

Managed Accounts Executive Outlook

Trends in Distribution, Operations and Technology

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Executive summary

Based on Peridrome's 2011 Executive Outlook survey, we expect the managed accounts industry to remain in a transitional state over the next three years. During this time, product platforms and operational practices will move away from traditional separately managed account (SMA) products toward looser coupling of investment manufacturing and distribution that leverages model delivery and newer products like exchange traded funds (ETFs). The transition may be painful for established SMA managers, but will offer opportunities to outsourcers, emerging sponsors and TAMPs (turnkey asset management providers) that can adapt to today's unfolding trends and evolving business landscape.

Findings

Distributors of managed accounts products (broker-dealer sponsors and TAMPs) are more optimistic about the future of their businesses than are investment managers. While all sponsors and TAMPs expected accounts to grow over the next three years, only 65% of managers had the same expectation. This may be a result of the realignment of market share away from third-party managed solutions (SMA and UMA) and toward advisor-centric programs (rep-as-advisor and rep-as-portfolio manager).

Increased traction of UMA programs may be driven by traditional large sponsors expanding their platforms by adding investment managers new to managed accounts. Investment managers with established traditional SMA products are less likely to see UMA as a growth opportunity than smaller managers, who now can expand into UMA through model delivery without the operational barriers associated with traditional SMA. Sponsors with larger account bases forecast sharper growth in UMA accounts than their smaller competitors. The industry transition to UMA may give the wirehouse distributors an opportunity as a group to regain market share, and in the process recruit a new crop of managers.

Traditional SMA products will continue to play a significant role in managed solutions offerings. While sponsors do not expect to increase their distribution of traditional SMA products, only 27% expect their use of these products to decline. Although it will lose share to UMA offerings, traditional SMA will likely be the dominant product segment for third party managed solutions over the next three years.

Significant expansion of other types of programs (rep as advisor, rep as PM, mutual fund advisory and ETF advisory) is generally not envisioned by sponsors. The shift of assets into advisor-centric programs over the past two years may prove to be a function of client reaction to market volatility, rather than an established trend.

The market for outsourced services may shift from investment managers to sponsors. In general, sponsors appear more receptive to outsourcing than do investment managers. Managers who may have considered outsourcing in the past now are likely to be more focused on conversion to models-based distribution, where the advantages of outsourcing are less compelling. Conversely, sponsors who are expanding UMA offerings now find themselves in need of operational capabilities around overlay management and client servicing that were previously the responsibility of the investment managers in traditional SMA programs. Outsourcing may be able to deliver economies of scale and process efficiency to sponsors that were not realized by investment managers.

Executives most often see product development, not technology or communications, as being most important for future expansion of their businesses. After several years of focus on operational scale, communication standards and technology, industry participants now see investment product development as being critical to return to growth in managed solutions. In part, the shift in perception may be a reaction to the sharp drop in third party managed assets in the wake of the financial crisis of 2008-2009. However, the parallel rise in model delivery as an operational paradigm has also reduced the urgency of streamlining communications between managers and sponsors.

Nevertheless, sponsors and investment managers continue to cite client servicing as the least scalable aspect of their managed account business. Sponsors were even more likely than investment managers to identify client servicing as being least scalable, a change from our 2009 report. Survey responses also

indicate that sponsors may lag managers in implementing workflow technology. Although they seem committed to growing their businesses through UMA and models platforms, sponsors may have yet to roll out technology to enable them to scale the service operations they stand to inherit from investment managers converting from traditional SMA to UMA. This finding is troubling considering that sponsors' requirements for scale will likely be many times those of investment managers.

Recommendations

Managers with significant assets in traditional SMA programs must continue to innovate in product and service. Competencies that larger firms have developed around servicing client accounts (particularly in fixed income and international disciplines) still have tremendous value in a product segment that will continue to be a favorite among advisors serving high net worth clients. Large traditional SMA managers must focus product development on these target clients while working to further enhance service and improve margins.

Sponsors must move quickly to build the scale necessary for high-volume client service. Large wirehouse sponsors have excelled at streamlining interactions between advisors, the back office, and the investment manager in traditional SMA programs. However, processing those client requests and rebalancing individual accounts to fulfill them has been handled by investment managers. Given the growth aspirations of the sponsor group for their UMA/models programs, these firms may find themselves with unexpected operational gaps that must be closed quickly. Sponsors should monitor the development of client service capabilities among outsourcers while continuing to plan for insourced solutions (either buy or build) to support growing UMA/models programs.

TAMPs and smaller sponsors may have an opportunity to introduce new ETF and mutual fund advisory offerings. Migration of advisors from wirehouses to independent and regional firms has created a windfall for TAMPs and smaller sponsors. Now those firms have an opportunity to introduce other managed solutions products to that base of advisors. Ambitious firms may even mount direct-to-consumer offerings that streamline the advice process. ETF and mutual fund advisory products are a natural choice for this strategy.

While focusing on sponsor markets, outsourcers should also consider leveraging their client service capabilities to deploy full-blown TAMP offerings. Current pure-play outsourcers realigning to serve sponsors may also be well-positioned to launch their own TAMP platforms for independent advisors. Due to consolidation in the outsourcer segment, two major participants (BNY Mellon and UMB) are linked with financial institutions that have existing retail brokerage operations and advisor desktop technology. Developing client servicing solutions for sponsors' home office models programs would also result in capabilities that could be leveraged for standalone TAMP offerings.

Introduction

At the time our first Executive Outlook report was published in February 2009, the managed solutions industry was in the throes of enormous dislocation brought on by the financial crisis that began in the fall of 2008. In the ensuing months, mergers and consolidations among industry participants, a migration of financial advisors away from large wirehouses into regional and independent firms, and a retail investing public made cautious by the market meltdown all contributed to the managed solutions industry evolving in ways that could not have been predicted at the beginning of 2009.

In retrospect, the biggest change affecting operations, technology and distribution in the industry was the sharp rise in assets among rep-as-advisor and rep-as-portfolio manager programs. These programs grew from a marginal footprint in the industry to overtaking traditional SMA assets within the space of two years as clients responded to mercurial markets by seeking flexibility in programs that would allow assets to be moved to stable-value investments without the operational overhead associated with SMA products.

The effect of this shift into advisor-centric programs was not only to accelerate a loss of market share in the traditional SMA segment, but also to delay the expected development of the UMA segment, which is closely associated with models-based distribution. In fact, according to data published by the Money Management Institute, the market share of assets in UMA programs barely moved from 3% to 5% between Q2 2008 and Q3 2010. With SMA and UMA considered together, assets under third-party management in the retail managed accounts space experienced a decline of nearly \$100 billion during the period.

A casualty of the retreat from third-party management was operational innovation with respect to process efficiency and service scalability. The two largest wirehouse sponsors continued efforts to transition to models-based platforms, despite consolidations at each firm brought on by the financial crisis. However, UMA/models platforms announced by other major sponsors were deferred or canceled. Investment managers saw sharp outflows from traditional SMA products during the winter of 2008-2009 and, together with market depreciation of assets, experienced significant reduction in revenue. With neither business demand nor revenue to drive new projects, the level of innovation we previously expected did not occur. The result is that, today, while the UMA segment demonstrates signs of increased traction, the industry as a whole has made relatively little progress in its ability to deliver service scalability, both for traditional SMA and UMA/models programs.

It was against this backdrop that we conducted this, our second survey of managed solutions executives. Once again, the objective was to gauge perceptions about industry trends and to identify concerns on the part of operations and technology professionals to help them prioritize development efforts over the next three years.

This report presents an analysis of the survey results. We were fortunate to have input from more than 120 senior industry practitioners for this report. Peridrome thanks all participants, as well as the Money Management Institute for its support of our outreach effort. We welcome your thoughts and feedback by email to research@peridrome.com.

Findings and recommendations

Key findings

Our 2011 survey results indicate that investment managers, sponsors and service providers anticipate continued change over the next three years. However, perspectives about the nature of this change and its effect on current business levels varied considerably among participants.

Sponsors and TAMPs are significantly more optimistic about the future of the business than investment managers.

Sixty-five percent (65%) of the managers responding expect to see the number of client accounts grow over three years. Two of 49 indicated an expectation of decline.

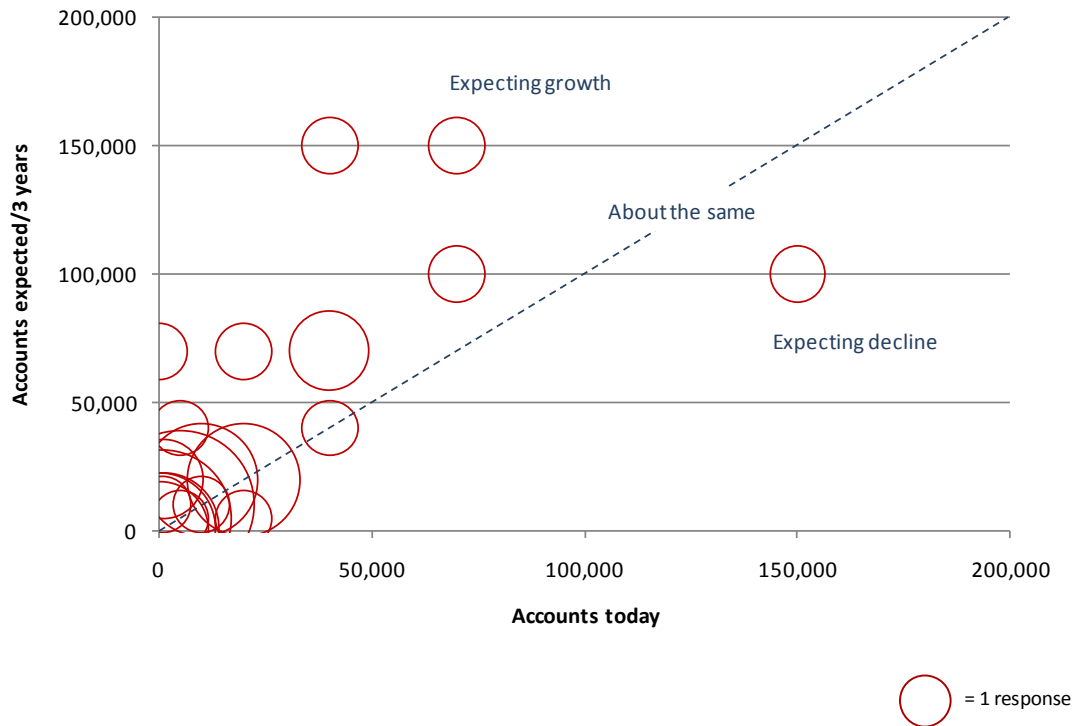


Figure 1: Manager expectations of future account growth

All sponsors predicted an increase in clients over the next three years. Mid-size firms (40K-70K accounts) expect large gains, in some cases doubling current volumes or more. TAMPs responded similarly, again with small- to mid-size firms expecting the largest percentage increases in volume.

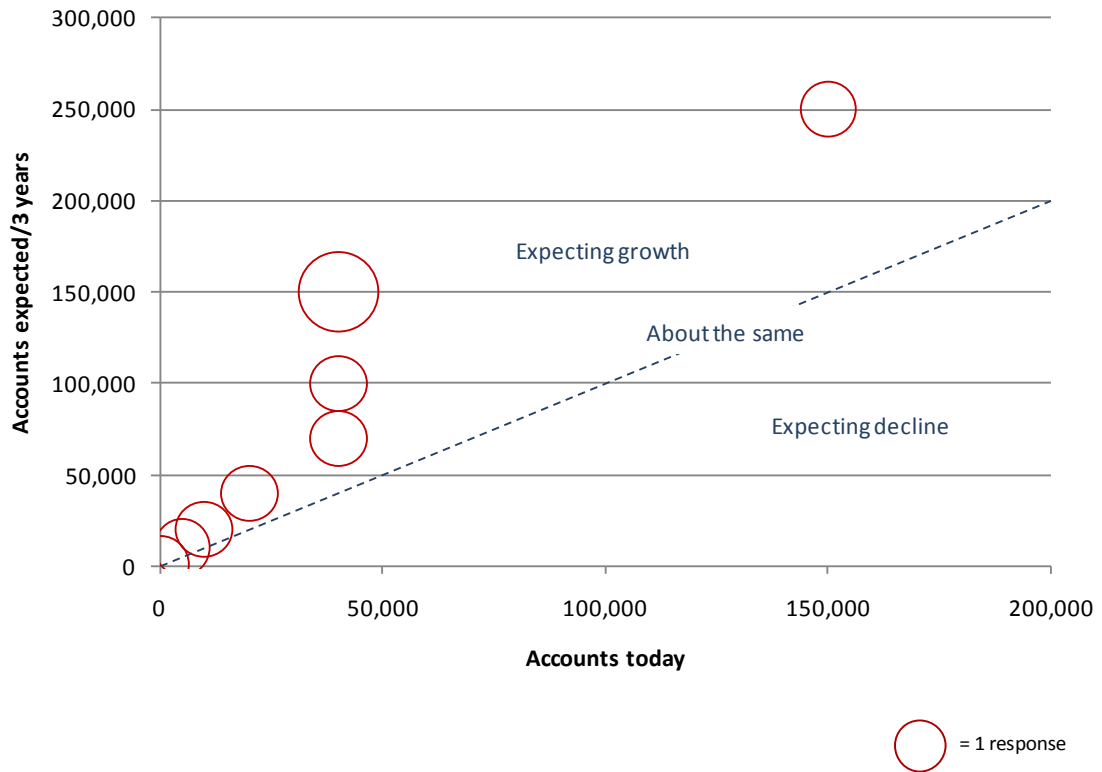


Figure 2: Sponsor expectations of future account growth

The charts above do not include data points for the largest manager and eight sponsor respondents above 250K accounts, all of whom expected to remain in that category. Nevertheless, the responses are more polarized than in our 2009 survey, wherein optimism about future business growth was more evenly shared by sponsors and IMs.

Expected increased traction of UMA programs may be driven by larger distributors (sponsors and TAMPs) expanding their programs with smaller managers.

Seventy-seven percent (77%) of respondents from sponsors with more than 100K accounts expect an increase in UMA as a percentage of total business, in some cases more than double the current level. Only half of smaller firms expect an increase. All large TAMP respondents expected an increase in percentage of UMA business.

Larger managers (more than 40K accounts) are unlikely to expect a significant increase in the percentage of their business managed in UMA programs. Only 1 in 8 manager respondents with more than 40K accounts expected such an increase. Seventy percent (70%) of the 40 smaller managers expected an increase in percentage of UMA business.

Only one manager with more than 40K accounts viewed models as “somewhat” or “very” positive for business; half of such managers viewed models as “somewhat negative”. Sixty-three percent of smaller managers viewed models as either “somewhat” or “very” positive.

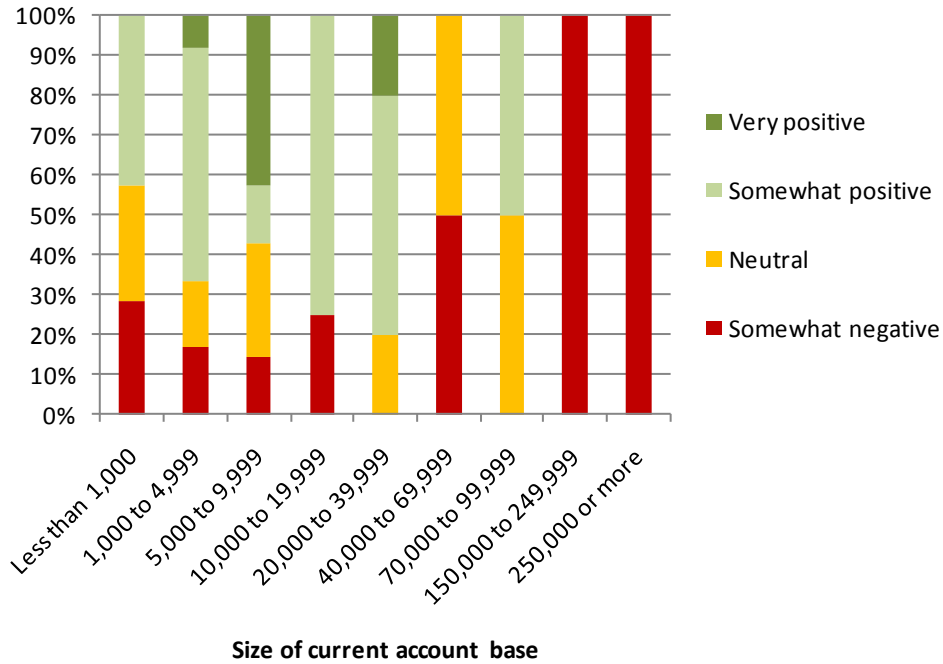


Figure 3: Manager perception of models-only programs

Eighty percent (80%) of all sponsors view models as “somewhat” or “very” positive for business. More than half of the largest sponsor respondents view models as “very positive.” No sponsors viewed models negatively.

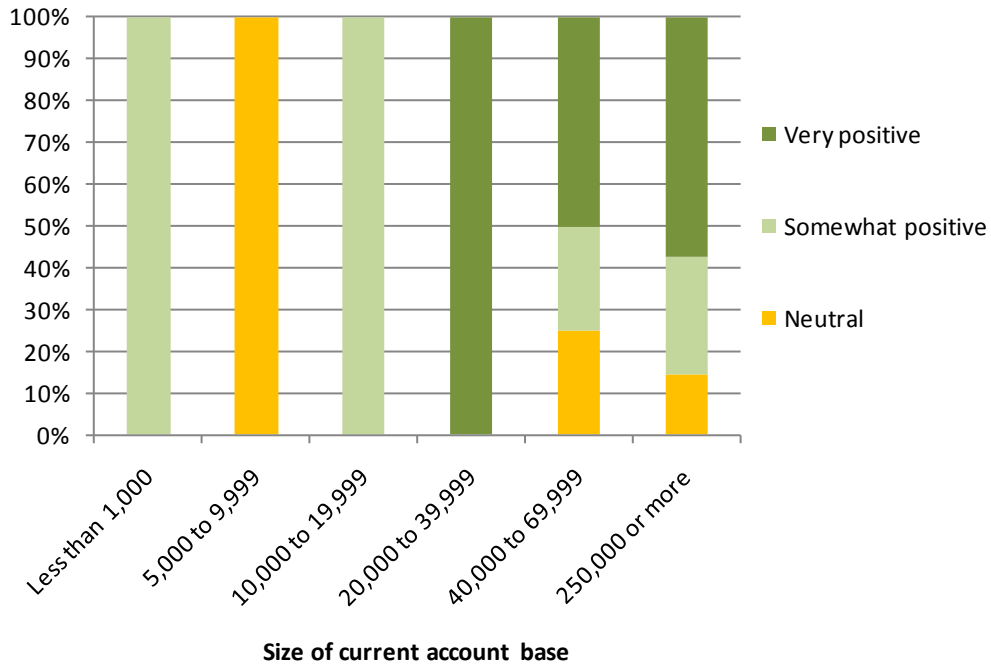


Figure 4: Sponsor perception of models-only programs

Traditional SMA products will continue to play a significant role in managed solutions offerings, although managers' perceptions may indicate otherwise.

Although no sponsors projected expansion of traditional SMA products within their programs, only 27% expect a significant decline in their use.

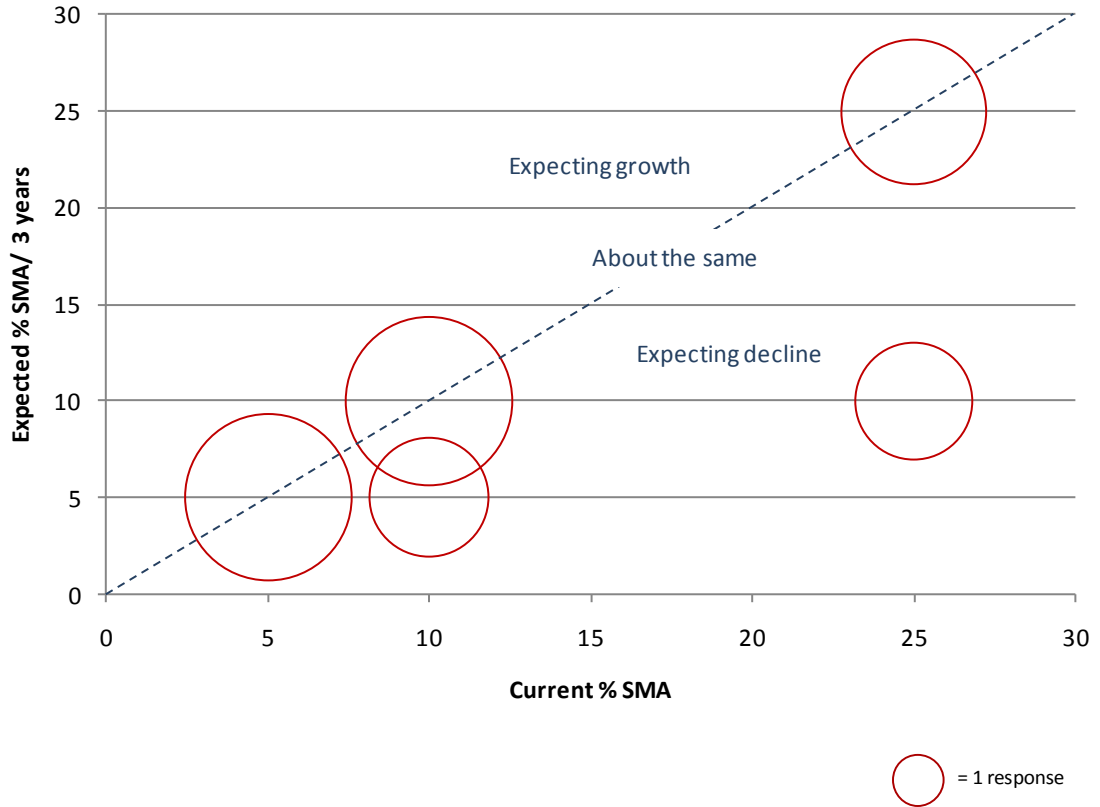


Figure 5: Sponsor expectation for change in traditional SMA as share of business

By contrast, half of the investment manager respondents expected traditional SMA to contract. A small number (6%) expected to expand their traditional offerings.

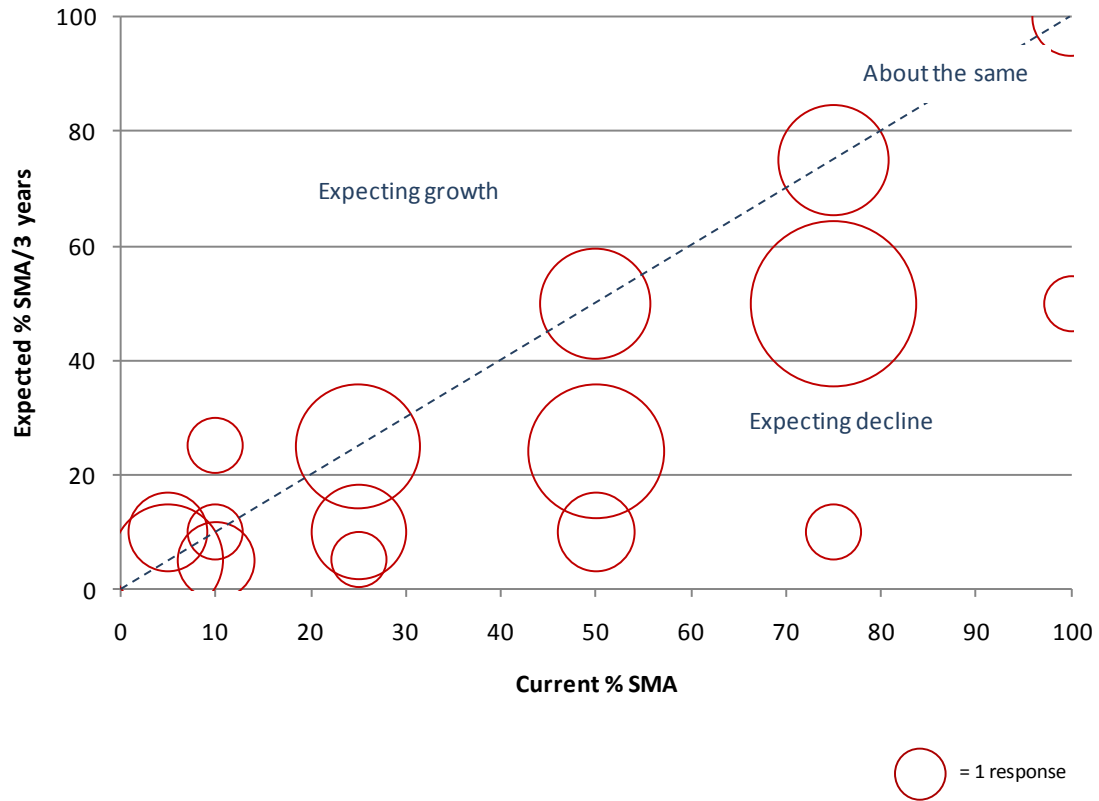


Figure 6: Manager expectation for change in traditional SMA as share of business

Significant expansion of other types of programs (rep as advisor, rep as PM, mutual fund advisory and ETF advisory) is generally not envisioned by distributors.

Only 1 in 15 sponsor respondents expected an expansion in mutual fund advisory programs. Two expected declines.

Two of 11 sponsors expected to see ETF advisory programs to expand.

Only 13% of sponsors expected to expand rep as advisor programs, and only 21% expected to expand rep as portfolio manager programs. TAMPs expected little change in either category.

One exception to this pattern was seen among outsourcer respondents, half of whom expected to expand services for both mutual fund advisory and ETF advisory.

The market for outsourced services may shift from investment managers to sponsors.

Sponsors appear more receptive to outsourcing than managers, at this point. Fifty-three percent (53%) of executives from all sponsor firms indicate they are currently outsourcing some aspect of processing. This percentage increases to 75% when considering only firms with less than 100,000 accounts. Only one sponsor currently outsourcing indicated a likelihood of insourcing those services in the future. Of large firms with more than 250,000 accounts not currently outsourcing, 40% report a definite intention to outsource in the future.

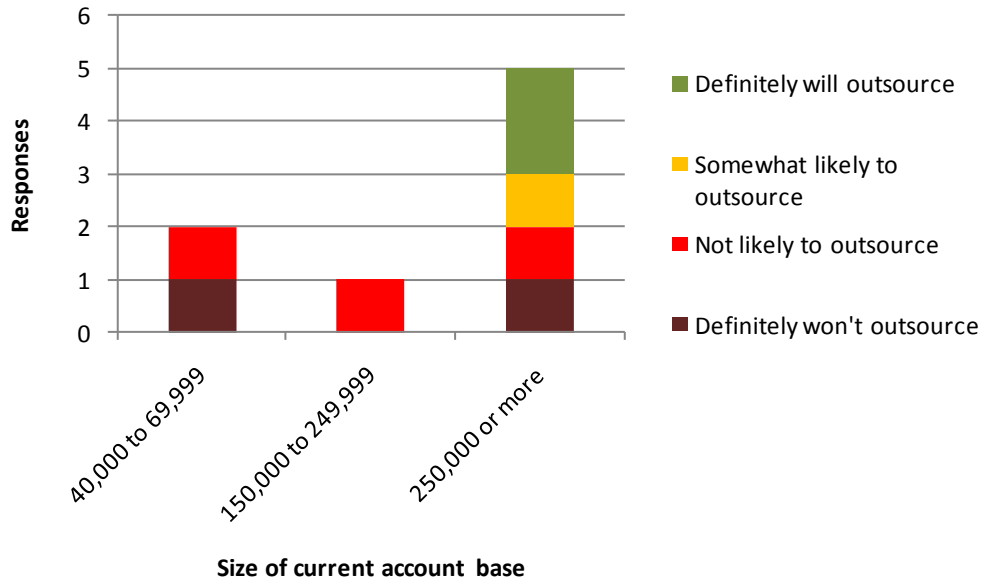


Figure 7: Sponsor perspective on outsourcing in future

In contrast, larger managers appear averse to outsourcing. Only one of eight managers with more than 40,000 outsources today, and all managers in that size group who do not outsource today indicated they would not be likely to do so in the future. And although 60% of managers with less than 40,000 accounts currently outsource, this group is more likely than larger managers to perceive benefit from moving to model delivery where outsourcing does not have a significant advantage (60% vs. 16%).

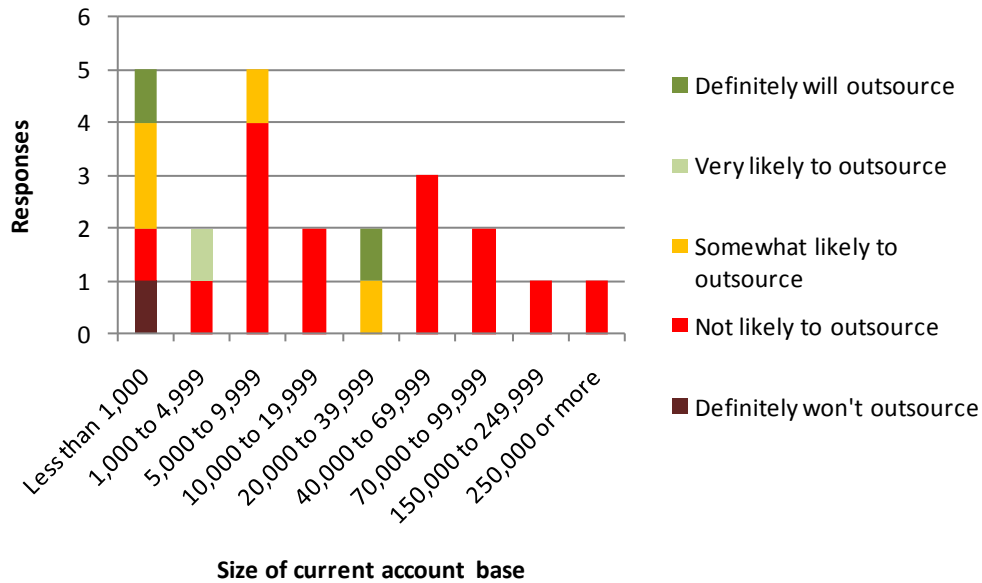


Figure 8: Manager perspective on outsourcing in future

Outsourcing manager operations may not have delivered on the promise of economies of scale. Outsourcers appear to have larger numbers of staff handling new accounts and portfolio administration

than managers with similar-sized account bases. We believe this is due to the fundamental problem of managing varying processing requirements among multiple sponsor relationships.

Executives most often see product development, not technology or communications, as being most important for future expansion of their businesses.

Sponsors (38%) and investment managers (30%) most often identified new product development as most important to the success of their UMA/models offerings. New product development was chosen as first or second most important by 67% of sponsors, and by 57% of managers. TAMPs were most likely to identify enhanced technology for trading and operations as most important for success in models.

Product development was chosen by 35% of managers and 57% of sponsors as being most important for the success of their traditional SMA programs.

Only 1 of 57 respondents indicated improved communications between sponsor and manager was most important for success of their traditional SMA business, and only 2 considered communications most important for model-only business.

Sponsors and investment managers continue to cite client servicing as the least scalable aspect of their managed account business. Current technology offerings still may not be sufficient to address this problem.

Forty percent (40%) of managers and 50% of sponsors identified client servicing as least scalable, in each case twice the percentage of the next most frequent response (portfolio management).

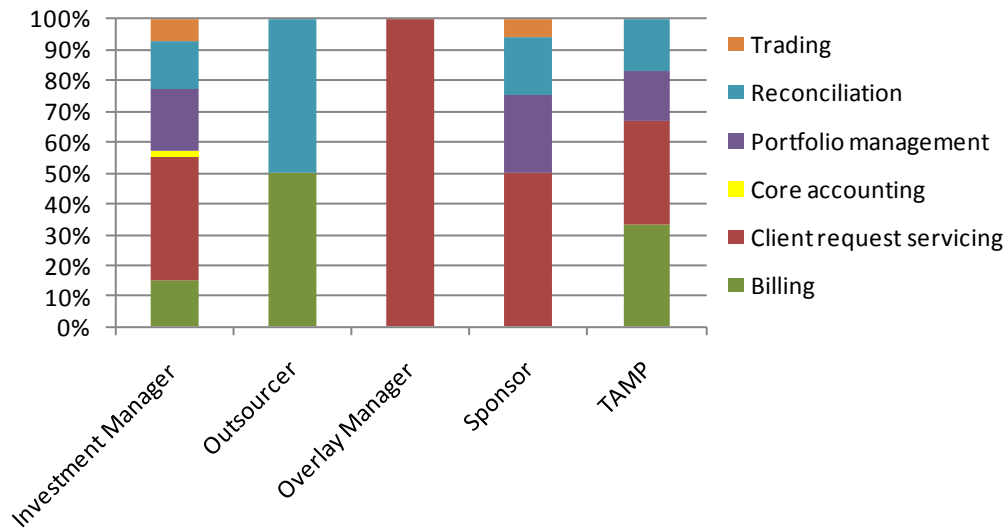


Figure 9: Participant perceptions of least scalable business functions

Workflow systems provide tools for routing work among participants through defined business processes. Sponsors lag behind other participants in deploying workflow technologies for managed account service. Over half of managers, overlays and TAMPs have implemented workflow, but less than a third of sponsors have done so. Providing a turnkey solution for efficient, automated service may be one way outsourcers can transition to serving the sponsor market more fully.

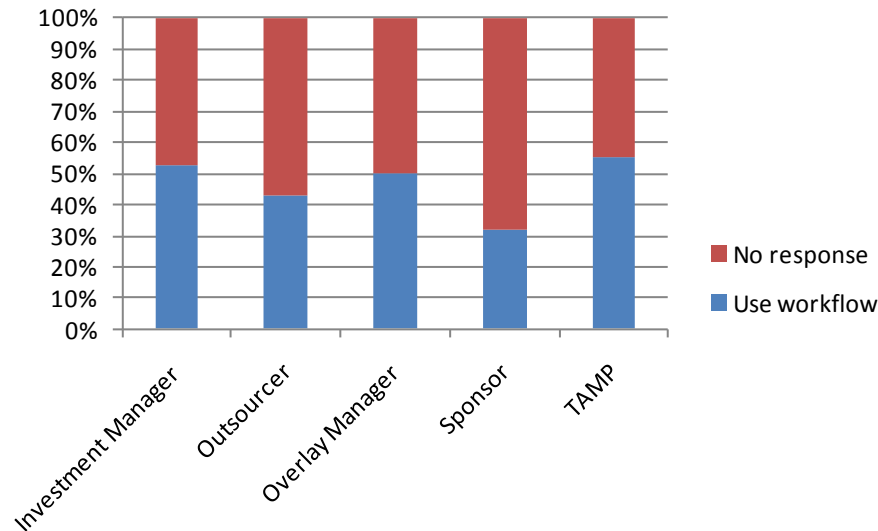


Figure 10: Use of workflow technology by participant group

Among firms that have implemented workflow management, 43% of managers and sponsors identify client servicing as least scalable. Fifty percent (50%) of managers and sponsors that have integrated core back-office systems with messaging continue to identify client servicing as least scalable.

It isn't clear if firms that have deployed workflow technology or have integrated messaging experience greater productivity among new accounts or portfolio administration teams.

Industry outlook

Recovery of third-party management; new products needed

In the second half of 2008 and throughout 2009, the industry saw a sharp drop in assets managed under traditional SMA programs. During the same time, assets in UMA programs remained relatively flat. Research published by the Money Management Institute linked customers' concerns about market volatility to a preference for advisor-centric programs¹. Overall, survey participants expressed optimism, however, for a return to growth in sales of third-party managed products (SMA and UMA), and Peridrome shares this expectation.

In fact, net sales for both traditional SMA and UMA products began to rebound in the second quarter of 2009². We don't believe the established managed solutions paradigm, which combines advice, custody and management, will be supplanted on a macro scale by a return to security selection by financial advisors. Only 2 of 16 sponsors projected growth in rep-as-advisor over the next three years, and one expected a decline. Three of 14 sponsors expected an increase in rep-as-portfolio manager business, but two expected declines.

It is less clear what types of managed products investors will wish to own in the "new normal" market. Domestic large cap and all cap equity asset classes, which accounted for over 40% of managed accounts at the end of the first quarter of 2010, showed relatively poor risk-adjusted performance over the last decade. Other global economies show greater potential for growth over the next decade, but international equities have not translated easily into managed accounts packaging due to limitations of accounting and portfolio management systems supporting the industry.

¹ *MMI Central*, The Money Management Institute, Issue 17, 3Q 2009

² *Ibid.*

In the same period, both the number of ETFs and assets in those products exploded. Index ETFs offer some of the advantages of managed accounts (in particular, diversification and tax efficiency), but at much lower cost. ETFs are particularly well-suited for use in an investment strategy for smaller households, where diversification can be achieved at relatively low asset levels. Broader use of ETFs therefore has the potential to cannibalize sales of actively managed investment products, and it is perhaps not surprising that few sponsor and manager participants expected much growth in ETF advisory programs. It is striking, however, that TAMPs tended to place greater emphasis on ETF advisory programs in their future growth, indicating that these firms may see an opportunity where the other participants see a threat.

In our 2009 report, we predicted that the rise of UMA/models programs would drive sales of new managed solutions products down-market to clients with fewer investable assets. The accuracy of that prediction will be confirmed when investor confidence and interest in third party active management returns. We do believe the market recovery offers an opportunity to introduce a new group of smaller investors to managed solutions. We note that some of the most vibrant growth in traditional SMAs began after the collapse of the Internet stock bubble in 2000-2001 as investors lost confidence in their ability to trade their own accounts. Innovations in overlay management technology, model delivery and ETF products all offer ways to reduce the expense of a professionally-managed investment solution. Will one or more sponsors over the next few years find a way to optimize advisor resources using technology that will propel a major expansion of the reach for managed solutions beyond the mass affluent?

Increased traction of UMA and model delivery, but at what rate of adoption?

In 2009, Peridrome predicted significant growth in UMA assets managed in models-based distribution programs. As mentioned previously, market events conspired to delay this trend, which began to take hold in the third quarter of 2010. However, we see the large wirehouses moving aggressively to convert existing accounts to models programs. We also see that new solution provider entrants in the portfolio management space are focused almost exclusively on model delivery as their mode of operations. Several smaller sponsors are moving forward with UMA initiatives that have yet to be announced. Additionally, our survey results show 65% of sponsor executives expect the percentage of their business in UMA/models to grow, where none expect decline. All of these factors point to an increased adoption of UMA and model delivery in the managed solutions industry.

However, model-based distribution is not free of challenges. The most obvious challenge lies in the control of approval and release of model changes by investment managers to multiple sponsor recipients, where divergence among sponsors in practice and data format is widespread. Managers that have been early participants in models programs have a growing awareness of the risks presented by errors in communications of model changes, and some firms have been required to make clients whole after mistakes were identified. A second challenge lies in the system economics imposed on managers by sponsors transitioning to model delivery. While sponsors feel justified in demanding lower fees from managers in models programs, in practice, the effort required to support sponsors may not be proportionately lower. For instance, we are aware of municipal bond disciplines implemented in “models” programs where the main difference between the former operations in the traditional program and the operations under the “models” program is that, under the “models” program, the sponsor extends its own instance of the portfolio management system to the investment manager. The manager continues to support a characteristic-based aggregate portfolio and trade for individual accounts, albeit with a sharply reduced fee. These questions of risk and reward equity may cause managers to lose enthusiasm for models programs, as appears to be the case among larger managers responding to our survey.

Further, models programs have yet to be fully embraced by experienced advisors, who may be challenged to see the benefit of the new structure to their existing clients. Some advisors perceive UMA products as proprietary to their firms, and potentially threatening to the value of their book of business.

Finally, it must be noted that the assumptions underlying the models-based distribution paradigm, particularly the notion that the role of portfolio manager and trader can be separated, are most applicable to the types of large cap products that have historically driven growth in the managed solutions industry. Those assumptions don't necessarily hold up when considering fixed income or international disciplines, or even small cap disciplines that are liquidity-constrained. It may be that model distribution is an answer for today's operating paradigm, but also for yesterday's investment products.

Continued use of traditional SMA for high net worth clients

Although none of the sponsor executives expected significant growth in traditional SMA assets over the next three years, only 4 of 15 (27%) expected a decline. Their perspective contrasts with that of manager executives, half of whom expected contraction by more than 25%. The reason for this disparity is unclear. It could mean that sponsors' conversion to model delivery is not progressing as quickly as public statements suggest.

However, it also may be that advisor migration plays a role here. While many of the recent entrants in the TAMP and independent platform markets have focused on UMAs and model distribution, experienced advisors have often migrated to firms that have the traditional SMA capabilities required to allow them to move their existing clients while keeping their current managers in place. This has caused a sharp increase in accounts managed under dual-contract programs, where the client has agreements with both the sponsor and manager. These programs have been particularly useful when transitioning clients to firms that have not yet added the clients' existing managers to their research platforms. Unfortunately, dual-contract programs are among the most paper-intensive for sponsors and investment managers. Dual-contract accounts must be operated as traditional SMAs. To make matters worse, the sponsors most often chosen by advisors interested in migrating existing traditional SMA clients are often not set up with web-based manager portals to ease communications with investment managers³. These firms instead tend to use fax, email and even overnight courier to transmit client instructions to managers.

Peridrome believes traditional SMA platforms will continue to be a strong solution for high net worth clients and their advisors. Sponsors and independent platforms that are able to handle dual contract relationships efficiently have an opportunity to differentiate themselves and attract some of the most valuable customers over the next few years.

Technology and operations trends

Reduced expectations for industry communication standards

Survey respondents showed less interest in communications standards than in our prior survey. Only one executive ranked improved communications between sponsor and manager as most important for the traditional SMA business, and only two ranked improving communications as most important for UMA business. Twenty-two respondents scored it fifth or sixth (out of six) most important for traditional business, and the same number scored it fifth or sixth for UMA business.

Although the industry standards effort is mostly targeted at reducing the operational friction felt by investment managers, only four of 39 investment manager executives reported viewing standards as "very positive" for business. No sponsors, TAMPs or outsourcers viewed standards as "very positive."

We believe that the industry is coming to grips with the practical reality of implementing communication standards after operational procedures have already been established among participants. The creation and adoption of communication standards should continue, but we expect it to do so at a relatively slow pace. In the mean time, participants will continue to search for solutions that accommodate current state practices--e.g. often a mix of unstructured fax or email communications—and which can also be extended to adopt online communications as counterparties implement standards in the coming years.

Need for solutions that deliver service scalability remains unmet

As did our 2009 report, this survey revealed that client request servicing is perceived to be the least scalable aspect of managed accounts operations by investment managers and sponsors. By a two-to-one margin, each group identified client request servicing more often than the next most frequent response (portfolio management). Once again, we found no significant change in this pattern among firms that have implemented workflow management, message integration, or advisor/client web portals.

In an environment where firms expect the balance of assets to shift to model delivery, and one in which sponsors may increasingly look toward outsourced providers to perform client service processing, the

³ "IT Under the Spotlight as Adviser Migration Builds," *Money Management Executive*, April 26, 2010.

continued perception of service scalability challenges is troubling. Although the concentration of operational processing we predicted in our 2009 report has been delayed due to market conditions, the trend in asset growth has favored UMA products for the last two quarters. UMAs today represent only 6% of managed solutions assets, but if 2010 growth rates hold up, UMA may replace SMA as the dominant platform for third party managed solutions.

A realignment of distribution from traditional SMA to model delivery would result in a concentration of service operations requiring scale to unprecedented levels. Significant innovation in technology for client service should therefore continue to be an industry priority.

Solutions to manage model maintenance and delivery still required

As of our 2009 report, Peridrome envisioned solutions coming to market that would address challenges in synchronizing models between investment managers and sponsors related to dynamic pricing and component adjustment, as well as to rotating model change communications. However, as of this writing, approaches for communicating model changes tend to be specific to distribution platforms. Indeed, the industry seems to be following a path similar to that taken in the traditional SMA business: a sponsor extends technology to an investment manager supplier that meets the sponsor's needs, without regard for the manager's operational burden working with other competing distribution platforms.

As mentioned earlier, it isn't clear that messaging standards, still pending for the communication of model changes, represent a near-term solution to the problem. When they become available, communications standards for managing delivery of portfolio models and changes are likely to compete for technology budgets with top-line initiatives, and to be met with the same challenges as standards for traditional SMA communications.

Solutions for bringing control and efficiency to model delivery should be decoupled from the mechanism through which changes are communicated from manager to sponsor. If this sounds like the paradigm at work in the traditional SMA business, it is. The dominant portfolio management vendors in the SMA space have built their value on networks connecting managers to distribution partners. We expect prospective providers of model delivery solutions will learn from this and focus on application functionality (i.e., business process management, rules, audit history, and user interface) with the expectation that significant effort will need to be made to connect solutions to major distributors.

Recommendations for participants

Managers with significant assets in traditional SMA programs must continue to innovate in product and service.

The infrastructure required for traditional SMA operations created a barrier to entry for smaller managers. That isn't true for model delivery/UMA platforms, and smaller firms seem poised to take advantage of the opportunity for new distribution. However, the competencies that larger firms have developed around servicing client accounts (particularly in fixed income and international disciplines) still have tremendous value in a product segment that will continue to be a favorite among advisors serving high net worth clients. Large traditional SMA managers must focus product development on these target clients while working to further enhance service and improve margins.

Sponsors must move quickly to build the scale necessary for high-volume client operations.

Large wirehouse sponsors have excelled at streamlining interactions between advisors, the back office, and the investment manager in traditional SMA programs. However, processing those client requests and rebalancing individual accounts to fulfill them has been handled by investment managers. Managers with large traditional SMA businesses have fine-tuned their operations over the years, often implementing technology to manage processing. Sponsors may lack both the operational experience and the technology that have helped the larger managers gain scale. Given the growth aspirations of the sponsor group for their UMA/models programs, these firms may find themselves with unexpected operational gaps that must be closed quickly if their sales aspirations are to be reached.

Although Peridrome recommends outsourcers explore the sponsor market, we note that outsourced service providers may not yet be able to provide sponsors with solutions that offer operational scale. Up to now, offerings for the sponsor market have focused more on providing product platforms, advisor desktop and overlay management capabilities. Outsourcers also haven't proven economies of scale when servicing investment manager operations. Sponsors should therefore monitor the development of client service capabilities among the outsourcers while continuing to plan for insourced solutions (either buy or build) to support growing UMA/models programs.

TAMPs and smaller sponsors may have an opportunity to introduce new ETF and mutual fund advisory offerings.

Rep-as-advisor and rep-as-portfolio-manager segments have grown dramatically over the last two years. In part, the trend has been driven by clients' desire to move assets to stable-value investments not available in traditional SMA and UMA platforms. But the growth in these segments has also been due to migration of advisors from wirehouse to independent platforms.

This latter movement has generated a windfall for TAMPs and small sponsors. Now those firms have an opportunity to introduce other managed solutions products to that base of advisors. Ambitious firms may even mount direct-to-consumer offerings that streamline the advice process. ETF and mutual fund advisory products are a natural choice for this strategy.

While focusing on sponsor markets, outsourcers should also consider leveraging their client service capabilities to deploy full-blown TAMP offerings.

Our survey results clearly indicate the future market for outsourced services is managed solutions sponsors. The segment of smaller sponsors (less than 100,000 accounts) is already well-penetrated by outsourcers, and many of the larger firms are inclined to view future outsourcing positively.

Current pure-play outsourcers realigning to serve sponsors may also be well-positioned to launch their own TAMP platforms for independent advisors. Due to consolidation in the outsourcer segment, two major participants are linked with financial institutions that have existing retail brokerage operations and advisor desktop technology. Developing client servicing solutions for sponsors' home office models programs would also result in capabilities that could be leveraged for TAMP offerings.

Peridrome's positioning

Peridrome was formed in 2007 to offer leading providers of wealth management services strategic and tactical analysis, technical expertise, and software solutions that enable them to build operational scalability, increase business efficiency, and improve the customer experience of the investors they serve.

The components of our software suite fill gaps between accounting, portfolio management and other partner systems to enable automated fulfillment of client requests. Key features and benefits of Peridrome's solutions are shown below.

Feature	Benefits
Message bus	<ul style="list-style-type: none">• Handles existing channels of incoming client requests, including email/fax and file transfers• Supports receipt of client request by real-time messaging• Integrates with message and file interfaces exposed by partner systems
Rules engine	<ul style="list-style-type: none">• Captures employee knowledge about business rules in an online repository• Allows rules to be added or updated at any time• Ensures requests are evaluated consistently• Enables exception-based routing and request processing
Workflow engine	<ul style="list-style-type: none">• Coordinates human and system activities necessary for request fulfillment• Allows processes to be defined or revised at any time• Provides full audit history of all processing steps
Web portal	<ul style="list-style-type: none">• Provides views for request entry, lists of pending tasks, reference data maintenance, and system administration• Allows views to be customized for communities of internal and external users• Requires only web browser to access

Figure 11: Peridrome feature matrix

Peridrome’s solutions are tailored for the managed accounts industry, and anticipate the needs of investment managers, sponsors and outsourcers in implementing real-time processing. For more information, please visit <http://www.peridrome.com>.