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SEC Asks: Are New Rules Needed for ETFs?

REGULATION

By Kenneth Corbin

ETFs MAY BE SO COMPLEX AND SUBJECT to such volatility that they require a distinct set of rules from equities, suggested SEC Commissioner Kara Stein.

In remarks at the annual SEC Speaks conference, Stein acknowledged that ETFs have been a boon for many investors. Still, the average retail client doesn't understand the risks they carry and the features that distinguish them from common stock and mutual funds, she says.

"I think we need to think about a roadmap for holistic regulation of ETFs and other exchange-traded products given their explosive growth and evolution," she said.


Bloomberg

SEC Commissioner Kara Stein

Stein cites the precipitous rise of ETFs as a favored investment strategy, noting that they hold more than $2 trillion in assets. Last year alone, she says, some ETF sponsors saw AUM rise by as much as 35%.

"This growth is astounding, and potentially good, as long as the risks are identified, market participants are informed, and appropriate safeguards are in place," Stein said.

Apart from the sheer growth in volume, ETFs have been diversifying as a class, having "expanded far beyond their equity index origins," Stein noted. Indeed, now retail investors might find themselves invested in instruments like currency-hedged ETFs or

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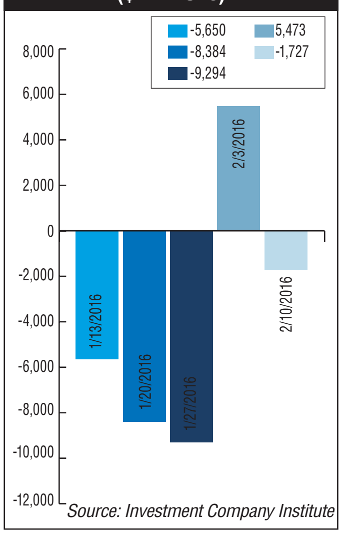
Estimated Flows to Long-Term Mutual Funds ($ millions)



Source: Investment Company Institute

Banks May Suffer $400B Money Market Exodus

OPERATIONS

By Liz Capo McCormick and Cordell Eddings

BANKS AND OTHER COMPANIES THAT HAVE witnessed borrowing costs shoot up in the past year are about to feel more pressure in a $1 trillion market for short-term IOUs.

Investors are poised to pull as much as $400 billion from U.S. money market funds that buy commercial paper, predicts JMorgan Chase. The looming exodus, a consequence of steps to make money markets safer after the financial crisis, is set to accelerate before October. That's when SEC rules take effect mandating that so-called insti-

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Defined Benefit Shift Spurs DC Plan Updates

Q&A

By Andrew Shilling

PRESSURE HAS FALLEN ON THE DEFINED CONtribution strategy as retirement plan sponsors have shifted the defined benefit plan away from being the primary retirement option offered to employees, according to a recent research paper.

Nearly 74% of participating plan sponsors now offer more than once retirement income benefit to at least some segment of their employees, according to SEI Investments Company, which surveyed 231 executives from DC plan sponsors in the U.S. at the end of 2015. While nearly 64% of respondents say they still of-

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INDUSTRY HIGHLIGHTS

Fidelity Halts the Sale of MetLife Annuities

Fidelity Investments suspended the sale of MetLife annuities as the firm considers the possible sale or public offering of a retail unit that already provides retirement products, according to Bloomberg.

"In light of MetLife's announcement that it is considering spinning-off its U.S. retail business and the limited information available at this time, we have made the decision to temporarily pause the sale of MetLife annuities," Joe Madden, a spokesman for Fidelity, said in an e-mail.

MetLife CEO Steve Kandarian says the firm's unit selling annuities was at a "significant competitive disadvantage" because the firm could face tighter capital rules after being designated a non-bank systemically important financial institution last year.

MetLife, the largest life insurer in the U.S., has seen declines of roughly 21% this year in New York trading alone.

RESEARCH

M&A Deals on the Rise

The asset management industry experienced significant growth in the volume of completed M&A deals last year (a 65% increase from 2014), according to PwC's Trends in U.S. Asset Management M&A report.

PwC reported that M&A deals aimed at acquiring new technology saw significant growth in 2015, especially in the robo-advisor, which is expected to grow by nearly $500 billion within the next five years. The ETF space is expected to see a $7 billion increase by 2021, the firm says.

Deals that involve alternative asset managers dropped by roughly 30% in 2015, according to PwC.

This is linked to factors like negative returns, commodities sector turmoil, interest rate hikes and an overall slowing global economy, the firm reports.

PRODUCTS

BATS Announces Pacer Global High Dividend ETF

Bats Global Markets announced the launch of the Pacer Global High Dividend ETF.

The fund, which has an expense ratio of 0.6%, seeks to track the total return performance, before fees and expenses, , of the Pacer Global Cash Cows Dividends 100 Index, the firm says.

"We welcomed Pacer as a new issuer to our market last year and we are excited to expand our partnership with the listing of this new product," said Laura Morrison, senior vice president, global head of ETPs at Bats.

RidgeWorth Investments Offers New Mutual Fund

RidgeWorth Investments launched a new mutual fund investing in a diversified portfolio of globally listed companies focused on the agriculture, timber and infra-

Estimated Flows to Long-Term Mutual Funds

($ millions)

	2/17/2016	2/10/2016	2/3/2016	1/27/2016	1/20/2016
Total equity	-1,237	-1,373	8,057	-4,920	-3,788
Domestic	-2,271	-3,625	2,313	-6,263	-4,903
World	1,034	2,252	5,744	1,344	1,115
Hybrid	-3,562	-1,044	1,706	-3,468	-2,659
Total bond	964	690	-4,289	-907	-1,937
Taxable	107	-729	-5,490	-1,760	-2,934
Municipal	857	1,419	1,200	853	997
Total	**-3,835**	**-1,727**	**5,473**	**-9,295**	**-8,384**

Source: Investment Company Institute

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structure industries.

The RidgeWorth Capital Innovations Global Resources and Infrastructure Fund, which has an 1.35% expense ratio, seeks to identify companies within these industries and provide investors with an income-generating portfolio through an indirect exposure to essential real assets, the firm says.

"As income has decreased from traditional sources, we feel it's essential to seek higher yield through a broader global real asset strategy," says Michael D. Underhill, founder and chief investment officer of Capital Innovations.

VanEck Launches 2 High Income MLP ETFs

VanEck announced the launch of two high-income MLP ETFs.

The Market Vectors High Income MLP ETF, which has a net expense ratio of 0.85%, corresponds to the performance of the Solactive High Income MLP Index, the firm says. The fund has $62.1 million in combined assets among 26 shareholders, according to VanEck.

The VanEck Market Vectors High Income Infrastructure MLP ETF, which has a net expense ratio of 1.25%, corresponds to the price and yield performance of the Solactive High Income Infrastructure MLP Index, the firm says. The fund has $22.5 million in total assets among 25 shareholders, according to VanEck.

Northern Lights Unveils Advisor Knowledge Center

In an effort to bring more clients up to speed on its core distribution cornerstones, Northern Lights Distributors launched the Advisor Knowledge Center, an interactive program with original blog posts, articles, white papers and videos. The program offers advisors tips and tutorials to help asses their competitors and help develop a customized distribution plan, ultimately aimed at growing assets.

"The Advisor Knowledge Center is a vital component of our strategic plan to guide advisors on how to engage with distribution intermediaries that can connect them with their target audiences and, ultimately, help them meet their funds' goals," says Alma Piscitello, senior vice president and head of strategic relationships at Northern Lights Distributors.

Cambria Announces its Sovereign High Yield Bond ETF

The Cambria ETF Trust and Cambria Investment Management announced the launch of a its latest high-yield bond ETF.

The Cambria Sovereign High Yield Bond ETF, which has a 0.59% expense ratio, is the firm's seventh fund in its ETF suite and the first move into fixed income, Cambria says. Listed on the NYSE Arca exchange, the fund is focused on buying and holding foreign government bonds with high yield characteristics, according to the firm.

MBU Capital Launches Global Social Bond

MBU Capital announced the launch of its Global Social Bond, a socially responsible investment that leverages crowdfunding to offer participants high/stable returns, along with profit participation and charitable contributions.

Available to both domestic and international investors, the bond capitalizes on high-yield property and sustainable developments in across the U.K.; and is mainly focused on affordable housing and community regeneration, the firm says. It offers participants a fixed 7% annual return over three years till maturity in December 2018 and is available as a direct investment through the Re-Give crowdfunding platform, the first "global" bond issue that is completely unrestricted or constrained by geographical location or investment minimums, according to the firm.

ARRIVALS

BATS Names EVP, Head of Business Development

The former senior vice president of business development at Bats Global Markets was promoted to executive vice president, head of corporate development, the firm says.

Anthony Barchetto, who joined BATS in 2014 from Direct Edge Holdings, where he was head of corporate strategy, will now oversee corporate development on the Bats executive team.

"Bats believes in rewarding associates for outstanding performance and Tony has played a critical leadership role in a number of key initiatives to date, including the Hotspot acquisition which propelled us into the global foreign exchange market," says Bats CEO Chris Concannon.


Anthony Barchetto

"Tony's tremendous market structure knowledge and financial acumen will serve him well in his expanded role and I know he'll continue to produce results."

Prior to joining the firm, Barchetto held senior positions in product, sales, operations, and business development at Liquidnet and was a market maker with Knight Capital, according to Bats.

Former BlackRock ETF Exec Joins Franklin

A former executive in the U.S. capital markets of BlackRock's ETF unit joined Franklin Templeton Investments, according to Bloomberg.

David Mann, who previously headed client execution services for the U.S. capital markets team at BlackRock's iShares unit, will now become the global head of ETF capital markets for Franklin.

The firm says his move from iShares comes after more than six years with asset management giant BlackRock.

The iShares client execution group is responsible for providing ETF trading solutions to the firm's institutional investors. MME

News Scan by Andrew Shilling

RULES
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bank-loan ETFs.

"While some new products are being hailed as exotic or innovative within the industry, others have been described as toxic," she said. "I fear that the risk represented by some of these new products may not be fully understood by those who've invested in them. Indeed, even plain vanilla equity index ETFs may present risks that are not always anticipated or fully understood."

Stein recalls the morning of Aug. 24, 2015, when the bottom fell out of dozens of ETFs in early-morning activity, triggering trading halts and steep losses when jittery investors sold funds at prices that were well below the combined value of their basket of holdings.

"Commission staff and market participants are continuing to assess what happened, however one fact that is crystal clear about Aug. 24 is that many ETFs behaved in an unpredictable and volatile manner," Stein said. "As a class, ETFs experienced greater increases in volume and more severe volatility than corporate stocks."

Stein is calling for the SEC to convene working groups to take a hard look at the specific types of products that are available in the exchange-traded model. She is urging the commission to coordinate with FINRA and other regulators to evaluate how those products are being marketed, and to determine whether ETFs can even be considered suitable for buy-and-hold investors.

HOW TO PROCEED?

So how might the commission proceed as it considers new rules for ETFs?

It could start with a fact-finding mission, as Stein suggested that many characteristics of ETFs are only beginning to be understood. She posed a series of questions that regulators and market participants should address as they look to balance transparency and accountability with the value that ETFs have created for investors.

She is concerned about the role of market makers and authorized participants in facilitating ETF trading, wondering if there is too much concentration in that area and worried about the potential risks for retail investors if market makers were to take a step back in times of volatility. And do retail investors understand the real risks associated with those products?

Stein also anticipates the conclusion of the probe into the Aug. 24 crash, suggesting that the review will help determine what course regulators should take.

"Perhaps such an analysis will lead us to the conclusion that ETFs should have different trading rules than equities," she said.

"As a class, ETFs experienced greater increases in volume and more severe volatility than corporate stocks."

SEC Commissioner Kara Stein

In evaluating the ETF phenomenon, Stein looks beyond equities and notes that an array of exchange-traded products holds very different investments such as commodities, currencies and derivatives.

As a class, these are fundamentally different from equities, she argues, questioning the basic logic of applying a regulatory framework for traditional stocks to exchange-traded products.

"These products are not traditional equity securities, and they do not always behave in the same manner as equity securities," she said. "The attempt to fit such non-equity products into the rules designed for traditional equity securities has left potential gaps in investor protection, and I think also raised questions about market integrity."

CONTINUED THEME

Stein's comments continue a theme she has argued forcefully, that changes are in order to ensure that funds remain a viable and reasonably transparent investment avenue for the retail community.

Stein has previsouly argued that some funds are moving away from the "bright-line protections" that investors have come to expect from the industry, particularly in the area of liquidity.

She has singled out the increasing popularity of funds that invest in bank loans, a segment that has soared nearly 400% since 2009, but that seems to stray from the liquidity requirements prescribed in the 1940 Act. Stein argues that since many of the bank loans underpinning those funds can take longer than a month to settle, "it is reasonable to wonder how the fund could possibly meet the seven-day redemption requirement in the Investment Company Act in times of market stress."

Likewise, Stein has warned about the increasing use of derivatives that has seen some funds take on more leverage than was intended by the 1940 Act.

"Unfortunately, this cornerstone principle appears to have gradually eroded as well. Derivatives usage by registered funds has skyrocketed in the past couple of decades," Stein said.

She has pointed out that in the run-up to the Great Depression in the 1920s, many of the investment companies and trusts that collapsed were heavily leveraged, "rife with abuse," and "were often receptacles for the unloading of worthless securities." She has cautioned regulators to recall that lesson and ensure that leverage within the fund industry is kept in check. MME

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tutional prime funds, among the main buyers of commercial paper, report prices that fluctuate. Traditionally, those funds have stuck to $1 per share.

Wall Street strategists say investors may already be shifting from prime funds to those focused on government debt, which will keep a fixed share price.

The diminished appetite for commercial paper is a potential headache for banks and other issuers, which saw the cost of the IOUs climb to an almost four-year high in recent weeks. The companies use the instruments for everything from loans to payrolls.

Commercial-paper "issuers will either have to find other investors to fill in the gap, or may have to raise the rate they are offering to get additional interest," said Gregory Fayvilevich, an analyst in the fund and asset management group at Fitch Ratings in New York.

NEXT WAVE

The move by investors is the next big wave of cash to leave prime funds because of the new rules. It would come on top of about $250 billion of assets that U.S. money fund companies have already converted over the last year from prime funds to those that only hold government securities like Treasury bills. The SEC measures will force institutional prime funds to tell clients daily whether their investments gained or lost value.

The money market industry's changing landscape has already lifted companies' short-term borrowing costs: Rates on six-month commercial paper reached the highest above Treasury bills since 2012 this year as demand waned relative to government debt.

Financial firms' short-term debts, including commercial paper, certificates of deposit and time deposits, make up U.S. prime funds' biggest holdings. Bank of Tokyo-Mitsubishi, Credit Agricole, Sumitomo Mitsui Bank, Royal Bank of Canada and DNB Bank comprise the top five issuers of this debt held by the funds, according to Crane Data.

Longer maturities and more diversification are part of the answer at Credit Agricole CIB, said Oskar Rogg, head of Treasury for the Americas in New York.

DIVERSIFIED APPROACH

Mitsubishi UFJ has also diversified the way it raises funds, including by acquiring foreign-currency deposits, according to its spokesman Kazunobu Takahara. Sumitomo Mitsui plans to keep commercial paper as an option and aims to prioritize foreign-currency financing, said Takafumi Sasaki, a Tokyo-based spokesman. Sandra Nunes at Toronto-based RBC and Even Westerveld at Oslo-based DNB declined to comment.

The money market industry's changing landscape has already lifted companies' short-term borrowing costs: Rates on six-month commercial paper reached the highest above Treasury bills since 2012 this year as demand waned relative to government debt.

Issuers have other options as money-fund demand for commercial paper dwindles, including the market for repurchase agreements, where they borrow cash temporarily using securities as collateral, according to Joseph Abate, a money-market strategist at Barclays in New York.

Banks are finding it more expensive to borrow across all maturities. Their average borrowing costs on longer-term debt are near the highest in more than two years, according to Bank of America Merrill Lynch indexes. Slowing economic growth is fostering concern that global central banks will keep interest rates low, crimping financial firms' profits.

SWELLING HOLDINGS

With fund companies converting or closing prime offerings, the industry's holdings of government securities have swelled. Taxable money-funds' investments in government obligations rose to $1.47 trillion as of the end of January, from $1.18 billion in February 2015, according to Crane.

Estimates vary for the size of the next wave, when investors yank cash from prime funds. JPMorgan projects it will reach about $400 billion this year, while Barclays anticipates about $300 billion.

Peter Crane, president of the Westborough, Mass.-based firm that tracks the industry, expects that only about $250 billion will leave prime funds, because he predicts investors will still favor the higher rates on those products and given his expectation that net asset values of prime funds will remain stable. Institutional prime funds' seven-day yield was 0.21% as of Jan. 31, compared with 0.1% for government funds, Crane data show.

'HIGH DEMAND'

Even at the lower amount that Crane predicts, the flow of funds may push up borrowing costs on commercial paper relative to Treasury bill rates, which have crept up from near zero after the Federal Reserve's December liftoff.

"Government securities will be in high demand, depressing the yields there, and the demand for credit instruments will be smaller," said Peter Yi, Chicago-based director of short-term fixed income at Northern Trust, which manages $875 billion. "As that happens, we're forecasting spreads between commercial paper rates and government securities to widen."

The commercial paper market may shrivel by an additional 15%, according to Abate at Barclays. "The market is going to contract and yields are going to get higher," he said. — *Bloomberg News* MME

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fer employees a DB plan, nearly 30% offer supplemental savings plans in addition to the DC plan.

Meanwhile, almost 74% of DB plans are now closed to new hires while a many sponsors have stopped accruals for participants, the firm says.

"We conducted a similar survey in 2014," explains Wilkinson, the director of marketing at SEI Institutional Group, adding that, "there has been a 5% increase in the last two years that are pointing to the DC plan as the primary vehicle."

This, Wilkinson said in an interview with *Money Management Executive*, has resulted in what many in the industry have described as the, "DB-izing of the DC plan." Sponsors, he adds, have now focused their efforts in building DC plans to look more like the DB, "in terms of how they've been constructed from an investment standpoint, so that they're capable of being that retirement income source."

Wilkinson and his colleague Joel Lieb, the DC director at SEI's Institutional Group, agree that plan sponsors should be begin to consider a re-design of the DC to better suit the needs of their clients.

How did SEI conclude that DC Plans need to be redesigned?

Wilkinson: When we set out to actually do this research we were really looking into a few high level questions. That was, the level of confidence that DC sponsors have that their participants are going to be able to retire, come retirement age. Adding onto that is whether or not the plan sponsors felt that would actually be a problem, and if so, are they actually doing something about it?

The survey told that story, which was they're not very confident that their participants are going to be able to retire with the needed amount of income by the retirement age and we posed at 62 to 65. It might be 65 to 67, but we were starting at 62, and 84% said they're not very confident that that's the case.

The second question, around whether or not it would be a problem, was interesting as well as 88% of plan sponsors said their businesses would be impacted in some way if their employees could not stop working at retirement age. This was something we hadn't really seen asked a lot as the common perception was most plan sponsors viewed the DC plan as the participant's responsibility and whether or not they could retire at retirement age was really the participant's problem. This indicated that the significant majority of plan sponsors are saying this would have an impact on business. The third part was that 57% of the plan sponsors acknowledged that DC plans were not initially built to be the primary retirement vehicle and therefore need to be redesigned.

The reality of that is DB plans were the primary retirement vehicle when DC plans started, Social Security was strong and what the reality was — DC plans were built to be supplemental and not just another pile of money that could be added to these other income streams to help people retire and enjoy retirement. The survey told us that they are definitely viewing the DC plan as the primary retirement vehicle moving forward. Nearly 62% said the DC plan will be the primary retirement income source for their employees.

Has SEI looked at this before?

Wilkinson: We conducted a similar survey in 2014 and the answer to this question was 57% that said the DC plan will be the primary. So there has been a 5% increase in the last two years pointing to the DC plan as the primary vehicle.

Why has been a shift to DC?

Wilkinson: One of the big things is the elimination of DB plans as a retirement benefit. The survey showed that 74% of DB plans are closed to new hires. Then 38% of them have frozen accruals in those plans, so the existing participants are no longer accruing benefits in those DB plans. When that happens there is usually an emphasis to transition those employees over to the DC plan so plan sponsors, when they freeze accruals to the DB plan, will do things like increase the match with that the DC plan for a certain period as they go through the transition.

The fact that 38% have gone down the route of freezing accruals, those are plans that will most likely eventually terminate.

"88% of plan sponsors said their businesses would be impacted in some way if their employees could not stop working at retirement age."

Frank Wilkinson, director of marketing at SEI Institutional Group

The group that hasn't actually frozen their accruals yet, but this will be the next step for those closed plans. Moving away from DB is one of the key drivers in the realization that all that is left at this point is the DC plan. There are little expectations that Social Security is going to be the primary income source — only 12% — and then about 11% felt personal savings or some sort of IRA would be the primary. So it is the DC plan.

In what ways can the DC plan be improved to meet that gap left by the removal of the DB?

Wilkinson: The term that's being used a lot now is the 'DB-izing of the DC,' — the concept of constructing DC plans to look more like DB plans in terms of how they're constructed from an investment standpoint, so that they're capable of being that retirement income source. There are a lot of things that plan sponsors should be considering and I think the first step is the realization that this plan needs to be the primary retirement income source, and it's not currently designed to do that. The next step is what needs to happen, and that's when you get into the idea of redesigning to look more like DBs from a management standpoint.

It's really more around the idea of unbundling asset management from record keeping, using more sophisticated investments in the plan and managing the investments in the plan and building asset allocation that's designed to meet a goal and not to just save as much as you can. On the DB side, that would also be the liability. So DB plans were really built from an asset allocation standpoint to work towards meeting a liability, and DC plans need to start to think along that same path.

What are some of the key inefficiencies surrounding the DC plan that need to be addressed?

Lieb: While we have acknowledged the DC plan is the primary retirement vehicle, the responses don't reflect that. They weren't built originally to be primary and when we asked the question about how they think the shortfall can be made up, most respondents said their employees need to save more. When we asked questions about the resources devoted to the investment oversight process for DC, around 85% said they have less than six internal resources. Around 54% have less than three.

The challenge with plans is acknowledging that DCs are primary, yet their actions so far haven't really followed that line of thinking. We even asked questions in the survey about their plans over the next year, and we gave them topics. Here are some that you would think would be ranked higher, but weren't:

- Consolidating the number of funds in a core lineup
- Adding exposure to non-traditional assets
- Incorporating custom multi manager funds
- Increasing company match
- Revising target date funds to be more customizable for the workforce
- Conducting reenrollments

How do you suggest plan sponsors now look at the DC plan as a retirement option?

Lieb: We're trying to have plan sponsors look at the DC plan differently, meaning, if you're truly saying that this is now your primary retirement vehicle going forward, one of the things that you need to do is make sure that your employees are taking full advantage of this retirement vehicle to move them down the path to retirement. As you're seeing now in the acknowledgement in the survey responses, companies understand that even though the DC has been an employee issue, it ultimately could end up becoming an employer issue if they have to deal with employees that are trying to fund their retirement by working longer.

"Companies understand that even though the DC has been an employee issue, it ultimately could end up becoming an employer issue if they have to deal with employees that are trying to fund their retirement by working longer."

Joel Lieb, head of SEI's DC division

You really can't be disengaged anymore in DC, and we all acknowledge that there truly is a limit to the employer as far as what they can do — because again it's DC versus DB — but that shouldn't stop a plan sponsor from trying to move their plan in the appropriate direction. Where we see this as another challenge for plan sponsors is there is still a disconnect between how investments affect the participant experience and vice versa — how the participant experience effects the overall returns — and that gets into the liability of the shortfall that most plans are acknowledging is there, but if you're acknowledging it, what are you doing to measure what that exposure is and how are you trying to address that.

What we try to tell plans is you have to take the participant data and the investment data and come up with analysis of the two to determine what truly is your exposure and liability. And we do that around this whole concept of goals-based investing, which is; what's your goal for your DC plan? If your goal is to have the ability for your employees to retire at age 62 with 80% of their final salary at retirement, then we ask how are you measuring your plan against that goal? So they need to look at where their participants are today relative to that goal and the things that they can do to move them down that path.

What are some ways managers can get more engaged?

Lieb: They should consider things like; if they don't have auto-enrollment, should they implement that? Or if you have auto-enrollment should they increase it? Are they using auto-escalation? If not, maybe they should do that. If they're using it and it's not a high-enough increase over a certain period of time, maybe they should look at that? We've also seen people look at company matches. Maybe they want to stretch that to get people to invest more, or even increase it if they think that would get people more engaged. Those are participant activities you can do.

Then the other thing you should do at the same time is look at your lineup? Ask things like, is my lineup appropriate for the way that my participants like to invest, should they invest, would they be better off if they were more focused in the QDIA as opposed to in the core menu making their own decisions?

When you take all of this into consideration, you'll find that it paints a pretty good landscape of what your plan looks like and what you can do organizationally to move in the appropriate direction. MME

Phone Ringing Nonstop? Be the Voice of Reason

When the markets drop, investors get nervous and are likely to turn to their financial advisor for guidance. To be prepared for these instances, asset management firms need a communication strategy that helps financial advisors ease their clients' anxiety. Having such a plan in place will help you keep your advisors longer.

EXPERT VIEW
By Dan Sondhelm

Asset managers are definitely sensing investor anxiety. They are fielding calls from advisors looking for color on why the fund is down, but more importantly, is the fund doing what it's supposed to do. These calls have picked up considerably this year due to the high speed market action.

When talking to clients and advisors, here are some things you should keep in mind:

- Stick to your messages: your messages need to be consistent, emphasizing the core tenets of your business and portfolio process, despite the unpredictable state of the market.
- Offer options: there's a lot of emotion that comes from investors at times like this. If you run a growth-oriented portfolio, not every investor can tough it out during high volatility. If you try to coerce them to stay with a product that makes them nervous, they will feel trapped. It's better to say, "We don't recommend exiting the product we placed you in, but it can be done." This gives the client ownership of the situation, often minimizing the level of emotion. It could possibly help them take a longer term view.
- Present opportunities: express that active management typically yields the highest quality holdings and allows portfolio selection to be opportunistic, separating fundamentals from the hysteria. Managers should stress their disciplined and repeatable process, you are sticking to your guns, and you are still an investor in your own fund, if that applies.
- Historical perspective: remind investors that volatility has happened before, and it will happen again. Talk about your focus on specific companies rather than what's going on in China. You can also remind clients why market timing is a risky and difficult practice.

But don't just wait for clients to call you — it's very important to be proactive. Offering to host conference calls for clients, advisory firms, or consultants is usually very well received. Make sure your clients get to hear from your portfolio managers. You can even take these conference call ideas and turn them into educational content for your advisors to share with clients.

There are many tools you can employ to communicate with clients and advisors:

- E-mails: regular e-mail communication lets your shareholders know your perspective on the most current market trends.
- Webinars: these are a great way to speak to a large faction of clients and shareholders at once to address questions they may have.
- Podcasts: doing a daily or weekly podcast sharing your thoughts on the market is a great way to reach clients on your site.
- White papers and commentaries: a well-written paper is a great way to educate your audience. Keep in mind the exceedingly long papers and commentaries can be a turn-off, so remember brevity is your friend. You can easily snatch some talking points for your sales staff from these materials, too.
- Videos: doing videos well will require some investment, but are well worth the potential return. People want to read less and watch more. Doing a Q&A with your portfolio manager is a popular way to address timely topics and performance. It also creates a way for investors to gain trust in your people.
- Blogs and social media: be warned that blogging is time-consuming to do correctly, but is an excellent way to keep advisors engaged. These blogs can also easily be repurposed on your social media channels.
- News media: appearing in the media bolsters your credibility. You can repurpose these appearances through the aforementioned channels and tools.

While all of these are valuable strategies, during particularly sensitive times advisors aren't necessarily looking for strict thought leadership. Advisors are seeking empathy and acknowledgement of the concerns they have. Clients want to know their managers understand their situation and can do more than insist, "this too shall pass."

Producing these various pieces of content is no small feat. You can take advantage of accessible portfolio managers by regularly capturing "what investment trends mean to us" pieces to disseminate to clients. It's also particularly advantageous to put content out at unusual times, not just revolving around quarter end.

Advisors report that their clients have successfully repackaged and repurposed this type of content to educate investors. Many firms reiterate the need for internal infrastructure to make all of these moving parts happen in a timely and thoughtful fashion. You are unlikely to be discovered through good performance alone—you should get your views and achievements out to your audience in a proactive, regimented manner, and a dedicated internal staff to this process is critical.

The bottom line remains that in times of market turmoil, investors are scared and they need to hear from you. If they get a good piece of advice that ends up being correct, they'll never forget you. There are many ways to reach them, and it's important to be proactive in your efforts. Have your talking points planned in advance, rather than fumbling when you get your first panicked call. MME

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Top 50 Fund Groups

January 2016

		Assets ($ billions)			Asset Growth		Market Share	
Rank	Group	Jan. '16	Dec. '15	Jan. '15	YTD	1 Year	Jan. '16	Jan. '15
1	Vanguard	3,006.3	3,094.4	2,879.8	-2.8%	4.4%	17.2%	15.8%
2	Fidelity Investments	1,693.2	1,769.2	1,687.6	-4.3%	0.3%	9.7%	9.2%
3	American Funds	1,248.0	1,302.5	1,291.0	-4.2%	-3.3%	7.1%	7.1%
4	BlackRock	1,234.1	1,284.9	1,215.8	-4.0%	1.5%	7.1%	6.7%
5	JPMorgan	499.0	524.6	530.7	-4.9%	-6.0%	2.9%	2.9%
6	State Street Global Advisors	480.4	502.4	506.2	-4.4%	-5.1%	2.7%	2.8%
7	T. Rowe Price	459.9	485.9	473.9	-5.3%	-2.9%	2.6%	2.6%
8	Franklin Templeton Investments	421.8	441.3	493.2	-4.4%	-14.5%	2.4%	2.7%
9	TIAA-CREF Asset Management	312.6	327.8	329.6	-4.7%	-5.2%	1.8%	1.8%
10	PIMCO Funds	312.4	314.1	403.8	-0.5%	-22.7%	1.8%	2.2%
11	Invesco	284.4	298.4	309.1	-4.7%	-8.0%	1.6%	1.7%
12	Federated	273.2	275.6	268.5	-0.9%	1.7%	1.6%	1.5%
13	Schwab/Laudus	263.9	266.3	251.6	-0.9%	4.9%	1.5%	1.4%
14	Dimensional Fund Advisors	262.2	271.5	264.7	-3.4%	-0.9%	1.5%	1.5%
15	Goldman Sachs	254.5	261.4	256.8	-2.7%	-0.9%	1.5%	1.4%
16	John Hancock	250.4	263.4	269.1	-5.0%	-7.0%	1.4%	1.5%
17	Columbia Threadneedle	234.5	246.6	267.1	-4.9%	-12.2%	1.3%	1.5%
18	Prudential	225.3	234.2	239.9	-3.8%	-6.1%	1.3%	1.3%
19	Wells Fargo	221.2	231.6	235.7	-4.5%	-6.1%	1.3%	1.3%
20	Dreyfus	217.4	219.9	234.5	-1.2%	-7.3%	1.2%	1.3%
21	OppenheimerFunds	188.8	197.5	216.2	-4.4%	-12.7%	1.1%	1.2%
22	MFS	188.7	195.3	193.6	-3.4%	-2.5%	1.1%	1.1%
23	Dodge & Cox	164.7	175.0	184.0	-5.9%	-10.5%	0.9%	1.0%
24	Morgan Stanley	160.5	162.1	147.5	-1.0%	8.8%	0.9%	0.8%
25	Northern Funds	144.5	140.3	141.1	3.0%	2.4%	0.8%	0.8%
26	Legg Mason/Western	128.0	137.8	137.8	-7.1%	-7.1%	0.7%	0.8%
27	Jackson National	118.9	125.3	119.5	-5.1%	-0.4%	0.7%	0.7%
28	Principal Funds	116.0	121.6	119.9	-4.6%	-3.2%	0.7%	0.7%
29	American Century Investments	104.4	108.0	110.4	-3.3%	-5.4%	0.6%	0.6%
30	Lord Abbett	99.2	102.0	109.4	-2.7%	-9.3%	0.6%	0.6%
31	SEI	98.7	100.6	96.6	-1.9%	2.2%	0.6%	0.5%
32	Janus	98.3	104.7	105.3	-6.1%	-6.6%	0.6%	0.6%
33	TCW	96.4	95.5	85.4	0.9%	12.8%	0.6%	0.5%
34	AXA Equitable	94.9	99.7	102.2	-4.8%	-7.2%	0.5%	0.6%
35	Deutsche Asset & Wealth Mngt	93.5	98.2	92.7	-4.8%	0.9%	0.5%	0.5%
36	Hartford Mutual Funds	88.2	93.4	94.3	-5.6%	-6.5%	0.5%	0.5%
37	Voya	85.7	90.6	97.5	-5.4%	-12.1%	0.5%	0.5%
38	Waddell & Reed	82.5	88.8	103.2	-7.1%	-20.1%	0.5%	0.6%
39	MainStay	76.8	81.6	92.6	-5.9%	-17.0%	0.4%	0.5%
40	Lincoln National	76.2	78.6	74.7	-3.0%	2.0%	0.4%	0.4%
41	Natixis Distributors	76.2	79.8	92.6	-4.5%	-17.7%	0.4%	0.5%
42	Harbor	72.2	77.2	80.9	-6.5%	-10.7%	0.4%	0.4%
43	Putnam	70.5	75.2	82.8	-6.2%	-14.8%	0.4%	0.5%
44	Oakmark	69.4	75.2	79.7	-7.8%	-12.9%	0.4%	0.4%
45	Transamerica	66.0	67.4	66.9	-2.2%	-1.4%	0.4%	0.4%
46	First Eagle	64.9	68.2	74.2	-4.8%	-12.5%	0.4%	0.4%
47	DoubleLine	64.9	62.4	51.4	4.0%	26.3%	0.4%	0.3%
48	USAA	64.7	66.3	66.2	-2.4%	-2.2%	0.4%	0.4%
49	AllianceBernstein	63.8	65.5	67.0	-2.6%	-4.8%	0.4%	0.4%
50	GMO	62.2	64.6	75.3	-3.7%	-17.3%	0.4%	0.4%
	Top 50	**15,134.6**	**15,714.8**	**15,569.3**	**-3.7%**	**-2.8%**	**86.6%**	**85.3%**
	Industry Total	**17,471.3**	**18,152.8**	**18,247.4**	**-3.8%**	**-4.3%**	**100.0%**	**100.0%**

Includes long-term open-end funds, variable product underlying funds, money market funds, and ETFs (excluding closed-end funds).
MetLife may be excluded due to the timing of their reporting to Morningstar
Source: FUSE Research.