Find Your (Fund Industry) Passion: A Q&A With PGIM's Stuart Parker

By Emily Laermer March 27, 2020

Stuart Parker has been working in the asset management industry for more than 30 years.

During that time, assets in mutual funds have increased more than eightfold, according to data from the Investment Company Institute.

Parker is now CEO of PGIM Investments, a role he's held since 2012. The active-only Prudential affiliate has been able to keep its sales up, despite investors' shift from actively managed mutual funds into passive ones. Last year, the firm's mutual funds attracted $15.1 billion in net flows, the second-most of any active line, according to data from Morningstar Direct.

Most of that growth was fueled by demand for bond funds. Investors piled $21.7 billion into the firm's fixed-income mutual funds last year and pulled $6.7 billion from its other products.

PGIM Investments also ended the year with a record-high level of assets under management: $122.5 billion, according to a recent announcement from the firm.

Ignites recently sat down with Parker to discuss why he got into the industry and the biggest challenges — and opportunities — ahead.

(Note: This interview was conducted before the recent market volatility. Some responses have been edited for brevity and clarity.)

Q: Why did you get into the fund industry?

I had spent several years in investment banking. I had decided that that wasn't for me, but I still wanted to be in the financial services world. And I got a job as a director of marketing at Shearson. It was a small investment boutique that catered primarily to high-net-worth individuals.

And I really enjoyed that part of the business. I always felt like, on the institutional side, that if a pension fund is underfunded, that's a problem. But one large corporation can top off the pension fund. But if a high-net-worth individual is unable to meet their retirement goals, that's a crisis. So I found myself drawn to it, and I've been working with the mutual fund business and high-net-worth individuals and financial advisors ever since.

Q: What advice would you give to someone who's entering the fund industry?

First and foremost: Find your passion within the fund industry. There's the portfolio management side of it, the operation side of it, the distribution side of it. I've always been drawn to the client-facing part of the business. I love working with financial advisors and with their clients and trying to solve problems, although I can totally understand how other people are drawn to the investment side of the equation. There is virtually nothing that happens in the world that doesn't somehow affect a portfolio.

Q: What is the biggest change you've seen since you started working in the fund industry?

The biggest change is in how mutual funds are sold. The way mutual funds were sold historically involved sales loads and trails and the price of advice of an advisor. And the value of an advisor was built into the sale of the product. Now, the business is almost entirely sold on an advisory basis, where the client pays a price for the product, and a price for advice. And that, by the way, is a is a value proposition that I really like. Because it's very clear what the value is that we're providing to our clients.

Q: What are some of the biggest challenges that the fund industry is facing?

People's biggest fear in life is to outlive their money and to, ultimately, be a burden on their children. Globally, life expectancies are up. People are living longer, and they have a need for retirement income.

Q: What do you think are some of the biggest opportunities in the fund space?

What we're finding is, as we work with financial intermediaries — whether it's large broker-dealers or RIAs or independent broker-dealers — there is a tendency for people to want to do more business with fewer managers that have more capabilities. And that plays very much to our strengths, whether it's breadth of investment styles or different types of investment vehicles that they want to choose.

There's a lot of opportunity for institution-quality money management that has a record of performance that is repeatable, and is offered at a reasonable price. Another is lower management fees. Since 2012, we've lowered management fees on 52 different products.

And then there's also the vehicles that just may be cheaper. Vehicles like collective trusts and separately managed accounts are able to be offered at lower pricing than what is done through a '40 Act mutual fund.

Q: What do you see as the future of the mutual fund?

I think that '40 Act mutual funds will continue to grow. But I think you will find that other vehicles will grow faster. Look at the growth of passive.

We also think that the ability to provide alpha is going to be increasingly important. The ability to outperform is going to really have an enormous impact on people's ability to retire. Over a lifetime of retirement savings, if you could outperform by just 35 basis points above and beyond your fee, that can lead to six additional years of assets in retirement.

It goes from a nice-to-have to a must-have. And that is an opportunity for a firm like ours.

Q: What force has the most potential to disrupt the fund industry?

A: The enormous growth and demand you're seeing right now for private investments. There's $2 trillion of cash waiting to be invested in private investments.

And I think that that could increase over time, as the industry creates vehicles that will allow people to invest in private investments. So whether that disrupts the '40 Act mutual fund or not, or if the '40 Act will even participate in it, has yet to be played out. But I do think you're seeing a demand to take advantage of the illiquidity premium that comes from private investments.

Contact the reporter on this story at elaermer@ignites.com or (212) 542-1226.