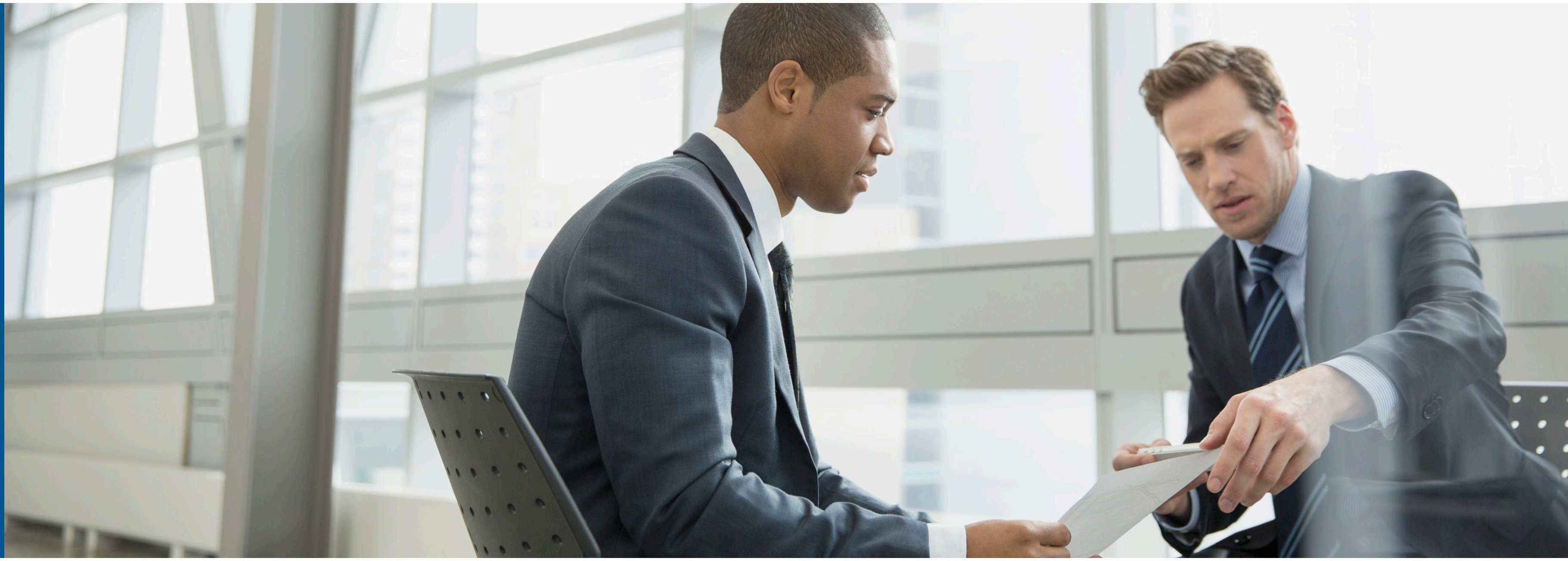
Broadridge

Distribution in a model-driven age

New survey reveals why financial advisors use model portfolios — and the implications for asset managers.



Ready for Next

EXECUTIVE SUMMARY

Model portfolios continue to shape the distribution landscape.

As centralized research groups increasingly select funds for model portfolios, asset managers are shifting focus to a smaller audience of professional buyers at the home office. But asset managers can't lose sight of financial advisors.

One of the strongest forces currently reshaping the financial product distribution landscape is the increased usage of model portfolios. Understanding the forces that drive model adoption has profound implications for distribution strategies and resulting profitability.

This study provides insight into how and why financial advisors (FAs) use model portfolios. We found that asset manager resources are broadly relied upon to shape portfolios that are constructed and managed in-house. Moving forward, asset managers looking to capture model-driven fund and ETF assets will need to strengthen FA messaging, education and ongoing support.

Discover how asset managers can capitalize on this unfolding opportunity.

THE RESEARCH

Broadridge conducted a survey of 500 financial advisors with at least $10M AUM, revealing:

- Why advisors choose model portfolios
- Whether and to what extent model portfolio use will grow
- How client AUM affects model portfolio use
- How models impact relationships between asset managers and advisors

This survey is one component of a more comprehensive study that also includes proprietary model distribution data and interviews with distribution heads. The full report will be available this summer.

Model portfolios are not merely a trend—they've become industry standard. Here's why:

- Home offices can exert greater control over investment processes, helping to boost portfolio performance and improve asset retention.
- Investors can access superior investment management at a comparatively lower cost.
- Advisors can offload day-to-day asset management responsibility to focus on strengthening relationships and growing their business.

By the numbers:

$1T AUM IN MODELS

10K+ DIFFERENT MODELS IN THE MARKET

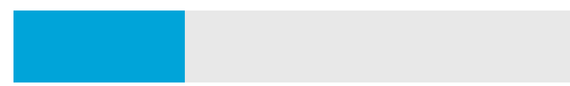
MODELS ARE FUELING OVERALL ETF GROWTH.

CAGR RETAIL 2016–2018

CAGR MODELS 2016–2018

Broadridge's unique vantage at the center of the financial services industry enables unmatched insight into mutual fund and ETF flows. Combined with our machine-learning algorithms, we provide visibility into $1T in model portfolio activity with segmentation down to the office level.

ETFs:



30% OF RETAIL CHANNEL ASSETS

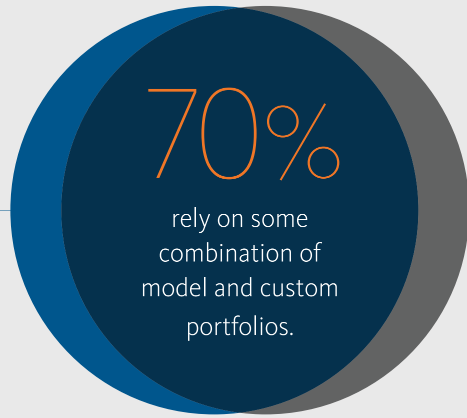
42% OF MODEL ASSETS

(vs mutual funds 2018)

Most FAs employ a combination of custom and model portfolios.

15%

rely exclusively on model portfolios.



15%

rely exclusively on custom portfolios.

Note: Venn diagram is a visual approximation, not mathematically derived.

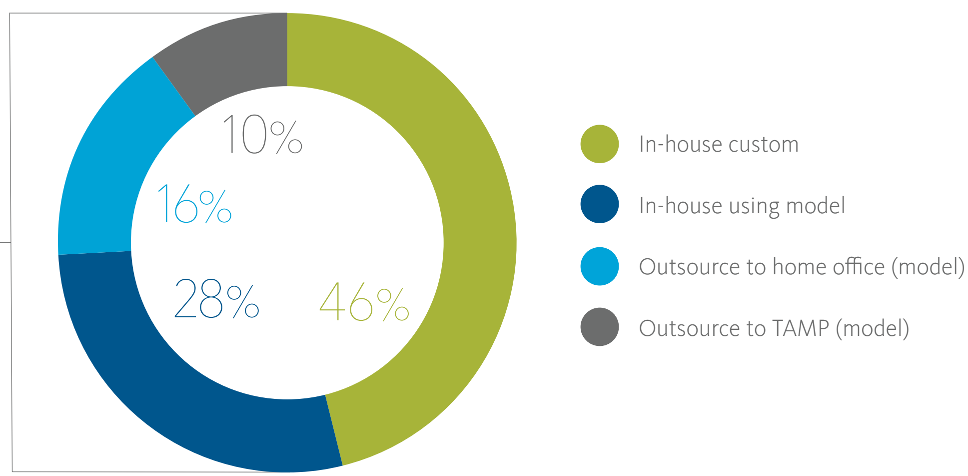
FAs can build each client portfolio from scratch or take a more standardized approach. Some use new technologies to run their own models, while others rely on broker-dealer programs (e.g. rep-as-portfolio manager) or outsource to a third party.

More than half of advised assets are in model portfolios.

DISTRIBUTION OF INDUSTRY ASSETS

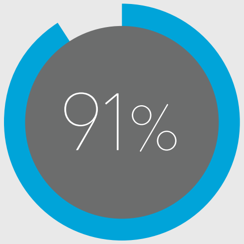
54%

In models

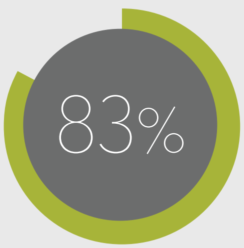


62% of advisors outsource model portfolios to the home office or turnkey asset management programs (TAMPs).

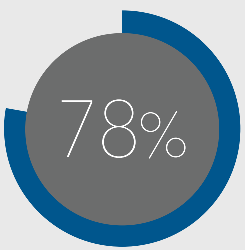
Advisors say model portfolios enable more efficient business growth.



"allows more time to spend on client-facing activities"



"allows more time for financial planning"

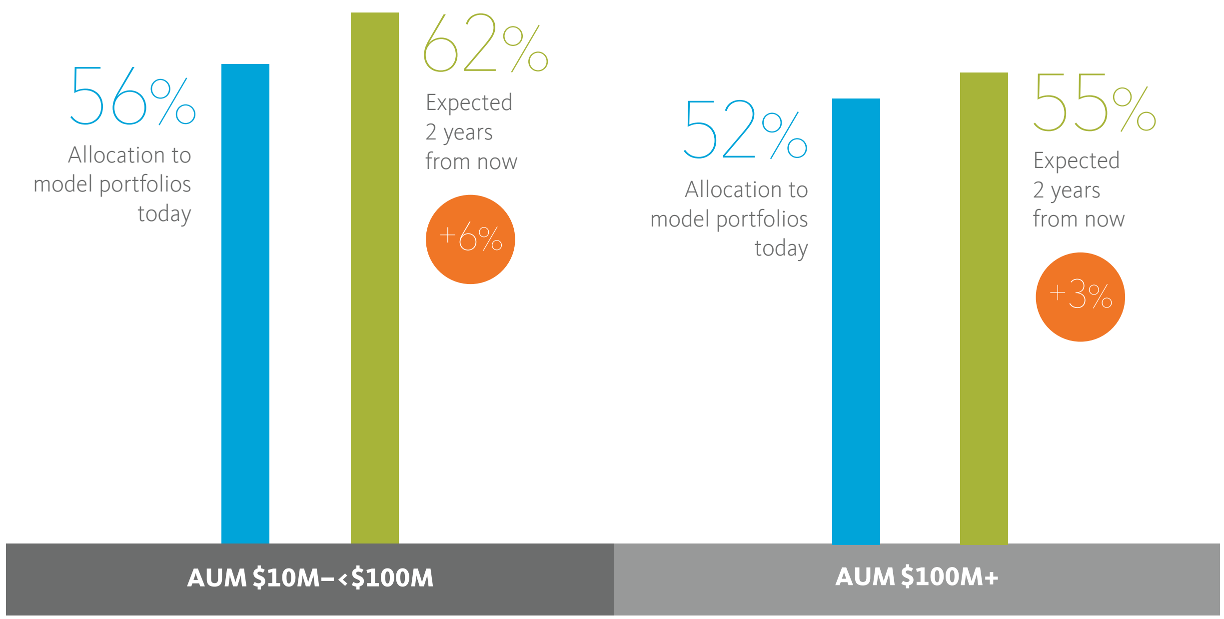


"clients care more about planning, service and support than outperforming the market"

Top 5 reasons advisors cite for using models.

1. Business scalability
2. Ability to leverage investment management expertise
3. Focus efforts on client acquisition/ retention
4. Better address compliance/ regulations
5. More stringent manager due diligence

In the next two years the use of models is expected to rise faster among advisors with lower AUM.



It's not easy for advisors to balance business development with portfolio management. Rather than analyzing every position, a growing number of advisors rely on models to manage assets, so they can focus on client building and retention strategies.

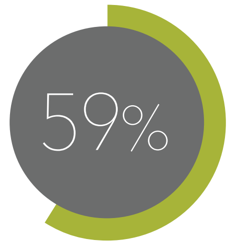
Advisors who employ model portfolios are overwhelmingly satisfied with this approach.

PERCENTAGE AGREE WITH THE STATEMENT

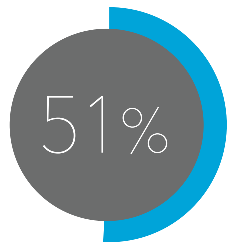
93% I am happy with my decision to use models.

91% Models have allowed me to devote more time to client-facing challenges.

Why do some advisors prefer custom portfolios as their business model?



"managing money is part of my value-add with clients"



"clients are paying for customized solutions"

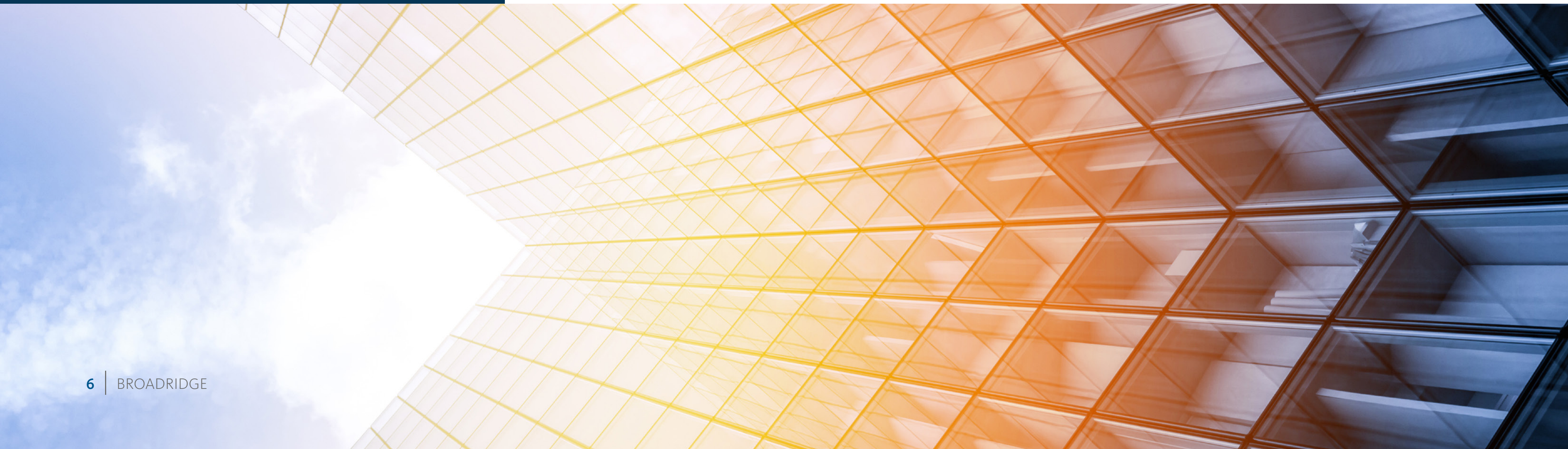
Models are the preferred approach for clients with lower AUM.

PERCENTAGE WHO VIEW MODEL PORTFOLIOS AS PREFERRED APPROACH FOR MOST CLIENTS — BY CLIENT ASSET SIZE

Under $500K	73%
$500K-$999K	46%
$1M+	31%

Base: Use model portfolios

Asset managers should consider creating more sophisticated models that may attract higher-end investors.

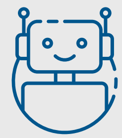


Technology is making it easier to leverage models in-house, but FAs express reservations because of potentially negative investor perceptions.

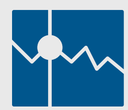
Concerns with model usage

PERCENTAGE STRONGLY / SOMEWHAT AGREE WITH EACH STATEMENT

51% Use of model portfolios makes it harder for advisors to differentiate from self-serve and robo-advisory options.



46% Model portfolios are not as effective in down markets or highly volatile markets.



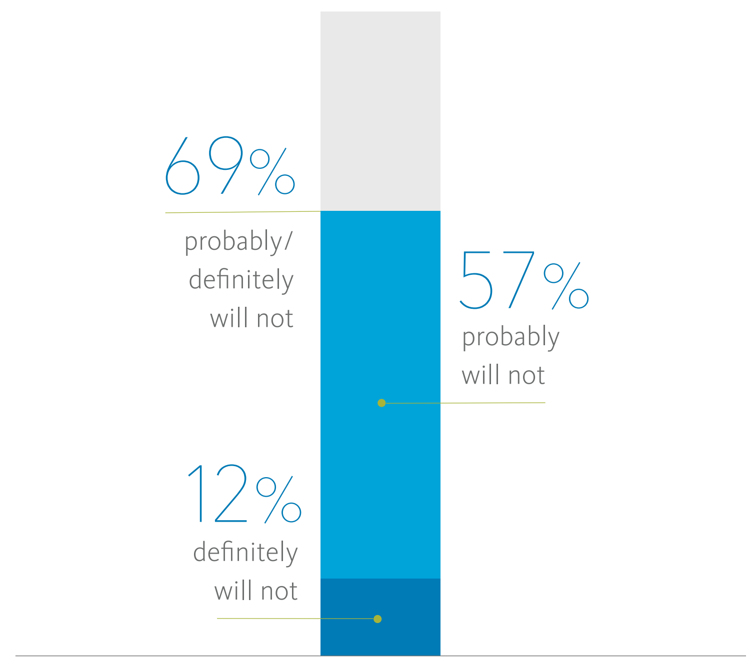
45% It's harder to assess risk with model portfolios compared to custom portfolios.

35% I fear clients will think I am lazy for using model portfolios.

Base: Total Respondents

Most advisors who exclusively employ custom portfolios say they're unlikely to adopt model portfolios in the next two years.

OVER THE NEXT TWO YEARS:

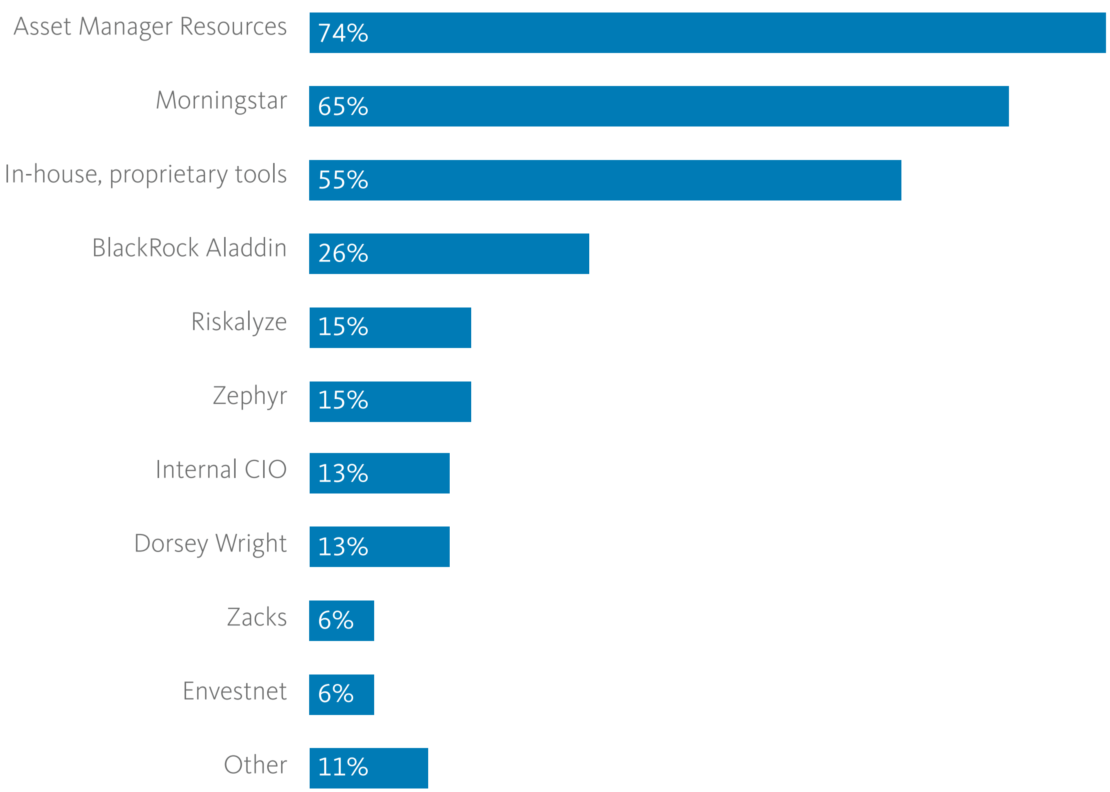


"There's an opportunity for asset managers to help FAs navigate the middle ground between no input and active input in portfolio construction."

—MATT SCHIFFMAN
PRINCIPAL—DISTRIBUTION INSIGHT
BROADRIDGE FINANCIAL

Advisors say asset managers are their #1 resource when building model portfolios in-house.

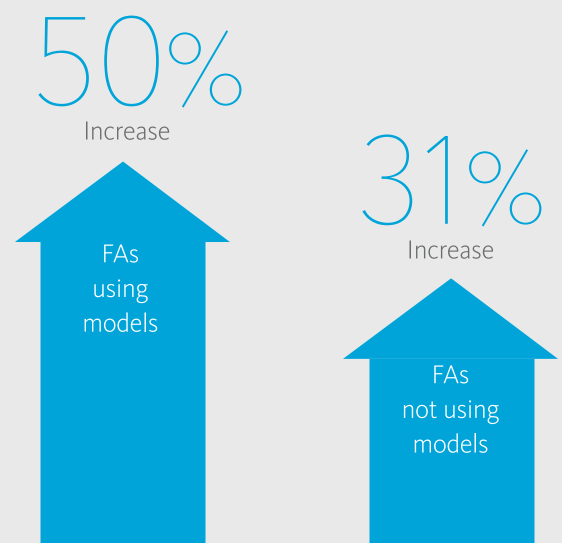
RELIANCE ON ASSET MANAGERS FOR INVESTMENT MANAGEMENT SUPPORT (PAST THREE YEARS)

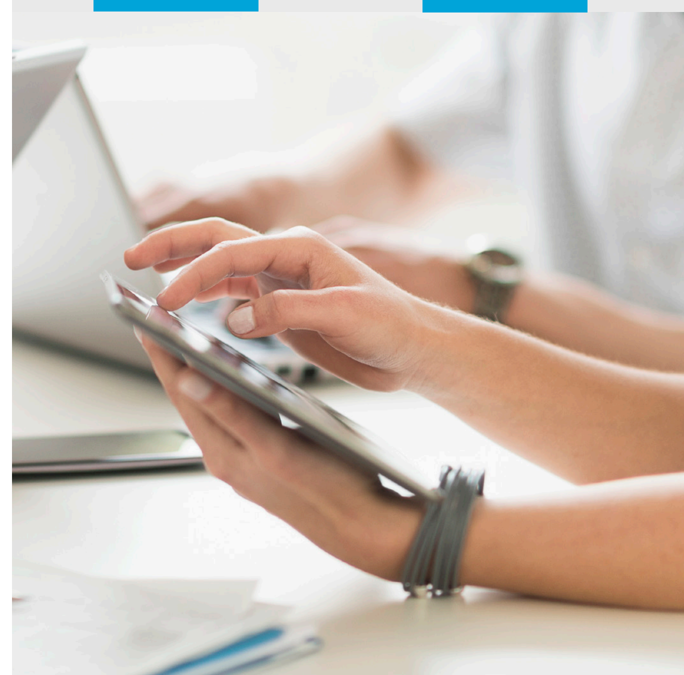


"Capitalizing on this growing opportunity will require asset managers to rethink their coverage model by executing better prospect segmentation and increasing portfolio specialist support."

—ANDREW GUILLETTE
SENIOR DIRECTOR—DISTRIBUTION INSIGHT
BROADRIDGE FINANCIAL

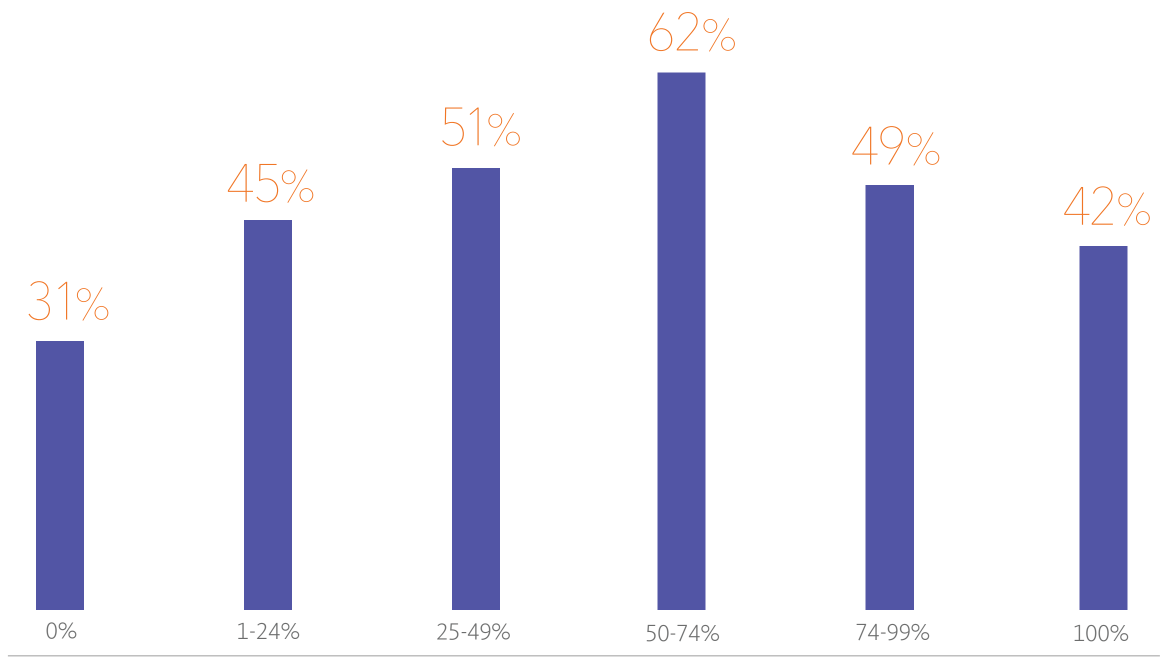
In the past three years, reliance on asset manager support has grown faster among advisors who employ model portfolios.





The greatest increase in reliance on asset manager support is seen among advisors who use an even blend of custom and model portfolios.

PERCENTAGE INCREASED SIGNIFICANTLY / SOMEWHAT (BY % OF ASSETS IN MODEL PORTFOLIOS)



Asset managers should work to optimize their website to deliver better content and tools for advisors using models. Websites are not merely digital brochures. They're vehicles to facilitate education, strengthen relationships and support investment solutions.

Top five most helpful asset manager resources.

1 Website resources

2 Internal /external wholesalers

3 Investment guidance from portfolio specialists

4 Email correspondence

5 White papers

Distribution Insight

Navigate complex markets with confidence.

Broadridge Distribution Insight delivers the analytics and strategic expertise asset managers need to stay in front of fast-moving trends and make more informed, confident decisions. Track asset flows, measure market share, identify opportunities and benchmark sales performance across U.S. and global markets. Partnering side-by-side, we'll help create a distribution strategy to execute on every opportunity.

Want more? Look for our full report this summer or contact matthew.schiffman@broadridge.com.

THE COMPLETE PICTURE, DELIVERED.

$60T
assets tracked globally

$13T
U.S. fund and ETF assets by distributor and office

80K
funds tracked globally

$1T
model portfolio activity, segmented to office level

STUDY METHODOLOGY

500 financial advisors who met the following criteria:

- Work in Wire, Regional, IBD or RIA channel
- $10M+ AUM
- 25% of AUM is in mutual funds and/or ETFs
- 50% of assets with individual retail investors
- 25% of AUM in fee-based advisory

PROFILE RESPONDENTS

Channel	AUM (Millions)
Wirehouse: 44%	$10–$50: 18%
IBD: 31%	$50–$100: 22%
RIA: 16%	$100–$200: 24%
Regional: 9%	$200+: 36%

Average % fee-based: 74%
Average % of AUM in MFs and ETFs: 73%
Practice structure: Solo 37% • Group 63%
Average age: 47 years
Average industry tenure: 18 years

Credentials
CFP: 36%
CFA: 5%
CIMA: 4%

FIELD PERIOD MARCH 21 THROUGH APRIL 5, 2019

Broadridge, a global Fintech leader with over $4 billion in revenues and part of the S&P 500® Index, provides communications, technology, data and analytics. We help drive business transformation for our clients with solutions for enriching client engagement, navigating risk, optimizing efficiency and generating revenue growth.

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