

Envestat Report



December 2017

Using Fund Strategist Portfolios—The More the Merrier, or the Fewer the Better?

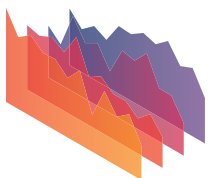
One of the fastest growing product lines in the wealth management industry today is the Fund Strategist Portfolio.

A Fund Strategist Portfolio (FSP) is an asset allocated portfolio consisting primarily of mutual funds and ETFs. These can be used as a core portfolio or as a complement or satellite solution. FSPs typically are segmented according to risk, with asset allocation strategies that extend from capital preservation to aggressive growth.

Given that Envestnet has one of the largest FSP platforms in the industry, we wanted to analyze how advisors are selecting from among the platform's many asset managers to create portfolios for their clients. Additionally, we wanted to examine how many different strategists advisors are using and what the concentration of flows looks like.

In this edition of Envestat, we dug into the data in search of answers to the following questions:

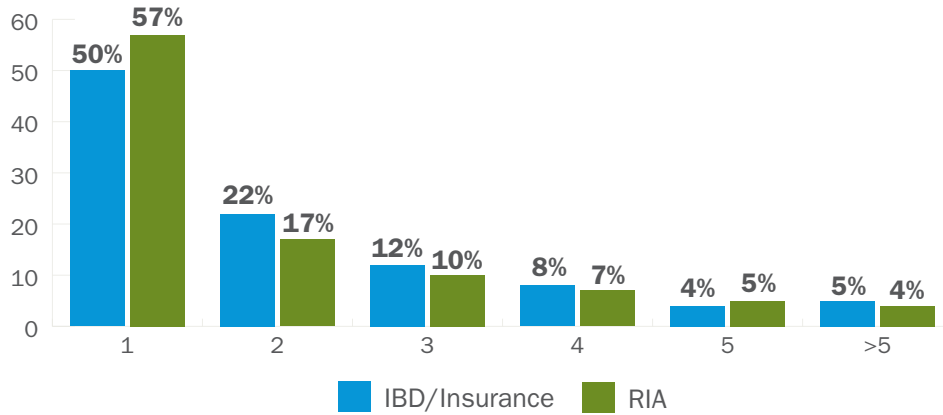
- **How many FSP strategists are advisors using for their clients?**
- **What percentage of flows are these managers receiving?**
- **Are advisors over-allocating to well known managers rather than using lesser known managers and strategies that in fact may be better suited to the needs of their clients?**



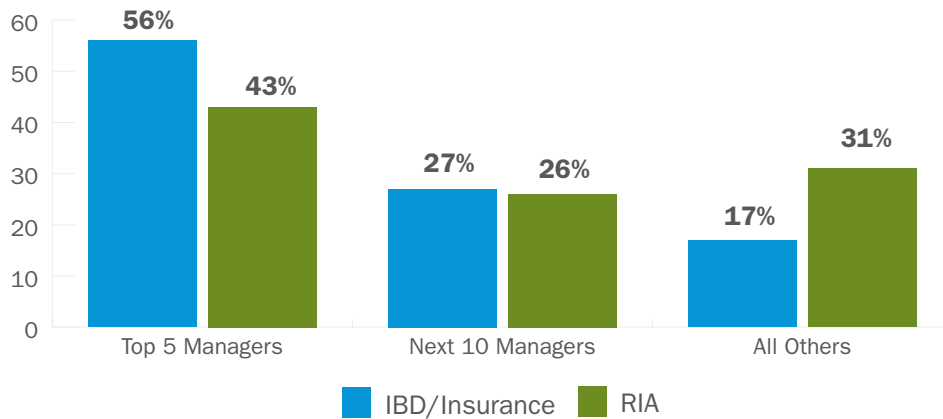
Roundly 100 different strategists were used by 12K advisors on Envestnet's platform.



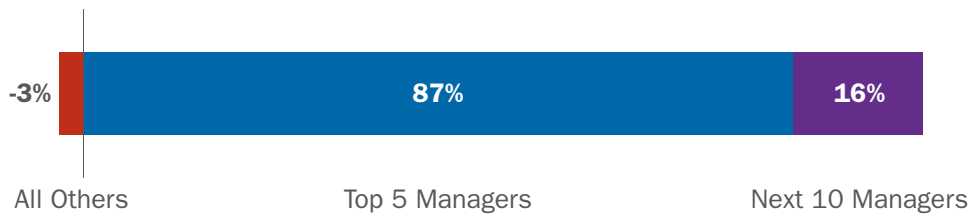
Number of Strategists Used by Advisors—IBD/Insurance vs. RIA Channel



Manager Usage Rate (% of Advisors) Among Advisors Using 1–3 Strategists



Distribution of Flows Among Fund Strategists: All IBD/Ins. & RIA Advisors: YTD 9/30/17



Source: Investnet. Analysis includes all advisors using FSPs (excluding licensing) with assets > \$0 for the IBD/Insurance (no banks) vs. RIA segments. Data represents only fully distributed portfolios. The analysis covered roundly 12,000 advisors and 100 strategists. Population of advisors using 3 strategists or less.



Investnet Observations

Our analysis covered the 12,000 advisors on Investnet's platform who had assets in the fund strategist program as of Q3 2017 and their flows into the program YTD 9/30/17. The data showed that roundly 100 different strategists were used by these advisors.

Having done the analysis, we observed that advisors' penchant for limiting the number of mutual fund companies they use for client portfolios has transitioned over to the FSP arena. Although there are numerous strategist solutions that can address client demands, it seems that advisors are over-concentrated in the well-known names in the industry. Our analysis showed that half the IBD advisor population uses just one strategist, and 84% use no more than three strategists. Even greater concentration exists in the RIA channel.

For that segment of IBD advisors using only one to three strategists, 56% prefer using one of the five major strategists. RIAs, on the other hand, are more inclined to draw upon a larger group of strategists who may be more niche oriented. Although advisors gravitate to just a couple of strategists, there were nevertheless over 100 strategists used by at least one advisor during the year.

In terms of overall net flows into strategist portfolios in the first three quarters of 2017, 87% were allocated to the programs of just five strategist managers.

The findings suggest a few takeaways:

- The FSP world has grown significantly: now many different managers have products that address specific niches. Investnet's platform, for example, partners with 130 strategists, each of whom receives research and due diligence from PMC analysts.
- For this reason, advisors don't need to limit their choices. They could better serve their clients by selecting strategists who are more aligned with client requirements rather than based on familiarity alone.
- More educational content* by PMC seems to be in order regarding the various strategist offerings available and how these can be combined within unified managed accounts (UMAs). For the most part, this is not being done today. Our analysis only reinforced the feedback from a recent PMC survey of advisors where the common response was "I don't know much about FSPs" or "I don't know how to use them in the UMA."
- In short, advisors should consider expanding their horizon beyond the familiar and be open to manager strategies that could be more in sync with their clients' needs.

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.

*For educational assistance and/or for more info about Investnet's FSP offering and strategist choices, contact our PMC Research Team at ResearchTeam@investnet.com or Investnet Regional Sales at RegionalSales@investnet.com.

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