

Mutual fund and retirement industry viewpoint

Pursuing growth amid challenging market conditions

Today's mutual fund leaders face unprecedented compliance issues that require them to stay ahead of the regulatory obligations governing many aspects of their business. This, coupled with the challenges of omnibus and the subsequent lack of transparency into the underlying data, make it difficult for mutual fund leaders to achieve their marketing, communications, sales and product development goals. As one leader summarized, *"Increasing regulation is demanding more time and resources to achieve compliance... and if that isn't challenging enough, we are losing our direct connection to our customers requiring us to use more time and resources to meet our marketing and sales goals."*

Recently, we conducted interviews with 14 executives from leading mutual fund companies who are responsible for global transfer agents, operations, compliance and technology. This paper summarizes their top business issues, and how those leaders are looking to address these challenges in the future.

Challenging landscape for mutual fund leaders

For some time now, the mutual fund industry has dealt with market volatility and the resulting cost-cutting pressures. Those interviewed summarized the landscape as one tested by transparency issues and the need to access high quality data, in addition to regulatory demands, operational efficiency requirements and outsourcing trends.

Transparency

100% of the executives interviewed cited transparency as a significant impediment facing their organizations. Many of their boards, executive peers and leadership are demanding access to more information on how the end-customer is buying, but the growing trend toward omnibus is hamstringing mutual fund leaders from having access to the highest quality information they need. One executive compared this challenge to that of the retail space when he said, *"In an age of big data and access to information about what we buy and how we buy, we as mutual funds are actually at a place where we know less and less about our customer."* This, of course, presents significant implications to the fund's ability to market, sell and develop products that will meet the customers' needs, and as one executive summarized, *"We have moved from one-to-one relationships with our clients to not knowing who they are."*

None of the executives interviewed had clear solutions to the transparency challenge. Some were working with outside providers to gather insight into the underlying data, but all were frustrated by the amount of manual effort currently required and few have the resources—people or budgetary—to continue to approach this problem in a manual manner. All of the executives interviewed had some level of concern with the quality of data that they were able to access—and the increasing barrier this represents as time goes on—to compile what they need in order to service their clients effectively.

Regulatory complexity

Of equal obstacle to the mutual fund leaders interviewed is the increasingly complex regulatory environment in the domestic and global markets. As compliance demands increase, so, too does the need to apply more resources to the



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problem from a shrinking pool of funds. To quantify the impacts of this challenge, one executive who has been in the mutual fund business for more than 30 years pointed out that the *“regulatory environment is so much more complicated today than it was 10 years ago. The regulatory oversight and subsections, with all of the compliance rules to follow and application of those rules, is incredibly challenging. More than anything else the regulatory issues keep me up at night.”* And while most agreed that the regulatory pressures would not go away, few felt they had processes in place to get ahead of these demands.

Operational efficiency

The volatile market beleaguering the mutual fund industry has continued to impel a strong focus on efficiency and cost control. And while many of the executives we talked to believe that 2013 was less volatile, many are still feeling the extreme pressures of cost-cutting that began with the financial downturn. Some cited automation and the streamlining of processes as one way of managing this; *“Over the last 4-5 years we have been on a push to automate to keep up with the cost pressures. We’ve automated to free up people and bring more value and focus to areas of value such as analysis of data.”*

Automation requirements are also driving executives to evaluate new processes and technologies to improve cost reduction. In addition, cost takeout pressures continue to have the mutual fund executives evaluating outsourcing strategies as one approach to continue to streamline processes and investment of resources.

Outsourcing

While outsourcing is one approach used to manage costs, some of the executives interviewed were concerned about the amount they didn’t know as a result of outsourcing, and a seeming lack of control with that approach. *“The biggest issue right now is the unknown since we don’t have our hands on the day-to-day. It is hard to have insight into the fund accounting, ensuring that manufacturer securities are priced right, knowing customers, and being aware of regulatory changes and any particulars in the marketplace. If we are relying on an outsourced service provider to make us aware, how do we know if the information we are getting is accurate?”* Many recognized that outsourcing created increased the pressures on the transparency and regulatory issues that were already testing mutual funds.

Strategies for future growth

When we asked the mutual fund executives to look ahead, they also shared a level of optimism for the future. Many suggested that although expense management continues to be a requirement, there is interest in addressing and building a new value equation. With growth on the minds of most CEOs, those interviewed agreed with one executive who stated, *“Business pressures are very real, but we also need to think about revenue and growth and how to contribute value. We need to consider new economic value equations that will help to align our organizations and roles with growth rather than purely cost takeout.”*

Some leaders pointed to a growing need to deliver exceptional client experiences and to focus on higher levels of performance. *“Performance for our clients is the ultimate connection to growth, but it is also a challenge because we have to continue to enable investment management day in and day out to ensure clients get what they need and value.”* Others addressed the mutual fund marketplace more broadly and the need to consider the ETF marketplace as a future option, while several commented on the need to shift their back and middle office support to continue to extend operational excellence and value.

The growing movement to digital strategies and use of mobile devices for content consumption was also discussed as a critical next step for many mutual funds in their future communication strategies. Most are looking for strategies to help integrate a cross-company digital strategy that would extend from proxy distribution through to other forms of marketing and communications. *“We know that paper is not our future, and we are starting to look at how to shift some of our investment into a digital strategy that will meet the demands of our end customers.”*

*The insights in this document were gathered through client interviews conducted by Farland Group

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