Exploring the Features and Benefits of Common Investment Vehicles

Which investment vehicle is right for your clients?

Nowadays, advisors have a myriad of choices when it comes to investment vehicles. Mutual funds and exchange traded funds (ETFs) are some of the most common and accessible. Although collective investment trusts (CITs) and separately managed accounts (SMAs) have been in existence for decades, they are less well known, albeit growing in popularity. While all vehicles are managed by a professional asset manager, they differ in a number of ways. Understanding these differences can help you determine which one may be the best fit for your clients.

The most common investment vehicles

Mutual funds	ETFs	CITs	SMAs
Mutual funds pool investor funds to invest in stocks, bonds and other securities. Mutual fund shares represent an investor's proportionate ownership of the portfolio. Shares are priced at net asset value (NAV) after the major exchanges close.	ETFs pool investor funds in a variety of securities, but unlike mutual funds they can be traded throughout the trading day much like stocks. ETFs achieve this intraday liquidity through their structure: notational shares of the ETF and the underlying assets. Investors trade the shares, not the underlying assets. At times, ETF shares can trade at a premium or discount to underlying assets.	CITs pool the funds of tax-qualified retirement plans (including pension plans or 401(k)s but excluding 403(b) plans and IRAs) to invest in stocks, bonds or other assets.	SMAs are a portfolio of securities held in a single account on an investor's behalf. Unlike with a mutual fund or ETF, the investor directly holds the securities in the portfolio, and the SMA can be customized to reflect their goals and preferences.

ETFs, CITs and SMAs

These investment vehicles may have similar objectives, but they do differ. Talk to your clients about which vehicle best meets their particular needs.

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Investment vehicle features compared to mutual fund Class I share

■ More favorable than mutual funds ■ Equal or similar to mutual funds ■ Less favorable than mutual funds

	Active ETF	CIT	SMA
Fee levels	=/√	√	√
Tax efficiency	√	N/A	√
Trading efficiency/impact of flows	√	=	√
Customization	=	=	√
Accessibility	=	X	X
Portfolio transparency	=/√*	√	√
Capacity management	X	=	=
Range of strategies	X	=	X

Source: MFS research; Cerulli, US Advisor Edge 1Q23, 2Q23; ICI 2023 Factbook; Investopedia; Coalition of Collective Investment Trusts 2021; Morningstar.com, Bankrate.com.
* Traditional ETFs report holdings daily; Nontransparent and semitransparent ETFs don't.

Glossary

Fee levels – Compares average fees relative to mutual fund Class I shares.

Tax efficiency – Mutual funds may already have capital gains dating to when the fund purchased the securities. CITs are not for taxable accounts. SMA/ETF's gains are based on the clients' costs basis.

Trading efficiency/Impact of flows – Mutual funds may have limits on ownership of certain securities or industry weightings compared to other vehicles.

Customization – Ability to customize a portfolio based on various parameters.

Accessibility – Compares ease of purchase.

Capacity management – Mutual funds may impose purchase restrictions, limits or availability in the best interest of existing shareholders. ETFs cannot be closed due to being on the primary market.

Range of strategies – Compares the number of available products to purchase.

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