

InvestmentNews

Mutual funds battle advisers' brand perceptions

Performance and satisfaction did not jibe in eight of 20 major funds surveyed, report shows

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There is a disconnect between how some of the largest mutual fund firms' brands are perceived by many advisers and the actual performance of the funds, according to a recent survey conducted by Cogent Research LLC of Cambridge, Mass.

In a survey of 1,500 advisers that was conducted online in April, participants were asked to rate fund group brands based on their satisfaction with the long-term — or five-year — performance using a five-point scale.

The respondents included advisers with at least \$5 million in assets under management from national, regional, independent, bank and registered investment adviser channels.

The responses were plotted against how well the fund family performed on average, as calculated by an index provided by The Rankings Service, a Needham Heights, Mass.-based research firm that ranks mutual fund performance.

Of the 20 largest mutual fund firms, advisers perceived that eight did not have good or excellent long-term performance even though the funds typically outperformed their peers over a five-year period, according to The Rankings Service.

The firms were: American Century Investments of Kansas City, Mo.; Columbia Management Group LLC, Fidelity Investments and MFS Investment Management, all of Boston; Van Kampen Funds Inc., a subsidiary of Morgan Stanley of New York; OppenheimerFunds Inc. of New York; Dreyfus Funds, offered by The Bank of New York Mellon Corp.; and Denver-based Janus Capital Group Inc.

The impact of the market downturn is fueling this disconnect, said Christy White, principal at Cogent.

“We feel that the adviser is being unduly influenced by the current market and [is] having a harder time discerning between brands that are pulling their own weight,” she said.

“They are also getting a lot of pressure from clients wanting them to move their investments out of anything that has any slight risk to it and into a safer place like cash.”

Indeed, the survey also found that for 81% of advisers, since the economic crisis began, their clients' assets had been moving consistently toward lower-risk products and allocations.

Also, 54% of the advisers said that their clients had a greater influence on portfolio decisions than they did before the market downturn.

“I think the mutual fund industry as a whole should be doing more to get the word out about funds performance,” Ms. White said.

“They could do more marketing and more outreach to the advisers about their performance. There are brands that are doing well, but it's a story that advisers don't seem to know.”

Some firms are trying to stay ahead of the trend.

OppenheimerFunds Inc. this week launched an ad campaign touting its funds' performance in its portfolio update book that it distributed to advisers and intermediaries.

The same piece is running in the firm's quarterly investors' guide.

In addition, the piece was sent to wholesalers and is being converted to a PowerPoint presentation for advisers, and the firm is working on creating a piece for its website.

The catalyst for the campaign was the firm's own research.

“As we are coming out of the [market] downturn and money starts to come off the sidelines, we determined that now is the right time to remind everyone that we have had strong performance numbers,” said Sean Keller, vice president of marketing at Oppenheimer.

The Van Kampen Funds in February hired Elizabeth Eginton as head of product marketing, who is bringing together the responsibilities formerly held by two executives, said Erica Platt, Van Kampen spokeswoman.

“In an effort to more effectively articulate performance and strategy, the marketing and product teams are working side by side with the portfolio management teams to proactively share portfolio insights, monthly commentary and investment highlights directly with financial advisers and clients,” she said.

Janus is trying to get out the good word as well.

Advisers are looking for more than performance, said spokesman James Aber.

“Our marketing efforts are focused on our research-intensive investment process because we believe it has driven and will continue to drive our strong long-term performance,” he said.

“We believe advisers are looking for more than performance; they're looking for long-term partners. That's why we've created a number of practice-management, financial-engineering and life science programs [for them.]”

Still, most firms noted that they have already been using performance as the key message.

“Our advertising focus and client outreach has been largely focused on performance, specifically the large percentage of our funds that have been earning four- and five-star ratings from Morningstar,” said Chris Doyle, spokesman for American Century. “The survey results suggest that we need to work harder communicating our message to the adviser community.”

“Things are going very well here with our relative performance, and we are out there telling the story in our marketing,” said MFS spokesman John Reilly.

Fidelity funds continues its solid long-term performance, said spokesman Steve Austin. “We believe that advisers remain knowledgeable and informed about the Fidelity funds they invest in on behalf of their clients,” he said.

Dreyfus also plans to continue its strategy.

“While we remain confident that if you have good performance, the market will find you, we will continue to invest in building the brand,” said spokeswoman Patrice Kozlowski.