

# CHAPTER 1

## The Evolution of Managed Accounts

*The managed account industry, which began amid pension reform, has mushroomed in response to clients' demands for a consistent process to manage their investments.*

**M**anaged accounts have been getting so much attention lately that it's easy to forget that the concept has been around for quite some time. Recent years have seen the introduction of innovative elements such as unified managed accounts (UMAs), mutual fund advisor accounts, and unified managed household accounts (all of which are discussed in detail elsewhere in this book), but the industry itself can trace its origins to the social turmoil of the late 1950s and early 1960s. Pension reform legislation passed in that most turbulent of times laid the foundation upon which the modern managed account industry was built.

Financial advisors and wealth managers serving high-net-worth clients may question the relevance of pension reform to their practices. However, it's quite possible there would be no managed account industry today were it not for the strategies and services—and legislation—first developed to address the investment management needs of institutional clients. Equally important, advances in technology have led to economies of scale, making the managed account approach no longer the exclusive domain of billion-dollar pension funds and megarich individuals. Thus, an overview of the evolution of managed accounts is in order. (See Figure 1.1.)

In 1958, Congress passed the Welfare and Pension Plan Disclosure Act, the first of several key legislative landmarks that would lead to the creation of the managed account platform. At the time, more than 40 percent of all nongovernment American workers were covered by an employer-sponsored

					James Lockwood proposes new business model, but Dean Witter turns him down, rejecting Dean Witter Plus. Lockwood's team approaches Hutton and offers the concept that later becomes E.F. Hutton Suggests.
	Straus merges with Dempsey-Tegeler and James Lockwood becomes the largest mutual fund producer at the firm. Ellis and Lockwood team up with Tom Gorman.	U.S. population reaches 200 million.	Dempsey-Tegeler closes and Lockwood, Ellis, and partner Tom Gorman join Dean Witter.	Butcher and Singer becomes one of the first financial services firms offering consulting services through its autonomous Butcher Consulting Group.	Hutton forms its Consulting Group.
		Merrill Lynch enters the performance measurement business for institutional clients.			Hutton broker John Vann opens the first separately managed account (SMA) for Hilda Peck.
	<b>1963</b>	<b>1967</b>	<b>1970</b>	<b>1970</b>	<b>1973</b>
<b>1950</b>	<b>1965</b>	<b>1968</b>	<b>1972</b>	<b>1974</b>	
James Lockwood joins Chicago-based brokerage firm of Straus, Bosser & McDowell in the mid-1950s, where he meets future partner John Ellis.	Harvard professor Michael C. Jensen conducts the first major study on the performance of mutual funds.	Edwin Callan, a leader in the institutional consulting business, forms the investment measurement division of Mitchum, Jones & Templeton.  A.G. Becker Corp. conducts the first major study of institutional plans.	The Dow Jones Industrial Average closes above 1,000 for the first time.  Vic Rosasco joins Bache and later organizes the Senior Consulting Group after Prudential acquires Bache. He provides innovative training and support for interested brokers.	The Employee Retirement Income Security Act (ERISA) of 1974 is enacted, making way for the Prudent Man Rule.  The Dow closes at 577 in December 1974 (45% off its peak), its lowest level since October 1962.  Hutton offers investment consulting services to retail clients.	
May 1, "May Day," the Big Board's fixed commission rates are abolished and brokerage commissions become negotiable.	John Calamos founds Calamos Asset Management—the first unique style manager with convertibles strategy for SMA sector.	Hutton sales force grows to 6,000 under the leadership of George Ball and Peter Muratore.	The Investment Management Consultants Association (IMCA) is launched under the guidance of Jim Owen and Dan Bott.		
Hutton introduces Hutton Investment Management (HIM) in October.			In the mid-1980s, Mobius and Security APL begin offering technology solutions.		
<b>1975</b>	<b>1977</b>	<b>1979</b>	<b>1985</b>		
	<b>1976</b>	<b>1978</b>	<b>1981</b>	<b>1986</b>	
	First Hutton SMA training program begins.	Len Reinhart joins Jim Lockwood at Hutton as an analyst.	Assets in Hutton's Consulting Group exceed \$1 billion.	Shearson Lehman Brothers launches its Portfolio Management (PM) programs.	

**Figure 1.1 Managed Accounts Historical Time Line, 1950–2006**

Source: Money Management Institute. Concept and design: Wechsler Ross & Partners Inc., New York and London.

<p>The Dow falls 508 points, or 23%, to close at 1,739 on October 19, known as Black Monday.</p>	<p>Merrill Lynch enters the managed accounts business with its Consults program.</p>	<p>Prudential and PaineWebber test SMA waters.</p>	<p>Shearson introduces its TRAK program, the first SMA program employing mutual funds. On January 2, the Dow closes above 2,800.</p>	<p>Equitable Life Assurance Society offers SMAs to investors.</p>	<p>Shearson launches its Guided Portfolio Management (GPM) program.</p>	<p>An SEC report deems compensating brokers based on client assets under management instead of by the number of trades executed to be a best practice by firms.</p>	<p>On November 11, the Dow closes for the first time above 5,000. Phoenix Investment Partners enters the SMA business.</p>
<p>1987</p>	<p>1989</p>	<p>1992</p>	<p>1995</p>				
<p>1988</p>	<p>1990</p>	<p>1994</p>	<p>1996</p>	<p>Shearson Lehman acquires Hutton.  Dan Bott launches the Institute for Investment Management Consultants (IIMC).</p>	<p>The Association for Investment Management and Research (AIMR) springs to life from the merger of the Financial Analysts Federation (FAF) and the Institute of Chartered Financial Analysts (ICFA).  At year-end, Shearson boasts assets totaling \$4 billion.</p>	<p>The Securities and Exchange Commission (SEC) releases the "Large Firm Report" of industry compensation practices headed by Merrill chairman Dan Tulley.  Jim Lockwood passes away at age 77.</p>	<p>CheckFree purchases Security APL—further enhancing technology offerings.</p>

Figure 1.1 (Continued)

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Total retail SMA assets reach \$137 billion.	Roger Paradiso at Citigroup pioneers the multidiscipline account (MDA), its own brand of multiple style portfolio.	On March 29, the Dow closes above 10,000.	MMI reports that SMAs reach a milestone at year-end, with assets under management (AUM) crossing the \$500 billion barrier for the first time. Assets grow 29% from year-end 2002 as investors recognize the critical role of professionally managed investment strategies.	Mark Pennington is elected chairman of MMI's Board of Governors and Len Reinhart is voted chairman-elect for 2006.
The Money Management Institute (MMI) is launched under the direction of Christopher Davis.	Peter Muratore is elected chairman of MMI's Board of Governors.	CheckFree purchases Mobius and is now able to offer front-, middle-, and back-office functions.	2003	Peter Muratore, chairman of MMI since 1997, is honored as chairman emeritus.
1997	1999	2003	2005	
1998	2002	2004	2006	
Wells Fargo enters the SMA business.	Multidiscipline accounts become one of the fastest-growing segments of the SMA industry.	The first two international members join MMI—Nikko Cordial Advisors, Ltd. of Japan and First Asset Advisory Services of Canada.	To better reflect industry trends toward more holistic fee-based solutions, the MMI broadens its mandate beyond separate accounts to managed account solutions (MAS).	
	The Money Management Institute reports that assets held in separately managed accounts total \$417 billion at the close of second quarter, still growing amid broad market sell-offs and extreme volatility.		SMA assets reach \$800 billion.	
			U.S. population crosses the 300 million mark.	

**Figure 1.1 (Continued)**

pension plan, according to the Employee Benefit Research Institute (EBRI), and fraud and mismanagement were widespread. The law was complex, but its purpose was simple: To thwart fiduciary abuse, pension plan sponsors had to meet new disclosure and reporting requirements. The act was amended in 1962 to transfer accountability for the protection of plan assets to the federal government.

Also in 1962, Congress passed the Self-Employed Individual Retirement Act, commonly called the Keogh Act, which made self-employed small business owners and their employees eligible for pension plan participation. These legislative steps were augmented by the Tax Reform Act of 1969, which spelled out the basic rules for creating and operating pension plans jointly managed by unions and employers.

Five years later, in the aftermath of the historic 1973–1974 stock market plunge, Congress passed the Employee Retirement Income Security Act (ERISA) to protect the benefits of participants in private pension plans. One particular aspect of ERISA spurred development of the modern consulting industry: Plan trustees were required to document their investment process and manage the assets prudently.

As a result of these regulatory directives, many corporate and municipal pension plan sponsors elected to have their assets managed by professional investment managers. The downside to this decision, however, was that many sponsors had no idea where to find suitable management experts. Prior to ERISA, major insurance companies and bank trust departments dominated the field of public and corporate funds, with the majority of assets concentrated in mutual funds rather than being actively managed. State-owned and corporate pension funds would initiate investments with little or no accountability, and value-based performance measurement was rare.

The ERISA legislation also called for the creation of the Pension Benefit Guaranty Corporation (PBGC), a federal organization charged with insuring, monitoring, and protecting the pensions of 44 million Americans. Each year the PBGC issues a state of the industry report on the fiscal health of U.S. pension plans, and the prognosis has not been positive. As of 2006, U.S. pension plans were underfunded by more than \$340 billion, according to the PBGC. Fearful that the federal government might have to step in and subsidize these failing pension plans, Congress passed the Pension Protection Act of 2006, the most comprehensive pension reform legislation since ERISA. The Pension Protection Act requires employers with underfunded pension plans to make up their shortfall within the next seven years and to adopt a strategy of liability-driven investment to avoid the possibility of future shortfalls.

The Pension Protection Act will have a dramatic effect on the managed account solutions (MAS) industry for two reasons. First, in order to make up their funding shortfalls, many plan sponsors will have to invest more aggressively and creatively than ever before, moving beyond the familiar terrain of mutual funds and utilizing more complex financial instruments such as hedge funds, credit derivatives, and other alternative investments to maximize returns and minimize risk. Second, the focus on liability-driven investment—meaning returns must be based on future payout rather than some random, external benchmark—means these plans will require ongoing, active risk management and rebalancing. Gone are the days of pouring all of a plan's assets into a selection of mutual funds and hoping the funds' growth would at least keep pace with the plan's demands.

Not that this strategy was all that effective to begin with. In 1965, A.G. Becker Corporation (a forerunner of SEI Corporation) conducted one of the first major studies of mutual fund manager performance and discovered that most managers failed to meet—let alone beat—their relevant indexes.

Three years later, the firm undertook a review of institutional plan performance and reached the same conclusion.

At first glance, the Becker findings might appear to support a case for passive investing. However, the firm noted that some managers were able to outperform their benchmarks and argued that these were the managers to whom investment assets should be entrusted. Becker published tables comparing plan performance, then approached select plan sponsors and encouraged them to utilize the report's tables to gauge the performance of the banks responsible for managing their pension funds. This practice opened the door to subsequent performance and portfolio management services that, in turn, provided ample opportunity for Becker to acquire substantial institutional accounts, especially those whose trustees were uncomfortable with the intricacies of quarterly performance comparison charts.

Other firms, engaged in developing their own research criteria relating to mutual fund and pension fund performance, began contacting plan sponsors and offering their help in evaluating fresh research and management options for plan sponsors' funds. What began as a trickle became a flood as more and more firms climbed aboard the bandwagon. In exchange for investment policy statement guidance, asset allocation, and manager selection, consulting firms negotiated to receive brokerage commissions for their recommendations. Important referral business also factored into the mix.

Niche firms emerged to capture a piece of the institutional consulting market, widening their sphere of influence to include nonprofits as potential recipients for their advice. Soon middle markets opened up, allowing these participants to enjoy levels of management previously reserved for larger funds. The rush was on to meet the demand for institutional investment management.

## **The Beginning of an Industry**

The need for investment consultants gained added urgency in the early 1970s, when U.S. capital markets turned drastically bearish as political instability and the Arab oil embargo plunged the nation into a recession. By the time the Dow Jones Industrial Average bottomed out at 577.60 on December 6, 1974, the country had experienced its worst bear market since the Great Depression. Individual and institutional investors, including small and midsize pension plans, were clamoring for asset protection that could be realized only through sound investment management advice. The early investment management consultants were poised to step in and fill the niche.

Among the consultants now considered pioneers of the managed account industry are Jim Lockwood, Richard "Dick" Schilffarth, John Ellis, and Tom Gorman. The four had worked together in the early 1970s at Dean Witter, where they had launched a short-lived money management service

for retail clients, but moved together to E.F. Hutton in 1973, frustrated over Dean Witter's failure to aggressively promote the program.

Peter Muratore, then E.F. Hutton's product manager and director of marketing, was immediately impressed with Lockwood's presentation. "At the time, Hutton was already looking for a way to generate revenues as well as make recommendations on how investors could benefit from investments in a falling stock market," Muratore recalls. "We'd moved toward mutual funds because they were an obvious choice, but had become disenchanted with the whole concept of rent-your-broker-out-for-a-commission, while the fund companies would end up with a 20-year fee structure. That's why we jumped into annuities, life insurance, direct investments, and other offerings. Hutton had built a very complex training system—one of the best in the industry, if not *the* best—and we were known as a firm that could roll out a new product very quickly. Jim's ideas satisfied our interest in building a fee-based organization. We welcomed him with open arms."

Muratore gave Lockwood and his colleagues the support they needed to establish a new consulting division, E.F. Hutton Suggests. The team set up the department to bring in corporate and government clients and provide management consulting services. It was a different way of approaching institutional sales. Instead of calling on money managers to sell investments, they called on clients to sell the money managers.

"This was a whole new way to talk to clients, because it put the broker on the same side of the desk as the client—he was more of a consultant than a salesperson," Muratore explains. "Our larger producers immediately saw this as a much better way to interact with clients and manage their own careers, because they weren't producing only dollars for today, but ongoing fee revenues for themselves and the firm. Rather than start every January 1 with a zero balance and a goal for the year, fee-based brokers started with a balance and built from there. The idea caught on very quickly and spread like wildfire."

Initially, the Hutton team focused on converting current clients to a fee-based structure rather than trying out the approach on new clients. "Retention of clients was our first goal, because at the time a lot of them were asking, 'What's wrong?'" says Muratore, referring to the catastrophic state of the U.S. capital markets in 1973 and 1974. "We would say to them, 'I would like to talk to you about a different way of investing. Large institutions that have thousands of employees don't bother employing someone to run their pension plans; they use a consultant to find someone to manage their money for them. We can offer you access to the same managers that General Motors, AT&T, and other large corporations use. That way, not only will we have the ability to shift assets and investments as your needs and desires change, but also we will be able to find managers to invest in different ways.' Our brokers had been giving ideas—good, sound ideas—but the market was not behaving well at the time. With this new approach, if the investment advisor wasn't

doing a good job, we could move on to the next expert but still keep the client relationship intact.”

Dick Schilffarth developed a training program for brokers who were interested in learning the consulting process, and in May 1974, the first training workshop was held. At the time, Hutton clients had to meet \$100,000 minimums, and each broker was assigned 12 to 15 accounts. “The brokers in the top decile earned 12 to 15 percent commission on their accounts, while the brokers in the lower deciles earned only 1 to 2 percent,” Schilffarth recalls. “Initially, the training program was aimed at the brokers in the lower deciles, because they were not successful in the transaction business. We were trying to sell them on a new way of dealing with clients, a more holistic approach that offered them the opportunity to capture more assets and earn higher commissions.”

A fee was considered an asset-based commission; the fee schedule was 3 percent on the first \$500,000 of an account, 2.5 percent on the next \$500,000, and 2 percent on accounts in excess of \$1 million. “It was necessary for the broker who wasn’t an avid stock trader to make money in the markets of 1973 and 1974,” Schilffarth says. Much to everyone’s surprise, the program did not appeal to brokers in the lowest decile, but rather those in the middle. “The top brokers were very transaction-oriented. They were active traders. They had no hesitation about calling clients because they had the ego that said, ‘I know I’m right.’ The lowest-decile brokers did not have a lot of turnover; they were very reluctant to call clients. The middle producers did not have the egos of the top producers, nor did they have the reluctance of the others. They took a more thoughtful approach, and that was perfectly suited to the consultative services we were looking to sell.”

With the then-recent passage of ERISA, Lockwood’s group aggressively pursued the employee benefits market. “Most brokers did not get into employee benefit plans, and for the guy running a small to midsize pension plan—one with less than \$1 million in assets—ERISA really boggled his mind,” Schilffarth says. “We would go to these pension fund managers and say, ‘Look, for one fee you can have access to top money managers. The fee will cover the cost of the manager, the cost of all trades, the cost of consulting services, and the cost of outside review to make sure the plan complies with the new regulations.’ The concept caught on very quickly.”

In retrospect, the reason is obvious, even if few saw it at the time. “There needed to be something for people with serious money who didn’t want to play the market,” he says. “People who inherited money, or sold a business, or received a settlement in a divorce, or retirees with pension plans—people with a large, one-time pool of money had different needs and different issues than active traders, but no product existed to address those needs. And there was no one there to advise them.”

On May 1, 1975—“May Day”—the New York Stock Exchange abolished its fixed-rate commissions, believing that competitive rates would ultimately



result in more efficient capital markets. On the plus side, money management firms could attract new business by offering lower commissions; but on the minus side, as rates declined profit margins were pinched. Competition intensified, as firms that wouldn't—or couldn't—compete on price were compelled to compete on performance.

Lockwood saw this as an opportunity for money managers to join the ranks of other fee-based professionals like attorneys and certified public accounts and introduced the concept of charging a fee for services in lieu of commissions.

“That’s when separate accounts really took off,” says Muratore. “It was very interesting to the client, because now the broker had absolutely no benefit in trading or not trading, and as a result brokers didn’t want to see a lot of trades. Also, with the investment managers all charging the same fee, there was no reason for the consultant to not pick the best manager for the client, and no hidden ways for the broker to be biased.”

## **The Trend Spreads**

E.F. Hutton had the separately managed account (SMA) market all to itself for nearly a decade. “After we got out of the down market of 1974, there was a period of great inflation from 1975 to the 1980s,” Schilffarth says. “People were selling certificates of deposit (CDs), oil wells, tax shelters—but not a lot of equities. Firms would not embrace the concept of consultative selling and would not spend the money to create the infrastructure you had to have to support the program.” In 1987, after the stock market crashed and reform legislation eliminating many tax shelters sent high-end investors scrambling for other ways to protect their assets, other firms started to take a second look at separately managed accounts. Merrill Lynch Consults was launched as a head-to-head rival to E.F. Hutton Suggests. Soon after, both Prudential and PaineWebber added managed account programs to their client offerings.

Until the mid-1980s, money managers in brokerage firm programs set their own fees and account minimums, handled their own accounting, and dealt directly with clients, while the firms introduced the managers and handled the custody and trades. In 1987, the Hutton team again changed the landscape by introducing Hutton Select Managers, a program that took over the fiduciary duties of accounting, performance reporting, and client interaction. This helped lower minimums and fees and freed up the managers to do what they did best—manage the portfolios.

If technology was the engine driving the new phase of separately managed accounts, then the volatile market of 1987 provided the gas. April 1987’s precipitous drop in bonds was followed in October by the historic 508-point plummet in the Dow Jones Industrial Average. Investors and brokers alike flocked to managed accounts and the stability of professional advisory firms.

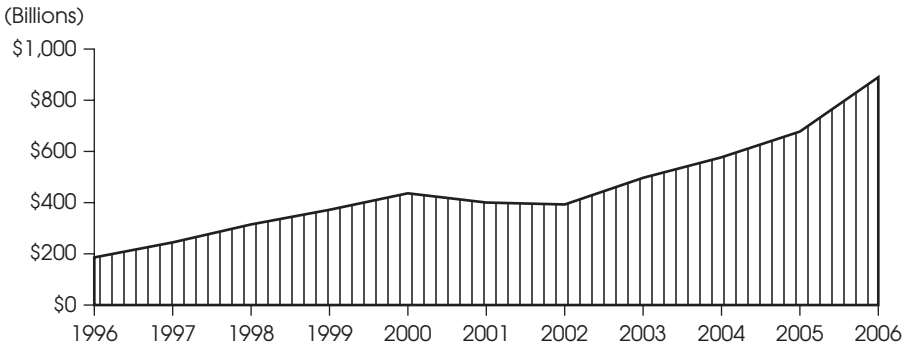
Of course, each firm brought a slightly different spin to the managed account phenomenon. In 1986, Shearson Lehman Brothers began to offer fee-based brokerage through guided portfolios where trades were run by company analysts. Two years later, Shearson acquired Hutton and marketed the Hutton Select program through brokers of both firms. Shearson brought product and technology structure to the Hutton programs, further empowering their growth. Advest and Wheat First pioneered fee-based brokerage for nondiscretionary accounts in 1989–1990, making the industry truly comprehensive—any client and advisor could participate. In the roaring bull market of the 1990s, as investors acquired wealth at a faster rate than ever before in American history, more and more of the newly wealthy turned to separately managed accounts in search of customized investment, risk management, and tax efficiency.

In 1990, Shearson Lehman Hutton conducted the first-ever comparison of managed account fees versus costs associated with traditional commission-based accounts, concluding that managed account fees were not higher—and often were lower—than the commissions. The study had a dramatic impact on the firm’s stockbrokers; by the end of the year, more than a quarter of them had opened at least one managed account. That same year, mutual funds weighed in with the first wrap accounts, which are similar to managed accounts but differ in the sense that investors do not own individual securities, as they do in managed accounts, but rather own shares of the underlying funds. Wrap accounts offer a comparable account consolidation benefit and services such as asset allocation and rebalancing, but do not provide the same level of customization as a managed account.

Insurers followed in the footsteps of the mutual funds. In 1992, the Equitable Life Assurance Society became the first insurance company to offer a managed account program.

The fee-based approach to money management received a major boost in 1995 when the Securities and Exchange Commission (SEC) released the Tully Commission report, which concluded that asset-based fees were a preferable form of compensation to trade-based commissions. The report was based on the findings of a group of regulators, financial services executives, and consumer advocates led by former Merrill Lynch chairman Daniel Tully, who had been charged by the SEC with studying broker compensation trends and their impact on the investing public. The report stated that investors would benefit from asset-based fees because brokers would be less likely to recommend sales just to boost commissions.

The Tully Commission report not only validated the work that fee-based financial consultants had been doing for years, but also informed the investing public of the benefits of fee-based financial planning and management. Consumers began initiating conversations about fee-based programs with consultants rather than the other way around. (See Figure 1.2.)



**Figure 1.2 Separately Managed Account Asset Growth, 1996–2006**

Sources: Money Management Institute; Dover Financial Research.

“Years ago we sold commissions and gave away advice,” Schilffarth says. “Now we sell advice and give away the commissions. It’s a better way.”

Recognizing the rapidly growing interest in fee-based programs and the various products that had been introduced to address that interest, top executives at investment banks, money management firms, financial services technology companies, and other leaders met in 1997 and formed a national organization, the Money Management Institute (MMI). The MMI dedicated itself to addressing common concerns, discussing industry developments, and representing the interests of members on regulatory and legislative issues, with membership open to firms offering comprehensive financial consulting services to individual investors, foundations, retirement plans, and trusts; related portfolio management firms; and firms providing long-term service and support to both sponsor and manager firms.

Later that year, Citigroup unveiled a new concept in separately managed accounts that it called the multidiscipline account (MDA) or multistyle portfolio. Where a traditional separately managed account corresponded to a single investment strategy, an MDA offered investors access to a variety of management styles within the same account, thus allowing them to more easily diversify their portfolios. Within a few years, other firms would be offering their own versions of MDAs, and the multidiscipline approach quickly became the fastest-growing segment of the fast-growing managed accounts industry.

Technology companies serving financial services firms began appearing on the scene with sophisticated programs that helped expand the offerings of managed account solutions. In 1999, Placemark Investments of Dallas was formed to help managed account program sponsors deliver technology-driven products and services to advisors with managed account clients, and Boston-based Vestmark followed two years later with its Managed

Accounts Platform. In 2002, CheckFree Investment Services introduced its multistrategy portfolio functionality, which allowed the sponsor firm to offer clients single-account access to money managers both inside and outside the firm.

As the technology evolved, so did managed account solutions. In 2002, AdvisorPort introduced what is now recognized as the industry's first unified managed account (UMA), and other firms quickly followed suit. "The UMA is an open-architecture platform that can incorporate model portfolios, custom allocations, traditional and alternative investments, client-specific tax management, and other features into a single, consolidated custodial account. To enable these sophisticated features, UMAs employ high-tech overlay portfolio management systems to monitor each account and make adjustments as necessary," explains Lee Chertavian, chairman and CEO of Placemark, one of the industry's largest independent providers of overlay management services. "UMAs offer clients better diversification and therefore better risk management, and also allow them to combine different investments in a single account. Advisors benefit by being able to keep all of a client's investments in one integrated account, rather than having various pieces managed outside the account."

### Where We Are Today

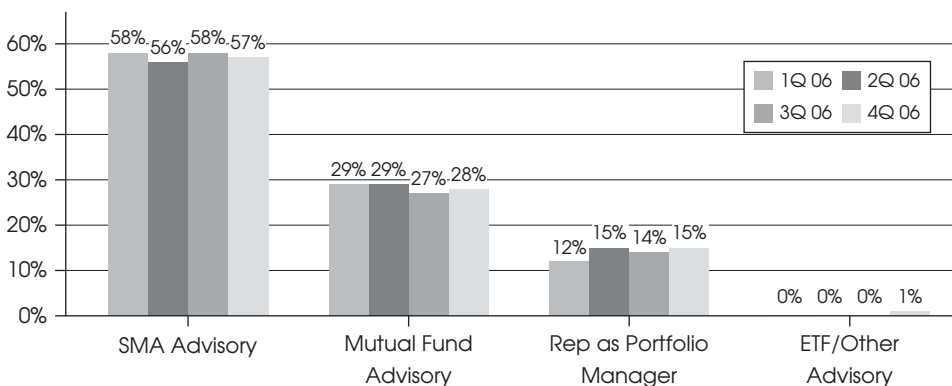
Increasing client demand for a wider array of investment products and services, coupled with advances in technology that automate processes once painstakingly performed by hand, have led to a dramatic shift in the way money is managed in the new millennium. As of mid-2007, managed account solutions (MAS) comprise a number of different programs, all of which have been defined by the MMI:

- *Traditional separately managed account (SMA) program*—a single account that corresponds to a single investment strategy. To hold multiple strategies, a client must open multiple accounts. These programs include all of the attributes of managed account solutions: a client profiling and assessment process; a single proposal system; fee-based pricing; investment research; rebalancing, tax management, and customization; and consolidated performance reporting.
- *Multidiscipline account (MDA) program*—a separate account program that houses multiple investment strategies in a single client account. The program allows a client to more easily diversify a portfolio via a single account.
- *Unified managed account (UMA) platform*—a single account that houses multiple investment products such as separately managed accounts, mutual funds, and exchange-traded funds (ETFs). The account leverages a platform that provides the ability to manage an investor's portfolio in a comprehensive fashion.

- *Mutual fund advisory program*—a mutual fund program that allows investors to allocate their assets across multiple mutual funds. The program includes capabilities such as client profiling, fee-based pricing, and rebalancing.
- *Exchange-traded fund advisory program*—a managed account program that utilizes ETFs. The program and its components are similar to those defined for the mutual fund advisory program.
- *Rep as portfolio manager program*—a fee-based, managed program that allows the financial services representative to act as the portfolio manager. Many of the attributes that define managed account solutions apply to this type of program.

These managed account solutions vary in popularity, but all of them are enjoying robust growth. As of the fourth quarter of 2006, MAS assets topped \$1.2 trillion, and the MMI expects that figure to double by the year 2010. This growth reflects not only the growth of investments currently held in managed accounts, but also new account inflows. (See Figure 1.3.)

Industry experts expect that growth to continue, particularly as investors become educated about the benefits of unified managed accounts. Indeed, the separately managed account business is evolving into the unified managed account business, according to Leonard A. Reinhart, president of Lockwood Financial (named for managed account pioneer Jim Lockwood), an affiliate of Pershing LLC. “No other product offers so many options and can be customized to meet the needs of so many different types of investors,” says Reinhart, whose firm manages more than \$1 billion in UMAs and invests those assets in mutual funds, exchange-traded funds, hedge-type funds, real estate investment trusts (REITs), and commodities. “By offering



**Figure 1.3 Market Share by Major Managed Account Solutions Component**  
 Sources: Money Management Institute; Dover Financial Research.

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clients a multi-asset-class, multi-investment platform, we are able to address a wide variety of investment needs with a single product. UMAs may very well represent the future of the managed money industry. In the very near term, I expect the UMA structure will evolve to include leveraged investment vehicles as well as guaranteed lifetime payments to provide retirement income solutions for the baby boomers.”

Unified managed accounts have revolutionized the managed account industry in the past five years. In the next chapter, we examine what they are, how they work, and how they can help transform your practice.