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Larger shops eye series trusts to grow assets

By Danielle Kane

More mid-sized money managers are joining series trust funds to mitigate operational and compliance expenses by using established infrastructures provided in a series trust model. Multiple industry practitioners in this space told *Fund Operations* that while series trusts have always been an attractive play for small and non-US fund managers, recently there has been an uptick in interest from larger players.

"The in-depth conversations we're having are with larger advisers – firms running billions of dollars instead of millions," said David Carson, VP of director client strategies at Ultimus Fund Solutions. Ultimus, among other services, provides series trust funds. "We're of course not talking about the JP Morgans and BlackRocks, but definitely very solid, established advisers are looking at this structure."

Today's regulatory environment has a lot to do with this uptick, according to Barbara Nelligan, global fund services product manager at Northern Trust. Northern Trust also sponsors a series trust. The US Securities and Exchange Commission's financial reporting modernization rules and the liquidity risk management rule have placed an increased compliance and administrative burden on fund complexes.

"The modernization rules are pretty colossal with regard to the amount of data that needs to be provided to the SEC," Nelligan said. "When you add it all up, it's quite a big expense and [requires] a lot of time. So, it helps those who do not have as big of a complex to be able to work with professionals that can support their funds."

Nelligan also added that joining a series trust model gives small- and mid-sized shops the ability to scale, which saves operational expenses over time that are associated with these regulatory changes.

Series trust models can serve as incubators for these shops, according to Paul Ellenbogen, consultant at Morningstar. "It's a great place to let funds grow in size and in track record," he said.

Denise Coursey, president of Motley Fool Funds, discussed from her first-hand perspective why the firm chose to move its $650m fund family into a series trust structure. Aside from the overall benefit it would provide to their shareholders, Coursey and her team felt the move would give the firm the operational scale it needed. And it has, she said.

"Our expenses were reduced," Coursey said. "There was a lot of operational and compliance work related to the fund trusts that was being handled by my operations team. There has been a huge benefit operationally because now we are free to focus on providing great returns, growing the firm and doing adviser-based work as opposed to doing the [administrative] work of the fund trusts."

Motley joins headliner RBB

Motley Fool officially voted to join RBB series trust fund in December 2016, though the transition of certain contracts and agreements is still ongoing, according to Coursey. The legal counsel and custodians have been switched and selling agreements have been repapered. The compliance service provider – Vigilant – remained the same because Motley and RBB already worked with the same firm. Coursey anticipates the rest of the move to be done by year end.

Motley Fool's decision to move to RBB happened right around same time that RBB decided to completely lift itself out from former fund administrator BNY Mellon and go to US Bancorp Fund Services, *FO* previously reported. "The moves were simultaneous, but not intentional" Coursey said.

At the time of reporting, the RBB move garnered a lot of attention as it was an outlier situation. Historically, series trusts are not lifted and moved to different fund administrators, so RBB was the first in decades to pull such a switch.

"The RBB situation was unique in that there were individual officers who were able to drive that move," said a person familiar with the matter at one of the industry's top fund administrators. "It's pretty uncommon these days for a series trust to not be very tightly tied with the administrator. So, I think it's going to be unlikely that you would see more moves like that."

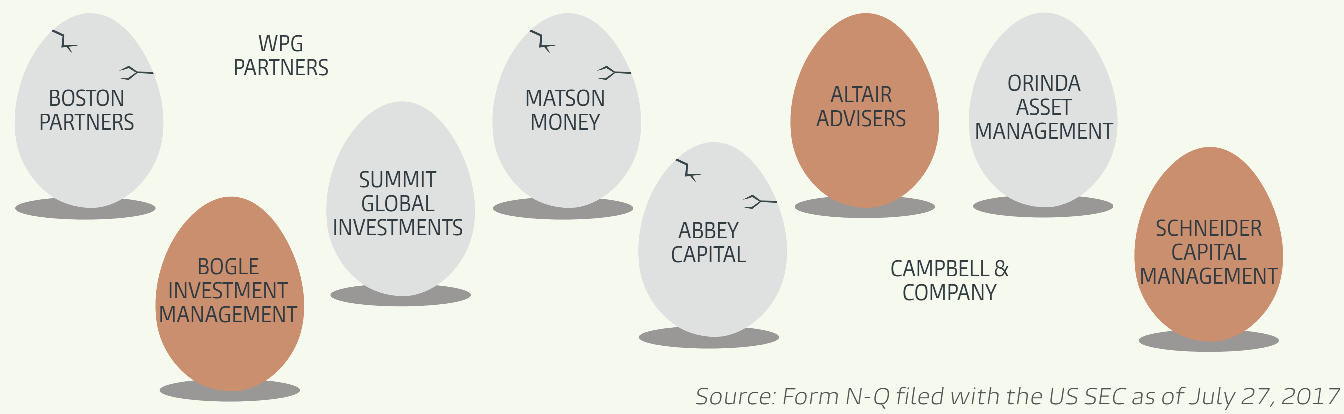
Another executive at a separate fund administrator agreed, noting the RBB situation was an "odd duck" situation. "My question to them would be: how many fund families have they added or assets have they gotten? I'd be surprised if more managers joined. But, I haven't heard anything about RBB, their business or how it went," this executive told *FO*.

Outside of Motley Fool Funds being added during and after RBB's transition, the series trust has not added any other new managers, according to SEC filings (*For a full list of the managers within RBB, see graphic overleaf*). With the addition of Motley Fool, RBB now is no valued at $21bn in assets.

"We definitely do see the series trust model gaining in popularity," said Bob Kern, executive VP and head of business development at US Bancorp. "For example, a manager entering the mutual fund industry must confront a host of regulatory, compliance and operational requirements as they try and focus on growing their assets. In a series trust, we provide the mutual fund board, officers, fund CCO, regulatory oversight, market education, etc., allowing the manager to focus on investment management. The trend of funds reorganizing into series trusts is very telling, in terms of the asset manager preference for simplicity and outsourcing the complexity of operating a fund complex."

With regard to the series trust market, US Bancorp has done market analysis that shows there are currently 13 series trust sponsors in the space (US Bancorp being one of them). Within those 13 sponsorships, there are 37 series trusts (US Bancorp has 10

Fund Companies within RBB Series Trust Fund



Source: Form N-Q filed with the US SEC as of July 27, 2017

series trusts out of those 37, of which RBB is one). Every series trust has a varying number of asset managers and fund families.

"While we haven't seen any new entrants in terms of new sponsors in the recent past, we see existing sponsors launch new series trusts in order to effectively manage the workload of each," Kern said.

BNY Mellon and RBB representatives declined to comment.

What's next

Going forward, Northern Trust's Nelligan believes the industry will see continued interest from mid-size shops, non-US managers and also, hedge funds. "Hedge funds today want to get into other parts of the market," Nelligan said. "If you're a hedge fund manager…you are looking to a run a fund in an existing structure with people already in the [mutual fund industry] that can easily connect you to distributors and other folks in the market so you can learn the sales and investor processes."

For larger managers already in the space, it's more about being able to easily diversify their product suite within a series trust structure. John Alshefski, managing director of investment management services at SEI, noted that he is seeing institutional investment managers start to get involved so they can focus their strategies on key products without having to have a large basket of funds. The series trust model allows these firms to broaden their distribution reach.

"They are diversifying their product suite without registering their own fund family with the SEC," Alshefski said. "Running a fund family is expensive now due to regulatory and infrastructure requirements. I think the series trust platform is the right [way] to get the expertise and services some of these managers need to compete in the '40 Act space without incurring a large cost."

Still, series trust funds are not without their own set of issues, according to Morningstar's Ellenbogen.

"One of the challenges we see is investors asking, 'What family is this fund part of?' I don't want to say you're orphaned in a series trust because you have the trust as a home, but if you're not attached to a recognizable name that can be a problem," Ellenbogen said. "This makes it important that you narrow your distribution niche or eventually graduate out of the series trust into a fund family that has the clout to get you on [brokerage] platforms that are deeper."

> "If you're in a series trust, and one of 50 and 49 stink, it doesn't really drag you down"

However, Ellenbogen noted there are always pros and cons. On the one hand, not being attached to a reputable name could be a con if investors feel they don't have a household name. But, there is a flipside. "If you're in a series trust, and one of 50 and 49 stink, it doesn't really drag you down. If you're at a big asset management firm and the others funds [in that family] stink, you're associated with that. So, it plays into the reputational appeal."

Despite a noted uptick, Ultimus' Carson said he thinks series trusts will see more success once the Department of Labor's fiduciary rule shakes out. Due to the uncertainty over the rule, some firms have been hesitant to launch new products or strategies, which trickles down to their willingness to join series trust structures, as well.

"I think the big platforms are still in the throes of figuring out how they're going to sell their products and what they're going to sell," Carson said. "I think that's going to sort itself out in the next few months, and [we will see] whether or not the rule changes actually go into effect. But it's a foregone conclusion what the [retirement] landscape will look like."