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Morgan Stanley eyes more active ETFs

ETF head Tony Rochte talks new Calvert roster and future plans

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Morgan Stanley has officially rolled out its first ETFs, launching a half-dozen funds across two asset classes under the brand of its ESG specialist, Calvert, and has no plans to stop there.

The $1.3trn New York-based firm's global head of ETFs Tony Rochte told With Intelligence the firm is looking ahead to more active ETF launches, sticking with the transparent wrapper for now although it is not ruling out the possibility of non-transparent.

Rochte joined the firm in March from Goldman Sachs, along with Ally Wallace from iShares, to support its ETF platform launch.

The new roster includes five equity strategies and one fixed income strategy, two of which are active, although the indexes the passive funds follow are created through an active process managed at Calvert, not through a third-party provider.

"This launch is the first step in MSIM's development of a robust ETF platform that supports products across our businesses, asset classes, jurisdictions, and brands," said Dan Simkowitz, head of Morgan Stanley IM, in a memo.

All six of the new ETFs seek to invest in companies or issuers that operate their businesses in a manner consistent with the Calvert Principles for Responsible Investment, the firm's proprietary framework for considering ESG factors.

MSIM decided to launch its first ETFs through the Calvert brand due to its reputation in sustainable investing.

"With 40 years of history, we think of Calvert as the authentic ESG provider," Rochte said. "That has been our focus and we believe Calvert's expertise and history differentiates itself from its peers."

Three of the new ETFs are mirrors of existing Calvert mutual funds.

New Calvert ETFs

Source: Morgan Stanley Investment Management

For the active ETFs the firm wanted to differentiate and compliment the existing line-up rather than cloning its roster.

Distribution approach

The ETFs will be marketed across an open architecture platform.

Rochte declined to comment on specifics regarding hiring within distribution for the new products but did say the firm was using its current US distribution force complimented with ETF specialists.

Those teams will initially focus on the intermediary channel, and then rely on Calvert's reputation to carry the ETFs through the institutional channel, which is slowly becoming more receptive to the wrapper.

"We know from the data that if you look at the allocations of RIA investments almost a third of their book today is allocated to the ETF wrapper," Rochte said. "When it comes to the institutional market, we know the Calvert brand resonates and for that reason these areas are central to the initial launch of these vehicles."

Rochte thinks ETFs that promote positive change at the corporate level, alongside delivering on performance, will be an attractive marketing position to investors. To that end, MSIM has committed to make an annual contribution to DEI initiatives or DEI-focused organizations in an amount equal to 2bps of CDEI's net annualized AUM.

Low fees are another selling point, with the roster ranging from 14bps to 18bps for the passive funds and 24bps to 29bps for the active funds.

The average active ultrashort ESG bond ETF clocks in at 30bps, passive mid-cap at 14bps, active large blend at 51bps, passive large blend at 22bps and passive foreign large blend at 16bps.

Future product development

Early last year, Morgan Stanley's wealth arm said offering access to a range of NT ETFs was on the roadmap for approval on its platform. As for in-house offerings, there are no current plans to roll out NT ETFs.

"We'll continue to monitor new technologies in the ETF space, but for this first set of ETFs, we felt that fully transparent made sense," Rochte said.

The firm has also kicked off a parallel track of work in Europe, although it has yet to file either there for any new products. However, the firm sees plenty of white space to grow both in Europe and the US.

"Our focus in the longer term is on active investing," Rochte said. "That's at the core of all of our brands and there will likely be more over time."

This fall, Calvert reopened the $2.3bn Calvert Emerging Markets Equity Fund (CVMAX), subadvised by Hermes Investment Management, that was soft closed last year and added a new PM in the process. Then earlier this month the firm took on three Eaton Vance equities funds with the intention of rebranding them.

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