

Beyond Start-Ups: Reorganizing Your Mutual Fund into a Series Trust

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The series trust model is one that many investment managers now recognize as an invaluable option for efficiently launching and operating a mutual fund. In fact, in the past five years alone, UMB has launched more than 70 funds through the Investment Managers Series Trusts.

In a market environment with growing fee and regulatory pressures, the series trust model could be a lifeline to stand-alone mutual funds seeking improved operational efficiency.

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The Basics

A multiple series trust (or umbrella trust) is an open-end investment company authorized to create an unlimited number of series—or separate portfolios—within the trust that are managed by different investment advisers. Series trusts allow investment advisers to share the cost of resources required to launch and operate mutual funds—often a heavy financial and time burden for investment managers that are stretched internally.

The Benefits

In an effectively run series trust, the benefits are numerous, but most notable are the following:

- Reduced overhead due to sharing a board of trustees, chief compliance officer, legal counsel and auditors
- Lower break-even points than a stand-alone fund
- Board of trustees, fund auditors, legal counsel and other service providers are vetted and already in place
- Each fund maintains its own branding and identity

However, while many consider series trusts for start-up funds, there are situations where it may make sense for investment managers to consider reorganizing a stand-alone fund into a series trust. These reasons vary but include business succession, expense controls and effective board management. In a market environment with

- Allows managers to focus their efforts on managing money and growing assets
- A sophisticated board with industry experience to help asset managers

Rationale for Reorganizing

While the reasoning for utilizing a series trust to launch a fund may seem straightforward, the notion of reorganizing could seem burdensome and complex. However, while reorganizing does take a bit of work, it can be done, and in the end the benefits could be well worth the undertaking. Generally, we have found the reorganization process takes 90 to 120 days. This does require the approval of the existing board of trustees and a proxy approving the reorganization of the fund into a series trust.

Investment managers should consider reorganizing into a series trust as a viable option for long-term support and cost savings if they are facing the following:

- Stalled or muted growth
- Escalating expenses and fees
- Succession planning and management challenges for an aging or inexperienced fund board
- Strain on internal resources
- Growing complexity in regulatory environment

Operational time savings in the series trust model should not be underestimated. Moving away from maintaining a stand-alone fund or trust frees up internal teams to focus on their core capabilities. Administrators to the trust handle coordinating service providers, handle the board and CCO communication as well as serve as secretary of the trust.

Finally, there is a misconception by some investment managers that by choosing their own board they have more control. However, the board has a fiduciary duty to act in the best interest of the shareholders. Recent regulatory and legal actions have increased the responsibilities of the board and the risks associated with serving on a board. These facts are consistent in the series trust model as well. Series trust board members are usually long-tenured industry veterans who not only understand the business but can often offer guidance to advisers. In addition, they have perspective and experience across the diverse set of funds in the trust for which they serve as trustee.

Trusted Partnership

The reasons to utilize a series trust may be clearer now, but finding an experienced partner is key. The benefit of an experienced partner is that it allows the adviser to know that they are entrusting the operations of their fund to a credible administrator and experienced board that is prepared to meet all the complex demands of navigating the ever-changing regulatory environment. A partner that has experience in reorganization as well as in stand-alone funds can assist by providing a cost analysis to help determine the best approach for your firm.

At UMB Fund Services, we partner with our clients to provide the insights and guidance they need to manage their products in a challenging marketplace. We also recognize that it is critical we continue to innovate and provide product solutions that enable our clients to succeed and differentiate themselves from competitors. At the core of our partnerships is our customizable approach, commitment to service and deep industry experience—all crucial to successfully supporting clients through launch or reorganization. ■



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Maureen Quill is chief operating officer at UMB Fund Services. She is responsible for providing leadership and oversight, as well as access to technology and resources, to ensure that operational areas of UMB Fund Services—including Investor Services & Transfer Agency, Mutual Fund Accounting & Administration, Alternative Investment Services and Distribution—are performing smoothly and efficiently, while continually striving to deliver the unparalleled customer experience.