MONEY management executive

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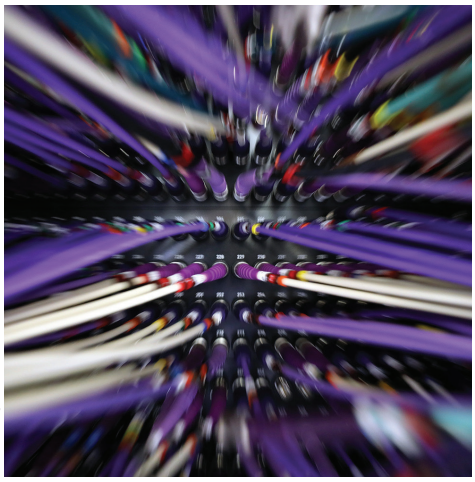
Advocating for an open-architecture future

CUSTODIANS AND ASSET MANAGERS ARE increasingly focusing on the RIA technology space, hoping to seize a multi-billion dollar opportunity to supply tools to a swelling breakaway advisor market.

Orion CEO Eric Clarke espouses an open-architecture approach to building such tools for RIAs.

Q&A
By Suleman Din

It's a strategy that has borne out a number of integrations and new initiatives for the Omaha, Nebraska-based firm, from a feature enabling trades directly from an advisors' CRM, to supporting an effort to create a standard for client data transfer and protection in the industry.



Bloomberg News

There's an opportunity for the industry to better protect sensitive client data and work more cooperatively, said Orion Advisor Services CEO Eric Clarke.

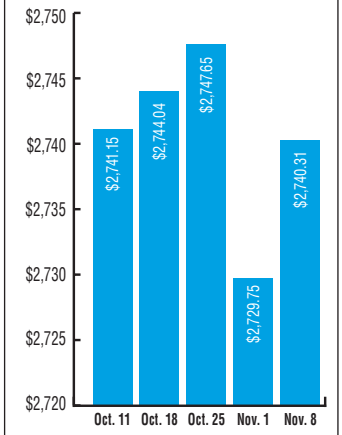
"As other industry providers consolidate their offerings, it creates more and more opportunities for us to serve that independent advisor [who] wants to create the technology stack that's the best fit for their value proposition," Clarke said.

Security, ease of workflow and the ability to work across platforms and tools are key features RIAs are seeking, Eric Clarke said, as independents continue to be selective about how they equip their practices. This is despite the bundled offerings made available by custodians such as TD Ameritrade and Fidelity.

There's an opportunity for the industry to better protect sensitive client data, Clarke added. He highlighted the cleverDome effort,

FUTURE, *on page 8*

Money market fund assets increased $10.56 billion for the week ending Nov. 8 (billions)



Source: Investment Company Institute

Insurers now have their own ETFs

CAUTION IS IN THEIR DNA, BUT THAT HASN'T stopped insurers from jumping into the craze for ETFs with both feet. Already some of the fastest-growing institutional buyers of ETFs, these conglomerates are now issuing them to compete with conventional money managers such as Vanguard Group and BlackRock.

ANALYSIS
By Rachel Evans and Katherine Chiglinsky

They're betting that brand names built on protecting your future can steal away assets — and it seems to be working. Insurers' home-grown funds now oversee more than $25.3 billion, up from just

INSURERS, *on page 5*

Say hello to FAIL, a new ETF

IMAGINE DEVELOPING A NEW INVESTMENT fund that has two main selling points: a superior strategy and a particularly memorable ticker symbol. It could be called the FAIL ETF. Catchy, right?

OPINION
By Allan S. Roth

Now think of this strategy as part of the process of reinventing how new investment funds are introduced.

First, let's do some review on how new funds are typically launched today.

Step 1: Crunch investment results and compare thousands of factors that may be driving performance. In a world of big data, this data mining

ETF, *on page 6*

INDUSTRY HIGHLIGHTS

Venezuelan default divides investors

Venezuela is in default, says S&P Global Ratings, Moody's Investors and Fitch Ratings, Bloomberg reports.

The news has sent many investors to the exits. But some fund managers specializing in distressed debt smell an opportunity. Venezuela has a long history of paying high returns to fund managers, and officials are standing by statements to repay the debt. The country recently received a lifeline from Russia in the form of an agreement to restructure $3.15 billion worth of debt, according to Bloomberg.

Ray Zucaro, CIO of RVX Asset Management, said investors can either be patient or demand payment. "Now the ball is in the bondholders' court," he said.

Neither option is ideal, but most are opting to wait it out, per the report. Acceleration would likely lead to restructuring talks with the government – or lawsuits, according to Bloomberg.

Vanguard shareholders vote down genocide-free investing proposal

Vanguard will not adopt a proposal to avoid companies that contribute to genocide or crimes against humanity, following a shareholder vote.

Investors Against Genocide brought the request, citing concerns around Vanguard holdings in PetroChina, which has connections to the government of Sudan.

Prior to the vote, Vanguard's board of trustees asked investors to oppose the action. In a proxy statement, the company called for "political and diplomatic solutions" to humanitarian crises, arguing that voluntary divestment would harm the fund's performance and be "an ineffective means to implement social change."

None of the 48 funds that would have been affected approved the measure, according to Vanguard. The result was "a sign that investors agreed with management's position," a firm spokesman said.

RESEARCH

Investors are driven to collect by passion, not profit

The majority of wealthy investors are inspired to collect because of passion rather than profit, according to a recent study. Many investors, the report finds, are unaware of what their collections are worth and have not insured them.

When these collections (cars, coins, fine art) are eventually passed to the next generation, the majority of heirs have no interest in keeping them, according to the latest UBS Wealth Management Americas' Investor Watch Report. Those who do hold onto collections do so out of obligation or guilt, UBS reports.

In fact, while 81% of investors would prefer to leave their goods to an heir rather than sell, 65% of heirs have no interest in keeping the collection. Over half (51%) of investors have never had their collections appraised, and 44% have not insured their collections. Forty-seven percent of

ETF estimated net issuance

($ millions)

	11/8/2017	11/1/2017	10/25/2017	10/18/2017	10/11/2017
Equity	3,670	2,955	12,718	14,916	6,271
Domestic	653	216	10,320	10,086	3,143
World	3,016	2,740	2,398	4,830	3,128
Hybrid	34	43	67	103	46
Bond	687	-78	3,446	2,283	2,180
Taxable	609	-17	3,197	2,056	2,062
Municipal	78	-61	250	227	118
Commodity	-153	-242	98	-428	265
Total	**4,239**	**2,679**	**16,329**	**16,875**	**8,761**

Source: Investment Company Institute

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wealthier investors (those with over $5 million in investable assets) collect fine art, while only 33% of investors with less than $5 million in assets do the same, the report says.

Managers vulnerable to tech threat

Amazon and PayPal are the latest threat to asset managers, according to a report.

Moody's analyst Stephen Tu said the tech giants won't come for the fees; instead, he foresees them entering asset management "to facilitate data collection and to keep clients within their company's ecosystem."

The companies to watch are those concentrated in the digital payment space, as well as robo advisors, per the report. To illustrate the threat, the Moody's report pointed to Alibaba's 2013 launch of a money market fund to accompany its payment system. The fund quickly became the largest in the world.

Managers answer regulation with automation

Eighty-three percent of asset managers foresee fundamental changes to their operations in the next two years due to regulation and tech, according to a survey.

To deal with changes, more than six in 10 asset managers said they are focusing on automating back-office operations, Confluence found. The majority are also rethinking how to manage reporting requirements. Data centralization came in third on the managers' list of priorities.

Confluence points to SEC Modernization and other rules in the U.S. and Europe that have managers racing to adapt. "Heightened regulatory requirements are turning a pent-up desire to automate into a need to automate," said Confluence COO Todd Moyer.

PRODUCTS

BNY Mellon to launch multi-asset investment manager in 2018

BNY Mellon Investment Management announced that it will launch a specialist multi-asset investment manager next year. The new business will combine BNY Mellon's three largest U.S. investment managers — Mellon Capital Management, Standish Mellon Asset Management and The Boston Company Asset Management — to offer institutional and intermediary clients investment strategies in both active and passive solutions.

With over $560 billion in AUM, the combined business will rank as a top 10 U.S. institutional asset manager and a top 50 manager globally.

American Century teams up with Precidian on ETF

American Century Investments has partnered with Precidian Investments to license the firm's ActiveShares methodology in support of the potential launch of actively managed, semi-transparent ETFs, American Century said.

The agreement is still subject to regulatory approvals, but Precidian's ActiveShares structure would allow American Century to deliver its actively managed investment strategies in an ETF vehicle without the daily holdings disclosure requirement of fully transparent ETFs, according to American Century.

Allianz Life unveils Index Precision Strategy

Allianz Life announced its new Index Precision Strategy, which will be available on the Allianz Index Advantage Variable Annuity suite.

Index Precision Strategy provides the option to allocate to four corresponding equity indexes. With this strategy, as long as the annual change in index value is zero or positive, the client will receive the entire annual credit of the precision rate.

Direxion launches leveraged pharma ETF

Direxion has put forth an ETF that offers 300% exposure to the Dynamic Pharmaceutical Intellidex Index. The Direxion Daily Pharmaceutical Bull 3X Shares (PILL) gives investors a leveraged position on the index of 30 U.S. drug companies. The fund's net expense ratio is 1.12%.

"The launch of PILL is timely, allowing traders to magnify their short-term bullish perspective on the popular sector," said Sylvia Jablonski, managing director at Direxion.

Legg Mason sets sights on debt ETF

Eager to expand its exchange-traded offerings, Legg Mason has petitioned the SEC for permission to start an actively managed fixed-income fund. The debt ETF would be able to hold 30% of its assets in junk debt and up to 20% in non-government asset-backed securities.

The $754 billion asset manager – which entered the ETF space in 2015 and currently has 11 funds – is also awaiting SEC approval for an equity ETF that would not disclose its daily holdings.

ARRIVALS

PPB Capital Partners hires new Chief Investment Strategist

PPB Capital Partners has hired a former lead portfolio manager for Hatters Fund, Frank Burke, as its new chief investment strategist.


Frank Burke

In his new role, Burke will advise the firm's growing network of investment advisors on selecting best-in-class alternative investment products for clients, according to the firm.

"Frank's deep knowledge of alternative asset classes will provide our platform of private investments increased breadth and depth," PPB CEO Brendan Lake said in a statement. "As one of the lead portfolio managers of Hatteras Funds, Frank brings a wealth of experience sourcing and designing funds as well as advising wealth managers on the benefits of alternative investing." MME

News Scan by James Thorne

INSURERS
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$1.9 billion five years ago.

With low interest rates weighing on the business of selling life policies, asset management — which generates fees while tying up less capital — has become an essential diversifier for insurance companies. And simple, quick and relatively cheap-to-set-up ETFs are an ideal vehicle for insurers looking to boost their bottom line, particularly if they can just repackage their tried-and-tested strategies.

"Passive is impacting flows in the asset management industry," John Barnidge, an analyst at Sandler O'Neill & Partners, said in a phone interview last month. "They're probably trying to fight back a little bit."

United Services Automobile Association started its first ETFs in October, while Principal Financial Group introduced four since the start of last month to boost its stable of strategies to 12, data compiled by Bloomberg show. New York Life Insurance Co. has 23 ETFs after buying IndexIQ in 2015; TIAA's Nuveen Investments unit has 11 after hiring Martin Kremenstein to develop its ETF business.

Even Prudential Financial, the largest U.S. life insurer by assets, is exploring ways to enter the market through a unit of its $1 trillion asset manager, PGIM, a person familiar with the matter said in September. Nationwide Mutual Insurance, one of the top 10 home and auto insurers in the U.S., joined the game this year.

"When you have multiple insurers with an ETF program, then you want to jump in," said Paul Kim, head of ETF strategy at Principal, who'd like to have as many as 30 funds within five years.

INCREASINGLY FAMILIAR

It wasn't always so. A race to the bottom on fees initially made Principal steer clear of ETFs, according to Jim McCaughan, who leads the insurer's asset manager. But the rise of actively managed funds — which typically charge more — changed all that by offering the company a way to couple its existing capabilities with more efficient distribution, he said. Prudential's Stephen Pelletier, who runs the company's U.S. operations, echoed that sentiment last week when he said his firm would potentially focus more on active ETFs since the passive space is "thoroughly spoken for."

Insurers are jumping in after using ETFs to manage their own money. Almost half of those surveyed by Greenwich Associates for a report last year said they'd started using ETFs within the past two years, and almost 25% started buying within the previous 12 months.

A regulatory change will make these funds even more attractive to invest in. The shift will tweak the accounting treatment of ETFs for insurers in a move that could lead them to add more than $300 billion to debt ETFs alone over the next five years, according to BlackRock, the largest U.S. ETF provider.

"As people are becoming more educated and more familiar with ETFs, you're seeing the usage of them increase proportionately," Lance Humphrey, a money manager in the global multi-assets team at USAA, said Oct. 24. The San Antonio-based company is using what it learned investing $5.5 billion in these funds to build its own ETFs.

Other insurers are doing the same. And, as both investors and issuers of ETFs, they have a secret weapon: their own capital. Principal's biggest fund, the Principal Active Global Dividend Income ETF, grew in less than six months into one of the largest active equity ETFs in the U.S. with more than $450 million -- almost entirely thanks to its own money. Similarly TIAA owns almost 40% of Nuveen's Nushares Enhanced Yield US Aggregate Bond ETF, and New York Life's money management unit owns more than 50% of IndexIQ's IQ 50 Percent Hedged FTSE International ETF.

That's a huge boon, since with scale comes access. Wirehouse brokers often require a minimum amount of assets in a fund before they'll offer them to clients, and some investors are restricted from buying smaller funds. By putting in their own money, insurers can leapfrog this hurdle and get their products in front of outside investors almost immediately.

Still, with more than 2,000 ETFs competing for investor assets in the U.S. alone, these nascent issuers have to stand out in an already crowded market.

"When you have multiple insurers with an ETF program, then you want to jump in."

Paul Kim, head of ETF strategy at Principal Financial Group

That's what Aegon NV's Transamerica was aiming for with the new batch of ETFs it introduced in August, according to Tom Wald, chief investment officer for the company's asset management unit.

Transamerica's four funds specifically look to mitigate risk during times of volatility, limiting the amount of hedging that an investor — such as an insurer — would have to do to protect itself. The strategies mimic managed-risk mutual funds but could be cheaper, according to Joe Becker, director of portfolio strategy for Milliman Financial Risk Management, which subadvises the ETFs.

"We didn't want to just be another 'me-too' competitor out there chasing the herd," said Wald, adding that his funds could be used in the investment portfolios that back an insurer's policies or in variable annuity products. "If you're going to be successful in the ETF market, you really have to have a differentiated product." — *Bloomberg News* MME

ETF
from page 1

process is easy and can take mere seconds to complete.

Step 2: Use the output to identify factors that worked in the past.

Step 3: Craft a compelling storyline around these factors to create excitement around your fund's brilliant new methodology. Although the fund doesn't yet exist, it can paint a hypothetical scenario, showing people how much more money they would have earned if only they had bought into the fund being launched.

Step 4: Launch the fund for real, market the brilliant strategy globally and reap the financial rewards.

Last year alone, ETF providers launched 247 new products, including both ETFs and ETNs, according to SeekingAlpha.

Unfortunately, 2016 was also a record year for ETF closures, with 128 ETFs and ETNs going defunct. What happened?

THE PROBLEM WITH ETF LAUNCHES

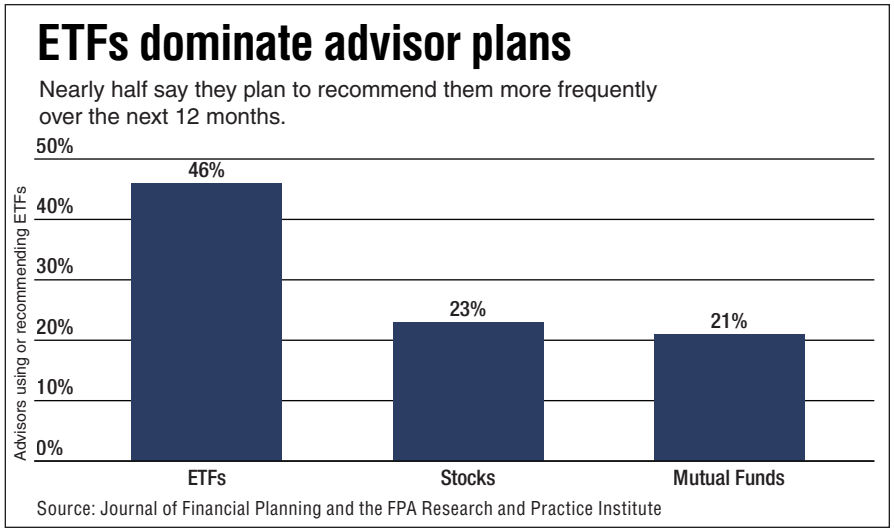
I suspect every one of those funds went through the same process of back-tested research, and each created a compelling storyline as to why it would beat the boring strategies such as old-fashioned cap-weighted index funds.

So why do so many new funds quickly close down?

It all starts with the data. For each 512 random factors reviewed, roughly one will have a 99.9% probability of correlation (either positive or negative). Correlation is not causation, however, and strong past performance doesn't usually persist.

We know that, over time, outcomes tend to even out — a phenomenon known in statistics as regression to the mean. ETF prices have been driven higher in the short run as investors pour cash into these hot new products.

But when regression to the mean occurs, and the outperformance turns into underperformance, investors will flee and cause the strategy to do even worse. The end result? Many of these funds are bound for the ETF graveyard.



According to Ben Johnson, director of global ETF research for Morningstar, the majority of strategic-beta ETFs have failed to deliver over the past one to three years. Strategic-beta funds use methodologies other than market-cap weighting.

Rob Arnott, chairman and chief executive of Research Affiliates, warned early last year in a paper that smart beta can go "horribly wrong."

In the paper, Arnott and his colleagues point out that we now have a "factor zoo" where many funds are being launched purely based on past performance, and stand little chance of outperforming in the future.

At one point, some quants found that butter production in Bangladesh had the highest correlation with U.S. stocks. It's likely a fund based on this strategy would have been huge had anyone been able to develop a storyline as to why it should work going forward.

Needless to say, the current process behind new fund launches is badly flawed.

THERE'S A BETTER WAY

For my new FAIL ETF, the process would be far superior to the traditional one. Here's how it would work.

Step 1: Rather than reach for an explanation to falsely describe why random outperformance occurred, I'll start by theorizing why a strategy should have outperformed.

Step 2: Next, I'll back test to assure the strategy failed to outperform in the past.

Step 3: I will assess the likelihood of regression to the mean and future outperformance.

Step 4: If it looks good, I'll launch the fund and keep it as quiet as I can. No doubt, the FAIL symbol will minimize inflows to the ETF, so no worries about hot money raining on my parade.

A SERIOUS MESSAGE

FAIL is obviously a fictitious fund that I won't actually launch. Still, the message behind it is serious. The current flawed process is yet another way we all chase performance. As silly as it sounds, FAIL would be a much better ETF than the abundance of ETFs being launched based on past performance and phony storylines.

Forget back-tested logical storylines and compelling sales pitches. Instead, remember how illogical the current process is for launching new funds and investment strategies.

Factors that work include some old standbys: fees, tax efficiency, diversification and rebalancing. Though not as exciting as those hot new ETFs, they have a far greater likelihood of actually working.

Someday, if you see me getting out of my private jet, it's probably not because I launched FAIL — but rather because I devised my own investment strategy from this process. MME

Allan S. Roth is founder of the planning firm Wealth Logic in Colorado Springs, Colorado.

MONEY management executive

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The Mutual Fund Service Guide is the annual reference guide for operations and marketing executives in the mutual funds industry to review and select vendors and obtain insight into the changing directions of the industry.

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FUTURE
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a proposal for competing vendors and wealth management institutions to join a closed, secure network under the control of a new type of corporation that must act in the public interest.

Speaking with *Money Management Executive*, Eric Clarke and Todd Clarke, the managing director of NorthStar Financial Services Group, discussed the demands of advisor clients as they evaluate the increasing number of available tech options.

An edited transcript of the interview follows.

Does industry consolidation work against an open-architecture approach?

Eric: Kind of, because in some cases they are purchasing or integrating partners, so that certainly does play into it. Our strategy is very different than what Envestnet's strategy is. Envestnet is creating that all-in-one experience. We're creating an open experience — more of an iPhone-like experience.

We don't want to own or create all the apps that go onto the smartphone for our advisors. We want to integrate with those new and innovative apps.

Are people weighing in on which strategy will win — proprietary product portfolio versus open architecture?

Eric: I think that there is a place for both in the marketplace. You are seeing some advisors looking at those all-in-one strategies and being OK with that approach. Obviously we're biased toward our strategy of open architecture and we think that there will be more independent advisors [who are] looking for that.

All the advisors that we serve are fiduciaries. Because of that, they're very independent — they have to keep their clients' best interests in mind. To do that, they feel like they need to find the technology that's the best fit for their business.

How concerned are you that a breach like what happened at Equifax could make its way to an open-architecture platform?

Eric: We're the only provider in our space that has an ISO certification, so we take that very seriously. We have security protocols — not only in the tech stack but also in our operational and operating procedures — clear from the board right down to the line-level staff member to have and maintain that ISO certification. That's a big deal to us, and the amount of data that we have is something that we have to safeguard every day.

So currently we have just over 2 million accounts on our platform that comprise just over $550 billion of assets under administration across some 1,300 advisors. The security and trust that they place in us is of utmost importance to us.

With that being said, we do have a lot of advisors who are doing things to proactively position their clients for a breach, like what happened with Equifax. What I mean by that is they're having their clients sign up for services like LifeLock, where even if their information is breached, then, if somebody were to try and use that information and open a credit account or line of credit or credit card, they would be notified and have an opportunity to say, "no, that's not me that's doing that activity."

What are some of the key offerings they will have to compete on?

Eric: Security is one. I think that, in the future, you're going to see the ISO certification be a standard requirement. That's why we invested the money and time that we did into getting that certification. That's ultimately what drives a lot of our decision-making processes day-to-day, and it's something that we feel should be a standard when firms are looking to do business with us as tech providers.

So there's that, and then there are day-to-day tactical things that we do, like multifactor authentication. If somebody logs in from a new or unknown device associated with that login, then they get a text message — type in these three digits, you know.

Those types of things are becoming more and more commonplace, and so having that type of functionality for our advisors to implement with their clients is a big deal.

"Closed or open doesn't create any additional vulnerabilities. Anyone who connects a device to the internet is vulnerable, whether your architecture is closed or not."

Orion Advisor Services CEO Eric Clarke

What about for the competitors who aren't adopting the open architecture?

Eric: Closed or open doesn't create any additional vulnerabilities. Anyone who connects a device to the internet is vulnerable, whether your architecture is closed or not. Equifax certainly didn't get hacked because they have an API; that's not how people got in to do that hack.

If you look at Sony, their hack could have been prevented by a multifactor authentication. That was just a username and password that was stolen.

There are some very basic things that you can put into place to prevent those types of breaches, but at the same time, it is a top concern.

Are there any offerings being developed to make it tougher for clients to go independent?

Eric: That is going to get announced. We're one of the sponsors and it's kind of a co-op, for lack of a better term, but it's a secure way for us to share our information. There's a major custodian that's a part of

that, and about a handful of tech companies that are part of that as well.

It's a technology that, instead of doing point-to-point encrypted sharing of information, it takes a packet of data and disperses it out into, say, 1,000 packets and then brings it back together on the other end. Then each of those packets is encrypted.

Think of it as having a puzzle, then instead of exchanging that puzzle completed across the table, you break it up and bring it back together at the other side.

Some of the data that we share with each other may be millions and millions of rows of information, and it takes a certain amount of time to share that data. But when you break it into 1,000 pieces and then bring it back together at the other side, that happens in a fraction of the time that it would take you to share one large encrypted file. So it's not only more secure but it's quicker as well.

You're seeing technology being used around security in a way that's not only more secure but the convenience factor is still there.

Have you seen any changes in the demand from clients?

Eric: We're seeing a lot of demand around sharing of information from one advisor to the other. We've spent a lot of time and resources building the integrations across the major systems that our advisors use. Obviously taking that portfolio accounting data, sharing that into a financial planning system or CRM system freely, getting that information flowing both ways — that's part of it.

Advisors have come to us and said, "We want to be able to share — I have a friend of mine in New York who is awesome at creating retirement income portfolios. I want him to be able to put that information into my platform and have it update my accounts."

We created this platform called Orion Communities. Communities helps our advisors share models with each other and only have to update their models in one location but then have 13 other advisors be able to subscribe to that and collaborate. That is a win because it allows our advisors to spend less time on managing the portfolios and more time on growing their business.

Along the way of building that out, we had some unique opportunities come to us. The Communities' infrastructure itself, we don't charge for. We thought that would be disruptive over the investments of the world that are charging 25 to 30 basis points as a platform fee. We thought, let's just build out the infrastructure and then make it available to our advisors.

We also had some outside asset managers come to us and say, "Hey, we want to be part of the community." Todd, do you want to talk a little bit about that?

Todd: Yes. Eric was referring to ... the peer-to-peer sharing of advisory models on to Communities' exchange of knowledge between advisors. That will allow the advisors to have an additional revenue source they can charge for those models.

We had firms like BlackRock and Russell come to us and say, "Look, we'd like to put our proprietary models on Orion Communities so that Orion advisors could access proprietary BlackRock models and Russell models."

We said, "Great, but you have to do it at no additional fee." So they put those proprietary models out there for the advisors to access.

Then our sister firm, CLS Investments, wanted to jump on that bandwagon. Rather than doing proprietary models, CLS went out and met with five ETF issuers — PowerShares, Pimco, Deutsche, JPMorgan and First Trust. They'll assemble models across these ETF issuers, ranging from conservative to aggressive. CLS will post those models on the Communities as well, for no additional strategist fee. It's really kind of a two-pronged approach — peer-to-peer sharing or accessing global asset managers for no additional strategist fee.

Would advisors be able to actually communicate with the individuals who created a model in this instance?

Eric: In some cases. For instance, we have an overlay that we launched about six months ago that allows our advisors to collaborate with each other, called Orion Social. That's a place where our advisors can exchange thoughts and ideas with each other, as well as with our Orion subject matter expert teams. They will certainly be collaborating about the model portfolios and then the strategists, they're offering conference calls and things like that, typically on a weekly basis, doing market updates; those types of things.

"We've spent a lot of time and resources building the integrations across the major systems that our advisors use."

How many actual models in Communities now?

Eric: BlackRock has provided a couple dozen models, same with Russell, and on the CLS side there's about eight models — and then our advisor. The peer-to-peer sharing opened up on Nov. 1.

Todd: In theory, all 1,300 advisors could offer multiple models. That probably won't happen, but it is going to be available for anyone that wants to post a model.

Eric: We've built out some filtering functionality. We've envisioned that there will be a lot of models out there … so we're allowing some filtering functionality for advisors to narrow the models that they're reviewing. MME

Product Evolution Critical to Long-Term Success

By Scott Schulenburg

More than ever before, investment managers are in a challenging environment that is prompting them to bring a more diversified product set to clients. In addition, this diversified product set needs to be rooted in a unique investment philosophy. This combination is at the core of being a successful manager and it is a key component to attracting and retaining investors.

It will come as no surprise that 2016 was a tough year for mutual funds. According to a February 2017 report by FUSE Research Network, mutual fund outflows reached $127 billion in 2016 — greatly surpassing the $36.5 billion in outflows seen in 2015. These outflows hit almost every category of mutual funds with U.S. equity funds taking the brunt. The only exceptions were taxable bond, municipal bond and commodities funds.

Survival in this ultra-competitive space is going to require an open mind and willingness to evolve product offerings and mix while continuing to hone in on a unique investment perspective — a challenge to be sure.

DEFINE THE OPPORTUNITY

Before launching any new products, it is critical to understand your target market and to gauge how best to position your firm in this rapidly changing environment. Get focused on where you have real opportunity based on market demand and product performance. We know that "shelf space" is limited and any new product needs to respond to a niche demand. Understanding the opportunity in the marketplace first requires that managers understand their clientele.

We continue to see the need for depth and focus. Managers cannot be everything to everyone and often try to do so to their detriment. Honing in on the real opportunity requires critical analysis of the current client base and the marketplace's appetite for a given product. Essentially, knowing what you do really well and marrying that with what investors are actively seeking from a product perspective will provide the best likelihood for success.

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PRODUCT EVOLUTION & CONSULTATIVE APPROACH

Not long ago, diversification meant a mix of equity and fixed income with exposure to both domestic and international companies. Today, following and in response to a prolonged low interest rate environment and an often irrational and volatile market, investors are looking to a different product mix for better and more predictable returns.

Today, we see some managers taking their existing successful strategies and finding new opportunities to repackage those in the marketplace by launching ETFs, continuously offered closed-end funds, collective trusts and liquid alternatives, all while weighing passive versus active offerings.

As mutual fund launches continue to decline year over year, we continue to work with managers to determine the best way to package their strategy for ultimate success. The industry is seeing an increased focus on alternative strategies and the transfer agency is evolving to support a broader product set. One example is our continued investment into technologies and processes to support the growth of closed-end funds. Currently UMB services the most shareholder accounts of any provider in the registered closed-end space.

Our firm takes a consultative approach with clients whenever discussing new product launches. Among some of the key questions we ask clients to consider when evaluating new product opportunities include:

- Why do you want to launch this product?
- Who is your target market?
- How does your unique investment strategy compliment this product type?
- What does the marketplace opportunity look like for this strategy?
- What sets you apart from the competition?
- How will it be marketed/distributed?
- What is a competitive/attractive fee structure?

WHAT SETS US APART?

Successful product launches require the assistance of an experienced fund administrator. The ever-changing regulatory environment partnered with the ongoing reporting and service demands of these products is complex. It is important to identify a fund administrator that has experience in that particular product offering and works as a true extension of your operation.

At UMB Fund Services, we have decades of experience servicing traditional mutual funds and deep expertise in the complexities of alternative investments. This combined experience is benefiting advisors on the alternatives side as they expand into new distribution channels and traditional managers as they explore new product structures.

HIGHEST QUALITY OF CLIENT SERVICE

Our focus remains on providing the highest quality of client service. We want our clients to feel prepared for the future and that requires managing through an often complex and challenging market environment. We can also provide the tools, strategic data and expert guidance to support our clients' distribution efforts. We are focused on leveraging our experience to assist in navigating through the complexities and finding real opportunities to help our clients grow today and into the future.

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Mutual fund flows

($ millions)

		Equity									
		Domestic							World		
Date	Total long term	Total equity	Total domestic	Large-cap	Mid-cap	Small-cap	Municipal multi-cap	Other	Total world	Developed markets	Emerging markets
Estimated weekly net new cash flow											
11/8/2017	3,518	-831	-4,313	-206	-933	-600	-1,356	-1,217	3,482	3,078	404
11/1/2017	1,906	-4,579	-5,670	-510	-930	-539	-3,692	2	1,091	974	117
10/25/2017	4,116	-2,719	-5,161	-2,242	-853	-200	-1,179	-687	2,443	2,031	412
10/18/2017	3,906	-2,308	-3,118	-177	-446	-381	-2,018	-96	811	846	-35
10/11/2017	3,557	-2,864	-4,766	-1,709	-363	-9	-2,378	-307	1,902	1,580	322
10/4/2017	-3,443	-10,673	-9,739	-4,186	-645	-1,553	-2,747	-607	-934	-592	-342
Monthly net new cash flow											
9/30/2017	375	-22,070	-22,682	-7,634	-2,724	-2,046	-9,330	-948	612	1,366	-754
8/31/2017	-531	-16,506	-24,582	-7,242	-3,514	-2,566	-8,205	-3,056	8,075	6,650	1,425
7/31/2017	3,777	-13,782	-25,545	-10,330	-4,491	-2,239	-7,299	-1,188	11,763	11,038	726
6/30/2017	7,558	-9,411	-18,492	-13,228	-3,146	-2,291	1,917	-1,746	9,081	7,504	1,576
5/31/2017	27,289	3,145	-9,243	2,766	-2,379	-2,169	-5,234	-2,227	12,387	8,827	3,561
4/30/2017	306	-12,498	-19,556	-5,056	-4,061	-2,006	-7,056	-1,375	7,058	5,197	1,861
3/31/2017	12,553	-14,101	-13,409	-1,715	-833	-827	-7,620	-2,415	-692	-571	-121
2/28/2017	27,047	3,996	-2,694	-1,235	524	712	-2,068	-626	6,690	5,784	906
1/31/2017	11,156	-7,754	-10,936	778	-792	998	-10,606	-1,314	3,182	2,124	1,058
12/31/2016	-56,071	-33,615	-26,974	-10,891	-977	-816	-12,204	-2,085	-6,642	-5,817	-825
11/30/2016	-52,080	-27,965	-25,929	-8,244	-1,709	-293	-11,058	-4,626	-2,035	-888	-1,147
10/31/2016	-32,792	-37,928	-31,452	-8,576	-5,287	-2,541	-12,213	-2,834	-6,477	-6,258	-219
9/30/2016	-9,028	-22,398	-15,377	-152	-1,750	-1,086	-10,123	-2,265	-7,021	-6,113	-908
8/31/2016	-9,810	-32,290	-24,782	-5,504	-3,355	-1,711	-12,753	-1,459	-7,508	-7,279	-229
7/31/2016	-15,129	-37,685	-31,253	-11,922	-5,015	-3,382	-9,045	-1,889	-6,432	-6,239	-192
6/30/2016	-14,369	-18,895	-14,871	1,099	-4,486	-1,576	-7,812	-2,095	-4,024	-4,027	2
5/31/2016	-5,589	-17,369	-17,342	-4,178	-3,363	-1,188	-7,098	-1,516	-27	-1,217	1,190
4/30/2016	-4,520	-23,767	-19,455	-5,800	-3,381	-2,405	-7,327	-542	-4,312	-3,413	-899
3/31/2016	14,661	-9,971	-9,814	-5,473	-1,428	87	-2,661	-338	-157	1,307	-1,464
2/29/2016	8,492	8,779	-2,332	2,072	-2,871	-351	-525	-657	11,111	10,509	602
1/31/2016	-20,729	-4,927	-15,549	5,587	-5,958	-2,887	-7,339	-4,952	10,622	10,862	-239
12/31/2015	-75,978	-36,660	-25,328	-5,347	-5,156	-4,053	-8,234	-2,539	-11,332	-7,175	-4,157
11/30/2015	-29,964	-20,482	-19,523	-6,164	-3,538	-3,587	-5,973	-262	-959	892	-1,850
10/31/2015	-7,515	-9,724	-11,782	-7,227	-684	-1,965	-2,912	1,006	2,058	3,187	-1,129
9/30/2015	-34,288	-9,233	-14,947	-5,318	-1,056	-1,976	-3,541	-3,055	5,713	7,964	-2,251
8/31/2015	-39,361	-9,458	-17,723	-3,927	-2,703	-1,433	-6,345	-3,315	8,264	11,489	-3,225
7/31/2015	-18,875	-9,291	-27,802	-14,811	-2,607	-992	-9,325	-66	18,511	19,008	-497
6/30/2015	5,417	-2,857	-16,488	-8,620	-926	-754	-5,866	-322	13,631	13,236	395
5/31/2015	3,040	-3,787	-16,703	-5,933	-390	-1,912	-8,099	-368	12,916	12,570	345
4/30/2015	5,810	-1,216	-19,429	-9,967	-2,082	-515	-6,992	128	18,212	15,497	2,715
3/31/2015	14,764	5,077	-8,599	-1,372	-501	-1,013	-6,753	1,041	13,676	10,264	3,412
2/28/2015	29,530	8,951	1,759	2,356	586	-997	-3,123	2,937	7,192	5,902	1,290
01/31/2015	25,706	13,060	6,647	9,751	-1,390	-1,794	-4,227	4,306	6,412	5,425	987

Note: Weekly cash flows are estimates based on reporting covering 98% of industry assets.

Source: Investment Company Institute