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Managed Solutions Assets Pass the $4 Trillion Mark

New Net Flows of $65 Billion during the Quarter

Highlights of this edition include:

- Despite increasing volatility in the fourth quarter, 2014 proved to be another strong year for managed solutions as assets under management increased over 16% from $3.4 trillion at the close of 2013 to a high water mark for the industry of just over $4 trillion at year end 2014. Over the last two years, managed solutions assets have risen about 46%.

- In 2014, all market segments experienced double digit growth. Unified Managed Accounts, the biggest gainer at 33%, continued to gather momentum, having experienced a more than six-fold increase over the last five years. Rep as Portfolio Manager, Mutual Fund Advisory, Rep as Advisor (a non-discretionary fee-based advisory option) and Separately Managed Accounts (SMA) Advisory – rose 23%, 14%, 12%, and 11%, respectively.

- In the fourth quarter, MS assets rose 4%, an increase of $163 billion. UMA Advisory once again led the segments with an increase of 11% followed by Rep as Portfolio Manager at 5%, Mutual Fund Advisory at 4%, Rep as Advisor at 3%, and SMA Advisory at 2%.

- For the full year, net flows were $277 billion, up 6% from 2013. For the trailing 12 months, the market segment net flow leaders by share were Rep as Portfolio Manager at 32% followed by Mutual Fund Advisory at 25%, UMA Advisory at 16%, Rep as Advisor at 14%, and SMA Advisory at 13%.

- Total MS flows for the fourth quarter of 2014 were strong at $65 billion. Rep as Portfolio Manager programs accounted for nearly one-third of industry flows, gaining $20 billion in new assets. Rep as Advisor and UMA Advisory programs were next with flows of $12 billion followed by Mutual Fund Advisory and SMA programs, both at $10 billion.

- Among major industry segments, the 4% growth in MS assets in the fourth quarter compares to a 10% increase for Exchange Traded Funds, 3% for Long Term Mutual Funds, and 5% for Money Market Funds.

- Over the last five years the number of managed solutions accounts has increased about 65% to 10.6 million while the average size of those accounts has grown from $263,000 to $377,000, a gain of more than 40%. The market segment with the largest percentage gain in accounts during that period – albeit over a relatively smaller base than the other more mature segments – was UMA, which more than tripled in number of accounts, and UMA also had the greatest increase in average account size with growth just short of 80% to $531,000 – trailing only SMA Advisory at $635,000.

Central Sponsor Survey: **Examining the Growth of Rep as Portfolio Manager**

Since the 2008 financial crisis, Rep as Portfolio Manager (RPM) assets have increased at a compound annual growth rate of 29%, reaching nearly $844 billion by yearend 2014, and in just the last five years the number of accounts in this fast-growing segment has more than doubled. Drawing on the results of an MMI survey of sponsor firms, this issue of *MMI Central* examines the shift in advisor preference toward the Rep as Portfolio Manager model along with the factors driving it.

Among the survey results:

- 80% of sponsors surveyed indicated that the number of RPM advisors has increased relative to their firms' total financial advisor headcounts. For some sponsors the growth in RPM designations has been significant with 20% of firms reporting an increase of between 20% and 30% while another 20% saw an increase of more than 30%.

- Pre-2008, RPM programs were positioned as niche offerings, reserved primarily for senior financial advisors who viewed their primary role as investment managers. Post-2008, advisors began to opt out of burdensome non-discretionary programs in search of greater flexibility, scalability, and customization.

- Today, a steadily growing number of advisors are using RPM programs to create flexible, comprehensive portfolio solutions and see their role as one of asset allocator as opposed to stock picker running an investment strategy. Often, they are consumers of home office research, which allows them to more easily grow their businesses while providing some level of customization for clients.

- Given the growing use of RPM programs, sponsor firms are moving to create "best practice" offerings. Survey respondents identified the key focus areas as marketing, distribution, and portfolio construction and management.

- To better prepare advisors for the RPM role, 80% of the firms surveyed are providing portfolio manager training to financial advisors prior to granting them an RPM designation. However, only 60% or fewer of firms provide ongoing training.

- 60% of firms allow their RPM advisors to hire other financial advisors within their own firms to manage portfolio models while 40% of those surveyed do not support this activity. While there is a clear acceptance that advisors can benefit from hiring third-party strategists, none of the firms surveyed currently support access to outside managers in RPM programs.

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.