'Triple Zero' Clean Share Launches Surge (Despite Death of DOL Rule)

By Emily Laermer, *Ignites*, August 6, 2018

Though the fiduciary rule may be dead, clean shares are here to stay, data shows.

Actively managed mutual fund share classes that charge only management fees and fund operating expenses collected $63.4 billion in net flows during the first half of 2018, data from Morningstar Direct shows. But those that charge 12b-1 fees, loads, commissions or other distribution fees bled by a combined $118.5 billion.

“Some of it has to do with the DOL’s [fiduciary] rule,” says Aron Szapiro, director of policy research at Morningstar. “A lot of work went into shifting business models. If [the SEC’s Regulation Best Interest] proposal is turning into a final rule, whatever they’ve done to be compliant with the DOL rule will certainly pass muster.”

It costs an average of $31,000 to launch a new share class, the Investment Company Institute estimated in an August 2017 letter to the Department of Labor. If the DOL’s rule had ultimately survived, the ICI estimated that it would have cost the industry about $100 million, collectively, to build and launch clean shares. Some fund shops, including Janus Henderson, J.P. Morgan and Fidelity, had already filed to launch clean shares before the rule was vacated.

“Everyone used to assert that they were not a fiduciary. I think there are now a lot more financial services companies involved in 401(k)s that are going to be fiduciaries,” says Szapiro.

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But at least one hurdle remains for clean shares: How do distributors that sell them get paid for their services?

“It’s good to strip distribution fees out of fund assets,” says Niels Holch, executive director of the Coalition of Mutual Fund Investors. “Broker-dealers and intermediaries are going to demand some fees. But that will shift over to the investment advisor,” he says.

And if fund providers can’t rely on 12b-1 fees to pay distributors, they will likely be forced to do so through other types of revenue-sharing arrangements, he says.

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