MONEY management executive

The Premier News Source for Asset Management Leaders

September 2018 | Volume 26 • Number 9 | mmexecutive.com

TECHNOLOGY: How tech can boost manager growth

By Tony Warren

Talent in asset management has always been competitive. Headlines blare when teams are poached or top managers switch firms. But success relies on more than front-office superstars.

Digital expertise — in the form of both human capital and technological advancements — is the new secret sauce for survival and growth.

Tony Warren, EVP and head of strategy and solutions management, FIS

New data from the 2018 Readiness Report from FIS suggests that digital innovation has the strongest correlation with AUM growth. Based on a survey of more than 1,500 senior decision-makers at financial services firms around the world, including 390 asset managers, we discovered that firms that invest in digital expertise are growing 1.5-times faster than their peers, while the industry as a whole scores relatively low in its digital capabilities.

The industry is embracing technology with greater openness than in the past, partially due to strong AUM growth. The value of global AUM rose 12% to over $79 trillion in 2017, the strongest annual growth since 2009, Boston Consulting Group finds.

"Few asset managers, however, have mastered digital and analytics at scale," says BCG senior partner Brent Beardsley. "[They] would be wise to take advantage of a strong year to reinvest capital and talent in future growth."

Our research corroborates that advice, underscoring the importance of addressing the human side of the strategy. Twenty-five percent of asset management executives say organizational cul-

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OPERATIONS: 5 ways to improve client engagement

By David Halligan

Asset managers face competition every day, and strengthening your firm's relationships with advisors takes consistent effort. Because you operate with limited resources, you need to leverage your sales and marketing efforts using a business-intelligence platform.

A comprehensive sales-report system can help prioritize marketing efforts, and communicate information quickly and clearly to advisors. Wholesalers need a dashboard that is easy to navigate on an office PC, laptop or mobile device.

Here are five ways that a sales report system can help asset managers build stronger relationships with your current advisors:

BOOST RELATIONSHIPS

A sales-reporting system can help you quickly analyze data so you can find those advisors who need

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STRATEGY: Family offices target hedge fund clients

By Klaus Wille

They've already come for the talent, poaching traders from the likes of Millennium Management. Now Asia's family offices are going after the hedge fund industry's clients, too.

Take Tolaram Group, which runs a $500 million family office in Singapore. After hiring former Millennium and Goldman Sachs staffers to manage $100 million of its own cash, Tolaram plans to convert the portfolio into a hedge fund and accept outside money next year. It's the first foray into asset management for a family that made its fortune in textiles, consumer goods and other non-financial businesses.

Not content to simply cut costs by managing their wealth in-house, an increasing number of ultra-rich clans want to turn their family offices into

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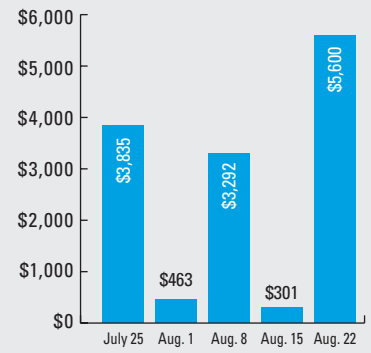
Total estimated inflows to mutual funds and ETFs were $5.6B for the week ending Aug. 22 (millions)



Source: Investment Company Institute

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INDUSTRY HIGHLIGHTS

REALITY SHARES EXPANDS INTO BLOCKFORCE CAPITAL

Reality Shares announced an expansion effort to change its name to Blockforce Capital in an effort to better reflect its focus of providing access to blockchain and cryptocurrency investments.

Under it's new name, Blockforce will consist of three business units: Reality Shares ETFs and Indexes, the Blockforce family of hedge funds and crypto investment platform Onramp.

"Our firm has pushed the innovative envelope of the ETF business to offer investors access to some of the most dynamic areas of the market," said Blockforce CEO Eric Ervin. The firm is looking to streamline access from ETFs to cryptocurrency portfolios to hedge funds, he added.

METLIFE AND STATE STREET FORM $2B MORTGAGE PARTNERSHIP

MetLife Investment Management struck a deal with State Street to originate and service as much as $2 billion in commercial mortgages, according to Bloomberg News.

The companies will co-lend each loan under the multiyear agreement, MetLife said in a statement.

"This is an important step in growing our real estate platform," Robert Merck, global head of real estate and agriculture at MetLife's asset manager, said in the statement. The partnership "offers customers access to two highly respected, leading financial institutions."

VANGUARD LAUNCHES COMMISSION-FREE ETFs

Vanguard has officially launched its line of commission-free ETFs the firm announced in July. Approximately 90% (nearly 1,800) of its ETFs that trade on major exchanges will be offered online with no commission, excluding inversed and leveraged ETFs, which the firm considers to be too speculative.

"Our goal is to provide additional access and flexibility to our clients, not spur counter-productive, frequent trading activity," said Karin Risi, managing director of Vanguard's retail investor group.

Vanguard expects the commission-free ETFs to result in lower costs for initial ETF investments and strategies such as dollar-cost averaging, rebalancing and harvesting losses for tax purposes.

MERCER TO ACQUIRE PARTS OF PAVILION FINANCIAL

Mercer signed an agreement to purchase Pavilion Financial's investment consulting, alternatives consulting and wealth management operations.

It plans to use the Pavilion brand for investment consulting services and insurance client segments post-close, Mercer says. Clients at Pavilion will have access to Mercer's research and investment capabilities.

"Pavilion is a leading global investment services firm with great leadership talent supporting strong consulting and research capabilities, particularly for alternative investments," said Rich Nuzum, president of Mercer's global wealth business. "Together, our complementary capabilities will enhance

ETF estimated net issuance ($ millions)

	8/29/2018	8/22/2018	8/15/2018	8/8/2018	8/1/2018
Equity	7,385	6,532	3,040	3,172	5,105
Domestic	6,507	4,864	3,009	1,449	4,703
World	878	1,668	30	1,724	403
Hybrid	36	14	35	47	22
Bond	1,240	2,955	-199	2,746	1,149
Taxable	1,152	2,841	-306	2,652	1,181
Municipal	88	114	107	94	-32
Commodity	-388	-532	-674	-450	-101
Total	8,273	8,968	2,202	5,514	6,175

Source: Investment Company Institute

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our ability to serve our clients."

The deal is expected to close in the fourth quarter, given regulatory and shareholder approval.

JPMORGAN UNVEILS LOW-FEE TRADING

JPMorgan Chase announced plans for a mobile brokerage platform that includes free research and some free trading to retail clients, according to Bloomberg News.

With the new offering, JPMorgan says it aims to appeal to millennials as well as encourage existing clients to initiate more trading on their own.

The firm first told investors it was working on a way to offer free robo-investing to retail customers back in 2016.

"We were hearing from clients that they wanted to invest with us as they digitally banked with us," Kelli Keough, JPMorgan's global head of digital wealth management, told Bloomberg News. "It really came from clients and was a concerted focus across the organization to make this happen."

RESEARCH

ASSET MANAGERS INTRODUCE ALTERNATIVE DATA TO STRATEGIES

An asset manager's first priority is forming a new investment strategy when it comes to alternative data, research shows.

While money is moving out of actively managed investments, some hedge funds and asset managers have been introducing new data to their strategies in order to gain a competitive edge, according to a new Aite Group report.

"Today, with the growing prevalence of quant-driven investment strategies, asset management firms are increasingly looking at alternative data and analytics as a new potential source of alpha," Gabriel Wang, analyst at Aite, said in a statement.

MANAGERS PRIORITIZE NEW TOOLS, ETFs

While ETFs are a focal point for managers in the near term, so is building out new vehicle offerings, according to a recent survey.

For 66% of asset managers, new vehicle offerings are a high priority.

However, liquid alternatives aren't seen in the same light — they have yet to prove their value in terms of return and portfolio diversity, according to the Cerulli study.

PRODUCTS

VANGUARD ANNOUNCES LOW-COST TOTAL WORLD BOND ETF

Vanguard has launched the first U.S.-domiciled index ETF of ETFs with access to the global investment-grade bond universe, the firm said.

The Vanguard Total World Bond ETF (BNDW), which has an expense ratio of 0.09%, trades on the Nasdaq and seeks to track the Bloomberg Barclays Global Aggregate Float Adjusted Composite, according to Vanguard.

"It's a simple, convenient and low-cost way to obtain the diversification benefits offered by bonds of many countries and issuers," said Vanguard CIO Greg Davis.

ALLY INVEST ADDS COMMISSION-FREE ETFs TO ITS PLATFORM

Ally Invest put out more than 100 commission-free ETFs on its online platform, seeking to diversify and specialize its clients' investments, according to the firm.

The ETFs cover domestic, international and global equities, fixed income, currencies, commodities and alternative strategies.

ALLIANZ LIFE LAUNCHES AN ANNUITY TO HELP MEET RETIREMENT GOALS

Allianz Life Insurance announced the release of Allianz Index Advantage Income Variable Annuity.

The new product features include income withdrawal percentages that will increase in years that retirement income is deferred, as well as the ability to customize protection opportunities through crediting methods.

PERTH MINT RELEASES GOLD-BACKED ETF

Perth Mint is launching the Perth Mint Physical Gold ETF (AAAU), which will be backed in gold and guaranteed by the government in Western Australia. Shares will be exchangeable for gold products.

The ETF will be backed in pure gold with a purity of at least 99.5%. The Bank of New York Mellon will serve as the fund's trustee. Exchange Traded Concepts will be the administrative sponsor, according to the firm

ARRIVALS

TA ASSOCIATES HIRES TWO VICE PRESIDENTS

TA Associates announced that Calen Angert and Nicholas Leppla, who once served as associates for the firm, have rejoined as vice presidents in its Menlo Park, California, office.

Angert served as an analyst in Morgan Stanley's health care investment banking group. He will continue to focus on investments in health care companies.

Calen Angert

Leppla will focus in technology company investing, according to TA. Leppla previously served as the chief of staff at AVG Technologies and as an analyst in JPMorgan's technology, media and telecommunications investment banking group.

"As associates, both proved to be valuable contributors to TA on several fronts, particularly in our deal sourcing and due diligence efforts," said TA chairman Brian Conway. "We look forward to Calen and Nick's contributions as we continue to seek investments in profitable growth companies and partner with the management teams of our portfolio companies to create further value."

DEFIANCE ETFS NAMES GLOBAL HEAD OF ETFS AND DIRECTOR OF RESEARCH

Defiance ETFs is hiring Paul Dellaquila as the global head of ETFs and Tom Bowles as the director of research.

Dellaquila was the former leader of BlackRock's U.S. wealth advisory ETF distribution, according to the firm. In his new role, Dellaquila will be in charge of distribution and product development at Defiance ETFs.

"Paul's client-centric approach and deep knowledge of portfolio construction and the ETF industry make him ideally suited to take on this role with Defiance," said Defiance ETFs CEO Matthew Bielski. MME

News Scan by Jessica Mathews

What Do New Regulatory and Fintech Developments Mean for Your Firm?

FIND OUT AT ICI'S 2018 TAX AND ACCOUNTING CONFERENCE

New regulations and technological innovations are changing asset management, and only one event can help you stay one step ahead: **ICI's Tax and Accounting Conference**. Taking place **September 30–October 3** in **San Diego**, this popular event will feature dynamic speakers and in-depth panels, covering a wide range of issues, including:

- Domestic and international tax developments
- Blockchain and cryptocurrency
- Artificial intelligence
- SEC reporting modernization
- Diversity and inclusion

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ture is one of the biggest barriers to digital innovation, 16% point to an insufficient organizational understanding of digital issues and another 15% cite talent gaps.

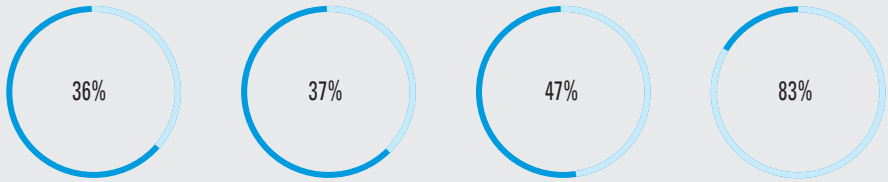
Top-performing firms are already taking action. Fifty-three percent are recruiting for new digital skills, versus just 30% of the rest of the industry. Roughly 37% are appointing leadership roles with an innovation remit (versus 20% of their peers), and 51% are encouraging a more open and innovative culture, compared to 29% of other managers.

Some firms are adopting new senior leadership structures to help direct their efforts. For example, HSBC set up a technology advisory board comprising CEOs, scientists and entrepreneurs from China, India, Israel and the U.S. to help steer its digital strategy.

Others are turning to the tech sector to acquire digital expertise. Goldman Sachs, for instance, recently recruited the former head of Amazon Web Services' AI laboratory to spearhead its AI strategy. BlackRock is staffing its new AI center in Silicon Valley by hiring more than a dozen data experts there as a means to experiment on ways of "making employees more efficient rather than replacing them with technology."

But vying for and retaining tech-sector talent brings new demands in order to compete with the modern work culture. Serving to attract and retain job-hopping millennials, BlackRock and Legg Mason have introduced unlimited vacation and expanded individuals covered by paid parental leave, respectively, for its employees.

Firms are facing a new world of risk — including growing cyber threats



of firms say that cyber risk is the biggest barrier to digital innovation

of insurers have or plan to migrate risk management applications to the cloud

of fund administrators think they are well-prepared to meet enhanced client demands on risk management

of the most automated firms are effective at giving the risk management team access to enterprise-wide data without delay — versu just 56% of the least automated firms

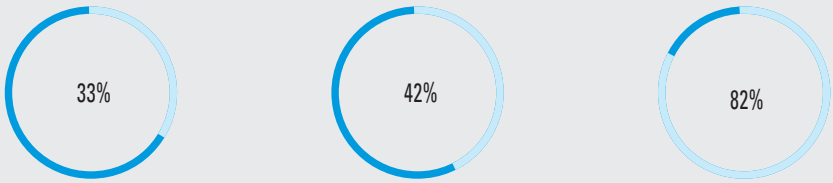
Source: FIS

"Vying for and retaining tech-sector talent brings new demands in order to compete with the modern work culture."

Tony Warren, EVP and head of strategy and solutions management, FIS

As asset managers bring new ways of working and new business models into play through digital innovation, they will need to adapt to performance-management practices and incentive structures as well.

Acquiring new customers has become the top priority — and digital innovation is key



now offer mobile services — up from 24% in 2017

will differentiate themselves by tailoring service offerings for individual customers

say investing in data management has improved the customer experience

Source: FIS

So what can managers do to keep up? To put it simply, remember the people side of digital innovation. To expand into new markets, build product offerings and grow client bases, managers who lead the pack will prioritize investments in vital technology – but also have a renewed focus on their (1) people, (2) culture and (3) organizational structure.

By infusing tech-minded professionals alongside traditional investment talent, adopting open and agile teams with modern and flexible work-life integration options and encouraging cross-functional experiences, asset managers can fully unleash the transformational value that digital innovation brings. MME

Tony Warren is EVP and head of strategy and solutions management at FIS.

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We'll be tackling some of today's headline technology issues by **Breaking Down Blockchain** and exploring how digitization is **Evolving the Client Experience.**

Dr. David Kelly, Chief Global Strategist for JP Morgan Asset Management will provide a Capital Markets Masterclass, an engaging overview of today's complex economic and market issues facing the global financial industry.

The conference **breakout sessions** will offer something for everyone –including how product and distribution trends are impacting business models, how to leverage business intelligence reporting, and how to manage risk in the high- stakes global economy.

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ESG boom skips fixed income, forcing firms to try harder

By Emily Chasan

Wall Street's do-good investment boom is finally taking notice of the credit markets. Sustainable investment assets grew 37% last year, according to Bloomberg data, but most of those funds focus on stocks. That's leading to some awkward conversations on Wall Street, as wealthy clients and foundations increasingly want to align their entire portfolios with their social mission but are finding few opportunities to do so in fixed income.

"Most of the people who are interested in incorporating ESG are interested in doing so throughout their portfolio," says Rui de Figueiredo, co-head and chief investment officer of the Solutions and Multi-Asset Group at Morgan Stanley Investment Management. Yet, with a dearth of available fixed-income products categorized as environmental, social and governance, those investors haven't looked at it much. "But that creates more demand on the part of asset managers to create those opportunities," he says.

Of almost 1,900 ESG funds tracked by Bloomberg, 15% invest in fixed income, vs. 62% in equity. On an asset basis, that figure is even smaller, with fixed income representing about 3% of the $491 billion in such funds.

Bonds, though, have the potential to be a popular ESG asset class for impact investors, those who look to generate environmental and social outcomes along with financial return. Fixed income typically attracts investors with longer time horizons who might be more philosophically aligned with environmental and social issues, says Mike Amey, head of sterling portfolio management and ESG strategies at Pimco. A World Bank report released in April details some initial evidence that ESG factors can help bond investors avoid default risk.

To fill the gap, managers are looking at the existing debt market with fresh eyes, tapping into potentially overlooked asset classes such as affordable housing and development bank debt to find investable opportunities for sustainability-hungry clients. They're also trying to build infrastructure, such as benchmarks, that will support greater liquidity and investment levels in these products. Here's what's going into sustainable bond portfolios.

DEVELOPMENT BANK DEBT. High-grade debt issued by the World Bank and other development banks offers some of the best-performing do-good credit on the market, according to UBS, which found the debt delivered strong returns for its socially conscious private bank clients.

GREEN BONDS. The market for environmentally friendly bonds is expected to hit a record $170 billion in new issuance this year, but the bonds are in relatively short supply, according to Bloomberg NEF. Green bonds represent less than 0.5% of the global fixed-income market. Most deals are oversubscribed, and their environmental credentials appeal to long-term investors who buy and hold investments. If you can get your hands on a green bond, you'll find the sector has been dominated this year by sovereign, local government and financial issuers, which use the proceeds to fund smaller projects focused on renewable energy, green buildings, sustainable water management and the like.

MUNI BONDS. The municipal bond market is an "abundant source of potential investments" in ESG, says James Iselin, head of the municipal fixed-income team at Neuberger Berman Group. The manager recently retooled the focus of an existing $56 million muni fund to center on impact investing.

Debt issued by local communities can have a positive effect, funding energy and water-treatment projects, schools and public transportation; it can also help investors lower their tax liabilities. Eaton Vance's Calvert Research and Management, AllianceBernstein and Columbia Threadneedle Investments have also launched municipal funds with similar do-good mandates.

ESG BOND PORTFOLIOS. Fund managers such as Pimco, Fidelity Investments and Brown Advisory are building their sustainable fixed-income funds by selecting bonds issued by companies that perform well on ESG ratings maintained by third parties such as Sustainalytics and MSCI. This essentially replicates the most common ESG equity strategies in the debt market.

The municipal bond market is an "abundant source of potential investments" in ESG.

James Iselin, head of the municipal fixed-income team, Neuberger Berman Group

REAL ESTATE. Community Capital Management, an impact investing company that oversees about $2.3 billion, slices up portfolios so investors can use their fixed- income strategies to support housing in a number of categories such as disaster recovery, minority neighborhoods, arts and culture programs and sustainable agriculture. The Florida-based company last year created a pool of mortgage-backed loans, municipal debt and other asset-backed debt tied to affordable housing for women and girls.

CDFIs. Community development financial institutions, which provide affordable lending to low-income and underserved communities, are gaining traction with impact investors.

Banks have been the primary investor in the area for years, thanks to the 1977 Community Reinvestment Act, which encouraged commercial banks to meet the lending needs of their local communities. This has given CDFIs a long performance history. Some are even large enough to have credit ratings, which makes them appealing to retail investors, according to Louise Herrle, a managing director at Incapital , an underwriter and distributor of fixed-income securities to broker-dealers and financial advisors. — *Bloomberg News* MME

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revenue generators by charging the merely well-off to invest alongside them. While skeptics say conflict-of-interest concerns and limited track records may deter outside investors, the trend underscores the growing sophistication of Asia's family offices and could pose a threat to incumbent money managers in a region that's minting millionaires at the fastest pace worldwide.

"What we're doing, I am sure other families will do in similar ways," Manish Tibrewal, the CEO of Tolaram's family office, says.

At least eight family and multi-family offices in Asia have recently started, or are planning to start, investment funds that accept outside money. They include AJ Capital, which is currently applying for a license to make its planned financial services-focused lending fund available to external investors by March, and Kamet Capital Partners, which is planning a $182 million fund to invest in liquid assets. Golden Equator Capital, JM Enigma and Golden Horse Fund Management also have offerings in the works.

They're breathing fresh life into an idea pioneered in the U.S. and Europe. The family office, founded in 1882 by oil magnate John D. Rockefeller, opened an asset management and advisory business in 1979, while billionaire Michael Dell's MSD Capital launched an entity offering select strategies to outside investors in 2009. Quilvest opened its private equity fund of funds in 2002.

Asia is arguably the most important battleground for the world's asset managers. The region is home to more rich people than any other after adding new millionaires at an annual rate of about 12% last year, data from Capgemini show. In 2016, a fresh Asia billionaire emerged every other day on average, according to the UBS/PwC Billionaires Report.

Family offices have become an increasingly notable feature of the region's wealth management scene. While each one is unique, they're typically staffed by former investment bankers, hedge fund traders and private-equity analysts, overseeing investments that span both public and private markets. If managed well, they can give families more control over their assets and cost less than farming money out to hedge funds and private banks.

Family offices that take outside money see several advantages to opening up. For one, fee income helps offset the cost of hiring experienced investment professionals, which can quickly add up. At Tolaram, the payroll includes ex-Millennium trader Ankit Khandelwal, former Goldmanite Lee Kim Leng and Liew Han Piow, who ran the equity derivatives desk at United Overseas Bank.

Other family offices in Asia have recently poached talent from firms including Deutsche Bank and GIC, Singapore's sovereign wealth fund.

"What we're doing, I am sure other families will do in similar ways."

Manish Tibrewal, CEO, Tolaram Group's family office

External investors can also help instill family offices with a greater sense of discipline and professionalism. That's especially important when aging founders begin passing the reins to younger generations.

It's part of the "transition from family entrepreneur to entrepreneurial family," says Thomas Zellweger, a professor of business administration at the University of St. Gallen.

The challenge is convincing outsiders to hand over their cash. While family offices can tout their business acumen and show that they've got skin in the game, some observers question whether they'll be able to compete with existing wealth-management offerings.

'GREAT SKEPTICISM'

"I view this development with great skepticism," said Claudia Zeisberger, Instead's Singapore-based professor of entrepreneurship and family enterprise. "Asian family offices still have a way to go to achieve a level of institutionalization that gives them the right governance structure, the right risk-management framework and the level of sophistication before they can start thinking about turning their family office into a business."

Asia's rich clans have a history of success when it comes to founding and operating companies, but many lack track records in money management of the sort that external investors often require. Another worry is that investment decisions could be unduly influenced by family members, whose objectives may not always align with those of the fund, says Vikas Gattani, the Singapore-based founder of a hedge fund that invests in Indian consumer-related industries.

Sparse public statistics on funds run by family offices make it difficult to draw definitive conclusions about their results. The few that do disclose those figures include Golden Equator Prime Currency Income Fund, which returned more than 20% since its inception in 2015, and Thirdrock Asian Affluence Fund, a long-short Asia equity fund that gained 8.3% from January 2015 through June. The Eurekahedge Asia Long Short Equities Hedge Fund Index, meanwhile, climbed 24%.

The strategy Tolaram plans to use for its hedge fund returned 12% in 2016 and 10% last year. It plans to charge external investors a 2% management fee and a 20% performance fee, versus industry averages of about 1.3% and 16%, respectively.

"The new funds will only gain traction if they can compete with the existing hedge fund industry, both in terms of returns and fees," says Mohammad Hassan, an analyst at Eurekahedge in Singapore.

Only time will tell how family office funds perform over the long haul, but Tolaram's Tibrewal is confident more of them are coming.

"Asia generates a billionaire every other day," he says. "The logical extension is that a lot more family offices will be opened. They'll want to extend their asset management offering to outside investors." — *Bloomberg News* MME

ENGAGEMENT
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the most engagement from your firm.

Assume, for example, that a wholesaler's territory includes 500 advisors who have done business with you in the past. How do you determine the best prospects?

Using the dashboard on your sales-report software, you determine that the vast majority of the total business generated comes from 120 of the 500 advisors. In order to use your time efficiently and get a bigger share of wallet from existing advisors, you need to focus your efforts on the 120 advisors identified by your sales-report software.

EFFECTIVELY USE TIME ON THE ROAD

An effective sales report system, particularly software that works well on a mobile device, can help firms maximize sales efforts while out of the office.

For example, assume your wholesaler are calling on top advisors. He has an appointment cancel unexpectedly and needs to fill the time with a new appointment. How can he respond to this situation efficiently?

Report software can allow firms to generate contact information that lists existing advisors, phone numbers and addresses within a 25- to 50-mile radius of your location

Once a wholesaler creates the initial list of top producer names, they can prioritize the list based on each advisor's assets invested in a particular product line, distance from current location or some other critical category. They can now set appointments with advisors in the area who are the most valuable.

RESPONDING QUICKLY AND CLEARLY

Time can be a critical factor when marketing to advisors, and a well-designed sales report dashboard can help firms communicate quickly and effectively.

In this example, assume that you are the national sales manager for a large-cap equity fund. Breaking news regarding a foreign country that impacts your fund's portfolio has just been announced, and you need to quickly communicate your analyst's opinion to advisors who use your fund in client portfolios.

Your sales team can choose to email, call or visit advisors who recommend your fund to clients. How do you effectively communicate information and reinforce your firm's story?

A sales-report dashboard should allow everyone in the organization to quickly generate a list of advisors, based on total client assets invested in your fund. You may decide to set wholesaler appointments for your top advisors, while advisors who are further down the list get a phone call. Finally, the remaining advisors on your list receive an email.

"Time can be a critical factor when marketing to advisors, and a well-designed sales report dashboard can help firms communicate quickly and effectively."

David Halligan, director of sales and account management, SalesFocus Solutions

CONDUCT AN EXIT INTERVIEW

What happens, for example, when a top producer moves $2 million — or any other substantial sum — out of one of your funds?

Conduct an exit interview. Was the fund redemption due to a life situation (death, retirement, estate planning), or was it due to fund performance? The reason may also be the loss of a client, a move to a competitor's fund or a decision to use a passive approach.

This form of timely engagement helps firms determine the reason for the fund redemption and maintain the relationship with the advisor. In addition, wholesalers can create questionnaires as a template that a mobile user can access to debrief advisors on why they exited out of or trimmed a substantial portion of a fund holding.

MANAGE KEY RELATIONSHIPS

An effective sales-reporting system may also help manage key advisor relationships.

Here's another scenario: A wholesaler covers a four-state area, and her top producers are located primarily in five cities. How does she work efficiently by maximizing time spent in front of top producers?

An effective sale data dashboard can help plan her time by considering each top producer's location. Assume a particular top producer agrees to see her on the third Wednesday of each month. She can post that information into your sales data and plan other meetings nearby on the same date each month.

Firms can review top reps and largest tickets on a daily basis. Companies can access sales totals for any time period and build important relationships.

A sales-reporting system should also be a useful tool to quickly address any potential confusion regarding a fund's performance. Assume, for example, that negative news comes out about a company that was a top-10 holding in your domestic equity fund at the end of the second quarter. The fund manager, however, sharply reduced the position before the negative news came out.

Many advisors may read the negative news and not know the large holding was already sold. Sales teams can use the tools explained above to identify the advisors who use your fund and sort the list by total assets. The sales force system should allow you to easily contact all of your wholesalers, provide the list of advisors and communicate a response.

Finally, get input from internal and external wholesalers and the entire marketing and sales group to determine how a sales-report dashboard should present information. This type of research can help create a system that meets the diverse needs of staff.

Making the investment to create a sales-report system allows everyone in the organization to work smarter. Wholesalers can leverage their time to grow the most important advisor relationships. These efforts will help firms get the attention and gain the trust of more advisors over time.

David Halligan is the director of sales and account management at SalesFocus Solutions.

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ENVISION FINANCIAL SYSTEMS

The Evolution of the Broker-Dealer / Mutual Fund Family Relationship

By Brian Jones

Brian Jones

Mutual fund investing is inextricably tied to the financial intermediary channel. According to the 2017 ICI Investment Company Fact Book, 80% of households that owned mutual funds outside of employer-sponsored retirement plans purchased them with the help of an investment professional.[1] These financial intermediaries have traditionally processed mutual fund accounts in one of two ways: either by "going direct"—using an application and sending a check to the fund company—or through their brokerage partner. However, both options present challenges. In this article, we outline a third option, FundKeeper, which can meet the increasingly complex needs of today's financial intermediaries given additional compliance and economic burdens.

Increasingly, the direct "check and app" process is becoming uncomfortable for many financial intermediaries due to compliance and consolidation challenges. While processing the investor account through the intermediary's brokerage system addresses these problems, "going to brokerage" introduces cost and complexity.

Operational changes related to fiduciary rule compliance have caused broker dealers and financial intermediaries to more closely examine their direct mutual fund business. As a result, some broker dealers have prohibited their representatives from opening investor accounts directly with mutual fund companies. The broker dealer firms may have also required their reps to move existing direct-held mutual fund positions to their brokerage platform. Or, in some cases, the firm has resigned as broker dealer, thereby orphaning accounts that don't move.

Here's a scenario you might hear from a broker dealer:

- The broker dealer firm prefers the visibility of accounts processed through its brokerage platform.
- The broker dealer also wants to accommodate reps who serve investors that don't require the complexity of a brokerage system.
- Concurrently, the broker dealer is getting increasingly uncomfortable with direct "check and app" accounts because of the hassles associated with paper-based account openings.
- Eventually, the broker dealer decides the inherent lack of oversight associated with accounts held directly at the fund is too problematic.
- The broker dealer requires all accounts to be processed through their brokerage platform provider. For investors who balk at the brokerage fees, the rep must resign from the account and orphan it at the fund, placing fiduciary oversight with you.

This and other similar scenarios inspired Envision Financial Systems and U.S. Bancorp Fund Services to develop FundKeeper, an alternative for mutual fund processing. FundKeeper is a brokerage-like solution that can provide a broker dealer the compliance benefits of brokerage, without the traditional brokerage costs and complexity. Simultaneously, FundKeeper provides the fund the simplicity of an omnibus account.

Mutual fund families may benefit from FundKeeper as well—such as in handling thorny mutual fund distribution and operational issues including:

- *Clean shares*—Broker dealers will be unable to process clean shares on a direct-purchased basis. A platform to house their custom commission table and handle commission calculation and remittance will be required. FundKeeper provides these capabilities.
- *Orphaned accounts*—For existing accounts held directly with the fund company, FundKeeper represents an alternative to forcing the accounts onto a traditional brokerage platform or resigning from the accounts.
- *Direct account burden/operational complexity*—FundKeeper can provide broker dealers with a way to offer reps and investors a "direct like" experience, while removing the burden to manage and maintain individual accounts.
- *Distribution*—FundKeeper can eliminate barriers dealers face selling mutual funds in a direct held model by making them available to investors through the broker dealer without potentially steep fees. This places the investor's interest at the forefront and opens distribution opportunities.

In creating FundKeeper, our goals have been to:

- Give broker dealers, RIAs and other intermediaries efficient front-end account opening and back-end consolidation, with better economics throughout.
- Enhance the broker dealer's front-end compliance review processes.
- Consolidate account servicing and reporting to provide the benefits of conventional brokerage without the associated complexities and fees.
- Provide a single contact point for direct mutual funds and managed accounts across fund families.
- Give broker dealer firms control of the customer relationship with direct access to investor account data.
- Deliver operational efficiencies through an omnibus model and streamlined processing that can eliminate paper, overnight envelopes, and 'not in good order' follow up.
- Provide a "better than brokerage" experience for investors and reps alike.

Financial intermediaries are clearly an important mutual fund distribution channel. FundKeeper's objective is to provide broker dealers and other intermediaries with a more efficient way to process mutual funds, enabling the broker dealer / mutual fund family relationship to continue evolving in a mutually beneficial way.

[1] 2017 Investment Company Fact Book, Chapter Six, page 122, http://www.icifactbook.org/ch6/17_fb_ch6

Brian Jones is Executive Vice President at Envision Financial Systems.

Top passive fund returns since the financial crisis

While more than 80 managers offer ETPs in the U.S., BlackRock, State Street and Vanguard dominate the industry. Those three account for half of the top-performing passive funds since the financial crisis.

"The last 10 years has seen the market move from the trough to a new record high," notes Greg McBride, chief financial analyst at Bankrate.com. "A lot of the best performers were the hardest hit as the economy was unwinding, so you might see some high growth in funds that really took it on the chin as the crisis was unfolding."

The average expense ratio among the top 20 funds was 0.43%.

"Lower fees translate into higher net of fee returns because the cost savings flow right into investors pockets," says Alex Bryan, director of passive strategies research for Morningstar in North America. MME

	Ticker	3-year % Return	10-Yr. % Returns	Expense Ratio	Net Assets (millions)
First Trust Dow Jones Internet ETF	FDN	24.02	19.68	0.53%	$9,262.85
Invesco NASDAQ Internet ETF	PNQI	20.34	19.23	0.60%	$662.23
First Trust NYSE Arca Biotech ETF	FBT	6.93	18.70	0.56%	$2,169.65
Invesco Dynamic Pharmaceuticals ETF	PJP	-1.16	16.46	0.56%	$579.91
SPDR S&P Biotech ETF	XBI	6.08	15.51	0.35%	$5,413.16
Consumer Discret Sel Sect SPDR ETF	XLY	14.11	15.43	0.13%	$14,328.29
First Trust NASDAQ-100-Tech Sector ETF	QTEC	23.78	15.38	0.58%	$2,578.68
Invesco QQQ Trust	QQQ	18.47	15.20	0.20%	$69,598.01
Vanguard Consumer Discretionary ETF	VCR	12.99	15.09	0.10%	$3,297.96
First Trust Health Care AlphaDEX ETF	FXH	5.01	14.93	0.62%	$1,144.12
VALIC Company I NASDAQ-100 Index	VCNIX	18.12	14.84	0.53%	$516.00
Shelton Nasdaq-100 Index Direct	NASDX	16.98	14.83	0.49%	$634.54
iShares Nasdaq Biotechnology ETF	IBB	-1.90	14.74	0.47%	$9,328.02
USAA NASDAQ-100 Index	USNQX	18.13	14.68	0.51%	$2,030.03
iShares North American Tech ETF	IGM	23.94	14.64	0.47%	$1,600.33
iShares PHLX Semiconductor ETF	SOXX	29.20	14.57	0.47%	$1,635.32
iShares US Aerospace & Defense ETF	ITA	20.41	14.57	0.43%	$5,703.56
Vanguard Information Technology ETF	VGT	23.00	14.52	0.10%	$23,198.04
iShares US Healthcare Providers ETF	IHF	11.15	14.41	0.43%	$801.34
iShares North American Tech-Software ETF	IGV	22.70	14.34	0.47%	$1,936.58

Notes: Leveraged funds and those with less than $250 million in AUM were excluded. Data as of 8/17/18. 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											
8/29/2018	-6,296	-8,069	-7,002	-3,619	-528	342	-2,698	-498	-1,068	-1,255	188
8/22/2018	-3,371	-3,511	-3,456	-2,099	-335	951	-1,822	-152	-55	-202	148
8/15/2018	-1,901	-2,261	-2,997	-2,602	-220	123	-229	-70	736	713	23
8/8/2018	-2,226	-4,840	-4,857	-3,151	-478	86	-920	-394	17	242	-225
8/1/2018	-5,714	-8,117	-6,832	-2,253	-668	-517	-2,940	-453	-1,284	-1,250	-34
Monthly net new cash flow											
7/31/2018	-9,921	-20,874	-18,888	-9,668	-2,177	1,570	-6,723	-1,890	-1,986	-2,219	233
6/30/2018	-16,498	-19,894	-24,250	-15,175	-2,713	1,453	-6,518	-1,296	4,355	4,768	-413
5/31/2018	-5,804	-8,733	-15,729	-5,639	-4,423	544	-5,145	-1,067	6,996	5,803	1,194
4/30/2018	-6,979	-9,293	-12,675	-722	-1,127	-104	-3,953	-6,769	3,381	1,625	1,756
3/31/2018	9,551	264	-12,020	353	-2,823	-1,600	-6,594	-1,356	12,284	11,236	1,047
2/28/2018	-12,119	-8,369	-19,568	-1,665	-2,858	-2,634	-9,410	-3,000	11,199	9,460	1,739
1/31/2018	38,993	-7,078	-24,546	-6,914	-5,288	-2,117	-9,942	-285	17,469	13,268	4,201
12/31/2017	-28,893	-38,329	-43,096	-18,763	-4,770	-3,202	-12,383	-3,978	4,767	4,304	463
11/30/2017	-4,894	-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	3,778	-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	27,289	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	27,047	3,995	-2,694	-1,235	524	712	-2,069	-626	6,690	5,784	906
1/31/2017	11,157	-7,754	-10,936	778	-792	998	-10,606	-1,314	3,182	2,124	1,058
12/31/2016	-56,070	-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	-32,791	-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	-5,588	-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

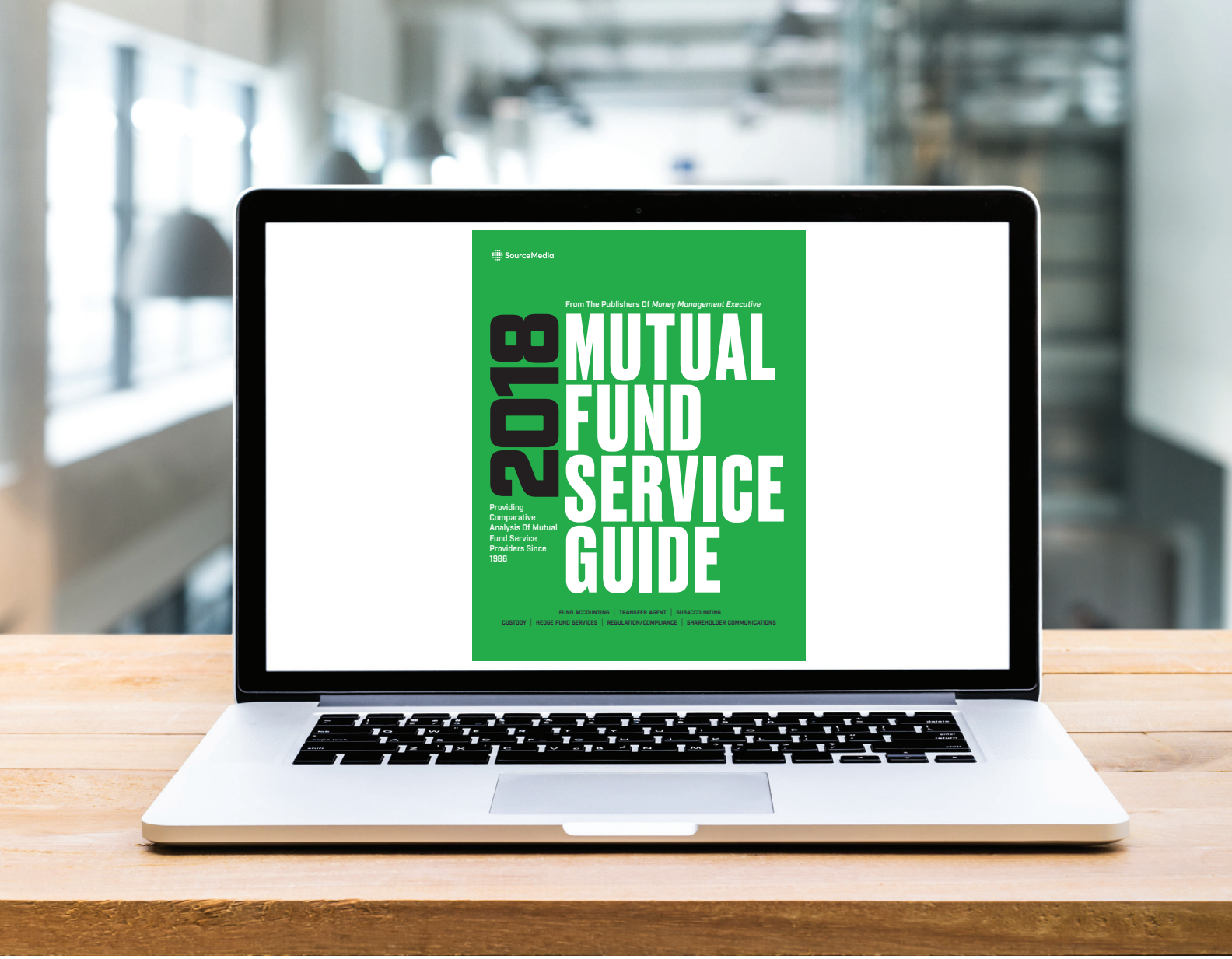
ETF flows

($ 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									
08/29/2018	-684	-495	-189	-1,367	4,416	4,142	273	-388	1,977
08/22/2018	3,021	1,408	1,613	-1,487	4,596	4,065	531	-532	5,598
08/15/2018	779	12	767	-1,479	1,675	1,013	662	-674	301
08/08/2018	-1,667	-3,408	1,741	-1,450	6,857	6,135	723	-450	3,289
08/01/2018	-3,011	-2,130	-882	-2,271	5,844	5,681	163	-101	461
Monthly net new cash flow									
07/31/2018	-306	973	-1,279	-6,249	26,038	22,616	3,421	-599	18,884
06/30/2018	-26,524	-20,938	-5,586	-7,526	19,747	17,147	2,601	-2,450	-16,753
05/31/2018	13,744	10,053	3,691	-3,995	13,108	11,831	1,277	-133	22,724
04/30/2018	-27	-7,417	7,390	-4,139	22,435	24,206	-1,771	2,310	20,578
03/31/2018	-6,742	-22,173	15,431	-2,067	15,920	14,188	1,732	554	7,666
02/28/2018	-19,502	-41,447	21,946	-3,734	1,772	2,784	-1,012	1,026	-20,438
01/31/2018	54,200	10,777	43,423	-678	56,779	46,322	10,457	1,724	112,026
12/31/2017	8,940	-9,057	17,997	-3,698	19,158	19,491	-333	-528	23,872
11/30/2017	13,723	-4,429	18,152	-3,365	21,628	19,819	1,809	-444	31,543
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	36,261
08/31/2017	-6,149	-22,775	16,626	-4,162	29,578	25,124	4,454	2,393	21,659
07/31/2017	7,402	-12,528	19,930	-2,575	31,728	29,164	2,564	-3,532	33,023
06/30/2017	21,927	-7,958	29,886	-2,754	32,681	29,420	3,260	1,528	53,382
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	-2,484	35,543	31,061	4,482	-637	53,100
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	-4,885	13,896	12,297	1,599	-87	-15,086
09/30/2016	-13,030	-5,816	-7,214	-4,110	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	-3,886	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



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