The Down and Dirty on the 10 Most (and Least) 'Clean' Complexes

By Emily Laermer August 13, 2018

Though launches of so-called triple-zero mutual funds have accelerated over the last 18 months, such share classes still make up just a small proportion of all actively managed fund assets, data show.

Some 17% of actively managed mutual fund assets are in share classes that charge only management fees and fund operating expenses, according to data from Morningstar Direct. Meanwhile, share classes that also tack on sales charges, such as loads or 12b-1 fees or other operational fees, account for twice as much of the industry's active assets.

When Vanguard is removed from the equation, the difference is even starker. All of the firm's active share classes fit the criteria for Morningstar's triple-zero "unbundled" category. But just 6% of all non-Vanguard-run active assets charge just management fees.

"We are uniquely structured to lower the cost of investing for all of our funds and for all of our clients, which is why you'll see us continue to lower costs across our entire fund and ETF line-up, index and active," a company spokesman writes in an e-mail to *Ignites*.

Vanguard and Edward Jones's Bridge Builder are the only two fund complexes that charge only management and operating fees across their active fund lines, data from Morningstar Direct shows.

In fact, no other fund complex has even half of its active assets in share classes with such lean fee structures.

Still, many firms with large clean-share suites have been launching products geared toward cost-conscious investors for years.

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Meanwhile, American Funds, whose parent company solicited the January 2017 SEC clean share letter, has the industry's high proportion of active assets in funds that include loads or other operational fees. In all, such structures account for 85% of the Los Angeles–based firm's $1.6 trillion in mutual fund assets.

"Share classes are about choice for investors and how they want to pay for services and advice. People today often choose to access investment advice and products in ever-evolving ways," a company spokeswoman writes in an e-mail to *Ignites*. "The accelerated shift to advisory has been positive for our business and has driven strong demand in our F3 share class."

After the SEC's letter, American Funds rolled out F3 shares across its line. These shares strip out 12b-1 and sub-transfer-agency fees and represented $68.7 billion, collectively, as of July 31. That's about 4% of the firm's total mutual fund assets.

As of March 2017, American Funds was the industry's largest collector of distribution fee dollars, according to a separate *Ignites* analysis. The firm brought in $2.3 billion during the previous 12-month period, or 24% of the industry's total.

"12b-1 fees have been in a lot of trouble," says Niels Holch, executive director of the Coalition of Mutual Fund Investors. "The SEC started to look at 12b-1 fees back in 2010, with a proposal to replace them with a more account-based fee structure," he says.

"If you're a do-it-yourself investor, and you're doing research on Morningstar and picking your own funds, why pay the broker what the broker charges for those services?"