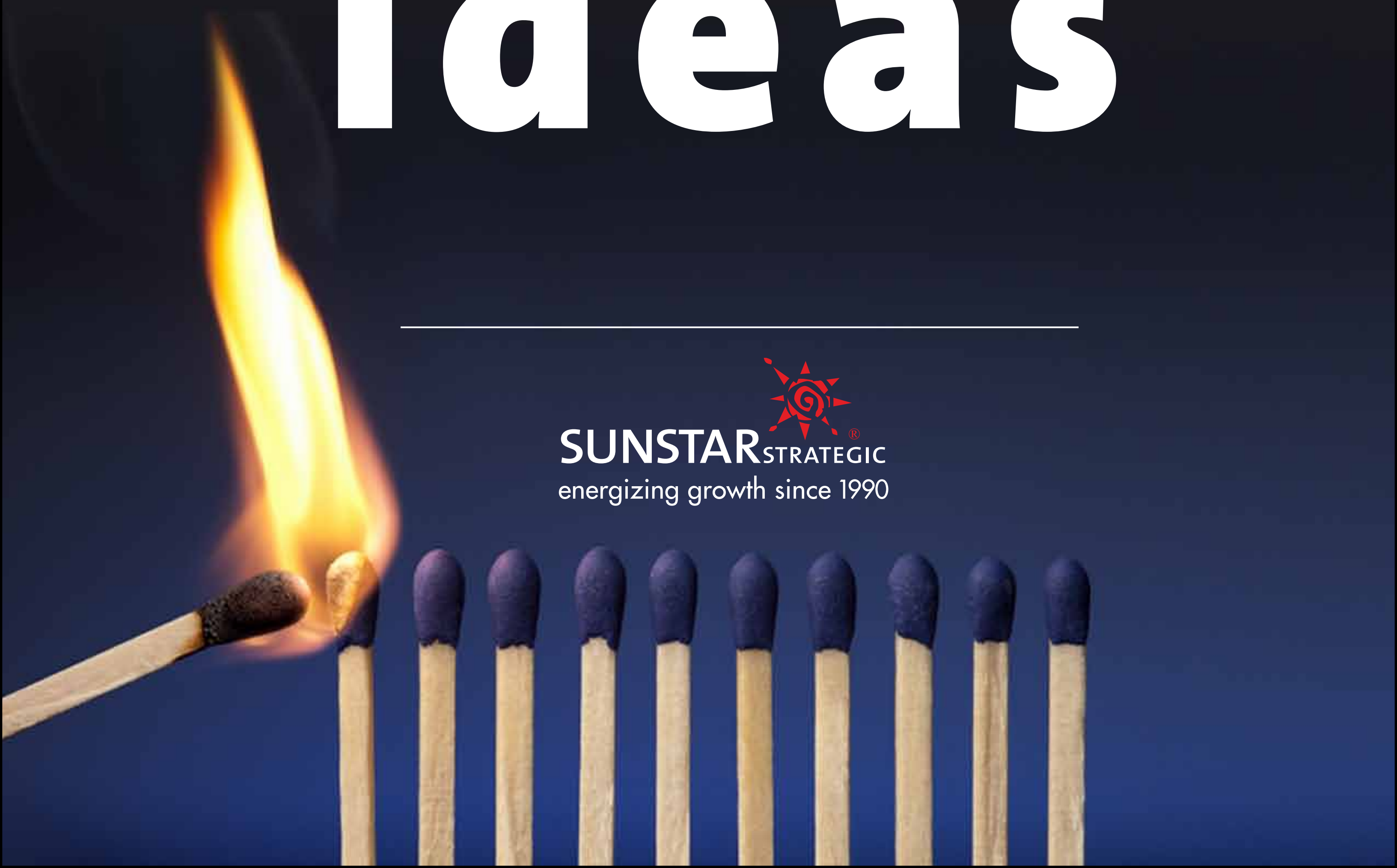
7 GREAT ideas



SUNSTAR STRATEGIC®

energizing growth since 1990

The articles in this e-book are a compilation of our best ideas over the last few years. Each was originally published in our blog, fundfactor.net.

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8 Deadly Myths Holding Back Distribution for Smaller Funds

By Dan Sondhelm, SunStar Strategic, SVP, Partner

Summary

When considering your distribution strategy, don't fall victim to one of these eight myths that could potentially thwart your sales efforts. For optimal results, your strategy should be multifaceted and ongoing—don't be too content with solid performance.

Myth 1: If we build a better mousetrap, investors will come.

Truth: Investors and advisors need to believe your fund is better than the alternatives. Credibility is earned over time and enhanced when you are acknowledged or recommended by other trusted people in the industry or financial press. Think of the Dyson vacuum, the first built with a bladeless fan. If not for an incredible job at building brand image and awareness, it would appear to be a very odd looking vacuum cleaner indeed.

Myth 2: Our performance speaks for itself.

Truth: Perhaps this is best likened to the image of the proverbial tree that falls in the woods. Does it make a sound? Probably, but with no one to hear it, there's not much impact. And, unfortunately, fame generated by performance this quarter may or may not be sustainable as others jockey into position. Even with five stars, your fund is one of twenty percent of all funds easily lost in the crowd without a noteworthy story to make it memorable. And hundreds of five-star funds with long histories have few assets. Performance-sold funds are also subject to performance-chasing investors, not long-term loyal investors typically sought after by fund companies. Bottom line: performance without a sustainable identity and wide-spread distribution system is just not enough.

Myth 3: Getting on the main platforms will drive investors.

Truth: Getting on the platform is just a good beginning. Remember, funds are sold not bought and selling to investment professionals is every bit as important or more so than selling to the public. Working the platform relationships can be a full-time job to ensure you are noticed. Even if you can't afford a wholesaling staff, you can direct specific marketing programs like webinars and emails to an advisor set. In addition, many platforms offer access to their advisors through internal communications, post cards and more. Be sure to ask your platform relationship manager about this. Letting the public know you are available through specific platforms also makes your fund more attractive and convenient to purchase.

Myth 4: Flows will come when we get a 3-year number.

Truth: Your 3 year number is likely to be your fund's most important milestone. Your fund will finally pass an important hurdle found in most advisor's screens and Morningstar will assign its coveted star rating, where 4 and 5 star funds attract 90% of the flows. But don't count on it getting your share of the flows. I've seen 4 and 5 star mutual funds with 10 year histories remain undiscovered. New funds often struggle to attract third-party assets, having raised money from friends and family as well as smaller client accounts early on.

Discouraged, many fund owners think about throwing in the towel and getting out of the business. Others prefer to position themselves for growth.

Myth 5: We have a nice web site.

Truth: It may be nice, but don't settle for a Web site that looks and sounds like your prospectus. And if your most timely communications is your latest shareholder report, read on. Most of us rely on the Internet for everything from researching good buys on electronics to checking the spelling of a word in a family Scrabble game. Google and Yahoo! -- words and services that have taken over our vocabulary -- are the first place just about everyone goes to gather information. Your Web site is your face to the world, which is immediately and always accessible. It's an opportunity to showcase your brand, let investors know about your better mousetrap, your performance, the platforms you're available on and where you see investment opportunities today. Offering timely information and links to credible stories about your managers and funds in the press is invaluable and keeps people coming back.

Myth 6: We're too small to get positive press coverage on a regular basis.

Truth: Reporters like discovering and writing about overlooked mutual funds. Many prefer smaller funds with managers who are smart - and accessible. Proactively telling your story and building relationships with the press may be the single, most cost efficient, results-generating marketing you can do. The media, unlike other sales and marketing efforts, attracts investors directly and provides a third-party endorsement that can be reused over time to add credibility. It isn't unusual for funds with just a few million dollars to hundreds-of-millions of dollars to grow significantly with a news generation program as a key strategy.

Myth 7: Investors understand our investment process.

Truth: If you've articulated your process in plain English and ensured that everyone in your shop tells it consistently, congratulations. More often than not, everyone has their own twist on the story. And, because you live and breathe the process every day, it's easy to get caught up in all the intricate- and important- details and jargon. But to the advisor and investor, these details and jargon can be overwhelming and distracting. A succinct, well-articulated story that emphasizes what makes you different will make you memorable. Advisors need a handful of bullet points that outline your disciplined, repeatable process so they can share it with their clients on your behalf.

Myth 8: There is nothing we can do to grow our fund, even though it is good.

Truth: Don't sell or liquidate it yet. We have seen numerous virtually "undiscovered funds" go from survival to revival in as little as six months. It's not always that quick or successful, but you can do things to put your fund on the map. Many of the strategies are found in the "truths" above. A virtual distribution program can be an effective way to get the word out at a reasonable expense. In six months, for example, you can tell your story to plenty of influential reporters at national publications over the phone and in-person, resulting in press coverage. Or you can offer webinars and e-marketing letters to advisors resulting in direct communications with new and existing advisors. These activities help tell your unique story and can drive investors and advisors to your Web site or the platforms. Assuming you already are on some major platforms, you can quickly find out how to take advantage of their internal marketing systems

Consider which of the above myths your firm believes. Resolve to take a closer look at what the truth might be and take the steps to make real progress in your distribution program.

How to Leverage Reprints for Stronger Distribution

By Marilyn Dale, SunStar Strategic, Creative Services Director

Summary

If you have press coverage, don't keep it to yourself. Obtaining reprints of your media appearances and leveraging them on your website and other sales efforts may just be the silver bullet in your distribution strategy.

Earning consistent recognition through media coverage is more than a feather in your cap; it can be the silver bullet in your marketing efforts. Working with the media, unlike other sales activities, attracts investors directly and provides a third-party endorsement that can be reused over time to add credibility. Repurposing that coverage on your website by providing links to video interviews or online articles, posting PDFs and having hard copy reprints available to share with prospects or at conferences compound their value.

To leverage press in these ways, articles that mention your mutual fund by name or that you plan to link to on your fund website must be treated as advertising for compliance purposes. Below, we've outlined the general steps you need to take to ensure all your i's are dotted and t's are crossed when republishing press mentions. Be sure to check with your own compliance experts for their guidance and approval. And the rules for leveraging reprints in social media are changing. We will have more on that in a later article.

Here's a good checklist to get you started:

1. Seek reprint permission and pricing from the publication – sometimes necessary even for a web link.
2. Prepare the article for compliance review, attaching all relevant disclosures and performance, if needed. Articles that mention holdings typically require disclosing the percent of that holding in your portfolio. Where performance, rankings or ratings are mentioned, there will be the need for standard performance for your fund and the comparison group(s). The FINRA rules spell out the requirements, and interpretations by compliance professionals change from time to time.
3. Submit the article with disclosures to your compliance review entity. In our experience, most are willing to help you find a way to use the article; however while some publications are willing to allow you to use just excerpts or to remove a sentence or two, many are not. In those cases, posting just the title and publication can still help your fund build credibility.
4. Respond to any changes requested by compliance with new/updated information.
5. Purchase the article from the publication by completing their contract or order form.
6. For print, finalize the order indicating quantity, color vs.black/white, shipping and billing information. Disclaimer, highlighting, company logo and contact information can typically be added for an additional charge.
7. For web posting: receive a PDF of reprint or a designated URL for the reprint from the publication and submit it to your Webmaster to be posted with instructions that include:

a. All disclosures as approved by compliance and whether they need to be on a jump page or at the bottom of a specific page or two where the listing will be.

b. A link (url) to article or PDF of reprint. In the event the article in its entirety is not approved by your compliance professionals, consider a "dead" l ink, which is showing the http://www address for the article, but not actually providing a link. Many compliance professionals will allow this.

c. Properly sized screenshot in jpg format

d. Directions for which page(s) to post the media listing, (i.e. Home page, News page)

e. Specifically what the listing should say, such as:

-Home Page: John Doe featured in MoneySmarts – September 19, 2015

-News Page: John Doe featured in MoneySmarts discussing his views for ongoing economic recovery - October 19, 2015

f. Indicate if any existing "older" listings on home page should be removed from home page but remain now only on News page

g. Review the web page and resubmit it to compliance for final approval before going live

This process is not "hard," but it can be very time consuming and at times frustrating, since FINRA comment letters your compliance professionals receive regarding other fund company submissions may influence, and seemingly change, their opinion on a current submission. But no pain, no gain. There is no price to be put on a great story in a credible publication and repurposing these pieces greatly multiplies their worth.

What's a Tomato Got to Do with Getting Your Fund Discovered?

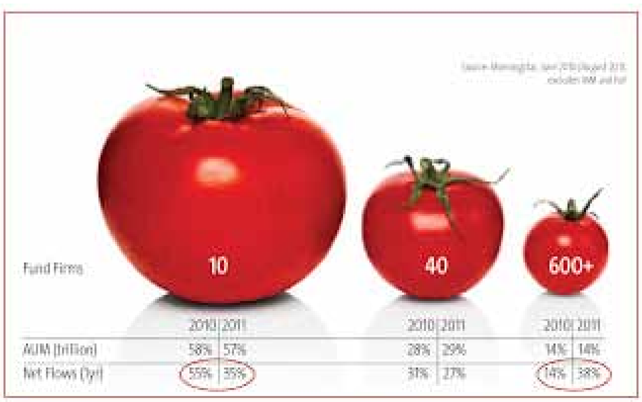
By Dan Sondhelm, SunStar Strategic, SVP, Partner

Summary

Distribution may be a key to success, but simply getting on platforms is about as useful as tossing tomato seeds into the dirt and hoping they stick. Like growing tomatoes, successful distribution requires diligence and nurturing to ensure advisors and investors know your product.

Have you ever grown a tomato? If so, you know it's not as simple as just putting a seed in the ground. In fact, passionate tomato farmers often start their seedlings indoors several weeks before planting season. Once outside, they need a good dose of sunshine and the right amount of water, not to mention great soil, shelter from chill winds and a strong trellis. You get the idea.

GROWING A FUND REQUIRES SPECIALIZED KNOWLEDGE AND ATTENTION



As a smaller fund company, you have the opportunity to appeal to financial advisors and investors in a way many large companies cannot. It is likely your portfolio managers have a substantial stake in your firm and invest right alongside your shareholders — there's a good chance it's your name on the door. Your may invest in a niche market, and be more nimble, letting you put money to work quickly to take advantage of market opportunities. Sophisticated investors appreciate that you are money managers, not sales organizations with hundreds of funds to market. Even though the top 10 largest firms command 58% of the assets, and the next 10 oversee 27%, the 15% managed by the smallest 600 firms shows you still have plenty of opportunity. According to Morningstar, as of June 30, 2015, open-end mutual fund assets are approximately $14.6 trillion — a whopping $2.2 trillion of which are managed by the smaller firms.

Often, I've been privileged to speak on panels addressing distribution for smaller funds. I've met dozens of smaller fund managers there. Some are managers with unique investment processes. Others are experts in their asset classes, still others have amazing performance. Despite the good news above, they're frustrated by lack of fund flows, anxious about mounting expenses and hungry for ideas about how to get the recognition they deserve in this crowded market place. So, how do you differentiate your fund from the others and get discovered?

MAKE THE COMMITMENT TO GROW

As a small firm, you're competing for attention with firms who spend significant dollars on their marketing activities, both in the advisor market and at the retail level. They spend hundreds of thousands of dollars for TV commercials, glossy magazine style annual reports and sponsorships with major distribution platforms and public venues.

Distribution is at the heart of the potential for success. But just getting on platforms is the equivalent of tossing your tomato seed in the dirt and hoping for the best. Successful distribution lies in nurturing the effort. Like adding water and light, protecting from the frost and spraying for bugs, growing your fund requires consistent attention. You have to ensure you're in the right channels, and that advisors and investors know you, know your people and know your products.

We understand smaller firms are often made up of a handful of people. Not all firms can afford a wholesaling staff or have resources to sustain a significant marketing presence. How do you make it work?

DESIGN A DISTRIBUTION STRATEGY

Write it down. Make someone accountable for each step. We all know that what gets measured gets done. Traditional marketing wisdom says you must address the four P's: Product, Price, Place (Platforms), Promotion. This applies to fund distribution, too. But what about a fifth P, Performance? It's true, not many investors will flock to a poor performing fund, but relying solely on performance is risky business. While performance may get you your 15 minutes of fame, performance chasers will drop your fund for the next hot item if they don't really understand your investment philosophy and process or know the fund manager well.

COVER ALL THE BASES

PRODUCT

- Build a story around your investment process that highlights the opportunities of your asset class and process and differentiates you from your competition.
- Add personality by discussing your current sector strategy and top investment selections. Let investors know about the good decisions you've made in the past and the fund's current positioning.
- And of course, commit to excellent performance.

PRICE

- Set competitive pricing - You'll notice I didn't say lower than average. Many managers think this is important, but many funds with lower-than-average expenses don't sell. What does matter is how your fund compares overall to other funds that are selling.
- Set your share classes so that you are priced appropriately for the advisor types you are targeting. The preponderance of flows are going to no-load and load-waived shares. For smaller firms without existing relationships or sales teams, no-load may be the way to go.

PLACE (PLATFORMS)

- Select the distribution channels and share classes that make sense for your fund.
- Get on Schwab, TD Ameritrade, Fidelity, and Pershing – these are the most appropriate for smaller and midsized firms with limited distribution. The no transaction fee side costs more, but also provides more opportunities. Then, establish a relationship with your account manager, who can guide you through the maze of opportunities available to reach platform advisors.
- Be realistic in your expectations. If you have no prior relationships with wirehouse firms, you are likely too small to meet their criteria and if there is no demand from their representatives, it's unlikely they will add you to the platform in the short term.

PROMOTION

- Establish relationships with advisor firm research teams to get and stay on their radar. Where applicable, find out and work toward meeting criteria to be placed on preferred/recommended lists.

- Take advantage of marketing opportunities offered by some platforms. Develop a strong relationship with your account manager to ensure you are alerted to and aware of opportunities for proprietary mailings or sponsorship opportunities at local and national events.
- Consider Virtual Wholesaling – use third party endorsements and technology to communicate with advisors in a structured and timely way to attract and retain investors, while building your brand.
- Proactively engage the media. Let the financial press sell you; third-party endorsed news coverage in national and local business publications adds credibility.
- Leverage third-party endorsed reprints in your other sales and marketing efforts, in print, through social networks and on your website.
- Keep your website up to date with timely commentary and news coverage. Regularly post themes about your fund and the good decisions you made. If your site doesn't allow you to add timely information, upgrade it. Advisors won't come back if there is nothing new.
- Communicate. Regular communication with advisors is critical in order to keep your story top of mind. Consistently offering useful, meaningful information will position you in their minds as the expert on certain topics.
- Use monthly email newsletters to drive advisors to new content and fresh ideas on your website such as recent commentaries, Webinar promotions and media coverage.
- Host Webinars or conference calls for advisors on a quarterly basis.
- Take advantage of platform outreach programs to stay in front of their advisors; many of these are free.
- Develop a social media strategy to distribute timely information in the networks investors frequent. Social media allows you to listen to shareholder concerns and become part of the conversation.

GROWTH WILL HAPPEN IF YOU TAKE THE RIGHT STEPS

Like a tomato, the more care and attention you provide, the greater the likelihood for success. Healthy growth depends a great deal on creating relationships. With today's email, internet and social media opportunities, expanding your reach is easier than ever before. Make a commitment to building strong relationships where advisors and investors can learn to trust and respect your firm and its expertise.

Hiring a Third-Party Wholesaler: Worth the Effort?

By Katie Bird, SunStar Strategic, Marketing Content Developer

Summary

It may seem unnerving to trust a third party with your firm's reputation, but you should think of a third party wholesaler as a teammate. Ensuring your goals align should make for a harmonious and mutually beneficial partnership.

As a mutual fund manager seeking ways to grow your fund, you may have considered working with a third party wholesaler. It's a big decision, no doubt—putting your fund's reputation in the hands of someone else can seem daunting. However, you should think of a third party marketer as a teammate, and if you do your homework and ensure the distribution group's goals align with yours, it should make for a harmonious team.

To help you make the best decision, we went straight to the source and spoke with two wholesalers. Ed Oberholtzer is President and Relationship Manager for Foxhall Capital Management and has been an expert in the distribution industry for over 30 years. Russell Adams is Founder and Managing Director at Piedmont Capital Distributors, a recently launched national marketing firm focused on the needs of boutique and middle-market asset managers.

Is third party marketing a good fit for your firm?

Both Adams and Oberholtzer agree that just about any firm should consider a third party group. As long as your firm has a successful operating history and is ready to embrace the challenges associated with third party distribution, Adams feels you can surely benefit from the partnership.

"Managers need to get a sense of the firm's capabilities and what channels they are most proficient among," Adams advises. You need to be sure the marketing firm specializes in your audience's channels. If their presentation falls on deaf ears, it will do you no favors. While many third party distributors have some experience in several different channels, Oberholtzer notes that it's unlikely you'll find one individual who can call himself an expert in every channel. Also, check to see if the firm is already promoting a fund similar to yours.

"You want to have a thorough knowledge of what the group has on their plate to distribute," says Oberholtzer. It's definitely not a recipe for success to have to compete with a fund they are already marketing. However, Oberholtzer points out that there is an advantage in hiring a third party group that promotes several fund classes to ensure their breadth of expertise. The more compelling stories they have to tell, the more likely they can get in the door to sell your fund. "I want to look for other good products for my product to sit beside," he adds.

How important are references?

Making the best selection requires you to pull back the curtain and take a close look at the company. Oberholtzer suggests requesting a list of other firms doing business with them and calling everyone on the list for personal references. He advises speaking with former employers and personally checking the broker-dealer registration paperwork of every candidate. Adams agrees and believes that as a manager, you should commit to regular conference calls and some joint calls with the wholesaler. In his opinion, an actively engaged manager is essential for the team relationship to excel.

What do you look for in a candidate?

When seeking a wholesaler who really stands out, Adams looks for individuals who have several years of experience and proven success working for top names in the industry. It is wise to search for people with existing connections to financial advisors and a variety of firms. Most important, Adams says, is an individual who is keenly interested in working independently.

To ensure both parties hold up their end of the bargain, be certain the contract includes a clear explanation of distribution activities and expectations of both the wholesaler and the manager. Include clauses that will help deal with unexpected situations, such as individuals leaving either party. Also, establish the ground rules for conferences and marketing, such as agreeing to who will provide what. Oberholtzer recommends stipulating exact standards of service, even menial details like how much time is acceptable on a phone call.

How do you get paid?

Determining how the wholesaling firm or individual will be paid is paramount to satisfaction on both sides. Tracking and paying only on fund flows from specific channels or firms visited by the wholesaler would be ideal. Because it is costly to track the origin of fund flows, using one of three more typical structures makes life easier on both parties. Oberholtzer explains that one common option is to pay an upfront amount that is a fixed percentage of the management fee of the fund, often in the in the range of 30-50 bps. As Adams points out, the expectations are agreed upon in the contract, holding both parties accountable in the case of an upfront payment structure. Adams also mentions a second option, which is to pay your third party marketer a monthly retainer. He says having a monthly financial obligation may serve as incentive for managers to remain active in their deal with the marketer to get the most out of their arrangement. Also, compensation based on performance enables managers to hold their marketers to a high standard of performance.

Another structure Oberholtzer suggests is to pay both an initial and an ongoing fee. Keep in mind there may also be additional fees to consider, and should be ironed out in the contract. These may include fees for conference attendance or displays or registering your fund on key platforms plus other incidentals. Adams reminds us that there are no set guidelines for creating a fee structure, no rulebooks to follow—as long as you are specific in your contract, you and your marketing team can craft an agreement that suits everyone.

All parties need to work in harmony and cover all the bases ahead of time. As Oberholtzer says, “Success at this is a dance, and everyone needs to be doing the same dance.”

Make a New Year's Resolution: Get "Discovered"

By Dan Sondhelm, SunStar Strategic, SVP, Partner

Summary

Your waistline isn't the only thing worthy of a New Year's resolution—a new year is the perfect time to evaluate your marketing and distribution strategy and assess areas for improvement. Not sure where to begin? Let us give you a checklist to help your new year start with a bang.

The end of the year is quickly approaching. Now is the time to analyze where you have been and where you want to be next year. Ask the following questions: How strong was your last year's performance? How solid was your distribution strategy? Are you struggling to attract the attention, recognition and interest from investors you deserve? If your New Year's resolution is to get discovered, then this article is for you. There are opportunities for smaller, boutique-type firms to earn their share of assets. But, you should start developing your strategy now.

The challenge.

Most mutual funds with significant assets grew as a result of proactive selling activities. An individual fund is rarely "discovered" on its own. With more than 10,000 funds available to investors and their advisors, competition for share of wallet can be fierce.

Gaining visibility - and then sales - requires commitment. Often, smaller firms have limited brand recognition in the financial intermediary, yet must compete for that attention with firms who pay for preferential treatment. In addition, many fund firms spend significant dollars for their marketing activities both in the advisor market and at the retail level. For the larger, established firms, this can include TV commercials, glossy magazine style annual reports and sponsorships at major public events and venues. These efforts create name recognition and loyalty. As a result, the biggest keep getting bigger - with 80-90% of fund flows going to the top 20 firms.

Some investment professionals may only use funds that are on recommended lists from their home office or research groups. These preferred designations may also include diversified portfolios made up of a handful of the recommended funds to make the advisors life easier and theoretically more successful. In other cases, investment professionals do their own homework to select the funds and investment products they will use with clients using screens and/or qualitative issues such as wholesaler support. While a fund is small, it may not make many of the screens. Wholesaler support, as well, may be thin. Performance is only a part of the equation.

Unfortunately, mutual fund investing by some investors and even advisors is predicated on chasing performance. So while performance can get a fund recognized, performance chasers will drop the fund for the next hot item if they don't really understand the investment philosophy or know the fund manager well.

While performance is of course important, the financial advisors and clients that will remain loyal are those that understand that adherence to your discipline in all market conditions is the essential ingredient for long-term success. There are advisors who specifically search out undiscovered funds, but they need to hear a compelling story that makes you stand out and helps them understand why your fund is the "hidden gem."

So how do you get discovered?

Do you want to make the coming year your best year ever? Start by developing a written strategy. Ensure you have buy-in from management and a commitment to the resources it will take to implement. Accountability will make or break your program, so predetermine an "owner" for every initiative and how it will be tracked and measured. Include sections on each of the following:

Product

Continue commitment to excellent performance.

Set competitive pricing - below 1% is ideal; depending on your asset class, 1.3% may be as high as you can go and still be sellable while building recognition, Yes, that means you may want to subsidize your funds with revenues from
separate accounts.

Make sure you are in the channels that make sense for your fund. Be aware that many experts predict that the C-share will soon be obsolete, so take a look at your share classes.

Platforms

Make sure you are on the major platforms including Schwab, TD Ameritrade, Fidelity, and Pershing.

Establish a relationship and work regularly with the research teams to get and stay on their radar. In some cases, for example at Fidelity, there may be two separate groups with different criteria.

Take advantage of marketing opportunities offered by some platforms. Develop a strong relationship with your account manager so you are alerted and aware of opportunities for proprietary mailings or sponsorship opportunities at local and national events.

Look at the daily and weekly sales data offered by the platforms so you can track which advisors are buying and selling your funds. Communicating with these advisors is essential.

Investment Philosophy

A value shop, growth shop, GARP, or disciplined, (even if you are highly disciplined,) is not a sellable story. Bring it to life. What make your strategy different than your competition? How do you select stocks? What are interesting themes in your portfolios? What good decisions did you make? Then, use the messages in all of your touches with customers and prospects.

Be Proactive

Provide timely information on your Web site. Regularly post themes about your fund and the good decisions you made. If your site doesn't allow you to add timely information, upgrade it. Advisors won't come back if there is nothing new.

Engage the media. Let the financial press sell you. Then leverage the third-party endorsed reprints in your other sales and marketing efforts, in print and on your Web site.

Be accessible. Advisors want to be able to communicate with the portfolio manager directly. Quickly respond to advisor calls.

Showcase portfolio managers in quarterly webinars, then post the event to your Web site.

Drive advisors to your Web site with a monthly Email marketing program to tell your story. Strategy and performance are just two key areas for content. Others include news media reprints, promotion of upcoming Webinars, attendance at an advisor conference, etc. Can't afford a wholesaler? Try "wholesaling" the media.

The news media is a very powerful way to spread your story. And, it may be one of the most cost-effective ways to get the attention of the advisor and retail markets. There are tremendous benefits from appearing in the media on a regular basis. Each time your portfolio manager is interviewed, it adds a layer of credibility and status to your firm.

Cultivating relationships with the media often results in being looked to for quick quotes in your area of expertise. Whether proactive or reactive, press mentions are perceived as third party endorsements of your process and product. Smart marketers repurpose these press mentions as reprints and Web links to maximize their impact. This visibility is likely to be rewarded by new leads, selling agreements and larger tickets.

Q&A with Avi Nachmani - Be Visible to Highlight Your Conviction

By Dan Sondhelm, SunStar Strategic, SVP, Partner

Summary

With so many wary investors, how can you get through to them? We spoke with Strategic Insight's Avi Nachmani for insight into staying in front of your audience and selling your story even in turbulent market conditions.

Editor's Note: The interview was conducted in June of 2010 in the wake of the financial crisis.

The financial crisis has changed the rules of the game for Wall Street and Main Street. Investors are more wary. Many are still anxious and the role of the investment advisor has become more complex. What are the implications for fund companies and their distribution strategy?

For this issue, I spoke with Avi Nachmany, executive vice president, research director, and the co-founder of Strategic Insight. Strategic Insight researches product trends and innovations, changing investment preferences, the evolution of distribution channels, customer retention and competitive positioning within the global asset management industry, among other critical business management issues. Avi is a well-known source for the financial news media and was named #13 on the 2009 Mutual Fund Wire's list of 40 Most Influential People
in distribution.

I asked Avi to share his observations of mutual fund distribution in the wake of the financial crisis.

Q. What have we learned as an industry?

A. In times of increased anxiety like we've experienced, whether it's anxiety about politics, investing or even soccer, people look to organizations that have conviction about what they do. It's part of the human condition to want to feel better and alleviate turmoil.

Investors want to know their money is with a manager who has conviction and is focused and adhering to their investment process.

Q. Conviction - how can a manager get that across to potential investors?

A. Be visible. An asset manager has to be in front of investors regularly with the ability to articulate his or her convictions clearly. This can be through sending regular investor communications, speaking at industry conferences, publishing position papers, taking advantage of new media, and TV appearances, online and
print coverage.

This visibility has to offer insight into the manager's philosophy that the curious and thinking man or woman will understand. The message has to focus on "how we think" not just on "our results."

Q. Where do you see the opportunities for small to medium-sized mutual fund firms today?

A. An abundance of decisions today are made through gatekeepers, the analysts, institutional consultants and RIAs. Firms need to reach these centers-of-influence. It's far more important today than it was historically.

Scale and brand are far less important than conviction and visibility. Improving visibility is possible here even without enormous resources. This communication needs to be dominated by the investment story as the decision-making becomes more institutional and centralized.

These decision makers and smart investors flock to thought leaders. And this leadership comes from portfolio managers, many of whom may be cerebral and introverted. Marketing can play the role of translator, but the message needs to be conviction of philosophy and process.

I believe there are relationship expansion opportunities in the US and globally for investment boutiques today. Some will be discovered, some not, but there is no substitute for visibility using all the forms of communication, particularly during this time of uncertainty.

Q. What about for a new fund?

A. For a new fund with no track record, you have to have a "story." Step back, take a look at the emerging theme in the marketplace and address how your fund works in it.

For example, the majority of stock fund management is through the application of fundamental stock selection and long bias. Yet lately, we observe the emergence of a parallel universe. Some advisors and their clients search for investments less correlated to the S&P 500. To the extent that one's investment process accommodates the increasing search for lower-risk and lower-correlation strategies, your organization may grow its relationships without a three-year track record.

Q. Looking at funds that had the highest inflows, are the investment characteristics different today than five years ago?

A. Even before the Morningstar star rating system was in place when Strategic Insight started 20 years ago, we found the best selling funds had great trailing 3-year risk adjusted performance. Still today, the trailing 3- and 5-year risk adjusted performance remains the principal filter in terms of expecting success, with only some exceptions.

For bond funds, you may hear the argument that attractive distribution rates succeed even when total return is mediocre. We have found little evidence to support that.

Clearly, certain funds have been successful on the strength of their brand. If they have a clear message, some investors may organize their selection through that filter. As I said earlier, investors will flock to thought leaders and those who are visible and strong in their conviction.

Q. Net fund flows seem to point to specific fund categories being in favor. Do specific types of funds have the opportunity to be discovered or to be more successful now?

A. Even when an entire category such as small cap value funds may experience in aggregate little net flows, many individual small cap value funds with excellent performance continue to gain significant flows while others suffer net redemptions.

Discussions centered on "aggregates" and "averages" often camouflage the opportunities available. Every year there are hundreds of billions of dollars/shares being purchased and redeemed. The industry aggregate net flow should not equate to an opportunity for a specific fund to reach out to a market place looking for dramatic growth.

Every month, even when the aggregate desire to purchase equities is muted, many asset-allocation-driven advisors and gatekeepers purchase billions in equity funds and often increase investments in out-of-favor strategies through dollar-cost averaging. Naturally, they choose funds with attractive attributes.

Q. You just finished a report on share classes. Are "A" shares dead?

A. This study has been done for about four years and tracks all the key players who offer traditional share classes to financial advisors.

"A" shares aren't dead, but there has been a shift. Among firms selling through financial advisors, roughly 70% of the sales today are made with no-load shares or A-shares at NAV – virtually no load (where compensation to the advisor is paid through fees outside the funds' expense ratio). Ten years ago, most of these sales were high front-load A-shares or B-shares, which offered significant point-of-sale commissions to the advisor. In addition, about 12%-13% of sales to advisors are through level-load share classes.

Q. Avi, your closing thoughts?

A. Investment companies will continue to have opportunities to expand their customer relationships in the coming years. In the past year there was a real disconnect between Wall Street and Main Street. Americans look at their own lives in their own communities and experience economic and employment difficulties, while stock markets in New York and Paris rose. Investors saw stock market gains, but felt disconnected from such in their real lives.

In looking at mutual fund data in late spring, for the first time we saw that this disconnect was lessening. We are now about 12-18 months from the crisis and there is some early evidence of confidence returning to Main St. We are seeing funds and investment companies building early traction with the RIA segment of the market, often the leading indicator of sentiment change.

We've found that RIAs are a good barometer; they respond to changing environments and move earlier than other financial advisors. So, if you're a fund company, get out there and speak to RIAs and their centers of influence. Do more in more places to be visible. Build confidence and voice your convictions.

Getting on Schwab is Only the First Step

By Marilyn Dale, SunStar Strategic, Creative Services Director

Summary

While getting your fund on the Schwab platform may seem like the ultimate goal, it should only be one step in the multi-pronged distribution machine. There are many resources to take advantage of, such as your relationship manager, standard reports and more to help you make the most of this valuable platform.

Editor's Note: This article reflects programs in place in 2011. Schwab programs may have changed. Nonetheless, the article points out the rationale for engaging with Schwab and other platform representatives to ensure awareness of outreach opportunities.

Some say one of the first steps in having a good distribution strategy is to "get on Schwab." If that's the case, then what Chris Lynch, a Schwab third party relationship manager and Michelle Radcliffe, head of Schwab's 3rd party fund marketing group, had to share at SunStar Strategic's 2011 Entrepreneur's Conference should be of great interest.

Here are the highlights:

Once on Schwab, get to know your relationship managers for third party funds (one of a team of five). This person will help you navigate and understand what is selling and identify the key share classes and style. In addition to straight retail funds, Schwab also offers 529 plans, SMAs and retirement plan platforms. The relationship management team works with Third Party Asset Management firms offering their mutual funds at Schwab by being a focused point-of-contact for all Schwab-related items:

- Strategy discussions
- Introductions to product and service areas at Schwab
- Contractual considerations for listing products on their platforms
- Interaction with the distribution channels at Schwab provides updates to you to enhance your distribution strategy
- Introductions to asset managers in other business segments at Schwab, including:
    - Alternative investments
    - Separately managed accounts
    - Insurance
    - Sub advisory
    - ETFs

Get on "the list" – multiple channels and opportunities are available within the three mutual fund platforms— OneSource, transaction fee and load at load. And there are a number of recommended lists, which your RM can help you understand and navigate, such as:

	Select List - Retail	Select List – Advisor Edition	Focus List
Platform	Investor Services	Advisor Services	Schwab Corporate Retirement Services
Number of Funds	~120	~210**	~100
Key Criteria*	• OneSource and open to new investors • 3-year track record • At least $40M in assets ($20M for small cap) • Historic style consistency • 12b-1 of 0.25% or less • Inv. min. of $50K or less	• Funds must be available without a transaction fee to clients of advisors • Open to new investors • Place generally in the top 35% of all CSIA evaluated funds within its category • 3-year track record • At least $40M in assets ($20M for small cap)	• In Morningstar database • 3-year track record • 3-year ranking in the top third of the category • OER lower or equal to category average • NTF eligible funds • Institutional availability
Evaluation	Charles Schwab Investment Advisory, Inc.	Charles Schwab Investment Advisory, Inc.	Focus List selection committee

*See your Relationship Manager for details on requirements for eligibility.

**Includes ~50 Single State Bond Funds

Note: Funds may also be offered to clients through Schwab Managed Portfolios. Charles Schwab Investment Advisory, Inc. is an affiliate of Charles Schwab & Co., Inc.

Did you realize that once on the Schwab platform, you can also work with their clearing correspondents: Ameriprise, Curian, JPMorgan Clearing Corp. Mesirow, R.W.Baird, SEI and Scottrade?

Use the Resources

Once on Schwab, whether on a recommended list or not, digging into their standard reports will give you a wealth of information. On the "fund map" website, you can view all the advisors who are using your products – even daily if you want. In 2012, Schwab is introducing a benchmark report which will compare you to your competitors.

Schwab also offers:

- Schwab Asset Management Firm CentralTM (AMF Central) – an online resource tool with easy access to: Frequently used reporting tools
    - Related Schwab business portals with information for doing business with Schwab
    - Links to the focus list
    - Answers to commonly asked questions
    - Marketing opportunities and an opportunity to:
    - Post invites to your upcoming events, like webinars and conference calls
- Insights PublisherTM – share your intellectual capital to educate key Schwab audiences and see what other companies are thinking. Here you can post:
    - Market and global commentary
    - White papers and research
    - Conference call and webcast postings
    - Fund fact sheets
    - Fund specific commentary
    - Links to other resource
- Marketing opportunities
    - Education & Event Opportunities Guide, offers a collection of educational and sponsorship opportunities
    - Speakers Bureau for economists, market strategists, asset class subject matter experts and value add consultant
    - Calendar of Marketing Opportunities and Educational Events
    - Participate in the Schwab user email, going to 15,000 bi-monthly

Be one of the best

Chris and Michelle finished their presentation by offering these "best practices" for working with Schwab:

- Offer yearly updates for the research group
- Consult with your RM about key events and changes at Schwab
- In-person visits to Schwab headquarters add value, and offers help for building out your marketing plan and learning more about what other areas might be useful to you
- Use the tools Schwab provides
- Add your fact sheets to the Schwab intranet
- Post to the knowledge center on the AMF Central website
- Meet your local Advisor Services reps, who can introduce you to RIAs in their regions
- Ask for introductions to enhance knowledge of things going on at Schwab
- Run small events and invite Schwab to attend
- Offer yearly updates for research
- Attend IMPACT and exhibit if you can

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