EXPERT VIEW

# Asset management's 'future ain't what it used to be'

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By Dan Sondhelm

Yogi Berra's classic observation is a good metaphor for what's happening in the mutual fund industry today.

Not long ago, you could predict corporate behavior among fund companies by keeping an eye on the markets. When times were good, firms added full-time employees, boosted salaries, invested heavily in technology, opened offices and blitzed print and online media with ads.

When markets tanked, these same companies would slash non-essential expenses, freeze job requisitions, lay off departments and replace full-timers with contractors. But this tradition has changed over the past decade. Even though we've had a bull market for longer, and AUM has risen to record levels, fund companies are actually making less, spending less and hiring less than ever before.

While global asset managers expect AUM to rise by 21% over the next 10 years, they expect fee revenue to rise by only 8% and margins to drop by 11% over their current levels, according to the a Bloomberg Intelligence and a Simmons & Simmons survey. Lower margins translate into lower wage growth, reduced headcount and budget cuts.

What's driving this trend? The ongoing migration of money from actively managed to lower-cost passively managed funds is placing enormous pressures on all but the top fund companies to lower management fees. The decade-long trend of brokers vacating wirehouses for independent RIAs is reducing the population of traditional fund-sellers. The rise of robo advisors and other turnkey portfolio management platforms is making it difficult for funds that don't combine low costs, strong returns and strong brand equity to earn a spot on investment lineups.

Successful fund companies with popular, long-term outperformers can often weather reduced margins by reducing spending in areas such as marketing. Since the funds sell themselves, they don't need to spend a fortune on advertising, sales materials and corporate sponsorships. They've got the patience and overhead to give lagging funds time to turn around. And they're willing to give second-tier wholesalers the time and coaching they need to up their sales game.

Benchmark-beating boutique managers that are struggling to bring in new assets, however, don't have this luxury. If you're one of them, what can you do to make the most of your limited capital resources in an era of razor-thin margins? Here are a few suggestions.

#### FOCUS ON WHAT YOU DO BEST

Most managers only have a few alpha-generating funds, which they keep on their focused fund lists while keeping underperformers around for representation across multiple asset classes. If your company is in a similar situation but your losers are becoming revenue-sucking anchors, consider either mothballing or liquidating them and shifting their best analysts to your winning teams.

#### CHOOSE SPECIALIZED ASSET CLASSES

Many active managers are looking for ways to generate fees by rolling out products that don't compete with passive funds, according to the survey. They're considering active ETFs and rolling out more socially responsible investing options, such as ESG and infrastructure funds. Since these are fairly new categories with relatively few competitors, they may offer more opportunities for boutique managers to make their mark.

#### SHIFT TO CONTENT MARKETING

In this commoditized investment world, investors are interested in the people and processes behind the performance. Content marketing offers the most cost-effective way to communicate your firm's success and subject matter expertise to your intended audiences.

Instead of spending months producing expensive fund brochures that become outdated nearly as quickly as they're printed, focus more of your marketing spend on generating quick turnaround bylined market commentaries, trend articles and whitepapers that can be easily delivered as PDFs or posted on your web site, or placed in top news publications. Then get this insight in the hands of your sales team and digitally amplify the visibility.

All of this content should carry the bylines of managers or strategists associated with your best products. If your investment stars can't write (or don't want to), consider ghostwriters to create the content with their input.

#### INCLUDE INEXPENSIVE MULTIMEDIA

With smartphone and laptop-based video and audio recording capabilities, it's easier and cheaper than ever to create and promote podcasts and videos featuring your key investment experts. And with the costs of hosting teleconferences and webinars tumbling, you can inexpensively draw hundreds of targeted leads to see and hear what your firm's designated thought leaders have to say.

#### DITCH INDUSTRY CONFERENCES

If the only reason to sponsor conferences is because everyone else does, you're probably wasting money. Few events attract more than 1,000 advisors, and most won't be swayed to choose your products based on the look of your exhibition booth or the quality of your tchotchkes.

#### STREAMLINE YOUR SALES TEAMS

Most fund companies only have a few star wholesalers who consistently generate and convert leads and bring in new assets. Those who are treading water or aren't meeting quotas should be either be reassigned or let go.

#### CONSIDER A MERGER

If resources aren't allowing you to generate the inflows you need, consider looking for opportunities to merge with or be acquired by a larger firm. In many cases, you can still manage the portfolios without the headaches of operating the funds.

#### PREPARE FOR THE BAD

The market selloff that ended 2018 caught many by surprise. Even though most of this ground has been recovered, it's a reminder that the current bull market can't last indefinitely. A survival mode mentality squeezes efficiency and profitability, but may improve your bottom line and help you stay afloat if and when the good times come to an end.

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