14 FEB 2023 Jennifer Grybowski

Perpetual sets out Vanguard patent move drivers

Senior execs set out rationale for a multi-share class model

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Up until now the choice for managers looking to move into ETFs was via conversions or launching new funds that could take years to build up a head of steam.

But the US arm of $136bn Australian asset manager Perpetual is the first to attempt to use an expiring Vanguard patent to launch ETF share classes of existing mutual funds, a move that is being keenly watched by rivals across the region.

Perpetual last week filed with the SEC for exemptive relief allowing it to establish an ETF multi-share class structure of its existing and future mutual funds. It is the first firm to propose such a model based on a Vanguard patent from more than 20 years ago that expires in May.

Perpetual US Services (PGIA) COO Robert Kenyon and CCO Chris Golden told With Intelligence the firm has been working on the plans for more than two years and came to the decision that such a move would be better for new and existing investors than conversions or ETF mirrors.

“The thought was that if we could find a way to package the benefits of what was already out there, it would be highly valuable to the shareholders of our existing funds and obviously carry a benefit to our affiliates,” Kenyon said.

Perpetual runs a multi-affiliate model that has grown recently by acquisition in the US after buying Trillium and Barrow Hanley in 2020. Since then, it has picked up a product dev pro from Janus Henderson and acquired the Pendal Group, which included JO Hambro and Thomson, Seigel & Walmsley.

Several asset managers have been eyeing the expiring Vanguard patent with interest although fund legal experts have flagged that there may still be obstacles to overcome before getting the regulatory green light. Golden noted there is still some work to do with the SEC.

Perpetual said it hadn’t heard from anyone at Vanguard since the filing and Vanguard did not respond to With Intelligence’s request for comment.

The multi-share class model allowed Vanguard to create economies of scale as it built its ETF range out of existing mutual funds. The asset management giant tried to sell licenses to the concept to other managers with little success.

Perpetual hopes the exemption will enhance the viability of both its mutual fund and ETF classes, particularly compared to other routes such as ETF mirrors that would face challenges achieving scale.

“It does also potentially improve the overall cost of the infrastructure to support two separate forms, so the goal is to hopefully deliver those savings back to fund and the shareholders,” Kenyon said.

Utilizing the exemption would also be an alternative to conversions, which Kenyon said limits the choice for investors and can also face distribution challenges, particularly in the retirement space.

Perpetual said it will only utilize an ETF class structure where it believes that displaying daily portfolio holdings would not negatively impact shareholders in the mutual fund. In addition, because the strategies are actively managed, Perpetual believes its ability to protect current day trades is sufficient to protect investors from front running.

Leadership within Perpetual and its affiliates are currently in discussions regarding product development should the exemption be approved, working to decide which strategies would carry the multi-share class first.

Perpetual's US mutual fund roster affiliate

Source: Morningstar Direct, end of January

with. Intelligence

If the firm is denied the exemption then the perpetual duo said they will work on other ways of entering the ETF space.

“It would obviously help accelerate our opportunity to get into the ETF space but ultimately we have to have other possibilities,” Kenyon added.

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