



# IN FOCUS

Providing industry insight into market trends, best practices, and service solutions

## **MSTs EXPERIENCE RECORD GROWTH**

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How to meet regulatory and legal administration requirements of specialty investments

The long established shared trust structure is experiencing significant growth of mutual funds, assets, and investment managers from both startup and existing mutual fund complexes. A shared trust, sometimes referred to as a Multiple Series Trust (“MST”), is an open-end investment management company (mutual fund) that is organized as a series trust. The MST structure is typically sponsored by a service provider and is utilized by multiple, unrelated investment management firms to house their mutual fund products. Each fund is a portfolio, or “series,” of the Trust. The Trust, through its Board and service providers, performs management of all fund operations, governance, servicing, and administration, allowing the manager to focus on its core competency, investment management. Historically, MSTs were utilized by advisers with limited assets under management as an inexpensive means of offering a mutual fund family with small assets. Today, in addition to their historical role, MSTs are also a viable option for large managers launching and operating mutual fund products.

## WHY THE SUCCESS OF MULTIPLE SERIES TRUSTS?

There are several reasons for the proliferation of funds within the MST structure, not the least of which is the regulatory environment now facing investment firms managing mutual fund products. The increased complexity of the mutual fund industry creates significant compliance requirements for the fund complex. The investment manager must now weigh the business risks associated with their advisory firm sponsoring and operating a proprietary fund, compared to the outsourced MST mutual fund model. The implementation of SEC Rule 38a-1 amplified the compliance and risk management requirements placed upon the adviser of a proprietary fund. The SEC has tasked mutual fund board members with increased responsibilities, making it more difficult to secure qualified mutual fund board members and more complicated for them to fulfill their role as Trustee. Those new requirements, coupled with increased governance requirements and the fiduciary responsibilities of mutual fund Trustees, have contributed to investment managers selecting the MST structure.

The SEC requires that a mutual fund retain a qualified Chief Compliance Officer (CCO) to perform very specific and intensive fund compliance monitoring. The Rule 38a-1 requirements necessitate a seasoned industry veteran to assess, interpret, and report on the compliance infrastructure to the Fund Board. In a proprietary fund model, the CCO role is typically performed by either the adviser CCO or a dedicated mutual fund CCO. Advisers are faced with either adding an experienced (expensive) senior compliance manager or adding the fund CCO title and duties to the adviser’s CCO, which can create additional, and sometimes unfamiliar, responsibilities for this adviser compliance individual. In an MST, an experienced fund CCO is provided as a component of the model.

*“The MST cost savings were important, but the significant advantages for us included benefits derived from leveraging the existing fund board, fund services, and chief compliance officer for our mutual funds.”*

*Brandon Thomas, Co-Founder,  
Chief Investment Officer,  
Investnet Asset Management*



## MST FUND COMPARED TO PROPRIETARY FUND

The single biggest difference between an MST fund and a proprietary fund is the shared MST legal entity and infrastructure. The MST fund leverages the existing Board, service providers, and policies and procedures of the MST. Each investment manager would require these elements of the fund operations to be replicated if they chose the proprietary model for their mutual funds. Indicated below are the fund operations that are shared by funds within an MST:

- » MST Board of Trustees.
- » Trust level policies and procedures.
- » Service provider structure – Fund Administration, Fund Accounting, Transfer Agent, Custody, Distributor.
- » Trust Chief Compliance Officer.
- » Independent legal counsel.
- » Independent audit firm.

## MST ADVANTAGES

The investment manager can benefit from the MST business model through several advantages, including timing, cost savings, governance expertise, administrative efficiencies, and compliance benefits.

### Reduced Time to Market:

Since the MST is an existing SEC trust registration, any new funds are simply additional series added to the original registrant. The SEC normally will declare a new series fund effective in 75 days. Although the SEC makes no commitment as to the time required to approve a new registrant, 90-120 filing days for a new proprietary trust is not uncommon. In addition to this SEC review period, the proprietary fund requires significantly more time to prepare the filing materials.

### Cost Advantages:

An MST provides economies of scale for certain fund startup and annual operating costs. Startup costs are lower, principally because the amount of legal work required to add a fund to an existing trust is less extensive than the establishment of an entirely new trust. In addition, certain annual operating expenses for a fund within an MST are reduced due to the allocation of certain costs across all funds within the Trust, such as:

- » Trustee expenses.
- » Trust level legal counsel costs.
- » Certain state Blue Sky permit costs.
- » Fidelity bond insurance coverage.
- » Directors and Officers insurance coverage.

### Governance and Service Expertise:

MST fund managers benefit from the experience and expertise of an existing board of Trustees familiar with mutual fund regulatory and operational issues. The Trustees provide a sounding board to the fund manager, which can help avoid costly missteps. In addition, the manager benefits from the existing MST service provider structure, talent, and technology.

- » MSTs offer experienced mutual fund board members and governance processes.
- » MSTs provide experienced fund officers and service infrastructure, helping to reduce the business risks associated with the adviser's role in the operation of the mutual fund to primarily investment management.
- » The service provider partners with the investment managers to improve efficiencies and provide best practice advice.

## Compliance Infrastructure:

The MST structure provides several compliance advantages for the adviser, typically duties assumed by the adviser in a propriety fund structure.

- » MST Trustees are entirely independent of the advisers within the Trust, creating a true “arm’s length” arrangement between the fund and the adviser.
- » MST sponsors provide an experienced Chief Compliance Officer for all funds within the Trust.
- » MST sponsors provide the Sarbanes-Oxley monitoring and certification for all fund financial reporting.

## Administrative Efficiencies:

By adding mutual funds to an existing MST, the following required services are in place, saving the time and effort of due diligence to search for and select parties to support the fund. The organizational tasks involve registering the new fund with the SEC.

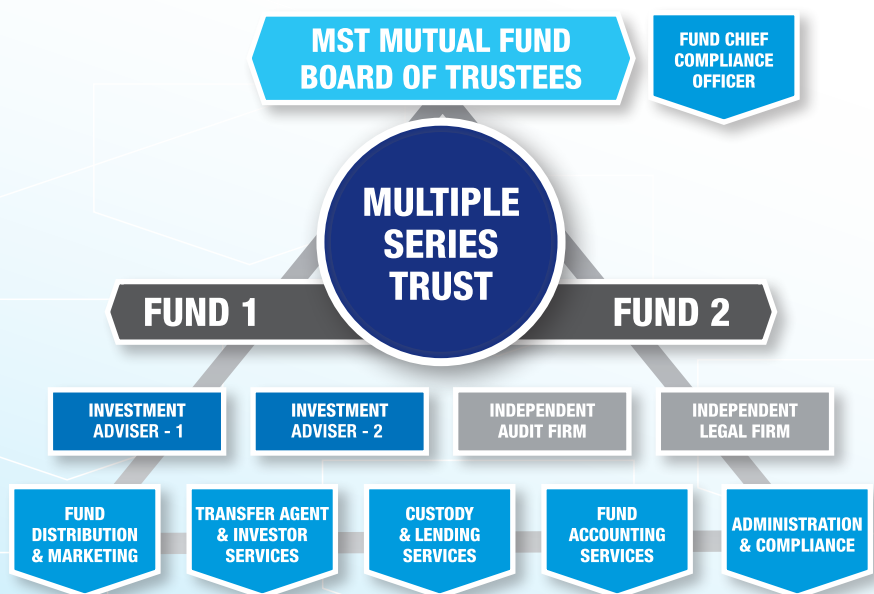
- » Board members – qualification, selection and education.
- » Consolidated Board meetings.
- » Common service providers – Fund Administration, Fund Accounting, Transfer Agent, Custody, Distributor.
- » Common Chief Compliance Officer.
- » Common independent legal counsel.
- » Common independent audit firm.
- » Shared insurance coverage.

## MST TRUSTEE RESPONSIBILITIES

The responsibilities of the MST Board members are identical to those of a proprietary fund trustee. Each mutual fund trustee has a fiduciary duty to represent and protect the interests of the investors of the fund(s) – the duty of care and duty of loyalty. The Board will set and review investment and operational policies for the MST, contract with, and oversee the performance of all service providers. The Trustees will oversee the investment adviser, ensure compliance with specific requirements of the 1940 Act, Subchapter M of the Internal Revenue Code, and state securities laws.

FIG. 1

The graphic in Figure 1 details the fiduciary oversight the Board of Trustees members have with the funds, advisers, and their service provider.



## INVESTMENT MANAGER RESPONSIBILITIES IN A MST

The investment manager's responsibilities to the fund and Trust are primarily investment management, with a nominal amount of administrative reporting to the Trustees. The manager is a service provider to the Trust, hired and monitored by the Trustees on behalf of the shareholders. At the launch of the fund, the investment manager will determine the investment strategy of the portfolio(s), assist in the design and branding of the prospectus and fund materials, determine the class and fund expense structure, select the fund name, and develop and implement a distribution strategy. Once the fund is operational, the investment manager will manage the investments, actively promote and distribute the fund(s), and provide quarterly portfolio and management information to the MST Trustees.

### Initial Board Meeting:

The investment manager will present the summary of the mutual fund business plan to the MST Trustees for approval as an additional series of the Trust. The presentation typically includes a review of the adviser business, portfolio management team, the adviser's compliance program, policies and procedures, and distribution strategy planned for the fund, including anticipated asset growth.

### MST Quarterly Board Submission:

Prior to each MST board meeting, the investment manager will provide a portfolio summary for review by the Trustees. This adviser summary will generally include fund performance, discussion of performance attribution, market review and outlook, and an adviser organization update. In addition, U.S. Bancorp Fund Services will add fund information including fund performance, top holdings, sector weightings, statement of assets and liabilities, fund expenses, and shareholder subscription/redemption activity.

### Contract Renewal:

Once per year, the manager will participate in a Board meeting in person to present portfolio, adviser, and compensation information to the Board as a component of the Board's due diligence process for review and renewal of the investment management contract.

### CCO Due Diligence:

Generally once per year, the MST CCO, on behalf of the Trust and Trustees, will travel to the investment manager's office to perform a due diligence review of the manager's trading practices and compliance infrastructure. The results are included in the CCO's report to the MST Trustees.



*"Our MST Board is comprised of industry veterans with over 90 years of mutual fund talent. The true independence and breadth of experience enables us to provide a high level of governance and support to our managers."*

*Dorothy Berry, Trustee & Independent Chair,  
Professionally Managed Portfolios,  
(MST Trustee)*

## MST FUND STARTUP TASKS

The MST sponsor (e.g., U.S. Bancorp Fund Services) manages all of the legal and operational tasks involved in establishing a fund within a MST, guiding the investment manager through the regulatory and implementation issues. The initial task involves drafting the fund registration materials that will describe the investment strategy proposed by the investment manager. The MST sponsor will establish all fund policies, procedures and operations such as valuation procedures, code of ethics, privacy policy, fidelity bond insurance, service agreements, distribution plan, shareholder servicing plan, fund expense projection, AML compliance procedures, and more. Indicated in the chart below is an approximate timeline for establishing fund(s) within a MST.

GENERAL TIMELINE FOR NEW MST FUNDS	
DAYS PRIOR TO SEC EFFECTIVENESS	MUTUAL FUND IMPLEMENTATION TASK
120 Days	Mutual Fund Business Plan
100 Days	Draft SEC Registration Materials
90 Days	MST Board Approval
80 Days	Review & Revision of Registration Materials
75 Days	SEC Filing
40 Days	Investment Management Contract Approval
30 Days	SEC Comments
5 Days	SEC Amendment Filing
Effective Date	SEC Declares Product Effective
Effective Date + 5	Definitive Prospectus Filing

FIG. 2

The table in Figure 2 is an approximate timeline for establishing fund(s) within a Multiple Series Trust.

*"The trust provides immense value in keeping up with compliance issues and allowing FundX Investment Group to focus on managing our fund's investments. Our Board's experience in serving a variety of funds provides experience and guidance that is helpful when we consider new products or services."*

*Jason Browne, Portfolio Manager,  
FundX Investment Group*

## PARTING THOUGHTS

While MSTs have been operating since at least 1992, we anticipate that their current popularity will continue, primarily due to the increasing complexity of the mutual fund industry, specifically in the areas of compliance and governance. Investment managers that choose to focus their talent and resources toward investment management and asset gathering will continue to see the advantages inherent in the MST structure.

In the last five years, our four series trusts have more than tripled in size to \$19.1 billion in assets across 75 managers and 129 funds.

### CASE IN POINT

Approximately 457 mutual funds resided in 18 shared trusts in 2013 - showing a 122 percent increase over five years when compared with the 206 funds in 16 shared trusts at the end of 2008 . In those five years, shared trusts grew from approximately \$36.0 billion to more than \$1.183 trillion\*

*\*Estimates based upon industry research by U.S. Bancorp Fund Services, LLC*



## ABOUT THE AUTHOR

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### Bob Kern

is a Managing Director and Executive Vice President of U.S. Bancorp Fund Services, LLC. He began his career with U.S. Bancorp in 1982 and has served as a manager within the fund services subsidiary since 1984. From 1984 to 1994, Mr. Kern managed business development efforts as well as the mutual fund Transfer Agent operation including the Investor Services group, Account Services, Legal Compliance, Document Processing, and Systems Support divisions. During that time, Mr. Kern assisted in the management and implementation of both services and technologies related to Transfer Agent and

shareholder services, Fund Accounting, Fund Administration, literature fulfillment, and fund Distribution services.

### Education and Credentials

Mr. Kern received his undergraduate degree from Marquette University in business administration with specializations in finance and marketing. Mr. Kern serves as a board member of U.S. Bancorp Fund Services, LLC, Quasar Distributors, LLC, and interested Trustee and Chair of Managed Portfolio Series, an open-end mutual fund multiple series trust.

*"Through more than 40 years of continually enhancing our fund services, and by working with our clients to grow their business, we are fortunate to support more than 30 percent of all mutual fund complexes."*

## ABOUT US

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For more than 40 years, U.S. Bancorp Fund Services, LLC has leveraged specialized experience across our organization to provide seamless service solutions for our clients regardless of the complexity and depth of their products. With client relationships lasting since our inception in 1969, we know the foundation for strong relationships is built on open communication, trust, and accountability. Our managers and professionals will deliver the amount of support, guidance, and insight into the market our clients need to be successful.

Visit [www.usbfs.com](http://www.usbfs.com) for additional white papers and case studies or call 800.300.3863 for more information about our comprehensive suite of services.

Headquartered in Milwaukee since 1969, U.S. Bancorp Fund Services, LLC currently provides services to more than 436 mutual fund and alternative investment clients with 2,761 portfolios and aggregate assets of \$779 billion. U.S. Bancorp Fund Services' clients include mutual funds, investment partnerships, hedge funds, separately managed accounts, fund-of-funds, and offshore funds. It is a subsidiary of U.S. Bancorp, the fifth largest bank in the United States with assets of \$353 billion, NOTED IN THE SECOND QUARTER 2013 CORPORATE PROFILE.

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