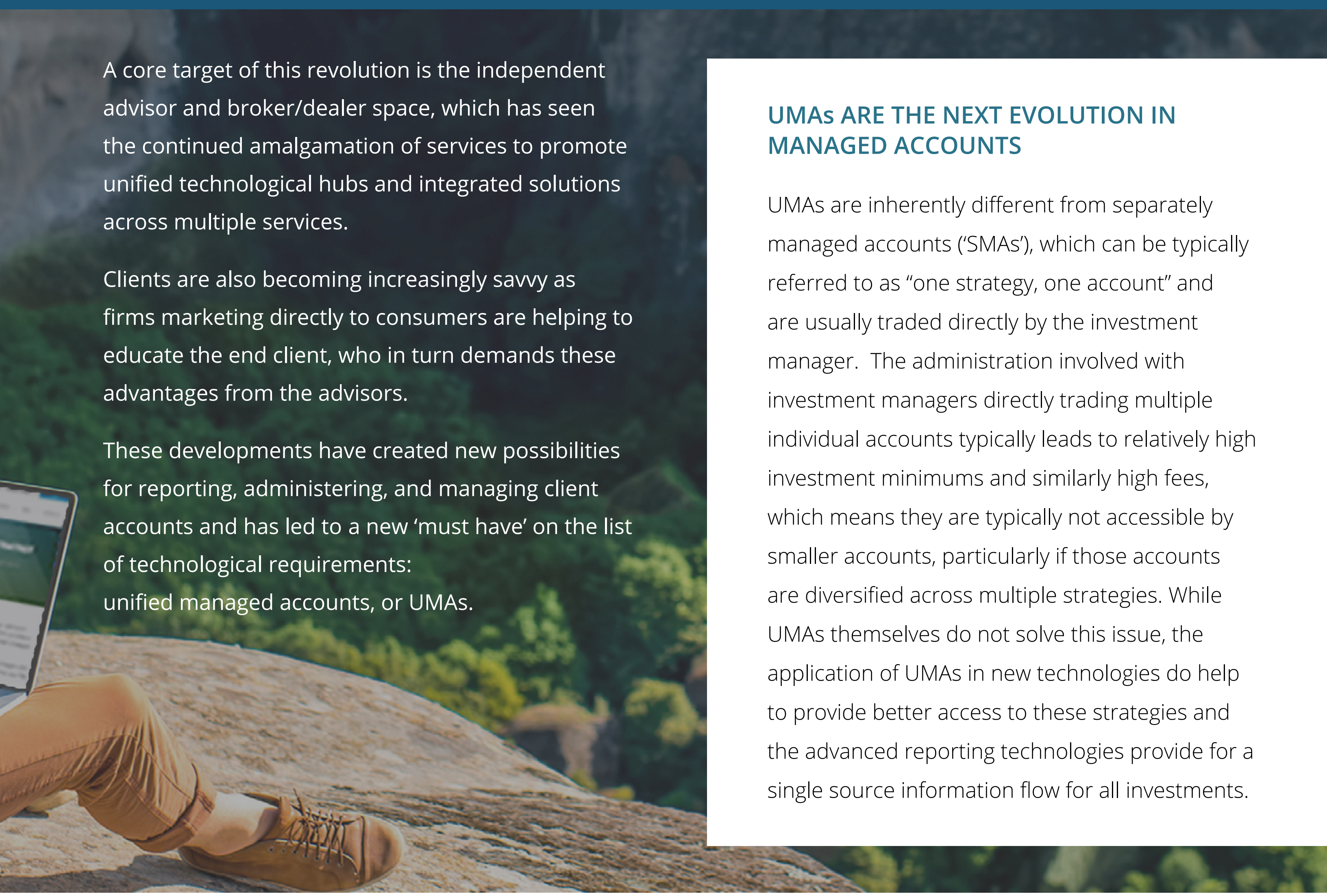
How the UMA
is Changing the Advisory Space

Technology continues to advance multiple segments of the financial industry into a more efficient and user friendly experience.



A core target of this revolution is the independent advisor and broker/dealer space, which has seen the continued amalgamation of services to promote unified technological hubs and integrated solutions across multiple services.

Clients are also becoming increasingly savvy as firms marketing directly to consumers are helping to educate the end client, who in turn demands these advantages from the advisors.

These developments have created new possibilities for reporting, administering, and managing client accounts and has led to a new 'must have' on the list of technological requirements:
unified managed accounts, or UMAs.

UMAs ARE THE NEXT EVOLUTION IN MANAGED ACCOUNTS

UMAs are inherently different from separately managed accounts ('SMAs'), which can be typically referred to as "one strategy, one account" and are usually traded directly by the investment manager. The administration involved with investment managers directly trading multiple individual accounts typically leads to relatively high investment minimums and similarly high fees, which means they are typically not accessible by smaller accounts, particularly if those accounts are diversified across multiple strategies. While UMAs themselves do not solve this issue, the application of UMAs in new technologies do help to provide better access to these strategies and the advanced reporting technologies provide for a single source information flow for all investments.

HOW IS YOUR UMA SLEEVED?

A key construct of the UMA is the idea of "multiple strategies, one account". The idea can be further expanded to encompass multiple kinds of strategies including in-house asset allocations, model delivery strategies, or simply just individual securities. Each element within the account is segregated into 'sleeves', which acts as a virtual account within the UMA and houses all the securities related to any given investment strategy.

> Sleeves enable the investor to understand the performance of that individual strategy or group of holdings, despite it being held in the same account as other strategies and does not incur any additional costs or burdens on the investor.

A fundamental and very important aspect to this 'sleeving' is the UMA operator's ability to actually manage the sleeves by keeping the book of record at the sleeve level. This is different to having securities in a single account and a reporting program trying to break them out. A true UMA provider will maintain the sleeves within the account in this way to provide accurate sleeve-level reporting. This method of sleeving also provides for multiple advantages across key elements of an advisory business:

TAXES

Using broker lot optimization, you can have tax efficient trading across strategies that is not possible with various separate accounts or with tax lot tagged sleeves.

PERFORMANCE REPORTING

This sleeving methodology provides manager-specific performance attribution in the context of the whole account, so you know what is working for your clients, and what is not.

ALLOCATION & DRIFT CORRECTION

Drift is managed at the sleeve level and sleeves are brought back into line for individual model strategies with no crossover to other sleeves within the account. Otherwise, drift is managed at the account level and a change to any strategy allocation will cause rebalances to the rest of the account.

FEES

Without this type of sleeve-level technology fees are estimated based on theoretical or static weights instead of accurately calculating fees based on actual sleeve values.

THE BENEFITS

The key benefit to UMA is the idea that multiple strategies can be managed within a single account. This equates to **1) reduction of administrative/operational burdens, 2) potential for lower expenses, and 3) single source information flow**. Each of these elements in and of themselves equate to a better user experience but, combined in a single solution, they are a giant leap for investment advisors. Let's take each of these elements one at a time:

REDUCTION OF ADMINISTRATIVE/ OPERATIONAL BURDENS

UMAs provide the flexibility to house multiple investment elements in a single account. This means advisors are able to choose the custodian that is best for them and not have to open relationships with multiple firms to facilitate an advisor's business operations.

Larger clients could have 5, 10, even 20 different strategies comprising their portfolios. Instead of opening 20 different accounts, all strategies are able to be run through one account.

The use of UMA leads to lower investment minimums as the managers seek scale by being included in as many accounts as possible vs the old mantra of only opening and running an account if it was worth it i.e. high minimums.

UMAs, particularly when administered through a platform such as a TAMP, eliminates the need for advisors to find a manager and establish a dual contract relationship, and eliminates the additional burden on a manager to add another account to their trade rotation.

LOWER EXPENSES ARE BETTER FOR YOUR CLIENTS

Multiple strategies run through single accounts are typically administered via model delivery, where the investment manager discloses the current portfolio and a third party trades the strategy in the account (usually the job of a TAMP or similar platform technology). Due to the reduced burden on the manager and the elimination of the need to set up a specific account, the fees associated with the strategy have shown to be much lower.

The elimination of the need for multiple accounts equates to lower administrative burdens, as well as lower costs associated with the operation of a growing advisory business.

The use of a third-party platform reduces the costs associated with handling trading, reconciliation, breaks, and other trade related issues.

SINGLE SOURCE INFORMATION FLOW

Single accounts provide consolidated information flow, especially if the UMA provider is a TAMP or similar investment platform

Single source also provides a more holistic view of client exposures to various aspects of the market and enables advisors to better manage client accounts to their specific risk/reward objectives

Better information flow leads to better decisions and better service for your clients.

While UMAs in and of themselves create a better solution to accomplishing the same goal that the creation of multiple SMAs attempts to do, UMAs also facilitate the next stage in advisor oversight of client accounts, called Unified Managed Households. This function is typically performed by a reporting tool, such as SS&C Advent's Black Diamond product, and brings together the accounts of all entities under a single client relationship. This can include qualified and non-qualified brokerage accounts, private placements, direct real estate investments, CITs, and other investment structures.

SMArtX ADVISORY SOLUTIONS

Technology is constantly changing the way we live our lives. Innovation in the advisory space is no different as technology streamlines the investment management process and operational administration of client accounts.

New ideas and tools are helping time be salvaged, money saved, headaches avoided, **and the generally better experience for both advisors and clients is shaping a new paradigm** that will clearly define a demarcation between the advisor of yesterday vs the advisor of tomorrow.

READY TO CHECK OUT THE UMA SOLUTION?

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