Schwab Impact Transcript: Matt Collins, PGIM

Jenna Dagenhart, Host, Asset TV: [00:08-00:13] Joining us now we have Matt Collins, Vice President and Head of ETFs at PGIM.

Jenna Dagenhart: [00:13-00:15] Well, Matt, great to have you back with us.

Matt Collins, Head of ETFs, PGIM: [00:15-00:15] Great to be here.

Jenna Dagenhart: [00:15-00:16] Good to see you.

Matt Collins: [00:16-00:17] Yeah, great to see you in person.

Jenna Dagenhart: [00:18-00:32] And first, Matt, Buffer ETFs aim to provide a defined range of outcomes. How can they play a role in portfolio construction for clients seeking both equity market participation as well as risk mitigation?

Matt Collins: [00:32-00:41] So defined outcome ETFs, otherwise known as buffer ETFs, the way we look at it is it puts a window frame around your equity experience. That is a very rare opportunity for clients to sort of perfectly define what they see out of the S&P 500 or the NASDAQ.

Matt Collins: [00:49-01:04] So there may be a booming stock, you know, sort of above the window frame and a bankruptcy down below the window frame. It's a rare opportunity for RIAs and financial advisors to walk into an investment and know what's going to happen.

Matt Collins: [01:05-01:17] When you consider that relative to traditional active investing or passive investing, risk could mean a thousand different things to anyone. Buffer ETFs put the power back in the hands of an RIA or financial advisor.

Jenna Dagenhart: [01:18-01:28] Next, Matt, could you walk us through how the cap and buffer mechanisms work in practice and what potential benefits they have during volatile periods?

Matt Collins: [01:28-01:38] Absolutely. So every defined outcome ETF or buffer ETF has an outcome start. It's typically the first business day of the month, and it lasts for an entire year.

Matt Collins: [01:39-01:49] Before that outcome starts, we will tell you how much upside you have potential for that ETF.

Matt Collins: [01:50-02:03] But the interesting part of it is you check before what determines that cap are interest rates. So high interest rates means high cap, low interest rates, lower cap. But high vol gives you more upside potential.

Matt Collins: [02:03-02:14] So you can hold these defined outcome ETFs perpetually. You can hold them for 5, 10 years, but at the start of the outcome, you want to check back in to see what the cap is. If it still works for you, you set it and forget it.

Matt Collins: [02:15-02:21] Or you can move to a different kind of buffer with a different cap based off the environment that works for the financial advisor.

Jenna Dagenhart: [02:21-02:35] And looking at holding periods, could you explain how expected performance might differ between holding a buffer ETF for the full outcome period versus buying or selling partway through?

Matt Collins: [02:35-02:46] So the defined outcome industry is now at $65 billion, but that essentially was about .03 to four years ago. But it's not a new concept. It just existed in less liquid vehicles.

Matt Collins: [02:46-03:03] So whether it's an annuity or a structured note, the power of the ETF is you can invest on day one, you could leave on day five, or you could hold it for five years. It's putting that power of liquidity back in. But the difference is you have to sort of check back in on the investment.

Matt Collins: [03:03-03:11] So if you're six months into the defined outcome period, you are free to sell, but you may only be up 8%.

Matt Collins: [03:13-03:21] At that point, it essentially becomes like an amortized bond. It's not a bond, but until the end of the outcome, you don't reach that full potential.

Matt Collins: [03:21-03:33] But for a client, they could say good enough, right? I got 8%, let me refresh my buffer in a new month. It gives that liquidity benefit that you don't necessarily see in structured notes or annuities.

Jenna Dagenhart: [03:34-03:45] And next, Matt, what are the key risks associated with buffer ETFs that investors often overlook? And how do you proactively educate clients about them?

Matt Collins: [03:45-03:55] So defined outcome ETFs are meant to supplement the 60/40. So within the 60, you could stay in equities and get a bond-like vol. Instead of going to the 40, you can supplement there.

Matt Collins: [03:55-04:02] But some of the key risks is if you still need compounding returns for the long-term investor. The interesting thing, that's not how life works.

Matt Collins: [04:03-04:12] We talk about investing through this abstract 40-year period. Weddings happen, houses happen, your septic tank can break, you need liquidity events.

Matt Collins: [04:13-04:25] Life happens in a set of intervals. So these defined outcomes are really meant to manage to that life cycle for clients. And they can come and go as they see fit, but they have to sort of check back in on the experience.

Jenna Dagenhart: [04:26-04:37] And finally, Matt, how do you see Buffer ETFs evolving as part of the broader ETF landscape, especially in light of increasing demand for structured outcomes and volatility control?

Matt Collins: [04:37-04:50] Yeah. So there's hundreds of buffer ETFs and at the surface, a typical financial advisor will say, well, those must be really complex. 88% of those assets are just S&P 500 iterations.

Matt Collins: [04:50-05:02] So 5% upside, 10% upside, same thing on the buffer side. So what we're seeing is clients are expecting a solution that fits their portfolio. That's where it's going.

Matt Collins: [05:02-05:11] So we can have that much more product development to fit additional needs. But these are basic products that are just tracking the S&P or NASDAQ. Very easy to understand.

Jenna Dagenhart: [05:12-05:14] Well, Matt, always great to have you with us.

Matt Collins: [05:14-05:14] Great to be here.

Jenna Dagenhart: [05:14-05:15] Thank you.

Jenna Dagenhart: [05:15-05:19] And thank you to everyone watching. Once again, that was Matt Collins with PGIM.

Jenna Dagenhart: [05:20-05:23] I'm your host, Jenna Dagenhart with Asset TV.