

Managed Accounts: A Market Assessment for MDPs and UMAs

Dover Financial Research

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Objective

- Develop an analytical framework for better understanding these offerings
 - Conduct quantitative and qualitative assessment of MDP and UMA offerings
 - Outline key capabilities of MDP programs and UMA platforms
 - Highlight implications for sponsor firms

Agenda

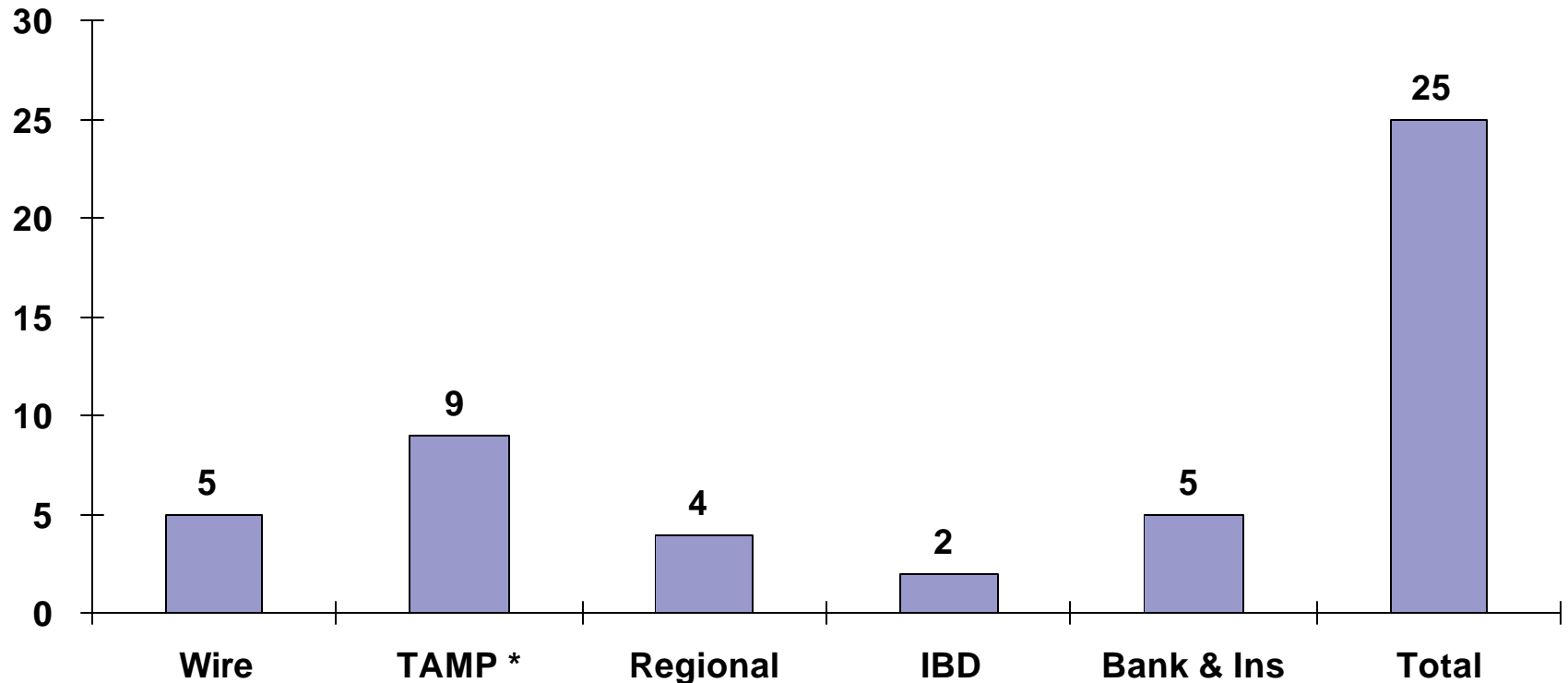
- Overview of Methodology
- MDP and UMA definitions
- Quantitative Analysis of the Current Market: SMAs, MDPs and UMAs
- State of MDP and UMA Offerings
- Analysis of Key UMA Capabilities
- Challenges and Future Outlook

Methodology

- Two pronged research methodology
 - Quantitative – developed a survey which focused on quantifying and analyzing MDP and UMA market segments
 - Qualitative – interview-based research designed to complement quantitative findings
- Research universe
 - Conducted in-depth interviews with executives representing 30 financial services firms
 - Primary focus sponsor firms: wirehouses, banks, insurance companies, independent and regional broker/dealers, and third party service providers

Survey Universe by Sponsor Type

Represents over 90% of SMA Industry Assets



* Includes overlay managers such as Placemark and Parametric

Source: Dover Financial Research

Definitions

Offerings

- MDP: Multi-Discipline Portfolio

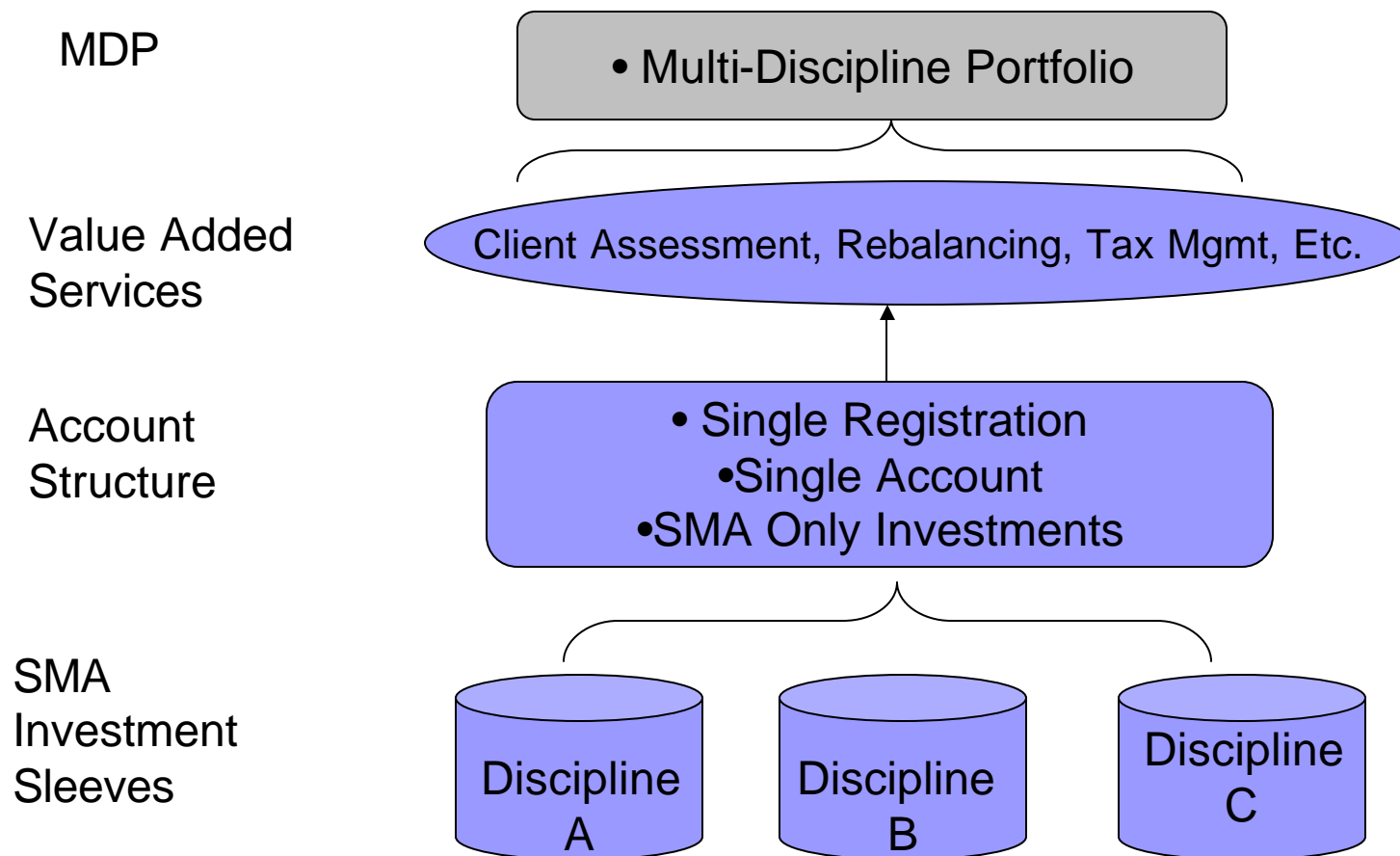
- UMA: Unified Managed Account

Key Characteristics

- Single account
- SMA only
- Multiple investment sleeves
- Rebalancing and investment management capabilities

- Single account/registration
- Multiple investment products
- Ability to manage and coordinate portfolio across multiple investment products

Schematic of MDP



UMA PLATFORM

- Account Attributes
- Single Proposal System
 - Client Assessment
 - Product Neutral Fee
 - Consolidated Performance Reporting

Unified Managed Account

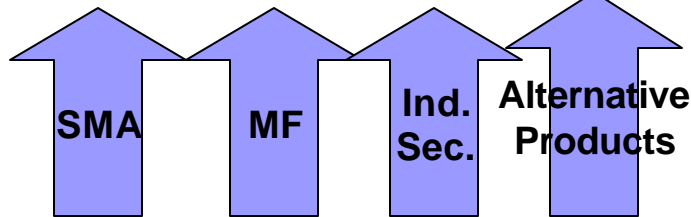
- Single Account
- Single Registration
- Multiple Products

Overlay Portfolio Management

- Passive
- Active
- Hybrid

Range of Overlay Capabilities

- Tax Management
- Rebalancing
- Wash Sales
- Customization
- Other



Investments

<i>Mgr A</i>	<i>Fund A</i>	<i>Stocks</i>	<i>ETFs</i>
<i>Mgr B</i>	<i>Fund B</i>	<i>Bonds</i>	<i>Other</i>
<i>Mgr C</i>	<i>Fund C</i>		

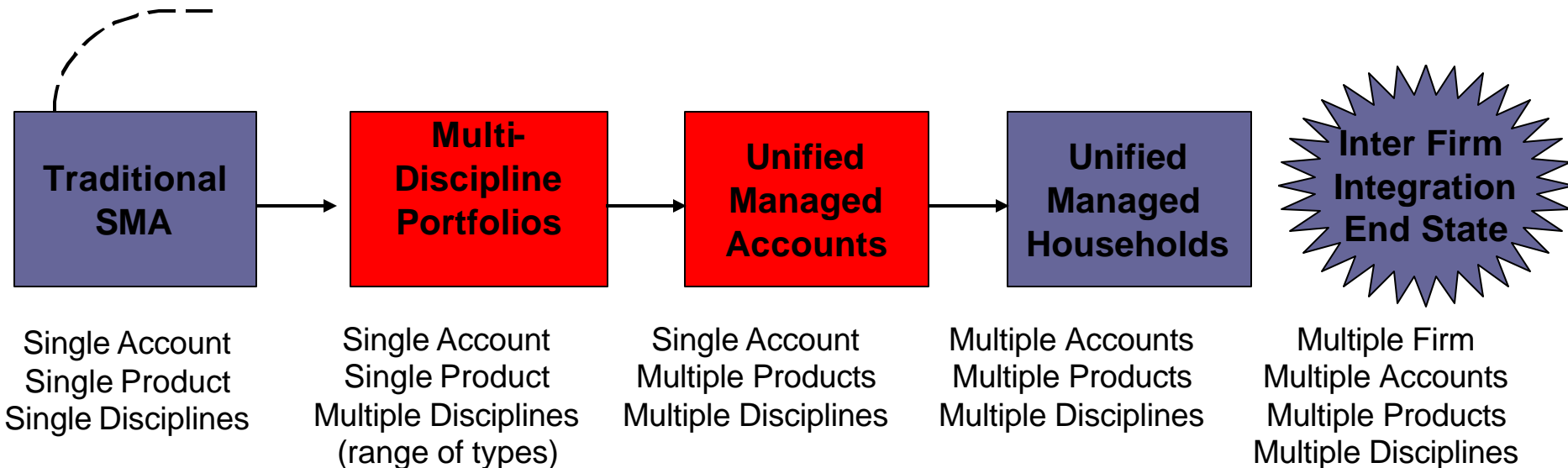


Major Trends Driving the Development of MDAs and UMAs

- Investors continue to demand choice and objectivity leading to open architecture
- Greater emphasis is being placed on providing comprehensive multi product investment solutions rather than product specific solutions
- Sponsor firms emphasize fee-based businesses
- Sponsor firms are strengthening their positions by institutionalizing the investment process

Broker/Dealers Are Changing Delivery Structures

SMA Evolution



Who Benefits from a UMA?

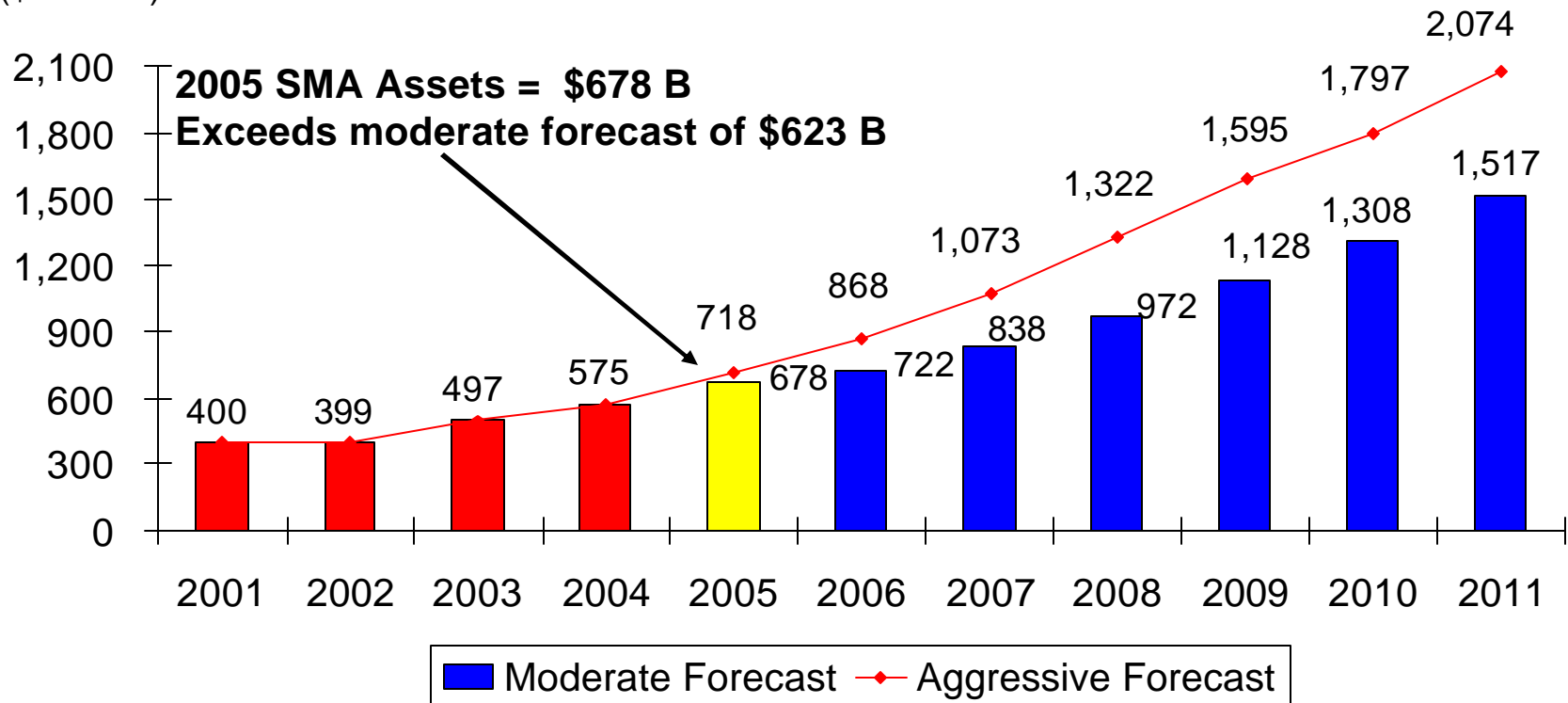
Investor	Distributor	Financial Consultant
Enhances the investor's experience <ul style="list-style-type: none"> ■ Improves diversification ■ Institutionalizes the investment process 	Creates a competitive advantage – increases investor retention and asset accumulation	Streamlines administration – More time to spend on client relationship
Provides comprehensive portfolio management	Strengthens FC recruitment efforts	Solidifies relationship with client
Emphasizes consolidated performance rather than product specific performance	Increases the power of the distributor - elevates sponsors in product delivery process	Systematizes investment solutions
	Drives fee-based revenue	

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- Industry Overview
 - MDP and UMA Market Sizing

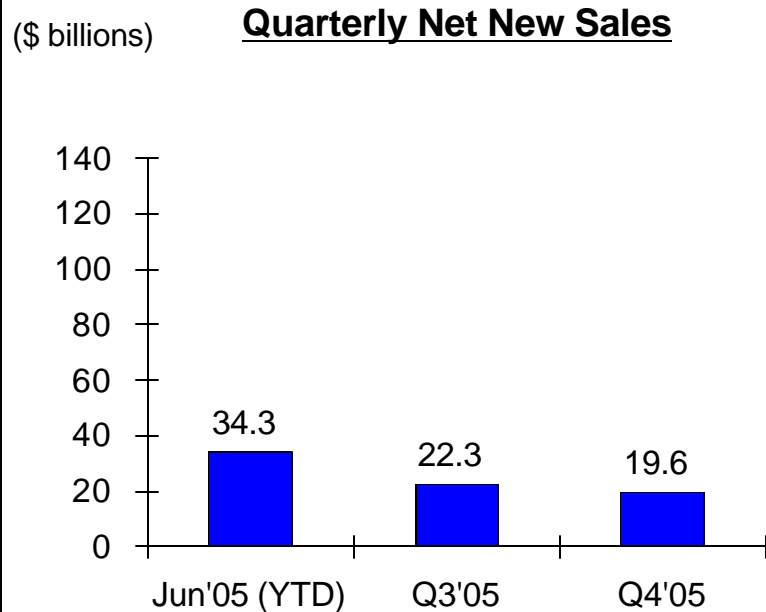
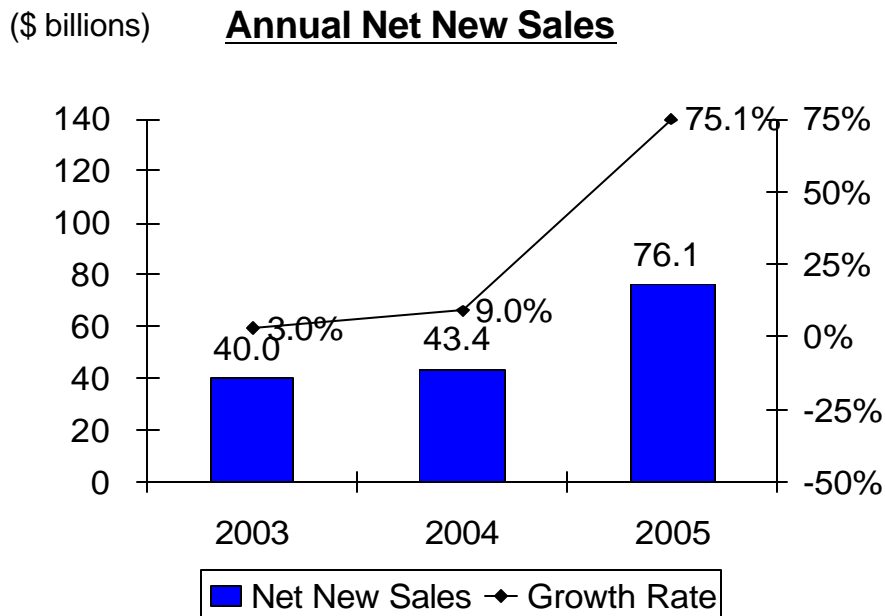
SMA Industry On Track to Achieve Moderate Growth Target

SMA 10 Year Forecast - Assets

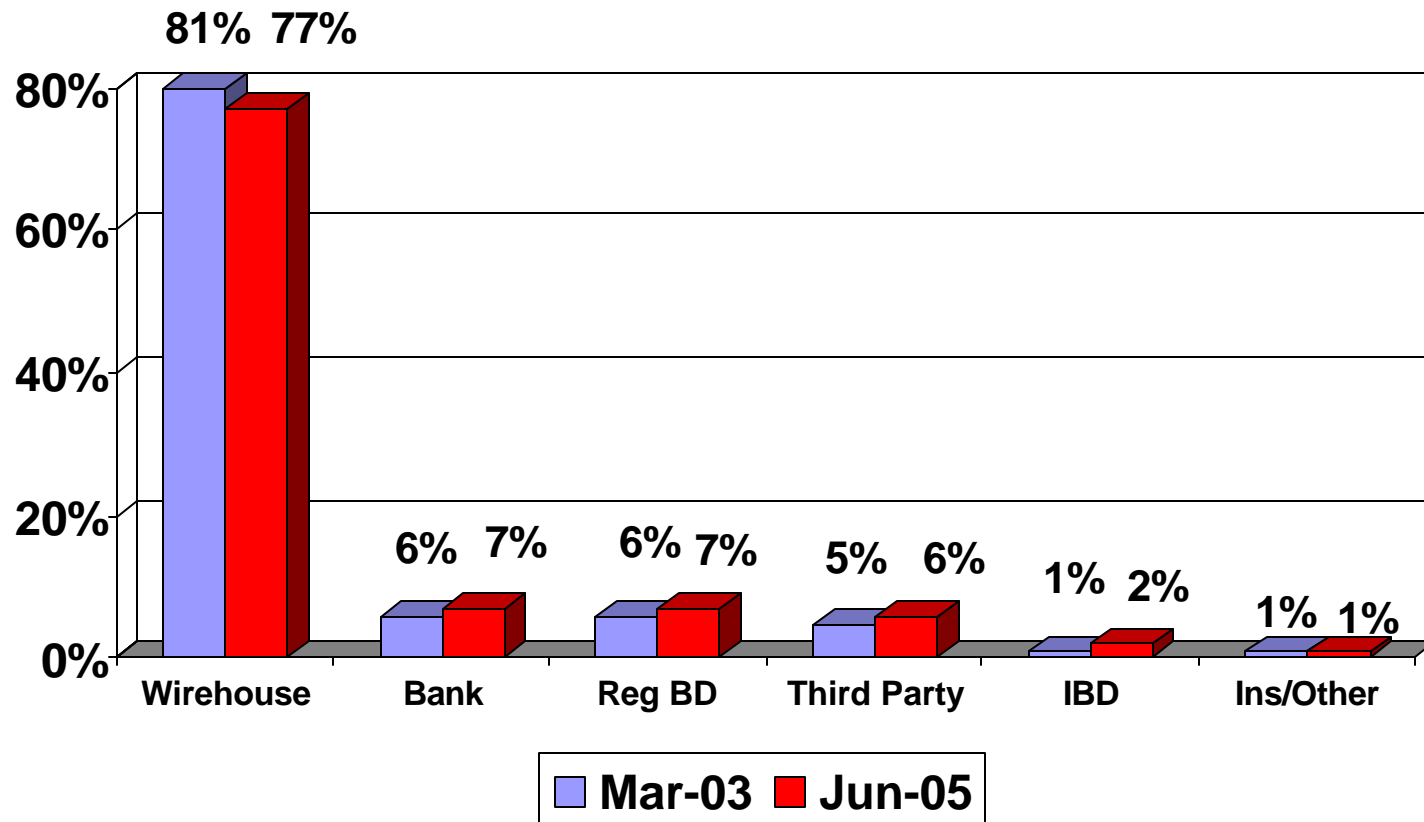
(\$ billions)



Annual Net New SMA Sales Increase by 74%

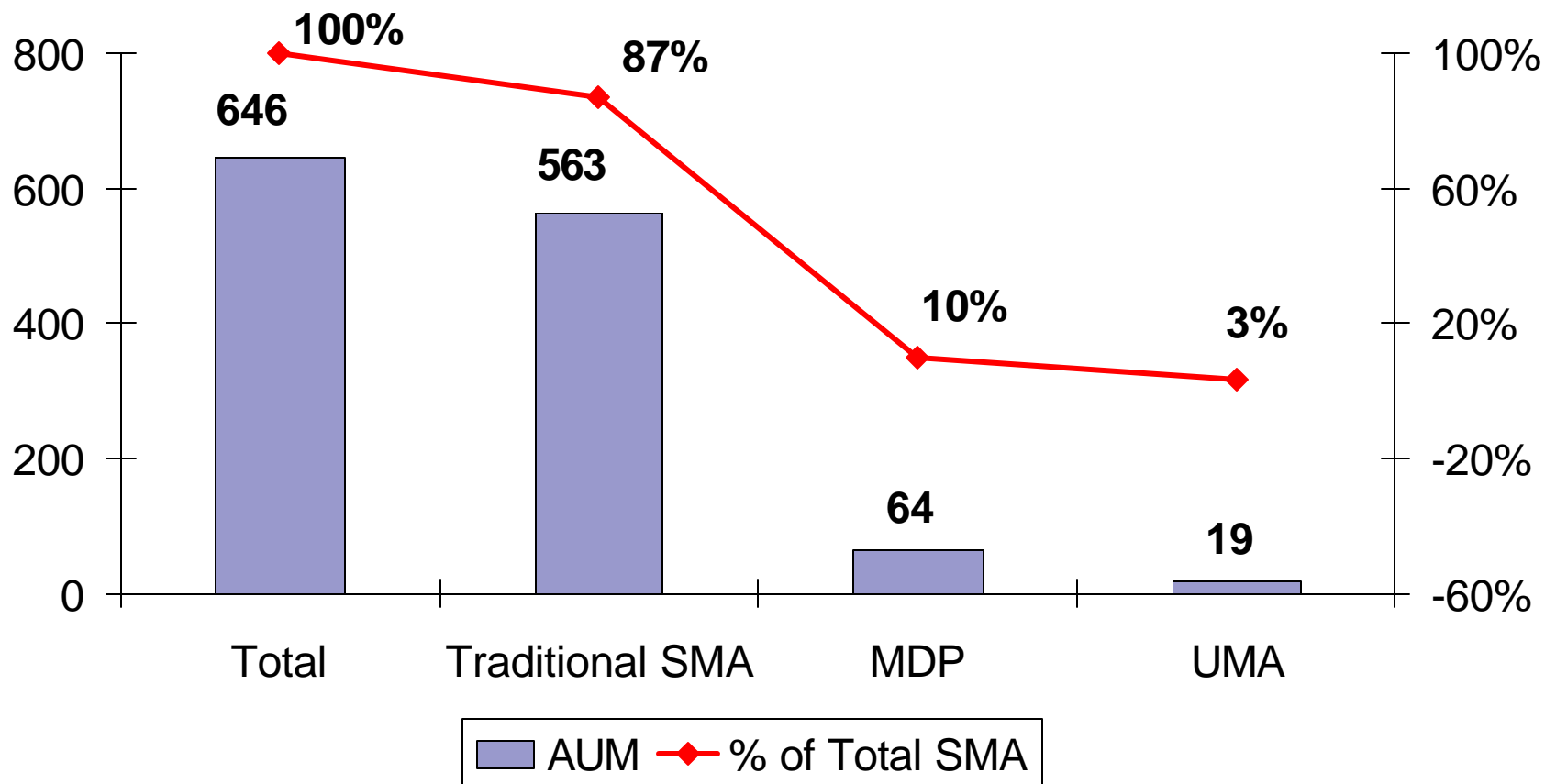


Market Share Statistics Indicates Modest Shift Toward Non Wirehouse Firms

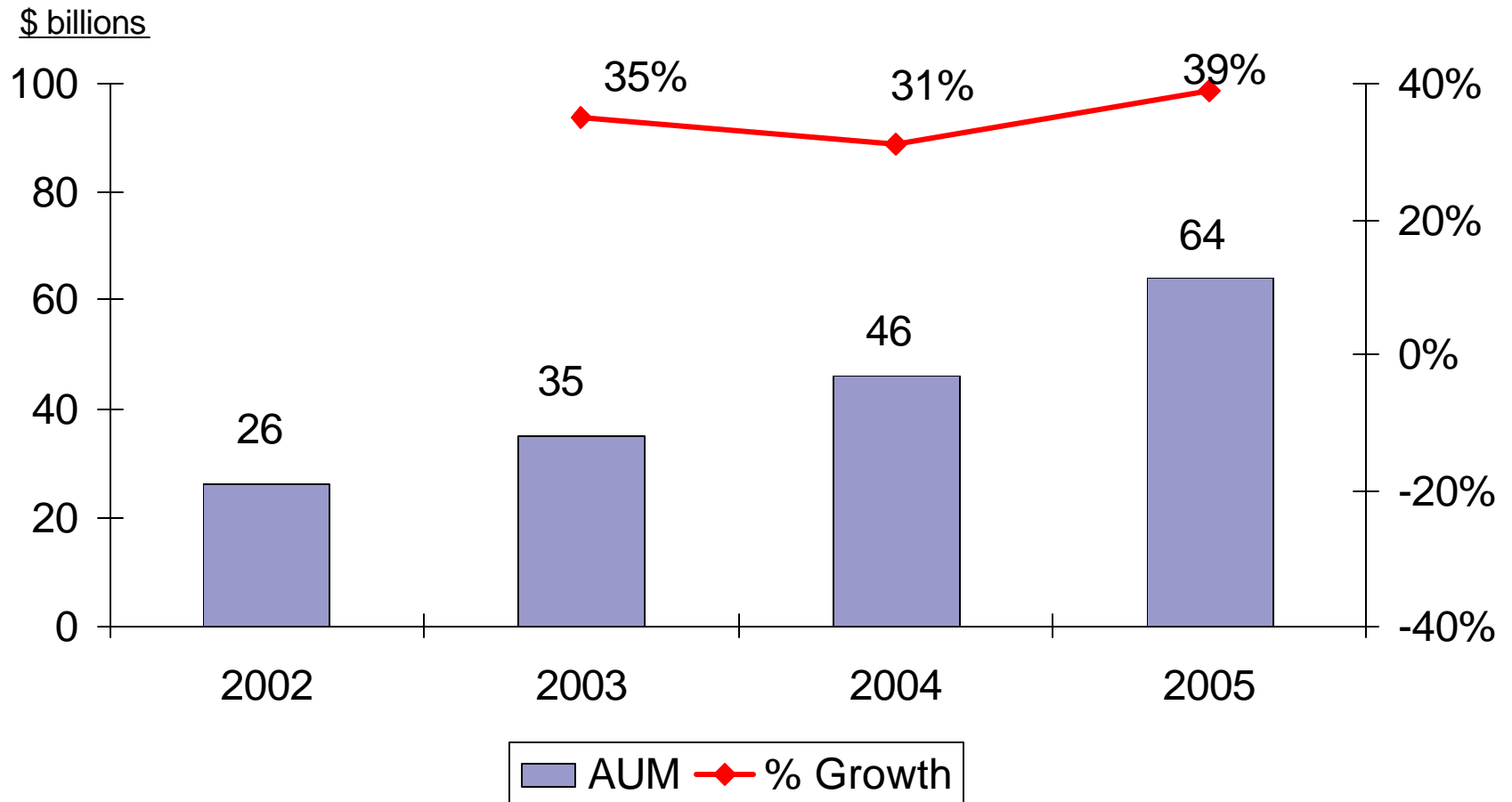


MDP and UMA Market Segments Assets Under Management (Q3'05)

\$ billions



MDPs Show Promising Growth



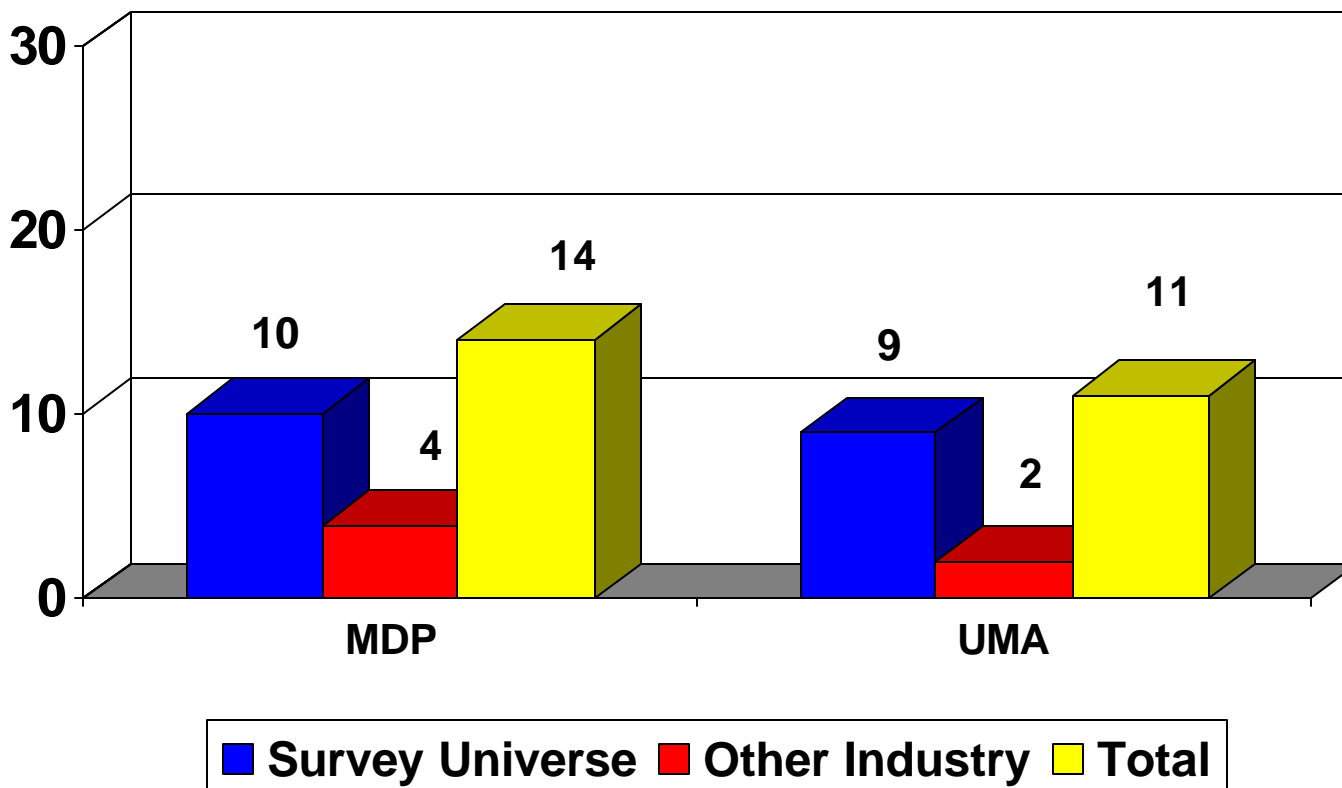


UMA Platforms Still in Their Infancy

- First UMA launched in 2002
- For newly introduced platforms asset accumulation is admirable
- Some sponsors have not transitioned from Beta mode yet have realized significant assets
- Some sponsors are converting MDP programs into UMA platforms
- These platforms will continue to gain momentum

Number of Sponsor Firms Offering MDP Programs or UMA Platforms

Industry Estimate *

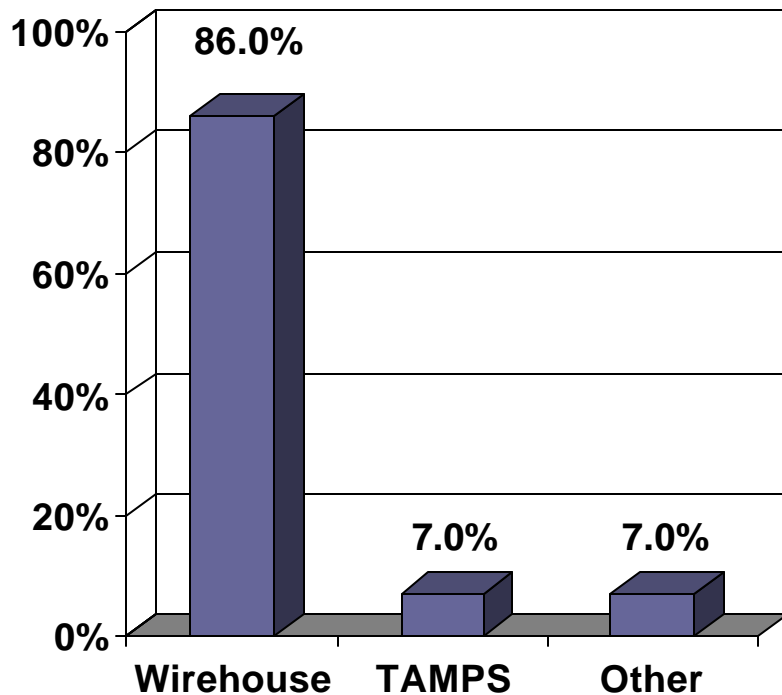


* Counts TAMP as a single distributor

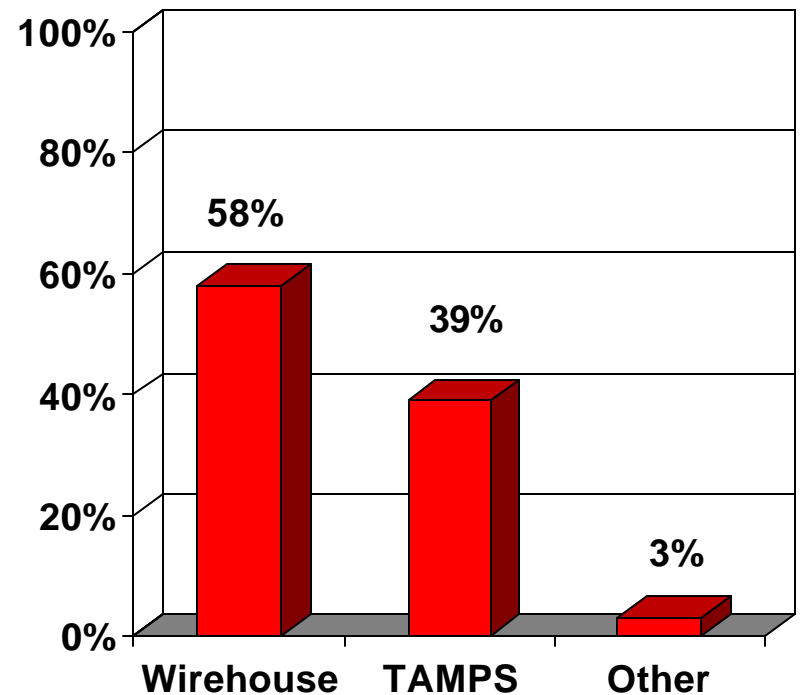
Source: Money Management Institute and Dover Financial Research

Market Share of MDP and UMA Assets By Channel

MDP



UMA



Market Sizing Conclusions

- MDPs represent about 10%-15% of the total SMA market with potential for ongoing growth
- MDP assets are highly concentrated within the wirehouse channel
 - Wirehouse firms control 86% of MDP assets and will dictate the future direction of these programs
- Fledgling UMA programs represent less than 5% of total SMA assets
- However, UMA assets are more fragmented
 - Non wirehouse firms, especially TPPs, have moved more aggressively into the UMA space

Challenges to UMA Development

- Organizational product-oriented silos
 - UMAs deemphasize product
- Demand has led technology efforts
 - Long lead time for the technology development
 - Variation in platform characteristics and requirements
- Training and support is essential
 - Sponsor firms and third party providers must staff to adequately train FCs
- Concept foreign to surveyed FCs; Solutions need to be simple
- Some sponsors still resistant to open architecture

Outlook

- Within 3 – 5 years the industry will fully embrace product neutral platforms
- Longer term two major platforms will emerge: Mutual Fund Wrap (at the low end) and Unified Managed Accounts (at the high end) with scalable solutions
- MDPs will continue to grow in the near future
 - Wirehouse commitment to MDPs ensures their growth
 - Programs simplicity creates discrete solutions for FAs
 - MDPs will continue to be introduced by non wirehouse firms opportunistically



Outlook

- The number of UMA platform launches will eclipse the number of MDP roll outs over the next few years
- Within the next 5 years UMAs will begin to realize significant growth as the industry overcomes challenges
- To compete all sponsor firms will need to offer a UMA or comparable capabilities

Dover Financial Research

- Jean Sullivan, Managing Principal
- Dover Financial Research is a boutique Boston-based research and consulting firm specializing in the financial services industry. The firm has conducted in-depth research on intermediary distribution, managed accounts, bank brokerages, bank trusts, and various investment products.
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Appendix - Definitions

- MDP – a single separate account which houses multiple “diversified” investment sleeves.
- UMA - a single account which leverages a delivery platform that aggregates the delivery of multiple products and provides the ability to *manage* an investor’s portfolio in a comprehensive fashion
- UMH - aggregates multiple accounts and provides the ability to *manage* the investors portfolio in a comprehensive fashion within a multi-account and multi-product environment