



# MONEY MANAGEMENT INSTITUTE

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## ***MMI Central 2Q 2015 Summary*** **Managed Solutions Assets Rise 3% in First Quarter** ***New Net Flows of \$60 Billion for the Three-Month Period***

Highlights of the 2Q 2015 edition of *MMI Central* include:

- In a quarter marked by continued volatility in the equity and fixed income markets, managed solutions assets rose 3% to \$4.1 trillion, maintaining the upward momentum established at the end of the 2007-2008 financial crisis and outpacing the S&P 500 index, which posted a 1% gain for the quarter.
- Total MS assets rose by \$124 billion during the opening quarter with all market segments recording increases. A continuing Unified Managed Accounts (UMA) growth surge is taking some of the steam out of Separately Managed Accounts (SMA) and Mutual Fund Advisory stand-alone programs – something that can be attributed to advisors taking advantage of the benefits of consolidating different product sleeves in a single custodial account. UMAs grew 10% during the first quarter followed by Rep as Portfolio Manager with a 4% gain and SMAs, Mutual Fund Advisory, and Rep as Advisor – all with gains of approximately 2%.
- As UMAs, which led all other market segments with a 37% rise over the past year, gain increasing traction, it is worth noting that the newer and relatively smaller UMA segment shows less concentration of assets under management among the top providers than the older, more established segments. About 71% of UMA assets are with the top ten sponsor firms compared to 91% for Rep as Portfolio Manager, 89% for SMAs, 86% for Rep as Advisor, and 82% for Mutual Fund Advisory – an indication of a broader market with less concentration among the largest providers.
- Total MS net flows for the first quarter – although down about \$5 billion from the final quarter of 2014 – continued strong, closing at \$60 billion. The aggregate trailing four-quarter net flows for the first quarters of 2015 and 2014 were \$284 billion and \$241 billion, respectively – an increase of about 18%.
- Rep as Portfolio Manager was the market segment leader in net new flows for the quarter, but not by the \$8 billion margin it held in the fourth quarter of 2014 when it captured about one-third of net inflows. With program rankings evening out in the first quarter of 2015, Rep as Portfolio

Manager posted \$18 billion in net new flows, and – somewhat surprisingly – U.S. large-cap-equity-dominated SMA programs were next with \$15 billion in flows, followed by UMAs, Mutual Fund Advisory, and Rep as Advisor with flows of \$13 billion, \$11 billion, and \$2 billion, respectively.

- Rep as Advisor is the only market segment to show steady erosion of inflows over the past three years, experiencing a drop in trailing 12-month flows from \$45 billion as of the first quarter of 2013 to \$24 billion for the 12 months ending in the first quarter of 2015.
- Among major industry segments, the 3% growth in MS assets in the first quarter compares to approximate 1% increases for Exchange Traded Funds and Long Term Mutual Funds and a 3% decline for Money Market Funds.

***Market Overview: Managed Solutions – The Key to Growth in Liquid Alternatives***

Some of the most dramatic growth among retail financial products since the financial crisis of 2008 has been in the liquid alternatives space. Driven by investor demand for diversification and volatility management, assets have nearly quadrupled from \$119 billion at the end of 2008 to \$456 billion at the close of 2014.

For the expansion to continue, however, product providers and distributors will have to overcome a significant hurdle: finding ways to increase advisors' understanding of liquid alternative strategies and how they can be effectively integrated into client portfolios. This problem is exacerbated by a lack of consistent definitions and classifications with respect to alternatives, making it difficult to match client objectives with suitable products and strategies.

Recognizing this, FINRA has placed liquid alternative product descriptions along with oversight and suitability issues among its regulatory priorities for 2015. Specifically, FINRA wants to see more detailed language about alternative mutual funds and fewer sweeping claims about potential product benefits. With respect to suitability, before recommending liquid alternatives to a client, advisors must use a thorough research and due diligence process – with compliance oversight – as a means of assuring the appropriateness of an investment for the client.

While mutual funds and ETFs employing hedge strategies account for more than 80% of liquid alternative investment assets, there are few industry standards for categorizing products at the fund level. As one solution, FINRA recommends referring to funds based on their specific strategies, as opposed to bundling them in a single umbrella category. A recent MMI survey showed greater usage by gatekeepers in 2015 of more precise language to describe products, their role in portfolios, and the due diligence process used to monitor risk and returns.

Because they are used to create holistic, outcome-oriented financial solutions for clients, MS programs are ideally suited for alternatives. These programs enable centralized control of investment risk and compliance oversight. With this approach, alternatives have a specific role within a portfolio, which mitigates the likelihood of trading because of product cyclicalities or market volatility.

*MMI Central* provides a detailed quantitative overview of the MS marketplace. The update includes sizing of the marketplace and its underlying components – mutual fund advisory programs, traditional SMA programs, multi-discipline programs, ETF programs, and UMA platforms, as well as other advisory program types. It also ranks sponsor firms and asset managers across key segments of the industry and analyzes data and trends affecting both sponsor firms and asset managers. Finally, the publication highlights emerging themes and explores areas of special interest to MMI members.

**About the Money Management Institute (MMI):** Since 1997 MMI has been the leading voice for the global financial services organizations that provide advice and professionally-managed solutions to individual and institutional investors. Through industry advocacy, educational initiatives, regulatory affairs, data reporting and professional networking, MMI supports and advances the growth of advisory solutions. MMI members' advice-driven investment solutions serve an evolving worldwide financial landscape and their organizations are committed to the highest standards of fiduciary responsibility and ethical conduct and to creating the most successful outcomes for investors at every level of assets. For more information, visit [www.MMIInst.org](http://www.MMIInst.org).

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