Following are comments shared by three investment managers regarding use of qualified and non-qualified commingled trust funds.

Highlights

- Each manager interviewed offers qualified commingled trust funds, as well as mutual funds (two offer non-qualified commingled trust funds). Advantages of having clients in commingled trust funds versus mutual funds include: commingled funds are less expensive to maintain than a mutual fund; set-up of account is standard; and there are fewer reports to generate
- In terms of a waiting period of non-qualified commingled trust funds for revealing buys and sells, none of the managers were aware of any rules.
- One manager shared that typically their commingled trust fund clients do not want monthly statements, and those who do, have a direct link from their custodian to monitor buys/sells
- Marketing commingled trust funds can be easy because you have an existing portfolio to show the prospect
- There is less servicing for commingled trust fund clients, and typically a product specialist attends meetings rather than portfolio managers
- Profitability: commingled trust funds typically are not profitable when the total assets in the fund are below $100 M

Interviews

Manager A

Manager A offers both qualified and non-qualified commingled trust funds. They also have mutual funds. Mutual funds have higher expense ratios than commingled trust funds; therefore, that is the big issue for clients. Mutual funds have annual reports, board of directors, transfer fees, etc. Commingled trust funds are a less expensive structure:

- Have a document equivalent to an annual report
- Are tax-exempt
- Are germane and appropriate for certain type of clients

As far as a waiting period of revealing buys and sells, it has not ever been an issue. This manager shared that generally, commingled trust fund clients do not want monthly statements; those that want monthly statements have a direct link from their custodian to monitor buys/sells. Commingled trust funds' minimums are $10 M for International and $15 M for U.S. Manager A does not have an official size for when they would move a commingled trust fund to a separate account. Some commingled trust fund clients have a large amount of assets in a fund (and this ends up being a good selling point to smaller clients). Typically, they would move a commingled trust fund to a separate account if it became a guidelines issue.

Smaller-end clients (below $750 M in their plan, such as Endowments/Foundations), are most receptive to commingled trust funds. They acknowledge the reality of commingled trust funds:

- As a cost-efficient way to get market exposure
- Custody fees are lower (typically can fold the custody fee in other fees)

Marketing commingled trust funds can actually be easier because you have a portfolio to show already: "Here's what your portfolio would look like if you were a client today." As for profitability, commingled trust funds typically are not profitable when the total fund is below $100 M. An issue arises when a client asks for a commingled trust fund to be created and they only have $50 M to invest. Manager A has to determine if they can grow the fund, and if not, it's not a go. There is less servicing with commingled trust funds:

- A product specialist attends meetings rather than a portfolio manager
- Majority of relationship work is done over the phone
- Start-up of account is a standard, simple process

Manager B

Manager B has both qualified and non-qualified commingled trust funds, as well as LPs. They also offer mutual funds. Mutual funds report daily values and commingled trust funds are reported monthly. All vehicles are managed the same; therefore, it comes down to the client preference of vehicle (as well as their qualification). This manager shared that they launch a strategy as a separate account, then they offer a mutual fund, LP or commingled trust fund based on interest. In terms of any waiting period for non-qualified commingled trust funds for revealing buys and sells, Manager B was not aware of any policy. Minimums for commingled trust funds are between $1 M - $5 M, depending on the strategy. Most separate account minimums are $100 M; therefore, once a commingled trust fund reaches a significant amount, typically $100 M, Manager B would recommend a separate account to the client, but it is up to the client if they want to move into a separate account.

In terms of special considerations in marketing commingled trust funds, the approach the manager takes is first selling the strategy, and second discussing the vehicle. Servicing a commingled trust fund is less involved than separate account clients and includes:

- A client representative attends all meetings
- Product specialist also attends meetings from time to time; no portfolio managers meet
- Monthly reports go out as well as quarterly commentaries

Lastly, in terms of profitability, commingled trust funds are profitable since the fees are higher, and, a strategy needs approximately $100 M to be profitable.

Manager C

Manager C offers qualified commingled trust funds as well as mutual funds. For them, any end-user, a retirement plan, foundation or endowment, is a tax-qualified institutional investor (as opposed to a retail). Since this manager's firm is part of a national bank, they have different commingled trust products available for defined benefit plans or foundations/endowments. As far as regulations for a non-qualified commingled trust funds, this manager is not aware of a rule on waiting to disclose buys and sells.