ENVESTNET

Envestat Report

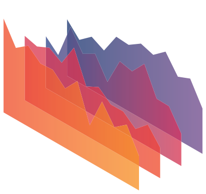
March 2018

Are Fund Strategist Portfolios Changing the Managed Account Landscape?

As noted last year, fund strategist portfolios (FSPs) are growing at a healthy pace. This prompted us to explore whether increased usage of FSP products by advisors on our platform was having a material impact on overall managed account sales, flows, and assets.

In this edition of **Envestat**, we compare 2016 and 2017 data seeking the answers to the following questions:

- **Were there any noteworthy changes to managed account program inflows sufficient to change the composition of assets?**
- **Which product experienced the largest increase in share of inflows?**
- **Which product had the highest inflows and lowest redemptions growth relative to beginning assets?**

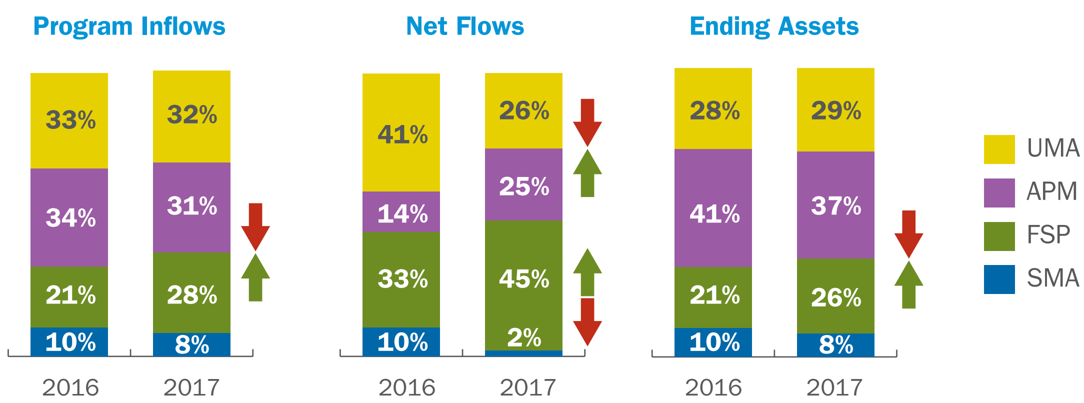


Advisors are the major driver of product purchases—their actions are telling us that FSPs are important to them as products for their clients.

Envestnet's Observations

Our analysis revealed that FSPs increased their share of program inflows materially in 2017.* This was even more pronounced in net flows. Just as strong net flows bumped FSPs' asset share, the inverse occurred in separately managed accounts (SMAs): a diminishing share of sales and flows reduced their asset share. It's worth noting that asset share for FSPs and SMAs is understated because they are not just stand-alone products but feature in unified managed accounts (UMAs) as well.

We saw similar divergences in flows between APM and UMA programs as UMAs' share of flows plummeted while advisor as portfolio manager (APM) share soared. This did not negatively affect UMAs' share of assets, but APM took a share hit, dropping four percentage points. So the battle for platform supremacy between APM and UMA continues.



Comparing year-over-year growth relative to beginning assets showed FSPs had the highest sales growth at 69%, surpassing their strong 2016 performance.*

UMA sales grew a healthy 60% in 2017, but that couldn't compete with 2016's extraordinary performance where sales as a percentage of assets doubled owing to some large conversions.*

SMAs and APM experienced lower—albeit robust—sales growth in 2017 versus 2016.

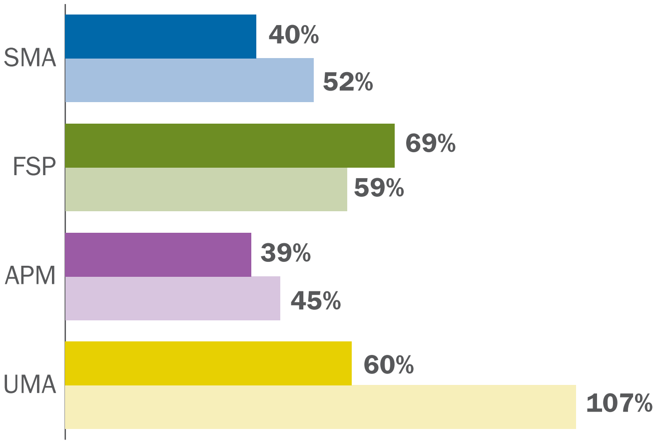
Redemption percentages were significantly lower in 2017 for APM and UMA programs, which helped UMAs retain their market share of assets but didn't have the same benefit for APM. Despite stronger flows and fewer redemptions, APM asset share fell.

Redemption percentages in SMAs and FSPs did not change materially in 2017. Weaker sales and flows cost SMAs asset market share while stronger share of sales and flows carried the day for FSPs.*

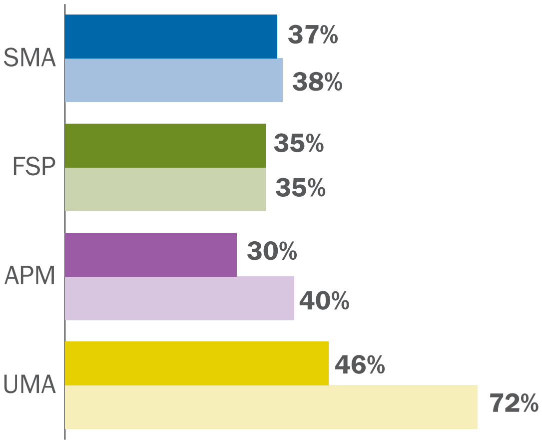
* Note: Large conversions to the Envestnet Platform from new client acquisitions or product shifts can have a material effect on sales trends, which was the case in 2016 for UMAs and in 2017 for FSPs. This is manifested in a product having a higher share of sales or higher growth as a percentage of beginning assets. Numbers aside, this is important information as to how products are trending.

Bottom line, all three components—sales, flows, and redemptions—have the ability to impact year-end assets and product share. Advisors are certainly the major driver of product purchases and have some influence over redemptions too. Their actions are telling us that FSPs are important to them as products for their clients. Perhaps it's the smoother ride they can afford the investor (see Envestat, March 2017).

Sales as a % of Beginning Assets



Redemptions as a % of Beginning Assets



2016: Lighter Shades **2017:** Darker Shades

About Envestat

Envestat, Envestnet'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.

EN-STATREP-0318 / SR #1242545