



The past several years have marked a new era for the way in which mutual fund companies do business. Changes in the regulatory landscape have played a large part in this evolution, as proposed legislation has called for enhanced risk management and increased oversight of mutual funds, as well as for an increase in transparency through the use of additional disclosures and reporting. In order to be ready for the new requirements, fund companies may need to implement additional systems, which may lead to greater expenses.

Helping Mutual Fund Clients Do More With Less

Service Providers Can Help Mutual Fund Companies and Other Market Participants Navigate the Challenging Environment

By Jay F. Nusblatt

Funds are facing these challenges while trying to attract and retain investors, many of whom are demanding lower expense ratios for the funds in which they choose to invest. In fact, from 2000 to 2009, the lowest quartile of funds ranked by expense ratio received 79% of net new monies invested, while the other three-fourths received only 21% of net new cash.¹ With more to accomplish and fewer resources to ensure success, it is imperative that fund companies find smarter, more economical ways of doing business. One of the best ways to increase the chance of success in this environment is to enlist the assistance of a service provider. Leading mutual fund service providers are heavily involved in developing better solutions to respond to the changing financial services landscape, which in turn can help their clients streamline their processes and become more efficient.

Technology has been a huge driver of productivity in financial services, and many service providers have announced upcoming technology initiatives in order to deliver a more attractive suite of services. As mutual fund companies attempt to do more with less, they are seeking a provider that offers a comprehensive array of choices for their back-office servicing needs. There are a myriad of ways that technology can be used to enhance the current service model. For example, providers are strengthening their technology infrastructure by using cloud computing, which allows for faster processing speeds. They are also evaluating the entire spectrum of technology resources that they have available, determining which systems might be leveraged for the entire franchise. In addition, service providers are looking to outside tech companies or third-party vendors to find more efficient ways of meeting client needs, and at the same time, helping to improve the offerings of the outside vendors that they use.

Working with a third-party vendor on a financial reporting tool has helped BNY Mellon discover ways of integrating the software to increase productivity for fund companies. We have worked to refine the way that this tool is used to improve internal controls and the overall user experience while maintaining the essential accuracy of the system.

Mutual funds may prefer this solution to conventional typesetting for several reasons. First, the speed with which reports are generated and published is much quicker than that of conventional typesetting. While many traditional printers might need a client to wait overnight for changes to be made to reports, BNY Mellon's updates can happen on the same day they are requested, saving mutual fund clients eight hours per day on average for simple changes. Second, since more reporting requirements are being implemented, it is necessary to have a fast, reliable reporting service. These reports can be customized to reflect the style and branding preferences of each client, and may be used in either printed or electronic form, allowing flexibility depending on how the client wishes to deliver its reports. In addition, clients typically realize lower financial-reporting costs when using this tool versus using conventional typesetting.

Service providers can also use advanced technology to help their mutual fund clients recover certain expenses that were previously difficult to calculate. When a fund is created, there are often high expenses incurred until scalability is achieved through adding a substantial number of investors. Often, a fund adviser will establish a cap on fund expenses, agreeing to waive any amount over the cap. As a fund grows and attracts more investors, expenses should decrease. If at some point the expenses fall below the cap, the fund adviser may be able to recover certain expenses, as long as they were incurred within a specified period.

However, this amount can be hard to calculate and, therefore, difficult to recover. Rather than go through the complex mathematics of determining the money that can be recovered, mutual fund companies often forego this exercise entirely. While some service providers may manually calculate this amount for a client, others such as BNY Mellon have developed advanced technological capabilities to help calculate these amounts for clients, which can be found inside the fund accounting application.

Although the changing investing environment is fraught with challenges, a mutually beneficial relationship with a service provider is one of the best ways to become more efficient. Service providers are continually searching for better ways to assist their mutual fund clients so that, by using these solutions, leaner times can bring increased productivity and innovation.



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¹ Investment Company Institute's 2010

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