

# MONEY

The Premier News Source  
for Asset Management Leaders

## management executive

June 2018 | Volume 26 • Number 6 | mmexecutive.com

### SPECIAL REPORT

## OPERATIONS: The state of asset management

By Rebecca Stropoli

Which asset management trends and topics might dominate in the second half of the year — and beyond?

*Money Management Executive* reached out to several industry leaders to get their take on key issues, including technology advancements, the increasing focus on ESG investing and developments in ETFs.

Guggenheim Investments President Jerry Miller weighs in on the ever-present active vs. passive debate — and says passive may see some challenges ahead. “Cracks are beginning to appear in the case for passive investing, especially in



Kristi Mitchem, CEO of Wells Fargo Asset Management



Jerry Miller, president of Guggenheim Investments

“With even traditional asset management firms embracing blockchain technology, we expect others to swiftly follow suit.”

For more on what Miller, Mitchem and four other executives foresee, read the rest of our special report.

the fixed-income world,” Miller notes.

Wells Fargo Asset Management CEO Kristi Mitchem says the rise of a new generation of investors “requires that we rethink the world of asset management.”

Reality Shares CEO Eric Ervin sees blockchain spurring transformation:

**ASSET MANAGEMENT, on page 6**

## TECHNOLOGY: BlackRock's bet on tomorrow's investor

By Sean Allocca

BlackRock's investment in microinvesting app Acorns underscores an evolution occurring in financial services in its shift toward digital — that gaining scale early will be essential to amassing future client assets.

The world's largest asset manager is leading a

\$50 million funding round that will build out the startup's portfolio stack with new investment options. It also gives BlackRock an inside look into the behavior of next generation investors, which it says will help fine-tune future releases and broaden its appeal beyond large institutions and pension funds.

BlackRock is joining large retail banks in a trend of investing and developing products that appeal to a younger customer base, latching onto the popular services offered by apps like Acorns, which round up

**BLACKROCK, on page 11**

## ANALYSIS: You're late to the alternative investment party

By Nir Kaissar

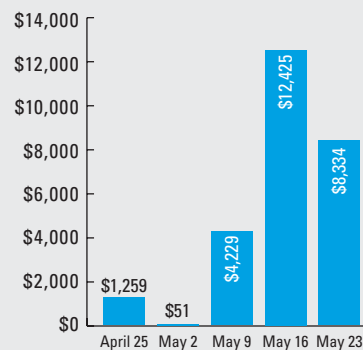
If you want to get rich, here's one way to do it:

- Find an investment few investors know about.
- Write a pitch book laying out why that investment is likely to work.
- Sell your idea to rich institutional investors.
- Charge absurd fees.
- Let everyone know that your investment made lots of money for lots of investors.
- When your investment becomes too crowded to produce outsized returns, sell it to unsuspecting individuals.

Steps one through five are a brief history of so-called alternative investments, such as hedge funds, private equity and real estate. And now, thanks

**ALTERNATIVE, on page 10**

**Inflows to long-term mutual funds and ETFs were \$8.33B for the week ending May 23 (millions)**



Source: Investment Company Institute

## Today's To Dos

☐ Trade up in service

☐ Lower fund expenses

☐ Discuss SMA conversion  
to a mutual fund

---

Call Jessica @ Atlantic

Thirty years in the business of converting, launching and servicing mutual funds, private funds and collective funds. Let's discuss how we can help you.

✓ Fund Start-Ups & Conversions

✓ Fund Administration

✓ Fund Accounting

✓ Transfer Agency

✓ Compliance

✓ Custody

✓ Statutory Distribution

✓ Series Trusts

Jessica Chase

207 347 2016

[jessica.chase@atlanticfundservices.com](mailto:jessica.chase@atlanticfundservices.com)

[atlanticfundservices.com](http://atlanticfundservices.com)

  
**ATLANTIC**  
FUND SERVICES

## INDUSTRY HIGHLIGHTS

### EX-MORGAN STANLEY AND JAFORLINES EXECS LAUNCH FIRM

Former Morgan Stanley global strategist Jay Pelosky, and JAFORlines' ex-COO James Gardiner have joined forces to launch TPW Investment Management, a New York-based asset management firm.

The new firm, which will have regional and global solution suites, aims to provide alpha-generating ETF-based investment solutions. Regional portfolios will cover the Americas, Europe and Asia, the firm says.

"There is no more complex style of investing than global macro," says co-founder and CIO Jay Pelosky. "We are confident that it can be simplified and made more efficient."

### TREASURY ETFs BREAK INVESTMENT RECORDS

ETF investors are turning to U.S. Treasuries at a record pace amid political turmoil in Italy, according to Bloomberg News.

The Schwab U.S. TIPS ETF (SCHP), which tracks securities that mature in one year, added more than \$636 million in response to the rising threat of Italy abandoning the euro. The Schwab Intermediate-Term U.S. Treasury ETF (SCHR), with bonds maturing in three to 10 years, broke its record, reporting inflows of \$475 million.

"It's definitely a flight to safety," says Aaron Clark, portfolio manager at Boston-based GW&K Investment Management. "Some memories are fresh with Greece and the is-

sues that Europe was having in general, and the U.S. is always a sort of quality trade in scenarios like that."

### EX-SOFI EXECS WANT TO RAISE \$150M FOR NEW FINTECH FUND

Social Finance's former head of ventures and development, Logan Allin, is raising \$150 million in an effort to launch a financial technology firm: Fin Venture Capital, Bloomberg News reports.

Mike Cagney, the former CEO of SoFi, will serve as a senior advisor to the fund. Cagney recently quit the firm after accusations of sexual harassment.

"Fin is a globally focused and early stage Fintech firm based in San Francisco," the company said in a statement. "The firm's mission is to be the premier partner and capital provider for early stage fintech."

Other Fin advisors include former SoFi General Manager Peter Early and ex-T. Rowe Price executive Todd Ruppert.

## RESEARCH

### IMPACT INVESTMENT INDUSTRY ON THE RISE

The impact investing industry keeps growing, a recent survey reveals.

Capital is being allocated to financial services, energy and microfinance, according to the Global Impact Investing Network Survey. In the past five years, 13% per year of the capital in impact investments has been put toward historically small investments, such

### Assets of money market funds

(\$ billions)

	5/30/2018	5/23/2018	\$ Change*	5/16/2018
<b>Government</b>	2,237.58	2,222.76	14.82	2,224.32
Retail	629.94	630.93	-0.99	632.61
Institutional	1,607.64	1,591.83	15.81	1,591.71
<b>Prime</b>	463.17	462.48	0.69	461.99
Retail	263.74	262.58	1.16	263.22
Institutional	199.43	199.9	-0.47	198.77
<b>Tax-exempt</b>	139.5	140.04	-0.54	138.15
Retail	131.79	131.94	-0.15	130.29
Institutional	7.71	8.1	-0.38	7.86
<b>Total</b>	2,840.25	2,825.28	14.98	2,824.46
Retail	1,025.47	1,025.45	0.02	1,026.12
Institutional	1,814.78	1,799.83	14.95	1,798.34

Source: Investment Company Institute

## MONEY management executive

1 State Street Plaza, 27th Floor  
New York, NY 10004  
(212) 803-8200

financial-planning.com/money-management-executive

**Andrew Shilling** - Associate Editor

**Rebecca Stropoli** - Contributing Editor

**Jessica Mathews** - Reporter

**Scott Wenger** - Group Editorial Director

**Paul Vogel** - VP, Content Operations and Creative Services

**Michael Chu** - Executive Director, Content Operations and Creative Services

**Theresa Hambel** - Director of Content Operations

**Dana Jackson** - VP, Research

**Louis Fugazy**, Associate Publisher  
louis.fugazy@sourcemedia.com  
(212) 803-8773

**Petra Hailu** - Marketing Manager

**Customer Service**  
(212) 803-8500  
help@sourcemedia.com



<b>Gemma Postlethwaite</b>	Chief Executive Officer
<b>Robert Dennen</b>	Chief Financial Officer
<b>David Longobardi</b>	EVP & Chief Content Officer
<b>Matthew Yorke</b>	Chief Marketing Officer
<b>Allison Adams</b>	Chief Subscription Officer
<b>John DeMauro</b>	SVP, Conferences & Events
<b>Ying Wong</b>	SVP, Human Resources

**Subscriptions:** Domestic rates: Annual \$1,750; 2-year \$3,500. Foreign rates: Annual \$1,790; 2-year \$3,575. Multiple subscription rates available.

**POSTMASTER:** Please send all address changes to **Money Management Executive**/One State Street Plaza, New York, NY 10004. For subscriptions, renewals, address changes and delivery service issues contact our Customer Service department at (212) 803-8500 or email: help@sourcemedia.com.

**Copyright Notice:** © 2018 Money Management Executive (ISSN 1549-9111) and SourceMedia, Inc. All rights reserved. Copying, photocopying, or duplicating this publication without prior permission from the publisher is prohibited and may constitute copyright infringement subject to liability up to \$100,000 per infringement. For more information about reprints and licensing content from Money Management Executive, please visit SourceMediaReprints.com or contact PARS International at (212) 221-9595.

Reproduction or electronic forwarding of this product is a violation of federal copyright law. Site licenses are available: please call customer service at (212) 803-8500 or help@sourcemedia.com.



as the food and agriculture sector. About 76% of impact investors track the progress of their investments in meeting environmental goals.

Impact investors say there is not enough risk diversification, and there is lack of understanding of definitions and segments of the market. Nevertheless, while half of the respondents say they made their first impact investment within the past 10 years, they would like to increase those investments by about 8% this year.

## ASSET MANAGERS SAY REGULATION IS A TOP CHALLENGE

Asset managers across the globe are concerned about regulation and the impact it will have on new clients, according to a survey.

The regulations, managers largely from North America, Europe and Asia say, with the most impact thus far are European transparency acts MiFID and the General Data Protection Regulation, according to Line-data. Roughly 52% say MiFID will have the most impact on their business, while 38% say GDPR as the most worrisome.

The most important impact factor for investment strategy for the next 18 months is changing U.S. policy, 50% of asset managers that took part in the survey said. The next most-pressing challenge is the possible impact of rising interest rates that come from an improving global economy.

## PRODUCTS

### VANGUARD TO LAUNCH TOTAL WORLD BOND ETF

Vanguard filed a statement with the SEC to register Vanguard Total World Bond ETF, and plans to launch by the end of the third quarter this year, according to the firm. The index product will offer investors access to all investment-grade bonds across the globe in one portfolio and reduce volatility, the firm says.

The new fund is going to make investments in two pre-existing Vanguard ETFs: the Vanguard Total Bond Market ETF (BND) and Vanguard Total International Bond ETF (BNDX). The fund, which will have an estimated expense ratio of 0.09%, will track the Bloomberg Barclays Global Aggregate Float Adjusted Composite Index.

### GLOBAL X FUNDS' NEW ETF TARGETS AI AND DATA COMPANIES

Global X Funds is launching the Global X Future Analytics Tech ETF (AIQ), which invests in companies generating vast amounts of data with AI systems to develop actionable insights. The fund, which has an expense ratio of 0.68%, is the seventh from Global X in its technology-themed suite.

"Given AI's potential to impact a variety of sectors, we believe it is poised to become one of the most significant technological innovations of the modern era," says Alex Ashby, director of product development at Global X.

### MASSMUTUAL ANNOUNCES NEW TARGET-DATE FUND FAMILY

MassMutual says it is introducing a target-date series for investors looking to reduce volatility and grow their retirement savings. The fund series, the Legg Mason Total Advantage Funds, will be sub-advised by Legg Mason-affiliated manager QS Investors, and will aim to reduce market volatility just before and right after retirement.

The series will use both active and passive investment strategies, and attempt to minimize exposure to large losses as well as combine both active and low-cost passive styles in the 10-year period surrounding retirement.

## ARRIVALS

### AMERICAN CENTURY NAMES NEW MANAGEMENT POSITIONS

American Century Investments says it will make three senior management appointments.

Victor Zhang, formerly the president and CIO of Wilshire Funds Management, will serve as American Century's sole CIO. Zhang, who joined the firm in 2014, previously shared the title of co-CIO with David MacEwen, who recently announced plans to retire at the end of the year, according to the firm.

Cleo Chang, currently a senior vice president, is now head of investment solutions and will join the American Century Management Committee, American Century says. Chang will oversee the firm's newly

launched ETF initiative.

The firm also appointed its current senior vice president and chief client officer, Peter Cieszkoto, American Century's head of strategic development.

Prior to American Century, Zhang was the director of investments at Harris myCFO Investment Advisory Services, a subsidiary of the Bank of Montreal, and a consultant with EY.

### BITWISE HIRES NEW MANAGING DIRECTOR

Bitwise Asset Management has appointed Martha Shear to managing director and



Martha Shear

head of business development from her role at Commonfund, where she served as director of business development.

In her new role, Shear will focus on building out the firm's presence in the institutional market, according to Bitwise.

"We believe that even a small and diversified exposure to cryptoassets — properly managed by a team with deep experience in the space — has the potential to help them meet their goal," Shear says. "I'm excited to sit down with forward-thinking investors and talk to them about what rules-based crypto exposure can do for their portfolios."

Prior to Commonfund, Shear was vice president for institutional iShares sales at BlackRock.

### 361 CAPITAL APPOINTS A CHIEF FINANCIAL OFFICER

Boutique asset manager 361 Capital appointed Joesph Paonessa as CFO, replacing Mark Nassi, controller, who recently left the position, according to the firm.

Paonessa joins 361 Capital from a consultant position at private equity firm Mantuck-et Management Corporation.

"We have expanded and elevated our finance role by hiring a CFO," says 361 Capital CEO Tom Florence. "Jay brings more than 25 years of accounting and data analysis experience to 361 Capital." **MME**

*News Scan by Jessica Mathews*

# EXPERT COMMENTARY AT YOUR FINGERTIPS



Our topic driven  
White Papers  
leverage *Money  
Management  
Executive's* subject  
matter experts and  
contributing editors  
to give in depth  
coverage in an easily  
viewable format.

CONTINUED  
from page 1



Wells Fargo Asset Management CEO Kristi Mitchem

## A new generation of clients

human guidance and increasing lifespans.

The magnitude of this generational transformation requires that we rethink the world of asset management, focusing the entire organization on solving key challenges facing our clients and the industry.

Consider the number of factors at play: the influence of millennials and women as lead investment decision-makers; the horizon of the boomers' significant generational wealth transfer; the changing nature of workforce management; the tension between high-tech solutions and the desire for human interaction; and the demands placed on institutional investors to refocus their desired outcomes and portfolios.

This generational shift represents the industry's biggest challenge — and opportunity.

Investors today expect more. For in-

dividual investors, their definition of prosperity has changed. Across generations, prosperity is being redefined as longer-term, inclusive and goal oriented.

Investors are also more informed, and perhaps most crucially, they will likely live longer than previous generations — and they expect their assets to support the life they want to live well into retirement.

For the institutional investor, approaches and goals are shifting.

Investors are eyeing outcomes beyond returns, including social impact and longer-term needs, such as helping employees address longevity risk and increasing their financial well-being.

Asset managers and advisors must embrace creative problem-solving, innovation, collaboration and adaptability to truly meet the needs of today's — and tomorrow's — investors.

The asset management industry is facing major socioeconomic and demographic forces that are transforming the investor experience for all stakeholders — including institutional investors, Main Street investors, advisors and employers.

Moreover, expectations for what they want and how to obtain it are now influenced by a confluence of technology, the need for



Guggenheim Investments President Jerry Miller

## Reconsidering active

better performance. But cracks are beginning to appear in the case for passive investing, especially in the fixed-income world.

Most actively managed intermediate-term bond funds outperformed their passive peers on average over one-, three- and five-year periods through 2017, according to Morningstar.

Investment-grade bond returns as measured by the Bloomberg Barclays U.S. Aggregate Bond Index have steadily declined over the past five years, and dropped about 1.5% year to date. The market repricing for a longer and steeper path of Federal Reserve rate hikes has been a key source of the negative return. The upward shift in forward rates has also re-

sulted in higher equity market volatility and wider credit spreads.

Investors looking to manage risk may reconsider the benefits of actively managed fixed-income strategies.

Active managers can adjust duration and curve positioning in anticipation of rate and yield-curve shifts. They can identify value beyond benchmark indexes and avoid troubled industries, and can better analyze risks posed by lax underwriting standards that have prevailed during this bull market. These advantages allow active managers to be better-positioned to navigate the challenges that arise from a changing investment landscape.

CONTINUED on page 8





# ACCESS THE 2018 MFSG

**On Any Device,  
Anytime, Anywhere**

Free access to the  
**Mutual Fund Service Guide**  
is available online.

Search for back-office  
operations from one of  
the most trusted and  
established guides in  
the market.

[www.mutualfundserviceguide.com](http://www.mutualfundserviceguide.com)

 SourceMedia™

**Money  
Management  
Executive**



Increased awareness of responsible investment, as well as more useful products within which to invest, has driven more

*Nuveen Managing Director Jordan Farris*

# Time for responsible investing

Additionally, a more diverse board with a wider range of competencies, knowledge and perspectives may lead to better decision-making and more-effective corporate

Stronger corporate governance structures, for example, may reduce the likelihood of controversies such as corporate fraud or abuse. Whether branded as “socially conscious” or not, an increasing number of investors, both individual and professional, are incorporating ESG criteria into the investment decision-making process.



Exponential ETFs CEO Phil Bak

# Embrace the index

But these burdensome rules are forcing fund companies to codify and crystalize their strategies, and to present them open-book to

Systematic investing is the new active management, and, as asset allocators increasingly look to rules-based, process-driven strategies to try to provide alpha for their clients, the index requirements protect managers from themselves, and ultimately protect fund investors.

**CONTINUED** on page 9



CONTINUED  
from page 8



Viteos CEO Chitra Baskar

## Innovation in tech needed

marks and create alpha.

To address the increasingly complex layers of these products, funds have also had to build their own technology solutions.

Managing this library of complexity requires strong domain and technology skills that must scale with business volumes.

Finding and retaining people with the skill sets to address this complexity is another challenge. Then increasing regulatory oversight completes the picture.

So what are the critical success factors that are needed to reliably manage this overall complexity?

This is a game where the winner is decided by high-end domain expertise, technology prowess and the desire to always

get smarter through best-practice learning and industrialization.

As funds push the limits of products and strategies, they must also keep pushing themselves when it comes to innovation.

This means funds must proactively track industry trends, build IP assets around them, industrialize best practices, promote timely transition and accurate execution for complex funds, re-imagine business models with a digital focus, balance customization with standardization and always question the status-quo.

This is not an easy task, and many funds may not take these steps. But the ones that do are more likely to thrive — because today's complexity will be tomorrow's de rigueur.

A common conversational topic for most hedge fund COOs and CFOs these days is that of complexity.

The asset management industry has moved from long/short simple equity listed products to more-complex offerings, and this has made things trickier for funds.

As investors have started to demand higher returns, funds have had to devise complex products in order to beat bench-



Reality Shares CEO Eric Ervin

## The rise of blockchain

arena. Late last year, Vanguard announced they're leading an effort to streamline the index data sharing process using blockchain technology.

Currently, most index providers have to share information with the fund issuer manually, resulting in emailed spreadsheets going back and forth every night after the market closes.

Vanguard's decision to put their index providers on the blockchain will reduce these email communications, ensure the secure transfer of classified information, diminish costs and virtually eliminate the risk of human error.

With even traditional asset management firms embracing blockchain technology, we expect others to swiftly follow suit.

Not only will blockchain continue to revolutionize and simplify how financial services firms operate, but it will offer an opportunity for investors to potentially profit from this transformative technology.

Since January 2018, six blockchain-related ETFs have launched. Within only months, the funds have collectively attracted over \$400 million in assets. In addition, there's an arsenal of cryptocurrency funds pending SEC approval.

In 10 years, we expect asset management to be a vastly different industry, as financial services firms adopt blockchain solutions to enhance their business operations.

Investors will simultaneously demand increased exposure to this disruptive technology. **MIME**

Blockchain technology is transforming industries across the globe, and the asset management industry is no exception.

The implementation of blockchain solutions presents the opportunity for asset management firms to increase speed and efficiency, cut costs, improve security, enhance the client onboarding process and much more.

Large financial services firms have already begun to test the waters in the blockchain

## ALTERNATIVE from page 1

to JPMorgan Chase, step six is underway.

The bank announced recently that it would slash its minimum investment for alternatives to \$100,000 from \$10 million. The reason, according to Anton Pil, managing partner of JPMorgan global alternatives, is that “many high-net-worth investors continue to be under-allocated to alternatives relative to their institutional counterparts” and that “as we get later in the economic cycle, identifying alternative sources of return is an essential consideration for investors looking to build stronger portfolios.”

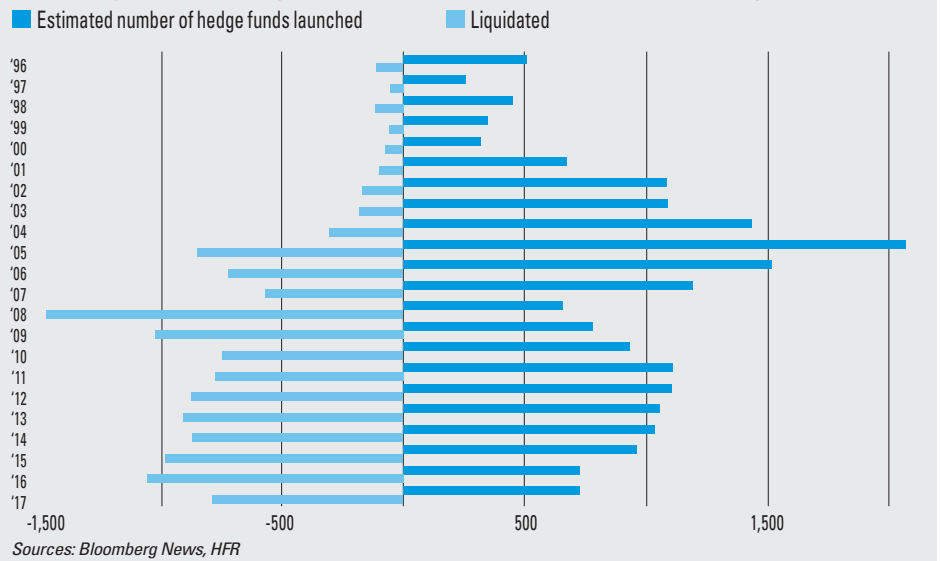
It's true that individual investors could have benefited from alternative investments. The overlapping data for hedge funds, private equity and real estate run from 1990 to September 2017. A traditional 60/40 portfolio of U.S. stocks and bonds — as measured by the S&P 500 and the Bloomberg Barclays U.S. Aggregate Bond Index — returned 8.2% annually during that period, including dividends.

Adding a 10% allocation to each of the three alternative investments — as represented by the HFRI Fund Weighted Composite Index, the Cambridge Associates US Private Equity Index and NCREIF Fund Index Open-End Diversified Core Equity, respectively — would have added 0.7 percentage points a year. And thanks to hedge funds' ability to short stocks and the fact that private assets aren't subject to the whims of public markets, adding alternatives would also have resulted in smaller declines during each of the last two bear markets.

Which raises the question: Why weren't alternatives available to individual investors

## Hard sell

More hedge funds were liquidated than launched in each of the last three years.



sooner? The answer is that no one needed their money.

In the early days of alternative investments, plenty of institutional investors were eager to throw millions of dollars at them. And for good reason: There were more opportunities for big payoffs than money chasing them.

Consider that there were only 610 hedge funds and funds of hedge funds managing \$38.9 billion in 1990, according to HFR. That number swelled to 9,754 funds managing \$3.2 trillion by the end of 2017. It's no accident that the HFRI Index returned 18.6% annually from 1990 to March 2000 but only 6.1 percent from March 2009 through April, despite that both periods coincided with historic bull markets.

With hedge funds crowded and returns sagging, money isn't flowing to them like

it used to. Hedge funds experienced a net outflow of \$1.5 billion over the last 10 years through 2017, and more funds were liquidated than launched last year for the third consecutive year.

It's a similar story for private assets. There were 415 private capital firms in 1990, according to Preqin. That number jumped to 8,001 firms managing \$4.6 trillion by the end of 2016. Here, too, size has taken a toll on performance. The Cambridge Associates index returned 21.4% a year from 1990 to March 2000, but dipped to 14.8% from April 2009 to September 2017.

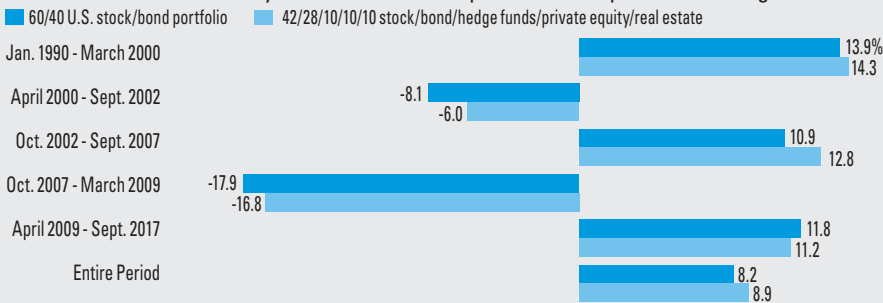
Meanwhile, private equity valuations continue to rise and capitalization rates for private real estate are dropping. That points to more modest returns going forward and inevitably waning interest from institutional investors.

Enter individual investors, many of whom have no experience with alternative investments and are scarcely aware that their best days are most likely in the history books.

One reason institutional investors seem so smart is that they often get the first crack at the best investments. But individuals can get smart, too. The next time a fancy bank offers them some also-ran alternative investments, they should demand to see what's on offer to the \$10 million-and-up crowd. — Bloomberg News **MME**

## If Only

Alternatives have historically boosted returns and provided some protection during bear markets.



BLACKROCK  
from page 1

purchases and put the spare change toward savings or investments.

In November, Wells Fargo and JPMorgan Chase launched mobile banking apps that perform similar functions. Their efforts were spurred by the popularity of Acorns and other PFM-focused savings apps, such as Qapital, Digit and Chime. Bank of America offers a similar “Keep the Change” feature on its debit cards.

Could BlackRock be eyeing a larger strategy move into retail markets? Vanguard and Fidelity already offer direct to retail products, and some executives wondered if that meant the firm could fall behind its competitors, especially in terms of gaining vital data about the preferences of young investors.

“They want to see what’s happening with the next wave of investors, and this is a fairly cheap way for them to dip their toes in the pool,” says Joe Duran, CEO of the Newport, California-based United Capital.

In reality, there is nothing stopping BlackRock and Acorns from going upmarket to customers with \$10,000 or \$20,000 in investable assets, or even more, Duran says. “If you can do this with pennies, there is no reason it can’t scale,” Duran says. “Acorns is disrupting the disruptors.”

But, he adds, you have to start with client accounts and the best way to sign on the masses is to make products as cheap as possible. “Acorns is using the same playbook as a lot of these tech companies, like Facebook and Twitter,” Duran says. “You start by grabbing a lot of users with free products that get a lot of attention, and then upgrade the service stack and pick up more of the customer’s wallet.”

**‘AN ECONOMIC FORCE’**

The ETF provider may be interested in targeting millennials, who are emerging as an economic force, says Jackie Shroyer, a senior analyst for Corporate Insight. “BlackRock sees this as a golden opportunity to reach millennials, who within a few years will have started entering their prime earning years and emerged as an economic force.”

BlackRock declined to provide specific information about what new offerings are in the

works and has not indicated it intends to enter the consumer marketplace. Acorns is also backed by PayPal, and last November it was added to the payments platform to increase its reach.

Acorns now has more than 3.3 million investment accounts and its robo-generated “smart portfolios” cost as little as \$1 a month, according to the firm. “They’ve managed to get more eyeballs and consumers than almost anyone else, now they’re figuring out how to commercialize that,” Duran says. “Overtime, they will keep trying to offer more premium



**“They want to see what’s happening with the next wave of investors, and this is a fairly cheap way for them to dip their toes in the pool.”**

**United Capital CEO Joe Duran**

services.”

Acorns’ recent success might not affect firms with different demographics, says Grant Easterbrook, co-founder of the Newark, New Jersey-based digital 401(k) provider Dream Forward. “Because Acorns is grabbing clients hand over fist doesn’t necessarily mean it is taking any away from core target markets.”

The average size of an Acorns account is about \$500 and customers are mostly 18- to 34 years old, according to Bloomberg. For comparison, Betterment’s average client age is 37 and average account balance is around \$40,000, according to a firm spokeswoman.

“Acorns is mostly just seen as a gateway app to get users comfortable with investing, before they move their assets elsewhere,” Shroyer says. “It is a way to get people started investing with lower stakes, but [micro investing] platforms will need to increase their sophistication to become competitive with the larger robos.”

**ADAPTING TO DISRUPTION**

Which firms will likely be disrupted by apps is hard to predict, especially when dealing with private companies, Easterbrook says.

“There’s always competition and everyone

is in competition with everyone else,” Easterbrook says. “The bigger question is whether companies that are trying to offer products at very, very low costs and gather as many clients as possible, will be more successful than traditional robos that have less clients, but more assets.”

Banks and fintechs are trying to master the cross-sell, like BankMobile, a division of Customers Bancorp in Wyomissing, Pennsylvania, and MemoryBank, a unit of Republic Bank & Trust in Louisville, Kentucky, which have launched mobile-only units. BBVA also

offers a digital product, Simple, which was developed by a pioneering digital bank it acquired in 2014. Meanwhile, Stash, a microinvestor, announced it would begin offering a savings and checking accounts next year.

BlackRock’s stake in Acorns could also hedge the fund provider’s position should the financial services industry shift away from large family funds, Easterbrook says.

“Fast forward 20 or 30 years and millennials are in charge and investment entry looks a lot different,” Easterbrook says. Younger investors growing up with micro investing apps may be inclined to stay on similar platforms, he suggests. “If the future world is all low-cost, passive lineups, then that’s a major disruption. What happens to the big fund families?”

Even BlackRock’s chief executive, Larry Fink, drummed up the importance of making products available to small-time investors in a letter to shareholders in the company’s 2017 annual report. He recounted purchasing his first stock, DuPont, at the age of 13.

“We are in a position to achieve these goals by using technology to drive better investing behaviors; by developing new investment solutions, and by advocating for better, stronger retirement systems,” Fink said. **MME**



# Leading for the Future

By Lisa Shea

**T**he future is here. It showed up when we weren't paying close attention — we were busy looking at our social media accounts and sharing pictures of our friends, families, and dinner plates. Big Data is now more than just a headline for a conference session — it's part of our everyday lives.

Our industry is still catching up, and we're investing immense amounts of time, money, and intellectual capital into how data is used. From the client experience to the regulatory requirements, we're rethinking everything. Our industry has been undergoing significant changes to keep pace with the technological advances of our greater society.

We're applying principles of human centered design and updating the look and feel of our online tools. We're making it easier for clients to navigate through sites, using more aesthetically pleasing ways to represent data using pictures, and allowing for intricate levels of drill down detail for those who are looking for it. We're giving clients access to what they want, anywhere and anytime they want it, using mobile technology and customizable, personalized site settings.

The irony is that in order to simplify things for our target audience, there is increasing complexity behind the scenes. To achieve a cleaner, simpler, more streamlined interaction for the end user, the technology behind the scenes is more sophisticated than ever, and is evolving daily.

Regulatory drivers only raise the stakes for data management, reporting, and presentation. In addition to the pure data management capabilities that are required to deliver a user friendly experience, we have the layered complexity of regulatory requirements to consider. We have seen a myriad of new rules over the past few years which have targeted the accessibility of information, the consistency of information, and the delivery of information. Across the globe, rules such as Europe's Mifid II and the US's Department of Labor Fiduciary Rule are changing how we do business. Investment Company Reporting Modernization will provide regu-

lators and, ultimately, end investors with access to unprecedented levels of detail on funds.

Transparency of information to investors related to fees, transparency of information to regulators related to portfolio construction and risk, presentation of data on screen — all rely on the accessibility and flexibility of the underlying data. We have to be aware of events around us — regulatory change at home and abroad will continue to impact how we do business. The drive for transparency and the focus on clarity of costs will continue, making efficiency and effective management critical to success.

In the drive for efficiency, robotics process automation and artificial intelligence are changing not only operational processes, but are increasingly being used in other areas of our industry, leveraging a machine's ability to retrieve and sort through data to present results for review, and even write reports using natural language generation.

The application of these technologies allows us to revisit long standing processes, and in many cases allows us to streamline how we handle information. We can redesign things to ensure stronger controls and more practical, efficient processes. At the same time, we can reenergize our teams. Machines will take over the repetitive processes, allowing people to focus on work that is engaging and invigorating.

Our leaders have to navigate not only the current complexities, but the rapid pace of change. They need to be technically savvy — seeing data and technology as part of a tool kit that will guide processes and procedures. With disruption comes opportunity, and we have to rethink not only the way we work today, but the way we will work tomorrow. In order to move forward, we have to let go of outdated practices while retaining our core values and integrity.

The way we look at recruiting and talent management must evolve significantly. Interestingly, the needs for innovative thinking and creativity in our teams align well with the way that students are being



Lisa Shea

educated today. Gone are the days of rote learning and repetition. Students are encouraged to actively solve problems, and that skill will go far in the workplace. Our management principles must also evolve

as well.

We have to recognize that our upcoming leaders will not follow the same paths that we did. It's not uncommon to hear managers of my generation bemoan how quickly their "new" people want to move from job to job. It's important that we distinguish between stability and stagnation — creative thinkers who want to be challenged will be the cornerstone for our future success, so it will benefit us to change our approach to make roles more challenging and to encourage and reward innovative thinking.

Flexibility and resiliency are important. We cannot be stuck in our ways, but need to continuously look to the future. The days of a Product Roadmap have evolved to the days of Product GPS, and we must be flexible enough to "recalculate" when we turn a corner.

Our core tenets remain the same — our industry and our regulators share the objectives of mitigating risk and protecting the interests of investors. The clients of the future are not the clients of the past, and we have to anticipate, meet, and exceed their expectations. The leaders of the future must have the ability to create harmony between man and machine, and to leverage the capabilities of both effectively. The leaders of the future will need to continue to invest in sophisticated technology and in talented people. To position ourselves for success, we must deliver leading technical capabilities with maximum data protection to provide an exceptional experience.

---

*Lisa Shea is a Senior Vice President and Senior Product Manager with Northern Trust, supporting Global Funds Services.*

## Lowest-cost mutual funds and ETFs with the best 10-year returns

With stocks near all-time highs, there is a great opportunity to offer a teachable moment on the staid but crucial topic of expenses.

For cost-conscious clients, the cheapest funds these days are ETFs. Their impact can be seen in the broader investment world. Indeed, from 1996 to 2017, average expense ratios fell 67% for index equity mutual funds. Even expense ratios of actively managed equi-

ty funds declined 28% during that period, according to Bloomberg.

With the harmful effects of high fees in mind, we researched funds that posted strong performance at a low cost. We collected those funds with expense ratios of less than 10 basis points and assets of \$100 million or more, then ranked them by 10-year annualized returns. [MME](#)

	Ticker	3-Yr. % Annualized Returns	10-Yr. % Annualized Returns	Expense Ratio	Total Assets (millions)
Vanguard Tax-Managed Small Cap Adm	VTMSX	13.16	11.23	0.09%	\$6,079.57
iShares Core S&P Small-Cap ETF	IJR	13.44	11.20	0.07%	\$40,582.07
American Century NT Mid Cap Value G	ACLMX	10.38	11.07	0.01%	\$1,042.40
SPDR Portfolio S&P 500 Growth ETF	SPYG	12.91	10.66	0.04%	\$2,647.86
Vanguard Mega Cap Growth ETF	MGK	12.83	10.54	0.07%	\$3,591.33
iShares Core S&P US Growth ETF	IUSG	12.47	10.37	0.05%	\$3,977.00
Schwab Small Cap Index	SWSSX	10.91	10.16	0.05%	\$3,777.09
SPDR Portfolio Mid Cap ETF	SPMD	9.19	9.96	0.05%	\$673.04
iShares Core S&P Mid-Cap ETF	IJH	10.05	9.82	0.07%	\$46,664.76
Vanguard Mid-Cap Value ETF	VOE	8.46	9.75	0.07%	\$17,611.65
American Century NT Growth G	ACLT	13.23	9.68	0.01%	\$1,308.07
Schwab Total Stock Market Index	SWTSX	10.57	9.23	0.03%	\$7,761.05
Fidelity Total Market Index Investor	FSTMX	10.56	9.12	0.09%	\$51,766.98
SPDR Portfolio Total Stock Market ETF	SPTM	10.69	9.09	0.03%	\$1,986.55
Vanguard Large-Cap ETF	VV	10.71	9.05	0.05%	\$18,892.89
iShares Core S&P Total US Stock Mkt ETF	ITOT	10.90	9.05	0.03%	\$13,809.49
SEI Large Cap Index A (SIIT)	LCIAX	10.59	9.02	0.03%	\$2,054.77
Vanguard Mega Cap ETF	MGC	11.22	9.02	0.07%	\$1,512.60
DFA US Large Company I	DFUSX	10.87	9.00	0.08%	\$8,500.15
Schwab S&P 500 Index	SWPPX	10.84	8.98	0.03%	\$32,548.55

Data as of May 29, 2018. Source: Morningstar Direct

## Mutual fund flows

(\$ millions)

Equity											
Domestic										World	
Date	Total long-term	Total equity	Total domestic	Large-cap	Mid-cap	Small-cap	Multi-cap	Other	Total world	Developed markets	Emerging markets
Estimated weekly net new cash flow											
5/30/2018	-329	-296	-2,023	-1,026	-462	436	-980	8	1,727	1,648	79
5/23/2018	-254	-2,058	-2,941	-1,730	-540	382	-869	-184	883	699	184
5/16/2018	-462	-2,811	-3,834	-1,856	-1,033	-250	-972	277	1,023	662	361
5/9/2018	1,035	-530	-2,863	289	-1,123	-231	-958	-840	2,333	1,895	438
5/2/2018	-6,558	-6,370	-6,654	-2,821	-1,217	-487	-1,723	-406	283	360	-77
Monthly net new cash flow											
4/30/2018	-6,944	-9,290	-12,678	-728	-1,132	-104	-3,946	-6,769	3,388	1,632	1,756
3/31/2018	9,559	264	-12,020	353	-2,827	-1,600	-6,590	-1,356	12,284	11,236	1,047
2/28/2018	-12,109	-8,369	-19,568	-1,665	-2,858	-2,634	-9,410	-3,000	11,199	9,460	1,739
1/31/2018	39,002	-7,078	-24,546	-6,914	-5,288	-2,117	-9,942	-285	17,469	13,268	4,201
12/31/2017	-28,892	-38,329	-43,096	-18,763	-4,770	-3,202	-12,383	-3,978	4,767	4,304	463
11/30/2017	-4,895	-16,441	-24,067	-5,949	-3,756	-3,439	-7,045	-3,878	7,627	6,303	1,324
10/31/2017	11,021	-15,971	-22,101	-7,360	-2,411	-2,109	-8,375	-1,846	6,130	4,962	1,169
9/30/2017	438	-21,998	-22,617	-7,548	-2,720	-2,046	-9,336	-967	618	1,372	-754
8/31/2017	-517	-16,493	-24,569	-7,242	-3,511	-2,555	-8,205	-3,056	8,075	6,650	1,425
7/31/2017	3,777	-13,782	-25,545	-10,330	-4,487	-2,242	-7,298	-1,188	11,763	11,038	726
6/30/2017	7,558	-9,412	-18,492	-13,228	-3,146	-2,291	1,918	-1,746	9,081	7,504	1,576
5/31/2017	27,288	3,144	-9,243	2,766	-2,379	-2,169	-5,234	-2,227	12,387	8,827	3,561
4/30/2017	306	-12,498	-19,556	-5,057	-4,061	-2,006	-7,056	-1,375	7,058	5,197	1,861
3/31/2017	12,553	-14,101	-13,409	-1,715	-833	-827	-7,620	-2,415	-692	-571	-121
2/28/2017	27,046	3,995	-2,694	-1,235	524	712	-2,069	-626	6,690	5,784	906
1/31/2017	11,156	-7,754	-10,936	778	-792	998	-10,606	-1,314	3,182	2,124	1,058
12/31/2016	-56,071	-33,615	-26,974	-10,891	-977	-816	-12,204	-2,085	-6,642	-5,817	-825
11/30/2016	-52,080	-27,965	-25,929	-8,244	-1,709	-293	-11,058	-4,626	-2,035	-888	-1,147
10/31/2016	-32,792	-37,928	-31,452	-8,576	-5,287	-2,541	-12,213	-2,834	-6,477	-6,258	-219
9/30/2016	-9,028	-22,398	-15,377	-152	-1,750	-1,086	-10,123	-2,265	-7,021	-6,113	-908
8/31/2016	-9,807	-32,287	-24,782	-5,504	-3,355	-1,711	-12,753	-1,459	-7,505	-7,276	-229
7/31/2016	-15,129	-37,685	-31,253	-11,922	-5,015	-3,382	-9,045	-1,889	-6,432	-6,239	-192
6/30/2016	-14,369	-18,895	-14,871	1,099	-4,486	-1,576	-7,812	-2,095	-4,024	-4,027	2
5/31/2016	-5,589	-17,369	-17,342	-4,178	-3,363	-1,188	-7,098	-1,516	-27	-1,217	1,190
4/30/2016	-4,520	-23,767	-19,455	-5,800	-3,381	-2,405	-7,327	-542	-4,312	-3,413	-899
3/31/2016	14,661	-9,971	-9,814	-5,473	-1,428	87	-2,661	-338	-157	1,307	-1,464
2/29/2016	8,492	8,779	-2,332	2,072	-2,871	-351	-525	-657	11,111	10,509	602
01/31/2016	-20,729	-4,927	-15,549	5,587	-5,958	-2,887	-7,339	-4,952	10,622	10,862	-239

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute



## ETF flows

(\$ millions)

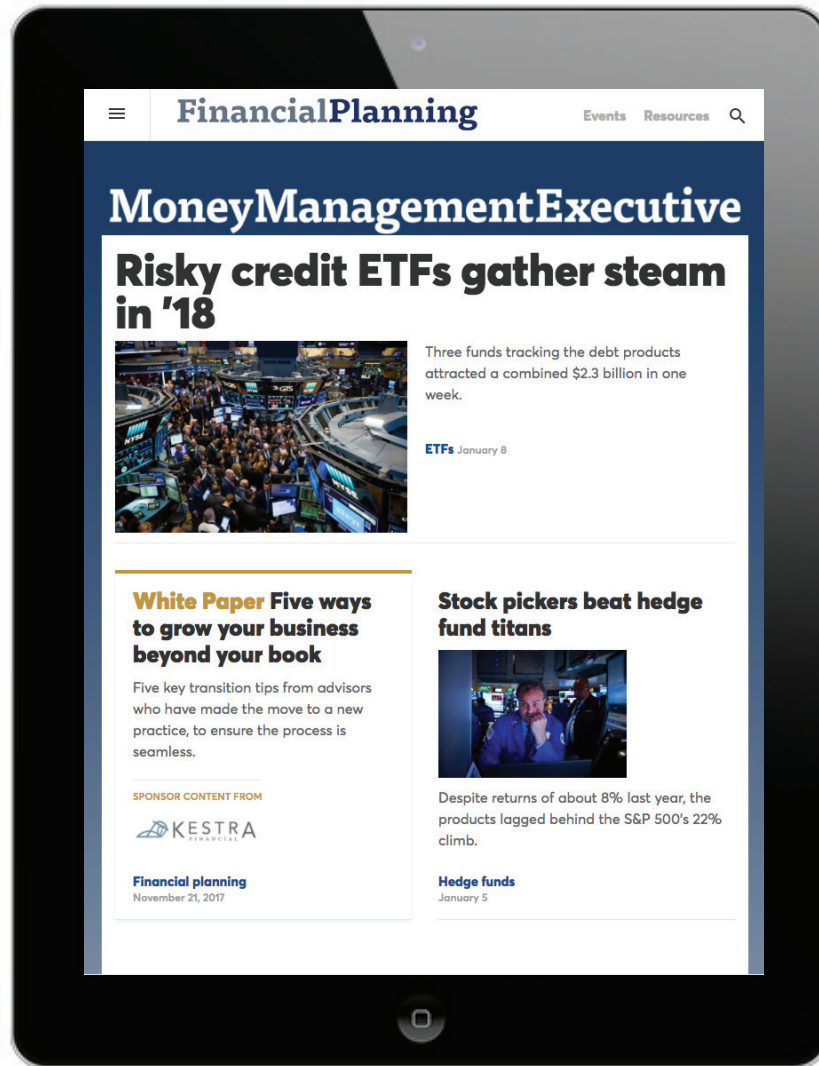
Date	Total equity	Domestic equity	World equity	Hybrid	Total bond	Taxable bond	Municipal bond	Commodity	Total LT MF and ETF flows
Estimated weekly net new cash flow									
05/30/2018	5,435	4,701	734	-642	2,241	1,580	661	125	7,159
05/23/2018	3,994	3,352	642	-807	5,206	5,021	185	-73	8,320
05/16/2018	8,394	6,066	2,329	-866	5,177	4,727	450	-281	12,425
05/09/2018	2,040	1,302	738	-788	2,735	2,383	352	242	4,229
05/02/2018	-2,457	-2,992	535	-887	3,477	3,640	-163	-82	50
Monthly net new cash flow									
04/30/2018	-24	-7,420	7,396	-4,130	22,359	24,130	-1,771	2,310	20,515
03/31/2018	-6,742	-22,173	15,431	-2,059	15,920	14,188	1,732	554	7,673
02/28/2018	-19,502	-41,447	21,946	-3,724	1,772	2,784	-1,012	681	-20,772
01/31/2018	54,200	10,777	43,423	-669	56,779	46,322	10,457	1,724	112,035
12/31/2017	8,931	-9,066	17,997	-3,697	19,158	19,491	-333	-528	23,864
11/30/2017	13,723	-4,429	18,152	-3,366	21,628	19,819	1,809	-444	31,542
10/31/2017	23,928	3,152	20,776	-2,458	38,759	36,163	2,595	-747	59,482
09/30/2017	653	-9,782	10,435	-2,589	36,463	33,476	2,987	1,733	36,260
08/31/2017	-6,149	-22,775	16,626	-4,163	29,578	25,124	4,454	2,393	21,659
07/31/2017	7,402	-12,528	19,930	-2,576	31,728	29,164	2,564	-3,532	33,022
06/30/2017	21,927	-7,958	29,886	-2,754	32,681	29,420	3,260	1,528	53,381
05/31/2017	23,363	-10,760	34,123	-2,040	36,430	33,128	3,302	-449	57,304
04/30/2017	12,335	-8,278	20,613	-2,078	25,236	22,116	3,120	948	36,441
03/31/2017	24,562	9,409	15,153	-2,424	37,867	36,632	1,235	-531	59,474
02/28/2017	34,769	17,600	17,170	-552	36,025	34,026	1,999	1,867	72,110
01/31/2017	20,678	5,081	15,597	-2,485	35,543	31,061	4,482	-637	53,099
12/31/2016	23,720	18,848	4,872	-12,210	-4,142	12,190	-16,331	-3,600	3,768
11/30/2016	21,953	23,151	-1,197	-7,538	-13,284	-2,142	-11,142	-3,572	-2,441
10/31/2016	-24,010	-23,111	-899	-4,886	13,896	12,297	1,599	-87	-15,086
09/30/2016	-13,030	-5,816	-7,214	-4,111	24,670	20,671	3,999	496	8,025
08/31/2016	-12,238	-9,930	-2,308	-461	30,859	23,565	7,295	-568	17,591
07/31/2016	-2,166	441	-2,607	-1,736	33,578	26,825	6,753	2,069	31,745
06/30/2016	-14,803	-15,722	919	-3,887	16,698	9,639	7,059	4,327	2,336
05/31/2016	-19,695	-14,044	-5,651	-1,516	16,925	8,955	7,970	3,466	-820
04/30/2016	-17,054	-12,677	-4,378	428	22,114	16,291	5,824	-674	4,814
03/31/2016	11,642	7,599	4,043	3,173	29,422	23,591	5,832	2,148	46,385
02/29/2016	-4,472	-9,066	4,594	-1,435	11,915	6,616	5,299	5,664	11,672
01/31/2016	-20,171	-27,292	7,121	-10,561	7,686	2,676	5,011	2,010	-21,035

Note: Weekly cash flows are estimates are based on reporting covering 98% of industry assets.

Source: Investment Company Institute

# SUBSCRIBE TODAY

[www.Financial-Planning.com/Money-Management-Executive](http://www.Financial-Planning.com/Money-Management-Executive)



## REGISTER TODAY TO ENJOY THESE BENEFITS

- Full online access to **MME online**, including breaking retail investment product news updated throughout the day.
- Access to the **Mutual Fund Service Guide**, including guides from the last 7 years.
- Information on executive moves in the industry.
- Receive the **MME daily e-newsletter** with the latest news, job opportunities and insights on the latest happening in the mutual fund and money management communities.

For more information or to inquire about an enterprise  
Site License for your company, please contact:  
Customer Service 212-803-8500 | [help@sourcemedia.com](mailto:help@sourcemedia.com)

**Money  
Management  
Executive**