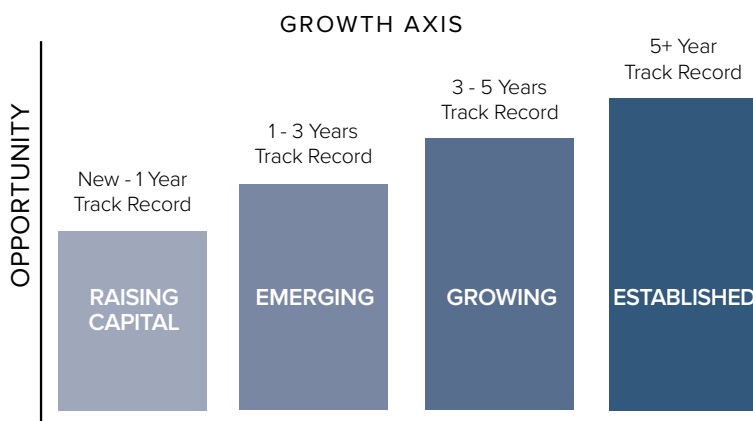


# UNDERSTANDING THE TRUE COST OF MUTUAL FUND DISTRIBUTION

NORTHERN LIGHTS DISTRIBUTORS, LLC (NLD) believes a successful mutual fund distribution strategy requires a solid competitive philosophy, process, and expertise as well as consistent performance and excellent client service. It also requires investment managers who thoughtfully plan and invest in a scalable sales and marketing strategy. Distribution has a variety of associated costs. The amount of associated costs is dependent on each firm’s individual goals and its place in the mutual fund sales cycle. While some investment managers may have large goals, seek broad sales and marketing exposure, and desire expansive platform availability, others may pursue a more finite approach.

## DISTRIBUTION GROWTH CYCLE



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NLD developed the distribution growth cycle model to assist investment advisors in matching their current distribution characteristics with potential opportunities. This allows managers to tactically develop their distribution plans to align with where they are at within the cycle, in addition to associated opportunities. NLD has identified four phases in the distribution cycle: Raising Capital, Emerging Manager, Growing Manager, and Established Partners. Each distribution phase has distinct characteristics, challenges, and opportunities.

[Read more about the Distribution Growth Cycle here.](#)

## ELEMENTS OF SUCCESSFUL DISTRIBUTION

Each element of successful distribution has inherent costs. NLD has created a summary of these potential costs and questions to consider as advisors develop their distribution strategies. “Understanding the True Cost of Mutual Fund Distribution” will cover the three elements of successful distribution strategies:

- ① Product Placement
- ② Active Sales & Marketing
- ③ Tracking Capabilities

## THREE KEY ELEMENTS OF SUCCESSFUL DISTRIBUTION STRATEGIES



PRODUCT PLACEMENT



ACTIVE SALES & MARKETING



TRACKING CAPABILITIES



## PRODUCT PLACEMENT

All non-direct investors purchase mutual funds through an intermediary provider: custodian, broker-dealer, bank, trust, or third party asset management program. To better fit the individual end client's needs, intermediary firms may offer a variety of programs with multiple investment vehicles through either a commission or fee-based structure. Understanding the product placement requirements and the cost of such platforms is the first step in planning for successful distribution.

As investment advisors assess individual firm's goals and platform wish list, they should consider the potential access

fees for all intermediaries. There is a common misconception regarding product shelf space. Some people believe that more platform availability equates to more opportunity for potential sales success. This may be true in some cases, but only with a combination of other sales and marketing efforts. The reality is that more placement will also mean higher costs. Unfortunately, there is not a magic number of platforms the fund should be on. Advisors should thoroughly consider the wish list and right size the opportunity to meet the current growth cycle, making adjustments as the fund grows.

### THE VARIOUS FEES ASSOCIATED TO PRODUCT PLACEMENT TYPICALLY INCLUDE:

#### ONBOARDING

#### OPERATIONS

#### SALES & MARKETING

#### ONBOARDING

There are typically two types of onboarding fees that an intermediary may require; fees for due diligence review and on-going platform maintenance fees.

**DUE DILIGENCE FEES** – Intermediaries may charge an upfront, one time due diligence fee for the review of a mutual fund for potential product placement. This is normally a hard dollar cost determined prior to reviewing a fund. Paying this fee does not guarantee the fund will be approved. *(Investment manager expense)*

**PLATFORM MAINTENANCE FEES** – Intermediaries may charge the mutual fund an ongoing annual fee. The annual fee is normally a fixed rate which covers expenses associated with fund maintenance. The maintenance fee may cover on-going CUSIP administration and review. Fee ranges vary across intermediaries. Some charge a per CUSIP fee at a fixed cost with a minimum monthly or annual fee at the fund level, irrespective of asset levels. *(May be an investment manager expense, some exceptions may apply)*

#### OPERATIONS

Intermediary operational expenses may have a broad definition across the target market landscape. Operational expenses may cover the intermediary's administration and maintenance of client accounts, which may entail various client communication and fund transactions.

**SHAREHOLDER SERVICING FEE** – Shareholder servicing fees typically apply to custodians and self-clearing firms and may include, but are not limited to, client communication, such as, delivering fund prospectuses, proxy materials, SAs, educational publications, and other fund information. In addition, servicing may include direct client support via telephone for wire transfers, when applicable. *(Fund expense, with potential differences billable to the investment manager)*

**SUB-ACCOUNTING AND ADMINISTRATIVE SERVICES** *(may be referred to as "Omnibus")* – Sub-accounting services are meant to provide a uniform and efficient trading and reconciliation process for platforms with accounts across multiple disciplines and funds. This structure seeks to minimize transaction cost, allowing for block trading and execution across fund account holders. Centralized connectivity across broker-dealers may require an Omni/SERV subscription. *(Fund expenses, with potential differences billable to the investment manager)*

**NETWORKING FEES** – Networking operational services provide mutual fund account reconciliation and dividend processing at the client account level. This service has three reporting types, to be agreed upon with the intermediary. Centralized connectivity across intermediaries may require fund/SERV participation. Networking services are typically charged annually for each shareholder account. *(Fund expense, with potential differences billable to the investment manager)*

**Consult the transfer agent and intermediary relationship on the various options to best suit current and future needs.**

## SALES & MARKETING

Cost associated with certain sales and marketing activities may be paid as a fund expense. Intermediaries may have program/platform fees and or revenue share cost associated with mutual fund support that are not paid by the fund. Advisors should work with their relationship manager to discuss which activities are not covered.

**12B-1 FEES** – These fees are used to pay for expenses associated with mutual fund distribution. This includes, but not limited to, fees paid for marketing and selling fund shares. Such costs could include compensating individuals or organizations who sell fund shares, advertising, and designing, printing, and mailing sales literature to potential investors. Certain 12b-1 fee plans may include “shareholder service fees,” which pay for servicing, such as organizations responding to investor inquiries on their investments. *(Included in the fund’s expense ratio)*

**PLATFORM PARTNERSHIP FEE** – Intermediaries may have optional and/or qualifying sales and marketing partnership programs that may support meeting and conference

sponsorship, access to branches for educational and marketing promotions, and receipt of supplemental sales data. Fees can be in addition to, or standalone from the revenue share fees. *(Hard dollars billed directly to the investment advisor)*

**REVENUE SHARE** – Revenue sharing payments are in addition to 12b-1 fees and other operational expenses, disclosed in the fund prospectus. Intermediaries may require revenue share and is at the sole discretion of the intermediary. The fees may be associated with sales and assets under management, and may be in addition to, or standalone from the platform partnership fees. *(Basis points billed directly to the investment advisor)*

### QUESTIONS ADVISORS SHOULD CONSIDER

- How many intermediary platforms do you wish to have your fund available on?
- What are the individual costs of each platform? Do you have enough demand at the specific intermediary to justify the expense?
- Do you desire additional sales and marketing intermediary partnerships, such as home office access? If so, what is the cost per intermediary?
- Do you have the marketing resources to support partnership relationships?

Disclaimer: The fees and the underlying services are subject to change at the intermediaries’ discretion.

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## ACTIVE SALES & MARKETING

The next phase in distribution planning are the avenues in which investment managers will seek to raise brand awareness and create sales and marketing activity. The most common considerations are the creation of a sales team, investment in various public relations and marketing, and sales related activities. The extent of the distribution efforts are closely tied to the individual firm’s target market and budget.

### TYPES OF SALES PERSONNEL

- National Account Managers
- Wholesalers
  - External Wholesaler
  - Internal Wholesaler

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## NATIONAL ACCOUNT MANAGERS

National accounts, key account, and relationship managers are an extension of the business development team. They focus on interfacing and managing the overall relationship with key strategic intermediary home office relationships. Key account managers are charged with creating and managing the execution of distribution business plans through coordination with all interested constituents. They work towards forging partnerships, with an emphasis on increasing market share, through leveraging all centers of influence and “delivering the firm.” Key account managers proactively work with the investment manager to uncover product placement opportunities. They are tasked with understanding the

client firm’s strategic priorities, search activity, product and marketing initiatives, and opportunities for engagement. It is the national account manager’s responsibility to develop and maintain strategic relationships with all centers of influence. This individual also positions strategies and portfolio construction ideas to home office audiences, manage all dealer agreements, participates in contract negotiations, and is the interface with the transfer agent. They also coordinate all marketing, sales, and support services, anticipate and resolve complex problems, and disseminate intelligence to the sales force and home office to improve sales execution.

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## WHOLESALERS

Wholesalers are categorized as internal, external, or a hybrid of the two. Wholesalers are typically paid commission only or a combination of base salary plus commission. There are also third party marketing organizations that offer individuals or teams for hire. There are several key items to consider when hiring wholesalers. The wholesaler should have experience in the desired strategy and have existing relationships or proven ability to build relationships within the territory. They should be able to not only sell, but also position and utilize consultative development approaches, as well as contribute to marketing ideas and utilize CRM programs. Above all, you want to hire an individual who will blend with the company culture and be a positive addition to the sales team.

and focus on positioning and selling the investment manager’s strategy and funds. They have strong communication skills with the ability to convey traditional and complex products in a concise manner to both advisors and their clients. Client coverage also includes management practices that are designed to offer solutions to advisors.

**INTERNAL WHOLESALERS** - Internal wholesalers work with external wholesalers to cover a specific target market. Much like externals, they are expected to have the skills necessary to cultivate and maintain relationships within their designated territory. They contact the advisors in their territory regularly and manage the sales process. Internals respond to daily telephone inquiries, follow up with financial consultants who establish new business, and continually educate them on current products and upcoming new products. Internals should have the ability to converse knowledgeably with financial advisors and other key personnel about investment solutions and current economic and market conditions and provide account activity and sales reports to assist the sales team.

**EXTERNAL WHOLESALERS** - External wholesalers, often referred to as regional directors, cover specific target channels (independent broker-dealers, registered investment advisors (RIAs), broker-dealers, bank and trust, insurance and retirement intermediaries) in a specific U.S. territory. External sales representatives tend to have established relationships

## QUESTIONS ADVISORS SHOULD CONSIDER

- What type of sales team does your firm currently need?
- What type of budget do you have for a team? Do you have/need a budget for travel, expenses, and a CRM program?
- What are some realistic, long-term sales goals?

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## MARKETING COSTS

Each investment manager has specific marketing goals. Some investment managers will seek the services of a third party press and advertising agency while others may hire an in-house employee. Investment managers should consider the type of marketing opportunities that make sense for their firm, budget, target market, and overall goals. Marketing channels can include items such as industry or broker-dealer conferences, email campaigns, promotional items, hosting lunch and learns, and your website.

### TYPES OF MARKETING COSTS

- Press & Advertising Agency
- Conferences & Industry Events
- Marketing Materials
- Digital Marketing

**PRESS & ADVERTISING AGENCY** - Annual cost for specific negotiated items that may include but are not limited to media tours, bylines, advertising, conference panel representation, and public imaging.

**CONFERENCES & INDUSTRY EVENTS** - The financial services industry offers many national, regional, and local conferences. Conferences may be hosted by third party intermediaries, such as broker-dealers, custodial firms, service providers, associations, and research organizations. Attendees may range from savvy investors, research analysts, financial controllers, and financial advisors, to investment managers. Each conference will have specific costs, depending on if you would like to sponsor or simply attend. There are costs for

attending or sponsoring but there may also be costs for travel, hotel rooms, entertainment, marketing, and booth materials.

**MARKETING MATERIALS** - Example of marketing material costs would be the cost of design, printing, and shipping of the prospectus, fact sheets, brochures, and other marketing materials.

**DIGITAL MARKETING** - This includes the overall cost to create, maintain, and update a website. Service may begin at basic layout or a more in-depth website including blogs and videos. Pricing is dependent on the extent of the services needed.

## QUESTIONS ADVISORS SHOULD CONSIDER

- Will you budget to attend industry events or sponsor conferences? Which ones would you like to attend?
- What do you need for marketing materials? Will you hire a third party to create these materials?
- What functionality does your firm need for a website?



## TRACKING CAPABILITIES

An investment manager will need to evaluate needs and determine what types of technology should be utilized. Although these costs are optional, it is important to evaluate each one and determine if any are necessary for the business.

## TYPES OF TECHNOLOGY COSTS

- CRM Tools
- Sales Reporting
- Omni/SERV

**CUSTOMER RELATIONSHIP MANAGEMENT TOOLS (“CRM”)** – Customer relationship management tools help organize and document sales calls, email campaigns, and meetings. Most commonly utilized CRMs are Salesforce, Redtail, SalesPage, and ACT.

sales reporting to assist in managing territories, tracking sales traction, and determining market share. Providers may include Celera, AccessData, MARS Salesfocus Solutions, and SalesConnect.

**SALES REPORTING** – Aggregation tools to provide consolidated data from custodians, broker-dealers, and other intermediaries. This type of service provides more detailed

**OMNI/SERV** – As more intermediaries are moving to Omnibus trading, Omni/SERV is an optional service to see account and rep level transparency for Omnibus trading. Although this is optional, it is important to have rep level data on trades.

## QUESTIONS ADVISORS SHOULD CONSIDER

- How can you use a CRM tool to your advantage?
- How are you currently tracking sales data? Would using a CRM tool help your sales tracking?
- Do you have Omnibus business? If so, does Omni/SERV make sense for your business?

Distribution has a variety of inherent costs. The amount of associated costs is dependent on each firm's individual goals and its place in the mutual fund sales cycle. While some investment managers may have large goals, seek broad sales and marketing exposure, and desire expansive platform availability, others may pursue a more finite approach. The table below is a summary of these potential costs to consider as advisors develop their distribution strategies.



## PRODUCT PLACEMENT

	DESCRIPTION	PAYMENT SOURCE
Onboarding	<ul style="list-style-type: none"> <li>• Due Diligence</li> <li>• Platform Maintenance Fees</li> </ul>	Investment Manager/Some exceptions may apply
Operations	<ul style="list-style-type: none"> <li>• Shareholder Servicing Fee</li> <li>• Networking Fees</li> <li>• Sub-accounting and Administrative Services</li> </ul>	Investment Manager/Fund Expense
Intermediary Sales & Marketing	<ul style="list-style-type: none"> <li>• 12b-1 Fees</li> <li>• Platform Partnership Fee</li> <li>• Revenue Share</li> </ul>	<ul style="list-style-type: none"> <li>• Fund Expense</li> <li>• Investment Manager</li> <li>• Investment Manager</li> </ul>



## ACTIVE SALES & MARKETING

	DESCRIPTION	PAYMENT SOURCE
Active Sales	<ul style="list-style-type: none"> <li>• National Account Managers</li> <li>• Wholesalers</li> </ul>	Investment Manager/12b-1 where applicable
Marketing	<ul style="list-style-type: none"> <li>• Press &amp; Advertising Agency</li> <li>• Conference &amp; Industry Events</li> <li>• Marketing Materials</li> <li>• Digital Marketing</li> </ul>	Investment Manager/12b-1 where applicable



## TRACKING CAPABILITIES

	DESCRIPTION/EXAMPLES	PAYMENT SOURCE
Customer Relationship Manager Tools (CRM)	<ul style="list-style-type: none"> <li>• Salesforce, Redtail, SalesPage, etc.</li> </ul>	Investment Manager
Sales Reporting	<ul style="list-style-type: none"> <li>• Celera, AccessData, MARS Salesfocus Solution, etc.</li> </ul>	Investment Manager
Omni/SERV	<ul style="list-style-type: none"> <li>• Transparency for Omnibus trading</li> </ul>	Investment Manager

The customer relationship manager and sales reporting tools listed above are just some examples of commonly used programs in the industry. NLD does not endorse these programs.

## NEXT STEPS FOR ADVISORS

1. **DISCOVER** – Identify your specific distribution goals.
2. **PLAN** – Review the goals and determine what types of platforms, sales team, marketing, and technology best suit your distribution efforts.
3. **PREPARE** – Develop your cost of distribution financial plan.
4. **ACT** – Adjust your cost of distribution financial plan as needed.



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