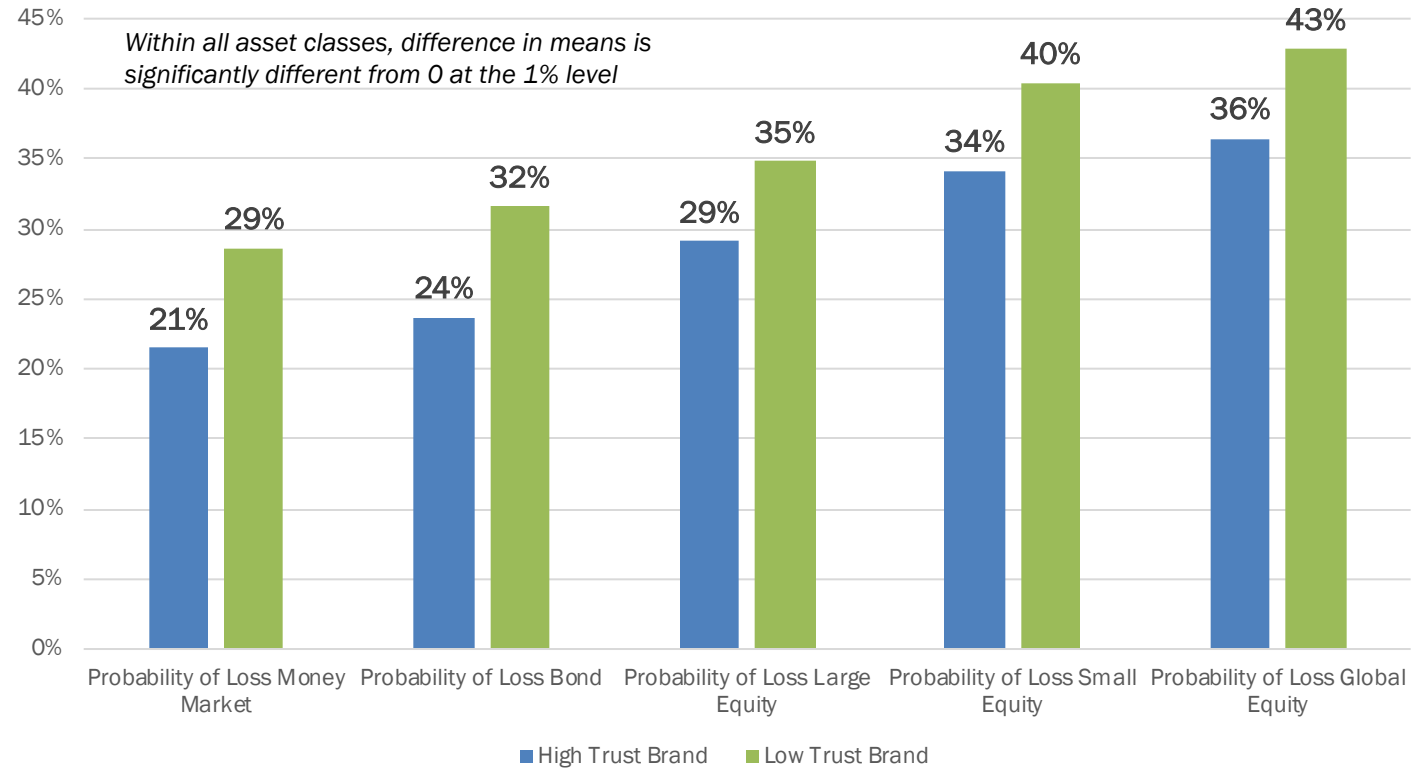
Many different outcomes are possible, with some outcomes more probable than others. Use the ball and bin chart below to indicate how likely you think each outcome is. Each ball represents a 1 in 100 chance that outcome will occur.



Average Expected Asset Returns by Asset Class



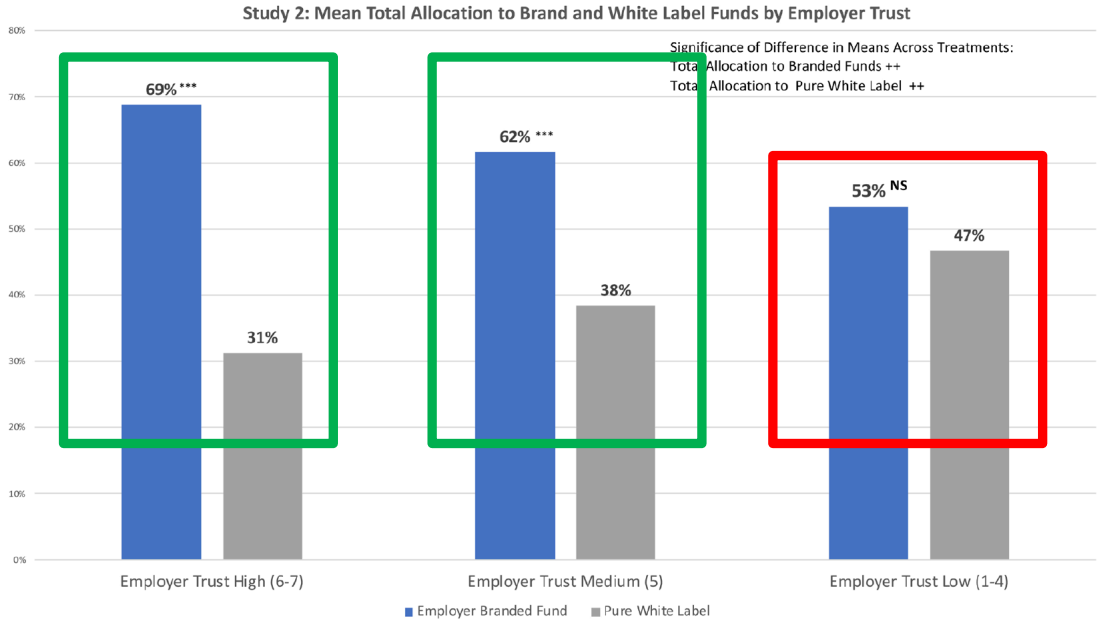
Expected Probability of Loss by Asset Class



Comparison with historical returns

	High Trust Money Market	Low Trust Money Market	High Trust Bond	Low Trust Bond	High Trust Large Cap	Low Trust Large Cap	High Trust Small Cap	Low Trust Small Cap	High Trust Global	Low Trust Global
Mean return										
Historical	0.22%	0.15%	4.55%	4.41%	13.46%	16.99%	12.90%	16.17%	13.55%	7.18%
Experimental	5.60%	2.90%	4.60%	2.20%	8.20%	4.30%	3.50%	0.80%	4.40%	1.50%
Probability of negative returns										
Historical	0	0	0.2	0.15	0.18	0.15	0.21	0.22	0.28	0.38
Experimental	0.21	0.29	0.24	0.32	0.29	0.39	0.34	0.4	0.3	0.43

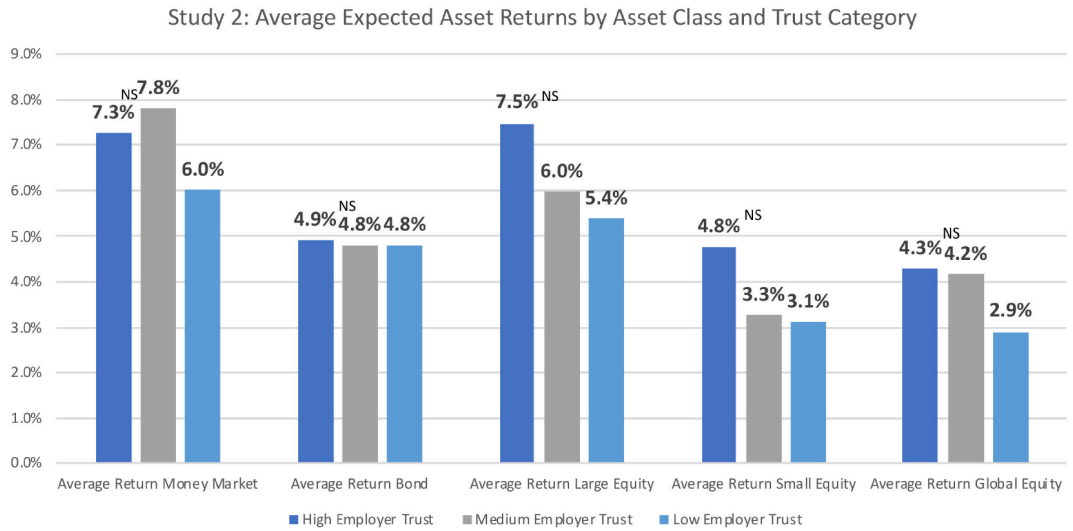
Study 2: Mean Allocations Favor More Trusted Employer Brands



Notes: Stars above the branded fund solid blue bars report the significance of within trust category tests of the differences between the mean allocations to branded funds and white-label funds. NS Not Significant***Significant at the 1% level **Significant at the 5% level, *Significant at the 10% level.

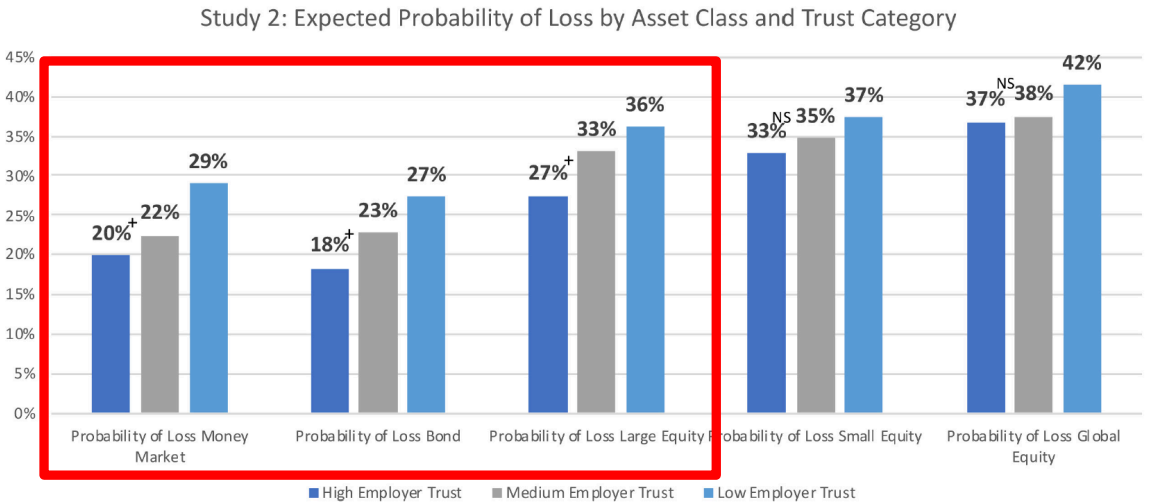
The text box overlaid on the table reports the significance of differences in mean allocations across treatments comparing brand v. brand and white label v. white label. NS Not Significant,+++Significant at the 1% level, ++Significant at the 5% level, +Significant at the 10% level.

Difference in Expected Returns Not Significant



Notes: The NS above the high employer trust fund solid blue bars denotes that there is not a significant difference between the average expected asset returns to employer branded funds and white-label funds within each asset class.

Probability of Loss Increases as Trust Falls



Notes: The pluses (+) above the high employer trust solid blue bars report the significance of the across treatment tests of the differences between the expected probability of loss to employer branded white-label funds and white-label funds within each asset class. NS Not Significant,+++Significant at the 1% level, ++Significant at the 5% level, + Significant at the 10% level.

Summary and Implications

- Brand Trust Affects Asset Allocations
  - Participants allocate significantly more to trusted brands when choosing between otherwise equivalent investment options
  - Options showing highly-trusted brand names are more attractive than equivalent white-label options, and the reverse holds for poorly-trusted brand names
  - Options showing highly trusted employers' names are more attractive than no-brand options
  - Highly-trusted brands can capitalize by displaying their names on investment options while less-trusted brands could consider generic labelling
- Brand Trust Affects Perceptions of Expected Return and Risk
  - Participants expect higher risk-adjusted returns and lower risk from investment options with a highly-trusted brand name

Extra Slides