MONEY management executive

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November 2018 | Volume 26 • Number 11 | mmexecutive.com

SPECIAL REPORT

REGULATION: Asset managers respond to top challenges

By Rebecca Stropoli

Asset managers are increasingly taking steps to manage risk and compliance issues in a rapidly changing regulatory environment.

Concerns include preparing for new SEC reporting rules and modernizing operational infrastructure to address evolving markets.

Eric Ervin, CEO, Blockforce Capital

Melissa Norris, founding partner, Jamesbeck

Money Management Executive reached out to industry execs for their take on these trends.

"Meeting the growing demands of regulatory scrutiny has required asset management firms to dramatically grow their compliance and data management teams," says Melissa Norris, partner at recruiting firm Jamesbeck Global Partners.

Challenges also include how managers oversee internationally focused products.

"Chinese markets come with their own rules and regulations, of which we must be cognizant," notes Blockforce Capital CEO Eric Ervin.

In addition, there's an increased focus on regulating products with controversial underlying assets, including cannabis and cryptocurrencies. For more on what Norris, Ervin and two other experts consider crucial regulatory issues for the industry, read the rest of our special report.

CHALLENGES, on page 6

OPERATIONS: Mutual fund shelf space is shrinking

By Jessica Mathews

After two decades of continuous growth, the number of mutual funds available to investors has been falling steadily.

Since 2015 there are some 200 fewer products available to investors, according to Morningstar, a decline of about 2.5%.

"It's becoming more difficult [for funds] to survive," says Jeffrey Ptak, global director of manager research at Morningstar.

Expense ratios are being pinched. The average ratio for target date mutual funds was 0.59% in 2017, according to the Investment Company Institute — a 40% drop since 2000.

And competition is tough while companies such as Vanguard and Fidelity launched ETFs with no commission at all.

This heightened fee competition paired with a

SHRINKING, on page 11

COMMENTARY: Industry's $1T club is eating its peers

By Mark Gilbert

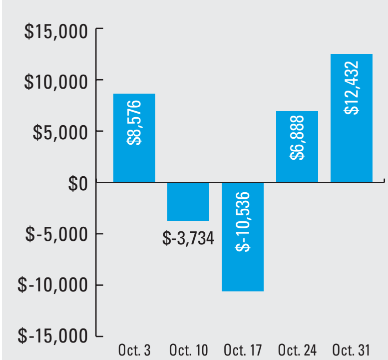
The good news for the fund management industry is that the pool of assets available to oversee climbed almost 16% to a record $94 trillion last year, the fastest pace in almost a decade.

The bad news — at least for those outside the $1 trillion club — is that the world's top 20 firms have increased their market share to an all-time high.

The middle of the industry is being squeezed like never before, according to a report by advisory firm Willis Towers Watson. The elite has increased its market share to 43.3% from 38.3% in the past decade; almost all of those gains came from a corresponding decline in firms ranked 51st to 250th, whose market

PEERS, on page 10

Estimated value of ETF shares issued outpaced redemptions by $12.4B for the week ending Oct. 31 (millions)



Source: Investment Company Institute

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INDUSTRY HIGHLIGHTS

CARLYLE MAKES INVESTMENT IN iCAPITAL

Carlyle Group has become a strategic partner in fintech company iCapital, according to iCapital.

Carlyle is partnering with the platform in order to leverage its proprietary technology and to help manage operations and administration of private equity vehicles targeting the wealth management marketplace.

"Using technology to improve operational processes and infrastructure, iCapital's platform is a potential game-changer for the industry," Norma Kuntz, managing director and global head of fund management at Carlyle, said in a statement.

Carlyle is the latest of companies to invest in the firm, following companies including BlackRock, Blackstone and BNY Mellon.

VICTORY CAPITAL TO ACQUIRE USAA ASSET MANAGEMENT

Victory Capital Holdings announced that it will acquire USAA Asset Management, a company managing $69.2 billion in AUM and 53 investment funds.

The purchase includes USAA Asset Management's mutual fund and ETF businesses, the firm said.

"The acquisition of USAA Asset Management Company is a strong diversifier for us with the addition of quality investment teams and products and provides us entry into a new distribution channel with a loyal member base made up of members of the military community and their families," said Victory Capital CEO David Brown.

Victory Capital expects the acquisition to expand and diversify its investment platform, particularly the fixed income and solutions asset class, as well as allow the company to offer its products to USAA members through a direct member-based channel.

MORNINGSTAR UPGRADES FUNDS

Ten mutual funds received a score boost this year, according to Morningstar, and three funds earned a gold rating. Top scores had strong analysts, value investors and traders or offered zero-cost fees according to the investment management company. Fund companies whose products went to gold include Pimco, MFS and Fidelity.

RESEARCH

MARKET CONDITIONS CAUSE NEW CHALLENGES FOR HEDGE FUNDS

Investors are challenging large allocations to hedge funds, even though overall allocations to alternatives are steady, according to a new survey.

About 20% of investors plan to decrease allocations to hedge funds, EY found, while 34% of investors plan to increase allocations to private equity.

At the same time, hedge fund managers are more welcoming to artificial intelligence than private equity managers.

While 74% of private equity managers do not expect to use AI, only 40% of hedge fund managers hold that expectation, according to the study.

ETF Estimated Net Issuance ($ millions)

	10/31/2018	10/24/2018	10/17/2018	10/10/2018	10/3/2018
Equity	-5,527	-5,381	111	-3,900	-10,833
Domestic	-4,333	-3,399	574	-3,308	-9,868
World	-1,194	-1,982	-464	-592	-965
Hybrid	-3,524	-2,145	-2,632	-1,845	-2,104
Bond	-19,651	-5,222	-7,763	-1,874	4,286
Taxable	-18,323	-5,040	-6,348	-451	4,489
Municipal	-1,328	-182	-1,415	-1,422	-203
Total	-28,702	-12,748	-10,285	-7,619	-8,651

Source: Investment Company Institute

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1 State Street Plaza, 27th Floor
New York, NY 10004
(212) 803-8200
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PRODUCTS

PROSHARES TO LAUNCH PET CARE ETF

A new ETF from ProShares aims to track the FactSet Pet Care Index, which is comprised of companies that generate half their revenues from the pet care industry; a sector that has grown an average of 7.6% since 2005 and is projected to reach more than $72 billion this year, according to Bloomberg News.

The ProShares Pet Care ETF (PAWZ), which will charge a fee of $5 for every $1,000 invested, is the industry's second pet-related ETF, following the Gabelli Pet Parent Fund NextShares (PETZC), which started trading in June.

PETZC, which has so far attracted $1.2 million in assets, charges a fee of $9 per $1,000 invested.

HENNESSY ADVISORS ACQUIRES BP CAPITAL TWINLINE FUNDS

Hennessy Advisors has acquired the BP Capital TwinLine Energy Fund and the BP Capital TwinLine MLP Fund.

The acquired funds represent $200 million in assets and will be reorganized into the Hennessy BP Energy Fund and the Hennessy BP Midstream Fund.

The portfolio managers at BP Capital Fund Advisors will continue to manage the funds moving forward, according to Hennessy Advisors.

VANECK INTRODUCES VIDEO GAME ETF

A new fund from VanEck aims to tap into the growing popularity of competitive video gaming, Investopedia reports.

The VanEck Vectors Video Gaming and eSports ETF (ESPO), which has an expense ratio of 0.55%, aims to track the MVIS Global Video Gaming and eSports Index (MVESPOTR), "which is intended to track the overall performance of companies involved in video game development, eSports, and related hardware and software," according to VanEck.

COLUMBIA THREADNEEDLE ANNOUNCES NEW MUNI ETF

Columbia Threadneedle Investments has expanded its strategic beta ETF lineup with the launch of the Columbia Multi-Sector Municipal Income ETF (MUST).

The fund has an expense ratio of 0.28% and tracks the Beta Advantage Multi-Sector Municipal Bond Index, the firm said.

FRANKLIN EXPANDS PASSIVE LINEUP

Franklin Templeton Investments added three ETFs to its FranklinLiberty lineup; the Franklin FTSE Saudi Arabia ETF (FLSA), Franklin FTSE South Africa ETF (FLZA) and Franklin FTSE Latin America ETF (FLLA).

They have expense ratios of 0.39%, 0.19% and 0.19%, respectively, according to Morningstar.

ARRIVALS

MACQUARIE EXPANDS INSTITUTIONAL MANAGEMENT TEAM

Macquarie Investment Management has appointed former WisdomTree Asset Management Sales Director Chris Jacques and Dupont Capital Management's Business Development Director Corey Mayo to institutional sales managers, the firm said.

Jacques is based in Chicago and supports Macquarie's Midwest region. Mayo is in Philadelphia and covers the East, according to the firm. They will report to Paul Ames, Macquarie's head of consultant relations and institutional sales.

SCHRODERS APPOINTS HEAD OF MULTI-ASSET STRATEGY

Schroders has appointed Lesley-Ann Morgan, the firm's senior strategist, to the newly created role of head of multi-asset strategy, the firm said.

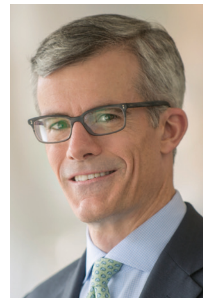
In this position, Morgan will work with Schroders' global head of multi-asset investments, Johanna Kyrklund, to head the firm's strategic partner engagement efforts and market insights.

VANGUARD CEO BUCKLEY APPOINTED TO CHAIRMAN

Vanguard CEO Tim Buckley will succeed Bill McNabb as the firm's fourth chairman in its 43-year history.

Buckley, who joined the firm in 1991 as an assistant to former CEO John Bogle, was appointed to CEO in January after filling various senior management roles for the firm including chief investment officer, head of the firm's retail investor group and chief information officer.

"Tim has been a strong, focused leader at Vanguard during times of tremendous company growth, as well as periods of significant market uncertainty," McNabb said. "The board of directors and I have tremendous confidence in his ability to lead Vanguard through this next chapter for the firm."


Tim Buckley

McNabb, Vanguard's CEO since 2008, has been with the firm since 1986 and has served as chairman of the board since 2009.

STANDARD LIFE SELECTS CHAIRMAN

Standard Life Aberdeen has appointed former HSBC Executive Director Douglas Flint to chairman, according to Bloomberg News.

Flint will succeed Gerry Grimstone, currently chairman of Barclays Bank, in the role one year after the company formed from a merger between Aberdeen Asset Management and Standard Life.

Flint joins CEOs Norman Skeoch, from the Standard Life side, and Martin Gilbert, former head of Aberdeen Asset Management, in this position.

Previously, Flint was executive director of HSBC since 1995, and later group chairman of the bank in 2010 before stepping down last September, Bloomberg News reports.

361 CAPITAL APPOINTS A PRESIDENT

Boutique asset manager 361 Capital has promoted VP Josh Vail to president from his previous position of senior vice president, director of sales, according to the firm.

Vail is now responsible for operations, distribution and product development management, the firm says. Vail will report to CEO Tom Florence.

The firm's OppenheimerFunds' Toller Miller to vice president and director of sales. Miller will report to Vail. MME

News Scan by Jessica Mathews and Andrew Shilling

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Jamesbeck Global Partners Founding Partner Melissa Norris

Growing compliance teams

Since the financial crisis, the asset management industry has seen increasing regulation regarding the information firms can share, as well as how and with whom. Enforcement has also grown stricter, with the SEC and Department of Labor at times immediately fining infractions during audits instead of first writing a letter.

Meeting the growing demands of regulatory scrutiny has required asset management firms to dramatically grow their compliance and data management teams. In addition, thinly stretched research teams at broker-dealers are unable to evaluate every strategy deeply.

Thus, product teams are making economically driven decisions about consolidating their offerings. These decisions can, in turn, jeopardize investment performance when they impact how capital and risk are allocated.

Pension funds have also had to respond to regulations and the requirements of being fiduciaries by ramping up their own internal capabilities. This has forced asset managers to offer more transparency and deeper product knowledge to clients.

Investment managers say all this is compounded by allocators now needing to put out most if not all new bids, instead of renewing with the same investors. This shifts the process from a relationship-building exercise to one that is far more complex and demanding. Managers are constantly under evaluation from prospective clients, and thus require larger, more sophisticated RFP and compliance teams to provide the necessary information and data.

To address these challenges, asset managers must focus on finding the right people and capitalizing on inherent advantages. Ideally, salespeople will have a CFA/MBA, ensuring they have the knowledge and work ethic required to follow the strict rules around sharing information with clients. One salesperson sending a deck before it's reviewed, or selectively revealing fund data could put a firm in jeopardy.

Mid- to large-sized asset managers can afford to make the infrastructure investment to meet compliance demands. This can make it more challenging for new firms to launch, or smaller firms to thrive and remain independent. On the flip side, asset managers say the process of allocators putting up each new bid eliminates one barrier for entry. This allows the newer and smaller firms to show their capabilities and win more business.

Blockforce Capital CEO Eric Ervin

International challenges

As an asset manager in the blockchain space, managing ETFs and private funds with global publicly traded equities as well as derivatives, we are constantly on the hunt for alpha opportunities both here and across the globe..

When considering international regulations, China is one area where managers must pay closer attention. Working with Chinese assets is by no means straightforward, and we face several operational hurdles that come with accessing such a market.

On the compliance/legal front, Chinese markets come with their own rules and regulations, of which we must always be cognizant.

In some instances, domestic and international regulatory actions result in extended trading halts, making the portfolio pricing process even more challenging.

The majority of the regulatory hurdles are tied to trading halts due to events such as mergers and acquisitions, experiencing more than a 10% price move in either direction and cross-border tensions.

China only recently opened up its borders to foreign investments through their stock connect program, presenting an opportunity for asset managers outside mainland China to enter the equity market in the region..

However, this new platform comes with its own set of regulatory concerns and obstacles to navigate. We must constantly monitor the securities approved for inclusion, as companies can be disqualified if they no longer meet the program requirements, effectively eliminating tradability for us.

Asset managers must be able to handle the challenges that come with allocating talent and capital to this part of the world.

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Nottingham CEO Kip Meadows

Regulating crypto and cannabis

Over the past two years, cryptocurrency and cannabis funds have been hot topics in the ETF universe. Both kinds of funds present operational challenges, with the primary issue being custody of assets.

Mutual fund investment securities are typically held in custody at a bank. The key issue with cryptocurrencies is: What is being held, and how?

Cryptocurrencies aren't traded on traditional markets and do not settle through either the Depository Trust Company or the Federal Reserve system. Thus, pricing of cryptocurrencies can be challenging. Centralized clearinghouses are in development, but they are still in their infancy.

A key regulatory concern is fraud. All trading is electronic, and anonymous counterparties are identified only through codes. There is a history of assets disappearing with little or no way to trace the transaction.

Several firms are working on systems to hold cryptocurrencies, with two or more entities holding a portion of the codes necessary for a trade. As these systems mature, some of the issues relating to custody should subside.

Cannabis funds' challenge with custody comes from a different angle. There's a conflict between federal and state laws related to cash movement for the cannabis industry.

U.S. law prohibits certain bank transactions, in conflict with many state laws. Even with cannabis equity securities having been through the federal SEC effectiveness process, it's still unknown what actions, if any, the U.S. Department of Justice might take.

Bank executives view the risk/reward unjustified considering the potential negative headline risk if any banking relationship to a cannabis fund were challenged.

There is an innovative approach to dealing with custody for a cannabis fund that will likely hit the markets within the next few months. Cryptocurrency may take longer to reach a resolution acceptable to regulators.

Wells Fargo Asset Management Strategic Business Segment Head Fredrik Axsater

Defined-contribution planning

Asset managers today must navigate a volatile environment, most significantly reflected in the evolution of a defined-benefit to a defined-contribution retirement system.

The combination of changes in the cost of Pension Benefit Guaranty premiums and recent tax reform has changed the dynamic ways in which pension plans manage their assets, which in turn affects how asset managers can strategize within plans.

Moreover, in the aftermath of the fiduciary rule, we expect more assets to stay in defined-contribution plans well after retirement.

This is one reason why it will be critical to address investor challenges within these plans.

We must continue to push for both a business and regulatory environment that helps workers achieve the retirement they want and deserve.

In addition to providing ideas and products, we must work on policies that make it easier for institutional and retail investors to reach their goals.

Increasingly, the managers of defined-contribution plans must also consider that investors retire when they want, and also when their organization wants them to.

This in turn elevates the importance of the plans.

These issues represent a call to action for all asset managers. We must play a central role in solving these huge challenges.

For example, we should encourage greater access to defined-contribution plans for working Americans, in part by making it easier for smaller employers to establish retirement plans. MME

5 ways asset managers may use data to build relationships

By David Halligan

Asset managers may derive as much as 80% to 90% of their sales from just a few key national accounts. Managing these accounts is therefore critically important. They rely heavily on the distribution efforts of their key accounts, so in order to grow assets under management, national accounts team must effectively serve as the gatekeepers of your client's platforms.

It's no secret that key employees evaluate their relationships on a continuous basis, and many are reducing the number of managers on their platforms. In addition, distributors may be demanding more support in the areas of investor education, risk management and governance.

The data provided is used to analyze the profitability of product offerings and their demand. Timely and accurate data is a tool that asset managers can use to build key account relationships and compete for new business, and help provide value to the customer.

Asset managers should consider these approaches for using data to serve their most important accounts:

BE A STRATEGIC BUSINESS PARTNER

Recent market volatility may have tested the resilience of key account products and models. Clients need asset managers to be a powerful source of information. They can differentiate from the competition by becoming a strategic business partner.

Providing a strategic partner role for key accounts requires asset managers to provide a level of information that is more in-depth than simply investment performance. If clients want input on developing a new product or changing the marketing direction of a particular fund, managers need to provide the right data.

Assume managers provide data that explains the impact of market volatility on a particular asset class. In-depth analysis reveals that volatility is less of a factor on the asset class than previously thought, which supports the client's decision to change the marketing direction of a fund they distribute.

Adding value as a strategic partner can help maintain profitability with key accounts.

SUPPORT MODEL-BASED PORTFOLIOS

BDs and RIAs are placing more emphasis on model-based investing, an approach that requires managers to shift resources to the home office. The growth in model-based investing means your clients will increase the number of analysts and product development experts, and firms must adjust.

"By moving up the value chain and rolling out such services as research, model portfolios manufactured through cost-effective ETFs, structured customized solutions and financial planning, distributors can fully leverage their ownership of the client relationship," an EY survey says.

Firms must meet the diverse needs of their clients' growing staff of researchers and analysts, and their systems must be able to quickly collect and distribute data for home office marketers, portfolio managers and analysts.

"Providing a strategic partner role for key accounts requires asset managers to provide a level of information that is more in-depth than simply investment performance."

David Halligan, director of sales and account management, SalesFocus

PROVIDE ANALYSIS TO RESEARCH TEAMS

In a 2018 report, Deloitte said firms "are expected to face margin compression as investors favor low-cost investment solutions."

Researchers and analysts need comparative data on fund fees, expenses, trading cost and performance metrics in order to make the case for alpha. Data systems and analysis must be able to meet that client need.

Asset managers should discuss each type of report for key account analysts and determine the reports that are not useful for clients. If unneeded reports are cut, both the manager and client will save time and money.

MANAGE CONSULTANT RELATIONSHIPS

Consultants are "increasingly offering services that are highly overlapping and similar to asset managers," EY said. Consultants may be helping key accounts with portfolio construction, asset allocation and due diligence.

To maintain relationships with key accounts, national accounts teams must coordinate with consultant relationship teams. Both must provide accurate data to deliver a consistent message to both consultants and key account staff.

National accounts and consultant relationship teams should meet frequently to discuss the priorities for your key accounts, and rank those priorities so both parties are served effectively. If consultants view benchmarking data as a top priority, the consultant may need more-frequent information on benchmark performance data than clients.

PROVIDE RESOURCES TO KEY ACCOUNTS

Revenue growth may be driven by a small number of key account relationships, and firms must properly equip their national accounts teams. That support may move a variety of resources to national accounts teams. These additional resources can help address a diverse set of key account needs.

Distributors want the ability to drive new sales with data-driven marketing, and national account teams must be able to support that effort. Data can help you clearly understand the needs of your key account team, and offer solutions tailored to the needs of the home office. Asset managers must provide resources to areas that provide the largest potential for revenue growth, and providing useful data is a valuable resource.

David Halligan is director of sales and account management at SalesFocus.

PEERS
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share slumped to 28.2% from 33.6%.

As a group, the top 20 increased its assets under management by more than 18% to control almost $41 trillion of the total market — and every firm in the club controls at least $1 trillion.

In eight of the past 10 years, growth among the top 20 has outpaced that of the 500; the compound annual growth rate for the aristocrats is 4.6% compared with 3.1% for the broader group. And BlackRock, the biggest firm of all, grew its assets by more than a fifth in 2017.

The study backs up a July report by consultancy firm Bain, which found that firms managing about half of the world's assets face a "valley of death." There is a bifurcation coming between small, nimble firms offering specialist investment services and mega-sized all-service companies exploiting economies of scale to counter the headwinds of ever-lower fees and increased regulatory costs. Those in between are expected to merge or die.

Consolidation, though, has been limited, and the firms that have done deals haven't exactly been rewarded for their efforts. Janus Capital Group's merger with Henderson Group, the combination of Standard Life and Aberdeen Asset Management, and Amundi's purchase of Pioneer Investments last year haven't immunized those firms from widespread investor concern about the industry's outlook.

The Elite

The global top 20 asset management firms all have at least $1 trillion of funds.

Source: Willis Towers Watson

> **"There is a bifurcation coming between small, nimble firms offering specialist investment services and mega-sized all-service companies exploiting economies of scale to counter the headwinds of ever-lower fees and increased regulatory costs."**
>
> **Mark Gilbert**

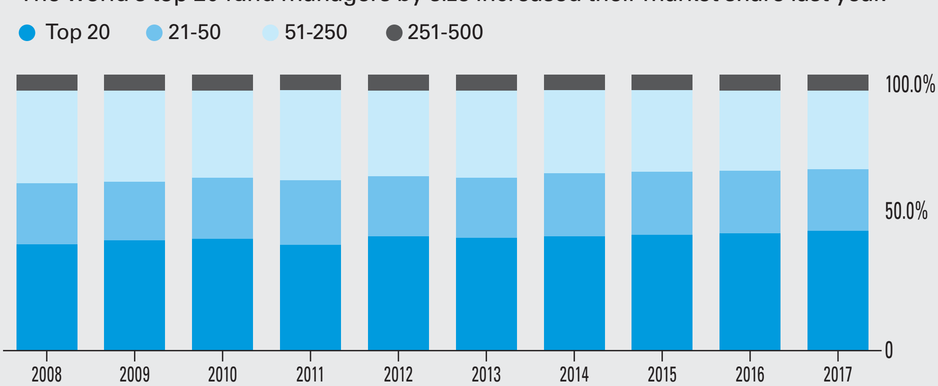
UBS wants to expand its asset management business, either through acquisitions or joint ventures, Bloomberg News reported on Tuesday citing people with knowledge of the matter. Invesco agreed to buy OppenheimerFunds from MassMutual for about $5.7 billion. That prompted Ken Jacobs, the CEO of Lazard, the sole adviser on the MassMutual transaction, to say he would consider selling his firm's $240 billion asset management division — for the right price.

And therein lies the paradox. The stock prices of fund managers have been beaten up this year, making them cheap. But that also means the potential acquisition currency is much diminished. At the same time, no one wants to be a distressed seller. It's a lose-lose situation.

So middle-sized firms will continue to lose market share to their bigger brethren. Which re-raises the question I posed at the start of the month: Why would you invest in an investment firm? — *Bloomberg News* MME

Winners take (almost) all

The world's top 20 fund managers by size increased their market share last year.



Source: Willis Towers Watson

SHRINKING
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shrinking mutual fund industry are changing the game for fund companies, according to Tom Morelli, head of broker-dealer distribution at T. Rowe Price.

"The competition today is based on your performance, your fees and then your relationship, while in the past it may have been more focused on the relationship, performance and then the fee," Morelli says.

To survive, funds have to be used by enough asset management companies and their clients, he says.

While performance and price might be more important than ever before, this isn't to say relationships no longer matter. T. Rowe Price has only upped the number, and quality, of sales people it is sending out to financial advisors — a unique strategy after two decades of focusing sales efforts on research groups and home offices.

And clients are noticing.

"If mutual funds were struggling, they would not be able to send talented people out to tell us about their trends… If anything, I see the talent getting better and better," says Mark Hogan, a San Antonio, Texas-based advisor with Snowden Lane.

But as a whole, a shrinking mutual fund industry does not mean much to the average client — at least not now, according to Hogan.

"You could probably take 2,000 mutual funds out and we wouldn't see a difference," Hogan says.

Only asset managers with an aggressive fund might feel they are working within a more crowded field. That's because the small, overpriced and niche funds are the ones that are closing, he says.

"The perception might be that their choice is limited," Morelli says of asset managers' client base, "but the offering is still very large."

And not all fund companies are necessarily shrinking their offerings. T. Rowe Price has only closed three funds since 2016 and launched 10 new ones, according to the firm.

"We've been able to make it through this period of rationalization, not untouched, but we've been impacted less than some of the other organizations," Morelli says.

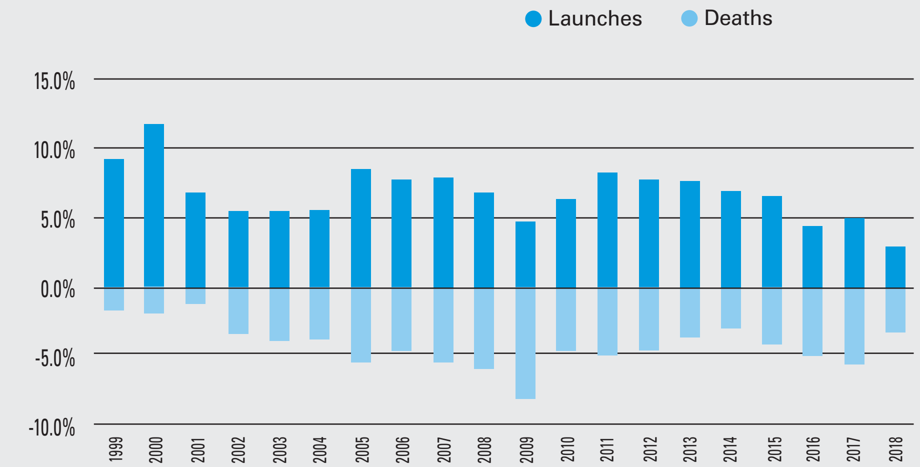
He attributes this to how the firm's funds have passed through scans from research groups and consultants. Many funds that are closing are smaller and more expensive, according to Ptak. Still, fund companies might have to take costs out of other parts of the business to make up for fee cuts, he says.

"I would say that all things being equal, this is something that is likely to pinch margins," he says. But he adds: "Even if they're operating at lower margins, they're still operating at margins almost every other industry would salivate about."

And a shrinking mutual fund industry stands to benefit both the client, and the end investor, according to Ptak.

"The trend towards concentration of the largest players is real, and those sorts of competitive forces can make life more difficult for upstarts," Ptak says. "You're seeing in a number of these different fields — mutual funds, hedge funds. It's becoming more difficult to survive, and the industry isn't growing quite the way it used to." MME

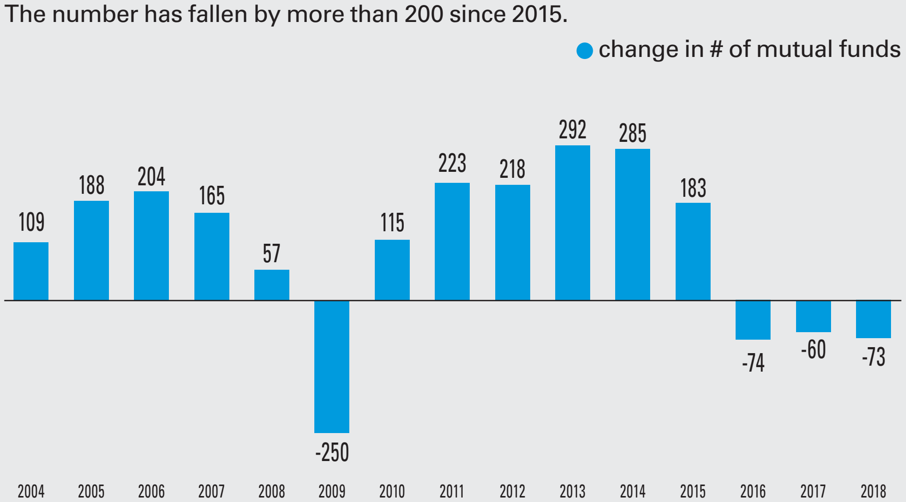
Mutual fund: Annual launch and death rates



Source: Morningstar

Mutual fund offerings shrink

The number has fallen by more than 200 since 2015.



Source: Morningstar

Warning Signs You May Need a New Fund Administration Provider

Sticking with the Status Quo May Cost More Than Converting

By Dave Carson

As an investment manager, is your mutual fund administrator a transaction processor fulfilling basic functions? Or is your service provider engaged and strategic, providing high quality administrative services coupled with insightful business acumen? The difference could mean putting your organization in the best position for long-term success or putting it at significant risk.

While investment managers don't always recognize that their service provider has become deficient, or fear converting to a new provider, staying with the status quo can be more risky. To help investment managers get the most out of their fund administrator, below are a few warning signs that indicate your current provider is not cutting it, along with some tips to ensure a smooth conversion if a switch is the best course of action.

SIGNS OF ADMIN DEFICIENCY

Unresponsive Service – If you have questions, can you get answers? How responsive is your service provider? Does it take days to get a response to a voicemail or email? A good service provider acts as an extension of your business and replies to emails and calls quickly because they are interested in resolving your concerns.

Consistency Matters – For a service provider to be a true business partner, their operational continuity is critical. If operating models change, your service levels may change, particularly if provider employees are learning new systems or dealing with heavily functionalized processes. Understanding changes to your providers' operating model is important in considering impacts to your business.

Relationship Time – Is the amount of time with your provider shrinking? If so, the level of service is likely slipping. Service providers that are actively involved with their clients by attending meetings in person and having a consistent dialogue can make proactive recommendations and provide the best service. A well-informed provider is better positioned to offer valuable business insights. Also, if your provider gets acquired, their operational model or service culture may change causing changes in the relationship and quality of time they have for you. Be aware of these types of changes and don't let them affect your business.


Dave Carson

Commitment – If your mutual fund servicing department is part of a much larger organization, their commitment may be to themselves and not to being a true business partner. If servicing is just one piece of their organization, how much time and resources are they devoting to making improvements? Plus, some large service providers sponsor mutual funds which might compete for your business in growing assets. Understanding your service provider's business model makes good business sense for you.

Despite warning signs, many investment managers are apprehensive about making a switch or don't know where to begin. The reality is that most managers have not been through a conversion and don't realize that with the right partner, the conversion process can be systematic and seamless.

Below are commonly held ***myths*** about the conversion process and steps a manager can take to address them.

Project Management – While investment managers view themselves as the project manager for the conversion process, the best service providers look at the conversion process as a project they need to manage on behalf of their client. That means the new service provider deals with the outgoing provider and only gets the investment manager involved as needed. When selecting a new provider, determine how they will manage a conversion process, and what team will be assigned to make the transition go smoothly.

Switching: It's Not a Good Time – This is the most commonly held myth, but it has little merit. Converting must be a well thought out decision that considers contract stipulations, blackout dates, division of labor and costs incurred, in addition to timing. If the process is managed effectively by the new provider, the conversion can take place with little impact to the manager and a lot of long-term upside benefits.

Conversion Costs – Cost is one of the most common conversion deterrents. By understanding the details of the conversion clause and exit fees of your current contract, you may be able to negotiate with the new service provider to help defray costs. The reality is if you are sticking with a sub-par provider because of fees, the cost to your business will likely be greater in the long run.

Shareholder Disruption – Many investment managers are afraid that a conversion will cause confusion and lead to shareholder redemptions. A good service provider will deliver a systematic approach for communicating with shareholders, ensuring a smooth process. The best providers make this process seamless for all parties by keeping everyone abreast of milestones, progress and challenges.

THE RIGHT BUSINESS CHOICE

Even though the conversion process may seem daunting, it's not new, nor does it have to be painful. In fact, conversions happen all the time. Before even considering a conversion, investment managers must be able to recognize the signs that their current service provider may be failing, then take control of the process and make the right choice for their business. Converting may seem like a risky proposition, but in today's environment the real risk could be sticking with the status quo.

Dave Carson is VP Director of Client Strategies, Ultimus Fund Solutions; President of Ultimus Managers Trust and Unified Series Trust.

Top actively managed mutual funds ranked by 3-year returns

Although active management is not as popular as it once was, its high-fee top-performers have managed to post some flashy returns.

The success rate among stock pickers has continued to sink, with just 36% of active managers outperforming the average passive peer over 12 months through June, according to Morningstar. That's down from 43% in 2017. To be sure, these funds posted an average return of 21%. Factors including low interest rates may have contributed to success, says Greg McBride, chief financial analyst at Bankrate.

"It is no surprise that technology sector funds dominated the list of best-performing funds over the past three years," McBride says. "But with rising interest rates and slowing profit growth, it will be tough to replicate this performance over the next three years." MME

	Ticker	1-Yr. % Returns	3-Yr. % Returns	Expense Ratio	Net Assets (millions)
Virtus KAR Small-Cap Growth I	PXSGX	18.90	25.91	1.21%	$4,545.75
Fidelity Advisor Technology I	FATIX	10.39	22.92	0.78%	$2,332.29
Fidelity Select Technology	FSPTX	9.30	22.48	0.75%	$6,417.42
Fidelity Select Medical Tech and Devcs	FSMEX	21.31	22.11	0.76%	$6,342.28
Fidelity Select Software & IT Svcs Port	FSCSX	18.65	22.00	0.73%	$6,861.93
Columbia Global Technology Growth Inst	CMTFX	12.57	21.91	1.06%	$1,385.89
Janus Henderson Global Technology T	JAGTX	13.60	21.91	0.93%	$3,139.61
Red Oak Technology Select	ROGSX	14.38	21.89	0.96%	$547.26
Alger Small Cap Focus I	AOFIX	29.46	21.63	1.20%	$2,133.10
Oppenheimer Global Opportunities A	OPGIX	5.84	21.20	1.17%	$8,510.17
MFS Technology A	MTCAX	17.81	20.70	1.24%	$1,143.21
Fidelity Select Defense & Aero Port	FSDAX	10.84	20.36	0.76%	$3,021.79
Morgan Stanley Multi Cap Growth B	CPOBX	26.23	20.28	2.02%	$892.26
Fidelity Select Semiconductors	FSELX	2.22	19.71	0.75%	$3,350.01
Transamerica Capital Growth A	IALAX	20.01	19.56	1.23%	$1,432.27
Federated Kaufmann Small Cap A	FKASX	21.45	19.44	1.36%	$1,576.96
Virtus KAR Small-Cap Core I	PKSFX	12.53	19.41	1.07%	$1,410.82
VALIC Company I Science & Technology	VCSTX	11.59	19.07	0.97%	$1,345.04
Fidelity OTC	FOCPX	14.36	18.83	0.88%	$22,040.61
Fidelity Advisor Series Growth Opps	FAOFX	25.79	18.70	0.01%	$689.43

Data as of 10/22/18. Source: Morningstar Direct

Mutual fund flows

($ millions)

		Equity									
		Domestic							World		
Date	Total long-term	Total equity	Total domestic	Large-cap	Mid-cap	Small-cap	Multi-cap	Other	Total world	Developed markets	Emerging markets
Estimated weekly net new cash flow											
10/31/2018	-28,702	-5,527	-4,333	-173	-1,274	-829	-1,181	-876	-1,194	-973	-222
10/24/2018	-12,748	-5,381	-3,399	441	-1,233	-240	-1,376	-992	-1,982	-1,476	-506
10/17/2018	-10,285	111	574	3,363	-747	-795	-70	-1,178	-464	-766	302
10/10/2018	-7,619	-3,900	-3,308	-1,281	-584	-761	-648	-35	-592	-363	-229
10/3/2018	-8,651	-10,833	-9,868	-3,695	-1,138	-1,532	-2,718	-786	-965	-1,161	196
Monthly net new cash flow											
9/30/2018	-23,213	-28,056	-25,507	-12,273	-1,983	-1,006	-8,089	-2,156	-2,549	-2,687	138
8/31/2018	-17,865	-24,453	-23,111	-12,975	-2,018	1,176	-8,006	-1,288	-1,342	-1,466	124
7/31/2018	-9,911	-20,874	-18,879	-9,658	-2,177	1,570	-6,724	-1,890	-1,995	-2,229	233
6/30/2018	-16,485	-19,894	-24,290	-15,214	-2,714	1,453	-6,519	-1,296	4,396	4,809	-413
5/31/2018	-5,788	-8,733	-15,721	-5,623	-4,423	544	-5,152	-1,067	6,988	5,794	1,194
4/30/2018	-6,968	-9,293	-12,667	-701	-1,128	-104	-3,966	-6,769	3,374	1,618	1,756
3/31/2018	9,565	264	-12,010	368	-2,823	-1,600	-6,599	-1,356	12,274	11,227	1,047
2/28/2018	-12,106	-8,369	-19,560	-1,655	-2,858	-2,634	-9,413	-3,000	11,191	9,452	1,739
1/31/2018	39,011	-7,078	-24,538	-6,892	-5,288	-2,117	-9,955	-285	17,461	13,260	4,201
12/31/2017	-28,867	-38,329	-43,086	-18,742	-4,770	-3,202	-12,394	-3,978	4,757	4,295	463
11/30/2017	-4,879	-16,441	-24,060	-5,891	-3,756	-3,439	-7,096	-3,878	7,619	6,296	1,324
10/31/2017	11,032	-15,971	-22,091	-7,338	-2,412	-2,109	-8,387	-1,846	6,120	4,951	1,169
9/30/2017	454	-21,998	-22,610	-7,536	-2,720	-2,046	-9,341	-967	611	1,365	-754
8/31/2017	-494	-16,493	-24,559	-7,222	-3,513	-2,555	-8,214	-3,056	8,066	6,641	1,425
7/31/2017	3,787	-13,782	-25,538	-10,317	-4,487	-2,242	-7,303	-1,188	11,756	11,030	726
6/30/2017	7,572	-9,412	-18,484	-13,216	-3,147	-2,291	1,915	-1,746	9,073	7,496	1,576
5/31/2017	27,309	3,144	-9,235	2,777	-2,379	-2,169	-5,236	-2,227	12,379	8,818	3,561
4/30/2017	321	-12,498	-19,550	-5,048	-4,061	-2,006	-7,059	-1,375	7,051	5,191	1,861
3/31/2017	12,564	-14,101	-13,400	-1,669	-833	-827	-7,656	-2,415	-701	-581	-121
2/28/2017	27,053	3,995	-2,684	-1,227	524	712	-2,066	-626	6,680	5,774	906
1/31/2017	11,149	-7,754	-10,926	794	-792	998	-10,612	-1,314	3,172	2,114	1,058
12/31/2016	-56,074	-33,615	-26,961	-10,863	-977	-816	-12,219	-2,085	-6,655	-5,830	-825
11/30/2016	-52,071	-27,965	-25,919	-8,230	-1,709	-293	-11,062	-4,626	-2,046	-899	-1,147
10/31/2016	-32,779	-37,928	-31,440	-8,551	-5,287	-2,541	-12,226	-2,834	-6,489	-6,270	-219
9/30/2016	-9,016	-22,398	-15,366	-133	-1,750	-1,086	-10,131	-2,265	-7,033	-6,125	-908
8/31/2016	-9,795	-32,287	-24,767	-5,481	-3,355	-1,711	-12,760	-1,459	-7,521	-7,291	-229
7/31/2016	-15,117	-37,685	-31,243	-11,907	-5,015	-3,382	-9,050	-1,889	-6,441	-6,249	-192
6/30/2016	-14,349	-18,895	-14,860	1,115	-4,486	-1,576	-7,817	-2,095	-4,036	-4,038	2
5/31/2016	-5,563	-17,369	-17,331	-4,166	-3,363	-1,188	-7,099	-1,516	-38	-1,228	1,190
4/30/2016	-4,492	-23,767	-19,445	-5,790	-3,381	-2,405	-7,327	-542	-4,322	-3,423	-899
3/31/2016	14,691	-9,971	-9,803	-5,471	-1,428	87	-2,652	-338	-168	1,296	-1,464
2/29/2016	8,527	8,779	-2,324	2,091	-2,871	-351	-536	-657	11,103	10,501	602
01/31/2016	-20,694	-4,927	-15,539	5,625	-5,958	-2,887	-7,367	-4,952	10,612	10,852	-239

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute

ETF flows

($ millions)

Date	Total equity	Domestic equity	World equity	Hybrid	Total bond	Taxable bond	Municipal bond	Commodity	Total LT MF and ETF flows
Estimated weekly net new cash flow									
10/31/2018	5,642	6,377	-735	-3,438	-18,517	-17,331	-1,186	43	-16,270
10/24/2018	3,054	4,012	-958	-2,215	-7,043	-6,865	-179	344	-5,860
10/17/2018	-12,822	-14,426	1,605	-2,574	-5,637	-4,327	-1,310	211	-20,821
10/10/2018	-2,542	-3,044	502	-1,812	-7,137	-5,484	-1,653	138	-11,353
10/03/2018	-4,282	-4,806	524	-2,099	6,494	6,497	-3	-188	-74
Monthly net new cash flow									
09/30/2018	-1,176	829	-2,005	-6,287	17,873	18,335	-462	-36	10,374
08/31/2018	-3,954	-6,661	2,708	-6,309	19,585	17,259	2,326	-2,322	7,000
07/31/2018	-305	982	-1,287	-6,157	25,956	22,535	3,421	-599	18,896
06/30/2018	-26,524	-20,979	-5,545	-7,415	19,650	17,049	2,601	-2,450	-16,740
05/31/2018	13,744	10,062	3,682	-3,897	13,026	11,749	1,277	-133	22,740
04/30/2018	-27	-7,410	7,382	-4,099	22,405	24,176	-1,771	2,310	20,589
03/31/2018	-6,742	-22,164	15,422	-2,012	15,880	14,148	1,732	554	7,679
02/28/2018	-19,502	-41,440	21,938	-3,644	1,694	2,706	-1,012	1,026	-20,425
01/31/2018	54,200	10,785	43,415	-625	56,744	46,287	10,457	1,724	112,044
12/31/2017	8,940	-9,047	17,987	-3,673	19,158	19,491	-333	-528	23,898
11/30/2017	13,723	-4,422	18,145	-3,319	21,597	19,788	1,809	-444	31,557
10/31/2017	23,928	3,162	20,765	-2,393	38,705	36,110	2,595	-747	59,494
09/30/2017	653	-9,775	10,428	-2,537	36,427	33,440	2,987	1,733	36,277
08/31/2017	-6,149	-22,765	16,616	-4,093	29,532	25,078	4,454	2,393	21,682
07/31/2017	7,402	-12,520	19,922	-2,540	31,702	29,139	2,564	-3,532	33,033
06/30/2017	21,927	-7,950	29,878	-2,692	32,632	29,372	3,260	1,528	53,396
05/31/2017	23,363	-10,752	34,114	-1,961	36,372	33,070	3,302	-449	57,324
04/30/2017	12,335	-8,272	20,607	-2,011	25,185	22,064	3,120	948	36,456
03/31/2017	24,562	9,418	15,144	-2,343	37,797	36,562	1,235	-531	59,485
02/28/2017	34,769	17,610	17,159	-511	35,990	33,991	1,999	1,867	72,116
01/31/2017	20,678	5,090	15,587	-2,468	35,519	31,037	4,482	-637	53,092
12/31/2016	23,720	18,861	4,859	-12,191	-4,163	12,168	-16,331	-3,600	3,765
11/30/2016	21,953	23,161	-1,208	-7,515	-13,298	-2,156	-11,142	-3,572	-2,432
10/31/2016	-24,010	-23,099	-911	-4,851	13,875	12,276	1,599	-87	-15,073
09/30/2016	-13,030	-5,804	-7,225	-4,102	24,673	20,674	3,999	496	8,037
08/31/2016	-12,238	-9,915	-2,323	-453	30,864	23,569	7,295	-568	17,604
07/31/2016	-2,166	451	-2,617	-1,732	33,585	26,833	6,753	2,069	31,757
06/30/2016	-14,803	-15,711	908	-3,869	16,700	9,641	7,059	4,327	2,356
05/31/2016	-19,695	-14,034	-5,662	-1,501	16,936	8,966	7,970	3,466	-794
04/30/2016	-17,054	-12,667	-4,388	442	22,128	16,304	5,824	-674	4,842
03/31/2016	11,642	7,610	4,032	3,188	29,437	23,605	5,832	2,148	46,415
02/29/2016	-4,472	-9,058	4,586	-1,420	11,936	6,637	5,299	5,664	11,708
01/31/2016	-20,171	-27,283	7,111	-10,548	7,708	2,697	5,011	2,010	-21,001

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute