

SUBADVISORY

Advisors Preferred targets two new funds and ETF launch this year

Mutual fund facilitator searching for new partners

Tom Wilson July 21, 2021, 3:26 pm

Advisors Preferred, is looking to add at least two new strategies and introduce an ETF vehicle this year, executives from the company told *Fund Intelligence*.

This year, the \$3.1bn Rockville, Maryland-based mutual fund provider has launched five strategies with existing partners Flexible Plan Investments, Spectrum Financial, and new subadviser Beaumont Capital Management.

Director of distribution Brian Humphrey said AP is actively looking for new partners. The business is currently in discussions with RIAs managing equity, long-short, options strategies and a small cap strategy, though is open to others, he said.

The company generally works with RIAs with \$350m to \$2bn AUM who have successfully operated their own strategies in SMAs and are looking to extend distribution with mutual funds. The RIA acts as a subadviser to a fund within AP's series trust, effectively outsourcing compliance and operations. The RIA manages the assets through a segregated account for each strategy.

Company president Catherine Ayers-Rigsby said that Advisors Preferred does not try and maintain a product line-up, but instead seeks 'quality' strategies with the best prospects of resonating with investors, defined in part as their ability to meet their stated objectives over a complete market cycle.

"We're not necessarily looking to fill a slot, but more looking for high quality management," she said. "All of our current managers are actively managed, as that is where we tend to bring the most value to add to a new manager."

Currently, Advisors Preferred manages 15 strategies within its series trust. Six of the eight funds that are eligible for Morningstar Star ratings, which measure risk-adjusted trailing performance against peers, have received the top score.

According to Morningstar Direct, its most successful strategy by assets is the \$360m Hundredfold Select Alternative SVC fund (SFHYX). The fund has a 2.9% expense ratio and has returned 12% annualized over the past five years, beating the tactical allocation category average by 4.1% per year.

Humphrey said a typical subadvisory client has managed a proprietary strategy for clients and is looking to expand distribution, without taking on the expense and overheads.

"Sometimes advisers fear that it will be very complex to start a mutual fund and they'll have to take on a lot of overhead," Humphrey said. "We have the infrastructure in place, as well as the personnel and technology, so advisers do not have to take that on."

Advisors Preferred tends to work on a revenue share basis with its clients, and part of its proposition is reducing the overheads associated with running a mutual fund. A typical fund launch costs around \$50,000, of which half is paid by the sub-adviser.

Fund infrastructure is effectively pooled between all subadvisers, significantly reducing overheads through a platform covering sales reporting, advanced trading, and compliance services. AP will also provide distribution support, as required by the subadviser, via affiliate Ceros FS.

Due to the trust structure, new partners can tap into the group's existing distribution network.

"I like to say that the subadvisers can step into our existing footprint, which means relationships with all the big custodians and over 100 seller agreements with independent broker dealers, including several of the largest," Humphrey said.

In some cases, Humphrey's team will engage with key accounts units, though in other cases it will provide digital marketing support, such as facilitating webinars.

In terms of priorities for the rest of the year, Ayers-Rigsby is open to branching into other vehicles, but 'the firm's strategic goal is to get into the ETF business through the launch of new ETFs and/or possible conversion of an existing fund.'

SUBADVISORY ☆