



NetMeeting - Wednesday, September 14, 2016 at 12:00 PM Eastern Time

The Rise and Fall of New Funds: Why Some Succeed and Others Don't

Introduction:

Arlen Oransky, SVP, Chief Membership and Programs Officer, MMI

Presenters:

Lee Davidson, Head of Quantitative Research, Morningstar

Madison Sargis, Quantitative Analyst, Morningstar

Duration:

50 minutes (including time allocated for Q&A).

Note:

This NetMeeting is closed to members of the media.



Upcoming MMI Events



2016 Fall Solutions Conference
October 18-19, 2016 | Boston
The Westin Copley Place



Emerging Asset Managers Forum
October 4-5, 2016 | New York
The Yale Club



2016 MMI TORONTO
Wealth Management Summit
November 15, 2016 | Toronto
St. Andrew's Club & Conference Centre



2017 Sales & Marketing Leadership Summit
March 21-22, 2017 | Palm Beach, FL
Eau Palm Beach

What Factors Drive the Success of a New Fund?



Lee Davidson, CFA, Head of Quantitative Research

Madison Sargis, Quantitative Analyst



Agenda

We seek to explain the successful launches of funds globally.

- ▶ What methodology did we use to investigate this question?
- ▶ What were the results?
- ▶ What are the key takeaways?

Research Question

What are the drivers of a successful launch of a new fund?

- ▶ Two perspectives: Asset Manager (Forward Flows) and Investor (Forward Star Rating)
- ▶ The drivers we examine is limited to data available within the first 12 months of a new fund launch. The characteristics are related to the following groups: Fund, Firm, Manager, Portfolio, Style, Category, and Economic.
- ▶ Each perspective looks at the same characteristics to see where interests align and diverge

Methodology

Our sample includes funds less than 12 months old from January 2005 to March 2013.

▶ Dependent Variables:

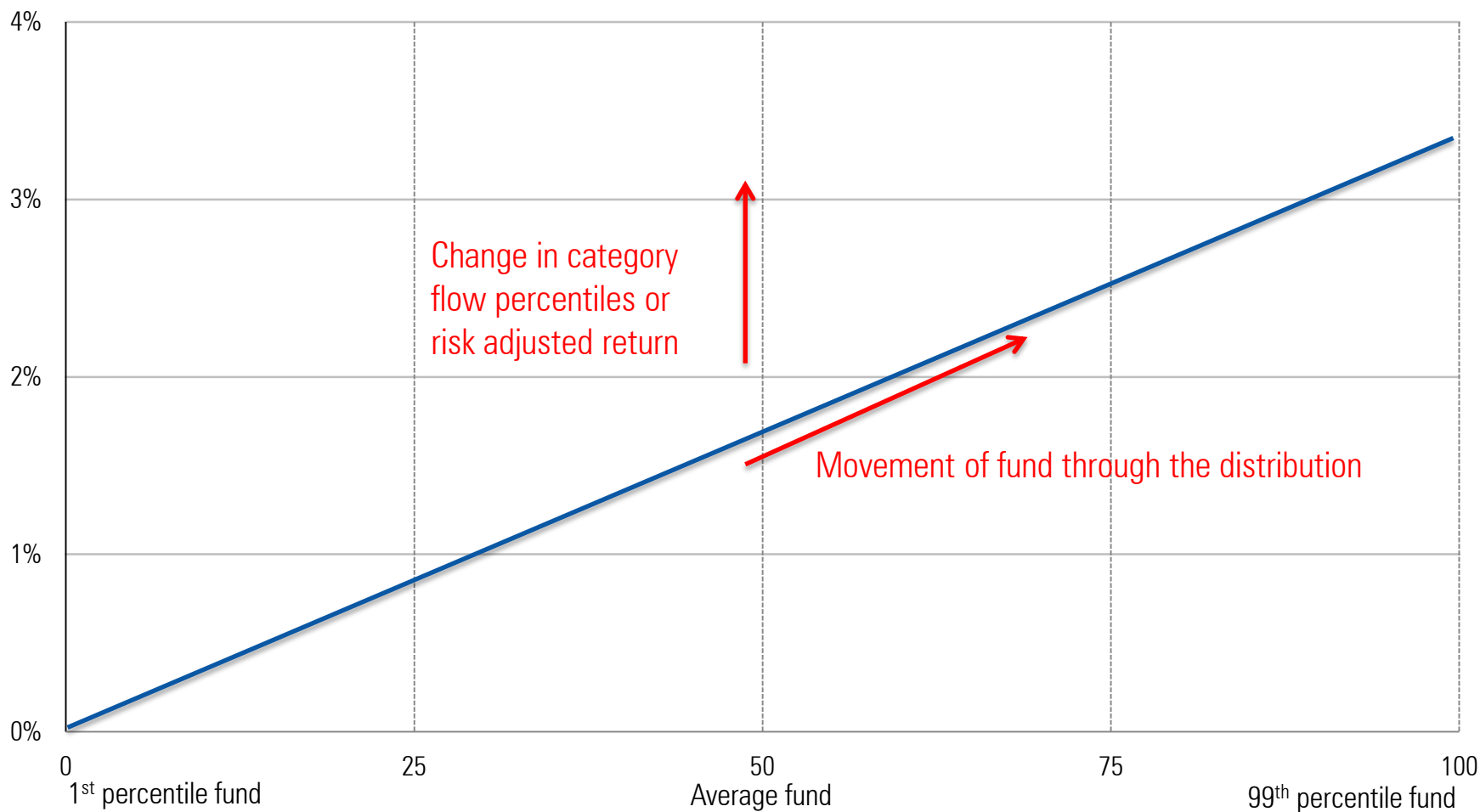
- ▶ Asset Manager Model: Forward 36 month total flows into fund
- ▶ Individual Investor Model: Forward 36 month Morningstar Risk Adjusted Return

▶ Calculations:

- ▶ All variables are calculated at the fund level: where applicable, asset weighted values were calculated, otherwise, equally weighted values were used
 - ▶ 22 independent variables are standardized into percentiles by date and category
 - ▶ Missing data is imputed to the median by date and category
 - ▶ Perform panel regression and adjust for autocorrelation through time
- ▶ Group funds by equity, fixed income or allocation asset classes.

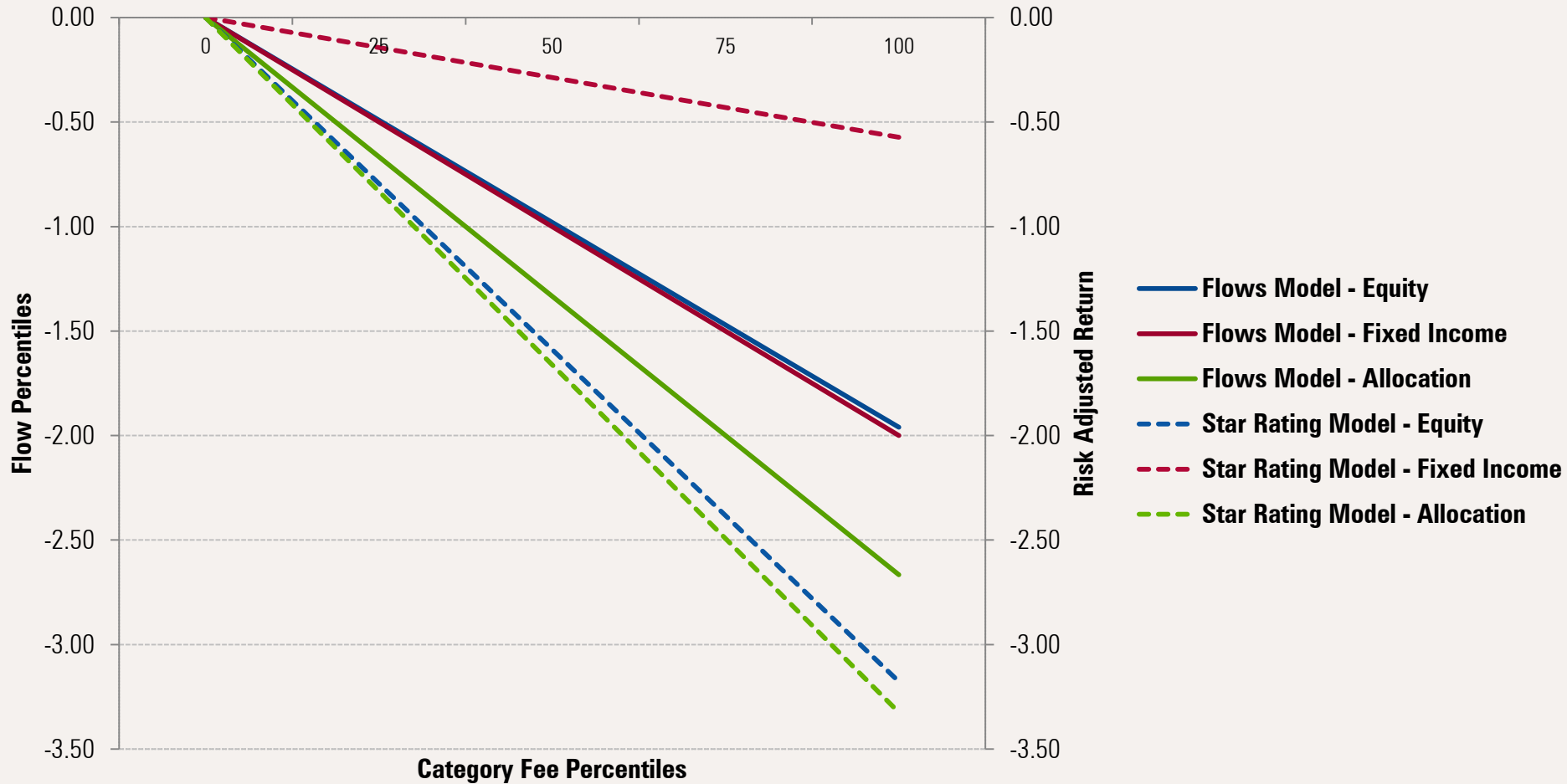
Net Change to Model

We present the estimated impact on flows and Star Rating showing the change when moving from the bottom (0th percentile) to the top (100th percentile) in the category.



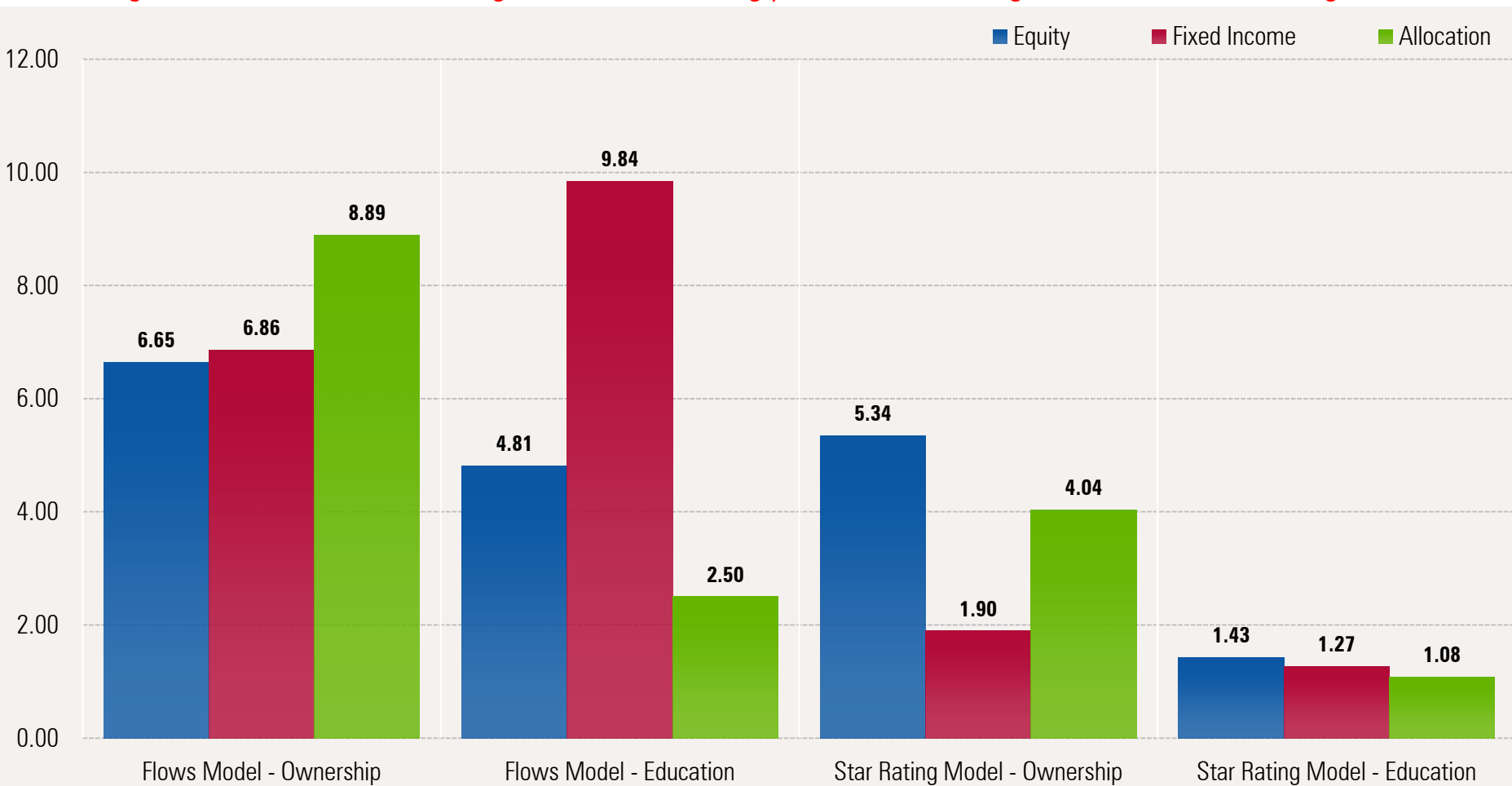
Fees

Fees have an adverse effect on future Star Ratings and attracting future flows.



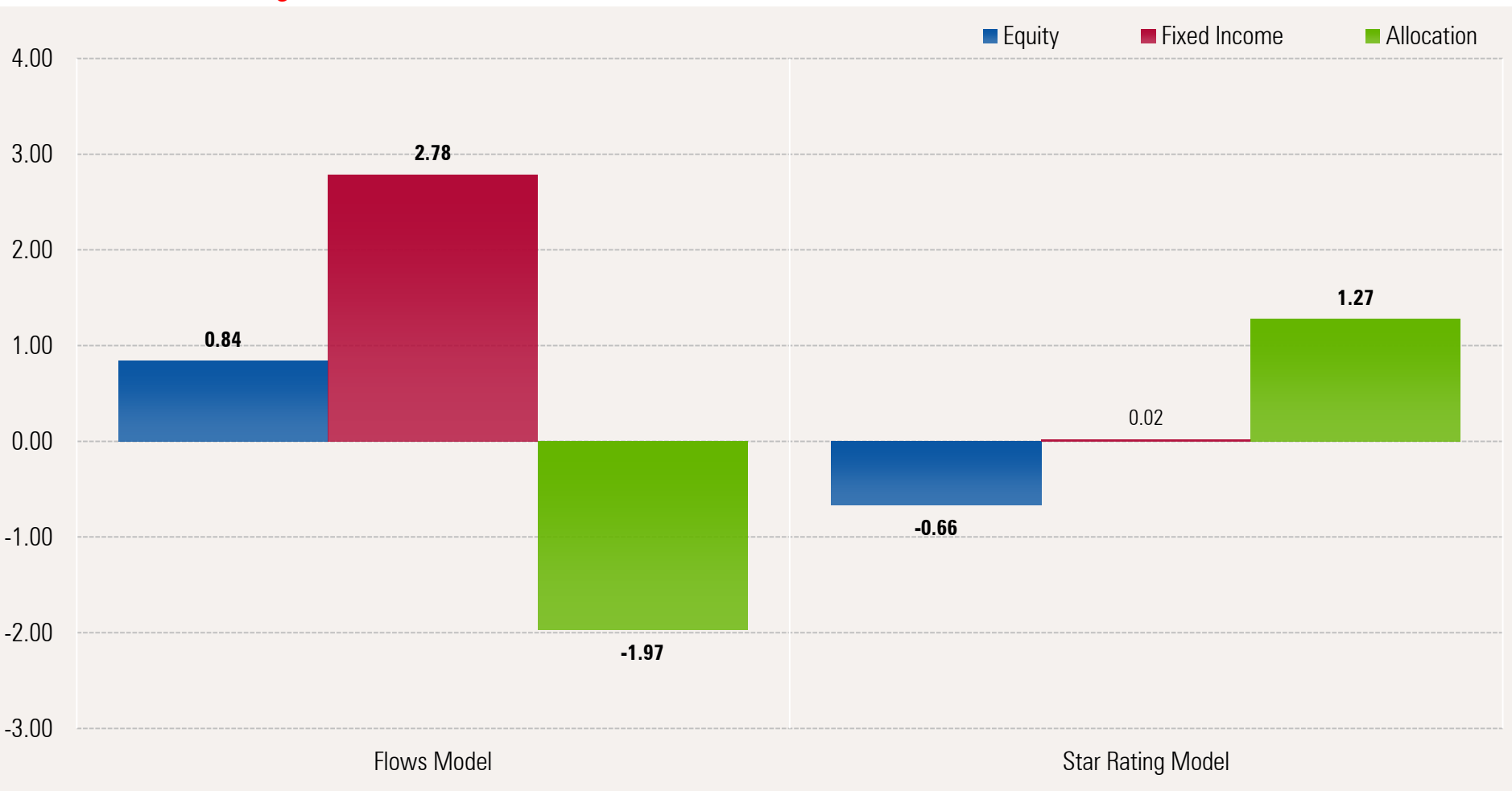
Manager Traits

Manager characteristics have some of the largest effects on future flows and Star Ratings. Portfolio Managers owning their own fund and obtaining their CFA are strongly correlated with higher flows and Star Ratings.



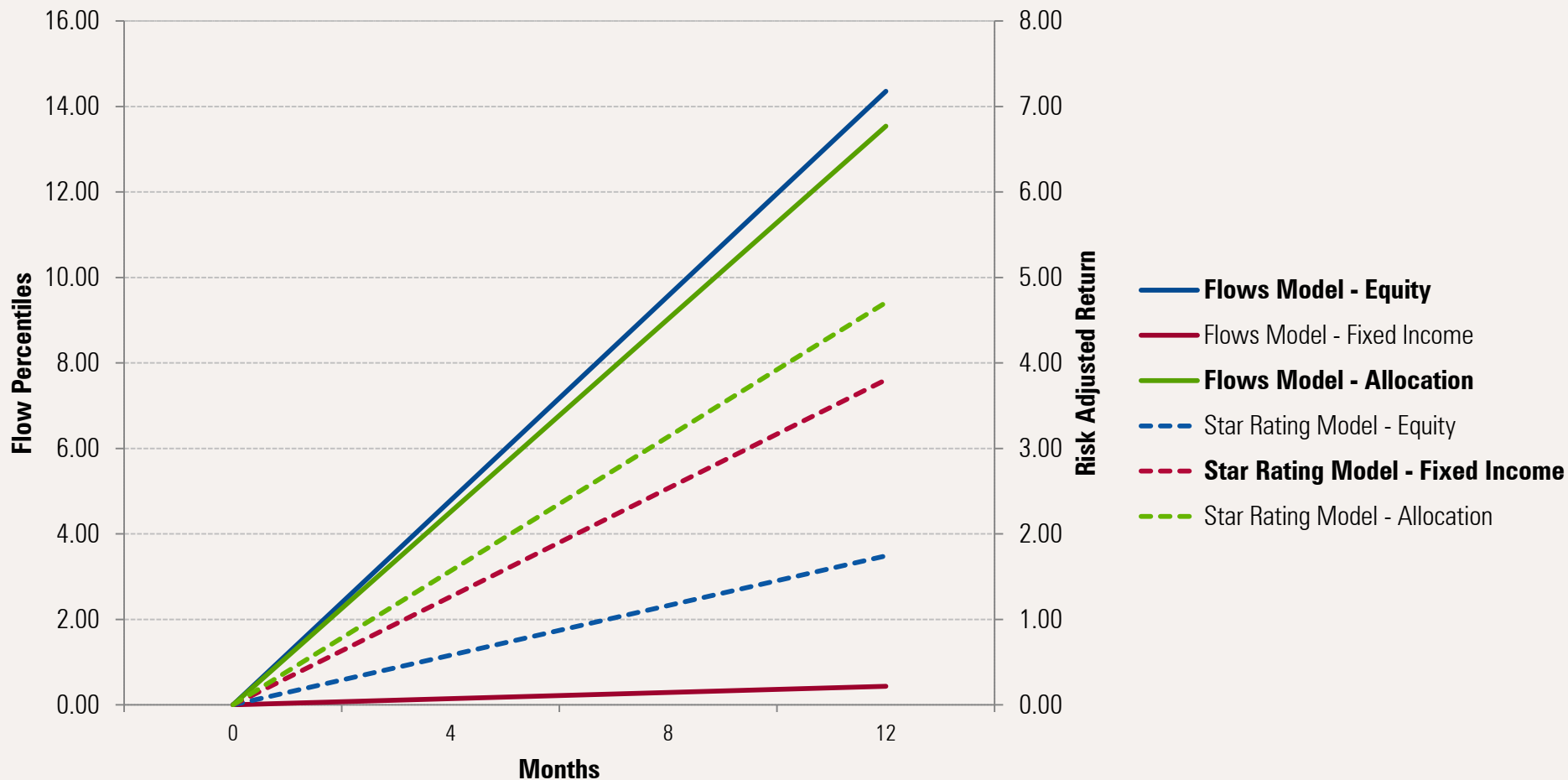
Gender

Gender has minimal effect on future Star Ratings but portfolio managers that are perceived to be female are associated with higher future flows.



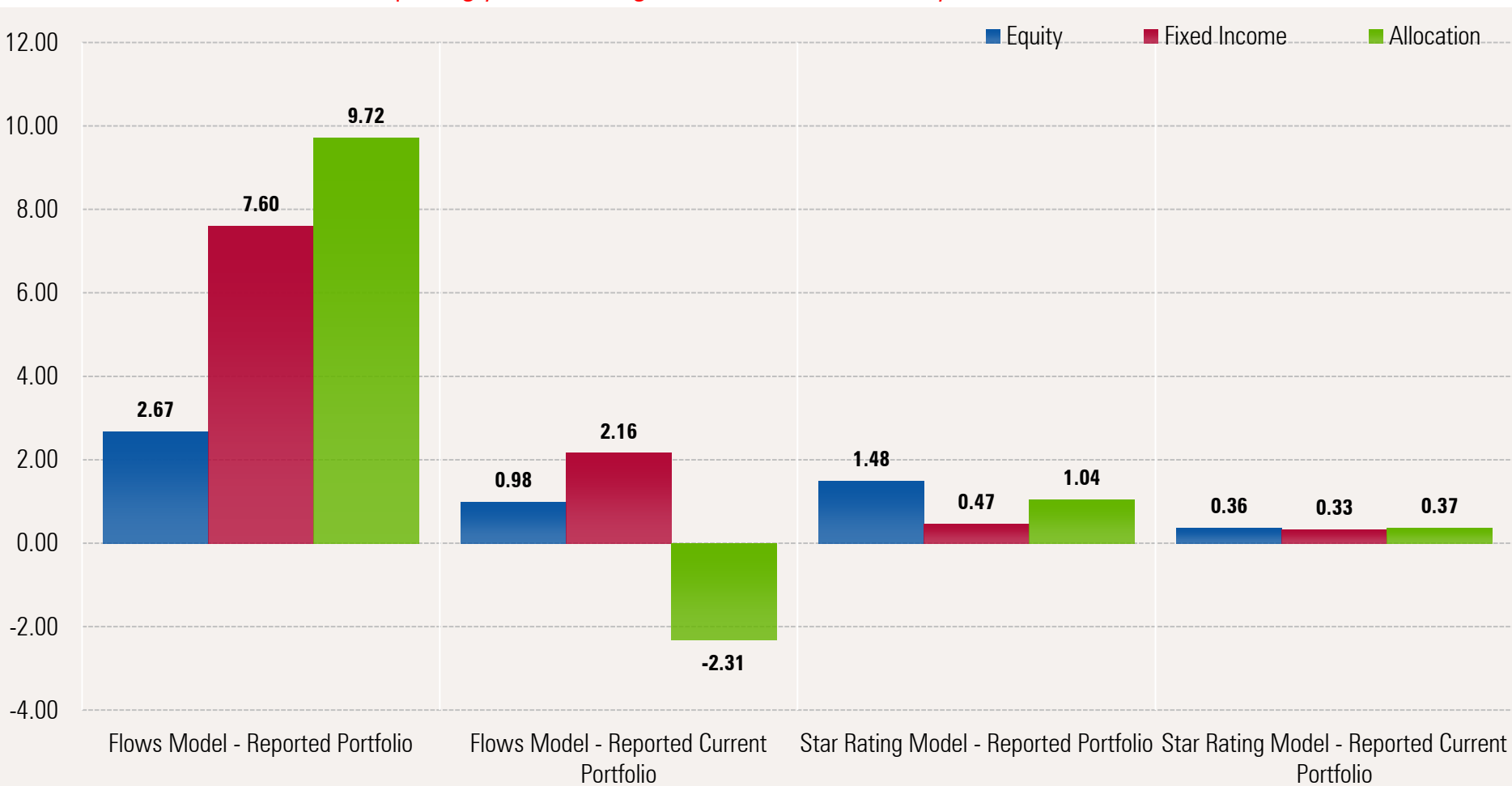
Months Since Morningstar Rating

Coverage by a Morningstar analyst has an economically meaningful impact on future fund flows and future Star Ratings. This effect holds regardless of the analyst's opinion.



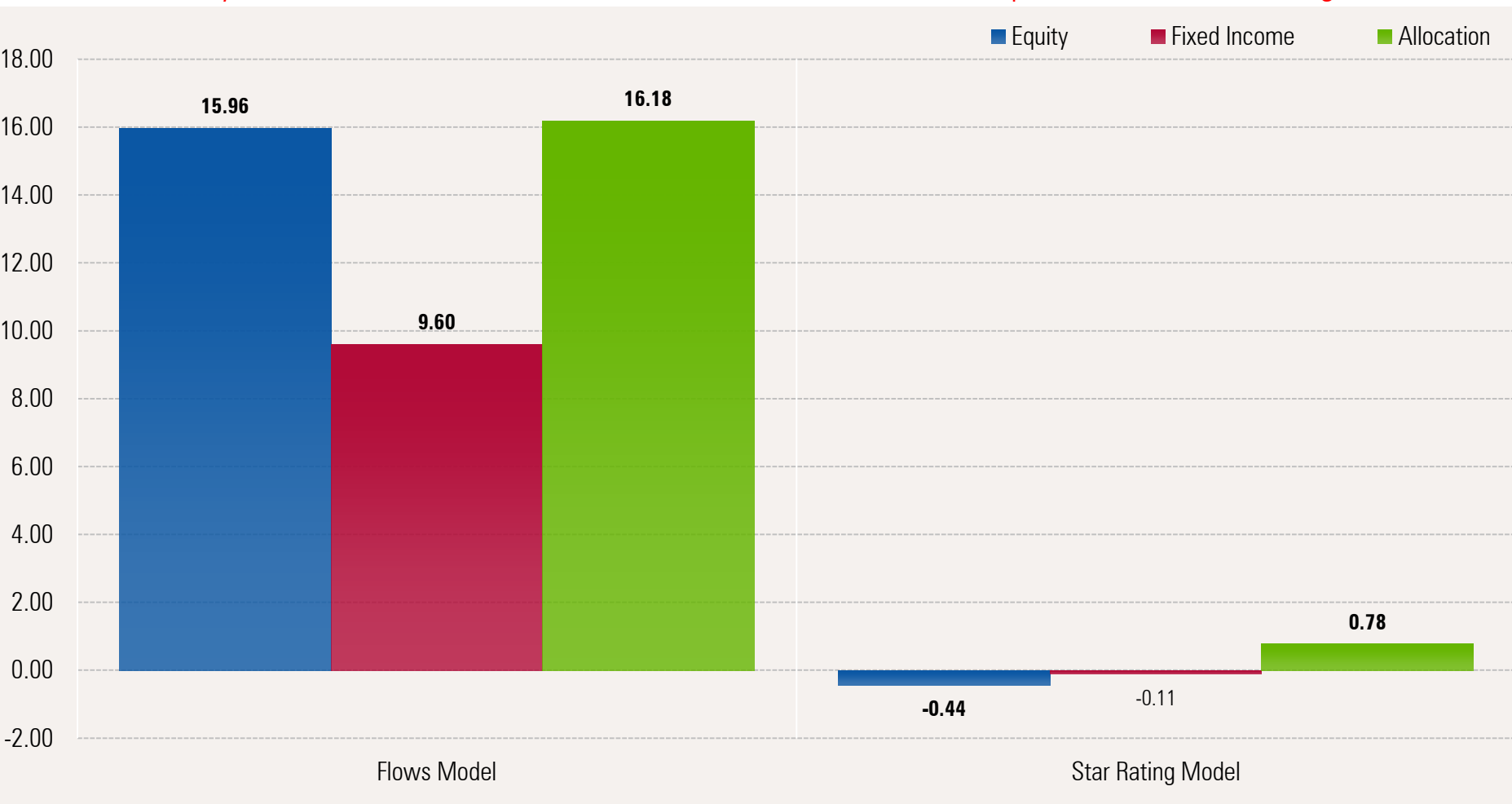
Portfolio Disclosure

Investors show preference for new funds releasing portfolio holdings and place a premium on frequent portfolio disclosures. Somewhat surprisingly, Star Ratings are correlated similarly.



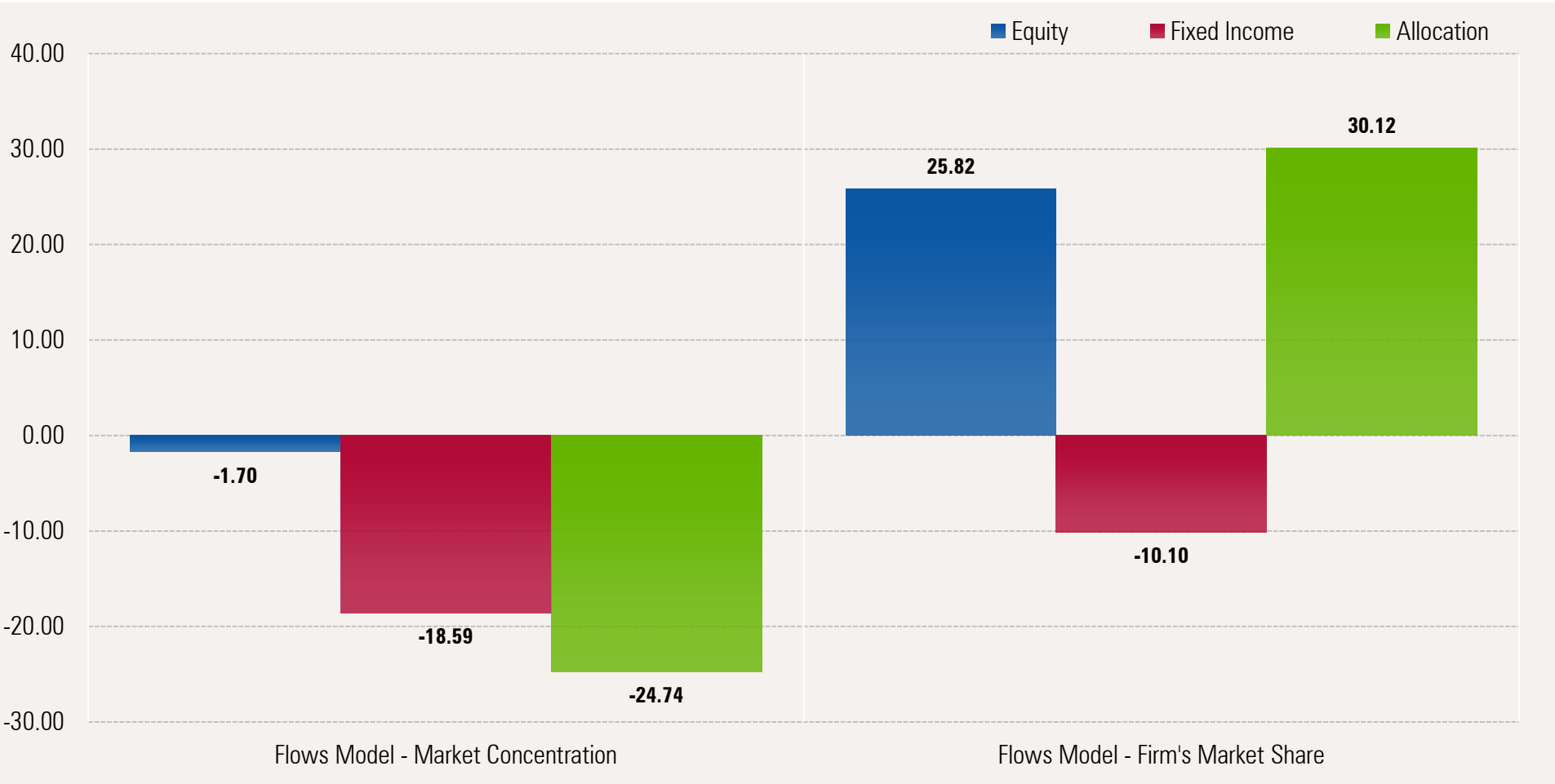
Cannibalization Index

Competition among new funds at the same firm hurts future flows. The more focus a firm can provide to a fund, the more likely the fund is to receive future flows. The effect does not correspond to better Star Ratings.



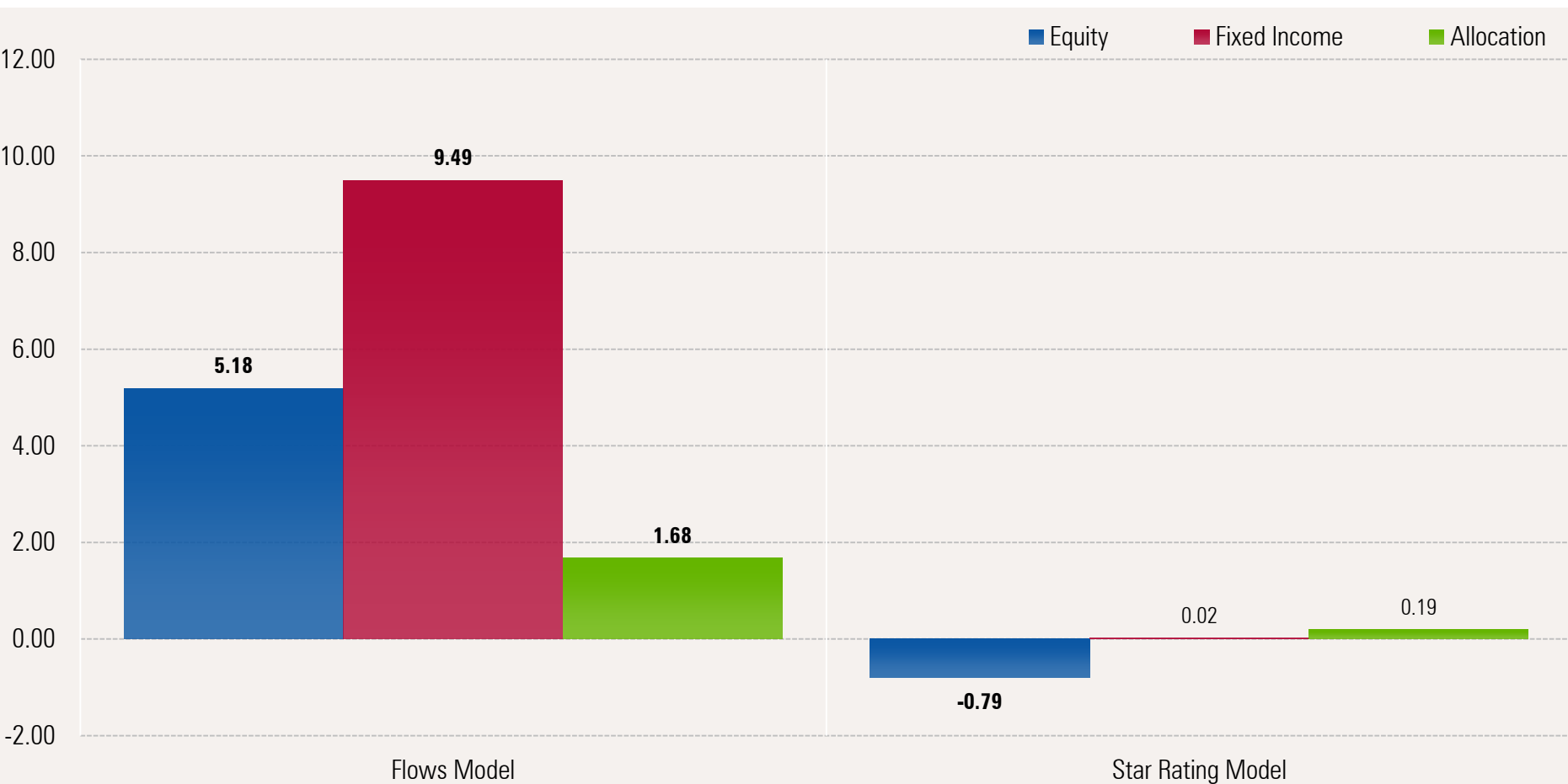
Category

New funds have a hard time attracting assets in a monopolistic category. Funds from the largest firms in the category or asset class have easier time attracting assets.



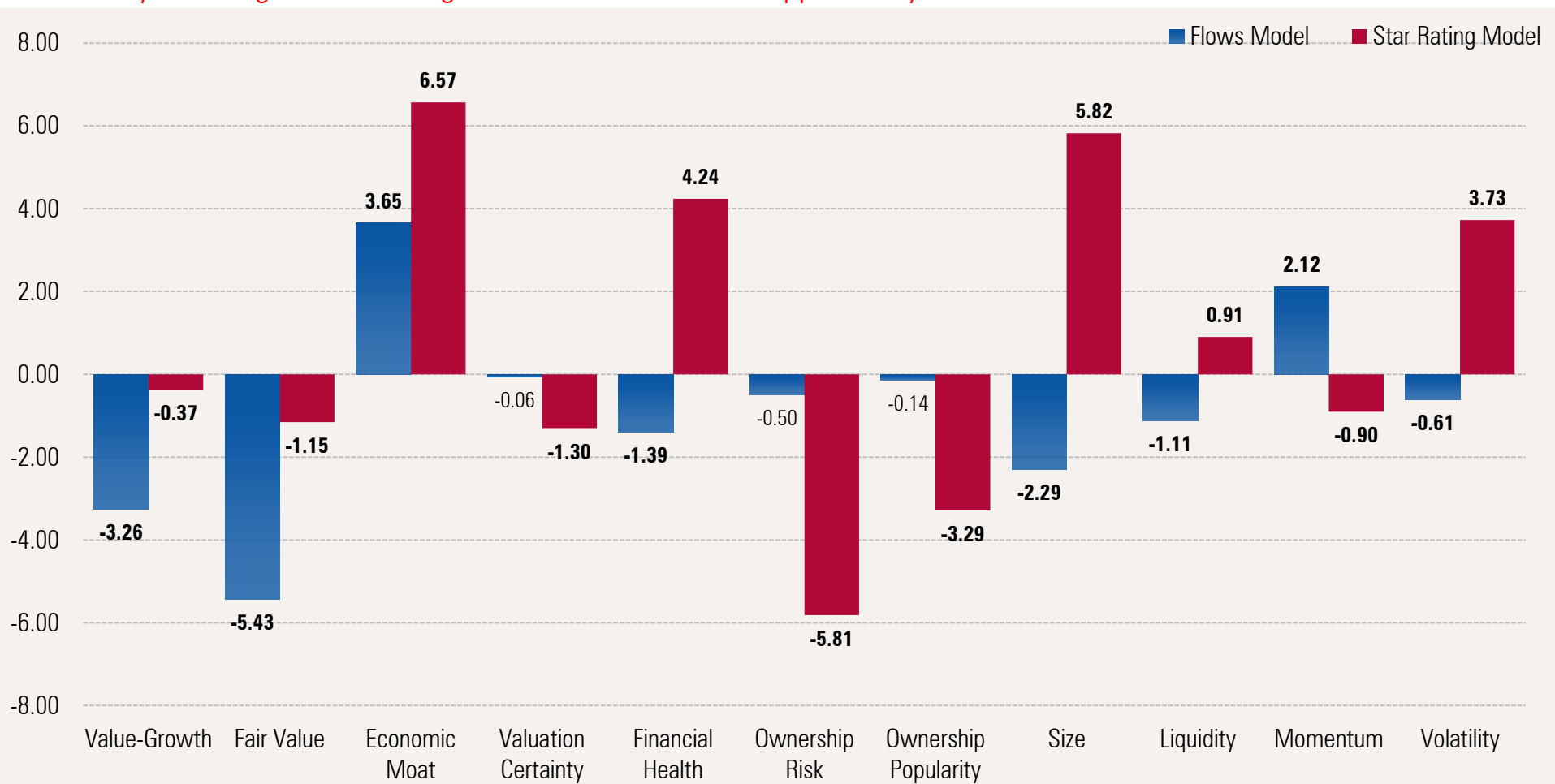
Firm's Asset Weighted Manager Tenure

Keeping managers at a firm is good for flows but not necessarily for future Star Ratings.



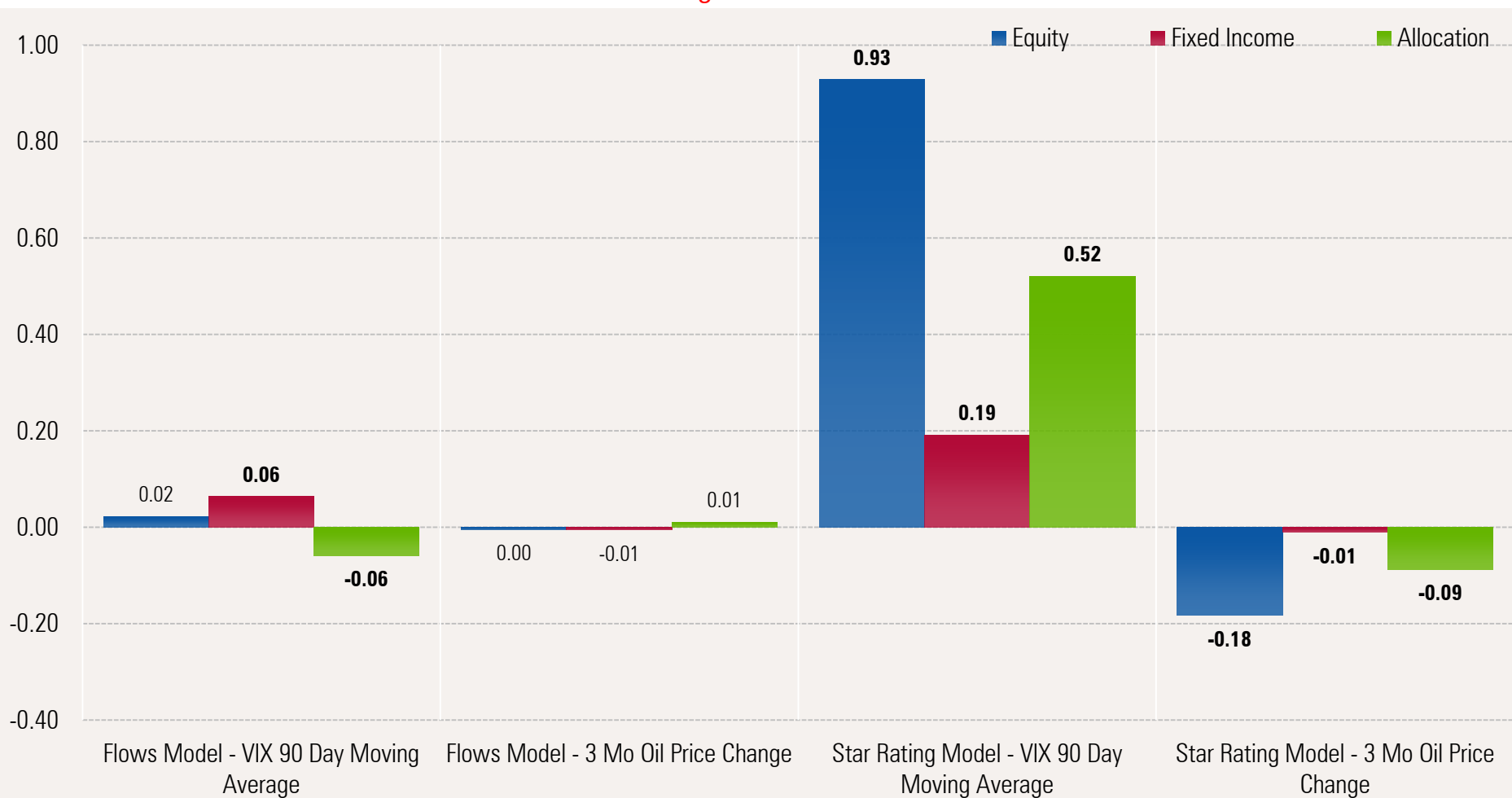
Risk Model Style Factors

Investors show preference for funds holding popular, moaty, large cap, overvalued stocks who have performed well recently while higher Star Ratings are correlated with the opposite style tilts.



Economic

Historically, launching funds in volatile times have led to higher future flows and Star Ratings. Increasing oil prices is has had no effect on flows but has hurt Star Ratings.



Summary

- ▶ Fund
 - ▶ High fees hurt flows and Star Ratings
 - ▶ Morningstar coverage has an economically meaningful impact on flows and Star Ratings

- ▶ Manager
 - ▶ Investors reward portfolio managers who own their fund and have their CFA; Star Ratings follow accordingly.
 - ▶ Female portfolio managers attract additional flows

- ▶ Portfolio
 - ▶ Increased portfolio disclosure correlates to higher flows and higher Star Ratings

- ▶ Style
 - ▶ Investor preferences are misaligned with the risk profile characteristics that led to higher Star Ratings

Summary

- ▶ Firm
 - ▶ Investors have a preference for firms with high manager tenure at the expense of higher Star Ratings
 - ▶ Competition among new funds at the same firm hurts future flows
- ▶ Category
 - ▶ Funds launched in monopolistic categories are less likely to attract assets
 - ▶ Funds from firms with large market shares accumulate more assets
- ▶ Economic
 - ▶ Volatile times and decreasing oil prices correspond to higher Star Ratings

Disclosure

©2016 Morningstar, Inc. All rights reserved. These materials are for information and/or illustrative purposes only. Not for public distribution. The Morningstar name and logo are registered marks of Morningstar, Inc. The information contained in this presentation is the proprietary material of Morningstar, Inc. Reproduction, transcription or other use by any means, in whole or in part, without the prior written consent of Morningstar, Inc. is prohibited.

MORNINGSTAR®

MORNINGSTAR®



Upcoming MMI Events



2016 Fall Solutions Conference
October 18-19, 2016 | Boston
The Westin Copley Place



Emerging Asset Managers Forum
October 4-5, 2016 | New York
The Yale Club



2016 MMI TORONTO
Wealth Management Summit
November 15, 2016 | Toronto
St. Andrew's Club & Conference Centre



2017 Sales & Marketing Leadership Summit
March 21-22, 2017 | Palm Beach, FL
Eau Palm Beach



NetMeeting - Wednesday, September 14, 2016 at 12:00 PM Eastern Time

The Rise and Fall of New Funds: Why Some Succeed and Others Don't

Introduction:

Arlen Oransky, SVP, Chief Membership and Programs Officer, MMI

Presenters:

Lee Davidson, Head of Quantitative Research, Morningstar

Madison Sargis, Quantitative Analyst, Morningstar

Duration:

50 minutes (including time allocated for Q&A).

Note:

This NetMeeting is closed to members of the media.