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

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Speakers

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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
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)

- UMA/UMH platforms: 88%
- Rep as portfolio manager: 35%
- Mutual fund advisory programs: 24%
- Retirement income programs: 18%
- Rep as advisor programs: 18%
- SMA legacy platforms: 6%
- Not interested in advisory: 0%

Source: Dover Financial Research
## Platform Statistics

### Number of Platforms Per Model Manager

<table>
<thead>
<tr>
<th>Low</th>
<th>Median</th>
<th>Average</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>5</td>
<td>6.7</td>
<td>20</td>
</tr>
</tbody>
</table>

### % of Managers by Number of Platforms

- **under 5 platforms**: 47%
- **5 to 10 platforms**: 37%
- **over 11 platforms**: 17%
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:

<table>
<thead>
<tr>
<th>Platform</th>
<th>Managers</th>
<th>Strategies</th>
<th>UMA AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Platform #1</td>
<td>60</td>
<td>100</td>
<td>$1.2B</td>
</tr>
<tr>
<td>Platform #2</td>
<td>120</td>
<td>215</td>
<td>$25.0B</td>
</tr>
<tr>
<td>Platform #3</td>
<td>75</td>
<td>110</td>
<td>$5.0B</td>
</tr>
<tr>
<td>Platform #4</td>
<td>115</td>
<td>305</td>
<td>$17.8B</td>
</tr>
</tbody>
</table>
DTCC Model Management Exchange Update
Currently, Investment Managers distribute their model portfolios in an inefficient manner.

Sponsor 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.
Speaker

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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 assets 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

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

Source: Cerulli
Managed Money Product Growth (Q3 2010-Q2, 2011)

AUM flows still dominated by traditional products

Source: Cerulli
## Analyzing UMA Growth

UMA asset accumulation trails traditional products

<table>
<thead>
<tr>
<th>Product</th>
<th>Approx. AUM Growth</th>
<th>Approx. Assets Added</th>
</tr>
</thead>
<tbody>
<tr>
<td>WRAP Funds</td>
<td>28%</td>
<td>$270 B</td>
</tr>
<tr>
<td>SMA</td>
<td>15%</td>
<td>$145 B</td>
</tr>
<tr>
<td>Rep Controlled</td>
<td>31%</td>
<td>$400 B</td>
</tr>
<tr>
<td>UMA</td>
<td>60%</td>
<td>$90 B</td>
</tr>
</tbody>
</table>

Source: Cerulli
Analyzing UMA Perception

Rep perception is mixed

<table>
<thead>
<tr>
<th>Channel</th>
<th>Have Not Used UMA</th>
<th>Not Planning to Increase UMA Use (But Have Used)</th>
<th>Plan to Increase My Use of UMAs in the Near Future</th>
<th>Positive Perception</th>
<th>Negative Perception</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBD</td>
<td>65%</td>
<td>25%</td>
<td>10%</td>
<td>20%</td>
<td>12%</td>
</tr>
<tr>
<td>Regional</td>
<td>56%</td>
<td>11%</td>
<td>33%</td>
<td>33%</td>
<td>17%</td>
</tr>
<tr>
<td>Wirehouse</td>
<td>46%</td>
<td>28%</td>
<td>26%</td>
<td>31%</td>
<td>26%</td>
</tr>
<tr>
<td>Total of Surveyed Advisors</td>
<td>56%</td>
<td>26%</td>
<td>19%</td>
<td>27%</td>
<td>17%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Perception</th>
<th>Missing Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>UMA - another managed product silo</td>
<td>• Aggregation of accounts at the household level</td>
</tr>
<tr>
<td></td>
<td>• Tax and cash flow optimization, linkage to other investor accounts</td>
</tr>
<tr>
<td>3rd party overlay limits transparency &amp; oversight</td>
<td>Technology limitation requires 3rd party technology</td>
</tr>
<tr>
<td>Not integrated to proposal and account management process</td>
<td>• Automated end-to-end capability from suitability to rebalancing</td>
</tr>
<tr>
<td></td>
<td>• Lack of pre trade compliance controls</td>
</tr>
<tr>
<td>Not portable</td>
<td>UMA is firm controlled, not rep delivered product</td>
</tr>
<tr>
<td>Limited investment vehicles available</td>
<td>• UMAs usually limited to SMA equity model managers</td>
</tr>
<tr>
<td></td>
<td>• Use of funds/ETFs possible only at higher costs</td>
</tr>
<tr>
<td>Manual rebalancing at the account level</td>
<td>• Investor needs based rebalancing controlled by Rep</td>
</tr>
<tr>
<td></td>
<td>• Rebalance scheduling capability; (e.g. calendar, event, model change)</td>
</tr>
<tr>
<td>Tax Optimization limited, manual and theoretical</td>
<td>• Tax lot level accounting</td>
</tr>
<tr>
<td></td>
<td>• Retention of Investor account tax rate</td>
</tr>
<tr>
<td>Lack of cash flow and transition management</td>
<td>• Automated security or sector substitution for low basis holdings</td>
</tr>
<tr>
<td></td>
<td>• Transition holdings scheduling</td>
</tr>
<tr>
<td>Expensive</td>
<td>3rd party overlay managers and additional technology add to cost</td>
</tr>
</tbody>
</table>
Delivering UMH
# UMH Delivery Model

**Key Characteristics for Success with Advisors and Investors**

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Investor Benefit</th>
<th>Advisor Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household rebalancing</td>
<td>• More accurate delivery of investor objectives</td>
<td>• Asset accumulation from investor and family</td>
</tr>
<tr>
<td></td>
<td>• Securities overlap eliminated</td>
<td>• Enhanced efficiency and timeliness of activities</td>
</tr>
<tr>
<td>Aggregated trading &amp; reporting from</td>
<td>• Full visibility to holding across organizations</td>
<td>• Reduced need for account transfers</td>
</tr>
<tr>
<td>trust, brokerage and assets held away</td>
<td>• holistic performance</td>
<td>• View into assets held away</td>
</tr>
<tr>
<td>Rep directed UMA/UMH</td>
<td>• Defined parameters to meet investor needs</td>
<td>• Portfolio characteristics customized for investor</td>
</tr>
<tr>
<td></td>
<td>• Customization of tax &amp; cash flow optimization</td>
<td>• Automated suitability, proposal &amp; investment management and rebalancing</td>
</tr>
<tr>
<td></td>
<td>• Reduced cost</td>
<td></td>
</tr>
<tr>
<td>Automated cash flow, transition and tax</td>
<td>• Full support for tax lot accounting and tax sensitive trading</td>
<td>• Enhanced ability to gather and advise on legacy assets</td>
</tr>
<tr>
<td>management</td>
<td>• Improved after tax portfolio efficiency</td>
<td>• Increased wallet share of high concentration investor accounts</td>
</tr>
<tr>
<td>Multi product capable</td>
<td>• Greater access to appropriate product mix</td>
<td>• More effective and efficient portfolios</td>
</tr>
<tr>
<td></td>
<td>• Reduced cost</td>
<td>• Increased investor clarity and satisfaction</td>
</tr>
<tr>
<td>Household, portfolio, account and sleeve level</td>
<td>• Greater understanding of performance return</td>
<td>• Clearer demonstration of value delivered</td>
</tr>
<tr>
<td>performance</td>
<td>• Greater accuracy of results</td>
<td>• Enhanced compensation on household portfolio</td>
</tr>
</tbody>
</table>
UMH Delivery Mechanism

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

Investor Need
- Retirement Account - IRA
- Ed. Savings Account - ESA
- Estate Planning Trust Account
- Total Return Acct. JTWOR

Structure
UMH

Advisory
REP

Product
- WRAP Funds
- ETF
- Individual Securities
- SMA Model

Securities Selection
- Funds Manager
- ETF Manager
- Rep
- SMA Manager
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
Speaker

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Co-Founder, COO, CTO, MyVest

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www.fa-mag.com
Comprehensive & Personalized Portfolio Management

- 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

Mutual Funds

Managed Accounts

Wealth Management

Limited & Undifferentiated
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.
• View only investor access
• View current holdings, performance
• File Cabinet - Statements and Correspondence

• Model Manager Web Access
• One model across many Strategies
• Manager Tear Sheets

• Daily evaluation of portfolios
• Portfolio level implementation
• Automated rebalancing on
  • Model changes
  • Drift
  • Standing Instructions
• Advanced tax optimization

• Pre and Post trade compliance
• Alerts to the advisor and the home office
UMH optimization should:

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

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