Retirement Income
JOURNAL

Next-gen funds will be active/passive hybrids: Cerulli

By Editorial Staff *Fri, Jan 17, 2020*

Demand is up for strategies that perform like actively managed funds but with lower fees, such as smart beta and 'active' exchange-traded funds (ETFs), said a Cerulli analyst.

With active-passive hybrid mutual funds likely to dominate the future, the historical debate over active versus passive funds is destined to become a thing of the past, according to the latest issue of The Cerulli Edge—Global Edition.

“An investment model—structured around service provision and its high level of value rather than sales of yet another active equity fund—looks set to provide an alternative to active management fees,” said Justina Deveikyte, associate director, European institutional research at Cerulli Associates.

Demand is up for strategies that perform like actively managed funds but with lower fees, such as smart beta and “active” exchange-traded funds (ETFs). In the fixed income arena, such ETFs offer investors access to funds with higher or lower allocations to certain issuers.

“The market for “ETFs offering hand-picked, then packaged-up, basket exposure to broad themes such as robotics, climate, or rapid urbanization, is set to thrive,” said Deveikyte.

When Britain’s state-sponsored defined contribution plan, the National Employment Savings Trust (NEST), sought external private credit managers for its investment mandates, it chose managers who could provide innovative “evergreen, scalable” fund structures. Such structures were deemed better able to meet the liquidity and legal needs of NEST participants better than closed-end funds with limited lives.

As retirement plans migrate from a focus on fees and price to value and outcomes, more asset managers will offer a mix of self-advisory mandates that provide portfolio-allocation tools or risk-and-performance tools.

Alternatively, instead of creating a wide array of products themselves, asset managers may increasingly source strategies from expert boutique fund managers in a more consumer-centric business model.

“Straightforward active equity will continue to face strong headwinds, yet the distinction between active and passive is starting to soften. The trend for thematic exposure, and the industry’s shift to services rather than products, promises new avenues for growth,” said Deveikyte.

Other findings from Cerulli

Liberalization of the financial market in China is giving rise to potential new opportunities for foreign managers in the country, including retail funds, retirement assets, institutional investors, high-net-worth individuals, and foreign investments. Cerulli believes that global managers with good track records in certain specialized areas have an advantage.