



Demystifying Unified Managed Accounts (UMAs) and Unified Managed Households (UMHs)

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Speakers

Andrew J. Clipper

Managing Director, Product Management and Development, Citi Wealth Management

Brett Ginter

Co-Founder and Principal, SMART Consulting Firm, LLC

Steve Warren

Co-Founder, COO, CTO, MyVest

Moderated by Raymond Fazzi

Senior Editor, *Financial Advisor* magazine

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UMA Definition

Investopedia explains *Unified Managed Account - UMA*

The unified managed account is an evolution of the separate account, which is similar in that it is a professionally managed [account](#) which is rebalanced often but only contains one type of investment instrument (such as mutual funds).

If an investor wanted to have a well-diversified portfolio of stocks, bonds and mutual funds, he or she would need to open three separate accounts. The UMA removes the need to have more than one account and combines all of the assets into one account with a single registration.



UMA Research



Research Summary

▶ Qualitative Analysis:

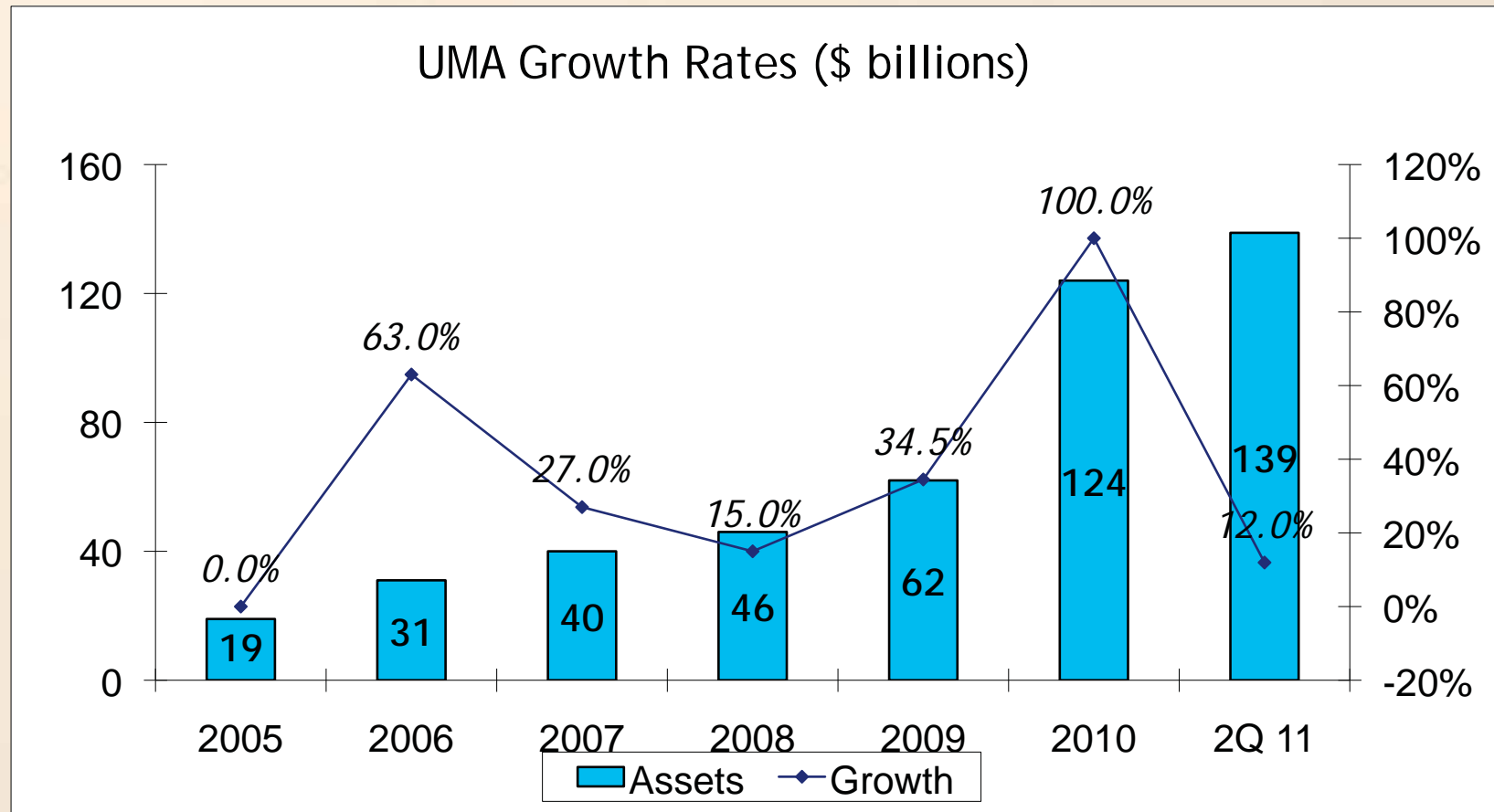
- Contacted 30 firms; interviewed 23 firms
- UMA sponsor firms and third party vendors, represented 70% of the UMA industry
- Interviewed 60% of the top 15 investment management firms based on model AUM
 - Smaller IM firms also interviewed

▶ Quantitative Analysis:

- Analyzed four UMA manager/model lists obtained from top UMA platform providers
- Conducted two surveys to 80 investment managers to obtain key statistics
- Leveraged proprietary database



From 2009 to 2011 UMA Assets Have More Than Doubled



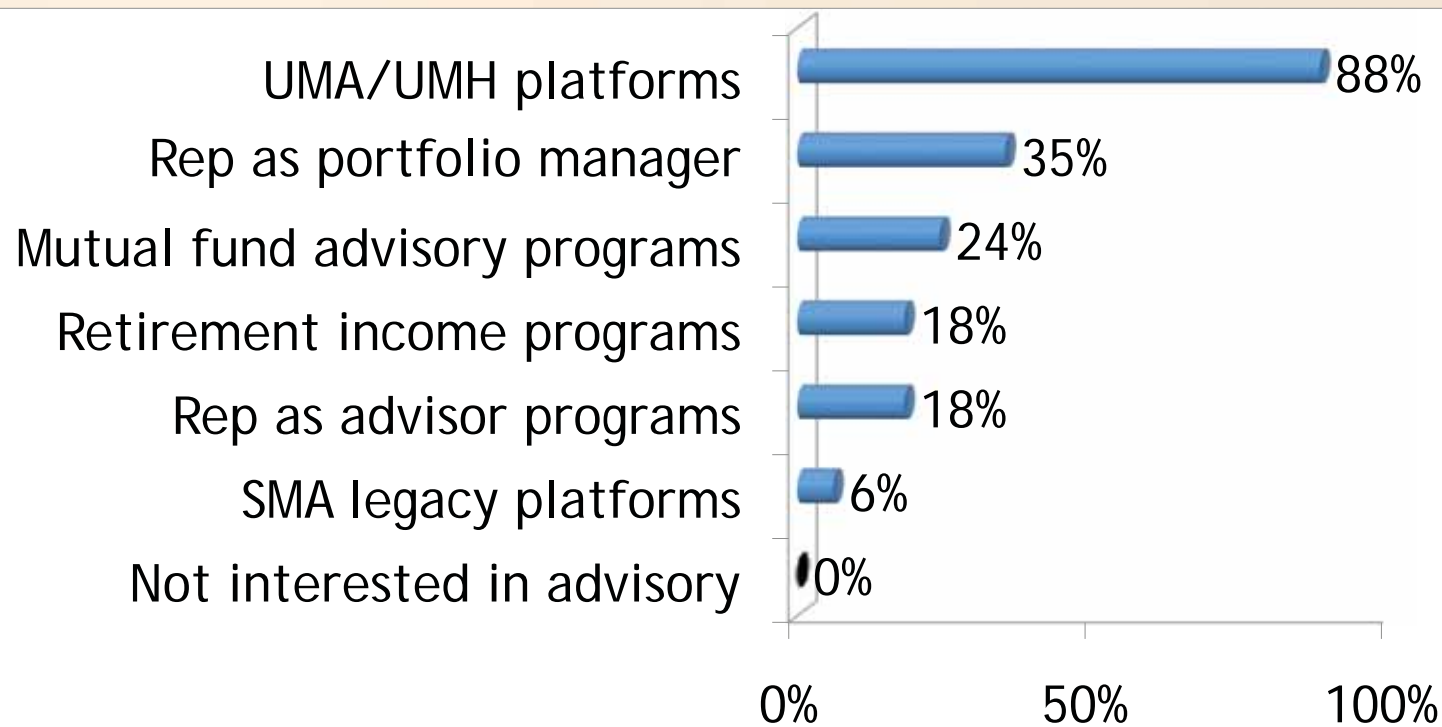
Top 20 model managers more than doubled their model businesses

Source: Dover Financial Research



Sponsor Firms Continue to Drive Toward Model Delivery

Q: Which platforms will receive the greatest funding over the next year?
(Select two)

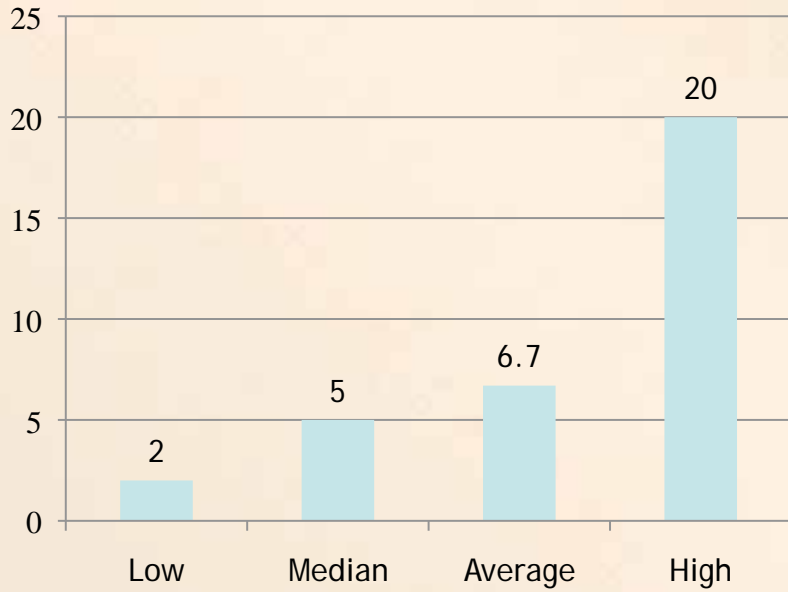


Source: Dover Financial Research

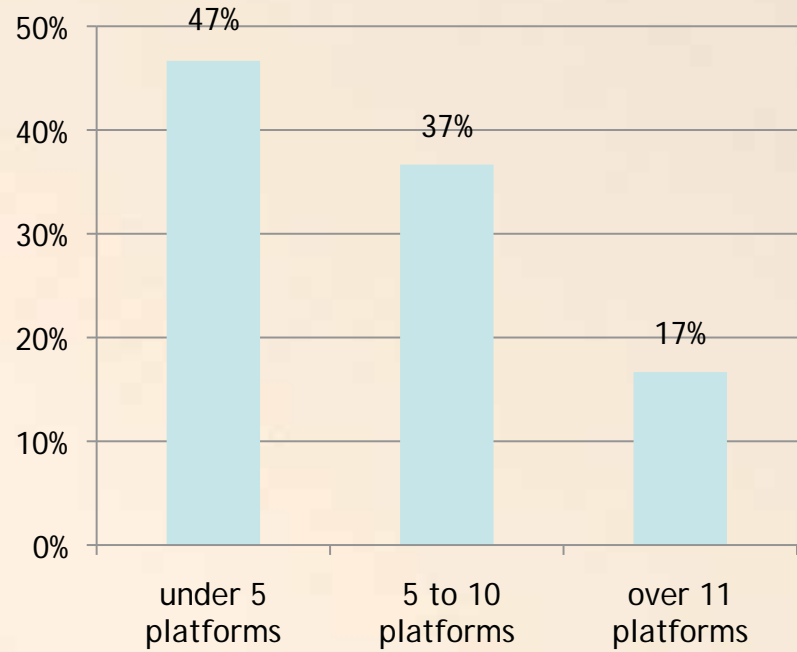


Platform Statistics

Number of Platforms
Per Model Manager



% of Managers
by Number of Platforms



Total Number of Managers Per UMA Platform

- ▶ Across 4 mid to large UMA platforms there are approximately 240 - 250 discrete managers
- ▶ Estimated total industry 300 - 350 total industry
- ▶ By platform there are:

Platform	Managers	Strategies	UMA AUM
Platform #1	60	100	\$1.2B
Platform #2	120	215	\$25.0B
Platform #3	75	110	\$5.0B
Platform #4	115	305	\$17.8B

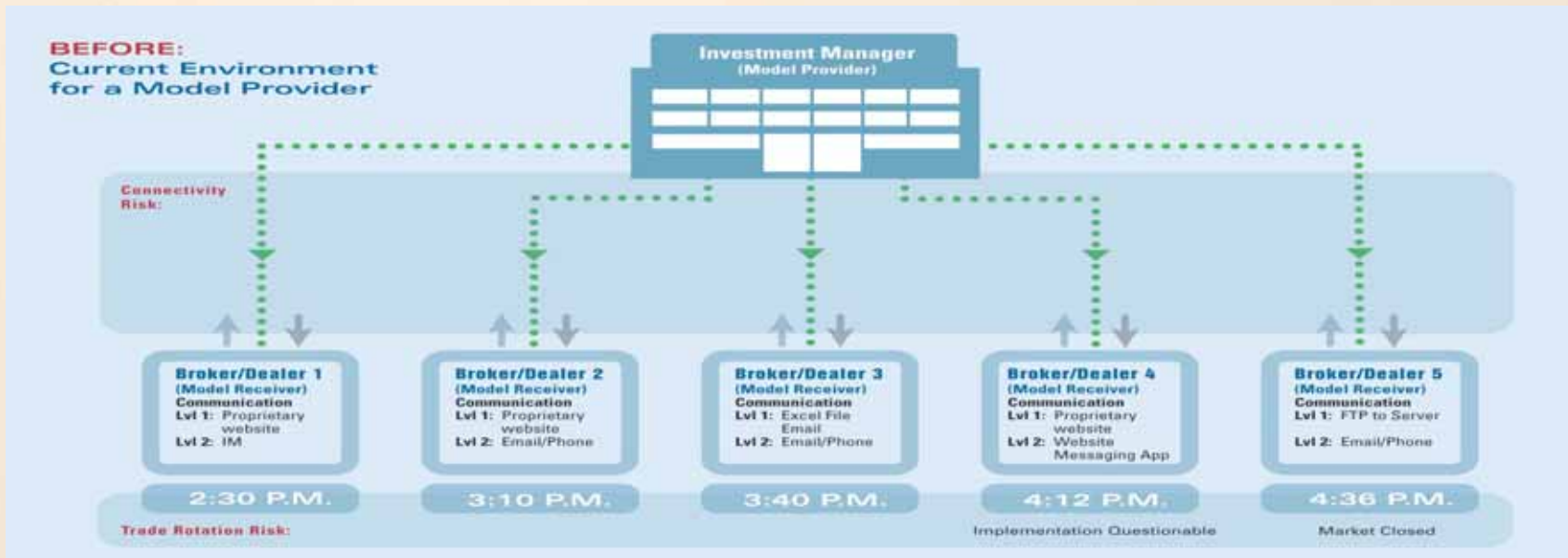


DTCC Model Management Exchange Update



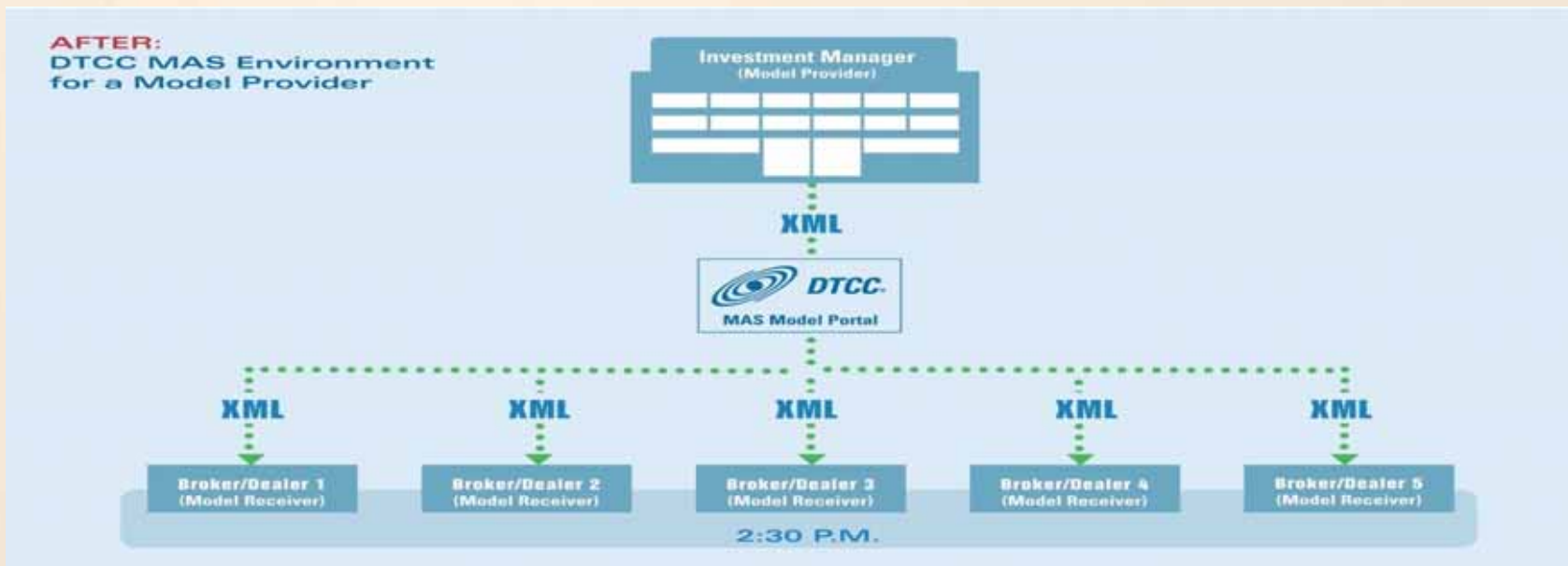
Model Management Exchange (MME)

- ▶ Currently, Investment Managers distribute their model portfolios in an inefficient manner
- ▶ Sponsors employ different means to receive models: Proprietary Web Portals, File Transfers, Excel Spreadsheets
- ▶ The current environment provides little to no Audit Trail and presents security and confirmation timing issues
- ▶ There is no distinct model distribution protocol or trade rotation standard and time critical model changes cannot be broadcast simultaneously across Model Programs



Model Management Exchange (MME)

- ▶ MME provides a standardized portal for Investment Managers to create, modify, and distribute model portfolios simultaneously to Sponsors with Distribution/Rotation options
- ▶ MME standardizes the model delivery, receipt, and confirmation process for Model Program Sponsors
- ▶ Model Comparison functionality allows Managers and Sponsors the ability to compare any model version to any model version with full audit trail capabilities
- ▶ MME facilitates model distribution communications with Accept/Reject validation and confirmation messages, minimizing the risk of model execution error



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Survey of Desired UMH Capabilities

- UMH is a capability, not a product, technology or service
- UMH solution requires the analysis and integration of investment planning, implementation and reporting
- UMH needs to allocate assets at the household level
- UMH needs to automate the gathering, presentation and analysis of household assets
- UMH needs to perform automated tax management and relationship rebalancing across the entire household
- UMH should lower the cost of distribution as centrally managed/model-based investment options become more prevalent



UMH - Expected Benefits

- End-Investor Benefits
 - Improved asset performance as a result of more efficient and holistic financial management
 - Consolidated reporting of all household accounts and assets within the UMH
 - Improved client service and support via a more consistent approach to wealth management
- Financial Advisor Benefits
 - Enhanced ability to gather new clients and assets
 - Improved level of service and support to client households
 - The ability to more effectively manage a diverse basket of asset for a household
- Broker-Dealer/Sponsor Benefits
 - Enhanced ability to retain advisors and client assets under management
 - Improved efficiency and servicing from financial advisors
 - Increased potential for gathering and consolidation of assets



Managed Money Industry Trends and Needs

Trends	Reason
Sponsors / Distributors moving to model only programs	Lower cost
UMA / UMH Growth	Greater efficiency, rebalancing capabilities
Rep controlled programs continue to dominate	Greater control of investor relationship
Enhanced technology spend	Platform modernization, Impending fiduciary legislation
Account / Performance aggregation	Investor needs, Compliance oversight

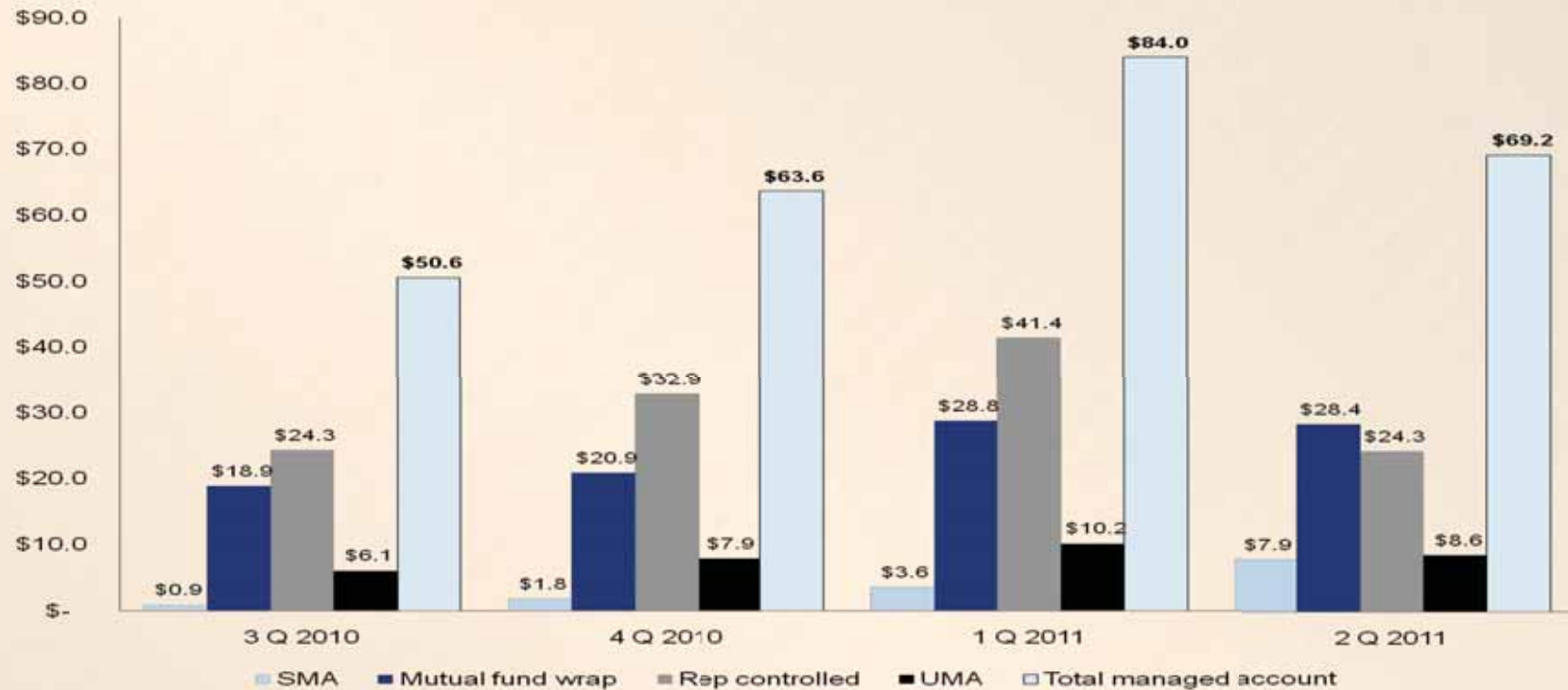


Source: Cerulli



Managed Money Product Growth (Q3 2010-Q2, 2111)

AUM flows still dominated by traditional products



Source: Cerulli



Analyzing UMA Growth

UMA asset accumulation trails traditional products

Product	Approx. AUM Growth	Approx. Assets Added
WRAP Funds	28%	\$270 B
SMA	15%	\$145 B
Rep Controlled	31%	\$400 B
UMA	60%	\$90 B

Source: Cerulli



Analyzing UMA Perception

Rep perception is mixed

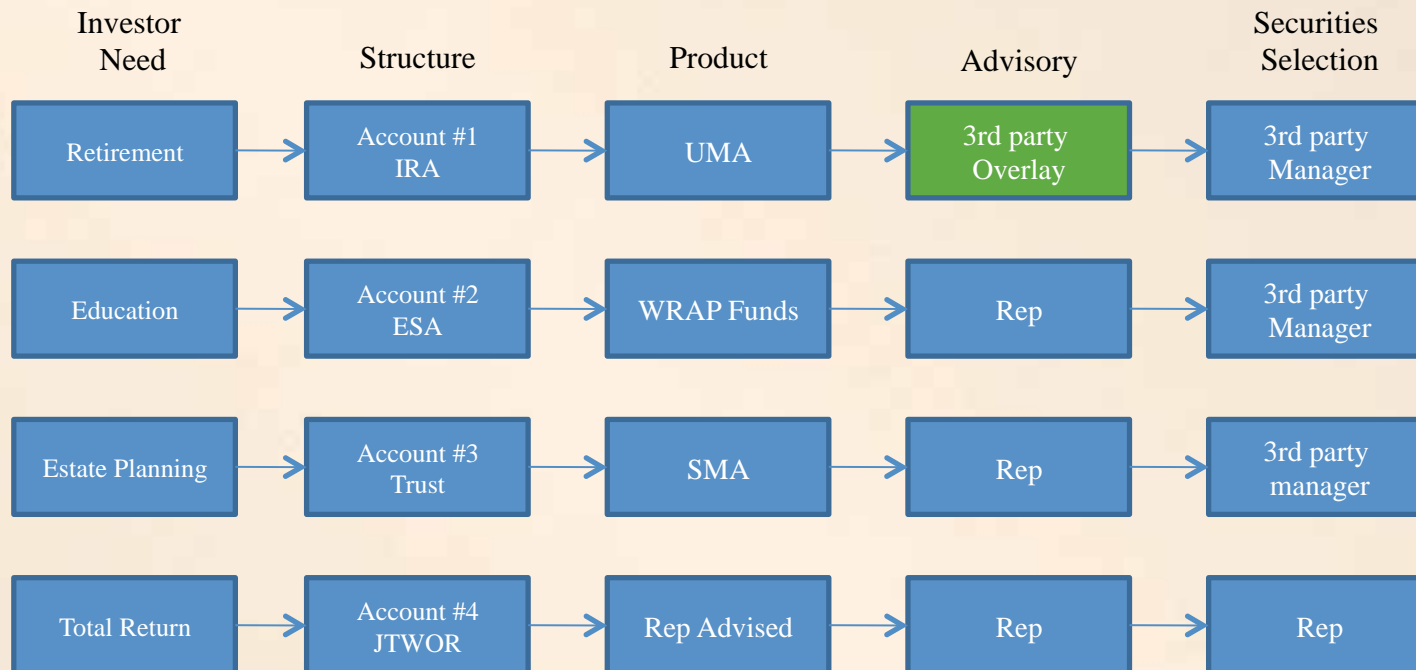
Channel	UMA Use			Positive Perception	Negative Perception	
	Have Not Used UMA	Not Planning to Increase UMA Use (But Have Used)	Plan to Increase My Use of UMAs in the Near Future	Simplifies and Streamlines My Interaction with Clients	Other Existing Solutions are Sufficient to Meet Client Needs	Too Expensive
IBD	65%	25%	10%	20%	12%	17%
Regional	56%	11%	33%	33%	17%	17%
Wirehouse	46%	28%	26%	31%	26%	15%
Total of Surveyed Advisors	56%	26%	19%	27%	17%	17%

Source: Cerulli



Analyzing UMA Delivery Mechanism

UMA typically delivered through 3rd party overlay,
separate from advisor delivered products



Analyzing UMA Results

Reasons for mixed results

Perception	Missing Component
UMA - another managed product silo	<ul style="list-style-type: none"> • Aggregation of accounts at the household level • Tax and cash flow optimization, linkage to other investor accounts
3rd party overlay limits transparency & oversight	Technology limitation requires 3 rd party technology
Not integrated to proposal and account management process	<ul style="list-style-type: none"> • Automated end-to-end capability from suitability to rebalancing • Lack of pre trade compliance controls
Not portable	UMA is firm controlled, not rep delivered product
Limited investment vehicles available	<ul style="list-style-type: none"> • UMAs usually limited to SMA equity model managers • Use of funds/ETFs possible only at higher costs
Manual rebalancing at the account level	<ul style="list-style-type: none"> • Investor needs based rebalancing controlled by Rep • Rebalance scheduling capability; (e.g. calendar, event, model change)
Tax Optimization limited, manual and theoretical	<ul style="list-style-type: none"> • Tax lot level accounting • Retention of Investor account tax rate
Lack of cash flow and transition management	<ul style="list-style-type: none"> • Automated security or sector substitution for low basis holdings • Transition holdings scheduling
Expensive	3 rd party overlay managers and additional technology add to cost



Delivering UMH



UMH Delivery Model

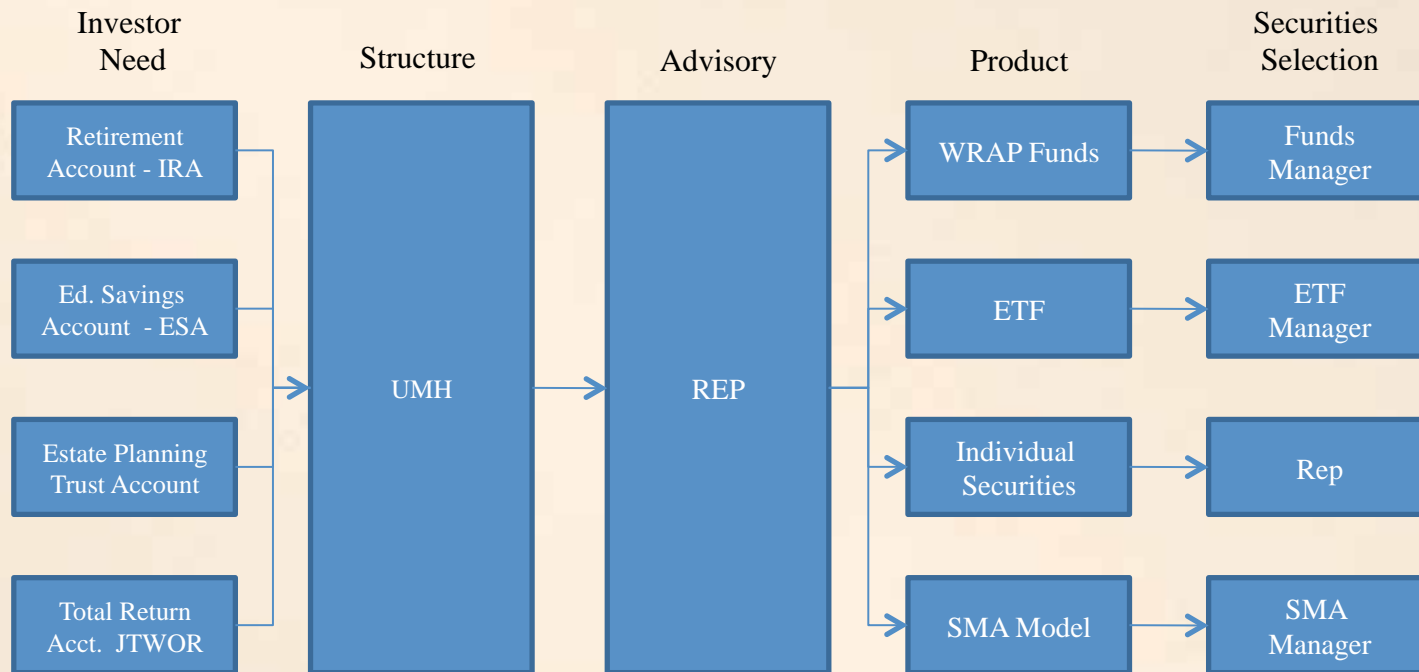
Key Characteristics for Success with Advisors and Investors

Characteristic	Investor Benefit	Advisor Benefit
Household rebalancing	<ul style="list-style-type: none"> • More accurate delivery of investor objectives • Securities overlap eliminated 	<ul style="list-style-type: none"> • Asset accumulation from investor and family • Enhanced efficiency and timeliness of activities
Aggregated trading & reporting from trust, brokerage and assets held away	<ul style="list-style-type: none"> • Full visibility to holding across organizations • holistic performance 	<ul style="list-style-type: none"> • Reduced need for account transfers • View into assets held away
Rep directed UMA/UMH	<ul style="list-style-type: none"> • Defined parameters to meet investor needs • Customization of tax & cash flow optimization • Reduced cost 	<ul style="list-style-type: none"> • Portfolio characteristics customized for investor • Automated suitability, proposal & investment management and rebalancing
Automated cash flow, transition and tax management	<ul style="list-style-type: none"> • Full support for tax lot accounting and tax sensitive trading • Improved after tax portfolio efficiency 	<ul style="list-style-type: none"> • Enhanced ability to gather and advise on legacy assets • Increased wallet share of high concentration investor accounts
Multi product capable	<ul style="list-style-type: none"> • Greater access to appropriate product mix • Reduced cost 	<ul style="list-style-type: none"> • More effective and efficient portfolios • Increased investor clarity and satisfaction
Household, portfolio, account and sleeve level performance	<ul style="list-style-type: none"> • Greater understanding of performance return • Greater accuracy of results 	<ul style="list-style-type: none"> • Clearer demonstration of value delivered • Enhanced compensation on household portfolio



UMH Delivery Mechanism

Allows rep/sponsor control of relationships, household rebalancing and optimization across household



Achieving Success with UMA/UMH

Greater accumulation and growth of investor assets

- Larger accounts
- More accounts per household
- Greater rep oversight and participation
- Enhanced customization and automation
- Higher closing rate



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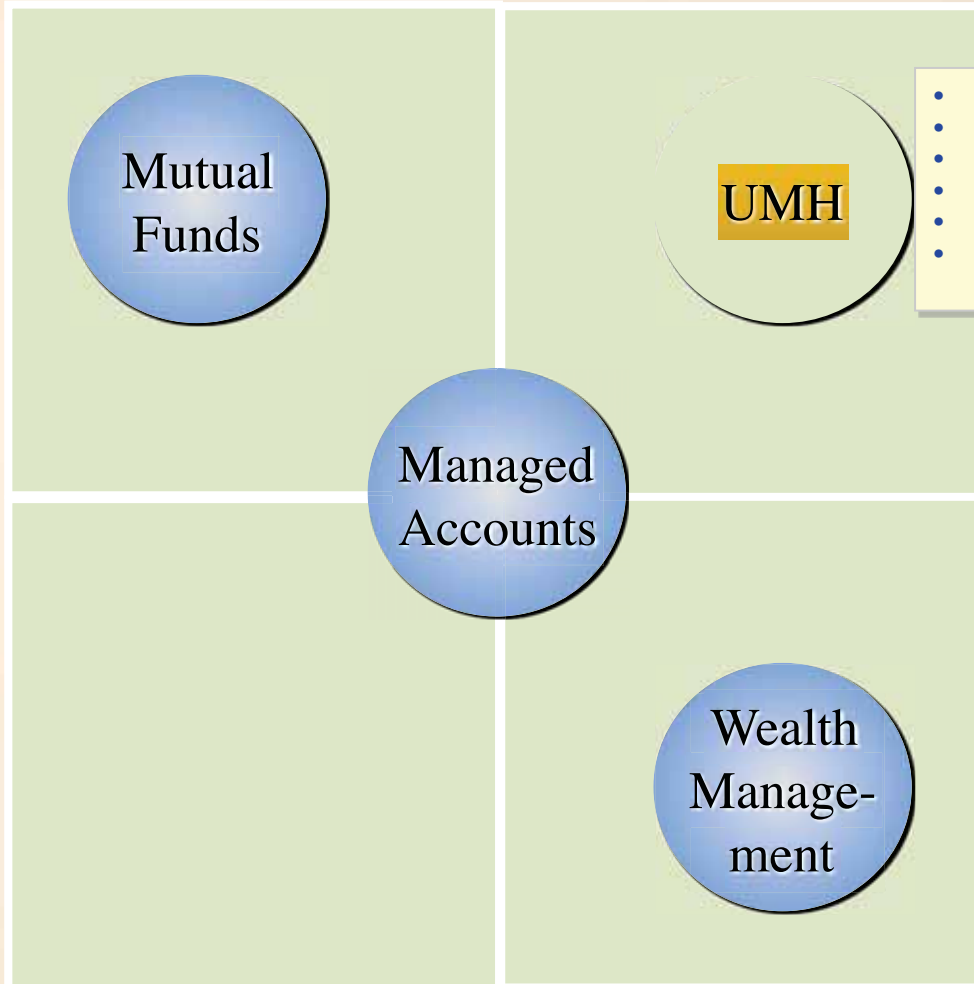
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High

Scalability

Low



- Multi-Account Household
- Customizable, and tax-shielded.
- Easy to change and rebalance.
- Mix managers, funds & ETFs.
- Open architecture.
- Scalable, low overhead – enables higher service at lower minimum

Limited & Undifferentiated

Portfolio Management

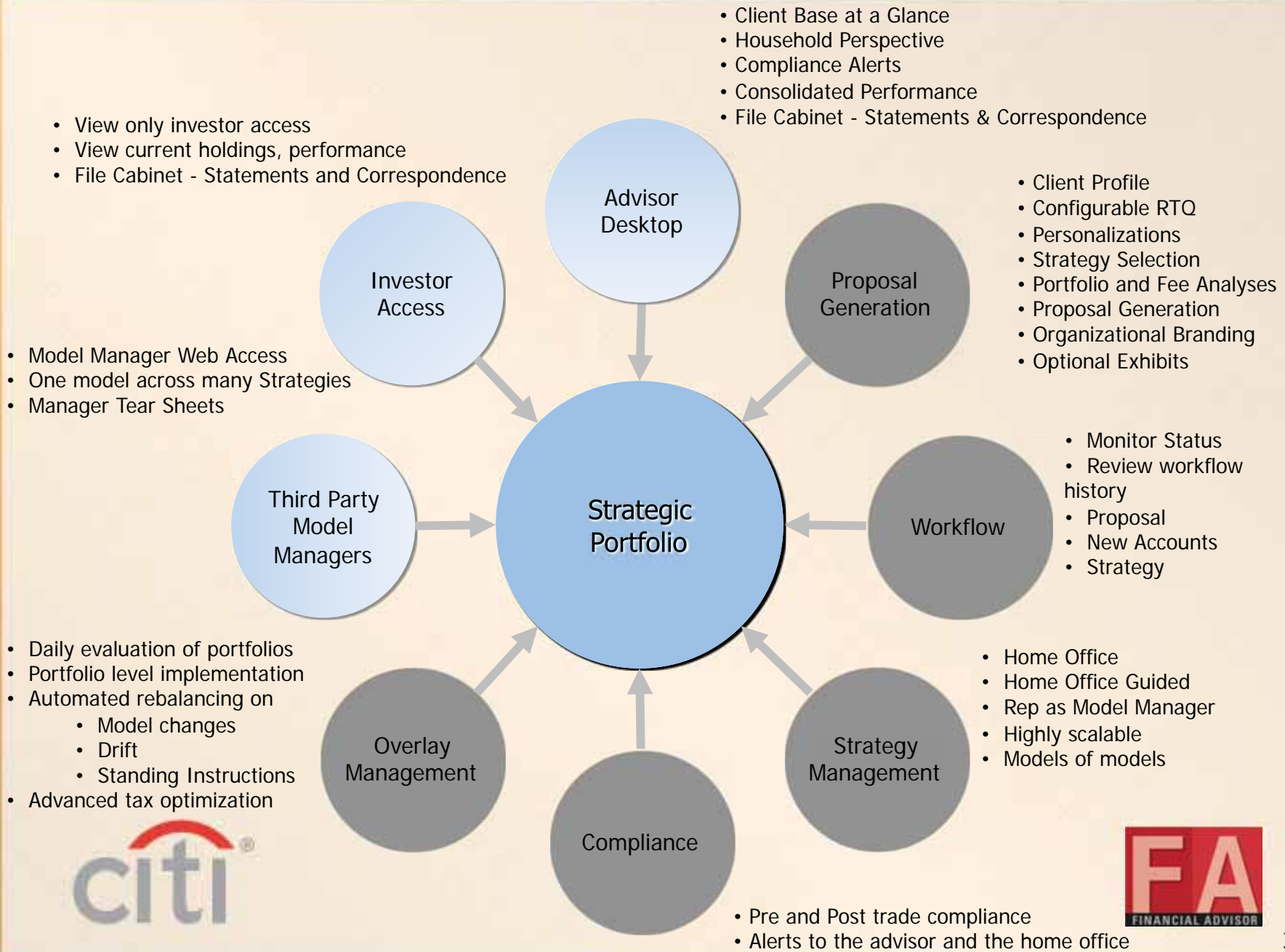
Comprehensive & Personalized

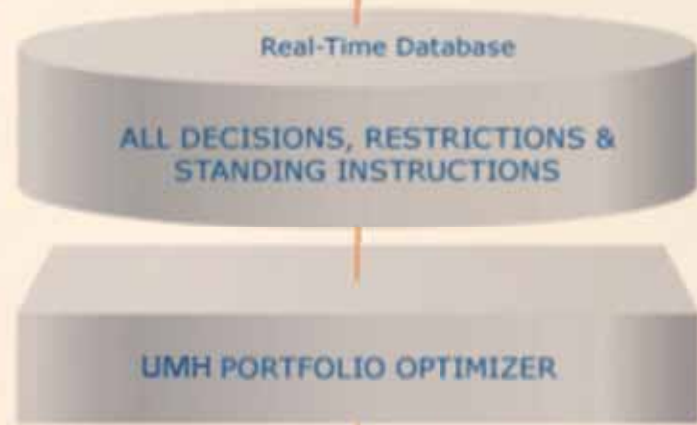


UMH – Technical Challenges

- Systems are typically task specific focusing on a single business process.
- Each system has a different definition of the client household.
- Integrating systems means constraint to the capabilities of the poorest data model.
- Solution is an enterprise data model that supports the holistic perspectives required of each business process.







UMH optimization should:

- Rebalance all client portfolios in less than 1 day to affect changes
- Shield against taxes
- Reduce risk
- Handle customizations



TRADE ORDERS



Key Consideration

The UMH is a major next step in the evolution of Financial Service Offerings. To realize the most benefits consistent, efficient, and scalable solutions must be engineered across all business processes.



For more information

Thank you for attending today's presentation.
If you would like additional information about anything that
was discussed, please send an email to:

dzarcaro@fa-mag.com

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