

Product Evolution Critical to Long-Term Success

By Scott Schulenburg

More than ever before, investment managers are in a challenging environment that is prompting them to bring a more diversified product set to clients. In addition, this diversified product set needs to be rooted in a unique investment philosophy. This combination is at the core of being a successful manager and it is a key component to attracting and retaining investors.

It will come as no surprise that 2016 was a tough year for mutual funds. According to a February 2017 report by FUSE Research Network, mutual fund outflows reached \$127 billion in 2016 — greatly surpassing the \$36.5 billion in outflows seen in 2015. These outflows hit almost every category of mutual funds with U.S. equity funds taking the brunt. The only exceptions were taxable bond, municipal bond and commodities funds.

Survival in this ultra-competitive space is going to require an open mind and willingness to evolve product offerings and mix while continuing to hone in on a unique investment perspective — a challenge to be sure.

DEFINE THE OPPORTUNITY

Before launching any new products, it is critical to understand your target market and to gauge how best to position your firm in this rapidly changing environment. Get focused on where you have real opportunity based on market demand and product performance. We know that “shelf space” is limited and any new product needs to respond to a niche demand. Understanding the opportunity in the marketplace first requires that managers understand their clientele.

We continue to see the need for depth and focus. Managers cannot be everything to everyone and often try to do so to their detriment. Honing in on the real opportunity requires critical analysis of the current client base and the marketplace’s appetite for a given product. Essentially, knowing what you do really well and marrying that with what

investors are actively seeking from a product perspective will provide the best likelihood for success.

PRODUCT EVOLUTION & CONSULTATIVE APPROACH

Not long ago, diversification meant a mix of equity and fixed income with exposure to both domestic and international companies. Today, following and in response to a prolonged low interest rate environment and an often irrational and volatile market, investors are looking to a different product mix for better and more predictable returns.

Today, we see some managers taking their existing successful strategies and finding new opportunities to repackage those in the marketplace by launching ETFs, continuously offered closed-end funds, collective trusts and liquid alternatives, all while weighing passive versus active offerings.

As mutual fund launches continue to decline year over year, we continue to work with managers to determine the best way to package their strategy for ultimate success. The industry is seeing an increased focus on alternative strategies and the transfer agency is evolving to support a broader product set. One example is our continued investment into technologies and processes to support the growth of closed-end funds. Currently UMB services the most shareholder accounts of any provider in the registered closed-end space.

Our firm takes a consultative approach with clients whenever discussing new product launches. Among some of the key questions we ask clients to consider when evaluating new product opportunities include:

- Why do you want to launch this product?
- Who is your target market?



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- How does your unique investment strategy complement this product type?
- What does the marketplace opportunity look like for this strategy?
- What sets you apart from the competition?
- How will it be marketed/distributed?
- What is a competitive/attractive fee structure?

WHAT SETS US APART?

Successful product launches require the assistance of an experienced fund administrator. The ever-changing regulatory environment partnered with the ongoing reporting and service demands of these products is complex. It is important to identify a fund administrator that has experience in that particular product offering and works as a true extension of your operation.

At UMB Fund Services, we have decades of experience servicing traditional mutual funds and deep expertise in the complexities of alternative investments. This combined experience is benefiting advisors on the alternatives side as they expand into new distribution channels and traditional managers as they explore new product structures.

HIGHEST QUALITY OF CLIENT SERVICE

Our focus remains on providing the highest quality of client service. We want our clients to feel prepared for the future and that requires managing through an often complex and challenging market environment. We can also provide the tools, strategic data and expert guidance to support our clients’ distribution efforts. We are focused on leveraging our experience to assist in navigating through the complexities and finding real opportunities to help our clients grow today and into the future.

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