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New Study: DOL Fiduciary Rule to Drive Institutional Share Class Pricing Demand

Implications around fund manager profitability, shareholder cost, Rule 12b-1 fees

NEW YORK, NY – August 16, 2016 – Strategic Insight (SI), the premier source for authentic business intelligence and actionable insight for the asset management community, today announced the launch of a new study which reveals that implications stemming from the DOL fiduciary rule will accelerate demand for institutional pricing of mutual funds sold through intermediaries.

Much of the recent growth in institutional pricing demand has come from fee-based advisory programs which have seen demand shift rapidly toward funds' lowest-cost available share classes. No Load shares with zero 12b-1 fees accounted for 66% of total mutual fund sales within fee-based advisory programs during 2015, rising significantly from just 36% in 2009. At the same time, A shares sold at NAV (i.e., with the load waived but carrying typically 25 basis points of 12b-1 fees) declined from 51% of total fee-based sales in 2009 to 27% in 2015.

These findings come from SI's new report, *"Fund Sales Benchmarking: 2016 Perspectives on Intermediary Sales by Share Class and Distribution Channel."* The study is based on SI's proprietary survey of 35 fund firms that distribute primarily through financial advisers. Survey participants managed in aggregate $5.2 trillion in U.S. open-end stock and bond fund assets as of the end of 2015, and reported over $1 trillion in overall fund sales during the year.

"A noteworthy impact of the DOL fiduciary rule will be an acceleration of the existing movement toward lowest-cost share classes," said lead author Dennis Bowden, Strategic Insight managing director of U.S. research. "We have already seen this trend increasingly eliminate the use of 12b-1 fees within fee-based accounts, but looking ahead, the potential for further 'institutionalization' of pricing demand is an important area to monitor."

“Cost is one consideration which will spur this demand, but distributors need to equalize payment streams which they receive from funds across their platform post-DOL. This may be a more powerful impetus driving further externalization of fees outside of the fund expense ratio, including payments for asset servicing,” said Mr. Bowden.

Such evolution in pricing demand would impact not only the types of share classes that mutual fund managers need to offer but also carry potential profitability implications.

“An important question within this context is: how would costs such as those for asset servicing now be paid, and who would pay them?” said Mr. Bowden. “For investors, paying for certain services outside of fund expenses does not always equate to cost savings. And for fund managers, different potential scenarios around ‘out of pocket’ payment demands by distributors can carry important profitability impact.”

Separately, share classes carrying point-of-sales commissions (commissionable A and B shares) continue to encompass a diminishing share of overall fund activity. Such classes accounted for just 11% of aggregate sales during 2015 and only 6% of sales for the median firm in SI’s study.

The Strategic Insight *Fund Sales Benchmarking: 2016 Perspectives on Intermediary Sales by Share Class and Distribution Channel* study was recently published as part of the new Strategic Insight *In-Depth Research* report series.

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