'Old load' image a load for American Funds

Brand perception keeping fund giant from making inroads with RIAs, survey shows; 'hard to change people's thinking'

By **Jason Kephart** InvestmentNews
July 2, 2012 6:01 am ET

The trouble at **American Funds** may have started with performance, but the key to turning things around is going to rest on the company's ability to engage fee-based advisers. American Funds, which has seen its mutual fund assets shrink to $857 billion from a peak of $1.2 trillion in 2007, was built largely through relationships with commission-based broker-dealers. It hasn't had nearly as much success in the registered investment adviser channel, however.


American Funds: Troubles getting traction in land of the fee

Consider some numbers. Among national, regional and independent broker-dealers, American ranks either first or second when it comes to brand recognition, according to the Cogent Research's Advisor Brandscape 2012, which was published this week. Indeed, more than half of regional brokers and 48% of independent brokers listed American Funds as a mutual fund firm they think of when preparing to make a new investment for clients. That's in stark contrast to the mere 15% of RIAs who cited American Funds when asked the same question.

“American Funds is top-of-mind when it comes to brand equity,” said Meredith Rice, senior director at Cogent. “But they're less likely to be on the mind of RIAs,” she said.

The most likely reason: American Funds' reputation as a load family. More than 80% of RIAs surveyed by Cogent described themselves as fee-based, by far the most of any category. Overall 56% reported being fee-based, according to Cogent.

“People think of American Funds as this old-load family,” said Chuck Freadhoff, spokesman for American Funds. “When you do something for 70 years, it's hard to change people's thinking.”

Of course, fee-based advisers tend to avoid load fees like they were in-laws. The irony is American Funds does offer no-load versions of their funds — and not surprisingly, they're a much better investment. In 2002, American Funds launched F-1 share classes, which carry no load fee, and in 2008, they launched F-2 share classes, which have no load fee and no 12(b)-1 fee.

The A-shares of the $89 billion American Funds EuroPacific Growth Fund, for example, have an 84 basis point expense ratio and a maximum load fee of 5.75%. The F-2 shares have an expense ratio of just 58 basis points. An investment in the A share class, with the max front-end-load fee, would have a three-year annualized return of 2.79%, which ranks in the bottom half of all foreign large-cap funds. The same investment in the F-2 shares would have a return of just over 5%, which ranks in the top quartile of the fund category, according to **Morningstar Inc.**

“They have some great investment strategies,” said Rachel Sanborn, fee-only financial planner at Financial Focus Inc. Ms. Sanborn said that a wholesaler from American Funds have visited the firm once to talk about the fee-only share classes, but she's not sure if her colleagues even remember about the other share classes. “Maybe if they did some advertising for them, it would help,” she said.

The lack of awareness among RIAs is evident when looking at the breakdown of American Funds' assets as well. Roughly 85% of American Funds' $739 billion of non-retirement plan mutual fund assets were in load share classes as of the end of 2011, according to Morningstar.

“It's a message we want out,” Mr. Freadhoff said. “We've been talking about it for 10 years.”

Not all fee-based advisers are convinced American Funds is doing the best job at getting that message out. “It seems like they're really straddling the line between the clients who made them who they are today and the RIA space,” said Melissa Joy, partner at Center For Financial Planning Inc. “Other firms really want to focus on the RIA space,” she said.

Even Mr. Freadhoff admits that the focus isn't on fee-only or for commission-based broker-dealers, for that matter. “We're agnostic when it comes to compensation. That's up to the client and the adviser,” he said. “Our emphasis isn't on what share class an adviser uses but to make sure they understand the American Funds philosophy.”

It might be in the best interests of American Funds to start emphasizing the no-load share classes. According to the Cogent survey, two-thirds of advisers are expected to be fee-based by 2014, up from 56% today.