WEALTHADVISOR

THE VOICE OF THE FINANCIAL ADVISOR COMMUNITY

AMERICA'S BEST TAMPS

2019

THE WINNERS LIST

YOUR INSIDE LOOK AT THE BEST TURNKEY ASSET MANAGEMENT PROGRAMS FOR FINANCIAL ADVISORS, FAMILY OFFICES, AND BROKER-DEALER REPRESENTATIVES

TABLE OF CONTENTS

EXECUTIVE SUMMARY

TAMP COMPANY PROFILES

America's Best TAMPS is updated and published quarterly. TAMPs interested in being included in future editions should email: thewealthadvisor@gmail.com.

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AMERICA'S BEST TAMPS

This is the year outsourced wealth management comes into its own, not as a viable alternative to doing it yourself but as the new industry standard. Everyone farms out at least part of the portfolio now. And why stop there?

Gigantic fund complexes and technology platforms are buying into the companies that make model-based investing a reality. They see the transformative power of feeding world-class asset selection and planning tools to everyone who has a relationship with the right advisor. They're happy to compete head to head with robot advisors because they know their solutions are more robust, more flexible and more open to whatever the market throws our way.

And from what we saw last year, the market has plenty of curve balls to throw. You can't control the market, but you can decide how much of your life you spend reacting to its twists. This report will teach you how.

AN OUTSOURCED SOLUTION

Wealth managers and advisors alike must do a lot of things well to satisfy their clients. While regularly meeting with clients, reporting on their investments' performance and handling their service requests, advisors must also monitor their clients' investments, ensuring that risk is managed while performance is maintained. However, if the wealth advisor is also directly selecting individual investments, the advisor risks being held responsible by clients for poor performance.

There is a better way: Wealth advisors can outsource the investment management function to world-class asset managers through an outsourced portfolio management program, also known as a Turnkey Asset Management Program or TAMP.

Advisors can focus their attention on clients' needs and concerns while helping select the right asset managers and products for their clients.

Outsourced portfolio solutions work because the wealth advisor offloads those parts of the wealth management business that are time-consuming to do right, while focusing on those aspects that the client truly values and which constitute the reason the advisor was selected in the first place.

Outsourced portfolio solutions come in five varieties, in increasing levels of sophistication: mutual fund wraps, ETF wraps, separately managed accounts (SMAs), unified managed accounts (UMAs) and unified managed households (UMHs).

All are fee-based relationships with clients, ranging from around 85 basis points for the most basic wrap to 280 basis points for a complex unified managed household, dependent on the amount of client assets managed. It is vital that advisors select the correct account types for their firm, and just as important that they select the right outsourced portfolio solution provider.

Different providers bring different capabilities and technologies to wealth advisors and their clients. Furthermore, while outsourced portfolio solutions are beneficial for a wide variety of firms, they are not perfect for firms that offer a truly differentiated asset management approach.

Wealth advisory firms need to consider the use of outsourced portfolio solutions as they seek to grow their businesses and become more efficient.

By partnering with a strong outsourced portfolio solution provider, a firm can gain assets and clients at a much faster rate than it will need to add expenses, such as personnel. A high-quality outsourced portfolio solution provider is the road to increased profitability for many wealth advisors.

THE NEW STATUS QUO

For years, people treated automated wealth management systems as a fringe technology, more sizzle than substance. In that world, only hardcore technophiles would put the client portfolio on anything like autopilot. Real advisors did everything by hand.

Then we started to see the results. Automatic allocations delivered results comparable to those of the finest hand-picked portfolios. In many cases, they were the exact same strategies, only now delivered to everyone whose advisor was willing to open the doors.

Here we are now at the dawn of the age of robots. Automation is becoming standard operating procedure for thousands of advisors. Nobody reconciles the trades by hand anymore and fewer and fewer people rebalance every portfolio personally every quarter.

If you're not using the tools that run those systems, now's the time to start the process. After all, everyone's in competition with the robots themselves. That's a race to the zero-fee bottom.

But human talent can use the exact same tools and harness the exact same efficiencies. The easiest way to start is by opening a relationship with a TAMP.

Every year we profile the most dynamic TAMPs on the market. Here they are. They're the best platforms available, representing the vast majority of all assets managed by advisors using robot techniques. From where we're sitting, they're the only TAMPs that matter this year. And while the biggest platforms consolidate at the top, new and dynamic start-ups keep emerging to fill the gap with even more advanced systems and tools.

This isn't the fringe anymore. Tiburon Strategic Advisors estimates that TAMPs held $2.2 trillion in assets under management and administration last year. They serve 180,000 financial advisors (up from 800 in 1995) and 3.9 million clients (up from 10,000 in 2001).

This is the mainstream now. And the dominant players are finding merger partners. Others are being absorbed into larger technology complexes, as we saw a few months ago when Orion combined with FTJ FundChoice and then Vestmark bought Adhesion.

The tech giants want a dedicated spot on the individual advisor's screen. And the fund companies want a spot on the TAMP too. That's why BlackRock paid $100 million for a strategic piece of Envestnet.

COMBINING ROBO EFFICIENCY AND HUMAN TOUCH

Robot investment platforms have had their most significant success with mass-affluent investors (at best) who rarely have appreciable assets or financial goals beyond allocating their retirement accounts.

High net worth households have remained aloof from the robo revolution for two reasons. First, they recognize the value that a flesh-and-blood advisor adds to the relationship. Second, they're willing to pay a reasonable fee in exchange for that added value.

The conclusion here is not that everything is wonderful in the wealth management business. Advisors still compete viciously with each other for accounts, with those who fail to provide world-class service struggling to retain existing relationships in the face of innovative and aggressive rivals.

"Good enough" is no longer good enough to stay relevant in an environment where retail investors are constantly weighing their outcomes against real and imaginary benchmarks.

If you're like most Wealth Advisor readers, person-to-person networking is what you do best. You definitely do it better than a website.

And the robo will handle everything else, running ceaselessly in the background. In theory, a TAMP can run every aspect of the wealth management cycle except for the person-to-person communications that differentiate each advisor as an individual.

LET THE ESSENTIALS SHINE

If you're uniquely talented at a particular task, you can keep doing it. Otherwise, if it isn't essential, then it's time to unbundle that task from your core competitive proposition.

The investment portfolio itself was once considered the core of the advisory relationship. Nobody else could do it, so this was how a professional demonstrated expertise and justified ongoing care, translating that attention into recurring fees.

Now it's clear that robot systems can do a fairly good job at a fraction of the cost. Beating the robots can take a staggering amount of resources that, in turn, are a cost center most sustainably divided among multiple front-line advisors.

In effect, portfolio management slides toward the back office, where functions are easily commoditized and unbundled from what you do all day.

Every TAMP shunts the investment management function to world-class asset managers. Since TAMPs are more sophisticated than any pure robot system on the market today, wealthy investors still recognize the value.

And they'll appreciate your expanded capacity to focus on their needs and anticipate their concerns while maintaining ultimate authority over selecting the right asset managers and products for the portfolio.

That's not a recipe for professional extinction. This is how forward-looking advisors are getting ahead of the future by focusing on those aspects of the

business that the client truly values: personal attention, insight into unique situations, service and trust.

No robot can do that. But with a robot on your side, you can. The future is now.

TAMP MADE SIMPLE

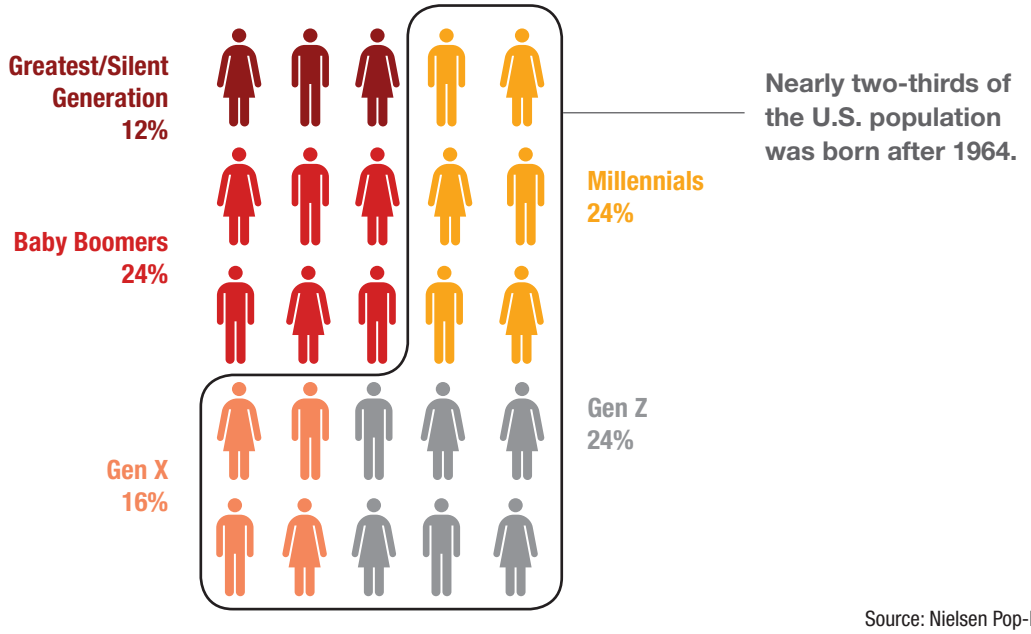
Any true TAMP provider offers wealth advisors a complete investment management program through the advisor's sponsoring firm, whether it is a broker-dealer, registered investment advisor or trust company.

The TAMP facilitates investment selection and management, allowing the wealth advisor to off-load time-consuming back-office functions such as investment research, manager due diligence, portfolio construction, rebalancing, reconciliation, performance reporting, tax optimization and statement preparation in order to focus more on gathering assets, acquiring new clients and servicing existing accounts.

TAMPs constitute fee-based account relationships and as their "turnkey" reputation implies, they can be implemented in as little as 90 days. Many provider firms provide these capabilities on a customized managed account platform, permitting independent wealth advisors and their firms to easily manage client investments.

It's not just about the Boomers.

Younger generations make up a significant part of the population. Tomorrow's successful advisors will serve a far more technologically literate and diverse clientele—in terms of age, ethnicity, gender and aspirations.



Source: Nielsen Pop-Facts

WHAT THE TAMP DOES FOR YOU

Any TAMP is a turnkey product offering that can be quickly incorporated into your existing practice and integrated with other technologies like financial planning, customer relationship management (CRM), proposal generation, trading, investment screening, risk management, attribution and customized reporting, aggregation, manager research and due diligence, among others.

When a firm contracts with an outsourced portfolio solution provider, it typically receives the following services:

- Private branding/white labeling of the system so the platform identity conforms with the wealth advisor's firm as opposed to the actual developer or TAMP provider.
- A platform tool so the firm can easily track and report on their clients' assets at a systemwide level. This often incorporates various dashboards and automated alerts.
- Open architecture that enables and supports a wide variety of investments managed by multiple asset managers. These investments have been screened through due diligence processes conducted by the TAMP provider, the advisory firm or both.
- Links to a brokerage network, trade execution or order management system giving the asset manager a cohesive interface.
- Additional back-office services such as proposal generation, investment policy statements, or asset allocation methodologies like client risk analysis.
- Enhanced sleeve functionality: for example, sleeve-level reporting or discretionary "rep as advisor" investment sleeves.
- A universe of asset managers who have been preapproved and reviewed by third-party vendors.
- For UMAs, an overlay tool for ideal investment sleeve handling.

ORIGINS OF THE OUTSOURCED EDGE

The outsourced investment management approach started slowly, but as the wealth management industry responded to the challenges of the last decade, the number of advisory firms embracing TAMP operations has now reached critical mass. Today, the $2.2 trillion in client assets that run on TAMP platforms eclipse traditional in-house portfolio construction AUM, according to some metrics.

And while the choice of platform can change after a firm makes the initial decision to outsource the assets, almost nobody ever decides to take the portfolio back and rebuild the capabilities it takes to manage it internally. It's a one-way evolution where assets flow into the channel as a whole without flowing back.

What's striking about the ongoing migration is how humble the initial adoption cycle was. Most modern TAMPs trace their origins from the Prudent Investor Acts (laws enacted by a variety of states to replace the centuries-old Prudent Man fiduciary laws) a quarter of a century ago, which gave legal fiduciaries the right to outsource investment management decisions to asset management professionals while remaining responsible for the overall client relationship.

Instead of simply allowing for the use of a separate investment advisor, the Prudent Investor Acts have made selection of a qualified third-party manager the preferred model for providing superior investment capabilities combined with improved liability protection for the fiduciary.

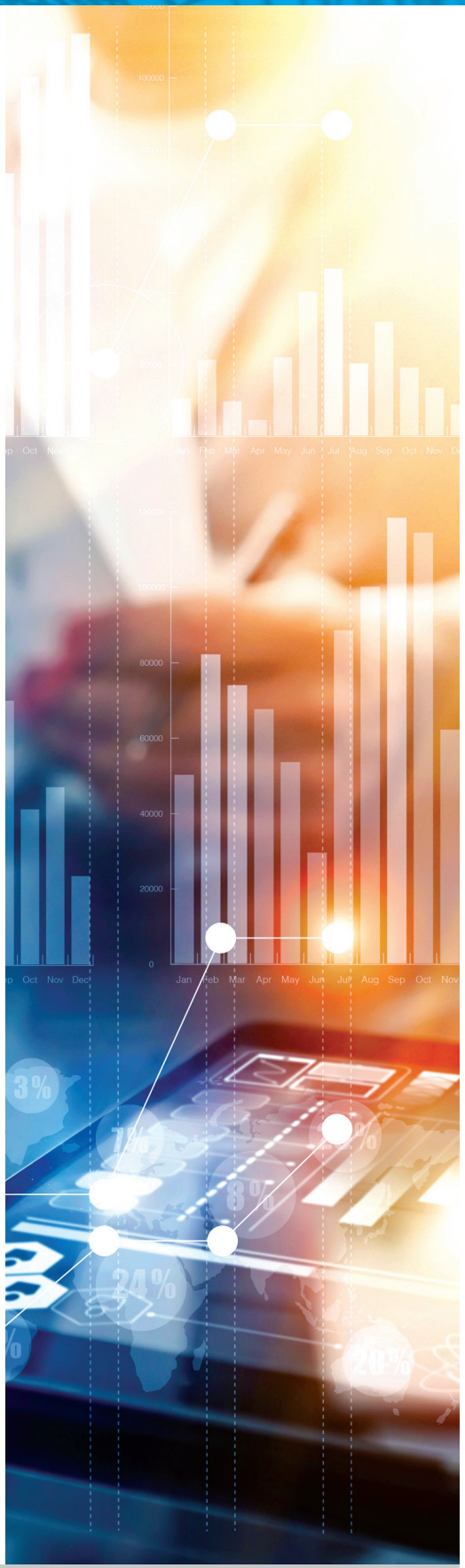
The big wirehouses (Morgan Stanley, Merrill Lynch, Wells Fargo Advisors and UBS) and RIA institutional providers like Schwab and Fidelity also provide managed money platforms, but they are available only to the firms' associated advisors or client brokerages. Captive platforms often result in suboptimal manager selection and hidden conflicts of interest. This, in fact, creates an opportunity for independent advisors and trust companies to match capabilities with the big firms without the ethical baggage.

A BETTER WRAP FOR CLIENT AND ADVISOR ALIKE

As the industry evolves, innovation ensures that advisors across all channels and compensation models have all the tools they need to not onlycompete for investor loyalty but thrive. A new generation of client-centric actively managed mutual fund wrap accounts has emerged stronger than ever, bringing a reasonable fee-for-performance proposition to the table.

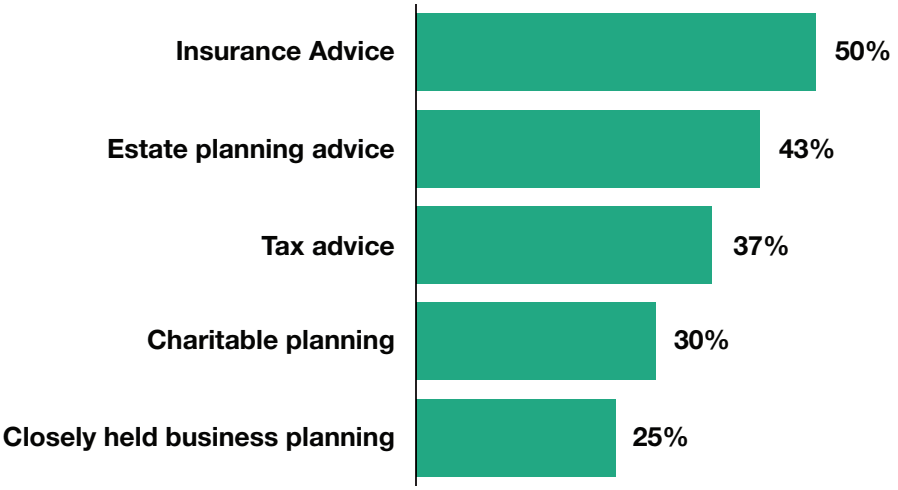
While the ETF wrap approach has become prevalent as a basic model, many have found that passive exchange-traded funds tied to legitimate indices have hit a natural limit. A few actively managed funds, like emerging international or high-yield bond funds, will remain in wrap accounts. More sophisticated investors will always crave new strategic frontiers that are onerous to develop in an indexed format, keeping active funds vibrant.

Similarly, separately managed accounts (SMAs) are opening up space for unified managed accounts (UMAs), especially models-based UMAs, where the money manager downloads models instead of conducting trades. Each manager's portfolio will have a separate sleeve, and overlay tools and managers will be used for tax and trading efficiency. Either way, the ability to develop tax efficiency, sometimes known as "tax alpha" (tax benefits above and beyond a normal market return), will become a key differentiator. This is where the firms of tomorrow will struggle or succeed.



Q. Which of the following services are provided to your clients by your firm? (N=344)

Source: Aite Group



TAMP BUILDING BLOCKS: FUNCTIONALITY AND STRUCTURE

The underlying outsourced portfolio solution investment model that drives modern TAMPs can be classified into five fundamental varieties or "flavors," based on the type of investments offered, the asset management firm responsibilities and the added capabilities of overlay — not to mention cost.

ACCOUNT TYPES

1. Mutual Fund Wrap Accounts: Also known as a Mutual Fund Advisor Program, a mutual fund wrap account provides multiple mutual funds (selected from a large pool) based on asset allocation guidelines. The investment advisor designs a portfolio of funds and manages the funds as a single account for a single annual fee but lack flexibility and customizability. That fee "wraps around" all of the client's mutual fund activity, providing transparency and simplicity, and is an alternative pricing option to paying an upfront commission or surrender charges.

2. Exchange-Traded Funds (ETF) Wrap Accounts: An ETF wrap is a type of managed account where the client's investment portfolio is invested solely in exchange-traded funds. The selection and composition of each ETF class is based on the appropriate asset allocation model, and is periodically assessed to respond to market changes. As with most managed accounts, there is an asset-based fee charged for the account; the advisor pays transaction costs.

3. Separately Managed Accounts (SMA): An SMA is made up of a portfolio of individual securities managed by a single asset manager in a particular type of style and offered to the investor by a sponsoring firm. A fee-based SMA

program utilizes multiple SMAs. A single SMA can also form a single sleeve within a Unified Managed Account structure. In general the SMA approach differs from a mutual fund because the investor directly owns the securities—individual bonds, for example—instead of owning a share in a pool of securities.

4. Unified Managed Accounts (UMA): A UMA is a single fee-based account that houses numerous investment products within multiple separate account sleeves. Management between sleeves is determined by the overlay process to gain tax and trading efficiencies. This necessitates the wealth advisor managing the client relationship on a platform optimized for UMAs. A UMA is usually conceived as having a single custodian, although some platforms do aggregate across multiple custodians.

5. Unified Managed Households (UMH): A UMH is a UMA-like relationship taken to the next level by bringing together all aspects of a client household's wealth, not just the wealth of separate individuals. UMH platforms enable program sponsors to take a holistic approach to their investors' total portfolio and apply a range of solutions that manage the client's wealth in a manner similar to how a wealthy household tends to think about their personal wealth. Assets to be managed include qualified and nonqualified accounts as well as alternative investments, real estate, collectibles, oil and gas properties, limited partnerships and managed futures accounts. A UMH has a single registration and can aggregate across multiple custodians. Many advisors consider the UMH to be the ultimate advancement in the managed-account space.

Functions supported by TAMPs, depending on platform provider

Prospecting & Proposals	Rebalancing	Proposals & Investment Policy Statement	Trust Accounting	Onboarding, including Electronic Signatures
Trade Order Management	Asset Transfer	Aggregation	Asset Allocation	Custody Reconciliation
Advisor Dashboards	Statements & Document Management	Investment Selection & Portfolio Management	Internet Access	Manager Dashboards & Escalation
Performance Analysis, including Attribution	Manager Selection	Mobile Access	Feeing	Pre-Trade Compliance
Sleeve Management & Overlay	Client Self-service	Workflow	Trust Accounting	

MANAGERS & PRODUCT SELECTION

TAMPs using open architecture allow for financial advisors to offer a combination of proprietary and non-proprietary strategies for greater flexibility, greater investment options, and a reduction of potential conflicts of interest.

A broad array of investments is essential for capturing high net worth individuals. The mix should include mutual funds, ETFs, SMAs, securities and alternative investments. Overlay managers assist financial advisors in model portfolio implementation, trading efficiency, risk management, investment customization and tax optimization. For platforms using a rules-based overlay tool, the tax and trading efficiency is maintained without the input of another expert, albeit at a lower cost than the overlay manager model.

FEES

The range of TAMP fees, as shown on page 12, can run from 10 to 250 basis points depending on the underlying complexity and cost of the incorporated investments.

PERFORMANCE ATTRIBUTION

Advisors must be cognizant of how their efforts stack up against predetermined benchmarks. Benchmarks established at regular intervals not only give clients peace of mind, but also relieve the advisors' burden of "hoping for the best" for their clients. Fortunately, several TAMP technologies allow advisors to easily assemble the clients' information, goals and plans into a user-friendly platform.

TOTAL FEE TRANSPARENCY AT LAST

For too many retail investors, the fees charged for managed accounts remains a black box. It is necessary for the industry to move beyond a single, unexplained rate to at least three distinct fee components if managed money platforms and products are to become ubiquitous:

Typical TAMP fee ranges*

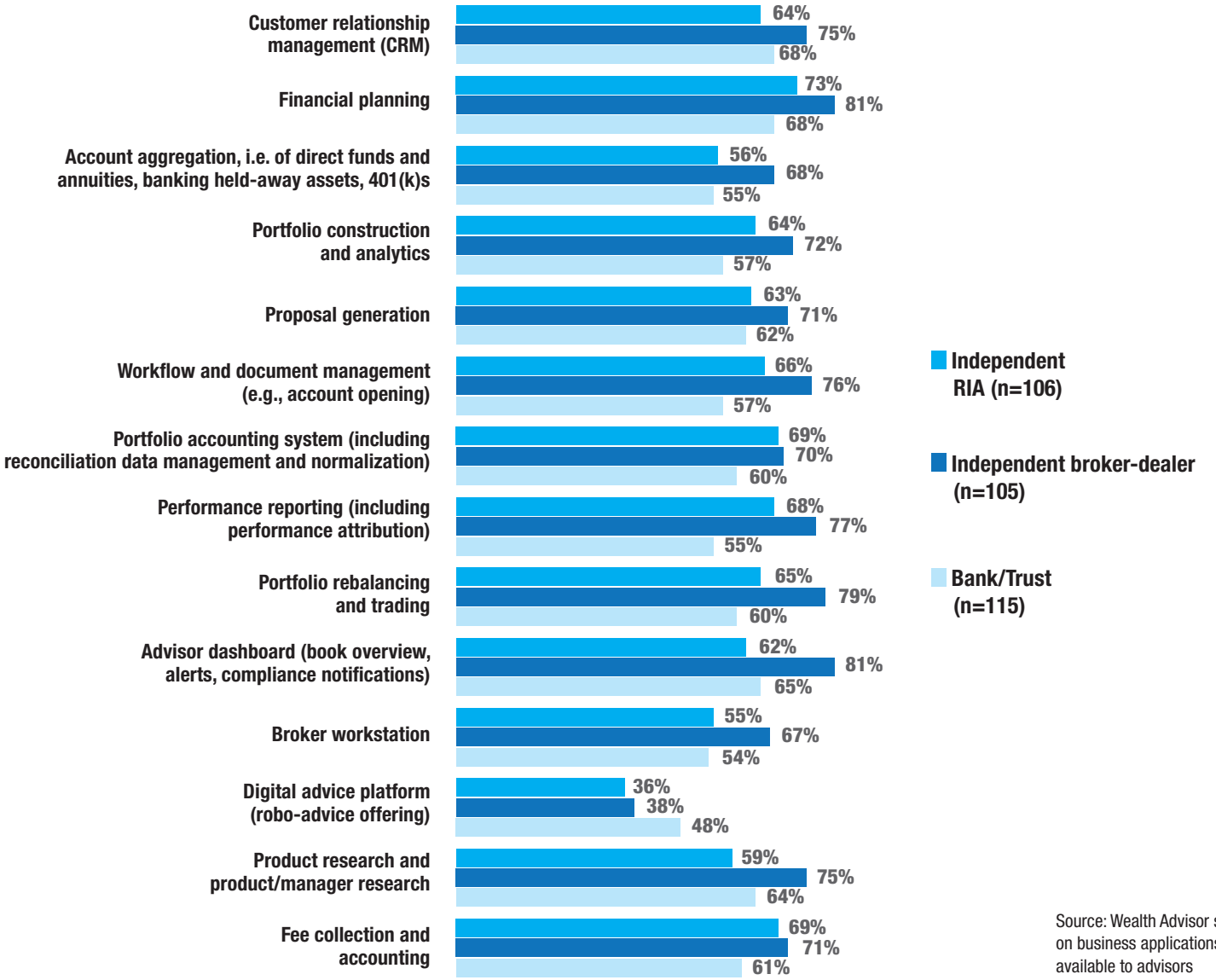
ACCOUNT TYPE	INVESTMENT FEES	MANAGEMENT FEES	TOTAL FEES
Mutual Fund Wrap	.5% - 1.5%	.5% - 1.5%	.75% - 1.5%
ETF Wrap	.1% - .25%	.5% - 1.0%	.75% - 1.25%
SMA	.5% - 1.0%	1.0% - 1.75%	1.5% - 2.5%
UMA (using models)	.4% - .6%	.75% - 1.5%	1.5% - 2.5%
UMH	Negotiable along lines of UMA, with modest fees (.01% - .03%) for held-away assets		

*For large clients with greater assets, fees are negotiable, and will tend to be near the minimums noted above.

The product fee is the institutional rate charged to the firm for the mutual fund, ETF or managed portfolio. In the case of the UMA, it should be just the managers' models without the associated trading costs. For ETFs, fees may range from 10 basis points (bps) for large cap to 25 bps for smaller indices. For UMAs, the range for models should cost between 35 bps and 50 bps depending on the asset class.

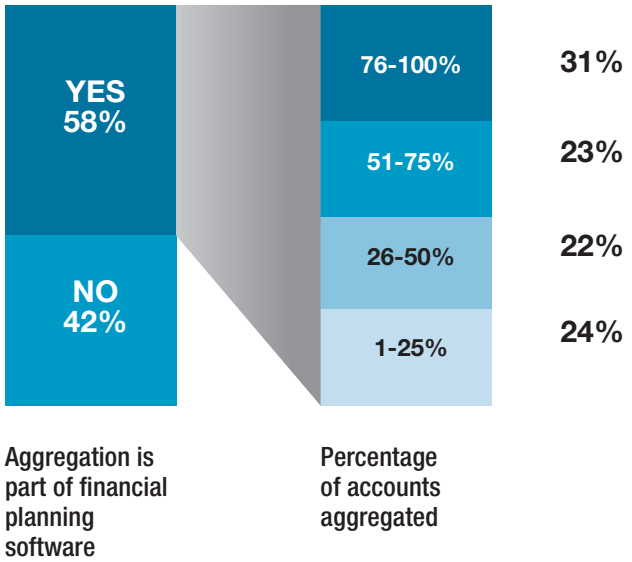
The firm fee reflects the true costs of providing the managed money platform, trading, custody, statement preparation and other definable costs. It should include both the markup to the firm and the advisor's compensation tied to the account.

TOOLS ADVISORS CRAVE



Source: Wealth Advisor survey on business applications available to advisors

Only some advisors are aggregating account data



Source: SEI survey, Next Gen Financial Planning n=1,019

On top of these TAMP-based fees, other services such as financial planning should be billed separately. ETF wrap fee maximums should be less than 150 bps for smaller accounts. UMAs that serve larger accounts with more complex portfolios should fee between 100 bps and 175 bps, dependent on use of models and type of overlay services provided.

Transparency in pricing will go a long way towards improving the number of clients selecting managed money as the best practice in wealth management.

Using automated solutions where possible should decrease fees and account minimums. This will spread managed accounts to those most in need of relief from poor products and high fees—the mass affluent. While managed accounts alone cannot solve the retirement crisis, lower overall fees can increase balances significantly over a 30-plus-year accumulation horizon. Minimums for some wraps have fallen to around $5,000.

Some TAMPs will also establish "no minimums" for retirement accounts like 401(k)s and IRAs, which are expected to grow substantially over time. If the industry follows through on this strategy, managed products and the firms that provide them may be able to displace the current dominance of mutual fund firms in the retirement investment industry.

Best-practice TAMPs also help their advisors and firms optimize use of the platform. As TAMPs greatly enhance advisor and firm productivity, TAMPs need to take the lead in making sure their clients, the firms and advisors, get the most from the platforms.

CHOOSING A PLATFORM

In the final choice for selecting the TAMP partner for a specific firm, it simply comes down to the capabilities a firm values most. TAMPs today are quite flexible; few force a firm into a single way of doing business. The firm selects its strategy, the TAMP selection process follows.

The largest players continue to be Envestnet, SEI and AssetMark. Some of the bigger platforms continue to grow through acquisitions while consolidators like AssetMark find themselves absorbed into larger entities. Despite a narrowing bulge bracket, continued innovation and entrepreneurial forces ensure that advisors today still have a wide range of TAMP providers to choose from, each with a different set of capabilities, managers and technologies.

It is vital that the individual advisor select the TAMP provider with the culture and capabilities that fit advisor needs—a provider with what it takes to help you differentiate yourself from the competition while streamlining internal processes to reduce organizational drag.

GETTING THE MOST OUT OF A TAMP

What is the main constraining factor on growing a wealth advisory firm? It is the amount of time an advisor has available to spend on all the administrative tasks: prospecting, preparing proposals, onboarding clients, preparing investment policy statements and asset allocations, selecting the investments, trading the investments, monitoring the investments, reporting to the client and meeting with the client.

The wealth advisor has to ask: "Which of these activities are adding value to my relationship with my client?" In other words, which of these aspects differentiate the advisor from the competition and make a difference to the client?

The answer here is that only the client-facing activities truly matter. The rest can be outsourced, often to a specialist better able to spend more time on specific activities such as managing and selecting the individual investments.

A TAMP or other outsourced portfolio solution allows financial professionals to easily manage even complex account structures like UMAs and UMHs, and serve high net worth and ultra-high net worth clients with better investment capabilities. At the same time, a true TAMP allows wealth advisors to serve the mass market and mass affluent efficiently through accounts like mutual fund wraps and ETF wraps. The figure on page 16 explains the appropriate targeting of outsourced portfolio products to client mega-segments.

Using a TAMP, smaller firms and individual advisors can offer the same level of services to clients that a wirehouse provides, due to lower start-up costs.

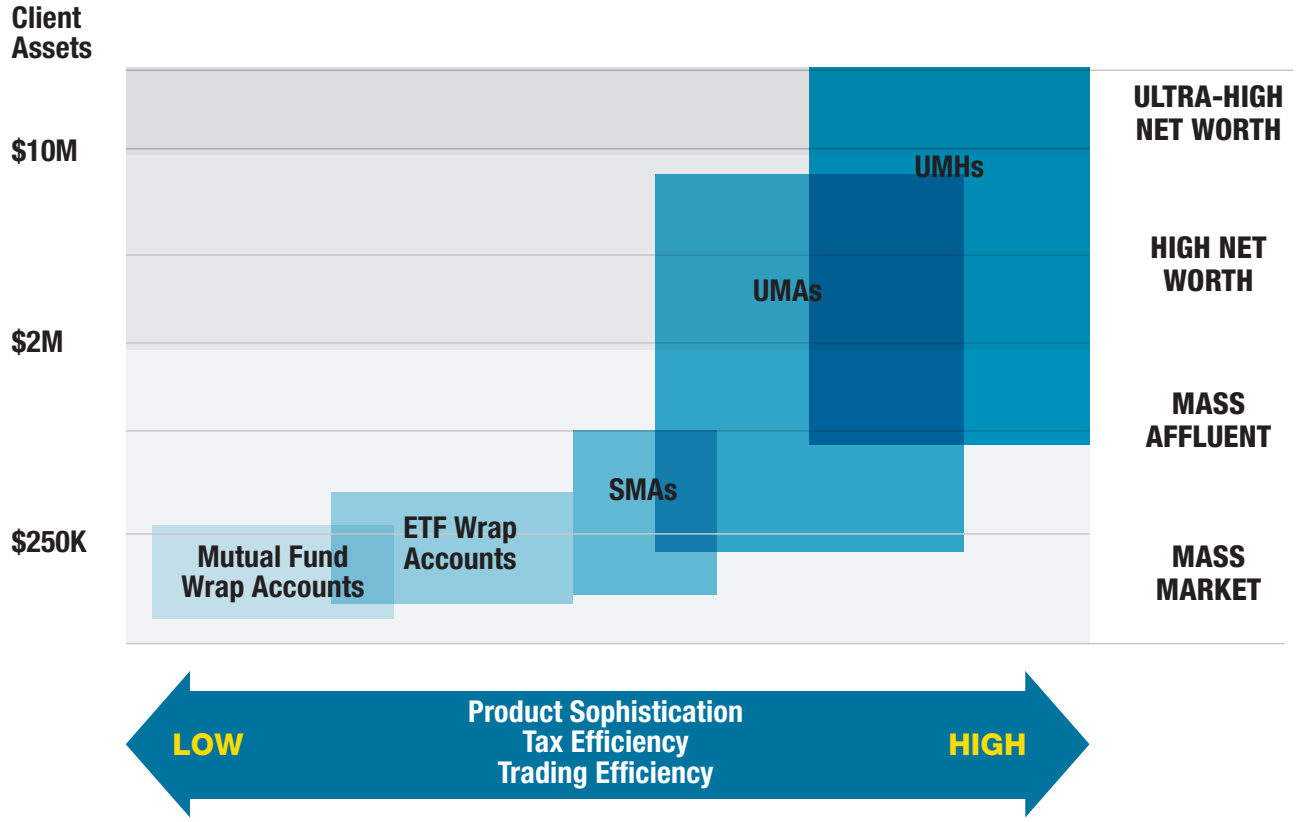
Outsourcing reduces or removes the need for in-house support personnel and IT infrastructure.

Because a TAMP by definition is self-contained, both provider and operational risk is reduced. Active and passive investments can be combined across the spectrum from conservative to aggressive. Any outsourced solution will consider the length of time assets are to be held, the expected tax rate over that period and the type of investment. Advisors are able to mix and match mutual funds, ETFs, SMAs and other products on vetted platforms, starting with pre-set allocation models and then customizing for each individual client.

The details around the deployment of your TAMP will vary. Normally several factors are in play:

- Legal structure (RIA, broker-dealer, etc.)
- Client segments served
- Competitive differentiators
- Existing capabilities (compliance, reporting technology, workflow tools, CRM, etc.)

TAMP types are targeted at different segments



TAMPs may support or enable many of the functions shown on page 11, depending on their competitive offerings. When a firm contracts with a TAMP, it usually receives at a minimum:

- A "white label" solution reflecting the look and feel the wealth manager desires
- The technology platform to manage and execute the clients' investments, often with appropriate dashboards, alerts and compliance
- A menu of approved asset managers for different types of accounts and asset classes
- Links to appropriate trading networks as required
- Custody reconciliation

Other considerations include manager and product selection, levels of fees to the clients, the ability to fee on held-away assets, costs of the platform, aggregation capabilities, and ancillary support like financial planning. Processes like proposal generation and reporting can also be key determining factors.

The top outsourced portfolio solutions offer:

- streamlined asset allocation and trading functionalities
- seamless integration of back-office, money management and client services system
- scalability to provide open-ended growth opportunities
- comprehensive data delivery for all parties

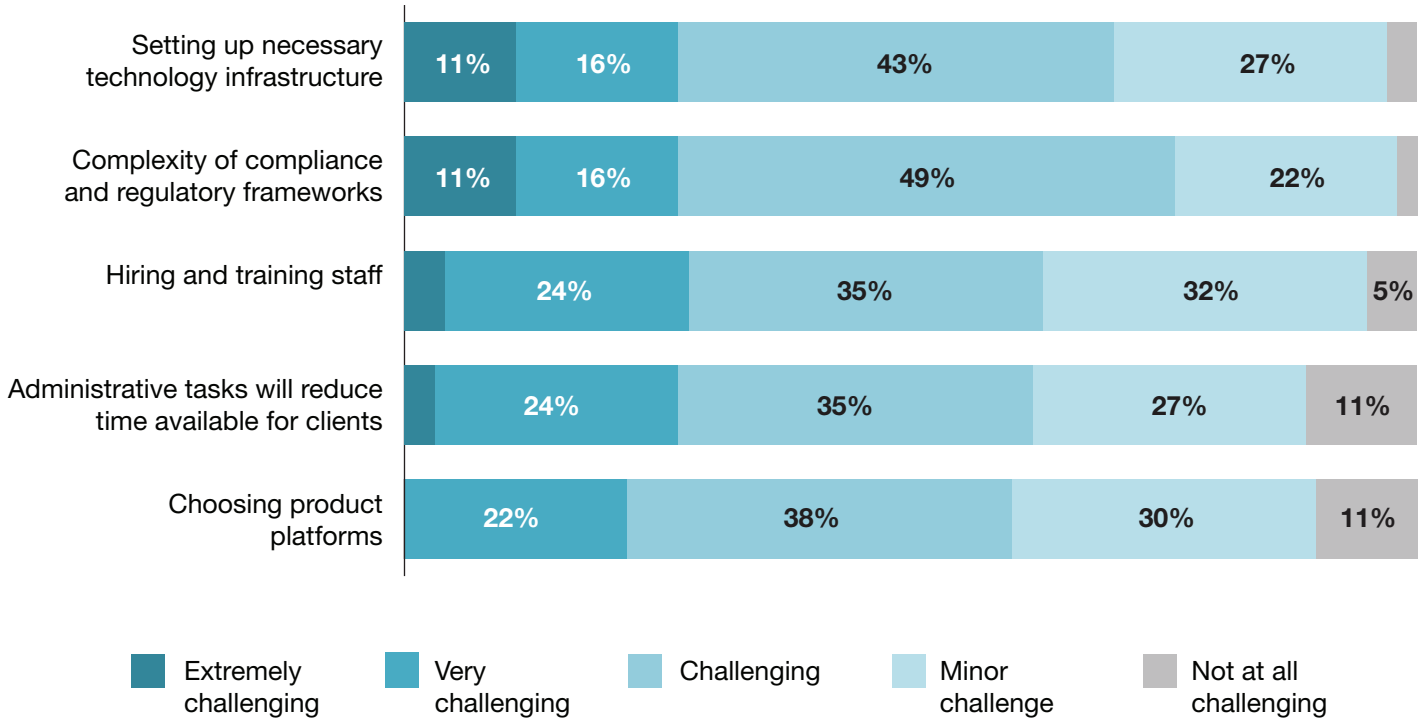
Financial transparency and consistency are also essential, so outsourced portfolio solutions typically offer customizable compensation processes, automatic tracking functions and fee calculations as well as payment support.

Once a TAMP is in place, the advisor can easily track every client's goals against their portfolios, not just look at broad industry benchmarks. This enhanced reporting allows advisors and their clients to adjust their plan as progress is made toward life goals or philanthropic work. Advisors have access to a group of investment programs and professionals that have been vetted by the outsourced portfolio solution provider in areas of asset allocation and products in a variety of other model portfolios.

What does all of this mean for the advisor? Instead of constantly handling administrative and back-office tasks, he or she is finally able to focus on the client, managing assets in an optimal way while reinvesting limited resources in client interactions.

Q. How much of a challenge do you expect the following issues to be for you when going independent? (n=37 financial advisors who would prefer to go independent if they leave their current employer)

Source: Aite Group



While the advisor can elect to supervise non-core tasks, most are eager to refocus their attention on tasks only they can pursue: gathering assets and building client relationships. According to a CEG Worldwide survey, advisors using a TAMP or other outsourced portfolio solution are not as worried about delivering high-quality investment management products and services, market volatility or dealing with compliance and regulatory issues. It's on the platform. They know their clients are getting world-class solutions.

AGGREGATION ESSENTIALS: THE 360-DEGREE ADVISOR

Clients routinely find it difficult to settle on a single trusted advisor. Citing perceived expertise in different investment areas and personal biases, clients typically employ multiple advisors. It is impossible for the advisor to offer effective asset allocation without a holistic financial picture of the client.

Aggregation tools allow for holistic, client-centric advice and the ability to manage client risk. Only a small percentage of wealth managers are making aggregation of their clients' assets a priority. In fact, 26 percent of advisors at independent RIAs and 21 percent of independent broker-dealer firms don't have access to account aggregation but see this application type as appropriate to their business.

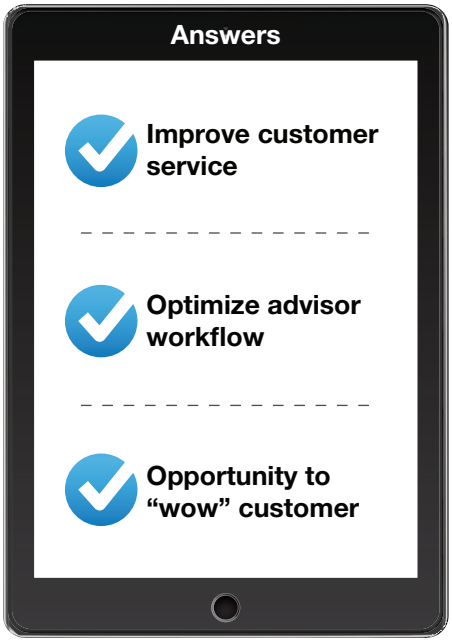
The rationale is clear. Aggregation better aligns services and outcomes for clients and advisors, and paves the way for mutual long-term relationships.

Many financial advisors are missing the opportunity to fee on assets held outside the core relationship. Experience shows that if the advisor does a good job of explaining how their oversight improves the risk and return profile of the entire client or household portfolio, clients do not balk at a modest fee of 3 basis points to 5 basis points on the held-away assets.

Product value should be passed along to clients when partnering with a TAMP. Investments must cater to the client base of an advisor's firm. For example, an advisor with a mass-market client base will need a platform that offers mostly ETF wrap accounts. Making sure the product offerings match the advisor's client base is mandatory. More managers on the TAMP platform create more choices, but also make it harder to justify a specific solution.

Service value must be evaluated in terms of expected support, as well as operational cost savings. Criteria for selection include the strength of marketing, training and technology support systems. Firms should review the support available when planning the switch to a TAMP. If there is a technological issue with the platform, an advisor must be able to contact support individuals to remedy the issue quickly. Some providers offer programs to assist with sales training and marketing. Advisors need to determine which tools are important to their business when evaluating TAMP alternatives.

Making Advice Intelligent



Deliver timely responses (24/7)
- Virtual agents and humans together efficiently serve customer
- Sentiment analysis to understand customers' service issues

Provide educational material and portfolio analysis
- Execute transactions
- Gather data for onboarding client, including KYC/AML

Advisor matching
- "Savings coach"

Image value is important in terms of maintaining the image and reputation of the company. This includes the quality and reputation of the managers, as well as the look and feel of websites, mobile apps and statements.

On the other hand, monetary costs, timing issues, hassle factors, as well as reputation and image issues, should be at the forefront of a wealth management firm's deliberations when partnering with a specific outsourced portfolio solution provider.

Monetary costs should be considered in three areas: the cost of deploying the system, recurring costs and most importantly, costs that have to be passed along to the clients that impact the value proposition. Timing is important when considering how quickly the system can be rolled out, and the difference it will make in speed of client and asset acquisition and retention.

Hassle factors relate to the day-to-day operation of the platform by advisors and administrators. The platform should make their jobs easier, not shoehorn them into a specific workflow. Partnering with an outsourced provider must result in seamless customer service, and clients should not be adversely affected in any way by the switch to a TAMP. The reputation and image of the wealth management firm should not be impacted by what is intended to be a superior process and improved workflow.

DON'T BUILD IT, RENT IT

Only the largest firms can afford to build and maintain managed account platforms in-house. For the majority of firms in the wealth management industry, partnering with a top outsourced managed money platform is a competitive necessity.

TAMPs eliminate the need for many manual tasks, and future best practices will reduce these activities further so advisors can focus on their clients. At this point, required capabilities of TAMPs include:

- Automated onboarding, including automated customer account transfer (ACAT) and asset transfer
- E-signatures reducing the amount of paperwork and time to open accounts
- Automated compliance based on exception reporting and escalation
- Advisor and manager dashboards and alerts sent to mobile devices
- Client-facing digital advice delivery
- Automated custody reconciliation across multiple custodians
- Automated rebalancing
- Easier customization of portfolios for unique client requirements
- Greater use of the cloud for data storage, statement availability, platform updating, business continuity and data recovery.

TAMPs are a marvel of technology, enabling practices that just a few years ago were only available to the wealthiest investors. They are expected to continue to lead the way in wealth management technology.

THE FUTURE IS NOW

Even if you've only automated one or two traditional advisory functions—rebalancing, reconciliation, routine client reports—you're already on the road to more comprehensive TAMP deployment in your practice. It isn't an all-or-nothing proposition anymore. But it's usually a one-way process. Once a firm unbundles a function, there's almost never a reason to go back to the old in-house approach. And as functions add up, the incentives to go deeper into the full TAMP wealth management model multiply.

As it is, this is the logical competitive counterweight to pure robot advice, bringing flesh-and-blood expertise to the best investment ideas and automated support available. The client benefits by getting better investment solutions. They will come to understand that, by using the TAMP model, their advisor is taking the long-term, holistic approach to managing their wealth.

The wealth management firm gains through a standardized and integrated approach that lowers liability exposure and costs. The advisor now wins because he or she sits on the same side of the table with the client, picking the best managers for the client's specific situation.

TAMPs are the appropriate business solution for all types of wealth managers. For the trust companies, they provide a level of investment sophistication not available with the traditional model of the in-house investment officers.

For broker-dealers, TAMPs speed the move to managed money solutions without the extensive money manager due diligence, all on an easy-to-use, outsourced, fully integrated platform.

For RIAs, TAMPs allow the advisor to focus on the asset allocation and risk management models, while removing performance as a possible point of contention.

For the multi-family office, the TAMP platform allows management of more assets and more sophisticated investments in an efficient and professional manner.

Delivery costs will continue to decline for advisors as TAMP providers achieve greater scale, but fee compression on the client side should be minor. Raw allocation and portfolio construction costs seem to have reached equilibrium at more or less 25 basis points, leaving the advisor plenty of room to support value-added service and maintain pricing.

The 1 percent benchmark is far from dead. However, fees will become more transparent, softening the current bundle into a fee for the asset allocation and risk service, a product-related fee from the third-party manager, and service-

based fees for financial planning and trusts, among other aspects. In the race to communicate clear value, lower-cost investment vehicles have reached their natural limit: actively managed funds can outperform and more sophisticated fee and account structures will continue to win market share.

At the core of the business model, firms select their differentiated strategy, and the TAMP selection process follows. In the end, the majority of wealth management firms will be utilizing the managed money solution, many through TAMPs. Assets on TAMP platforms will continue to grow. This is already the mainstream, the shape of the industry as it is. The only question remains, when will your firm reap the benefits of an outsourced investment management provider?

CHOOSING THE RIGHT TAMP

Because switching providers in the future can be costly in terms of money, time, and energy resources, it is best to research and choose the right TAMP provider for the advisor's business the first time around.

The first step when selecting a TAMP supplier is to determine the firm's investment style, and match it to a well-managed provider. Also key is identification of the client segments the firm serves, e.g. there is little advantage and a lot of unnecessary expense for a firm serving mostly mass-affluent clients to utilize a UMH TAMP provider.

Some TAMPs are better positioned than others to support a specific type of firm, whether they are a broker-dealer, RIA or trust company. TAMPs provide four kinds of value to the wealth advisory firm:

1. Product Value: Does the outsourced portfolio provider's solution create real value for the firm and clients? Does its product selection include vehicles that appeal to the firm's segments of affluent investors now? Is the product and manager mix appropriate for the specific wealth advisor?

2. Service Value: Some TAMPs offer marketing programs, training programs, technology and practice management support aimed at helping the advisor become more efficient and successful. Educational programs include practice-development issues such as developing referrals and joint ventures with other professionals, seminars or information on select target markets, and handouts for clients. Technical support can provide assistance with philanthropy, retirement distribution planning, asset protection, tax planning, business succession, etc.

3. Personnel Value: TAMPs often assist with the day-to-day business operations, but they can also help the advisor think strategically, grow their business, and increase their income. Does the TAMP provider under consideration provide training in professional areas and training for the advisor's staff?

4. Image Value: TAMPs are largely unknown to most investors (as they should be), but the reputation and image of the company, where disclosed (e.g. custodians, asset managers, reporting, etc.) is still important to clients and prospects. Advisors should ensure that the selected firms do not compete with them at a retail level, and that they are committed to the TAMP provider space.

On the other hand, there are four kinds of potential issues involved in partnering with a specific TAMP provider:

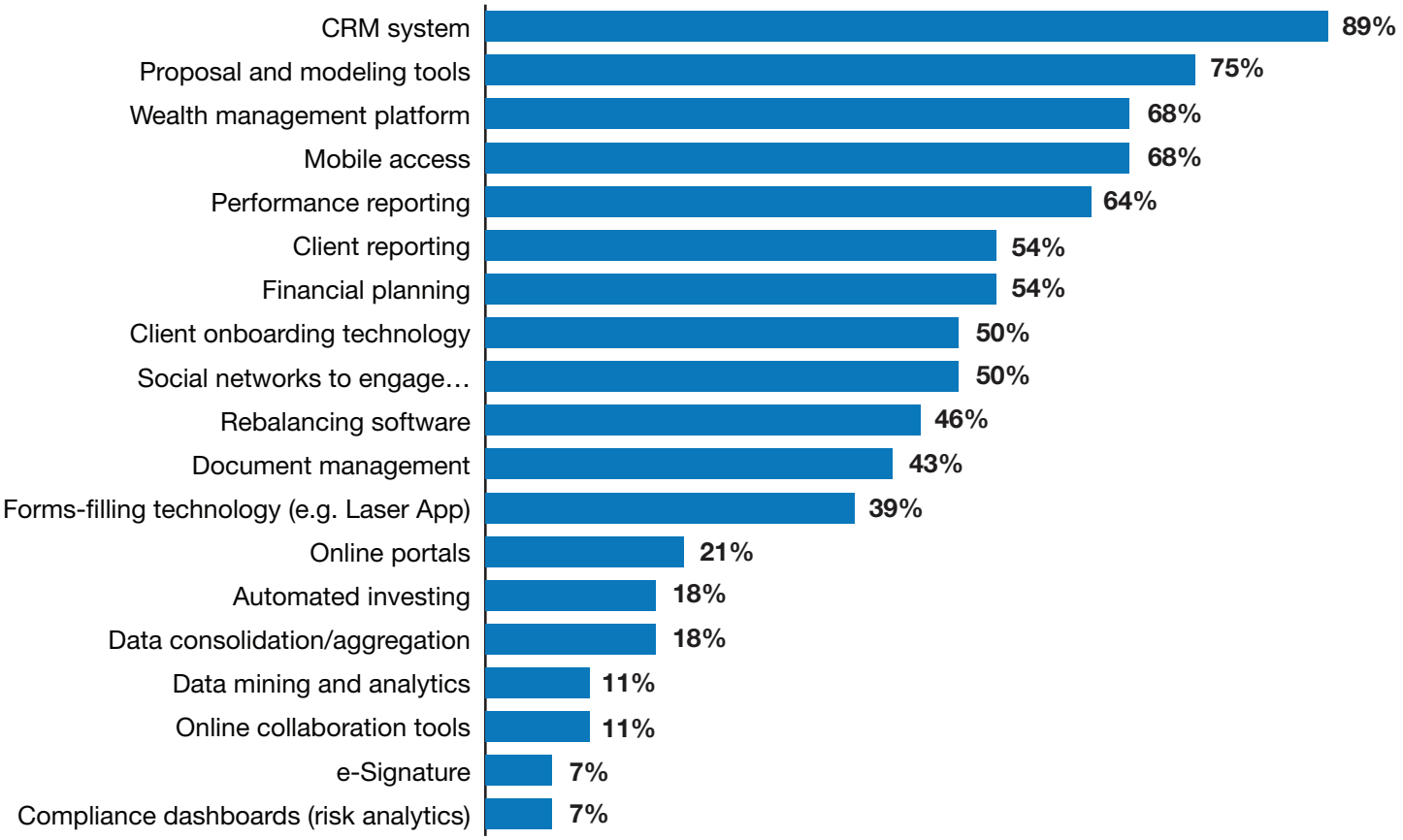
1. Monetary Costs: What is the cost to deploy the system, as well as the ongoing costs based on the amount of client assets on the platform? What are switching costs if it becomes necessary to replace a current provider with a new solution provider?

2. Timing Issues: How soon can the outsourced portfolio solution offering roll out and how soon will it make a difference in terms of client and assets acquisition, and retention?

3. Hassle Factors: How much time will an advisor have to spend working with the TAMP provider once the system is implemented?

4. Reputation and Image Issues: The advisor's most important job is to deliver exceptional customer service. There shouldn't be a struggle or conflict between the advisor's professional identity and partnering with a TAMP.

Which technology tools do your advisors use regularly?
Check all that apply



GLOSSARY OF TERMS

Account Aggregation: Methodology that involves compiling information from different investment and bank accounts into a single view of the client. This may be done by either combining custody records, screen-scraping from other organizations' websites, or permission-based access to other accounts. Account aggregation is important in order to gain a complete view of the client's financial position. Vendors of account aggregation tools include Albridge (Pershing), ByAllAccounts (Morningstar) and DST.

Asset Allocation: A primary investment decision for wealth advisors involves recommendations across the three major asset classes: equities, fixed income and cash equivalents.

- Equities: The main investment classes within equities are large-cap (capitalization) growth stocks, large-cap value stocks, large-cap core holdings (a combination of growth and equity), mid-cap US equities, small-cap US equities and international equities (either developed nations, developing nations or some combination).

- Fixed Income: The main classes for fixed income are US government, US government agencies, US corporations (corporates), municipals (state and local governments), high-yield (riskier debts) and sovereign (non-US governmental debts).

- Cash and Cash Equivalents: These include money-market accounts, cash management accounts (CMAs) and sweep accounts for holding cash not currently deployed in the market.

- Asset allocation percentages can vary based on client age, risk tolerance, and the advisor's opinion of the individual asset classes and segments.

- Sector Rotation: Strategy of selecting among market segments (e.g. raw materials, consumer goods) based on where the advisor or asset manager feels the market is within the long-term economic cycle.

Brokerage Network: Pre-assembled group of broker-dealers tied to a variety of physical and electronic exchanges through which the advisor may execute client trades. This network may be provided by either the platform provider that the advisor is using or selected based on other outsourced relationships. Two of the largest are the SunGard Transaction Network (STN) and the SEI network.

- Trade-Order Management (TOM): If the wealth manager is not provided with a brokerage network, they will require a TOM system. One of the more popular TOM systems is Moxy from Advent.

- Straight-Through Processing (STP): STP is based on making the minimum number of entries necessary to trade an equity or other tradable investment (e.g. mutual funds) for a single or group of clients, and is vital for efficient operations.

Custody/Custodian: The custodian provides a physical or electronic facility to house investments. While the wealth advisor directs the investments, in all but the cases of the largest firms, the advisor does not have "custody," or possession, of a client's assets. Custodians may require that checks and other negotiable instruments be made out to them, not the wealth advisor. Custodians have gained increased importance in the minds of clients since the Bernie Madoff theft occurred, and clients are now paying attention to custodian selection. Wealth advisors using a large, well-known custodian help protect their clients from investment fraud. Most investment advisors use large custodians such as Fidelity, Pershing, TD Ameritrade, Citi, Charles Schwab, BNY Mellon, State Street or Northern Trust.

- Reconciliation requires ensuring that client statements match the records of the custodian. For many wealth advisors, this is still a manual task. The task is fully automated where there is a singularity between custodian and platform provider (e.g. Citi's OpenWealth platform or SEI's Wealth Platform℠). The task can be one of the most time-consuming and difficult tasks of a wealth manager, and can be eased by use of various account aggregation tools.

ETF Wrap (Account): Type of managed account where the client's investment portfolio is invested solely in exchange-traded funds. The selection and composition of each ETF class is based on the appropriate asset allocation model, and is periodically assessed to respond to market changes. As with most managed accounts, there is an asset-based fee charged for the account and the advisor pays transaction costs.ETF wraps are built out of indexed vehicles that require different tax treatment and, in some cases, tolerance for intraday volatility.

Feeing: The fees paid by the client (which may range from 85 basis points [bps] to 280 bps dependent on the type of program and asset classes included) have to be appropriately divided among the asset manager, the advisor, the sponsor, the platform provider and the overlay manager, usually on a monthly basis. Feeing can be quite complex in the managed account space, though new technologies are being developed to assist in the process.

Investment Policy Statement (IPS): Outlines the advisor's appropriate investment strategy in terms of asset allocation for a particular client.

- Restrictions identify holdings that may be inappropriate for a specific client. Restrictions may be based on personal beliefs (e.g. no tobacco stocks) or significant current holdings through inherited equities or stock options and grants to be exercised as a result of working for a publicly traded company.

- Risk: Every client has a unique risk profile based on age, risk tolerance (how much they are willing to absorb market losses as they reach for greater market gains) and investment objectives. The asset allocation must outline these risk issues, which are then specifically identified in the IPS.

- Suitability/Fiduciary Standard: Suitability is the standard used by Registered Reps when selecting asset classes for individual clients. Registered Investment Advisors (RIAs) and trust officers use the fiduciary standard, where their clients' objectives are supposed to be placed ahead of their own, and where they adhere to the Prudent Investor Rule.

Manager Due Diligence: TAMPs frequently provide an extensive list of asset management products, among which are mutual funds, ETFs, funds of funds, SMAs or UMAs. What each of these have in common is that the assets are managed by an "asset manager" whose job it is to provide the models and manage the underlying assets to a specific strategy. As part of vetting the products, TAMP providers conduct a detailed examination of the manager and firm in terms of track record, experience, performance, assets under management (AUM), risk management, reference checks, compliance history and externally audited financial statements.

Models (Models-Based Approach): Investment methodology that requires asset managers download investment strategies into a sponsor firm's UMA platform for the sponsor to conduct the actual trades, as opposed to the SMA approach where the asset manager conducts the trades. If part of a UMA, the SMA sleeve is incorporated into the UMA. Models-based approaches are more profitable for UMA sponsors, due to wide omnibus trading, and better for clients as they allow for incorporation of an overlay methodology for tax and trading efficiency. The loss of trading revenue may make asset managers reluctant to participate in a models-based environment, resulting in the managers' decision to participate in a sponsor's UMA program or not. Some asset managers also fear a loss of intellectual property. Models may be updated on the UMA platform in real time or in a batch mode.

Mutual Fund Wrap (Account): Also known as a Mutual Fund Advisor Program, a mutual fund wrap account provides multiple mutual funds (selected from a large pool) based on asset allocation guidelines. The investment advisor designs a portfolio of funds and manages the funds as a single account for a single annual fee of 85 bps to 150 bps. The fee is an alternative to individual mutual fund sales charges.

- Fund of Funds: Mutual fund-like vehicles made up of shares of alternative investments (usually hedge funds) where individual investors have their risk reduced through diversification. A fund-of-funds approach also allows investors who might not qualify for "accredited" status to invest in hedge funds.

Onboarding: Process through which a prospect becomes a client and is brought onto the investment advisor's platform with assets retitled or moved to a new custodian. The process must comply with SEC recordkeeping rules and US Treasury know-your-customer and anti-money-laundering rules. The process often involves new asset types being set up on the system, or adding detailed household information, and an eventual reconciliation between the system and the custodian's records.

Open Architecture: In the extreme case, open architecture requires that the investment platform would enable and support any investment managed by any asset manager. While such a goal is desirable, the fact that each asset manager must undergo comprehensive due diligence to be included on the platform makes it impractical. As a result, many program providers claim "open architecture" as a feature, while offering from dozens to hundreds of asset managers and their products on their particular platforms.

Outsourcing: Process of contracting a necessary business function or process to an independent organization, and ceasing to perform that function or process internally, instead purchasing it as a service. TAMPs are an investment management outsourcing solution.

Overlay: Methodology used by the wealth advisor to provide the best in tax and trading efficiencies to their clients. The effort can be manual or technology-based, and comes in a variety of "flavors."

- Overlay Tools vs. Overlay Managers: Overlay tools are software designed to ensure tax and trading efficiency and are integrated with the managed account platform. Overlay managers deliver an investment advisory service to achieve the same objectives as the tool, subject to relevant regulatory and fiduciary requirements. Overlay managers may offer a more complete solution but with reduced control for the advisor, and typically at a higher cost.

- Passive Overlay vs. Active Overlay: In passive overlay, asset managers have operational control over their sleeves; the wealth advisor's overlay role is limited to account-level allocation and reconciliation. Some asset managers are uncomfortable with having their models modified by different players and fear loss of their intellectual capital. Active overlay management relies on a single overlay tool or manager to assume discretion for all of a client's accounts. In active overlay, managers send their model-based portfolios to the overlay manager who then trades at the account level. Active overlay results in improved tax optimization, portfolio customization and operational efficiency.

- Distributed Overlay vs. Centralized Overlay: Distributed overlay (e.g. Smartleaf) allows a relationship manager or trust officer to set up individual rules to manage individual client accounts. Centralized overlay decisions are made at the firm level, and asset managers tend to be more comfortable with releasing their models under this type of process.

Platform: Refers to both the underlying investment management technology the advisor uses and the investments available to the advisor to offer to clients. Both aspects of the platform are provided to the wealth advisor by the TAMP providing the outsourced investment solutions.

Private Branding/White Labeling: A TAMP's platform can be branded to identify with the wealth advisor's firm as opposed to the actual developer or provider of the technology or system.

Proposal Generation: Either a process or onboarding step wherein the advisor presents the client with an appropriate asset allocation model or investment policy statement, customized to their specific situation, in order to get the prospect to make a decision to become a client of the firm.

Rebalancing: The rebalancing of an investment portfolio is the action of bringing a portfolio that has deviated away from its target asset allocation back into line. Now underweighted securities can be purchased with sales of the now overweighted securities. Rebalancing can be automated on the investment platform at either the account level or across all the advisor's accounts. Advisors and firms must select the time period at which rebalancing will be done. Some firms conduct rebalancing manually to ensure no unwanted or de minimus trades. Recent scholarly papers have discounted the benefits of rebalancing portfolios, instead showing that rebalancing can lead to lower returns over time.

Reporting: Stating the results of clients' investment portfolios is one of the most important aspects in attraction and retention of clients. Good reporting systems and capabilities help in client understanding of the value added by their advisor, no matter the actual underlying performance of specific investments. Reporting may be conducted at the account level, at the sleeve level or at the household level.

- Best reporting practices require Attribution Reporting where results are compared to a benchmark, and the asset manager's performance can be adjusted for general market gains, risk and style drift in order that the client can ascertain the exact value-added of each manager.

Separately Managed Account (SMA): A portfolio of individual securities managed by a single asset manager matching some aspect of the client asset allocation strategy and offered to the investor by a sponsoring firm. A fee-based SMA program utilizes multiple SMAs. A single SMA can also form a single sleeve within a UMA structure. SMAs also differ from mutual funds because the investor directly owns the securities instead of owning a share in a pool of securities.

Sleeves: Each portion of clients' total portfolio managed by a single asset manager is considered a "sleeve" on the UMA platform, and each sleeve fulfills some part of the asset allocation selection. Sleeves may be created for each asset class (whether traded, as with ETFs, or non-traded, as with real estate or alternative investments), individual investment manager, asset type (e.g., mutual funds or SMAs), model or investment strategy.

- Rep-as-Advisor Sleeves are specific sleeves put together by the investment advisors themselves to conduct a specific strategy of their own design.

TAMP: Turnkey Asset Management Programs (TAMPs) provide outsourced investment selection and management, allowing the wealth advisor to off-load time-consuming back-office functions, such as research, manager due diligence, portfolio construction, rebalancing, reconciliation, performance attribution, tax optimization and reporting, in order to focus more on gathering assets, acquiring new clients and servicing existing accounts.

Unified Managed Account (UMA): A single fee-based account that houses numerous investment products to fulfill the client's asset allocation strategy within multiple separate account sleeves. Management between sleeves is determined by the overlay process to gain tax and trading efficiencies. This requires the wealth advisor to manage the client relationship on a platform optimized for UMAs. A UMA is usually conceived as having a single custodian, though some platforms do aggregate across multiple custodians.

Unified Managed Household (UMH): A UMA-like relationship taken to the next level by bringing together all aspects of a client household's wealth, not just the wealth of the separate individuals. UMH platforms enable program sponsors to take a holistic approach to their investors' total portfolio, and apply a range of solutions that treat the client's wealth in a manner similar to how clients think about their personal wealth. Assets to be managed include qualified and non-qualified accounts, as well as real estate, collectibles, oil and gas properties, limited partnerships and managed futures accounts. A UMH has a single registration, and can aggregate across multiple custodians. Many advisors consider the UMH to be the ultimate advancement in the managed-account space.

TownSquare Capital, LLC • 5314 River Run Dr., Suite 300, Provo, UT 84604 • www.townsquarecapital.com

TownSquare is an independent, outsourced CIO / Investment Team for family offices, wealth advisors, corporations, governments, and foundations.

Powerful and Flexible Suite of Services

- Full spectrum of investment management and back-office services including:
  - Money manager vetting and ongoing evaluation
  - Portfolio construction, monitoring, and re-balancing
  - Prospective client portfolio audits via our proprietary program
  - Case design, proposals and point-of-sale presentation
  - Full-service trading desk including tax-optimization services and strategies
  - Back-office services including fee-billing, reporting and compliance functions
- Our services are offered either a-la-carte or as a turnkey investment and operations team.

Experienced Team / Institutional Knowledge

- Investment committee professionals average 25 years asset management and capital markets experience at top Wall Street firms.
- Current and past clients include Fortune 500 companies, governments, banks, foundations, endowments, and high-net-worth families.

Investments Built for Performance and Understanding

- We add alpha with a fundamental, bottoms-up investment process and engage the industry's best institutional money managers.
- We strive for 100% cost and investment transparency.
- Our process allows clients to understand and have confidence in the high-quality assets they own.
- We keep costs as low as possible while optimizing for tax efficiency.

Best of Breed Money Managers

TownSquare arms its advisors and clients with a focused platform of best-of-breed investment strategies. Every investment strategy passes a rigorous due diligence process and strict set of criteria prior to approval including:

- A 10-year minimum track record
- Semi-concentrated portfolios with high active-share
- Tax-friendly management (lower excess trading and turnover)

New business contact:
Michael Folker
Phone: (385) 375-8619
E-mail: michael.folker@townsquarecapital.com

Brand of program: TownSquare Capital
Type of program: TAMP; Sub-Advisory
Total assets in program: $1.1 billion
Year program began: 2017
Managers on platform vetted: Yes
Managers GIPS compliant: Most
Type of products available: SMAs
Program uses platform to track reporting of client holdings: Yes
Program is compatible for: Independent RIAs, Independent Wealth Advisors, Institutions, Family Offices
Program optimizes for tax and trading efficiency: Yes
Sleeve-level reporting: Yes
Program links to a trade execution or order management system: Yes
Program links to a trust accounting system: Yes
Private branding or white labeling possible: Yes
Proposal generator: Yes
Generates investment policy statements: No
Asset allocation methodologies: Institutional Style Management via SMAs; Low-Cost ETF Asset Allocation
Rebalancing: Yes
Aggregation of held-away accounts: No
Custodians supported: TD Ameritrade Institutional; Charles Schwab
Marketing support: Hands-on training, proposal generation, point-of-sale

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