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SMART BETA

MOVING ON UP: THE NEW AGE OF INDEX INVESTING

In association with FTSE Russell

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MAKING THE INDEX WORK FOR YOU

The evolution of index investing has already changed the asset management landscape irrevocably and shows no signs of slowing.

You only need to glance at flow data for money going into actively managed versus passively managed equity funds to see the direction of travel. The fact that the world's two largest asset managers are passive powerhouses – BlackRock and Vanguard – speaks for itself.

But index investing is about much more than just cheap access to the S&P 500. Innovation of indices is moving fast. There are now some 3 million indices and 7,000 different index-based products offering investors access to everything from multi-factor funds to fixed income and ESG.

But is this all useful for investors? What do they actually want to see from index providers? Where is left to innovate? And how much are some of these funds being used?

These were some of core concerns for the panel of asset allocators and selectors we assembled recently in New York to discuss how they conduct due diligence on index-based products, how they use them in portfolios and where they see gaps in the market.

Top of many participants' agendas was fixed income, where indices have historically not been designed to exploit beta. This looks set to change.

ESG was also a popular topic of conversation. This is often considered the preserve of active management, but it seems unlikely to stay that way.

We hope you find our roundtable debate insightful as you think about your own use of index-based strategies.

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PRODUCT AND INDEX SELECTION

ALEX STEGER:
WHEN YOU'RE CHOOSING A SMART BETA ETF, WHAT MAKES YOU PICK ONE VERSUS ANOTHER? DOES THE UNDERLYING INDEX PROVIDER MATTER TO YOU?

BEN BLAISDELL:
It has changed a little bit over the past five years. When we started, smart beta was mostly focused on just single factors. Back then there were good academic arguments to have about how S&P or Russell constructed a smart beta index and the intricacies involved with their specific implementation.

Now, though, we're at a multi-factor stage, and I think a lot of firms are trying to put more and more products on their platform. We've found that you can't just use one provider for quality, another for value and another for momentum. If you try to put those together in a portfolio, you're going to have problems, because they have different methodologies and they may not work well together. There can be a lot of overlap between their portfolios. It's therefore really important to pick the right suite of products with the factors that make the most sense.

In terms of index providers, they absolutely matter. It's not that the bigger ones are always the best; there are definitely some smaller ones that have come up with some really creative ways to invest in particular niches.

MICHAEL BOUCHER:
We have a structured approach. We certainly dig into the methodology and look at the definitions behind the factors. It's interesting to see the passion that some portfolio managers have for different definitions of some of the fundamental metrics. We also look at liquidity, bid/ask spreads and flows.

We do look at the index providers too. Is it one of the more accomplished, larger index providers or is it self-indexed? What's their history? Are they new to the methodology or smart beta, and how rigorous is their process?

PHIL FONTANA:
As a product provider within John Hancock Investments, we speak to a lot of our clients and the advisors who would purchase these types of funds before we actually develop anything.

One concern was the back tests, which always seem to be the best back test you'll ever see. So, like we always do, we took a step back. Who has done this for the longest time? Who has had the most experience? Who has the track record and pedigree?

That's how we came up with the products we launched, but we do worry about there being so many other products out there. Some of them are going to be misused and some are really going to let shareholders down.

Our perspective, then, is longevity. We do not want to let our shareholders down, so when we create a product we make sure there is a good pedigree and track record behind it.

RAY JOSEPH:
For us, it depends on the portfolio in which we're using the instrument. We have portfolios that are all ETF-based, for example, and in those we're trying to minimize tracking error. Liquidity also matters for us, and so do cost and the ETF's dollar price. A lower dollar price is quite helpful when you're building portfolios with $5,000 minimums. And of course the methodology for how a factor like quality or value is defined matters too, and we pay a lot of attention to that. Some index providers have actually begun to develop particular areas of strength, such as ESG.

MICHAEL BOUCHER
FIDELITY INVESTMENTS

IT'S INTERESTING TO SEE THE PASSION THAT SOME PORTFOLIO MANAGERS HAVE FOR DIFFERENT DEFINITIONS OF SOME OF THE FUNDAMENTAL METRICS

LARS ASPLUND:
As a provider of indices, we are hearing that from ETF issuers too. Especially newer issuers entering the space are looking to differentiate through innovation and differentiated products. We are certainly seeing a lot of demand for ESG products.

ALEX STEGER:
WE NOW HAVE MORE THAN 3 MILLION INDICES AND 7,000 DIFFERENT INDEX-BASED PRODUCTS OUT THERE. HOW HELPFUL ARE ALL THESE NEW ONES, GIVEN THAT THE BULK OF PASSIVE ASSETS SITS IN A VERY SMALL MINORITY OF THEM?

RAY JOSEPH
UBS GLOBAL WEALTH MANAGEMENT

THERE'S NO GOOD INDEX TODAY THAT REALLY REPRESENTS A CORE PLUS BOND MANDATE

PHIL FONTANA:
When we're creating products, we're really looking more for strategic long-term asset allocation. I know there's a fad for shorter-term tactical investments, and you're obviously seeing that in the proliferation of these ETFs, but we're in the business of longevity.

Recently, for example, we have seen some challenges for volatility ETFs that investors in them may not have understood. I think we'll see more and more of that, whether it is from bitcoin ETFs or something else.

LARS ASPLUND:
What we hear from issuers is that they want attractive products. We rarely have conversations around how those products actually fit into portfolios, but those conversations need to happen for the ETF market to mature.

RAY JOSEPH:
We also manage all our portfolios on a strategic asset allocation basis, but we do make tactical asset allocation investments too. I do think there's room for more innovation on the product side. Fixed income, for example, is ripe for innovation. There's no good index today that really represents a core plus bond mandate. Even the Barclays Universal index has only 5% in high yield, which is arguably too low. We know that most core plus funds take on greater exposure than that. There is similar scope for innovation in alternatives and ESG. We're only in the early innings there.

MICHAEL BOUCHER:
I have to agree. Internally, my fixed income guys come to me and ask about smart beta fixed income. There are about 30 products out there, which is not many. I know there are challenges there, but that's one area where we could use more activity.

STERLING SHEA:
Yes, I agree. The purpose of innovation ought to be to solve very specific client problems. As clients are facing more complex issues that financial advisors are trying to solve for them, there'll always be the opportunity for more innovation. As to whether there are too many already, the market will tell you. A statistic I heard recently was that in the past five years there have been 795 new ETF issues, and only 21 currently have more than $1 billion in assets under management.

ROLF AGATHER:
I would echo the free market view. It's a competitive industry, and you need a certain critical mass of assets in these products to survive. I think more choice is generally better in any industry, but it has to be informed choice. In addition to more choice, there has to be an adequate level of information and education around all these products.

BEN BLAISDELL:
If you ask me whether 3 million indices is too many

– I can't believe I'm saying this – the answer is no. One lesson from the past is that many managers have claimed they generate alpha; now, thanks to Russell and S&P and others, we've been able to figure out if it was actually varieties of beta, rather than alpha.

If intelligence is the ability to cast finer and finer lines of distinction between things, then I think there's still a lot more intelligence to be had here. Until we codify what a lot of very smart people are doing in the active space into thoughtful indices, we don't have enough indices.

LARS ASPLUND:
I totally agree that there's more innovation to be had. For example, if you look at the traditional mutual fund space worldwide, there are 280,000 share classes of mutual funds. We have 5,500 ETFs in the world. We may not reach 280,000 ETFs, but there's still a lot of runway for new products.

ALEX STEGER:
WHAT INNOVATION WOULD YOU LIKE TO SEE?

PHIL FONTANA:
There has to be a reason for the innovation for the shareholder. That could be a structural benefit – such as a better tax-advantaged return – or harnessing a specific alternative beta such as merger arbitrage. You have to add value that the investor is not currently getting from the mutual fund industry.

RAY JOSEPH:
ETF product development should follow the evolution of asset allocation and portfolio construction. Asset allocation and portfolio construction innovation should dictate how ETF products are developed, although to some extent I'd say ETF product development has probably moved faster than asset allocation at this point.

Smart beta and factor instruments are perhaps too advanced for some current thinking about asset allocation, so there could be a role for product innovation in leading us to a positive place for clients.

BEN BLAISDELL:
Asset allocation in general is based on a lot of assumptions about a manager's holdings, whether it's specific sectors, country of origin, style box, etc. I'd like to see as many assumptions dropped as possible, by looking at factor-based clustering, for example.

If we're really able to identify different alphas, without making lots of often very subjective assumptions, I think that would be a huge opportunity for index providers.

ESG INVESTING

MICHAEL BOUCHER:
This year is probably the first time that I've seen ESG described in performance terms; prior to that, the focus was on the methodology. It has now been demonstrated that you can actually get some alpha from ESG.

BEN BLAISDELL:
I also think products in the ESG space are a lot more thoughtful now. In the past, it was like you were tying one hand behind your back by excluding specific securities. That's pretty hard to overcome.

But now we know that by actively targeting companies that are making the world a better place or by targeting managers to do it on your behalf, there are plenty of opportunities to produce excess returns.

ALEX STEGER:
ESG IS AN AREA WHERE ACTIVE MANAGERS HAVE ALWAYS INSISTED THEY CAN REALLY ADD VALUE. SO WHAT ARE

INVESTORS LOOKING FOR FROM INDEX PROVIDERS WHEN IT COMES TO ESG?

LARS ASPLUND:
Whether it's on the retail or the institutional side, there is demand for ESG products. We've been involved in this area for many years, and we will continue to invest in that capability.

ROLF AGATHER:
We have to be very careful that we don't consider ESG to be risk factors, i.e. systematic sources of return. They may be, but there isn't a lot of research out there on this. Instead, we can think about getting exposure to true investment factors and then tilting toward companies that have been scored along environmental, social and governance lines.

STERLING SHEA:
We're seeing tremendous interest in ESG, particularly in the ultra-high-net-worth segment. There, advisors are having that conversation not only in terms of performance but also in terms of philanthropy and how wealthy families express their values.

ETFs come in at the practical level of the discussion; they are a tool, an index-based investment vehicle that advisors may see as a more efficient solution when they don't want to do security-specific research across an asset class.

ROLF AGATHER:
There is an interesting fiduciary angle to all this too. Advisors have to wrestle with making sure they maximize their clients' economic wellbeing, while also allowing them to express ESG preferences even if they are not good economic investments.

BEN BLAISDELL:
We talk about that quite a bit as well. After everything is said and done, if you're putting together a platform of different investments that you're going to use in your portfolios or on an ad hoc basis for clients, you just have to make sure your recommendations are supported by a certain level of rigor.

If you're going to be offering products that may ultimately entail some sacrifices in terms of performance or risk, I think you have to be really careful and very forthright with clients. If a client is willing with a particular investment to take a bit of a haircut monetarily from a return perspective with ESG or SRI investments, make sure that is pretty explicitly outlined in the investment policy statement or whatever other type of contract is set up between the advisor and the client.

MICHAEL BOUCHER:
From a practical perspective as well, some ESG products are good and worthy but they're too small for portfolios. So as they grow, there could be increased adoption.

PHIL FONTANA:
On the question of index versus active, the approach we took was active, because we found asset managers that had the pedigree and the track record. Those asset managers went out and brought shareholder actions on ESG issues such as board diversity.

Finding passive funds that have brought such shareholder actions is hard. I hope there will be room for passives in this space, but we haven't found it yet.

RAY JOSEPH:
ESG means different things to different people. To the extent that you believe ESG must include a definition of impact and measuring impact, then passive vehicles are difficult to fit in to that construct. If you want to see how your dollars are actually improving communities, then active management is probably the way to go.

LARS ASPLUND:
We have been thinking a lot about whether we can help at the impact end of things. We can do

our screenings, we can tilt toward different types of exposures, and we can provide the data that is valuable for investors.

In addition, we also play a large role in setting global standards, working with corporates, NGOs and investors to improve disclosure and foster transparency along the investment chain.

SMART BETA VERSUS TRADITIONAL BETA

ALEX STEGER:
HOW DO YOU VIEW SMART BETA IN RELATION TO MORE VANILLA INDEX STRATEGIES? ARE YOU TENDING TO SWITCH FROM ACTIVE TO SMART BETA, FROM TRADITIONAL PASSIVE TO SMART BETA, OR SOMETHING ELSE?

BEN BLAISDELL:
We're still at the beginning of this process. We've been pragmatic when evaluating the methodologies and what's out there because we want to make sure we get this right. When we get a prolonged dip in the market, I think people may realize they're not nearly as protected as they thought they were using market cap-based investments.

There's an enormous opportunity for smart beta there, and money could move both from passive and from active. Index and product providers are also going to continue to create more and more lines of distinction about what beta and alpha are, enabling investors to capture both at a very low cost.

STERLING SHEA:
Yes, as long as fees continue to become more relevant in the conversations between advisors and clients, there is going to be discussion about reducing costs across portfolios while

accomplishing the investor's goals.

To that degree, I would concur there is a huge opportunity for smart beta – particularly as the cycle shifts, not just in the market itself but in the mindset of investors. ETF product proliferation and the flows from active to passive have accelerated in a low-risk environment – you could even argue it has been a no-risk environment – so when that paradigm shifts I think you could see large amounts of money move.

RAY JOSEPH:
Broad-based market-cap ETFs are essentially a commodity business where scale matters, and they should be praying for a continued bull market.

But when the market does become more volatile, we're going to see an opportunity for smart beta to prove itself. There are different uses of smart beta, of course: as a hedging instrument, as an alpha instrument and possibly now with multi-factor smart beta as a replacement for active management.

We've chosen to go slow on that last front. Academic articles show that factor timing is very difficult – like using momentum if you believe we're in the early stages of the economic cycle – but some people still want to try it.

I also wonder whether multi-factor indices have a role for active equity managers. Essentially, smart beta and multi-factor indices are screens – for quality, value, momentum and so on. How many active equity managers are using them as their screen today? The Russell 1000 and S&P 500 are no longer their fishing ponds; the fishing ponds are now these multi-factor indices.

PHIL FONTANA:
Another reason smart beta is taking money away from active is the lack of development of active ETFs. Everyone's been talking about active equity ETFs for decades, and they have clear tax benefits for a lot of people, but the market hasn't really moved in that direction.

There is also a general fear that if advisors moved everything to market beta, they would lose

PHIL FONTANA
JOHN HANCOCK
INVESTMENTS

ANOTHER REASON SMART BETA IS TAKING MONEY AWAY FROM ACTIVE IS THE LACK OF DEVELOPMENT OF ACTIVE ETFs

some of their value proposition. Clients could get all that from robo advisors instead.

STERLING SHEA:
I think around 80% of active ETFs are fixed income-oriented, and there does need to be more evolution and innovation there. Some advisors also have concerns about ETF liquidity, although frankly I think they are largely unfounded. In February you saw a lot of pressure on the high yield sector, for example, but there weren't any liquidity issues in those ETFs.

SMART BETA DUE DILIGENCE

ALEX STEGER:
HOW DO YOU CONDUCT DUE DILIGENCE ON SMART BETA? COULD SOMETHING

LIKE A STYLE BOX FOR SMART BETA HELP CREATE A STANDARDIZED APPROACH, LIKE WE HAVE FOR ACTIVE MANAGERS?

BEN BLAISDELL:
There are so many different ways we can break down factors and styles to classify products, so I think it would make sense to have some type of central authority on this.

We are always going to have disagreements about what value is or what quality is, though. Every definition has slight nuances, but they can also all work. I think we have to move beyond that debate and just realize that there probably is room to have some standardization of factors. Then at least we could compare products more easily.

MICHAEL BOUCHER:
I'd have to agree; standardization of factors and exposures would be very helpful. We have a team in-house that does some of that, separating value from deep value for example, but it would be nice if a broad set of industry definitions existed too.

ALEX STEGER:
WHO COULD PROVIDE THAT?

BEN BLAISDELL:
Index providers and software providers. I think it should be independent parties as much as possible.

PHIL FONTANA:
It would definitely help with education. Everybody now understands equity factors to some degree, but the next step is explaining that one quality factor is different from another quality factor.

It's one thing for an asset allocator to look under a product's hood and understand the underlying exposures and reconstitution periods; it's another process entirely to explain that to a financial advisor. They're probably going to be more geared to looking at costs, size, trading spreads and so on. So having a commoditized way of explaining factors would be great.

RAY JOSEPH:
I'm not eager for someone to standardize it, to be honest. I can understand the rationale why, for product education, but to me it's actually a source of alpha. We're going through a process right now where we're looking at how everybody defines quality, back testing it and investigating which definitions are better. To me, that's a source of competitive advantage.

BEN BLAISDELL:
To play devil's advocate, without an actual benchmark or a standard, it's hard to judge success and failure.

RAY JOSEPH:
That's fair. Part of the challenge for us in trying to find out how different providers define factors is that not everyone is willing to give you their secret sauce. Perhaps if some centralized body was doing it, providers might share that proprietary information.

ROLF AGATHER:
Standardization may give people a common frame of reference, but I don't think it's going to change the process of asset allocation and due diligence required for both active strategies and smart beta.

Just as every active manager defines value differently, if your definition of quality or some other factor is better than the standardized framework, that's a valid source of alpha.

ALEX STEGER:
WHAT COULD BE DONE ON AN INDUSTRY LEVEL TO MAKE EXPLAINING THESE STRATEGIES TO ADVISORS EASIER?

PHIL FONTANA:
With all the single- and multi-factor ETFs being launched, it's getting harder. I think it's important for the large firms and the gatekeepers to believe in education, though, because it's hard to engage in hand-to-hand combat with 7,000 financial advisors at a firm like UBS unless you have the

support from the gatekeepers at the top level.

We're seeing a lot more of that now, and we want to be out there educating. We want the end client to know what they're getting from day one because we want that to be an investment that is held for a long period of time.

Part of it is simply explaining the ETF structure. People are buying ETFs like they used to buy stocks 20 years ago, putting in market orders at the open when the spreads are widest.

STERLING SHEA:
There's a tremendous hunger right now for more sophisticated education on the role of ETFs, particularly in a more volatile environment and with rising interest rates. We're starting to see more advisors talking directly to providers to try to get more of that type of analysis, but it needs to be rigorous.

LARS ASPLUND:
Sitting in front of a client and explaining factors is difficult. We're quickly moving into an era when innovation will occur even faster, and it's going to create a lot more terminology. It's going to become even more difficult for people to understand.

But equally, 17 years ago nobody in Europe knew about style investing; now everybody does. It took a few years for that to happen, but it did.

RAY JOSEPH:
We're in the top of the first innings. There is even further to go in fixed income.

BEN BLAISDELL:
If you think about the style box, it's basically just a two-factor model – size and style. People almost need to abandon the old ways we looked at things and realize that this is a very different way of looking at the world.

If ETFs are in the top of the fourth innings, I think we're still in the first when it comes to smart beta. We're not going to get close to a tipping point with these products until the cost of acquiring the data falls and people have the ability to visualize that data.

Gatekeepers may have the tools to dissect factors, but those tools have not made their way to advisors yet – let alone clients.

SMART BETA IN A DOWNTURN

ALEX STEGER:
IN FEBRUARY, WE SAW A MARKET CORRECTION. IF WE DO ENTER A FULL BEAR MARKET, WILL THAT AFFECT THE WAY YOU THINK ABOUT INDEX-BASED STRATEGIES AND SMART BETA?

ROLF AGATHER:
A little less than 10 years ago, there was a major market correction. That was also when you saw the emergence of one of the very first factor index products, low volatility. So for me, part of how smart beta started was people looking to manage volatility.

There are actually now volatility products on the shelf with a fairly long track record, and I think people will start to look at these low-volatility strategies as a way of managing in that sort of environment.

PHIL FONTANA:
Allocations to alternatives have also ballooned over the past five or 10 years. From our perspective at John Hancock, if we had the ability to commoditize a hedge fund return and put that into a passive ETF, we'd be very interested in doing that. But the jury is still out on how alternatives are really going to perform amid greater volatility.

STERLING SHEA:
From what we hear, everyone's rethinking risk buckets and the most thoughtful advisors – particularly in the high-net-worth segment – are having those conversations with their clients.

What is their authentic risk tolerance? It goes back to the intent of the product within the portfolio. Why are you using it? We still have to see how those products perform over a longer timeframe with greater volatility.

BEN BLAISDELL:
Over the past 10 years, the shift from active management to passive management in the advisor community has been pronounced. There's a sense that for a financial advisor, passive investing is 'never having to say sorry' to a client. That might not be true in the future; just because you're passive, that doesn't mean you won't disappoint a client.

If we are headed for a downturn, you really have to make sure you understand what you own. If you're buying something based on rules, understand those rules. If you think about all the unique business risks of all the companies in an index, many of the existing passive products out there might not do all that good a job of allocating toward or diversifying away those risks.

There's some really interesting stuff being developed from that angle; it's very bottom-up and makes as few assumptions as possible. A downturn could really shine a light on something like that.

RAY JOSEPH:
Market timing is difficult, so when the bull market will end is anybody's guess. For us, rather than

thinking about what environment is better for active or passive, we spend a lot of time trying to understand what asset classes are structurally better suited to active managers.

We've not conceded that active management can't win in every asset class; it's about understanding what it takes to win in that asset class.

A good example is high yield. Over the past 15 years, the only way an active manager won in high yield was by owning a disproportionate amount of CCC credits or equities. Are you comfortable taking on those risks? Knowing that's what it means to beat the index, those are the types of managers we need to look for.

Portfolio construction – knowing where to use active, where to use passive, where to use smart beta – is the new active management and that's where advisors need a lot of help.

SMART BETA IN FIXED INCOME

ALEX STEGER:
WHAT NEEDS TO HAPPEN FOR FIXED-INCOME ETFs TO BECOME MORE POPULAR?

PHIL FONTANA:
One reason fixed income ETFs haven't taken off is that their regulatory treatment is very different from equity ETFs. I know the SEC is working to harmonize that, and we hope they do that as quickly as possible so everybody has an even playing field.

The other issue is that active mutual funds on the fixed income side have done well versus the benchmark. That wasn't always the case with active equity.

The third reason is the cost bogey isn't really too different; a fixed income mutual fund and a fixed income ETF are not 100 basis points apart.

MICHAEL BOUCHER:
When we look at the space, it is an area where we have seen active managers generally outperform.

BEN BLAISDELL:
If you go back to the late 1990s, when the first ETFs were coming out, the reason they didn't have fixed income ETFs was because the indices were hard to replicate.

But those structural problems with fixed income make it especially ripe for smart beta. The way the indices are put together is crazy for the most part: They allocate more money to institutions just because they have more debt. That doesn't make a lot of intuitive sense to me, and I think a lot of people understand that.

The sense I've been getting over the past few weeks, though, is that there will be better indices and a lot of good products coming out in this space. Smart beta should start to take off in fixed income, and I'm excited because that is a really good opportunity for clients.

BEN BLAISDELL:
Munis are a good example. In the index there will be stuff that nobody has any possibility of ever buying.

RAY JOSEPH:
Rather than smart beta being the catchphrase, I think alternative weighting has a lot of opportunity in fixed income. That is a simple concept for advisors to understand. It's very intuitive and would go a long way toward cleaning up a fairly messy set of indices in fixed income.

LARS ASPLUND:
We need more academic research and access to good, clean data in fixed income, and we are putting in a lot effort into that at the moment.

ROLF AGATHER:
For the traditional providers of fixed income indices, the business wasn't about selling the data or using the data for investable products; it

STERLING SHEA
DOW JONES

IT'S ALL ABOUT REFINING THE PORTFOLIO-CONSTRUCTION PROCESS TO CREATE MORE DURABLE PORTFOLIOS

was about generating trade flow for other parts of the business.

But now that we at FTSE Russell have acquired Citi's bond index business, we can think about that differently and work on new products.

ACTIVE ETFs

ALEX STEGER:
HOW AMENABLE ARE YOU TO ACTIVE ETFs, THINKING SPECIFICALLY OF THEIR COSTS AND PORTFOLIOS THAT ARE NOT TRANSPARENT?

PHIL FONTANA:
There are a number of reasons why they haven't really come on, and number one is transparency. A portfolio manager doesn't want their trades to be completely transparent. There also isn't a lot of demand from the gatekeeping community for active ETFs.

Things may change in the future, if for example the Fiduciary Rule is implemented, but for now the share class structure of mutual funds is actually beneficial to a number of gatekeepers.

BEN BLAISDELL:
I think there's plenty of opportunity for active ETFs, but I don't think it has been thought through. The mutual fund structure is certainly problematic in terms of its tax treatment.

As much as I hate to admit it, every other person invested in the same fund as me is my enemy: If they're going to take premature action on that fund or have a shorter timeframe to measure success than our clients, we'll probably end up having to pay their taxes, and I'm not crazy about that.

It's also worth noting that we can get much more liquidity from the ETF market, particularly in the secondary market. Transparency is the major barrier, but I think there are some proposals out there that have legs.

In order to do active management in the ETF space, you have to add quite a bit of value. It can't just be a 'me too' type of product; it can't just be some incremental improvement of the mutual fund structure.

STERLING SHEA:
Another part of the resistance is a fundamental lack of understanding and/or skepticism about the utility of those products in the portfolio.

It's all about refining the portfolio construction process to create more durable portfolios and better outcomes for your clients; if there is concern about risk with a given product, then there's complete resistance because one can simply express that same investment intent through a lot of other different vehicles.

RAY JOSEPH:
The only thing I'm certain about is that mutual fund fees across the industry need to come down.

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