



Creating Better Outcomes through Effective Portfolio Management

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PRESENTED BY



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Panelists



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Agenda

How do Advisors spend their time?

Efficiently managing client-tailored portfolios

Client fees & tax considerations

Automating the investment process & outsourcing

How do Advisors spend their time?

Advisor Activity	Branch Network Advisors	Independent Advisors	All Advisors
Client-facing activities	56.1%	54.8%	55.3%
Client meetings	18.2%	19.6%	19.0%
Preparing for client meetings	11.3%	10.1%	10.6%
Prospecting for new clients	10.2%	9.7%	9.9%
Financial planning (e.g., plan creation)	10.4%	9.1%	9.7%
Client service problems	6.1%	6.2%	6.2%
Administrative	16.5%	24.5%	21.2%
Managing day-to-day operations and administration	7.4%	10.7%	9.3%
Practice management (e.g., business planning, staff development, marketing)	4.6%	8.9%	7.1%
Compliance	3.8%	4.0%	3.9%
Other	0.7%	1.0%	0.9%
Investment management	20.5%	15.2%	17.4%
Investment research, due diligence, and monitoring	13.2%	10.0%	11.3%
Trading and rebalancing	7.3%	5.2%	6.1%
Professional development	6.9%	5.5%	6.1%

- Are you spending enough time with clients & prospects?
- Are you gaining a competitive advantage with Administrative activities?
- Is Investment Management a core competency of your practice?

Source: Cerulli Associates, in partnership with Investments & Wealth Institute and the Financial Planning Association (FPA)

Why do Investors trust you with their money...

Profile

Client

Client Goal

Risk, Time, Needs, Expectations

Define

Advisory Plan

Investment Objective

Allocation, Contributions, Disbursements

Determine

Discretion

Multi-Party Discretion

Client

Advisor

Firm

Asset Manager

Select

Investment Vehicles

MF

ETF

EQ

FI

SMA

AI

Proposal

The need for implementation solutions

Industry trends have created the need for solutions that **proactively address fiduciary risks**:

- Increasingly **complex** investment landscape
- Investors seeking **proactive** risk management
- Greater scrutiny of **fiduciary obligations**
- Demand for **customized investments**
- Increased use of **overlays**
- The search for **yield**
- Higher market **volatility**
- **Fee** sensitivity
- Increased use of **alternatives**



Integrated Portfolio Implementation[®]

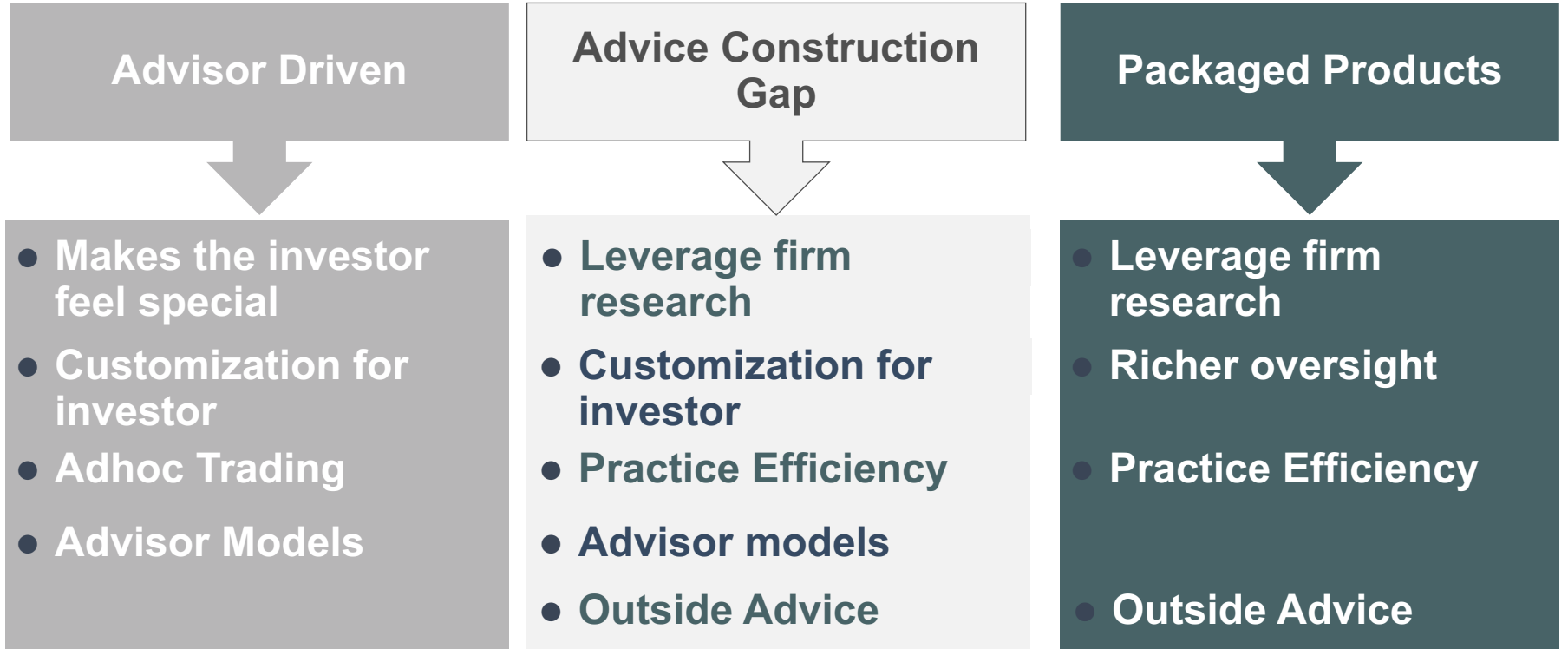
harnesses technology and a suite of investment solutions to meet the needs of today's investors while maintaining the ability to adapt to change.

Efficiently Managing Client-Tailored Portfolios

How do I balance customizing each portfolio for each client with efficiency and scaling my practice?

Is there an easy way to access a broad range of strategies and models to address the investment needs across my clients?

The Advice Construction Gap

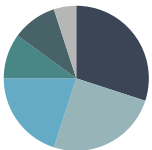


Building Blocks of Advice



Building Blocks of Advice

Investment Objectives

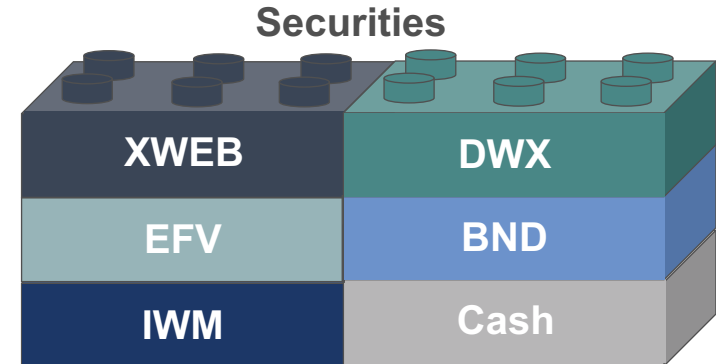
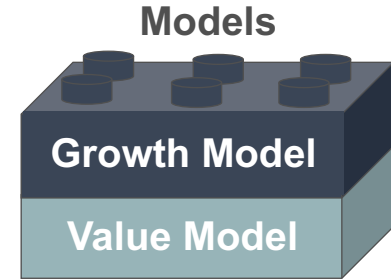


Manager Models

Advisor Models

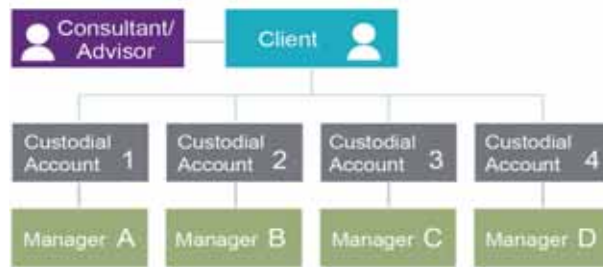
Sleeve Trading

Approved Securities



Integrated versus traditional approach

Traditional Structure



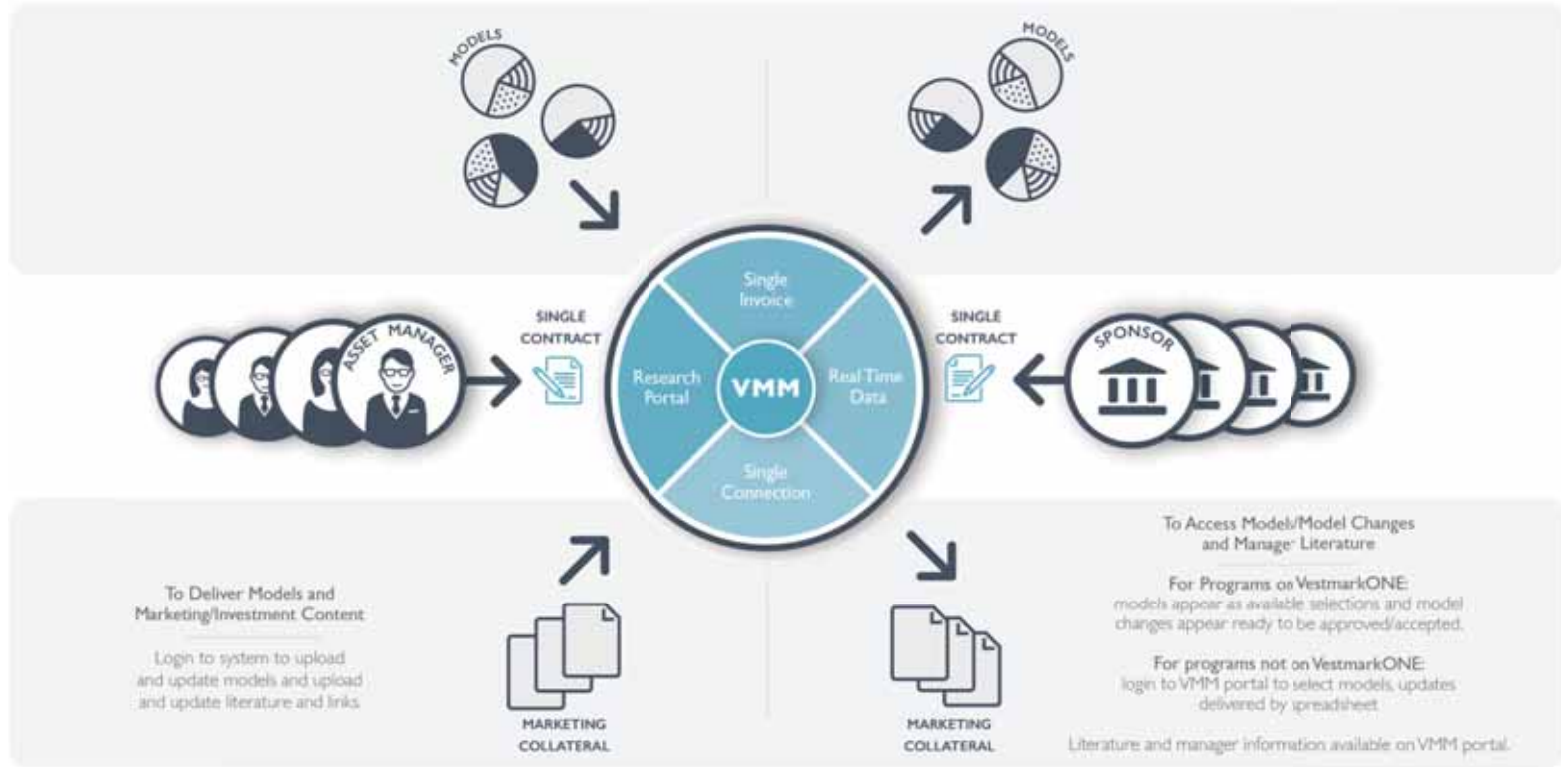
- **Multiple** agreements and accounts
- **Inefficient** to rebalance, transition managers, process cash flows
- **Difficult** to monitor risk exposures
- **Multiple points of contact** for service
- **No real-time** oversight
- **Inability** to coordinate trading among managers
- Administrative **burdens**

Integrated Implementation



- **Single** agreement and account
- **Efficiently** transition managers, rebalance and process cash flows
- **Efficiently** monitor and manage risks
- **Single point of contact** for service
- **Real-time** oversight
- **Coordinated** trading
- Significant administrative **efficiency gains**

An Independent Marketplace for Strategies & Models



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Investment vehicle fee comparison

Asset Class	Target Alloc	Fees (basis points)		
		Mutual Funds ¹	Separate Accounts ²	MPA Model ³
US Equity	45%	72	65	37
Intl Equity	15%	86	77	35
Taxable Fixed Inc	40%	55	37	21
Subtotal	100%	67.3	55.6	30.3
Overlay/Imp fee ⁴				20
Total Investment Mgt Fee		67.3	55.6	50.3

¹Morningstar Direct, Cerulli Associates. The Cerulli Edge, US Asset and Wealth Management Edition, July 2018, Issue #251.

²Morningstar Direct, Managed Portfolio Advisors. Fee rates represent the asset weighted fees for separate account composites included in the Morningstar separate account manager database as of August 2018. Strategies with missing fee or asset numbers were excluded as were strategies indicating zero assets or fees.

³Managed Portfolio Advisors. Fee rates represent the average of fee rates for separate account strategies from managers that are delivering model portfolios to Managed Portfolio Advisors as of August 2018.

⁴Overlay fee provided for illustrative purposes only.

Quantifying the cost of taxes

Lipper Analytics 2010 Tax Study (2000-2009)¹

- Taxable investors gave up between **1-2% of return to taxes**
- Carry-over losses typically used within 2 years of downturn
- Historically **taxes at least as important as fees**

Academic research

- Explaining After-Tax Mutual Fund Performance²
 - Equity investors in top tax brackets **lost 2.2% annually to taxes** (1981-1998)
 - Risk, pre-tax performance, investment style and expenses determine future after-tax results
- The Value of Tax Efficient Investments³
 - Investors in top tax bracket **lost 1.84% annually to taxes** (1995-2005)
- Tax Efficient Asset Management: Evidence from equity mutual funds⁴
 - Higher tax burden funds do not exhibit superior before-tax performance
 - The average long-term **capital gains overhang is 10.3%** historically

Roseen, Tom, "Taxes in the Mutual Fund Industry - 2010," Lipper, a Thomson Reuters company.

Peterson, J.D., P.A. Pietranico, M.W. Riepe, and F. Xu, "Explaining After-Tax Mutual Fund Performance." Financial Analysts Journal, Vol. 58, No. 1 (January/February 2002)

Longmeier, G. & G. Wotherspoon, "The Value of Tax Efficient Investments: An Analysis of After-Tax Mutual Fund and Index Returns." The Journal of Wealth Management, Fall 2006

Clemens, S. and Zhang, H., "Tax Efficient Asset Management: Evidence from equity mutual funds," December 27, 2014

Investment vehicle comparison

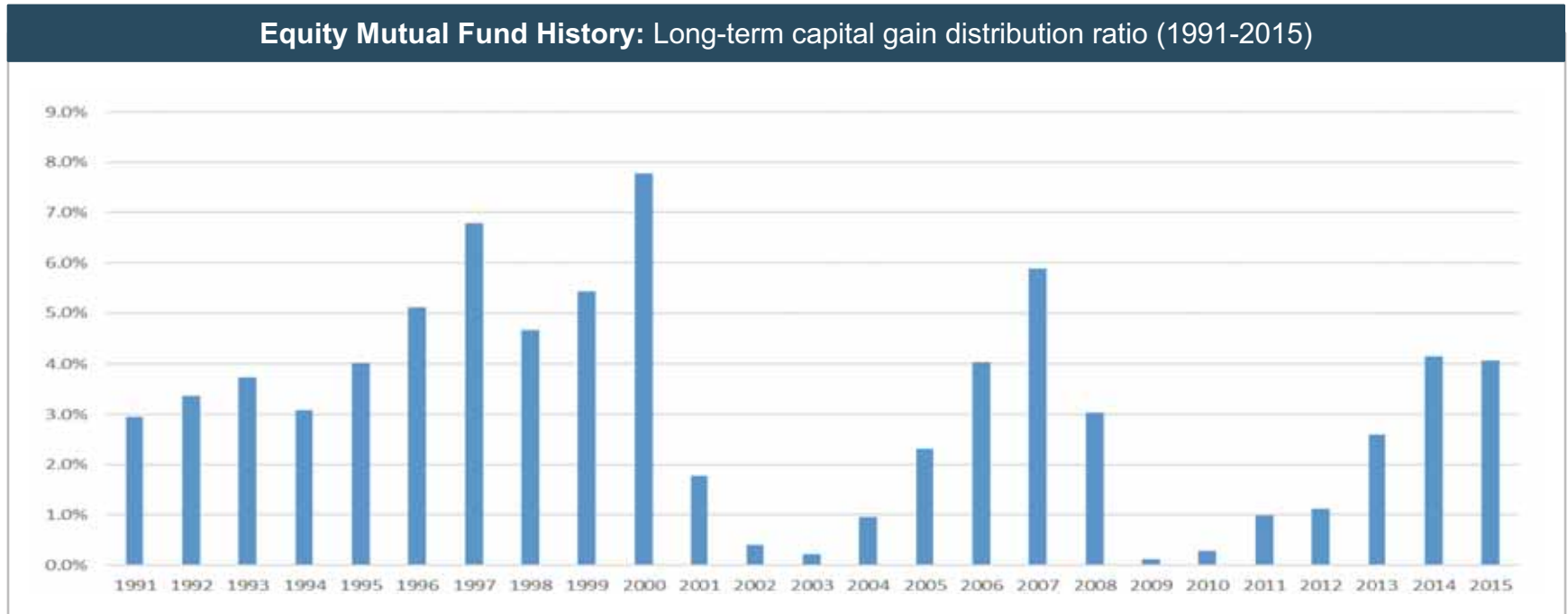
Mutual funds and ETFs

- Required to distribute net income and capital gains at least annually
- Cost basis is shared with other investors in the fund
- ETFs can minimize capital gain distribution through creation/redemption process
- Investors taxed on distributions and when fund shares are sold

Separately managed accounts

- Client establishes own cost basis in each security
- Taxable events occur when underlying securities are sold
 - Gains and losses

Mutual fund capital gain distributions

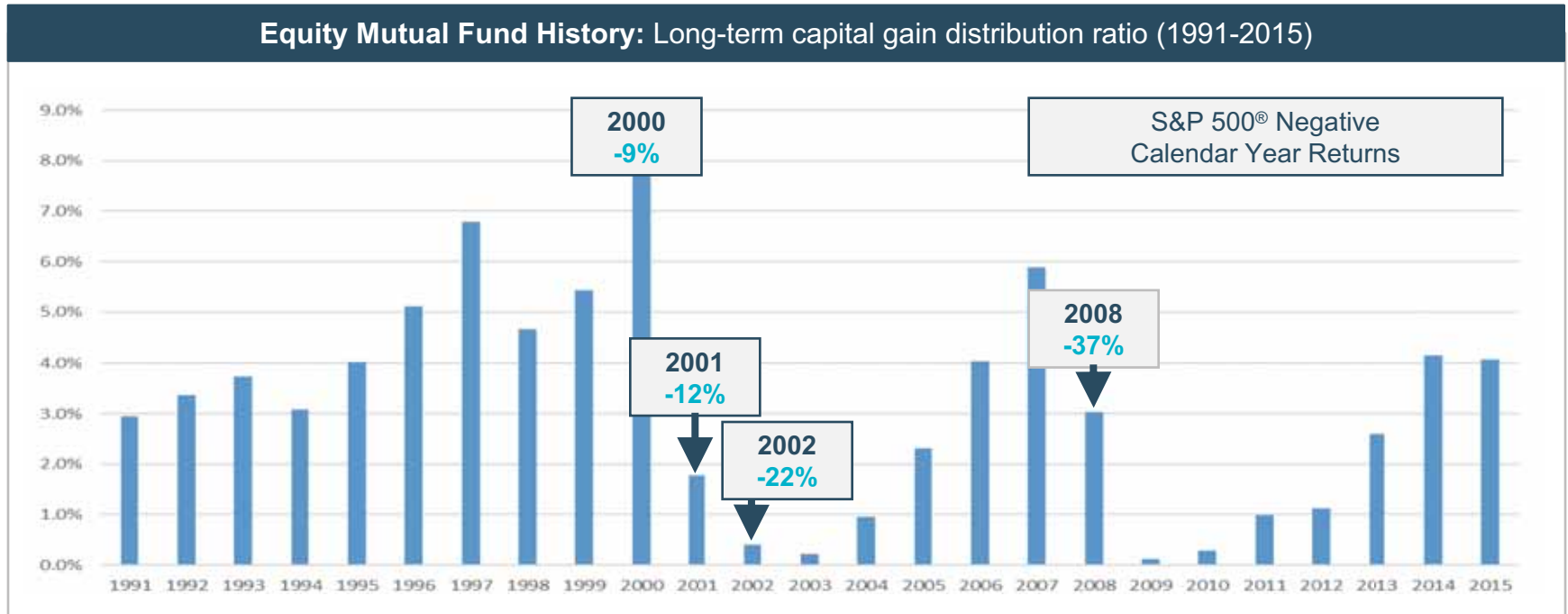


Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results. Index returns are not intended to imply any future performance of any investment product.

Note: Distribution ratios are calculated by dividing total equity mutual fund distributions by year-end assets.

Sources: Investment Company Institute 2015 Factbook, Bloomberg, and Managed Portfolio Advisors®, a division of NGAM Advisors, L.P.

Equity mutual fund distribution trends (1991-2016)



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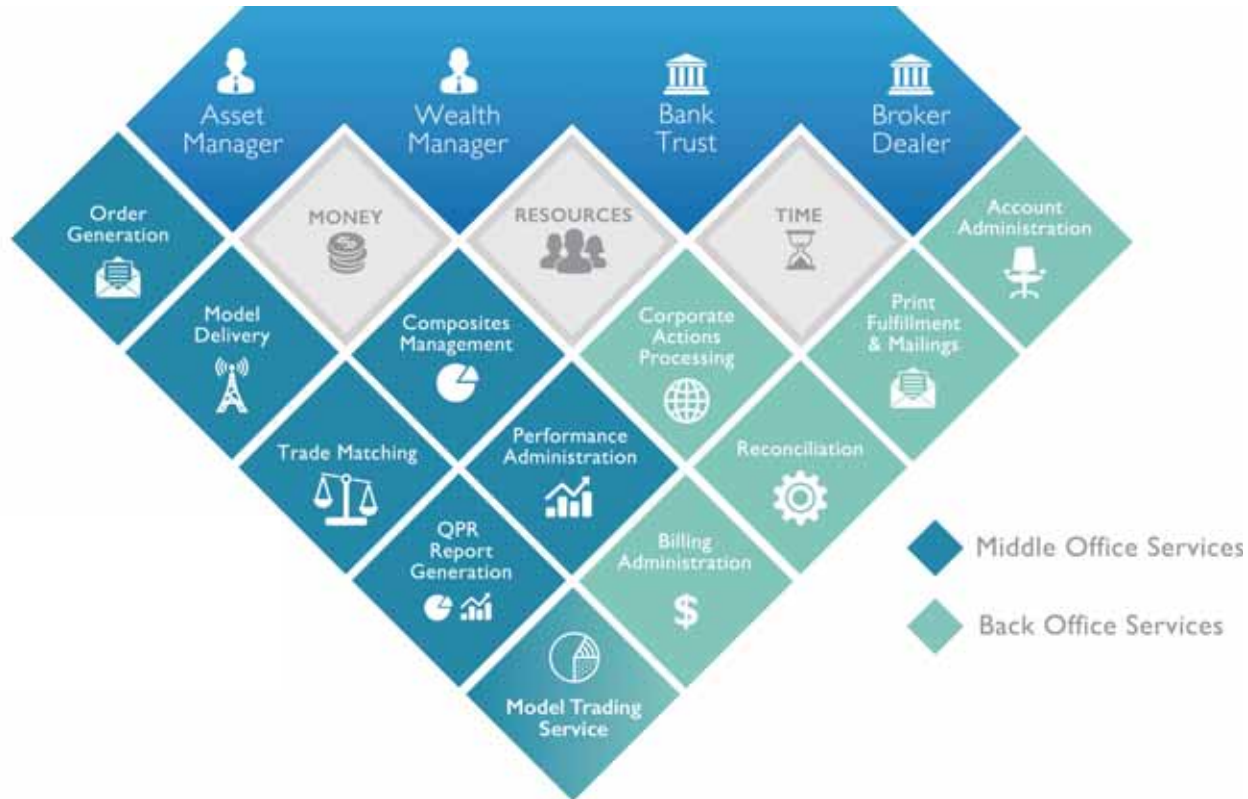
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A Comprehensive Portfolio Management & Trading Platform



Middle & Back Office Outsourcing



Outsourcing considerations

What is my value to clients?

What's holding back growth in my practice?

What areas of investment management are a true core competency?

- Asset allocation

- Manager selection

- Security selection

Should I be executing trades?

Am I gaining a competitive advantage from my operational functions?

These answers may change over time → have flexibility

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