

ICI VIEWPOINTS

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Fund Distribution: Evolving Challenges and Complexities

By Candice Gullett

“Fund Distribution: Evolving Challenges and Complexities,” a joint session for the General Membership Meeting and the Operations and Technology Conference, explored the implications for the fund industry of the continuing transition to fee-based advisory programs, trends in product development, and the use of social media. Bob Cunha, Principal at Market Metrics, moderated the discussion, which focused significantly on the increasing use of the Rep as PM (representative as portfolio manager) platform. One of the main arguments against these models is portfolio turnover and the relatively large volume of trading.

Paul Hatch, Head of Investment Strategy and Client Solutions at Morgan Stanley Smith Barney, said, however, “I’m not sure we have enough data today to determine whether ‘PM-ers’ are too active.” Instead, he argued that these advisory or discretionary models are better for clients because they decrease volatility, decrease dispersion, and generally will increase returns for the clients.

Scott A. Curtis, President of Raymond James Financial Services, said that, following forthcoming regulatory changes by the Securities and Exchange Commission to define “fiduciary duty,” it might become easier to fulfill one’s fiduciary duty to clients by acting as PM. In that case, he suggested, there would be significant growth of these platforms. Bill Dwyer, President of National Sales for LPL Financial Services, said that today’s market lends itself to a more active management style.

The panelists also discussed trends in product development, specifically, exchange-traded funds (ETFs). Cunha noted that there is a fear in the mutual fund industry that ETFs will “kill” mutual funds. Hatch said bluntly, “There is no chance that ETFs are going to kill open-end funds.” The panelists pointed out that even though ETFs have grown, mutual funds still dominate the market, with total mutual fund assets currently more than 10 times the roughly \$1 trillion level of assets in ETFs.

The panelists agreed that even if ETFs grow further, the market is not a zero-sum game; that is, ETF growth does not have to come at the expense of mutual funds. Curtis commented, “As long as mutual funds can outperform ETFs, there will be a place for actively managed mutual funds.” The panelists also agreed that portfolio diversity is key. For example, there has been a bull market in bonds for decades, said Dwyer, but, in anticipation of an eventual bear market, it is important to encourage advisory clients to invest in equity funds and also non-correlated assets.

On social media, Hatch said: “I think it will fundamentally change everything we do. It’s not a fad; it’s changing the way we as humans communicate with each other.” The other panelists agreed that social media present a huge opportunity, but noted that the industry still has a long way to go in realizing the potential of these channels. Curtis said that even of the advisers in his firm who do use social media, the number of them who actively use these platforms for outbound marketing is negligible. Dwyer noted that one of the big issues is, given the utility of social media, how they can best be used by firms. The goal is, he said, to develop the ability to get content out in a way that’s useful to investors.

Candice Gullett is an editor at ICI.

