
Advisers' Top Concern About Muni Bonds Is Yield.

> "As passive investing continues to grow, rather than simply accept an imperfect benchmark portfolio, municipal bond investors with a preference for passive solutions should think about adopting a smart beta approach," suggests Catherine Stienstra, head of municipal investments at Columbia Threadneedle.

When establishing municipal bond exposure for clients, advisers are most concerned about yield and market complexity, according to a Columbia Threadneedle Investments survey.

Forty-three percent say their biggest concern with the asset class is finding the right amount of yield to align with their clients' goals and preferences. The next most highly cited concern (14%) was complexity in the muni market post-2008, followed by unintended consequences of benchmark investing (12%) and an inability to conveniently access all sectors of the muni market (12%).

Eighty-five percent said their muni investment decisions are at least moderately affected by credit and interest rate environments.

"Financial advisers are concerned about yield and market complexity when it comes to allocating client dollars to the muni space," says Catherine Stienstra, head of municipal investments at Columbia Threadneedle. "Traditional benchmark indices exclude viable investment options, are debt-weighted and can be over-concentrated in less attractive sectors. This puts advisers in a tough position when they try to balance cost-efficiency with investment opportunity. As passive investing continues to grow, rather than simply accept an imperfect benchmark portfolio, municipal bond investors with a preference for passive solutions should think about adopting a smart beta approach."

Fifty-five percent of advisers said they would consider investing or are already invested in a muni bond strategic exchange-traded fund (ETF). Fifty-four percent favor actively managed investments. Thirty-nine percent are concerned about cost.

"Financial advisers are being pulled in multiple directions as they remain committed to doing what's best for their clients," says Marc Zeitoun, head of strategic beta at Columbia Threadneedle. "The competing priorities of price and preference for active management are a good example of the balancing act they face. Strategic beta ETFs present a great middle ground between 'best thinking active investment insight' and passive implementation. It's no wonder that track record and a firm's expertise as an active fixed income manager remain the most important factors when considering strategic beta ETFs."

Columbia Threadneedle's findings are based on a survey of 111 financial advisers.

By Lee Barney