Asset managers need to design ‘vehicle-agnostic’ products: Cerulli

By Editorial Staff *Thu, Oct 3, 2019*

'Mutual fund providers feel pressure to prioritize development and distribution of other vehicles over the mutual fund,' said a report from the Boston-based global consulting firm.

Asset managers say that their product plans for the next 12 months are spread across mutual funds (27%), exchange-traded funds, or ETFs (25%), and separate accounts (29%), but they also include other vehicles (18%), such as collective investment trusts (CITs), private commingled funds, and interval funds, according to Cerulli Associates.

[Note: An interval fund is a closed-end fund whose shares don’t trade on the secondary market. Instead, the fund periodically offers to buy back a percentage of outstanding shares at net asset value (NAV).]

As asset managers seek to deliver a more vehicle-agnostic approach to product development, they must consider a number of factors in developing their roadmap to success, said Cerulli’s latest report, *U.S. Product Development 2019: A Roadmap to Vehicle Proliferation*.

“Increasing cost-awareness and a more stringent focus on fiduciary responsibility is causing mutual fund providers to prioritize development and distribution of other vehicles over the mutual fund,” the Boston-based global consulting firm said in releasing the report this week, noting that asset managers are trying to deliver a “more vehicle-agnostic” approach to product development.

Asset managers should enable clients “to consume a strategy in the wrapper of their own choosing, but this may not always be the best approach due to structural barriers and overall feasibility,” said Cerulli associate director Brendan Powers in the release.

As asset managers expand their vehicle offerings, he added, they should consider “the strategy they are seeking to distribute, their primary client target markets in which it will be distributed, and any changing demand from the client segments within those markets.”

In building a new vehicle, firms shouldn’t get caught up in deciding whether to clone an existing vehicle or create a different one, Cerulli cautioned. Instead, Powers said, firms base their new vehicle design on their capabilities and customer demand.

Even as the asset management industry moves toward vehicle-agnostic delivery of investment capabilities, Cerulli sees operational obstacles to vehicle proliferation.

“One of the most glaring is the sourcing, use, and harvesting back of seed capital,” said Matt Merritt, product development analyst at Cerulli, in the release. Product rationalization, fee compression, and the increased use of passive products are all compressing their budgets, so asset managers need to scrutinize the “lifecycle of seed capital” more than ever.