What active funds must do to survive: Cerulli

By Editorial Staff *Thu, Sep 5, 2019*

'Active fund families that have grown organically have shown that there is, in fact, a viable path to success,' said Ed Louis, senior analyst at Cerulli.

Active mutual fund families have faced headwinds in recent years as a broad-based bull market has limited fund managers' ability to outperform and both advisors and clients have demanded lower costs. From 2014 through 2Q 2019, active funds saw nearly $900 billion in net outflows, while passive funds brought in more than $1 trillion.

But new research from Cerulli Associates, the Boston-based global consulting firm, suggests that while asset classes may fall in and out of favor, active managers that emphasize their good reputations and provide support for top advisers should succeed.

Despite low-cost investment products waging a war of attrition on active mutual funds' share of advisor assets, 37% of active mutual fund families with $5 billion or more in assets under management (AUM) experienced positive organic growth during the preceding five-year period ending 2Q 2019.

"Active fund families that have grown organically have shown that there is, in fact, a viable path to success," said Ed Louis, senior analyst at Cerulli, in a release.

Cerulli divided the universe of active open-end fund families with $5 billion or more in AUM and segmented each into four tiers:

- Giant Managers ($200 billion or greater in active mutual fund AUM)
- Large Managers ($50 billion to <$200 billion in active mutual fund AUM)
- Mid-Sized Managers ($20 billion to <$50 billion in active mutual fund AUM)
- Boutique Managers ($5 billion to <$20 billion in active mutual fund AUM)

The 12 Giant managers control $6.9 trillion in active mutual fund assets; half grew organically over the past five years. One of the fundamental ways that successful Giant managers gained market share relative to their tier has been by pursuing a brand-forward strategy.

Brand-forward firms are those that have solidly entrenched themselves in the minds of advisors and end-investors as indispensable partners. This has been especially important following the financial crisis, which rocked the faith of investors—and consequently of advisors—in active management.

“Firm reputation is very important to advisors when choosing an asset manager —in fact, nearly half (46%) of advisors build firm reputation into their selection process,” said Louis. “Successful managers lean heavily on the loyalty they’ve fostered among advisors and rely on it as a core pillar to drive growth.”

Meanwhile, Large fund families averaged a five-year compound annual growth rate (CAGR) of nearly 2%. Like the Giant managers, these firms tend to offer diversified product lines. They often have the resources to provide advisors and broker/dealers (B/Ds) with value outside of solely investment management. While nearly 40% of Large managers experienced net inflows, the segment’s growth was largely driven by a few top performers.

Only one-third of Mid-Sized and Boutique managers experienced positive organic growth over the trailing five years. Those able to generate positive flows effectively segmented advisor opportunities in the independent channels and equipped wholesalers with resources to interface with the more sophisticated investment process that top advisor teams employ.

“Effectiveness in both these areas is crucial for smaller fund families as top teams control the majority of the assets in this highly fragmented space,” Louis said.

Cerulli’s newly released report, *U.S. Intermediary Distribution 2019: Capitalizing on Specialization*, covers the distribution of retail asset management products through U.S.-based financial advisors.