Investment Week

Show me the money

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Over the past few months I have constantly banged the drum for a brave new world in which asset managers finally bite the bullet and launch cost effective multi-asset portfolios, comprised largely if not exclusively of ETFs.

I see this innovation as one of the first building blocks of a new post RDR world in which we collectively escape the petty tyranny of single mandate equity funds and put asset allocation at the heart of modern fund management. And lo and behold, it appears to be finally happening!

T Bailey has finally seen the light and is launching a Lite version of its more traditional multi-manager Growth fund, with a Tesco like TER of just 99 basis points.

Advisory firm Provisio Limited has also launched what I think could be an equally deadly salvo in the form of its Assetfirst service which is being run in collaboration with Cormorant Capital Strategies.

The 99 basis points pitch plus "extra added Jason Britton" is a fine product sell for T Bailey, especially in the direct-to-investor space.

The Assetfirst approach is, arguably, slightly more cunning in that it doesn't attempt to reach out beyond the adviser to the end client.

Its model is to use Cormorant's asset allocation expertise, packaged up with a platform that can deliver model ETF portfolio's direct to the IFA.

The neat idea here is the adviser can then dress up the resulting portfolio as 'their own'.

Within a few days of these two launches yet another new firm has emerged on the horizon.

David Norman and Gary Mairs – veterans of Insight and Credit Suisse respectively – have just announced they are setting up a new asset management firm called TCF Fund Managers (the TCF standing, of course, for Treating Customers Fairly!).

Existing players must be feeling a little crowded.

Yet in true bloody minded contrarian spirit I must confess to having a nagging worry. How on earth are all these companies going to make any money?

The new multi-asset ETF crowd will also have to navigate their way around these distribution channels with all the inevitable extra costs.

The average ETF tends to cost between 30 and 55 basis points for mainstream products although if you have scale you can access institutional class funds that charge under 20 basis points. But that low charge is only for very large scale funds (£100m plus) and for big, liquid asset classes like the FTSE 100.

Overall I can't help but think the factory gate cost of a diversified multi-asset index tracking fund is about 50 basis points, which is coincidentally the cost quoted to me by a large wholesale market ETF outfit!

Add in the costs of channel and distribution, which must be a minimum 25 basis points, plus compliance and your own admin costs and there's only 25 basis points left for the asset allocation expertise.

Now 25 basis points is not a lot of money and I'd suggest it is only worth building a business on these kind of margins if you think you're going to bank north of a £1 billion in funds under management.

And that hypothesized total 100 basis points is only the stated up front cost – you will still have to face all the difficult questions about underlying trading costs within the portfolio.

It all sounds like an awful lot of hard work for not much money unless of course I'm missing a business angle, such as talking directly to investors and cutting out both the networks and the advisers.

My guess is only a few players will make it to scale leaving behind them a long tail of funds that could quite easily vanish because of poor business models.

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