

# Envestat Report

Asset Management Series

First Quarter 2018



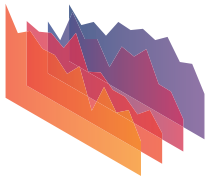
## SMAs: How They're Used and What Types of Managers are Favored

Introducing our new Envestat Asset Management Series—insights, trends, and predictions about advisor behavior and advisory practices.

For our inaugural edition, we offer insights into how advisors are using separately managed accounts (SMAs). We examined all SMA portfolios that are widely available to advisors on Envestnet's platform to answer the following questions:

- **Which style types within the SMA program are used most often by advisors?**
- **What percentage of assets, sales, and flows are in stand-alone SMAs or in sleeves within Unified Managed Accounts (UMAs)?**
- **How does investment style affect the type of manager (traditional vs. boutique) an advisor selects for a particular slice of the asset allocation?**

Using Envestnet Analytics, we ran data for 2016 and 2017 to analyze the trends within Envestnet's SMA program.

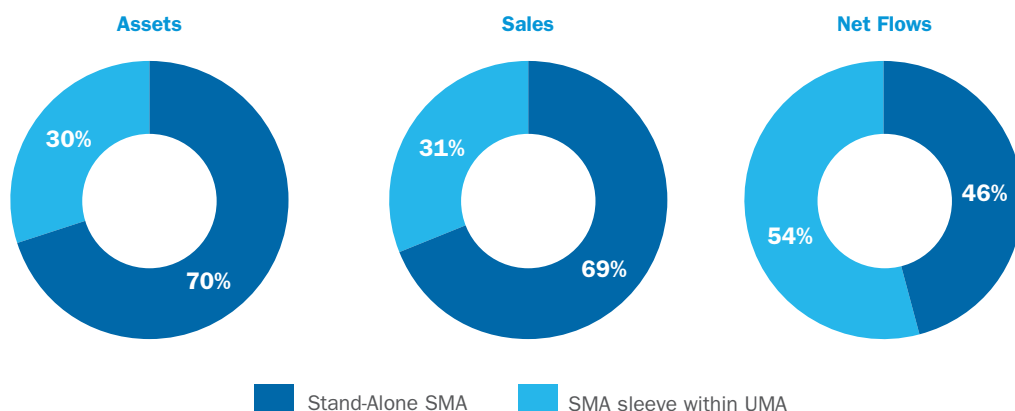


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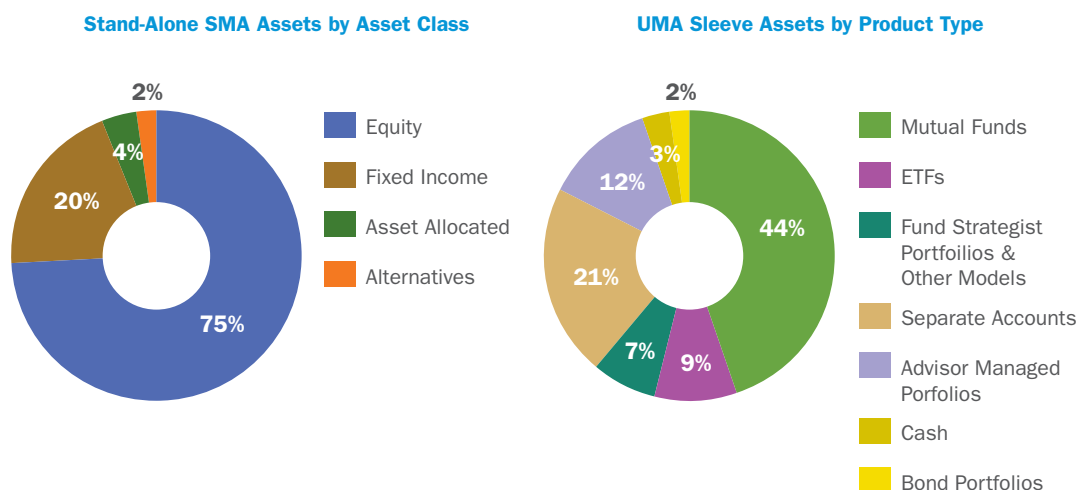


## Investnet Observations

Around 70% of SMA assets and sales were contained within stand-alone SMAs, but more than half of the flows came from SMA sleeves within UMAs.



Three-quarters of stand-alone SMA assets were in equities, and just 20% were in fixed income products. More than half of UMA assets featured mutual funds and ETFs. SMAs represented just 21% of the mix, and advisor-managed portfolios comprised 12%.



Although the asset composition in terms of style type didn't change materially from year to year, the sales activity had some notable shifts.

The top ten investment styles represent the lion's share of SMA assets, sales, and flows. Between 2016 and 2017, SMA investment style composition changed just slightly. The top ten styles in 2017 accounted for 86% of overall assets. The only noteworthy change year over year was Global Equity replacing Short Muni's as the tenth leading style type.

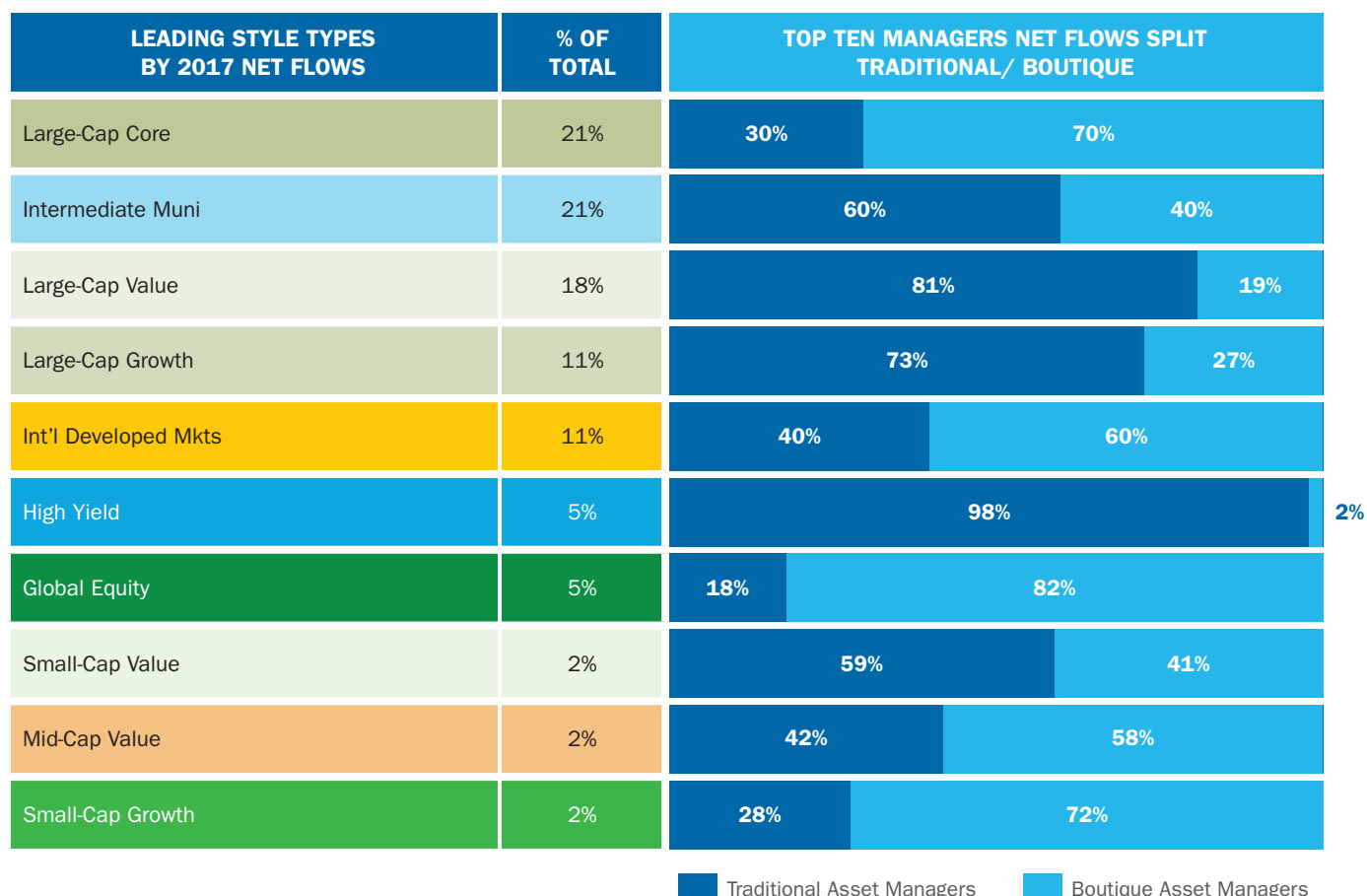


Equities continued to dominate, with seven of the top ten styles belonging to that asset class. In 2017, we were in a risk-on environment; and equities dominated news headlines. As such, advisors gravitated not only to equities but to more risk-oriented investment styles. This is especially evident in flows, where the bottom six investment styles comprised what would be considered “riskier” equity categories.

While asset composition remained steady year to year, we began to see some changes in the underlying style types that were garnering sales and flows. Global equity and high yield were among the top ten style types by sales and represented an even higher share of net flows.

2016 ASSETS BY STYLE	% OF TOTAL	2017 GROSS SALES	% OF TOTAL	2017 NET FLOWS	% OF TOTAL	2017 ASSETS BY STYLE	% OF TOTAL
Large Cap VI	17%	Large Cap VI	17%	Large Cap Core	21%	Large Cap VI	17%
Large Cap Core	14%	Large Cap Core	14%	Interm. Muni	21%	Large Cap Core	16%
Large Cap Gr	13%	Interm. Muni	13%	Large Cap VI	18%	Large Cap Gr	13%
Interm. Muni	9%	Large Cap Gr	11%	Large Cap Gr	11%	Interm. Muni	9%
Int'l Dev. Mkts	8%	Int'l Dev. Mkts	9%	Int'l Dev. Mkts	11%	Int'l Dev. Mkts	9%
All Cap	8%	Interm. Bond	6%	High Yield	5%	All Cap	7%
Interm. Bond	7%	All Cap	5%	Global Eq.	5%	Interm. Bond	6%
Balanced	4%	Balanced	5%	Small Cap VI	2%	Balanced	4%
Small-Cap Core	2%	Global Eq.	3%	Mid-Cap VI	2%	Small Cap Core	2%
Short Muni	2%	High Yield	2%	Small Cap Gr	2%	Global Eq.	2%
<b>Top 10 = 85%</b>		<b>Top 10 = 85%</b>		<b>Top 10 = 99%</b>		<b>Top 10 = 86%</b>	
Asset allocation: 62% Equity, 18% Fixed Income, 4% Balanced		Global Equity & High Yield garnered sales in 2017		Bottom five styles not part of 2016 top 10 assets. Global Equity & High Yield have an even higher share of flows		In 2017 Global Equity assets replacing Short Muni as part of top ten styles. Assets: 66% Equity, 15% Fixed Income, 4% Balanced	

We took a deeper dive into flows to see what types of managers advisors are choosing for each investment style. We found that advisors tend to choose large, traditional asset management firms for styles that are well-researched and broadly covered by analysts in the industry, such as large cap, although some anomalies exist, like large cap core. Advisors are choosing boutique managers for styles that require special expertise (i.e., international equities and small-cap stocks).



In 2017, the top ten investment styles were fairly consistent with 2016; but 2017 was a low volatility year.

**Will 2018 sales and flows be dramatically different given the volatility we're already experiencing this year?**

**Will we see more flows to safer products, specifically fixed income?**

It's too early to tell, but we'll be watching.

#### About Investat

Investat, Investnet's industry analytics engine, delivers regular digests of business intelligence designed to provide context to the decisions that financial advisors and enterprise business owners face every day.

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