

Fund Industry Intelligence

Mar 02, 2012 -- **Cathy Scott**

Advisors Wary Of PIMCO's Total Return ETF

Despite all the hoopla surrounding the launch on March 1 of the exchange-traded fund version of **PIMCO's** \$252 billion Total Return Fund, advisors are far from embracing actively managed ETFs. In particular, advisors told *FII* they are concerned about the limitations on derivatives use and the possibility of front-running. Those concerns could put a damper on asset gathering for the fledgling industry.

Despite the attention being drawn to the space since PIMCO rolled out its Enhanced Short Maturity Strategy ETF (MINT) in November 2009, the category has attracted just \$3.7 billion of assets across 33 funds, **Loren Fox**, senior analyst at **Strategic Insight**, reported. With \$1.4 billion of assets, MINT, a money market alternative, has 48% of the category's assets under management. The total AUM of actively managed ETFs amounts to less than half of 1% of the \$1.15 trillion ETF market.

Casey Smith, president of **Wiser Wealth Management** in Marietta, Ga., whose portfolios hold shares in MINT, said though he is interested in gaining exposure to the strategy, he is not rushing in to buy the ETF. "I will watch from the sidelines for the first 12 months. Despite **Bill Gross'** long-term track record, this is not going to be the same portfolio," he said, referring to the issues of derivatives usage and potential for other managers and traders to front-run the fund based on its daily portfolio holding disclosures. "Because Bill Gross can move markets, the Total Return ETF will be the first active ETF that truly risks front-running. If this ETF shows that it can successfully navigate that risk, it should ease some firms' fears about daily portfolio," said Fox.

Not even the ETF's similarity to the popular Total Return mutual fund—or the ETF's lower expense ratio of 55 basis points versus the mutual fund's 90—are enough for some. **Michael Dubis**, president of **Michael Dubis Financial Planning**, cited the mutual fund version's wild and unpredictable allocation shifts as a reason the ETF isn't on his radar and noted that it is unclear to him how much the ETF will deviate from the mutual fund in terms of its investment strategy. "The products don't match our current house philosophy. We still appreciate what PIMCO does, but we're focusing on investment-grade corporate debt," he added.

Still, analysts hope PIMCO successfully navigates the issues to blaze a trail in the market. "A Total Return ETF that grows quickly and avoids front-running could inspire more firms to launch active ETFs," Fox stated. He called the debut the most important U.S. ETF launch of 2012, but cautioned that regardless of how well received it is in the market, the fund is unlikely to inspire a deluge of new funds in the short-term. In the past 12 months, eight firms filed to offer actively managed ETFs and are waiting for **Securities and Exchange Commission** approval. PIMCO's ETF raised \$100 million in the first day of trading.

Total Actively Managed ETF Filings

Firm Date	Filing	Firm Date	Filing
Next Investments	03/25/09	Huntington Asset Advisors	06/17/10
Claymore Advisors (Guggenheim Advisors)	04/22/09	AllianceBernstein	07/16/10
Russell Investment Management	07/02/09	Nuveen Investments	07/21/10
Vanguard Group	11/27/09	ALPS Advisors	07/22/10
T. Rowe Price	12/04/09	Janus	09/03/10
John Hancock Advisors	12/23/09	The Hartford	09/23/10
First Trust	01/29/10	Neuberger Berman	11/19/10
FFCM, LLP	02/02/10	Northern Trust	02/11/11
RiverPark Advisors	02/17/10	State Street Global Advisors	04/01/11
Legg Mason	02/22/10	Forum Investment Advisors	06/27/11
Peritus Asset Management	02/25/10	Wealthfront	07/01/11
Eaton Vance	03/05/10	Arrow Investment Advisors	08/05/11
JPMorgan	03/10/10	Natixis Asset Management Advisors	08/15/11
Spinnaker	03/25/10	DBX (Deutsche Bank)	01/30/12
Dreyfus	06/09/10	Charles Schwab	02/28/12

Source: Strategic Insight



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