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Poll: Most Fund Pros Don't Eat Their Firm's Cooking

By Mariah Summers March 16, 2011

Many fund professionals would rather order out than eat the cooking their firm is serving.

That's according to an *Ignites* poll published Tuesday that found that roughly 40%, or 129 respondents, said they have less than 25% of their investable assets in their own firm's funds. This group included 24% who said they invested less than 10% of their assets and 16% who had between 10% and 24% of their money in their firm's offerings.

The poll asked readers what percentage of their own firm's cooking they eat – industry parlance for how much of their investable (retirement contributions and personal) assets they put into the funds their firms manage.

About 21%, or 69 voters, said they invested 75% to 99% of their money, and nearly 15% said they invest all of their money in funds managed by the company they work for.

Meanwhile, 10% allocated 24% to 49% of their assets in their own funds, and 14% invested 50% to 74%, putting them in a middle-of-the-road category.

Ignites published a similar poll in June of last year that had comparable results. That poll showed that 44% of the 417 voters tallied had less than 25% of their assets invested in their own firm's funds.

Tuesday's reader poll follows a recent **Morningstar** study that assessed whether fund portfolio managers are eating their own cooking. The study showed that 39 of the 50 largest funds have at least one manager who has invested more than $1 million in the firm's own funds.

Industry observers say it's the culture of a firm and the investment philosophy of the individual employee that usually dictate how much they invest in their employer's funds. These experts believe that such employee investment is typically a good idea in most cases.

"To me, in the funds where we've seen really significant fund manager ownership, those funds have typically outperformed in the past," says Laura Lutton, editorial director in fund research at Morningstar. "I think that a lot of investors want to see that their fund manager is invested alongside them. I think that's a very logical connection of the dots."

"I would hope that the individuals who work for these fund companies believe in the products that they're selling and put their money in that," she adds. "I guess one reason you would not is if you work for a firm where the investment philosophy doesn't fit your own tolerance for risk, but there aren't a lot of firms like that."

Lutton points to certain firms that have a strong sense of employee investment and says it's usually rooted in cultural norms at the firms.

"There are a lot of smaller firms where you see a lot of very deep investment in the firm's funds throughout the organization," Lutton says. "It's not just the fund manager buying in, but the person who's taking your phone calls when you have a question about a fund. Some of these companies, like **Longleaf**, **Royce Funds**, **FAM Funds** and **Bridgeway Funds**, have strong manager ownership. I think maybe it's that some of the larger firms aren't as active at promoting employee ownership and its cultural [benefits]. There are some firms where it's encouraged and other firms where it's just not promoted."

Niels Holch, president of the Coalition of Mutual Fund Investors, says employee investment is generally a good thing and that statistics on such investments at firms should be more transparent in the industry.

"I think it's important to have a portfolio manager with some level of investment in the funds they manage," Holch says. "I think this area is more opaque than it should be because the information about the investment level for a fund trustee or fund manager is typically disclosed in a statement of additional information, which many people don't even know exists and it's not mailed to each investor each year."

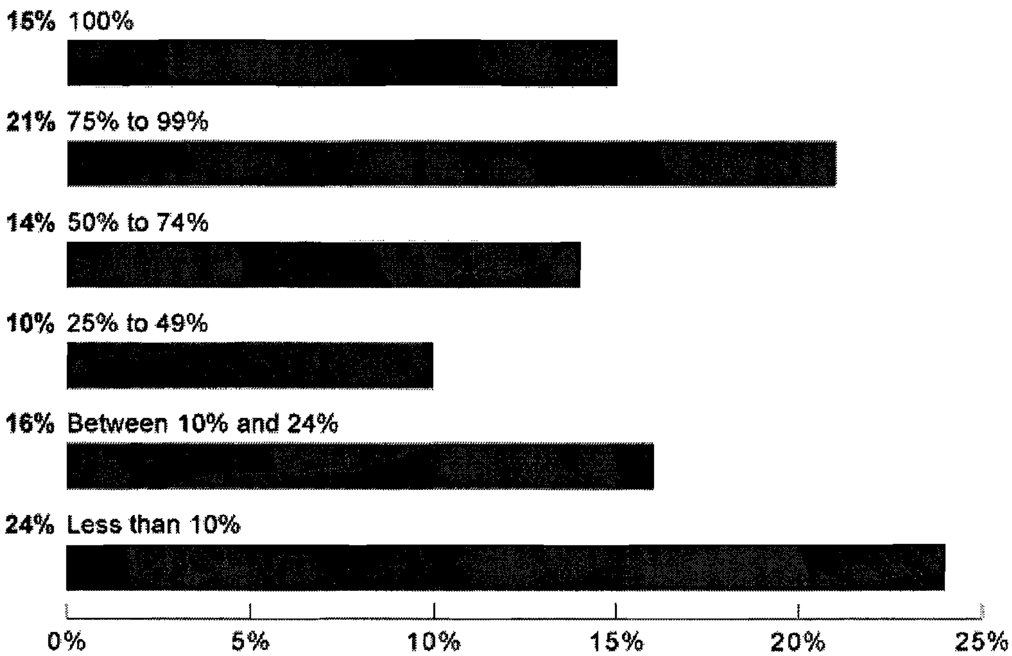
"I think it sends a very good signal to investors when both trustees and fund managers are significantly invested in the funds they are responsible for, along with evaluating the performance of those funds," Holch says.

As of 3 p.m. Tuesday, 322 *Ignites* subscribers had participated in the poll, which is an unscientific sampling of the publication's subscribers. Readers could vote only once on a voluntary basis. *Ignites*'s audience consists of financial advisors, money managers and service providers.

POLL RESULTS

How Much of Your Firm's Cooking Do You Eat?

How much of your investable assets (retirement contributions and personal assets) do you sock away in your firm's funds?



Total Votes: 322

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