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Hundreds of Model SMAs Debut on RIA Platform

By Tom Stabile September 15, 2010

A new unified managed account program appears to be the first in the marketplace to include a wide menu of dual-contract separately managed account products – a potentially big contributor to expanding SMA use by independent advisors. It's a development that could be as important to asset managers as it is to advsiors.

TD Ameritrade Institutional is rolling out its new Unified Managed Account Exchange platform to its independent registered investment advisors (RIAs), offering them several hundred SMAs among thousands of products including mutual funds, exchange-traded funds, exchange-traded notes, alternative-style strategies and other options.

"It's available now," says **Matt Judge**, director of product management for the TD unit. "We already reached out to the users of our current UMA to let them know."

The platform, built by **Placemark Investments**, could encourage more advisor adoption and greater manager participation in UMAs, which consolidate multiple types of investments – such as SMAs and mutual funds – in a single client account. UMAs also often feature an overlay management process that customizes portfolios for tax optimization and client investing preferences. They do so by asking SMA managers to submit their strategy moves in a "model portfolio" to the platform sponsor for it to conduct the account transactions, instead of the traditional SMA format where individual managers handle most of the trading in their respective client accounts.

The new TD platform will expand the model portfolio and UMA formats further into the independent space than most firms have gone. But a potentially more significant aspect is how this new platform is streamlining the "dual contract" format that dominates SMA distribution in the independent advisor world.

The bulk of the SMA business, particularly at the wirehouses, traditionally has run through "single-contract" platforms in which the money manager contracts with program sponsors to make its products available to advisors and their clients. Sponsors typically populate those platforms with SMA managers that have passed a due diligence review.

Dual-contract platforms, on the other hand, involve direct contracts between the client and a money manager, with the sponsor as facilitator. While managers usually don't have to pass a due diligence review for these platforms, they often face a heavier – and virtually manual – operational burden to monitor many individual client accounts. RIA custodians tend to operate huge-dual contract platforms.

The TD-Placemark program appears to make a leap because it incorporates a big roster of dual contract SMAs within a UMA. Many first-generation UMA programs have had thin SMA product menus to date for a variety of reasons, especially managers' unwillingness to submit model portfolios.

"For us, dual-contract SMA is a business that has been pretty clunky and cumbersome," says **Lee Chertavian**, Placemark's president and CEO. "This helps to rationalize the dual-contract business."

It's notable that the program is launching at TD, which has about 4,000 RIAs on its platform with about $100 billion in combined assets. It trails its custodial business competitors at **Charles Schwab** and **Fidelity Investments** in total assets, generally because its RIAs have historically had smaller books of business. But this program could give it a huge boost in recruiting breakaway advisors from the wirehouses, says **Chris Winn**, managing principal of **Advisor Assist**, a consultant aiding advisors in that very endeavor.

"This could be a recruiting differentiator for TD," he adds. "Schwab has a very solid SMA program – they've become almost wirehouse-esque in size and offerings. But TD is putting it all in the UMA. It's the next step."

TD's effort has roots going back more than a year, growing from discussions with advisors, says **Scott Egner**, manager at the custodian for managed account solutions. "They wanted the freedom to build portfolios that are suitable for their clients, and that meant help getting to separate account managers that weren't available in [earlier] UMA programs," he adds.

And Egner says he is sensing the new program also is appealing to managers. "We represent both a distribution opportunity to existing RIAs as well as an asset retention strategy for [managers to keep] the assets of breakaway advisors," he says.

SMA managers generally have an easier time distributing through the brokerages where advisors work in branches, because those offer centralized platforms as well as access for wholesalers to large groups of advisors. RIAs, on the other hand, are single shops spread across the country, and many use dual contracts that further disperse distribution efforts. But on the new platform, managers only have to contract and connect operationally through Placemark to get to TD's RIAs.

The platform is debuting with "several hundred" SMA strategies, but Chertavian says the list should double by year's end as more managers go through a relatively quick "onboarding" process.

Managers might find one element of the new platform especially attractive. In most UMA programs where sponsors have taken over handling account transactions, managers must accept a lower fee in basis points. But Egner says TD is offering managers more “latitude” to set rates in the new program and “compete on the merits” of their strategies, though it is encouraging them to also make the products accessible.

TD also expects the new open architecture program to get more traction from RIAs than an existing UMA that offers set portfolios of products selected by a due diligence consultant, though the old one remains available, as do various asset allocation-style portfolios from other providers.

“The goal was to be as flexible as possible to meet the needs of each advisor, and not come in with a predetermined sense of how they should run client money,” Chertavian says.

Egner says the new UMA also makes it easier on breakaway advisors because TD can quickly add managers not currently on its platform.

Chertavian says the new program builds on the overlay management infrastructure Placemark has operated for a decade, but required constructing a workstation for managers to supply models and other information, as well as an upgraded advisor workstation.

TD’s program has various standard UMA features, such as automated tax loss harvesting and account rebalancing. It doesn’t offer fixed income SMAs yet, but Judge says Placemark is working on that aspect.

Advisor Assist’s Winn says he expects other providers to try launching dual-contract SMAs in a UMA program, but he adds that Placemark has a good head start because of its technology foundation.

For his part, Chertavian says while other sponsors have asked about using the new platform, Placemark is first focused on a successful launch with TD.