



Voltaire
ADVISORS


Municipal Bond Pricing & Benchmarks

NEW YORK ATHLETIC CLUB, NEW YORK CITY, 29TH SEPTEMBER 2016

Agenda

- ◆ 0830 Introduction – Ian Blance, Voltaire Advisors
- ◆ 0845 Panel Discussion – ATS & Market Pricing
 - Matt Posner | John Cahalane | John Gallagher | Tom Meder | Charlie Moore
- ◆ 0930 Coffee
- ◆ 1000 Panel Discussion – Evaluated Pricing
 - Ian Blance | Liz Duggan | Jayme Fagas | Matthew Fiordaliso | Varun Pawar | Jimmy Suppelsa
- ◆ 1045 Expert Discussion – Benchmarks & Indices
 - Tom Doe | JR Rieger
- ◆ 1130 Close of Briefing

Introduction



IAN BLANCE
MANAGING DIRECTOR
VOLTAIRE ADVISORS

Municipal Market Moils?

- ◆ Recent developments in the market for municipal bond pricing and benchmarks have called into question some long-standing operational procedures in mutual funds.
 - Bloomberg acquisition of BRAIS including widely tracked Municipal Bond index
 - ICE acquisition of SPSE and integration with Interactive Data
- ◆ Migrating to new vendors for mutual fund pricing is an operational, commercial and even regulatory headache and this comes at a time when mutual funds are already overburdened with new demands, such as liquidity management and derivatives rules.

Survey Questions

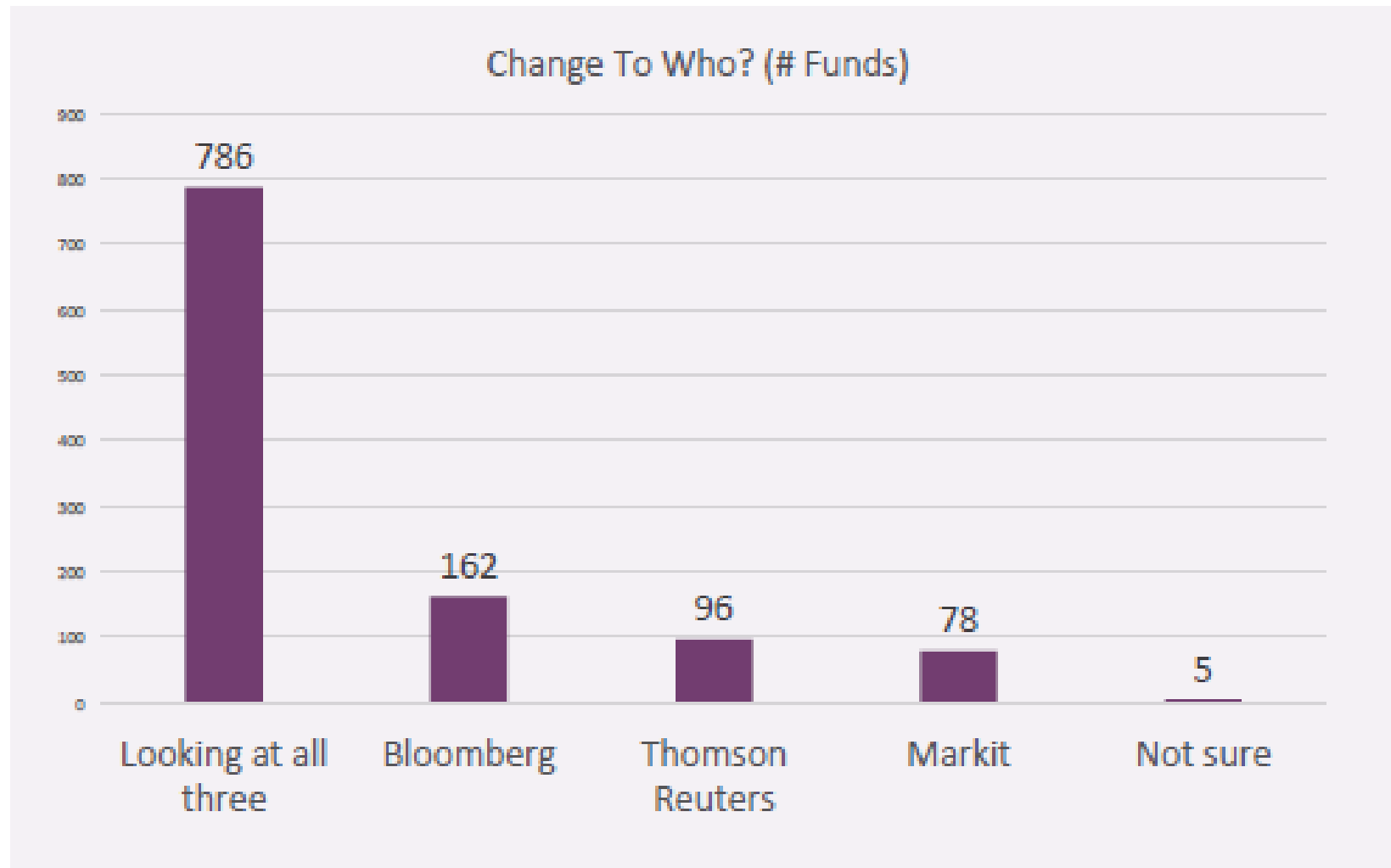
1. Who do you use as a primary pricing source for your municipal bond funds?
2. Who do you use as a secondary pricing source for your municipal bond funds?
3. Do you subscribe to any other pricing sources for municipal bonds?
4. If so, who?
5. If using Interactive Data or SPSE as a primary or secondary pricing source, are you considering a change as a result of the possible takeover of SPSE by ICE (owner of Interactive Data)?
6. If yes, which vendor options are you considering?
7. Does your fund benchmark against the Barclays (soon to be Bloomberg) Municipal Bond Indices?
8. If no, against which index is the fund benchmarked?
9. If yes, are you considering changing your fund pricing provider to BVAL to mitigate tracking error?
10. If no, what alternative is being considered?

- ◆ According to Morningstar, there are currently around 2240 municipal bond mutual funds in the United States, managed by 111 investment advisers.
- ◆ 33 of 111 advisers polled responded (30%). This included 9 of the top ten mutual fund managers and 15 of the top 20.
- ◆ These respondents managed 1451 of the 2240 existing funds (65%).
- ◆ In terms of assets under management (AUM), the respondents manage close to 80% of all mutual fund investments in municipal bonds.

- ◆ 27 of 33 respondents representing 1365 funds (94%) had SPSE as a primary pricing provider and Interactive Data as a secondary (or vice versa)
- ◆ Only 5 respondents reported having any other muni pricing source
- ◆ 22 respondents representing 1127 funds were reviewing their pricing sources as a result of the SPSE acquisition
- ◆ The remaining 11 tended to be smaller fund groups, and of these 8 were either already subscribing to an alternative source or did not use a dual pricing approach

Pricing Sources

- ◆ Most funds were looking at all the options when reviewing their sources



- ◆ 26 of the 33 respondents (995 funds) reported that their funds were benchmarked against the Barclays (now Bloomberg) Muni Bond Index.
- ◆ 19 of these respondents (897 funds) stated that they were not looking to change their pricing provider to BVAL when it became the pricing source for index constituents
- ◆ However, a large number of these (715 funds) were already looking at their pricing options as a result of the ICE/SPSE move
- ◆ Most of the firms considering switching to BVAL as a result of benchmark changes were already subscribers or were actively looking at the service already

A Sea Change in the Industry?

- ◆ We believe this is the start of a period of operational and vendor change in what has been a relatively sleepy part of the industry.
- ◆ SEC increasingly expects funds to review and assess how market developments like this impact their operations, so this analysis needs to be done and suitably documented.
- ◆ Commission also expects that any change in a critical service provider (as they have defined pricing vendors) be accompanied by extensive due diligence and a review of all the options.
- ◆ We strongly advise interested parties to keep a watchful eye on this market over the next couple of years.



Recent Developments in the Market for Municipal Bond Fund Pricing & Benchmarking

The acquisition of Barclays index group by Bloomberg and the proposed purchase of Standard & Poor's Securities Evaluations by ICE (also owners of Interactive Data) raise a number of issues for municipal bond mutual fund managers and administrators.

Operational practices of many years standing in the fund pricing and benchmarking process are called into question, and firms are being forced to consider changes and alternatives.

This comes at a time when municipal bond fund operations are subject to increasing regulatory and reporting hurdles and a challenging investment landscape.

This Special Report presents the results of an extensive user survey of muni funds on their response to these developments. During June 2016 we polled mutual funds on their reaction to both acquisitions and their current intentions with regard to pricing and benchmark sources. The conclusions provide some much needed empirical data to inform the discussion surrounding this.

As a resource for overburdened fund Treasurers, accountants and administrators facing these problems we also provide an overview of the various pricing and index sources extant in the muni market to assist with planning and strategy.

**For Full Survey Results &
Report see:**

**[www.voltaireadvisors.com/
muni-bond-pricing.html](http://www.voltaireadvisors.com/muni-bond-pricing.html)**



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Panel Session – Evaluated Pricing of Municipal Bonds



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Expert Discussion – Municipal Bond Indices & Benchmarks



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