Realities of Building a Winning Advice Channel Distribution Strategy

At the end of 2015, 78% of funds owned by households (long-term funds, ETFs, closed end funds and Unit Investment Trusts "UIT") were purchased through some type of investment professional*. There are thousands of investment professionals that provide varying degrees of advice and they come in all different sizes and forms; RIAs, full service broker/dealers, platforms, wire houses, independent financial planners, banks or accountants.

Not all intermediaries in these advice channels are created equal. Some may be more worthy of your firm's attention than others. The large, intermediaries may, or may not, be the right fit for your particular firm to realize best asset and revenue positive opportunities.

As a service provider to hundreds of asset managers, UMBFS supports clients in many sales and distribution efforts into the advice channels. Our collective intelligence has shown that selling into these channels and gathering meaningful assets is more and more competitive, and an increasingly important part of any firm's distribution strategy.

The real strategic question firms need to be asking is which intermediaries represent your organization's best and brightest opportunities. Firms need to understand the changing realities of competing for shelf space in the advice channels in order to develop the right distribution strategy for their product. Success today depends on finding your sweet spot.

REALITY # 1
The mutual fund industry has aged and evolved to a mature product marketing stage

The process has definitely changed over time. It has become harder to gain customers and assets. There are some clear signs of contraction at the firm, product and sales levels. Recent statistics published by the ICI show there is tremendous pressure on active management styles, fees and long term mutual fund asset growth generally. Though the mutual fund industry can still boast of being more than $18 trillion at the end of 2015, it lost $100 billion

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from 2014 totals. Long-term mutual funds lost about $123 billion in 2015 and are being outpaced by ETFs that saw $231 billion in net new issuances. The creation of new fund products has moderated from its 2007 high and fund liquidations have risen. Add to all of that, huge downward fee pressure by customers and intermediaries in the advice channel that are shifting assets to no-load and lower cost ETFs or passive and index funds. Average expense ratios, according to the ICI, have fallen 31% from 2000 to 2015.

The marketplace has matured and asset managers have to understand the realities of distributing any kind of product in today's advice channel marketplace.

REALITY # 2
A well targeted advice market strategy is increasingly imperative

Despite the evolution of digital advice and robo advisors, at the end of 2015, only 15% of households purchased product directly from fund companies, supermarkets or discount brokers*. Accordingly, selling through intermediaries and advice providers remains important. But one size does not fit all and, not every firm, or every product, is going to make the preferred list of the top 5 or 10 players. Know who and what your organization is and analyze who your firm's most likely and profitable targets really are. Remember, successful asset gathering is about finding your firm's sweet spot and delivering the right tools to the right prospect.

REALITY # 3
Executing the right distribution strategy within the advice channel can make or break firms

Never before in fund history has it been more important to assess your distribution strategy and understand your particular firm's best target opportunities—and, though it may be evident, by that we mean revenue positive relationships. As noted earlier, the fund industry is in a time of consolidation and contraction, a total of 594 funds (292 being ETFs) opened in 2015, down from 664 in 2014*. Mergers and liquidations rose from 365 in 2014 to 462 in 2015. Many firms rolled out new products or have entered channels and relationships that have not produced the revenue they expected. Though some of these relationships may be deemed a cost of doing business, realistically, they cannot all be. The time is now to realistically assess the cost adjusted revenues of your advice channel relationships and shore them up.

REALITY # 4
Getting on the preferred list of any intermediary is a rigorous exercise

After considering the above, you conclude that a real opportunity exists for your firm in terms of placing one or more products at a particular intermediary. Our experience at UMBFS has shown that you best brace your firm for a disciplined, analytical and at times labor intensive review process.

The due diligence analysis performed by an investment committee is long, may include multiple requests for information and likely on-site visits to your firm. These are relationships that require patience, endurance and nurturing over time. Though each intermediary has its own multi-tiered investment process, below are some common threads that we have seen:

- Know your investment strategy. Know its place in an investment portfolio. Be able to explain any strategy shifts or style inconsistencies and changes. Having well developed communications about your firm's strategy vs. the market is important to the analysis process.
- Be able to articulate how your firm and product fit into the intermediary's allocation models and what your product or firm brings to the table that others may not.
- Be well defined in the public domain including relevant asset management industry publications and your website. Organizational transparency is a requirement to even be considered.
- Have readily available quantitative information regarding performance or fees and expenses relative to peers, manager compensation or your firm's revenues and growth. Also have available qualitative items such as, manager experience and tenure, level of employee ownership, growth of your firm and its capacity and operations.
- Be a thought leader with the intermediary prospect and build a trusted partnership that helps them manage their customers. Your firm must have an ongoing communication strategy to support channel sales.

REALITY # 5
Getting product on the preferred list is no guarantee of gathering assets

Getting on the list of any intermediary, large or small, is really just step one of a much larger commitment. *It does not assure you sales or assets.* Advice channel sales support strategies and tactics have changed. A phone call, fact sheets and series of lunches will not get you on the list. The new playing field requires firms to:

- Know your own organization, your strengths and weaknesses;
- Know your product and define and differentiate it to your audience;
- Know your target and be able to communicate how your product uniquely helps them more than other options; and
- Support the investment professional with ongoing marketing materials and tools that help them to understand your firm's unique strategy and product.

It is indeed a new kind of wholesaling that shifts the selling paradigm. Firms need to target their efforts, and before walking in the door, know as much as is available about that prospect, their customers and their potential challenges. Know why they would be a good prospect for your firm and why you are an ideal solution for them. What we have surmised about winning in the advice channel space is to be targeted. Find your sweet spot, and be all you can be to your best prospects. ■

Karen Fay Luedtke
Senior Vice President
Director of Distribution Services
UMB Fund Services

Karen.fayluedtke@umb.com

Karen serves as the Chief Compliance Officer for UMB Distribution Services, LLC. She is responsible for ensuring broker-dealer compliance with all FINRA and SEC rules and regulations, including review, approval and FINRA filing of marketing communications with the public, as well as for registered representative oversight. She also oversees the work of the department's compliance analysts.

**Source: ICI 2016 Fact Book*