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Goldman Sachs Seeks Bigger Share of 401(k) Accounts (Correct)

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By Amy Feldman

(Corrects reference in seventh paragraph to timing of Goldman effort)

May 18 (Bloomberg) -- **Goldman Sachs Group Inc.**, facing a fraud lawsuit from U.S. regulators who accuse the company of misleading investors, is trying to convince more Americans to trust the firm with their retirement funds.

The New York-based company is promoting alternative asset funds and designing target-date funds that provide guaranteed income to grab a bigger piece of the $2.7 trillion 401(k) market, said **Bill McDermott**, a managing director at Goldman Sachs Asset Management and head of its defined-contribution business.

"We understand risk and we understand asset allocation," said McDermott, who joined the firm in February to strengthen its retirement-plan products and marketing. "We're looking to leverage that for the 401(k) market."

Goldman's 401(k) plan assets totaled $17.5 billion as of March 31, according to the company. Fidelity Investments, the largest 401(k) asset manager, had $347.8 billion as of December 31. Assets in 401(k) plans are estimated to increase 41 percent, to $3.8 trillion, by the end of 2014, according to data from Cerulli Associates in Boston.

Goldman and BlackRock Inc., the world's largest asset manager, don't administer retirement plans and have been seeking more 401(k) business. The business has been dominated by firms such as Boston-based Fidelity and Vanguard Group, based in Valley Forge, Pennsylvania, which administer plans as well as manage assets.

'Writing on the Wall'

"A lot of investment-only managers are trying to get in," said Lori Lucas, defined contribution practice leader at San Francisco-based Callan Associates, an investment consulting firm. "They see the writing on the wall," as traditional pensions are replaced by 401(k) plans.

The U.S. Securities and Exchange Commission filed a lawsuit against Goldman on April 16 accusing the company of misleading investors in a mortgage-linked investment. Goldman denies those allegations and said it will fight the charges. A Senate panel grilled executives, including Chief Executive Officer Lloyd Blankfein, on April 27 about the case.

"Having issues certainly isn't going to help. But all the signs so far are telling us that clients are sitting tight," said Teresa Epperson, a partner at Mercatus, a Boston-based financial consulting firm. "Goldman's capabilities are in trading strategies and hedging risks. The extension of those absolute-return strategies could be attractive to plan sponsors."

Fiduciary Duty

The asset management division that McDermott works in is separate from the mortgage unit that sold the securities at the center of the SEC's fraud suit against Goldman. A key difference between the two businesses is that the asset management division operates under a fiduciary duty to its clients, whereas the sales and trading division doesn't.

"When a client gives us their money and their assets to manage, we are 100 percent their fiduciary, we must manage their money in the most prudent fashion possible using our best judgment possible," Goldman Sachs President **Gary Cohn** said on May 11 at an investor conference in New York. "The rest of Goldman Sachs is not in the fiduciary business."

Goldman's total assets under management at the end of the first quarter were $840 billion. Asset management is a smaller department at Goldman than investment banking or trading, representing 8.8 percent of the firm's 2009 **revenue** of $45.2 billion, according to company reports.

No Safe Havens

Alternative assets, such as commodities and real estate, can increase a portfolio's overall return and lower risk. They're gaining in 401(k) plans because more companies are creating their own custom target-date funds, said Callan's Lucas. Target- date funds move money from riskier investments such as stocks to more conservative alternatives like bonds as an investor approaches retirement.

The market drop of 2008, when the **Standard & Poor's 500 Index** declined 38 percent, showed that "there were very, very, very few safe havens," said Bud Pernoll, senior managing director of Santa Monica, California-based Bay Mutual Financial LLC, which advises corporate retirement plans on their investment options and works with Goldman. "You're starting to see plan sponsors look outside the traditional asset classes."

Pernoll has added Goldman's **Satellite Strategies** Portfolio, a mutual fund with a portfolio of other mutual funds invested in assets such as real estate, commodities and emerging markets, to more than a dozen 401(k) plans he advises since the start of the year. The fund, with $585 million in assets, returned 28.6 percent in the last 12 months, according to data compiled by Bloomberg.

Large-Company Sales

Goldman already has sold its funds to the 401(k) plans of companies including Intel Corp., Sun Microsystems Inc., and Sysco Corp., according to data compiled by **BrightScope** Inc., the San Diego-based 401(k) research firm.

The most popular Goldman funds for 401(k) plans are Goldman Sachs **Mid Cap Value Fund** and Goldman Sachs **Small Cap Value Fund**, according to BrightScope. The mid-cap fund returned 42.9 percent for the last 12 months, and the small-cap fund returned 45.2 percent in the same period, according to data compiled by Bloomberg.

Goldman is developing target-date offerings that include guaranteed income during retirement, McDermott said. That puts it in competition with **BlackRock** and AllianceBernstein L.P., the money management unit of **AXA Group,** in developing target-date funds that include annuities.

'Major Player'

"There's a lot of interest in product development, but not a lot of plan sponsor usage," Callan's Lucas said. That may be because big corporate plan sponsors are waiting for guidance from regulators. The Department of Labor has been studying annuities in retirement plans, and the Senate's **Special Committee on Aging** is scheduled to hold hearings on lifetime income June 16.

"We want to be a major player," said Goldman's McDermott, who previously worked in the corporate retirement divisions of AXA Equitable and Fidelity. He said he expects to increase the number of people on his team to 30 from 20 by yearend.

Goldman's alternative asset push "is ahead of the curve right now, so they see an opportunity to dominate that niche," said Steven Dimitriou, managing partner of Mayflower Advisors LLC, a Boston-based retirement plan consultant. "As soon as these funds start gaining traction, they're going to get copy- catted."

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