Cheap Active Mgmt Prudential’s ETF Goal

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One of the most notable entrants into the ETF space this year has been the trillion-dollar asset manager Prudential, of the old “piece of the rock” fame. Operating under its “PGIM Investments” subsidiary, the firm jumped into the ETF space in 2018 with six actively driven ETFs, drawing nearly $200 million in assets under management since April. Behind the firm’s ETF efforts is Keshav Rajagopalan¸ who co-heads its ETFs business. ETF.com recently spoke to Rajagopalan to discuss Prudential’s pursuit of a piece of the ETF rock.

ETF.com: Let's start by talking about what Prudential's goal is in the ETF space. What's driving your ETF development?

Keshav Rajagopalan: First, as a top 10 global asset manager, PGIM overall has well north of $1 trillion in assets under management. So we felt it was important to be able to meet our clients in whatever investment vehicle that makes sense to them. We offer separate accounts. We offer collective investment trusts. We offer mutual funds. We offer UCITs in Europe.

For us, it was a natural extension of our vehicle manufacturing capabilities to be able to meet our clients—both existing and new—realizing there are some clients out there that are ETF-exclusive buyers. Being able to meet our client base with this vehicle was really the rationale for entering the space.

ETF.com: Are you getting internal clients saying, “Why am I paying this in a mutual fund when I could get the same thing in an ETF for cheaper?”

Rajagopalan: It's a little bit of both. We’re definitely using our existing distribution network. We've got wholesalers around the country who call upon our financial partners—be it wires, independent broker/dealers, registered investment advisors—who today are meeting them and talking about our mutual fund business, which is more than $100 billion across almost 100 mutual funds.

So we're talking to those same clients. And now, with an extended lineup, not only because these six ETFs that we've launched are new strategies for us, they're things that we don't offer today in mutual funds, but now we're able to meet them in the ETF marketplace as well.

We're also finding ways and thinking about ways internally within Prudential where the ETF wrapper makes sense. But unlike some of our peers, we didn't necessarily have the idea where we launched something and immediately mapped assets into our ETFs. Ours was an organic approach where we want to be committed to the space and we want to have client conversations around where ETFs make sense to our client base.

ETF.com: So the ETFs you offer don’t mirror mutual fund products? They're different?

Rajagopalan: Correct. We use the same investment capabilities, so we didn't hire new talent for this. We’re using our same active fixed-income and active equity capabilities that we use today in different ways, but they’re new products. These are all extensions of our lineup, rather than just saying, “Oh, here's a mutual fund; let's do the exact same thing in an ETF.” That hasn’t been our approach today.

ETF.com: You offer active equity and fixed income ETFs. How do you approach one or the other?

Rajagopalan: Our PGIM Ultra Short Bond ETF (PULS) is our active, ultra-short bond ETF. We don't have an ultra-short version of a mutual fund. It's a product that we've always wanted, but it never really made sense in a mutual fund wrapper because of the economics.

Yes, the short end of the curve today is pretty attractive, but in an all-weather environment, you're trying to generate a little bit of alpha over the short end of the curve, but it quickly becomes a product economically that doesn't make a whole lot of sense for the shareholder.

So it's a product we never really had in a mutual fund. But now, with the ETF structure, we were finally able to tap into an existing investment capability and can now offer it in an ETF.

ETF.com: If you had to paint the picture for me as a player in the ETF industry, how would you characterize PGIM as an issuer?

Rajagopalan: We're all active and that is truly unique. If you look at the top 10 asset managers in the space that have come into ETFs, we're the only one that is all active. That's No. 1.

No. 2 though is we've been thoughtful about pricing ourselves passively. So PULS is offered at 0.15%. Our active equity offering, the PGIM QMA Strategic Alpha Large-Cap Core ETF (PQLC) is 0.17%. We're trying to say, let's compete, because we know that the ETF buyer—all buyers are—but the ETF buyer in particular is price-sensitive. We think about whether we can offer our active capabilities but compete at passive price points.

ETF.com: Do you intend to build out an ETF suite? Or are you building these products bespoke for clients?

Rajagopalan: One of the products we launched there was a client-ask in mind. So one of them had that idea when we built it. Others are bespoke, but what we're trying to do, and we hope to do over the next couple of years, is to launch a handful of these every year. My hope is that two to five years from now we'll have 20 to 25 ETFs. But our goal is to consider where we have capabilities, and then, where is there an ETF demand, and try to marry those.

There's been a lot of ETF product proliferation over the last couple of years. I don't think we're trying to make that part of our game. We're trying to ask, where can we add value, and then where can we do it in an ETF wrapper? So there's definitely more of a strategic angle to this than just throwing products out there.

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