Transparency, low-cost will guarantee a market for clean-shares: Cerulli

By Editorial Staff *Thu, Sep 27, 2018*

Despite the death of the DoL Conflict of Interest Rule and lack of clarity around the inclusion of sub-transfer agent (sub-TA) fees, clean-share mutual funds will likely have a place in the intermediary market, according to Cerulli Associates.

The September 2018 issue of *The Cerulli Edge—U.S. Monthly Product Trends Edition* analyzes mutual fund and exchange-traded fund (ETF) product trends as of August 2018. This issue also provides special coverage on share class trends, including the future of clean shares, the effects of fee compression, and asset managers' priorities.

Highlights from this research:

- Despite the death of the Department of Labor Conflict of Interest Rule and lack of clarity around the inclusion of sub-transfer agent (sub-TA) fees, clean-share mutual funds will likely have a place in the intermediary market due to greater fee transparency and lower cost. Asset managers will need to work hand-in-hand with their distribution partners to rework the payment flow of certain asset-based fees (e.g., 12b-1 fees, sub-TA fees) that will no longer be included in clean shares.
- August was another successful month for passive mutual funds and ETFs, as these strategies collectively witnessed assets increase 2.2% to just less than $7.3 trillion. However, total mutual fund assets only grew 0.9% in August, finishing the month with approximately $15.4 billion. ETF asset growth topped 2.0% again in August, reaching nearly $3.7 billion. Flows were an impressive $24.9 billion.
- A key trend emerging within the industry is managers trying to find a way to deliver institutional pricing levels to retail investors. This sentiment is reflected in a recent Cerulli survey revealing that 55% of managers currently place a high priority on fee modification, a significant uptick from 41% of managers prioritizing this in 2017. Despite the general desire for modification, significant roadblocks have stood in the way of tangible innovation, with managers instead opting to continue reducing expense ratios rather than develop entirely new solutions.