

Fiduciary Duty

Presented by
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Fiduciary Duty Defined:

- Fiduciary---Person, company or association holding assets in TRUST for a beneficiary
- Duty---legal obligation of a fiduciary or other person in a responsible position
- Fiduciary is charged with the responsibility of handling money or property wisely for the beneficiary

Examples of fiduciaries:

| | |
|-----------|-------------------|
| Executor | People who manage |
| Receivers | IRA accounts, |
| Trustees | 401K programs |

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Fiduciary Duty

Beneficiary is the person who receives or is to receive the benefits from certain acts.

Changed DOL Rule (Fiduciary Standard)

- in the U.S.
- as of April 2017
- targets retirement accounts specifically
- brokers/agents/managers of IRAs, 401Ks

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Fiduciary Duty

What it was before:

---must be "suitable" for the client

What will it be:

Must manage accounts for the benefit of the beneficiary

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Fiduciary Duty

DOL announced Spring/16, in effect 4/17

Changes being announced:

Edward Jones--Modifying their commission-based IRA platform, which will now exclude MFs and ETFs

Merrill Lynch—change from commission to fee-based

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Fiduciary Duty

BlackRock — cutting fees of 15 of its ETFs

LPL Financial — considering sale of firm

Smaller lineup of funds

Altering long held pricing structures

Restructure business model

Focus on passive product

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Investor choices:

Fee-based accounts

Online brokerage

--cheaper fee-based

--self-directed account

--roboadvisor

Broker view of fee-based:

--predictable, steady income

--as much as 60% more revenue

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- What caused of the change?
 - Conflict of interest caused \$17B loss in families retirement funds
 - Annual returns on retirement funds down 1%

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Department of Labor (DOL) Rule also introduces the language
“reasonable compensation”

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- Sources:
- ---Barron’s Dictionary of Business Terms by J. Friedman
- ---Credit Suisse, Equity Research-- 9/11/2016
- ---Various Wall Street Journal news articles
- ---AAll Journal- May 2016

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Questions?

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• Thank You

Small Talk, Oct. 18, 2016

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T Rowe Price Group Inc. (TROW)

Business Summary:

- Provides asset management services for individual and institutional investors.
- Offers a broad range of no-load U.S. and international stock, hybrid, bond, and money market funds.
- Approximately two-thirds of the firm's managed assets are held in retirement accounts and variable annuity investment portfolios.
- Manages private accounts, provides retirement planning advice, and offers discount brokerage and trust services.

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- AUM = \$776.6 B at June 2016
- Equity and blended asset portfolios = 78% total funds under investment
- Fixed income portfolios = 22% total fund under investment
- Investment advisory fees = 88% revenues
- Target date funds = \$65 B in inflows last 5 yrs.

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Industry

Industry Summary:

- Tepid economic activity around the world
 - to the strong U.S. dollar
 - weak average oil prices
 - lower-than-normal spending across borders
 - lower AUM often because of the shift to passive investments.
 - little growth in invested funds so profits are under pressure.

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Strengths:

- Retirement accounts and variable annuities are 2/3 of investment portfolio
- Strong fund portfolio beating peers @3-5-10 yrs. = higher non-operating income
- Target date funds provide significant organic growth
- A well-respected brand
- High switching costs

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Weaknesses:

- Only 62 % of mutual funds beating peers
- Outflows to passive funds
- Fees based on AUM levels pulls revenues down
- Operating performance lower lately
- Product mix not overly diverse

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Opportunities:

- New accounting guidelines that affect certain sponsored investment portfolios
- Technology initiatives that should help address client needs
- Millennials are just beginning buying TDFs
- Repurchases of common shares
- Products with significantly higher switching costs
- Expanded non-U.S. presence

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Threats:

- Continued outflow to passive funds
- Continued sluggish economic conditions
- New fiduciary duty rule
- Baby boomers are about to begin cashing in

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