June 15-19, 2015

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NEWSPAPER | VOL.19, NO. 24 |

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Mapping out adviser pay

A list of the nation's 50 largest metro areas and what advisers can expect to get paid there.

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Spotlight

MUTUAL FUNDS: More investor money is going overseas, plus rankings of equity, fixed-income and international funds. **Pages 12-20**

YOU'RE BEING WATCHED

Asset managers are harvesting data to help them market funds better

By Trevor Hunnicutt

PHIL HUBER is being watched, and he knows it.

When the chief investment officer at Huber Financial Advisors gets an email from an asset management company, he hesitates before clicking on any links.

"It's kind of funny. You'll get an email from a fund company, click a link, and you can pretty much guarantee within a day or two you're going to get a phone call from them," said Mr. Huber, whose firm manages $849 million.

Mr. Huber is not alone.

At BlackRock Inc., the world's largest asset manager, advisers are plotted on a graph based on their previous sales history with a

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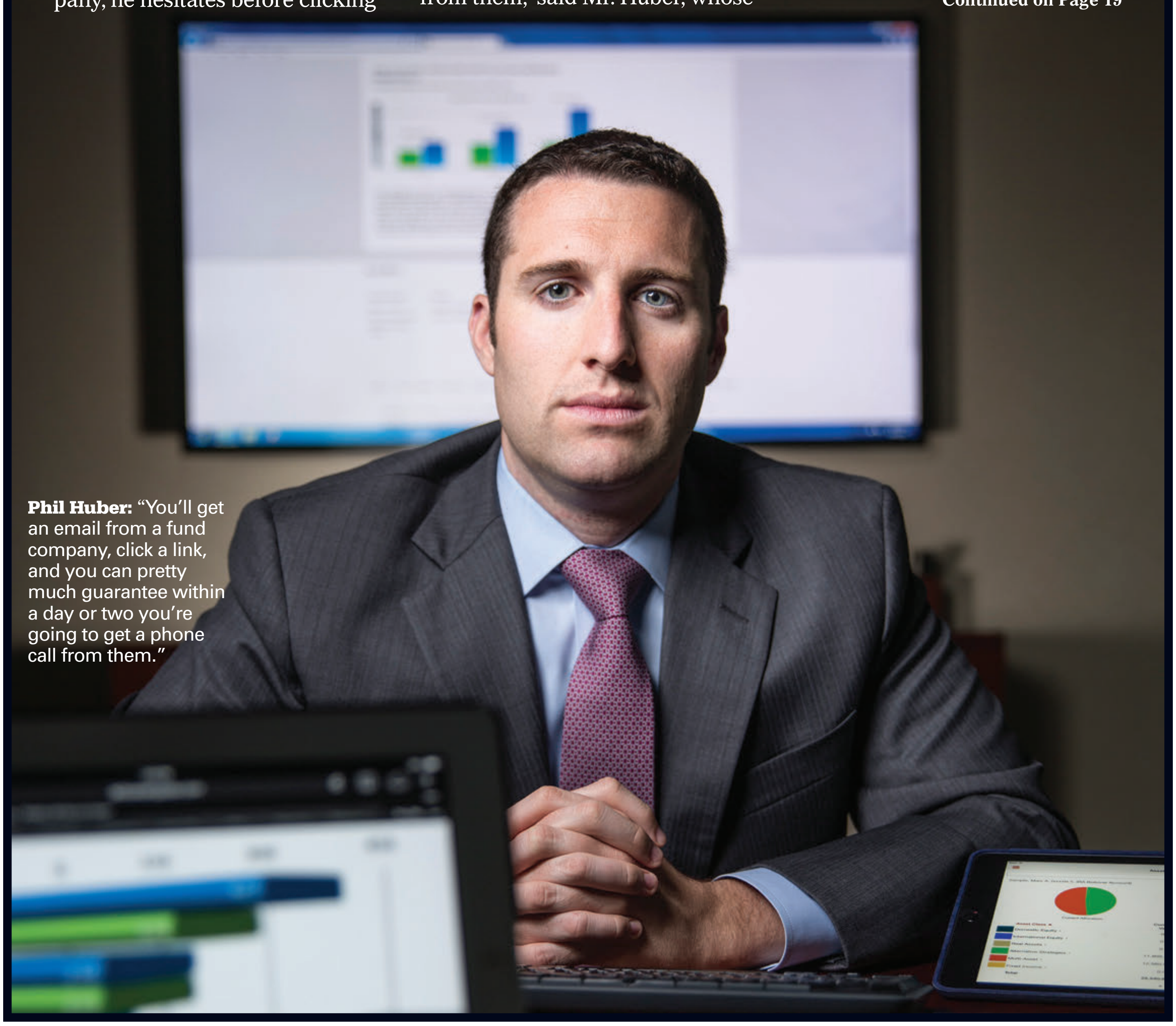

Phil Huber: "You'll get an email from a fund company, click a link, and you can pretty much guarantee within a day or two you're going to get a phone call from them."

TODD WINTERS

RIAs selling securities-backed loans

As custodians seek a bigger share of market, questions raised over adviser conflicts

By Mason Braswell

Traditionally a major focus at wirehouses, securities-backed loans are increasingly being marketed through independent registered investment advisers, raising concerns over conflicts of interest.

In the past two years, securities-backed loans — so-called because an investor puts up the assets in their portfolio as collateral — has soared as custodians beef up their lending capabilities. Pershing Advisor Solutions, a subsidiary of The Bank of New York Mellon Corp., began offering the loans to RIAs last year and has already issued 254 of them worth $1 billion through more than 20% of its 570 RIA clients. Fidelity Investments, which serves about 3,000 RIAs, has seen balances for securities-backed loans increase 63% in its RIA segment over the past two years.

> "WHEN PEOPLE start borrowing money against their assets, they're really confident that they're going up. And investors are always one step behind."
>
> **Tim Welsh**
> President
> Nexus Strategy

"Nonpurpose loans have gotten more attention over the last year-plus with the custodians," said John Sullivan, a former lending specialist at Smith Barney who is now a relationship manager at Dynasty Financial Partners. "Every effort is being made by firms like Dynasty and the various custodians that are out there to be able to replicate or in some cases exceed the existing platform" at the wirehouses.

POPULAR AT WIREHOUSES

For years, the loans have been popular at the wirehouses, including Bank of America Merrill Lynch and Morgan Stanley Wealth Management. They are billed as a way for wealthy investors to make large purchases, such as a yacht or vacation home, without having to sell a portion of their portfolio or incur capital gains taxes in the short term.

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Inside

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Calling it quits

Meredith Whitney's short-lived career as a hedge fund manager is over. She has returned all of her investors' money.

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Home sweet home

Home office portfolios perform better than ones managed by financial advisers, according to a new survey.

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Traveling with Medicare

Vacationing retirees should know what kind of health coverage they have in case they get sick during their travels.

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EDITOR'S NOTE

What will you do to survive change?

The financial advice industry is at a crossroads.

That became perfectly clear last week when I sat down with four registered investment advisers — each at the top of his game — to talk about the issues, trends and developments that are top of mind.

Those advisers were Matt Cooper, president of Beacon Pointe Wealth Advisors in Newport Beach, Calif.; Doug Liptak, co-founder and chief development officer at SignatureFD in Atlanta; Bruce Dzieza, chief executive at Willow Creek Wealth Management in Sebastopol, Calif.; and Todd Walsh, founder of Alpha Cubed Investments in Irvine, Calif.


Frederick P. Gabriel Jr.

Of course, we covered a lot of ground during our conversation, which took place in a room off to the side at TD Ameritrade Institutional's Elite Advisor Summit in San Diego. We talked about succession planning, the difficulties each faces when it comes to recruiting talented advisers and, of course, the emergence of robo-advisers.

But what really jumped out at me was this: To one degree or another, each of them is grappling with a really big question. That question, I suspect, is one that financial advisers everywhere also are struggling with in one way or another.


LILA PHOTO, FOR TD AMERITRADE

What are they going to do to ensure their survival?

STOCK-PICKERS

For decades, most financial advisers got by on their investment prowess. They built robust books of business based on their abilities to pick the best mutual fund managers and stocks, and assemble whiz-bang portfolios.

Then the markets tanked in 2002 and again in 2008, and suddenly many financial advisers didn't look quite as smart as they held themselves out to be. Many responded by dialing back their focus on investing and promoting a more "holistic" approach to managing client assets.

Still, they continued to charge clients under the old model — the one where they got paid for generating alpha.

Flash forward a few more years and along came robo-advisers, which offered relatively sophisticated portfolio

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Whitney turns off the lights at failing hedge

Bloomberg News

Meredith Whitney, who turned fame as a banking analyst into a stint running her own hedge fund, is through with managing other people's money.

"I think that chapter of my life is over," she said in an interview with Fox Business last Wednesday. "This whole experience has been highly unfortunate and I'm putting it behind me."

Ms. Whitney's prescient warning before the financial crisis that Citigroup Inc. would cut its dividend turned her into a Wall Street star and put her on magazine covers. Her firm Kenbelle Capital and its American Revival Fund started investing in heartland stocks in November 2013, after she predicted on TV and in a book that the center of the U.S. would boom.

BLOOMBERG

CLAIMS RESOLVED

Her top investor, a fund tied to billionaire Michael Platt's BlueCrest Capital Management, sued in December to get back its $46 million after months of losses. A court filing this month showed the two had resolved the claims.

Ms. Whitney didn't immediately respond to messages left at her office. In a brief phone call Wednesday, Stanley Arkin, a lawyer for Ms. Whitney, wouldn't elaborate on her interview.

"She's an honest woman," he said. "I'm not at liberty to say anything more than that."

Starting her debut fund without a staff of analysts to help choose investments and relying too much on one investor's money helped lead her astray, a person with direct knowledge of her firm told Bloomberg earlier this year, after her New York office went on the market and top executives left.

"At the end of May I returned money to every single investor," she said in the Fox interview. Ms. Whitney is now focused on analyzing financial stocks, including the company that made her famous. "Citi's interesting," she said.

Ex-broker pleads guilty to Ponzi scam

Lured investors into day-trading scheme and took $2.5M for house and cars

By Trevor Hunnicutt

A former broker who left the securities industry more than a decade ago and then started what prosecutors described as a $6 million Ponzi scheme has pleaded guilty to fraud charges.

Sunil Sharma, 68, faces 20 years in prison on charges that between 2008 and 2014, he raised $8.36 million from 32 investors to pursue a risky day-trading strategy using options. When the strategy failed, he repaid old investors with contributions from new investors, federal prosecutors said.

Mr. Sharma also faces possible fines and restitution. He's scheduled to be sentenced by a U.S. district court judge in San Diego in August.

ISTOCK

Officials said he also took $2.5 million in investor money for his personal use, including $700,000 for a down payment on a house, about $12,000 for a Mediterranean cruise and leases on a BMW and Mercedes SL. He ran out of money in January despite sending statements to investors showing gains.

Mr. Sharma, of Carlsbad, Calif., was an A.G. Edwards, Merrill Lynch and Raymond James-affiliated broker. But he relinquished his license after his clients suffered in the U.S. stock market rout that followed the Sept. 11 terrorist attacks, prosecutors said.

CONSERVATIVE APPROACH

Prosecutors said he would later remake himself as an insurance salesman and, after attending a 2007 workshop on options trading, promoted a strategy he managed through his firms Gold Coast Holding and Safe Harbor Tax Lien Acquisitions as a conservative way to enhance returns.

U.S. Attorney Laura E. Duffy said the Ponzi scheme "was a bit harder to detect than usual as Sharma did not promise his investors outlandish returns," according to a statement.

Mr. Sharma's lawyer, Earll M. Pott at Klinedinst in San Diego, did not respond to a request for comment.

thunnicutt@investmentnews.com, Twitter: @trhunnicutt

SEC actually loses a case in its in-house judicial system

By Trevor Hunnicutt

A Houston-based financial-advice firm has won a rare victory over the Securities and Exchange Commission — before one of the agency's own judges — in a case spotlighting the legal challenges facing advisers who accept payments from brokerage firms.

SEC Administrative Law Judge James E. Grimes dismissed allegations that the advice firm, The Robare Group, and two of its owners broke the law by not sufficiently disclosing a financial relationship with Fidelity Investments. Fidelity, the firm's custodian, pays Robare to distribute certain third-party mutual funds.

In a 44-page decision filed June 4, Mr. Grimes wrote that the owners, advisers Mark L. Robare and his son-in-law Jack L. Jones Jr., "came across as honest and committed to meeting their disclosure requirements," including relying on their broker-dealer and compliance advisers.

"In listening to Mr. Robare and Mr. Jones testify and observing their demeanor under cross-examination, it is difficult to imagine them trying to defraud anyone, let alone their investment clients," wrote the judge, who heard their testimony in February.

GETTY IMAGES/COMPOSITE

The decision, which can be appealed before it becomes final, is one of few losses by the SEC in court-like proceedings it administers. The regulator has the authority to bring some cases in its own hearings as well as in traditional, civil court trials.

GATHERING CRITICISM

The agency is facing a gathering thunder of criticism from politicians and securities lawyers, as well as former SEC commissioners and staff members. Some say the increasing practice of relying on its own judges comes at a cost to defendants, who lose cases more often during in-house proceedings than in cases taken to trial.

"This may reflect, in part, an [administrative law judge's] sensitivity to recent allegations that ALJs are SEC lapdogs," Mercer Bullard, a former SEC lawyer who now directs

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GETTY IMAGES

Home office portfolios beat advisers' efforts

By Trevor Hunnicutt

Home office investment portfolios, often built by centralized units at brokerage firms, perform better than ones managed by financial advisers, according to an analysis released last Monday.

Cerulli Associates Inc. found that portfolios built by home offices delivered 6.45% per year in the five years that ended Dec. 31, compared with the 5.99% delivered by the best group of accounts managed at least in part by advisers.

"We believe the outperformance is primarily driven by qualified home office teams dedicating their time to asset allocation, manager selection and staying invested in the market during downturns," Cerulli analyst Frederick Pickering said in a statement accompanying the research results. "Home office teams are more quantitative in their approach to manager selection and are not as swayed by qualitative factors such as a fund company's reputation or wholesaler relationships."

The data come as assets have exploded in fee-based managed account programs at large broker-dealers, with many of those programs giving some or all control to advisers to select funds and trade in and out of them.

Demand from clients to trade out of U.S. equity markets during the 2008 market rout contributed to their growth, as have the rich fees commanded by wealth managers that offer the programs.

ADVISERS RELUCTANT

While some industry executives have argued that advisers should consider giving over control to home offices, especially when they have little time to research money managers, many are reluctant to do so.

Some advisers consciously manage portfolios in a way intended to limit losses, even at the expense of total returns. This study is one of the few that attempt to quantify the cost of that choice.

The report found that adviser-led

Continued on Page 38

When Social Security doesn't pay

In some instances, it's not worth it for a lower-paid spouse to keep working

Mary Beth Franklin
On Retirement

As I travel around the country teaching financial advisers and their clients about smarter ways to claim Social Security benefits, my "magic age" strategies often trigger surprise and gratitude among my audiences, who are astonished to learn about various ways they can maximize their benefits.

But sometimes, there is no clever claiming strategy available to boost lifetime benefits given the difference in ages between two spouses or the relative amount of their Social Security benefits. And that leads to frustration and disappointment.

Case in point: A financial adviser, who asked to remain anonymous, wrote to me recently asking for guidance about how to optimize Social Security benefits for her clients. The husband, who turned 66 in April, has not yet claimed his Social Security benefit, which is worth $2,560 per month at his full retirement age. His wife will turn 66 two years from now in July 2017.

The adviser said she planned to recommend that the husband file and suspend his Social Security benefit when the wife turned 66. That would allow the wife to collect a spousal benefit of $1,280 per month — half of her husband's full retirement age amount — rather than her own smaller retirement benefit of $800 per month. In this case, her benefit actually would comprise her own retirement benefit of $800 per month plus an additional amount to bring the combined total up to the spousal benefit amount.

GOOD STRATEGY

I told the adviser that is an excellent strategy. Retirement benefits increase by 8% per year for every year you postpone collecting them beyond full retirement age up to age

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Will Medicare hit the road with clients traveling this summer?

Coverage for trips depends on type of benefit plan

Katy Votava
On Medicare

Summer is almost upon us and so is travel season. Travel is one of the great rewards people look forward to in retirement. That fabulous trip to a new destination or a familiar one is a long-term goal for many.

One of the questions I am asked frequently is, "How does my Medicare work when I travel?" The first thing folks need to know in order to answer that question is what type or "flavor" of Medicare they have. Generally speaking, there are two types of Medicare. They are:

- Original Medicare, which includes Medicare Part A for hospital care, Part B for outpatient services and Part D for prescriptions. Many times they also have a Medigap plan for supplemental coverage.
- Medicare Part C, which I call the combo plan because it combines Medicare Parts A, B, usually D and some supplemental coverage into one package.

Medicare health care benefits while traveling vary between the flavors. The benefits also differ depending on whether the travel is domestic or foreign.

Original Medicare allows for very flexible coverage in the case of a medical emergency, as well as routine health care services, all over the 50 U.S. states and in Washington, D.C., Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa and the Northern Mariana Islands. Given that there are no health provider networks involved in original Medicare, beneficiaries can use their Medicare to pay for care at any facility that accepts Medicare nationwide.

MEDIGAP'S 11 LEVELS

If the person also has a Medigap plan, it can also be used in conjunction with original Medicare anywhere in the U.S. Medigap is not network-dependent. Therefore, the beneficiary can use a Medigap plan to reimburse standard Medicare co-payments and co-insurance from any provider that accepts Medicare.

Medigap has 11 different levels of coverage. Medigap Plans C, D, F, G, M and N pay 80% of medically necessary emergency care outside the U.S. after meeting a $250 annual deductible. While several types of Medigap plans offer foreign emergency benefits, Medigap Plan F includes the most extensive payment for various types of Medicare co-payments. A foreign travel emergency is covered if it begins during the first 60 days of the trip and if Medicare doesn't otherwise cover the care. Medigap foreign travel

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Wells sues RIA for $1.7M

By Mason Braswell

A dispute between Wells Fargo Advisors and a former broker over a recruiting bonus turned ugly last month after hundreds of emails came to light allegedly showing the broker referring business from Wells Fargo to his new firm, according to a lawsuit the wirehouse filed in federal court.

The firm is alleging that William Griffis, a former adviser at the firm who broke away in 2013 to join RCM Wealth Advisors, a registered investment adviser, acted as a "Trojan horse," funneling business to his new firm for eight months before he officially left, according to the complaint, filed in U.S. District Court for the Northern District of Illinois. Wells Fargo alleged that RCM and Mr. Griffis breached their fiduciary duty and engaged in a "civil conspiracy." It is asking for more than $1.7 million in compensation and punitive damages.

> "DEFENDANTS WERE elated by the prospect of usurping that business opportunity."
>
> **Wells Fargo Advisors**
> Complaint filed in U.S. District Court, Northern District of Illinois

"This raiding and recruiting lawsuit arises from defendant's concerted and systematic efforts to damage Wells Fargo's business by utilizing a 'Trojan horse' to unfairly compete with the company by funneling business opportunities away from Wells Fargo to RCM when Mr. Griffis was still actively employed with Wells Fargo," the firm said.

BONUS DISPUTE

Mr. Griffis and executives at RCM did not respond to requests for comment. An attorney who represents RCM, Thomas B. Keegan of Senak Keegan Gleason Smith & Michaud, also did not respond to a call seeking comment.

The case goes back to a dispute over an approximately $200,000 recruiting bonus. Mr. Griffis, who

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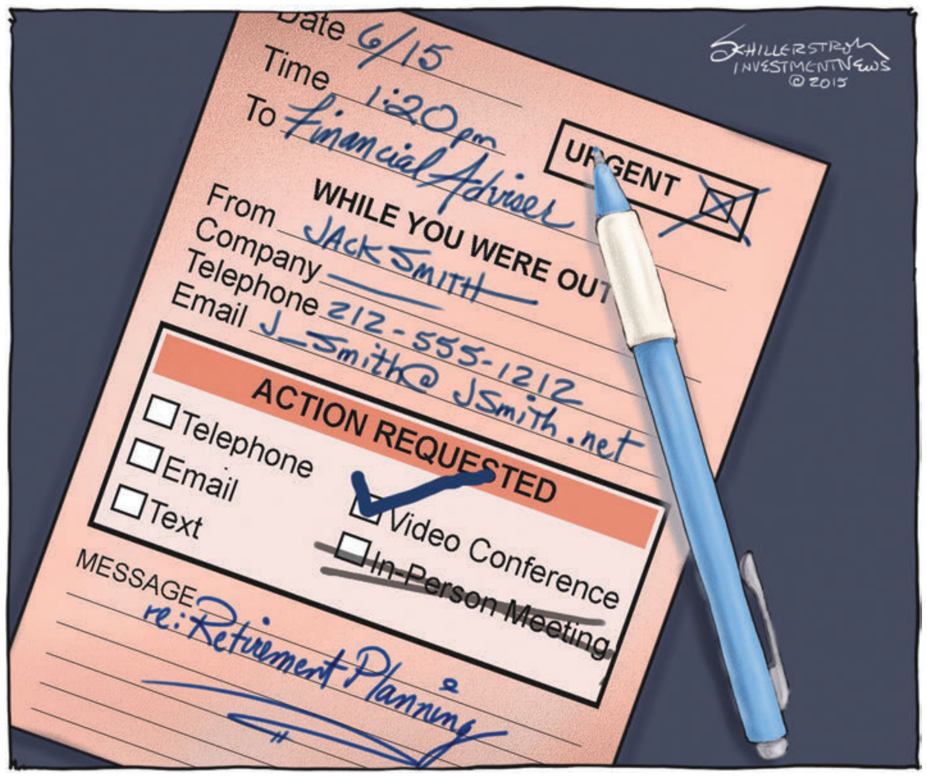
VIEWPOINT

EDITORIALS

Let the client decide how to communicate

IN THE not-too-distant future, advisers may have a section on their websites that asks clients or prospective clients how they would like to communicate. The options might be: (a) in person (b) telephone (c) email (d) text (e) video conferencing.



As reporter Liz Skinner's Page 1 story last week made clear, more advisers are starting to give their clients those choices now — and more of their clients are deciding on something other than face-to-face meetings.

As millennials become a more important market segment, advisers are under the gun to offer them alternatives to in-person meetings. Many of them prefer to communicate via email and video conferencing.

But a new report from McKinsey & Co. points out that it's just not millennials driving this trend. Surveys show that 20% to 30% of mass affluent and high-net-worth clients are already comfortable handling their finances at a distance.

Advisers are slowly getting on board. In a survey last year, only 4% of respondents listed video conferencing as one of the communication methods they use to reach out to clients, although 32% expect to employ video conferencing within five years.

Advisers who have instituted more digital communication tools in their practices are big fans. It's not only satisfying a client demand, they say, it allows them to run their practices more efficiently — and profitably. As one adviser put it: "Virtual meetings can be set up back-to-back, but when you're traveling in a car between meetings that just can't be done."

Then there's the issue of holding onto a client's assets after the client decides to move halfway across the country, either because of a job change or because he or she is retiring. In the past, that client may have severed ties with his old adviser; in the future, a tech-savvy adviser may be able to hold onto those assets.

DOUBTERS

Whether it's human nature to resist change or because of a deeply held belief that face-to-face contact is best, a number of advisers are in no rush to join the virtual advice movement. Said one: "There's something about a client shaking your hand and looking at you face to face. I don't know if you can give that same level of service virtually."

A NUMBER of advisers are in no rush to join the virtual advice movement.

That same adviser acknowledged that every year more of his clients want to meet virtually with him or his partners, but so far he has put them off. That might be dangerous if his clients get fed up with that answer and take their business elsewhere.

THE ULTIMATE PRICE

The graveyard of American business is littered with the skeletons of companies that felt their products or services were so much better than their competitors' that it didn't matter if they stayed current with new technology or changing customer tastes. Smart companies know that it is the customer who drives change, not the other way around. Companies that don't respond to those demands sometimes pay the ultimate price.

Advisers don't have to change overnight, but they must begin the process. If your firm doesn't offer alternatives to face-to-face meetings, now is the time to draw up a game plan. Form an internal committee, review options, set timetables to buy the technology tools you need and arrange the training your staff will require. The goal should be to put your clients in the driver's seat. Let them decide how they want to access your services. It just may lead to more fruitful relationships and a more successful business.

Warren vs. White: The tone is unfair

Come on, senator, give the chairwoman a break.

We're speaking, of course, of Sen. Elizabeth Warren, D-Mass., and Mary Jo White, chairwoman of the Securities and Exchange Commission.


ISTOCK

MS. WHITE has to wrestle with four commissioners who probably couldn't agree on what color the sky is.

A couple of weeks ago, Ms. Warren sent a blistering 13-page letter to Ms. White, complaining about her lack of leadership, lack of direction for the agency and failure to follow through on her promises.

"You have now been SEC chair for over two years, and to date, your leadership of the commission has been extremely disappointing," Ms. Warren wrote.

It's easy to pick on regulators. Either they're overstepping their bounds — making life practically impossible for someone running a business — or they're not doing enough to protect someone, falling down on the job or wasting money.

To be sure, everyone is entitled to their opinion. For Ms. Warren, who, as Bloomberg News suggested, has become a scourge of Wall Street, dumping on the head of the country's top securities regulator probably makes good political sense as a means to raise her profile. It shows that she is fearless in looking out for the little guy, the investor, who has been left in the lurch by the regulator that's supposed to do just that.

But Ms. Warren goes too far. While *InvestmentNews* has not always agreed with the positions Ms. White has taken, we acknowledge that she has a tough job. Her to-do list is chock-full (just think of Dodd-Frank alone). In addition, she has to wrestle with four commissioners who probably couldn't agree on what color the sky is.

Taking her to task for the fact that the SEC managed to elicit admissions of guilt in only 19 of the 520 settlements struck between June 2013 and September 2014 is a cheap shot. Sure, the percentage is small, but that's 19 more admissions of guilt than the SEC ever managed before.

A better way for Ms. Warren to handle her frustrations with Ms. White and her management of the SEC would have been to call a meeting, or sit down over lunch and have a conversation.

But then, such a tête-à-tête wouldn't have gotten any headlines.

ADD YOUR VOICE to the mix. Readers: Keep letters to the editor brief. Include your name, title, company, address and a telephone number for verification purposes. Email Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All mail may be edited.

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VP-Publisher: Suzanne Siracuse ssiracuse@crain.com

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ADVERTISING
National Sales Director: Mary Meagher mmeagher@crain.com 212-210-0115
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San Francisco:
Rich Kiesel rkiesel@crain.com 415-538-0206
Boston:
John Bubello Jbubello@crain.com 978-534-5635
Reprint Manager: Laura Picariello 732-723-0569 lpicariello@crain.com
Inside Sales Associate: Ayana Reid areid@crain.com 212-210-0774
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MARKETING AND AUDIENCE DEVELOPMENT
Audience Development Director: George Ortiz gortiz@crain.com
Senior Marketing Manager: Diana Cheruvil dcheruvil@crain.com
Creative Marketing Specialist: Lorenzo John ljohn@crain.com
Marketing Associate: Shannon Rosic srosic@crain.com

Executive Assistant to the Publisher: Irma Rodriguez irodriguez@investmentnews.com 212-210-0430

PRODUCTION
Prepress/Production Director: Simone Pryce

INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Editorial fax: 212-210-0444
Bureau office:
Washington: 814 National Press Bldg., Washington, DC 20045, Fax: 202-638-3155
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YEARS	10	5	3	1
MIXED-ASSET TARGET ALLOC. GROWTH	27/309	10/423	7/473	19/510
	9%	3%	2%	4%

Putnam Dynamic Asset Allocation Balanced Fund
PABYX

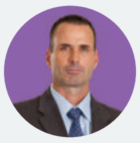
YEARS	10	5	3	1
MIXED-ASSET TARGET ALLOC. MOD.	27/294	12/429	11/518	15/573
	10%	3%	3%	3%

Putnam Dynamic Asset Allocation Conservative Fund
PACYX

YEARS	10	5	3	1
MIXED-ASSET TARGET ALLOC. CONS.	24/158	31/270	20/320	6/368
	16%	12%	7%	2%

Our Co-Heads of Global Asset Allocation have worked together for more than a decade refining a proactive multi-asset investment process.


James A. Fetch
Investing since 1994


Robert J. Kea, CFA
Investing since 1988


Robert J. Schoen
Investing since 1990


Jason R. Vaillancourt, CFA
Investing since 1993

Lipper rankings for class Y shares are based on total return without sales charge relative to all share classes of funds with similar objectives as determined by Lipper. Past performance does not indicate future results. Rankings of other share classes will vary. Class Y shares are generally only available for corporate and institutional clients and have no initial sales charge.

Consider these risks before investing: Our allocation of assets among asset classes may hurt performance. Stock and bond prices may fall or fail to rise over time for several reasons, including general financial market conditions, factors related to a specific issuer or industry and, with respect to bond prices, changing market perceptions of the risk of default and changes in government intervention. These factors may also lead to increased volatility and reduced liquidity in the bond markets. International investing involves currency, economic, and political risks. Emerging-market securities carry illiquidity and volatility risks. Investments in small and/or midsize companies increase the risk of greater price fluctuations. Growth stocks may be more susceptible to earnings disappointments, and value stocks may fail to rebound. Funds that invest in government securities are not guaranteed. Mortgage-backed securities are subject to prepayment risk and the risk that they may increase in value less when interest rates decline and decline in value more when interest rates rise. Bond investments are subject to interest-rate risk (the risk of bond prices falling if interest rates rise) and credit risk (the risk of an issuer defaulting on interest or principal payments). Interest-rate risk is greater for longer-term bonds, and credit risk is greater for below-investment-grade bonds. Unlike bonds, funds that invest in bonds have fees and expenses. The use of derivatives may increase these risks by increasing investment exposure (which may be considered leverage) or, in the case of over-the-counter instruments, because of the potential inability to terminate or sell derivatives positions and the potential failure of the other party to the instrument to meet its obligations. You can lose money by investing in the funds.

Request a prospectus or summary prospectus from your financial representative or by calling Putnam at 1-800-225-1581. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should read and consider carefully before investing.

Putnam Retail Management

VIEWPOINT

It's time for financial planners to find our voice

There is an untapped power within the financial planning profession that has been dormant for too long. I'm referring to our voice.

Financial planners help millions of Americans save and plan for their futures. And while the tens of thousands of us who practice financial planning follow the high standards required of us through our primary certifying body — the Certified Financial Planner Board of Standards Inc. — too many of us are silent on vital issues that affect our livelihood as professionals and those we serve. This needs to end.

OTHER VOICES

Edward W. Gjertsen II

While you read this, there are forces at work with nearly unlimited financial resources that are attempting to pass laws and rules that may adversely affect our profession and our clients. One such attempt has been made by Rep. Ann Wagner, R-Mo., who has refiled a bill in Congress that seeks to mislead with its very title: The Retail Investor Protection Act.

SUBVERTING THE DOL

The bill, which the Financial Planning Association and our partners in the Financial Planning Coalition oppose, would require the Securities and Exchange Commission to act first on a fiduciary rule before the Labor Department can act on redefining the fiduciary role under the Employee Retirement Income Security Act. This rule has not been updated in over 40 years and, as we all know, the financial landscape has grown much more complicated in the past four decades. Further, as the SEC is not required to advance fiduciary rule making, we see this refiled bill as a potential tactic to delay or even derail any hope of significant consumer protection through an appropriate fiduciary standard of care.

TOO MANY OF US are silent on vital issues that affect our livelihood as professionals and those we serve. This needs to end.

Some in the industry believe that if a sturdy DOL fiduciary rule were to be enacted, current nonfiduciaries would abandon middle-income savers. This line of thinking is misguided and disingenuous. We believe those advisers would be able to work within a fiduciary standard; all certified financial planner professionals already are required to act in a fiduciary capacity whenever engaging in financial planning with a client.

This issue and others demonstrate that we must work together to make our voices heard while putting a real face on financial planning.

I can tell you that the FPA is working to rally our network of more than 90 chapters and 23,000 members, including nearly 17,000 CFPs, to give the profession a rising voice that resonates in Washington, D.C., and in state capitals across the country.

FPA will hold its second annual Advocacy Day on Capitol Hill on June 24 to educate policymakers on those issues of importance to financial planners and the profession. Dozens of FPA leaders and members will participate in up to 80 meetings with congressional leaders in both Senate and House offices, and with other influential people in the nation's capital.

Through proactive outreach, we all can serve as resources for state and federal officials, and regulators, by developing relationships with influencers at all levels who call upon us when they need a practitioner point of view. We need to be there in real time, talking with leaders and advocating for our profession. We need to show them that financial planning delivered with fiduciary responsibility helps all Americans effectively save for retirement. We must put a trusted face on our profession because if we don't, no one will.

The Financial Planning Coalition, which in addition to the FPA includes the CFP Board and the National Association of Personal Financial Advisors, has been a constant voice on federal issues and legislation that strengthens our profession and protects our clients' life savings. We have fought for a fiduciary standard that puts the consumer's best interests first, and we understand the crucial need to update rules that have remained stagnant while financial products have become much more complicated for consumers. We advocate for increased investor protection by supporting legislation that would increase the percentage of adviser examinations per year. Most importantly, we are championing the recognition and regulation of our profession so that when someone seeks out a financial planner they get a qualified, experienced practitioner, such as a CFP. Period. Our foundation for broad advocacy efforts has been laid and now is the time for others dedicated to the profession to join in.

Advocacy matters. And so do the thousands of us who speak for this growing profession. Now is the time for more of us to join with a unified voice to take charge of our profession.

Edward W. Gjertsen II is the 2015 president of the Financial Planning Association and is vice president of Mack Investment Securities Inc.

Stifel Financial to buy Barclays' U.S. wealth unit

Challenge will be convincing advisers not to jump ship

Bloomberg News

Stifel Financial Corp., the St. Louis-based investment bank known for snapping up regional rivals and Wall Street castoffs, has agreed to buy Barclays PLC's U.S. wealth management business.

As of May 31, Barclays had about 180 financial advisers in the U.S. managing $56 billion in total client assets, Stifel said last Monday in a statement that didn't include terms. Barclays had bought the unit with other Lehman Brothers Holdings Inc. operations in 2008 and was faulted by regulators last year for inadequate internal controls there.

Stifel chief executive Ron Kruszewski has made more than two dozen acquisitions since taking the helm in 1997, boosting net revenue every year to build one of the largest U.S. securities firms based outside of New York.

To complete the Barclays deal, he'll have to convince the financial advisers that they shouldn't leave for other firms, which generally offer bonuses for brokers who can bring their clients along.

> "THE SALE of our U.S. wealth franchise to Stifel represents a good outcome for Barclays and for our clients."
>
> **Akshaya Bhargava**
> CEO, global wealth and investment, Barclays

"We believe that we have proposed an attractive retention package," Mr. Kruszewski said on a conference call, adding that a "significant majority" of Barclays' brokers had expressed interest in joining Stifel.

Stifel's targets since the financial crisis have included Sterne Agee Group Inc., KBW Inc. and Thomas Weisel Partners Group Inc. The Barclays deal is expected to be completed in mid-November, the firm said.

Barclays' wealth management business manages money for the rich, with its advisers each handling more than $300 million in assets on average. As part of the deal, Barclays agreed to let Stifel's brokers sell some of the stocks and bonds it underwrites in the U.S.

SEC FINE

The Securities and Exchange Commission last year faulted Barclays' stewardship of the U.S. wealth management unit in the years after the crisis. The bank failed to build a strong compliance infrastructure while integrating the business into its U.S. capital markets division, the agency said in September.

The SEC fined the division $15 million, finding employees made more than 1,500 transactions for client accounts without providing required written disclosures or getting consent. The Barclays subsidiary, which didn't admit or deny the claims, said at the time that it had cooperated with investigators and strengthened oversight.

"The sale of our U.S. wealth franchise to Stifel represents a good outcome for Barclays and for our clients," Akshaya Bhargava, Barclays' CEO of global wealth and investment management, said in the statement.

The deal would add between $200 million and $325 million in revenue, said Stifel, which will issue between one million and two million shares to pay for the acquisition.

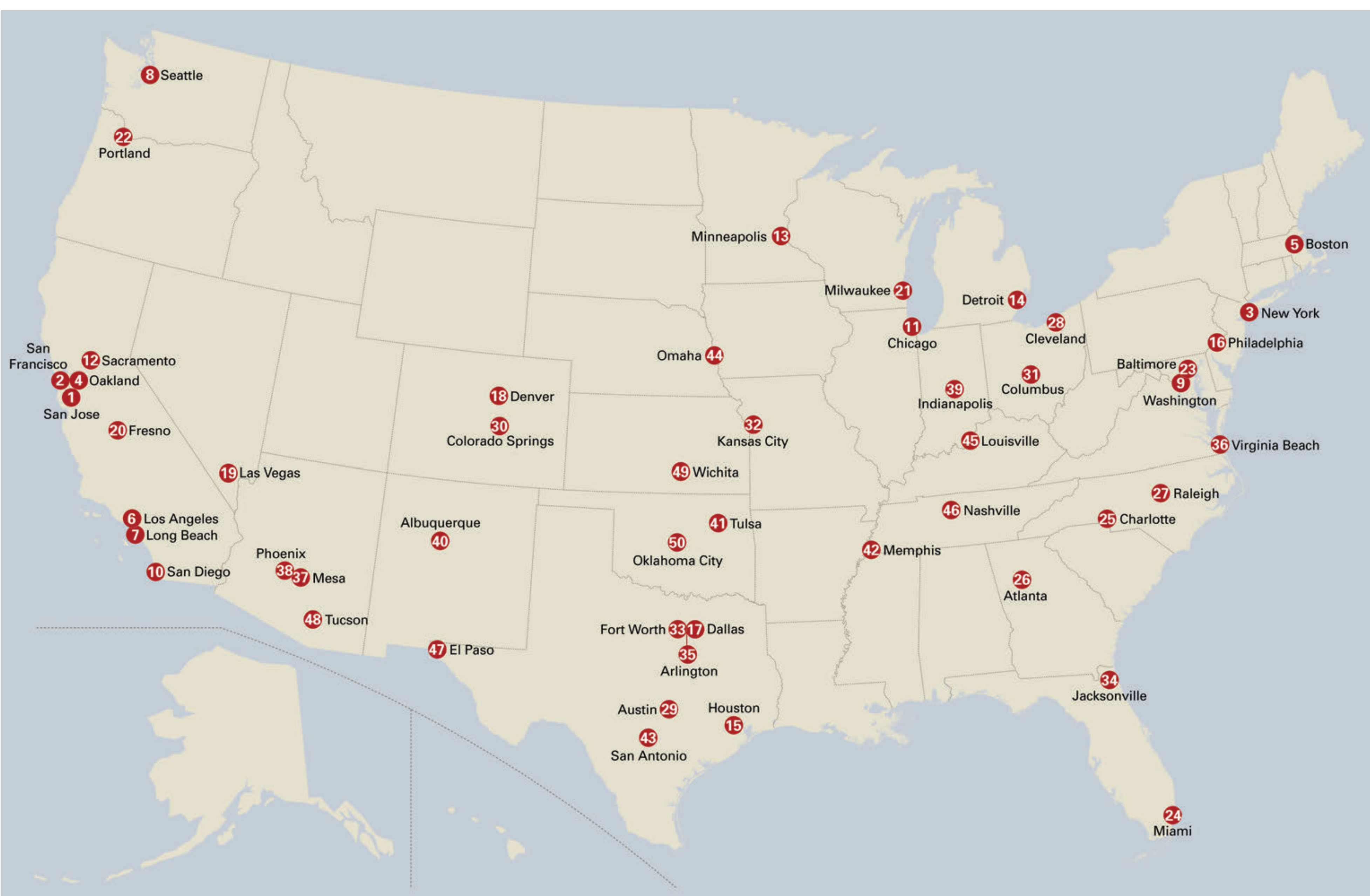
Stifel's lead financial adviser in the deal was its own subsidiary Keefe Bruyette & Woods Inc., while Bryan Cave provided legal advice.

A road map to adviser pay

50 most populated U.S. cities ranked by total compensation

	City, State	Lead Adviser Total Compensation	Practicing Partner Total Compensation	Service Adviser Total Compensation
1	San Jose, CA	$171,922	$307,920	$104,949
2	San Francisco, CA	$168,840	$302,400	$103,068
3	New York, NY	$167,366	$299,760	$102,168
4	Oakland, CA	$161,872	$289,920	$98,814
5	Boston, MA	$158,388	$283,680	$96,688
6	Los Angeles, CA	$156,110	$279,600	$95,297
7	Long Beach, CA	$155,842	$279,120	$95,133
8	Seattle, WA	$153,832	$275,520	$93,906
9	Washington, DC	$150,750	$270,000	$92,025
10	San Diego, CA	$149,410	$267,600	$91,207
11	Chicago, IL	$147,266	$263,760	$89,898
12	Sacramento, CA	$147,266	$263,760	$89,898
13	Minneapolis, MN	$146,462	$262,320	$89,407
14	Detroit, MI	$146,060	$261,600	$89,162
15	Houston, TX	$145,256	$260,160	$88,671
16	Philadelphia, PA	$144,318	$258,480	$88,099
17	Dallas, TX	$144,050	$258,000	$87,935
18	Denver, CO	$143,916	$257,760	$87,853
19	Las Vegas, NV	$143,380	$256,800	$87,526
20	Fresno, CA	$142,978	$256,080	$87,281
21	Milwaukee, WI	$142,308	$254,880	$86,872
22	Portland, OR	$142,174	$254,640	$86,790
23	Baltimore, MD	$140,700	$252,000	$85,890
24	Miami, FL	$140,566	$251,760	$85,808
25	Charlotte, NC	$139,494	$249,840	$85,154
	National Aggregate	**$134,000**	**$240,000**	**$81,800**

	City, State	Lead Adviser Total Compensation	Practicing Partner Total Compensation	Service Adviser Total Compensation
26	Atlanta, GA	$139,092	$249,120	$84,908
27	Raleigh, NC	$138,824	$248,640	$84,745
28	Cleveland, OH	$138,690	$248,400	$84,663
29	Austin, TX	$138,422	$247,920	$84,499
30	Colorado Springs, CO	$136,948	$245,280	$83,600
31	Columbus, OH	$136,814	$245,040	$83,518
32	Kansas City, MO	$136,412	$244,320	$83,272
33	Fort Worth, TX	$136,278	$244,080	$83,191
34	Jacksonville, FL	$136,144	$243,840	$83,109
35	Arlington, TX	$136,010	$243,600	$83,027
36	Virginia Beach, VA	$135,206	$242,160	$82,536
37	Mesa, AZ	$134,536	$240,960	$82,127
38	Phoenix, AZ	$134,268	$240,480	$81,964
39	Indianapolis, IN	$133,464	$239,040	$81,473
40	Albuquerque, NM	$132,928	$238,080	$81,146
41	Tulsa, OK	$132,660	$237,600	$80,982
42	Memphis, TN	$132,258	$236,880	$80,737
43	San Antonio, TX	$131,186	$234,960	$80,082
44	Omaha, NE	$130,918	$234,480	$79,919
45	Louisville, KY	$129,444	$231,840	$79,019
46	Nashville, TN	$129,042	$231,120	$78,773
47	El Paso, TX	$128,238	$229,680	$78,283
48	Tucson, AZ	$127,970	$229,200	$78,119
49	Wichita, KS	$127,568	$228,480	$77,874
50	Oklahoma City, OK	$123,146	$220,560	$75,174
	National Aggregate	**$134,000**	**$240,000**	**$81,800**



Note: All figures were derived by taking the median compensation for advisers nationwide and applying the Bureau of Labor Statistics' geographic market multiplier. The multiplier is a national benchmark based on an analysis of compensation, jobs and cost of living data from the U.S. Census Bureau. Compensation figures came from the 2013 InvestmentNews/Moss Adams Compensation & Staffing Study.

Building a Better Tax-Advantaged Investing Platform: The Past, Present and Future of IOVAs

Tax season is behind us. Yet many RIAs and fee-based advisors will continue to look for new ways to enhance tax-adjusted returns for clients in the months ahead. Choosing the most tax-efficient investing strategies is a year-round focus, at the core of holistic planning and wealth management. A quick review of clients' 2014 tax returns can reveal the 'tax alpha' opportunity for 2015 — to see how you can decrease current ordinary income and short term capital gains to improve overall portfolio returns.

When considering the most innovative products to help you minimize taxes, enhance performance and generate more tax alpha, a variable annuity may not be the first thing that comes to mind. But there is a new generation of low-cost Investment-Only Variable Annuities (IOVAs), rebuilt and re-engineered from the ground up to confront the challenging dynamics of today's markets. Designed as a tax-advantaged investing platform — instead of a complex and costly commission-based insurance product — low-cost, no-load IOVAs are seeing strong adoption among RIAs and fee-based advisors, often the harshest opponents of using VAs in their practice.

Market Forces Drive Innovation

Variable Annuities have evolved significantly. VAs were first introduced in the 1950s by the Teachers Insurance and Annuities Association-College Retirement Equity Fund (TIAA-CREF) as a tax-deferred vehicle to fund pension arrangements. With the Tax Reform Act of 1986, VAs reached a tipping point, when insurers began promoting them as a tax-advantaged vehicle to supplement the low contribution limits of recently introduced individual retirement accounts.

With the bull market of the 1990s traditional VA assets soared, as investors sought to defer taxes on the double-digit returns. By the late 1990s, as defined benefit pension plans declined, insurers began offering traditional VAs with enhanced benefits such as income guarantees. This ushered in the era of traditional VAs built around underlying insurance guarantees instead of tax advantages — and propelled VAs to become a trillion-dollar industry by 2000.

In the ensuing years, many advisors have relied on traditional VAs with income guarantees as a way to ensure that their clients have sufficient income to meet their retirement needs. That is, until the financial crisis forced the industry to rethink the traditional VA.

Re-Price, Re-Tool, or Retreat

The appeal of traditional VAs with income guarantees is based upon the combination of downside protection, upside potential and a guaranteed income stream in one investment package. But the rise of traditional VAs with guarantees also increased complexity, eliminated transparency, and led to an escalating arms race of features and benefits in the commission-based advisor channel.

With asset-based fees that frequently exceed 2% or even 3% per year[1], restrictions on underlying investment options, and insurance guarantees that can be difficult to decipher, traditional guaranteed VAs have their limitations. These came to the forefront as the VA industry went through a massive shift in the wake of the financial crisis of 2008.

In response to drastic market declines, record low yields and ongoing volatility, insurers faced significant capital shortfalls. To manage risk on their balance sheet, many were forced to raise fees, cut back on investment choices and reduce the benefits associated with income guarantees. Some were forced to retreat from the industry entirely. Advisors, clients and consumer advocates alike responded with criticism, and many remain conflicted. The solution: a next generation of Investment-Only Variable Annuities.

Maximizing Tax Deferral—Not Insurance Guarantees

After the crash, low-cost, no-load Investment-Only VAs began gaining new proponents and seeing greater growth. IOVAs were conceived to maximize the power of tax deferral, instead of promoting complex and costly insurance guarantees. While going back to the product's original roots, this next generation of IOVAs is designed to generate more tax alpha — and built to be used in ways that traditional guaranteed VAs can't.

Many experts agree that the primary advantage to the variable annuity is the power of tax deferral — but it must be low cost. And just as the power of tax-deferred compounding can grow wealth, its corollary is that the drag of compounding fees can reduce wealth.

Research has shown that tax deferral can generate additional alpha of 100 bps or more — without increasing risk.[2] But traditional VAs easily can wipe out the value of tax deferral, with basic insurance fees averaging 135 bps per year,[3] plus added fees for riders and guarantees that can quickly double or triple total annual costs.

Building a Better IOVA

For IOVAs to work, simplicity, transparency and low cost are not enough. To re-engineer the traditional VA chassis into a true tax-advantaged investing platform, more choice, flexibility and integration are key. Jefferson National was the first to pioneer a flat-fee, no-load IOVA for the growing market of RIAs and fee-based advisors, launching Monument Advisor in 2005. It continues to be a category leader — one of the lowest cost IOVAs on the market today, with 8 times more funds that the typical VA and a robust suite of portfolio management tools.

A broad choice of underlying funds is critical. To help you create customized portfolios to manage the market, meet clients' needs and a range of risk profiles, today's leading next-gen IOVAs offer an expanded lineup of funds, including liquid alternatives that use strategies like those favored by hedge funds and elite institutional investors.

Flexibility is essential. The ideal IOVA will utilize web-enabled functionality, helping you to efficiently evaluate investment options, build individual portfolios or proprietary models, and employ a full scope of trading and mass transactions. With features such as online applications, cloud-based account management and performance reporting, next-gen IOVAs can help you enhance accuracy, speed and efficiency.

Integration and aggregation is crucial. While many tax-deferred vehicles, including qualified accounts, traditional VAs and other insurance products, are typically 'held-away' assets, the best next-gen IOVAs are designed to integrate into your practice and be managed holistically alongside taxable accounts. Next-gen IOVAs can integrate with a range of Broker-Dealer platforms, leading custodial platforms, and rebalancing software such as iRebal using DST FanMail, DST Vision, DTCC, and NSCC. Through data feeds and direct links between back office, front office, software and platform, next-gen IOVAs can become an every-day part of your investment strategy.

Driving Growth in a Competitive Industry

Recognizing the benefits of low-cost IOVAs, advisors are adopting them in record numbers — and driving rapid growth. According to Morningstar, annual sales of IOVAs have nearly tripled over the past two years, at $6.6 billion as of Third Quarter 2014 compared to $2.4 billion as of year-end 2012. Morningstar also reports that sales among independent investment firms and RIAs have become the fastest growing segment. While the traditional variable annuity industry is now adopting IOVAs, it continues to target a commission-based sales approach.

The demand for no-load, low-cost IOVAs is likely to increase, as the RIA and dually registered advisor channels continue to expand. According to a recent report from Cerulli Associates, RIA and dually registered advisor assets are expected to reach 27.9 percent market share by year-end 2018, up from 19.8 percent as of year-end 2013. The RIA channel alone experienced the strongest growth among the independent channels in 2013, with total assets increasing 17.1 percent to $1.67 trillion in 2013, and market share based on assets expanding from 9.2 percent in 2007 to 11.9 percent in 2013.[4]

Helping Advisors and Clients Succeed

The power of tax deferral is real. According to surveys from Jefferson National, 96 percent of RIAs and fee-based advisors say tax deferral is important to generate wealth and manage tax implications for their clients, 86 percent expect that tax deferral will be more important in the future, and more than 85 percent say tax deferral is one of the best ways to accumulate more retirement savings.

Investment-Only VAs leveraging the power of tax deferral have evolved far beyond their predecessors — from a retirement saving vehicle to today's comprehensive platform for tax-advantaged investing. Today's next-gen Investment-Only VAs can be used in ways that a traditional VA cannot — a vehicle for asset location, a solution to create more tax alpha, a method to tax-optimize trusts, a new approach to accumulate more wealth and generate more retirement income.

As the RIA and fee-based advisor channels continue to grow, so will their clients' needs for more tax-advantaged investing strategies to mitigate the impact of taxes and build more wealth. Today's next-generation of Investment-Only VAs are the right fit for RIAs and fee-based advisors, eliminating commissions and their inherent conflict of interest, while offering lower costs, more underlying funds and the right selection of portfolio management tools. More importantly, all advisors and their clients can benefit from this new tax-advantaged investing platform to optimize portfolios and manage complex market dynamics.

Tax season may be over. But tax-efficient investing should remain a top priority all year long. There's a very direct relationship between paying less in taxes each year — and earning higher returns. Low-cost, no-load Investment-Only VAs can help. Built as a platform to provide more investing solutions, with low cost, more choice, more flexibility and greater integration, low-cost IOVAs offer you new ways to sit on the same side of the table as your client, to help your clients succeed — and help your firm succeed.

[1] 2014 IRI Fact Book, 13th Edition, Insured Retirement Institute, 2014.

[2] *Taxes and Investment Performance*, Morningstar, 2013.

[3] Morningstar data as of 12/31/14.

[4] *RIA Marketplace 2014: Growth Drivers in an Accelerating Industry Segment*, Cerulli Associates, 2014.

Disclosures

Variable annuities are investments subject to market fluctuation and risk, including possible loss of principal. Your units, when you make a withdrawal or surrender, may be worth more or less than your original investment.

Variable annuities are long-term investments to help you meet retirement and other long-range goals. Withdrawal of tax-deferred accumulations are subject to ordinary income tax. Withdrawals made prior to age 59 ½ may incur a 10% IRS tax penalty. Jefferson National does not offer tax advice. Annuities are not deposits or obligations of, or guaranteed by any bank, nor are they FDIC insured.

Jeff Nat

Watch for more IOVA insights from Jefferson National 866-667-0564 www.jeffnat.com/IOVA

THE VARIABLE ANNUITY: A VISUAL TIMELINE

1950s →

Variable Annuities (VAs) have evolved significantly since their inception. The product was first developed and introduced by the Teachers Insurance and Annuities Association-College Retirement Equity Fund (TIAA-CREF) in the 1950s and initially used as a TAX-DEFERRED VEHICLE TO FUND PENSION ARRANGEMENTS. For several decades sales grew slowly, and VAs seemed destined to be a niche product of limited use.

1980s →

But in the mid-1980s, the VA industry reached a tipping point. The Tax Reform Act of 1986 limited the opportunity for tax-deferred saving in qualified retirement plans, making annuities increasingly attractive compared to other retirement saving vehicles. Insurers began promoting annuities as a TAX-ADVANTAGED ALTERNATIVE TO THE RECENTLY INTRODUCED INDIVIDUAL RETIREMENT ACCOUNTS.

1990s →

The bull market of the 1990s helped traditional annuity assets soar, as investors sought these vehicles to DEFER TAXES ON THE DOUBLE-DIGIT RETURNS IN THEIR PORTFOLIOS. Between 1989 and 1993, individual annuity premiums increased from $58.6 to $71.8 billion.

2000 →

Then, by the late 1990s, with the declining availability of defined benefit pension plans, insurers began to offer traditional VA products with added features and enhanced benefits such as income guarantees as a way to boost sales. This ushered in the era of TRADITIONAL VAs BUILT AROUND UNDERLYING INSURANCE GUARANTEES instead of tax advantages — and propelled VAs to become a trillion-dollar industry by 2000.

2005 AND BEYOND →

Jefferson National was the first to pioneer a FLAT-FEE, NO-LOAD IOVA for the growing market of RIAs and fee-based advisors, launching Monument Advisor in 2005. It continues to be a category leader — one of the lowest cost IOVAs on the market today, saving clients an average of $3,100 per year in insurance fees alone. Simple and transparent, with 9x more funds than the typical VA, this tax-advantaged investing platform is easy for clients to understand, easy for advisors to use and effective for bringing on more fee-based assets.

JNL201503-A037

Spotlight
Mutual Funds

INSIDE

FOREIGN INTRIGUE

International equity funds lure investors as actively managed U.S. equity portfolios leak cash

By Kathie O'Donnell

INTERNATIONAL EQUITY funds continue to soak up investor cash while misery persists for actively managed U.S. stock funds.

Investors pumped $26 billion into international equity funds in May, Morningstar Inc. said. Meanwhile, actively managed U.S. equity funds leaked $2.06 billion. That marked an improvement from April, when net outflows from actively managed U.S. equity funds totaled $18.2 billion, their largest monthly net outflows since July 2014. Those funds lost a record $151 billion in the 12 months ended April 30.

Year-to-date through May, international equity funds had netted $141.1 billion, with passively managed funds accounting for $105.6 billion of those inflows. By contrast, U.S. equity funds posted $45.02 billion of net outflows this year through the end of May, with passive funds attracting $15.9 billion and active funds recording $60.9 billion of net outflows.

Morningstar figures include both open-end mutual funds and exchange-traded funds.

E. Jeffrey Roof, president of Roof Advisory Group Inc., is among those boosting positions in international equity funds. The move is part of his strategy to reduce holdings that could be hurt by a stronger U.S. dollar. Dollar strength makes U.S. goods more expensive, reducing their appeal.

$61B
Net outflows from actively managed U.S. equity funds in the first five months of 2015

"About a year ago, we started to increase our foreign exposure somewhat notably," said Mr. Roof, whose fee-only firm has more than $400 million in assets under management. Roof Advisory went from essentially "zero" in dedicated foreign equity exposure following the 2010 European financial crisis to about 7% to 10% of total equity currently.

All of Roof Advisory's foreign equity exposure is in actively managed accounts, he said. In May, however, about 79% of international equity flows — or $21 billion — went into passive funds, according to Morningstar, consistent with the year-to-date trend.

'MAINSTREAM STRATEGY'

"Indexing is becoming a mainstream strategy in the international equity space," Alina Lamy, a senior analyst at Morningstar, wrote in a report.

Rick Brooks, chief investment officer at Blankinship & Foster, a fee-only financial advisory firm with about $430 million in managed assets, has been moving away from actively managed U.S. domestic stock funds since 2008. Recently, he has begun to shift from active managers to passive investments on the international stock side as well, primarily using ETFs, so far.

"We work very hard to reduce the management fees and transaction costs in our client portfolios," Mr. Brooks said, adding that the best way to do that is by using "passive or relatively passive" strategies such as index funds or funds like those offered by Dimensional Fund Advisors, which employs a systematic, research-backed approach designed to help it beat market benchmarks.

While actively managed U.S. stock funds surrendered $2.06 billion in May, passive funds — which include open-end mutual funds and ETFs that track indexes — registered $1.02 billion of net inflows,

Continued on Page 17

ANASTASIA VASILAKIS

Mutual Funds

Best- and worst-performing equity funds

By category, ranked by one-year total return

LARGE-CAP GROWTH

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Shelton Nasdaq-100 Index Fund Direct (NASDX)	$226.2	**21.96%**	23.99%	20.35%	0.49%
Columbia Large Cap Growth Fund Z (GEGTX)	$3,373.1	**21.94%**	22.91%	17.65%	0.89%
Janus Forty Fund S (JARTX)	$2,320.0	**21.45%**	21.61%	14.86%	1.02%
USAA Nasdaq-100 Index Fund (USNQX)	$805.4	**21.42%**	23.25%	19.67%	0.64%
Rydex Nasdaq-100 Fund Investor (RYOCX)	$915.4	**20.73%**	22.50%	19.05%	1.29%
Deutsche Capital Growth Fund S (SCGSX)	$1,644.6	**19.91%**	21.83%	16.29%	0.72%
Columbia Select Large Cap Growth Fund Z (UMLGX)	$7,111.5	**19.48%**	24.61%	18.68%	0.85%
Polen Growth Fund Institutional (POLIX)	$406.4	**19.20%**	17.81%	N/A	1.00%
John Hancock Capital Appreciation Fund NAV (JHCPX)	$2,289.1	**18.97%**	21.64%	17.17%	0.73%
TIAA-CREF Large-Cap Growth Fund Institutional (TILGX)	$3,120.5	**18.89%**	23.56%	17.94%	0.44%
Bottom 5					
Fidelity Fifty (FFTYX)	$721.3	**7.50%**	20.25%	16.03%	0.83%
John Hancock Select Growth Fund A (RGROX)	$396.5	**7.69%**	15.16%	12.92%	1.18%
Fidelity Focused Stock Fund (FTQGX)	$1,442.2	**8.02%**	20.43%	17.12%	0.91%
RiverPark/Wedgewood Fund Institutional (RWGIX)	$2,065.9	**8.30%**	18.21%	N/A	0.88%
Marsico Growth FDP Fund Investor C (MCDDX)	$156.6	**8.39%**	16.00%	13.36%	2.08%
Classification total/average	**$723,373.9**	**14.38%**	**20.19%**	**15.92%**	**1.19%**
S&P 500 Growth Total Return Index		**14.60%**	**20.97%**	**17.76%**	

LARGE-CAP VALUE

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
DoubleLine Shiller Enhanced CAPE I (DSEEX)	$399.5	**14.12%**	N/A	N/A	0.99%
Fidelity Blue Chip Value Fund (FBCVX)	$378.7	**13.85%**	22.54%	13.05%	0.73%
SunAmerica Focused Dividend Strategy Portfolio A (FDSAX)	$9,195.2	**12.49%**	21.35%	17.97%	1.07%
JPMorgan Large Cap Value Fund Select (HLQVX)	$749.1	**12.43%**	23.28%	14.93%	0.78%
Fidelity Series Stock Selector Large Cap Value F (FRGEX)	$8,334.5	**12.08%**	N/A	N/A	0.55%
Fidelity Adv Srs Stock Selector Large Cap Value (FMMLX)	$1,265.8	**11.91%**	N/A	N/A	0.75%
Northern Large Cap Value Fund (NOLVX)	$105.1	**11.53%**	20.67%	12.92%	0.86%
Touchstone Focused Fund Y (TFFYX)	$1,146.0	**11.29%**	23.67%	16.76%	0.96%
Transamerica Large Cap Value I2 (TWQZX)	$1,867.5	**11.26%**	21.98%	N/A	0.69%
Lyrical US Value Equity Fund Institutional (LYRIX)	$704.9	**11.21%**	N/A	N/A	1.44%
Bottom 5					
Voya Corporate Leaders Trust Fund (LEXCX)	$1,575.0	**1.71%**	16.20%	16.31%	N/A
Hennessy Cornerstone Value Fund Investor (HFCVX)	$146.3	**3.70%**	16.73%	13.27%	1.09%
Nationwide HighMark Value Fund IS (NWKFX)	$142.4	**3.81%**	17.66%	13.77%	0.90%
Cullen High Dividend Equity Fund Retail (CHDEX)	$2,307.8	**4.36%**	14.68%	13.61%	1.01%
Centre American Select Equity Fund Investor (DHAMX)	$199.1	**4.54%**	14.70%	N/A	1.05%
Classification total/average	**$418,626.4**	**8.36%**	**20.00%**	**14.24%**	**1.12%**
S&P 500 Value Total Return Index		**8.89%**	**20.53%**	**14.95%**	

SMALL-CAP GROWTH

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Driehaus Micro Cap Growth Fund (DMCRX)	$116.0	**34.38%**	31.17%	18.45%	1.59%
RS Small Cap Growth Fund A (RSEGX)	$2,090.3	**30.46%**	27.18%	20.73%	1.40%
Federated Kaufmann Small Cap Fund A (FKASX)	$752.1	**26.85%**	23.61%	17.38%	1.96%
Emerald Growth Fund A (HSPGX)	$336.7	**26.77%**	26.42%	20.37%	1.29%
Wells Fargo Advantage Emerging Growth Inst (WEMIX)	$1,038.7	**24.74%**	20.33%	18.74%	0.90%
Harbor Small Cap Growth Fund Institutional (HASGX)	$637.1	**23.16%**	25.94%	17.49%	0.84%
ASTON/LMCG Small Cap Growth Fund N (ACWDX)	$116.1	**22.97%**	26.65%	N/A	1.36%
TCW Small Cap Growth Fund I (TGSCX)	$148.7	**22.25%**	19.04%	11.18%	1.20%
UBS US Small Cap Growth Fund P (BISCX)	$202.5	**22.15%**	24.50%	20.56%	1.00%
American Century Small Cap Growth Fund Investor (ANOIX)	$387.8	**21.58%**	22.93%	16.88%	1.41%
Bottom 5					
Kalmar 'Growth-With-Value' Small Cap Fund Investor (KGSCX)	$689.4	**5.64%**	15.06%	14.74%	1.29%
Hodges Small Cap Fund Retail (HDPSX)	$2,091.9	**6.80%**	24.17%	19.31%	1.37%
Buffalo Small Cap Fund (BUFSX)	$2,306.2	**7.55%**	16.13%	11.56%	1.00%
Neuberger Berman Genesis Fund Investor (NBGNX)	$12,145.8	**8.35%**	16.71%	14.21%	1.02%
LKCM Small Cap Equity Fund Institutional (LKSCX)	$789.3	**8.53%**	15.38%	14.39%	0.94%
Classification total/average	**$168,736.7**	**15.56%**	**20.52%**	**16.13%**	**1.38%**
S&P SC 600 Growth Total Return Index		**14.79%**	**21.23%**	**17.65%**	

SMALL-CAP VALUE

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
John Hancock Small Cap Value Fund NAV	$253.4	**12.45%**	19.37%	14.73%	1.16%
PF Small-Cap Value Fund P	$172.0	**11.68%**	19.34%	14.98%	0.91%
Westwood SmallCap Value Fund Institutional (WHGSX)	$134.1	**11.18%**	23.71%	17.28%	1.10%
Nuveen Small Cap Value Fund I (FSCCX)	$131.9	**10.41%**	21.46%	16.17%	1.23%
Vanguard Small-Cap Value Index Fund Investor (VISVX)	$16,729.5	**10.28%**	22.40%	15.70%	0.24%
RBC Microcap Value Fund I (RMVIX)	$156.2	**10.26%**	22.59%	16.10%	1.08%
Principal SmallCap Value Fund II Inst (PPVIX)	$1,368.5	**10.19%**	22.15%	15.26%	1.06%
Undiscovered Managers Behavioral Value Inst (UBVLX)	$2,207.3	**9.44%**	22.50%	17.64%	1.04%
Northern Small Cap Value Fund (NOSGX)	$2,961.5	**9.16%**	19.74%	14.78%	1.01%
AB Discovery Value Fund Advisor (ABYSX)	$2,493.6	**9.08%**	22.70%	14.70%	0.91%
Bottom 5					
Aegis Value Fund I (AVALX)	$158.9	**-21.46%**	8.67%	7.95%	1.38%
Huber Capital Small Cap Value Fund Investor (HUSIX)	$269.1	**-6.76%**	15.32%	15.04%	1.85%
Heartland Value Plus Fund Investor (HRVIX)	$1,908.7	**-5.43%**	13.21%	9.64%	1.14%
Artisan Small Cap Value Fund Investor (ARTVX)	$863.0	**-5.10%**	8.93%	6.95%	1.23%
Franklin MicroCap Value Fund A (FRMCX)	$407.4	**-2.10%**	15.54%	11.70%	1.16%
Classification total/average	**$97,431.1**	**5.39%**	**18.84%**	**13.33%**	**1.36%**
S&P SC 600 Pure Value Total Return Index		**7.47%**	**24.85%**	**14.73%**	

EQUITY INCOME

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
American Beacon The London Company Inc. Equity Y (ABCYX)	$629.8	**14.17%**	18.49%	N/A	0.90%
Sit Dividend Growth Fund I (SDVGX)	$1,058.5	**11.65%**	18.66%	15.57%	1.34%
Coho Relative Value Equity Fund Advisor (COHOX)	$233.9	**11.53%**	N/A	N/A	0.94%
Shelton Core Value Fund Direct (EQTIX)	$204.3	**11.50%**	19.83%	15.45%	0.84%
Davenport Value and Income Fund (DVIPX)	$417.6	**11.43%**	20.05%	0.00%	1.07%
Goldman Sachs US Equity Dividend & Premium Inst (GSPKX)	$1,471.9	**11.22%**	16.88%	14.05%	0.79%
Nuveen Santa Barbara Dividend Growth Fund I (NSBRX)	$2,744.5	**11.02%**	18.26%	15.68%	0.76%
BMO Dividend Income I (MDIVX)	$130.9	**9.81%**	18.45%	N/A	0.65%
SkyBridge Dividend Value Fund I (SKYIX)	$100.2	**9.71%**	0.00%	N/A	1.00%
Wasatch Strategic Income Fund Investor (WASIX)	$121.9	**9.63%**	20.96%	17.04%	1.01%
Bottom 5					
Good Harbor Tactical Equity Income Fund I (GHTIX)	$170.0	**-12.50%**	N/A	N/A	1.17%
Huber Capital Equity Income Fund Investor (HULIX)	$114.1	**-1.10%**	16.83%	14.77%	1.49%
Invesco Low Volatility Equity Fund A (SCAUX)	$328.9	**2.09%**	16.43%	12.86%	1.14%
Royce Dividend Value Fund Service (RYDVX)	$451.1	**2.45%**	16.33%	12.93%	1.52%
Matisse Discounted Closed-End Fund Strategy Inst (MDCEX)	$128.0	**3.19%**	N/A	N/A	2.18%
Classification total/average	**$342,481.5**	**6.54%**	**17.01%**	**13.84%**	**1.29%**
Russell 1000 Value Total Return Index		**8.85%**	**21.05%**	**15.51%**	

REAL ESTATE

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Altegris/AACA Real Estate Long Short Fund I (RAAIX)	$111.2	**18.02%**	N/A	N/A	2.05%
Guggenheim Risk Managed Real Estate Institutional (GURIX)	$113.1	**16.43%**	N/A	N/A	2.58%
CGM Realty Fund (CGMRX)	$1,193.3	**16.41%**	13.30%	12.88%	0.92%
Cohen & Steers Real Estate Securities Fund A (CSEIX)	$1,266.8	**14.71%**	15.57%	14.52%	1.23%
Baron Real Estate Fund Inst (BREIX)	$1,888.4	**13.07%**	26.51%	21.54%	1.09%
Cole Real Estate Income Strategy (Daily NAV) Inc.	$111.3	**12.87%**	11.83%	N/A	N/A
TIAA-CREF Real Estate Securities Fund Inst (TIREX)	$1,937.7	**12.67%**	13.38%	14.15%	0.52%
Manning & Napier Real Estate Series S (MNREX)	$285.6	**12.21%**	14.56%	13.75%	1.13%
Principal Real Estate Securities Fund R-5 (PREPX)	$2,350.3	**12.20%**	14.62%	14.36%	1.09%
Cohen & Steers Institutional Realty Shares (CSRIX)	$3,083.4	**11.83%**	14.05%	13.80%	0.75%
Bottom 5					
Lazard US Realty Income Portfolio Open (LRIOX)	$144.8	**3.30%**	11.49%	11.50%	1.24%
Fidelity Real Estate Income Fund (FRIFX)	$4,532.5	**5.38%**	9.93%	10.34%	0.83%
Fidelity Series Real Estate Income Fund F (FSRWX)	$843.1	**5.53%**	9.75%	0.00%	0.61%
Forward Select Income Fund A (KIFAX)	$1,822.7	**6.39%**	10.94%	12.05%	1.79%
Neuberger Berman Real Estate Fund Trust (NBRFX)	$1,012.0	**7.32%**	10.76%	12.20%	1.43%
Classification total/average	**$97,875.0**	**9.72%**	**12.60%**	**13.38%**	**1.37%**
Dow Jones U.S. Select REIT Total Return Index		**11.04%**	**13.42%**	**14.23%**	

Assets as of April 30, returns as of June 2. Distinct classes and funds with $100 million portfolio minimum only. Excludes leveraged and inverse funds. Rankings are based on unrounded figures. Three- and five-year returns are annualized. In case of multiple share classes, the oldest share class is listed. N/A = not available (fund has been in operation for less than the years indicated). *Net prospectus

Source: Lipper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Best- and worst-performing fixed-income funds

By category, ranked by one-year total return

CORE BOND

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
TIAA-CREF Social Choice Bond Fund Institutional (TSBIX)	$442.9	**4.38%**	N/A	N/A	0.40%
BlackRock Total Return Fund (MPHQX)	$6,277.4	**3.76%**	4.84%	5.74%	0.54%
SEI Inst Inv Core Fixed Income Fund A (SCOAX)	$5,590.3	**3.26%**	3.05%	5.11%	0.36%
Principal Bond Market Index Fund Institutional (PNIIX)	$1,266.4	**3.11%**	1.82%	3.61%	0.26%
Vanguard Intermediate-Term Bond Index Fund Inv (VBIIX)	$19,429.3	**3.10%**	2.18%	5.14%	0.20%
Western Asset Core Bond Fund I (WATFX)	$3,888.1	**3.08%**	3.09%	5.22%	0.45%
PF Managed Bond Fund P	$534.4	**3.06%**	2.76%	3.96%	0.55%
Baird Aggregate Bond Fund Institutional (BAGIX)	$5,682.0	**3.04%**	3.25%	5.07%	0.30%
DFA Intermediate-Term Extended Quality Port Inst (DFTEX)	$2,605.2	**3.03%**	2.70%	N/A	0.22%
Transamerica Core Bond I2	$923.8	**2.95%**	2.19%	4.03%	0.51%
Bottom 5					
Prudential Core Bond Fund Z (TAIBX)	$110.1	**-0.46%**	0.47%	3.10%	0.45%
Federated Short-Interm Total Return Bond Fund Inst (FGCIX)	$250.5	**0.85%**	2.16%	3.31%	0.36%
MainStay Total Return Bond Fund I (MTMIX)	$1,714.4	**1.07%**	2.85%	4.85%	0.60%
Dreyfus Intermediate Term Income Fund A (DRITX)	$976.4	**1.30%**	2.34%	4.37%	0.89%
Hartford Total Return Bond Fund A (ITBAX)	$1,886.4	**1.31%**	2.40%	3.97%	0.87%
Classification total/average	**$599,822.0**	**1.94%**	**2.18%**	**3.96%**	**0.81%**
Barclays U.S. Aggregate Bond Total Return		**2.54%**	**1.84%**	**3.75%**	

HIGH YIELD

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Fidelity Capital & Income Fund (FAGIX)	$11,120.1	**6.22%**	10.96%	10.02%	0.71%
Fidelity Advisor High Income Advantage Fund T (FAHYX)	$2,114.4	**5.15%**	10.44%	10.04%	1.01%
Artisan High Income Fund Investor (ARTFX)	$692.4	**5.14%**	N/A	N/A	1.11%
Buffalo High Yield Fund (BUFHX)	$262.3	**4.18%**	6.91%	7.45%	1.02%
Lord Abbett High Yield Fund A (LHYAX)	$4,413.0	**3.85%**	9.85%	9.79%	0.94%
Federated High Yield Trust Svc (FHYTX)	$765.6	**3.63%**	11.17%	10.96%	0.99%
Lazard U.S. Corporate Income Portfolio Inst (LZHYX)	$228.6	**3.53%**	7.10%	7.97%	0.55%
MainStay Short Duration High Yield Fund I (MDHIX)	$452.3	**3.50%**	N/A	N/A	0.76%
John Hancock U.S. High Yield Bond Fund NAV	$385.7	**3.42%**	7.32%	7.96%	0.77%
Columbia Income Opportunities Fund A (AIOAX)	$3,316.1	**3.34%**	7.52%	8.72%	1.13%
Bottom 5					
Third Avenue Focused Credit Fund Inst (TFCIX)	$2,461.4	**-15.22%**	6.85%	6.51%	0.88%
Western Asset Global High Yield Bond Fund A (SAHYX)	$415.7	**-3.10%**	6.81%	7.49%	1.14%
Pax World High Yield Bond Fund Investor (PAXHX)	$548.4	**-2.68%**	5.68%	6.52%	0.97%
John Hancock Focused High Yield Fund B (TSHYX)	$497.4	**-2.54%**	8.42%	6.25%	1.75%
Pioneer Global High Yield Fund A (PGHYX)	$1,215.6	**-2.44%**	6.28%	6.67%	1.13%
Classification total/average	**$268,119.4**	**0.83%**	**7.34%**	**8.18%**	**1.12%**
Barclays U.S. High Yield 2% Issuer Cap Total Return		**1.79%**	**8.24%**	**9.20%**	

MULTISECTOR INCOME

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Semper MBS Total Return Fund Inst (SEMMX)	$186.2	**6.08%**	N/A	N/A	0.76%
Spirit of America Income Fund A (SOAIX)	$215.0	**5.75%**	4.65%	7.33%	1.10%
Angel Oak Multi-Strategy Income Fund A (ANGLX)	$3,937.5	**5.19%**	8.30%	N/A	1.45%
Pimco Income Fund;Institutional (PIMIX)	$44,877.2	**4.68%**	9.78%	11.04%	0.45%
Lord Abbett Bond-Debenture Fund A (LBNDX)	$9,778.5	**4.26%**	8.53%	8.85%	0.81%
Aston/DoubleLine Core Plus Fixed Income Fund I (ADLIX)	$363.8	**3.57%**	3.87%	N/A	0.71%
BlackRock Allocation Target Shares Series M (BRAMX)	$534.9	**3.43%**	3.01%	5.68%	0.02%
Eaton Vance Short Dur Strategic Income Fund B (EVSGX)	$2,508.6	**3.14%**	3.82%	3.41%	1.93%
Pimco Fixed Income SHares Series C (FXICX)	$1,844.9	**3.04%**	4.53%	7.32%	0.01%
John Hancock Strategic Income Opportunities Fund NAV	$5,019.9	**2.97%**	6.35%	7.03%	0.67%
Bottom 5					
USAA Flexible Income Fund Adviser (UAFIX)	$168.3	**-1.89%**	N/A	N/A	1.16%
Pimco Floating Income Fund Institutional (PFIIX)	$758.7	**-1.69%**	4.71%	3.65%	0.55%
Russell Global Opportunistic Credit Fund S (RGCSX)	$1,987.2	**-1.59%**	4.84%	N/A	0.89%
Great-West Loomis Sayles Bond Fund Init (MXLMX)	$789.8	**-1.01%**	7.19%	8.06%	0.90%
Eaton Vance Bond Fund I (EVBIX)	$1,913.7	**-0.92%**	N/A	N/A	0.69%
Classification total/average	**$176,977.2**	**1.07%**	**4.79%**	**5.80%**	**1.12%**
Barclays U.S. Aggregate Bond Total Return		**2.54%**	**1.84%**	**3.75%**	

GENERAL AND INSURED MUNICIPAL DEBT

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Nuveen All-American Municipal Bond Fund A (FLAAX)	$2,493.7	**5.02%**	4.12%	6.10%	0.72%
Clearwater Tax-Exempt Bond Fund (QWVQX)	$509.7	**4.95%**	4.92%	6.30%	0.66%
Oppenheimer Rochester AMT-Free Muni Fund A (OPTAX)	$2,016.6	**4.77%**	5.32%	7.72%	1.05%
Wells Fargo Advantage CoreBuilder Shares M (WFCMX)	$277.7	**4.37%**	5.57%	7.54%	0.00%
Lord Abbett National Tax Free Fund A (LANSX)	$1,817.0	**4.30%**	3.91%	5.62%	0.78%
Sit Tax-Free Income Fund (SNTIX)	$163.0	**4.26%**	4.21%	5.45%	0.90%
Eaton Vance Municipal Opportunities Fund I (EMOIX)	$266.9	**4.19%**	4.20%	N/A	0.75%
Principal Tax-Exempt Bond Fund A (PTEAX)	$231.1	**4.18%**	3.54%	4.97%	0.81%
Columbia AMT-Free Tax-Exempt Bond Fund A (INTAX)	$607.2	**4.17%**	4.04%	5.57%	0.83%
Lord Abbett AMT Free Municipal Bond Fund A (LATAX)	$153.6	**4.14%**	3.30%	N/A	0.60%
Bottom 5					
JPMorgan Tax Aware Income Opportunities Fund A (JTAAX)	$423.2	**0.04%**	0.60%	N/A	0.75%
Manning & Napier Diversified Tax Exempt Series (EXDVX)	$400.2	**0.14%**	0.41%	1.75%	0.59%
Old Westbury Municipal Bond Fund (OWMBX)	$1,311.0	**0.49%**	0.70%	1.90%	0.60%
Brown Advisory Tax Exempt Bond Fund Investor (BIAEX)	$225.0	**0.69%**	N/A	N/A	0.53%
Calvert Tax-Free Bond Fund A (CTTLX)	$140.6	**1.07%**	1.95%	3.17%	0.93%
Classification total/average	**$119,695.1**	**3.00%**	**3.04%**	**4.61%**	**1.00%**
Barclays Municipal Bond Total Return		**2.95%**	**2.94%**	**4.46%**	

INFLATION-PROTECTED

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
American Funds Inflation-Linked Bond Fund A (BFIAX)	$985.3	**-0.20%**	N/A	N/A	0.79%
Nuveen Inflation-Protected Securities Fund I (FYIPX)	$375.9	**-0.88%**	-0.90%	3.72%	0.58%
DFA Inflation Protected Securities Portfolio Inst (DIPSX)	$2,934.7	**-1.02%**	-1.28%	3.82%	0.12%
Fidelity Spartan Inflation-Protected Bd Idx Fund FA (FSIYX)	$261.2	**-1.11%**	-1.29%	N/A	0.10%
T. Rowe Price Inflation-Protected Bond Fund (PRIPX)	$401.5	**-1.14%**	-1.39%	3.13%	0.50%
Vanguard Inflation-Protected Securities Fund Inv (VIPSX)	$25,627.3	**-1.16%**	-1.38%	3.41%	0.20%
HC Inflation-Protected Securities Portfolio Strat (HCPBX)	$521.4	**-1.18%**	N/A	N/A	0.16%
TIAA-CREF Inflation-Linked Bond Fund Institutional (TIILX)	$2,049.6	**-1.19%**	-1.42%	3.33%	0.27%
Schwab Treas Inflation-Protected Sec Index Fund (SWRSX)	$264.9	**-1.21%**	-1.41%	3.23%	0.19%
Nationwide Inflation-Protected Securities Fund Inst (NIFIX)	$211.4	**-1.22%**	N/A	N/A	0.30%
Bottom 5					
Lord Abbett Inflation-Focused Fund A (LIFAX)	$851.5	**-5.42%**	0.00%	N/A	0.75%
Columbia Inflation-Protected Securities Fund A (APSAX)	$207.6	**-4.67%**	-2.10%	2.58%	0.85%
Franklin Real Return Fund A (FRRAX)	$347.6	**-4.07%**	1.10%	1.86%	0.92%
Pimco Fixed Income SHares Series R (FXIRX)	$193.7	**-2.70%**	-0.26%	6.66%	0.07%
PF Inflation Managed Fund P	$118.2	**-2.56%**	-1.77%	3.34%	0.54%
Classification total/average	**$84,013.1**	**-2.01%**	**-1.40%**	**2.69%**	**0.83%**
Barclays U.S. TIPS Total Return		**-1.04%**	**-1.17%**	**3.57%**	

LOAN PARTICIPATION

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
DoubleLine Floating Rate Fund I (DBFRX)	$347.9	**3.80%**	N/A	N/A	0.75%
Guggenheim Floating Rate Strategies Fund Inst (GIFIX)	$1,493.8	**3.65%**	6.49%	N/A	0.80%
T. Rowe Price Institutional Floating-Rate Fund (RPIFX)	$3,368.0	**3.51%**	5.20%	5.55%	0.56%
Credit Suisse Floating-Rate High Income Fund A (CHIAX)	$1,901.2	**3.34%**	4.93%	N/A	1.02%
Voya Floating-Rate Fund I (IFRIX)	$976.2	**3.27%**	5.04%	N/A	0.76%
BlackRock Secured Credit Portfolio Investor A (BMSAX)	$293.2	**3.23%**	5.43%	5.78%	0.97%
Dreyfus Floating-Rate Income Fund Y (DFLYX)	$515.8	**3.08%**	N/A	N/A	0.80%
Payden Floating Rate Fund SI (PYFIX)	$175.2	**3.06%**	N/A	N/A	0.65%
Transamerica Floating Rate I2	$275.8	**3.04%**	N/A	N/A	0.81%
T. Rowe Price Floating Rate Fund (PRFRX)	$498.1	**3.03%**	4.55%	N/A	0.86%
Bottom 5					
Hartford Floating-Rate High Income Fund A (HFHAX)	$464.2	**0.55%**	5.47%	N/A	1.07%
Hartford Floating-Rate Fund C (HFLCX)	$5,296.7	**0.57%**	3.67%	4.35%	1.71%
First Investors Floating-Rate Fund A (FRFDX)	$107.1	**0.61%**	N/A	N/A	1.10%
RS Floating-Rate Fund Y (RSFYX)	$1,704.1	**0.74%**	4.62%	5.24%	0.78%
John Hancock II Floating-Rate Income Fund NAV	$3,203.8	**1.13%**	4.69%	5.65%	0.72%
Classification total/average	**$112,458.8**	**2.02%**	**4.73%**	**5.10%**	**1.14%**
S&P/LSTA Leveraged Loan Total Return		**2.76%**	**5.31%**	**5.48%**	

Assets as of April 30, returns as of June 2. Distinct classes and funds with $100 million portfolio minimum only. Excludes leveraged and inverse funds. Rankings are based on unrounded figures. Three- and five-year returns are annualized. In case of multiple share classes, the oldest share class is listed. N/A = not available (fund has been in operation for less than the year indicated). *Net prospectus

Source: Lipper

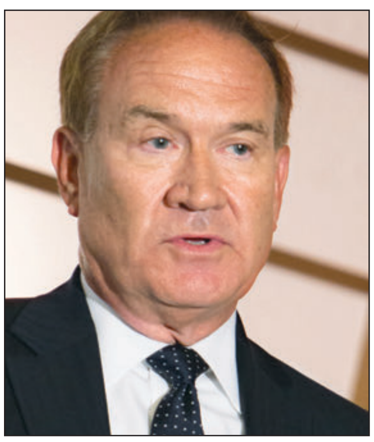
International funds are hot

Continued from Page 12
according to Morningstar.

Passively managed domestic equity funds have experienced just four months of net outflows over the past 29 months, Morningstar said.

Shelly Antoniewicz, senior economist at the Investment Company Institute, said though ICI figures show actively managed domestic stock funds with net outflows of about $60 billion this year through April, the domestic equity picture overall isn't as bleak as it is sometimes made to appear. In fact, when U.S. equity index funds and ETFs are included, domestic equity flows, despite some recent weakness, "have been positive for quite some time."

"You're not getting the big picture if you [say investors are] shunning the domestic equity market," she said, adding that dollar strength



ROARK JOHNSON

"Overall large-cap value exposure ... has dropped a bit."

E. Jeffrey Roof
President
Roof Advisory Group

and concern over a potential Federal Reserve interest rate hike may be curbing investor demand.

Roof Advisory Group has "plenty of U.S. domestic equity exposure," its president said.

"As opposed to painting things with a broad brush, we prefer to take a look at what funds we are utilizing or not, based upon more discrete factors," Mr. Roof said. "And as a result, there's probably not just one generalized category as in domestic equity that we are avoiding."

Instead, Roof Advisory is looking to reduce exposure to funds and individual securities that would be negatively affected by a stronger dollar.

GOING FOR GROWTH

"What has happened is, overall large-cap value exposure for many of our portfolios has dropped a bit in favor more of the large-cap growth exposure," Mr. Roof said, adding that the shift occurred in the first part of this year in particular.

Also, for the first time in many years, Roof Advisory has increased exposure to small-cap funds because they tend to be less affected by dollar strength. Small-cap exposure now accounts for about 5% to 7% of Roof's equity portfolio.

"It's not like we've shifted from large cap to small cap entirely, it's just we did not see the value in the small-cap space until I'd say maybe nine months ago," he said.

Roof Advisory has shortened bond duration. Until the Federal Reserve acts and interest rates rise to a level that makes fixed-income investing more attractive, that will likely continue to mean a tail wind for the equity market, Mr. Roof said.

"Because short-term interest rates are so low, investing in [long-term] bonds in the current environment — especially with the specter of rising interest rates on the horizon — that's a risky proposition," he said "We've shortened our duration and have had it short for several years."

According to Morningstar, intermediate-term bond funds netted $5.3 billion in May, ranking them in third place among top flowing fund categories behind the foreign-large-blend and large-value categories. Of that $5.3 billion, $1.7 billion flowed into actively managed intermediate-term bond funds. Passively managed intermediate-term bond funds netted $3.6 billion last month.

Though bonds and bond funds typically don't do well in a rising interest rate environment, one explanation for intermediate-term bond funds' appeal could be that investors like bonds' lower volatility relative to stocks, Ms. Lamy said.

Investors likely prefer intermediates because they are less sensitive to interest rates than longer maturities, the analyst said. Investors' preference for actively managed intermediate-term bond funds may reflect their faith in active managers' ability to navigate future interest rate volatility, she said.

Mr. Brooks said while he can't say for sure what's driving the interest in intermediate-term bond funds, he does have a theory or two. One is that investors aren't expecting interest rates to rise that quickly, in which case intermediate-term bonds should at least hang in there with short-term bonds.

"Those of us who have been parking money in short-term bonds awaiting the bond market apocalypse have been seriously underperforming intermediate-term benchmarks," he said, adding that a rate hike is "not the kiss of death" for intermediate-term bonds.

"It does mean short-term underperformance, but you have to remember that a bad year in bonds is a bad day in the stock market, and I think advisers are starting to figure that out," Mr. Brooks said.

Another possible help for intermediate bonds is investors' expectation that the dollar will rise against other currencies. That attracts capital from around the world, much of which is looking for bonds, he said.

"Capital flowing into the bond market will put downward pressure on rates, even as the Fed raises short-term [rates]," Mr. Brooks said.

Mutual Funds

Best- and worst-performing international funds

By category, ranked by one-year total return

Equity

INTERNATIONAL SMALL/MID-CAP GROWTH

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Touchstone International Small Cap Fund Y (TNSYX)	$192.6	**10.40%**	22.25%	15.18%	1.32%
Victory Trivalent International Small-Cap Fund I (MISIX)	$485.0	**8.80%**	24.17%	17.50%	0.96%
Oppenheimer International Small Company Fund A (OSMAX)	$3,604.9	**8.09%**	26.48%	18.17%	1.21%
Grandeur Peak Internatl Opportunities Fund Inst (GPIIX)	$856.1	**7.41%**	23.81%	N/A	1.44%
T. Rowe Price International Discovery Fund (PRIDX)	$4,118.6	**7.34%**	18.72%	13.90%	1.21%
AllianzGI International Small-Cap Fund P (ALOPX)	$111.1	**7.28%**	19.11%	14.28%	1.28%
Federated International Small-Mid Company Fund A (ISCAX)	$199.8	**7.07%**	16.92%	12.37%	1.86%
Driehaus International Small Cap Growth Fund (DRIOX)	$321.2	**6.97%**	18.41%	13.48%	1.74%
Oberweis International Opportunities Institutional Fund (OBIIX)	$235.2	**6.94%**	N/A	N/A	1.10%
Oberweis International Opportunities Fund (OBIOX)	$498.8	**6.53%**	30.98%	21.77%	1.60%
Bottom 5					
Westcore International Small-Cap Fund Retail (WTIFX)	$289.2	**-8.21%**	7.66%	10.96%	1.50%
Invesco International Small Company Fund A (IEGAX)	$408.0	**-7.71%**	9.26%	10.23%	1.47%
Columbia Acorn International Select Z (ACFFX)	$249.6	**-7.37%**	9.79%	9.50%	0.94%
Harding Loevner Int'l Small Cos. Portfolio Inv (HLMSX)	$102.1	**-2.48%**	15.12%	12.20%	1.55%
Franklin Int'l Small Cap Growth Fund Adv (FKSCX)	$1,891.9	**-1.52%**	20.62%	13.58%	1.12%
Classification total/average	**$42,097.8**	**1.92%**	**17.24%**	**12.71%**	**1.51%**
MSCI EAFE Small Cap Total Return USD		**2.77%**	**19.28%**	**13.41%**	

EMERGING MARKETS

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
William Blair Emerging Markets Small Cap Growth (BESIX)	$314.0	**14.18%**	20.32%	N/A	1.40%
Fidelity Emerging Asia Fund (FSEAX)	$1,273.2	**13.57%**	14.94%	10.27%	1.08%
Fidelity Advisor Emerging Asia Fund A (FEAAX)	$354.0	**12.62%**	15.00%	9.96%	1.41%
Ivy Emerging Markets Equity Fund A (IPOAX)	$690.4	**12.11%**	12.44%	5.60%	1.50%
Driehaus Emerging Markets Small Cap Growth Fund (DRESX)	$638.2	**8.23%**	17.38%	12.16%	1.73%
Grandeur Peak Emerg Markets Opportunities Fund Inst (GPEIX)	$467.9	**8.08%**	N/A	N/A	1.70%
Seafarer Overseas Growth and Income Inv (SFGIX)	$180.9	**8.02%**	12.88%	N/A	1.25%
Goldman Sachs BRIC Fund Institutional (GBRIX)	$147.7	**6.82%**	9.75%	2.02%	1.26%
Goldman Sachs Emerg Markets Eqty Insights Fund Inst (GERIX)	$647.6	**5.87%**	9.45%	6.24%	1.18%
Templeton Emerging Markets Small Cap Fund Adv (TEMZX)	$778.6	**5.76%**	12.66%	6.50%	1.81%
Bottom 5					
T. Rowe Price Emerging Europe Fund (TREMX)	$194.1	**-26.48%**	-2.93%	-4.76%	1.51%
Templeton Frontier Markets Fund Advisor (FFRZX)	$874.4	**-19.51%**	5.45%	3.18%	1.74%
Brandes Emerging Markets Value Fund I (BEMIX)	$1,293.4	**-16.98%**	4.41%	N/A	1.12%
Forward Frontier Strategy Fund Institutional (FRNMX)	$116.2	**-15.41%**	10.54%	4.77%	1.01%
Voya Russia Fund A (LETRX)	$100.5	**-14.67%**	0.75%	-3.53%	2.00%
Classification total/average	**$318,523.1**	**-2.42%**	**6.61%**	**3.84%**	**1.57%**
MSCI EM (Emerging Markets) Total Return USD		**-0.26%**	**6.66%**	**4.73%**	

JAPAN

All funds	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Brown Advisory-WMC Japan Alp Opportunities Inst (BAFJX)	$1,543.0	**36.81%**	N/A	N/A	1.21%
Hennessy Japan Fund Investor (HJPNX)	$113.5	**17.59%**	19.99%	15.64%	1.64%
Matthews Japan Fund Investor (MJFOX)	$952.7	**17.31%**	20.25%	13.75%	1.10%
DFA Japanese Small Company Portfolio Institutional (DFJSX)	$495.6	**10.31%**	14.53%	10.05%	0.55%
Fidelity Japan Smaller Companies Fund (FJSCX)	$415.9	**9.37%**	23.41%	13.53%	1.01%
T. Rowe Price Japan Fund (PRJPX)	$310.7	**9.34%**	16.90%	10.26%	1.05%
Fidelity Japan Fund (FJPNX)	$508.9	**5.56%**	13.17%	6.15%	0.93%
Classification total/average	**$4,410.8**	**14.09%**	**16.46%**	**9.15%**	**1.55%**
MSCI Japan Total Return USD		**14.94%**	**16.54%**	**9.51%**	

Fixed income

INTERNATIONAL INCOME

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
DFA World ex U.S. Govt Fixed Income Portfolio Inst (DWFIX)	$475.2	**6.87%**	3.84%	N/A	0.20%
Pimco Foreign Bond Fund (U.S. Dollar-Hedged) Inst (PFORX)	$9,395.8	**6.10%**	6.00%	6.24%	0.52%
Vanguard Total International Bond Index Fund Inv (VTIBX)	$39,656.9	**4.89%**	N/A	N/A	0.23%
SEI International Fixed Income Fund A (SEFIX)	$533.1	**4.01%**	3.47%	3.86%	1.05%
CGCM International Fixed Income Investments (TIFUX)	$247.2	**3.82%**	2.95%	4.21%	0.76%
John Hancock Asia Pacific Total Return Bond Fund NAV	$440.0	**0.43%**	N/A	N/A	0.86%
Aberdeen Asia Bond Fund Inst (CSABX)	$255.3	**0.18%**	1.80%	3.88%	0.70%
Templeton Global Bond Fund A (TPINX)	$68,283.5	**-0.30%**	6.43%	5.13%	0.88%
Templeton Global Total Return Fund Adv (TTRZX)	$8,494.7	**-0.53%**	7.76%	6.71%	0.76%
Great-West Templeton Global Bond Fund Initial (MXGBX)	$366.5	**-1.59%**	4.79%	4.15%	1.30%
Bottom 5					
Laudus Mondrian Int't Govt Fixed Income Fund (LIFNX)	$187.5	**-11.52%**	-5.37%	-0.34%	0.69%
American Century International Bond Fund Investor (BEGBX)	$915.2	**-11.17%**	-3.67%	0.74%	0.80%
T. Rowe Price International Bond Fund (RPIBX)	$4,975.9	**-10.97%**	-2.14%	1.57%	0.83%
T. Rowe Price Institutional International Bond Fund (RPIIX)	$343.6	**-10.55%**	-1.54%	1.94%	0.55%
Wells Fargo Advantage International Bond Fund Inst (ESICX)	$1,244.6	**-10.27%**	-1.36%	2.22%	0.70%
Classification total/average	**$145,731.6**	**-5.00%**	**0.68%**	**2.93%**	**1.08%**
Barclays Global Aggregate ex U.S. Total Return		**-11.80%**	**-2.68%**	**1.55%**	

EMERGING-MARKETS HARD CURRENCY DEBT

Top 10	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
HSBC Total Return Fund I (HTRIX)	$1,322.5	**4.37%**	3.94%	N/A	1.32%
DoubleLine Low Dur Emerg Mkts Fixed Income I (DBLLX)	$147.3	**2.69%**	N/A	N/A	0.60%
JPMorgan Emerg Mkts Corporate Debt Fund Select (JEDSX)	$218.7	**2.15%**	N/A	N/A	0.96%
DoubleLine Emerging Markets Fixed Income Fund I (DBLEX)	$830.0	**2.12%**	5.02%	7.23%	0.92%
Voya Emerging Markets Hard Currency Debt Fund P (IHCSX)	$134.0	**1.67%**	N/A	N/A	0.10%
Goldman Sachs Emerging Markets Debt Fund Inst (GSDIX)	$1,739.8	**1.01%**	5.62%	7.45%	0.91%
American Beacon Global Evolution Front Mkts Inc Y (AGEYX)	$183.7	**0.91%**	N/A	N/A	1.26%
MFS Emerging Markets Debt Fund I (MEDIX)	$5,161.9	**0.77%**	5.20%	6.93%	0.84%
Payden Emerging Markets Bond Fund Investor (PYEMX)	$1,017.5	**0.66%**	5.29%	6.68%	0.78%
T. Rowe Price Emerg Markets Corporate Bond Inv (TRECX)	$129.5	**0.64%**	5.79%	N/A	1.15%
Bottom 5					
Lazard Emerging Markets Debt Portfolio Inst (LEDIX)	$441.6	**-8.90%**	1.34%	N/A	0.97%
Northern Multi-Manager Emerg Markets Debt Oppty (NMEDX)	$108.3	**-8.88%**	N/A	N/A	0.97%
Van Eck Unconstrained Emerg Markets Bd Fund A (EMBAX)	$284.6	**-8.57%**	N/A	N/A	1.25%
Pimco Emerg Markets Full Spectrum Bond Fund Inst (PFSIX)	$428.3	**-8.21%**	N/A	N/A	0.99%
MainStay Global High Income Fund A (MGHAX)	$223.4	**-7.32%**	2.94%	5.37%	1.17%
Classification total/average	**$50,237.2**	**-2.41%**	**3.97%**	**5.97%**	**1.23%**
JPMorgan EMBI Global		**0.27%**	**5.08%**	**7.14%**	

EMERGING-MARKETS LOCAL CURRENCY DEBT

All funds	Portfolio net assets ($M)	1-year return	3-year return	5-year return	Expense ratio*
Eaton Vance Emerg Markets Local Income Fund A (EEIAX)	$256.1	**-11.15%**	-0.90%	0.91%	1.31%
TCW Emerg Markets Local Curr Income Fund N (TGWNX)	$268.4	**-11.48%**	-1.60%	N/A	0.99%
Hartford Emerging Markets Local Debt Fund A (HLDAX)	$288.2	**-12.00%**	0.80%	N/A	1.25%
MFS Emerging Markets Debt Local Currency Fund I (EMLIX)	$331.8	**-12.16%**	-1.58%	N/A	0.85%
Payden Emerg Markets Local Bond Fund Investor (PYELX)	$150.9	**-12.51%**	-2.33%	N/A	0.96%
T. Rowe Price Emerg Markets Local Currency Bond (PRELX)	$191.6	**-13.08%**	-1.65%	N/A	1.10%
Pimco Emerging Local Bond Fund Institutional (PELBX)	$8,117.2	**-13.34%**	-2.63%	0.84%	0.90%
JPMorgan Emerg Markets Local Curr Debt Fund A (JECAX)	$296.6	**-14.38%**	N/A	N/A	1.25%
Goldman Sachs Local Emerg Mkts Debt Fund Inst (GIMDX)	$1,383.6	**-14.56%**	-2.03%	0.87%	0.92%
Stone Harbor Local Markets Fund Inst (SHLMX)	$1,606.5	**-14.58%**	-4.04%	N/A	0.89%
Dreyfus Emerg Markets Debt Local Currency Fund I (DDBIX)	$1,065.4	**-15.88%**	-1.58%	0.56%	1.00%
Classification total/average	**$14,674.6**	**-11.79%**	**-1.68%**	**1.08%**	**1.24%**
JPMorgan EMBI Global		**0.27%**	**5.08%**	**7.14%**	

Assets as of April 30, returns as of June 2. Distinct classes and funds with $100 million portfolio minimum only. Excludes leveraged and inverse funds. Rankings are based on unrounded figures. Three- and five-year returns are annualized. In case of multiple share classes, the oldest share class is listed. N/A = not available (fund has been in operation for less than the year indicated). *Net prospectus

Source: Lipper

Harvesting data on advisers

Continued from Page 1

firm as well as factors like the number of BlackRock emails they open and the number of links they click on.

Like most top money managers, the company has access to data on hundreds of thousands of advisers, virtually the entire population in the U.S., including those with whom they have never done business.

"We're able to identify brokers where there's high engagement and low value and able to direct our investment consultants to help those advisers extract more value from BlackRock, which subsequently means that they use more BlackRock products," Charles S. Hallac, the company's co-president, said about the initiative last year.

The world's largest asset management firms have quietly launched an arms race to collect, analyze and exploit data about financial advisers. Some of the larger companies have entire teams dedicated to the effort.

"It's not obvious. We don't tell them that we're doing this."

Bob Cunha
Marketing and distribution manager
Eaton Vance

The data typically include the investment product purchase history for the adviser and the adviser's firm, market share information about the adviser's practice, web statistics pulled from fund companies' own sites and information from the adviser's broker-dealer.

These investment firms are looking for clues about how to sell products better, and in some cases how to predict what advisers will do before they even know, according to interviews with nearly a dozen fund company executives, as well as officials from technology firms and broker-dealers.

Companies say the goal of data harvesting is, at its simplest, to understand when — and when not — to speak to an adviser. In some cases, that may mean an asset manager stops emailing or calling because it knows the adviser isn't interested.

'GOOD MANNERS'

"In most cases, it's not obvious. We don't tell them that we're doing this, but if they thought about it they might notice that they get fewer emails from us that are not helpful," said Bob Cunha, a veteran of the fund-data space who now manages marketing and distribution strategy at Eaton Vance Corp., which manages $296 billion. "We think that's common sense, and that's good manners."

The efforts come as the industry is being squeezed. Management fees are under pressure. The cost of paying wholesalers, in some cases, has increased. Regulators are seeking more authority to regulate the industry. And more than half of mutual fund assets are in stock-picking strategies that have lost more than $600 billion from investor withdrawals over the last seven years.

"Today's mutual fund wholesaler is a besieged gladiator, fighting to gain favorable attention from advisers," according to one marketing brochure directed at asset managers, which positions "predictive analytics" as the solution. "Greater ethical and fiscal oversight has reined in the practice of lavishing advisers with expensive dinners, golf outings, wines and other gifts. Such interactions now receive a higher level of scrutiny from internal compliance personnel, regulators and the media."

If success in the industry requires not just good performance but taking market share and building a brand, that gives new urgency to questions such as: How often does an adviser trade and what will she want to buy next? And asset managers believe answering those questions could help advisers win assets they otherwise wouldn't and keep them for longer.

LAGGING OTHER INDUSTRIES

In today's world, a natural place to turn for answers would be data but some firms say asset managers are far behind consumer businesses such as online retailers and credit card issuers at using data.

Netflix Inc., for instance, has used information about its cus-

Continued on Page 20

BLOOMBERG

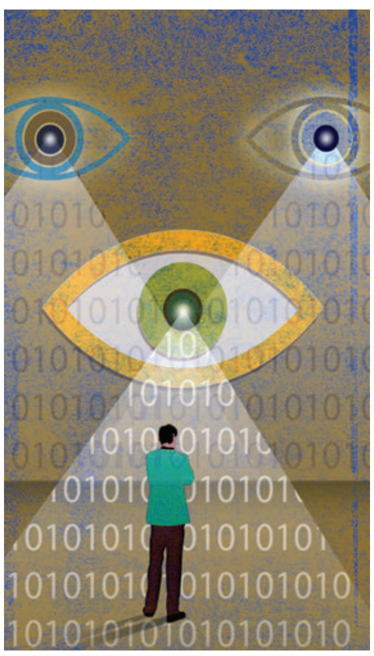
Numbers-driven: Netflix crunched its data to come up with "House of Cards."

Harvesting data on advisers

Continued from Page 19
tomers' viewing habits to develop new series and recommend programming. With its blockbuster "House of Cards," Netflix did both.

Crunching its own data, the video-streaming service found that a good portion of its audience liked director David Fincher of "The Social Network" fame, movies that featured actor Kevin Spacey and political thrillers. When "House of Cards" — produced by Mr. Fincher and starring Mr. Spacey — debuted, it was promoted extensively and automatically among that target audience. Netflix also delivered trailers tailored to what audience members had watched most recently.

"I don't think asset managers always use the data that they have


GETTY IMAGES

"The data sources are just becoming so much more effective."

Aric Faber
VP of sales and marketing
SalesPage Technologies

today as effectively as they should, but the data sources are just becoming so much more effective," said Aric Faber, vice president of sales and marketing at SalesPage Technologies. The firm is one of many that have popped up and grown as asset managers look to catalogue and analyze data on advisers. "Broker-dealers are increasingly providing more information. Historically they've been pretty close to the vest."

SELLING DATA

Now the largest wealth managers have entered the business of selling adviser data to fund companies. They join a group of third-party firms — like FactSet Research Systems Inc.'s Market Metrics, Pershing's Albridge Solutions Inc. and DST Systems Inc. — that already specialize in collecting and selling data about financial advisers.

InvestmentNews reported in March that Morgan Stanley's wealth division was developing a program to sell data about which of its financial advisers are selling funds — and which funds they are selling — to exchange-traded fund managers, which otherwise have little information about their customers.

In regulatory filings, the largest U.S. wealth manager by adviser head count disclosed that it now charges asset managers of all stripes between $100,000 and $200,000 a year for data on advisers.

Another wirehouse, UBS AG, said its large U.S. wealth management unit is planning to sell data on its complete group of nearly 7,000 advisers for between $150,000 and $300,000. Other firms could follow suit. (Those brokerage firms either declined to comment or did not respond to inquiries.)

Advisers who are the subject of these deep data dives have mixed feelings about it. Mr. Huber said he thinks it's smart of mutual fund companies to learn more about advisers.

"They can't just come into your office and immediately start pitching product," he said. "They have to understand what your firm's investment approach and philosophy is, and start the conversation there."

CHANGING BEHAVIOR

However, at the same time, he said knowing that his online activity is being monitored has trained him to be more reluctant to check the emails and browse the websites of the companies watching him.

Keith Amburgey, CEO of Rutherford Asset Planning, said he doesn't have a problem with what asset managers are doing as long as details on specific clients are left out of the information they are gathering.

Tony Sirianni, a former adviser who now runs a public relations and marketing firm, said he doesn't see the benefit to advisers of asset managers "looking over their shoulders."

"What an adviser is recommending to a client is "the client's business and it's the adviser's livelihood, so in my mind you don't need a third party in there," Mr. Sirianni said.

Financial planner Michael B. Keeler said he's not interested in having fund companies magnify the faults of each of their competitors whose products he uses.

"I'm very cagey at what information I give them," Mr. Keeler said. "In my opinion, they would not know what fund I need just from their limited view."

Financial advisers may not need to be as concerned as they are. That's because the data, in some respects, is still very raw. Much of what exists today is basic, not transparent, or "unstructured," which simply means the data aren't organized in a useful way, according to asset managers.

So the day of being able to generate full-scale predictive or behavioral models is far away — if it's even possible, asset managers said.

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

SEC use of in-house judges may be unconstitutional

U.S. district court questions regulator's diverting of cases

Bloomberg News

The Securities and Exchange Commission probably overstepped its constitutional authority by tapping an in-house administrative judge to preside over an insider-trading case, a federal judge has ruled.

U.S. District Judge Leigh Martin May's decision last Monday that the SEC may not have the authority to divert such cases from regular courts halted its action against a Georgia real estate developer. Charles Hill was accused of profiting from trades made after he received a tip from a friend. He sued in Atlanta federal court to block the administrative action.

Ms. May said the SEC's appointment of an in-house judge, James Grimes, in Mr. Hill's case was "likely unconstitutional." The Constitution requires that judges be appointed by the president, a department head or the judiciary, Ms. May said.

The SEC's use of administrative proceedings for enforcement actions has drawn increasing scrutiny from securities lawyers in recent months. Critics of the process say it is unfair because the administrative law judges are hired by the SEC, and defendants don't have the same opportunity to uncover evidence in their favor as they would in federal court.

The ruling will create future headaches for the agency when it comes to deciding which cases can be heard through the administrative system rather than in courts, said Jacob Frenkel, a former SEC enforcement lawyer who has raised similar constitutional issues with the agency on behalf of his clients.

'JARRING IMPLICATIONS'

"This ruling has jarring implications for the SEC because it's the first time a judge has embraced constitutional challenges to the ALJ system," said Mr. Frenkel, now in private practice in Washington. "The question is whether the SEC has the power under the law to appoint these administrative judges and delegate the authority to them to decide these cases. That remains an open question."

The Constitution requires such officials be properly appointed by the president, courts or an agency, but questions have been raised as to whether the SEC has the right to delegate power to such nonjudicial officers, Mr. Frenkel said. "Congress could easily fix this problem through legislation, but it has not yet done so," he added.

> "THE QUESTION is whether the SEC has the power under the law to appoint these administrative judges."
>
> **Jacob Frenkel**
> Former SEC enforcement lawyer

The insider-trading case against Mr. Hill stems from the SEC's claims that he reaped $744,000 in illegal profits from a tip that Radiant Systems Inc., which makes customer service sales equipment and software, was set to be acquired by NCR Corp. for $1.2 billion in 2011.

While Mr. Hill's lawsuit is pending, last Monday's decision bars the administrative action against him from proceeding with a judge who doesn't meet the constitutional appointment requirement.

Judy Burns, an SEC spokeswoman, said the agency is reviewing last Monday's decision.

Lynn Tilton sued the SEC in April, claiming its pursuit of fraud claims against her and her firm, Patriarch Partners, violates the Constitution. The distressed debt manager is seeking to move the SEC's case into federal court.

The SEC prevailed in April against a former Standard & Poor's official who made similar claims against the internal proceeding.

Barbara Duka, who was co-head of S&P's commercial mortgage-backed securities unit, argued SEC hearing officers are unconstitutionally protected from removal by the president. She argued that violated the separation of powers.

In April, U.S. District Judge Richard Berman in Manhattan ruled Ms. Duka failed to show she was likely to win on her claim.

Breaking up is hard to do, but this firm made it easy

By Liz Skinner

Three advisers who have lived through both bitter partnership breaks and now an amicable one said the latter is worth the time and effort because it's easiest on clients.

A year ago FJY Financial co-founder Dan Joss left the advisory firm he, Marjorie Fox and Jon Yankee formed nine years ago after the trio split from financial planning firm Rembert D'Orazio & Fox. That first breakup with Rembert was acrimonious and included years of bickering over clients, the trio said.

So when Mr. Joss decided to leave last spring for personal and professional reasons, the team vowed to make sure things went more smoothly.

"Our goal was to make it as least disruptive for clients as possible," Mr. Yankee said June 4 in a meeting of the three former partners at FJY Financial's headquarters. "We had strategy sessions and hired a public relations firm to talk about how to do that."

> "OUR GOAL was to make it as least disruptive for clients as possible."
>
> **Jon Yankee**
> Partner
> FJY Financial

The advisers agreed that Mr. Joss and Ms. Fox would approach clients on a call together and let them choose whether to follow Mr. Joss or remain with FJY Financial. On each client call, the two alternately pitched their services without saying anything negative about each other. They gave clients about a month to make their choice.

Mr. Yankee, who didn't have any joint clients with Mr. Joss, made calls to alert the firm's other clients about the partner's departure.

FOLLOWERS

About 25 of the firm's approximately 240 relationships decided to follow Mr. Joss to Covenant Wealth Advisors. Both Mr. Joss and Ms. Fox said they ended up being surprised in some cases by the decisions clients made — in both directions.

"Some clients I would have liked to have stayed followed Dan, and that made me a little sad, but that was part of putting clients first," Ms. Fox said.

Some clients were unhappy they had to choose either the firm or Mr. Joss, and a few even decided on neither. A couple of Mr. Joss' clients chose not to go with him (nor to stay with the firm) because they were worried about his relocation nearly 200 miles away to Williamsburg, Va., from Reston, Va., near Washington, D.C., Ms. Fox said.

Under the agreement the partners worked out, Mr. Joss compensated the firm for clients who came with him. When clients stayed with the firm, it increased the value of Mr. Joss' partner payout. These terms have now been written into the firm's partnership agreement.

As with any deal, there were challenges.

The loss of Mr. Joss created capacity constraints for the other partners, who believe lead advisers should have at most 60 to 70 relationships, ideally. Mr. Yankee's client load swelled into the 90s for a time and Ms. Fox began working more hours again, after starting to reduce them as she headed toward a 2022 retirement.

Ultimately the firm hired another experienced adviser and two other young professionals to help with the workload. Around the same time, FJY Financial made adviser Laurie Belew a partner and acquired her father's Midland, Texas-based advisory firm.

Ms. Belew's father, Larry Adams, who mostly manages money, became a fourth partner in FJY Financial after that transaction closed. Ms. Belew moved to work in Midland, though she still handles many long-time clients by traveling back to the Washington region a few times a year, Mr. Yankee said.

Still friends: Dan Joss, Marjorie Fox and Jon Yankee (l-r) worked to make Mr. Joss' departure as serene as possible.

LIZ SKINNER

Thanks to the client assets gained in the acquisition of Mr. Adams' firm, FJY Financial's asset level after Mr. Joss left remained about the same for last year. Now it has grown to about $423 million in assets and about 305 client relationships.

ANOTHER MOVE

As for Mr. Joss, he's making another move, but staying in Williamsburg.

He's in the process of leaving Covenant Wealth Advisors and creating his own firm. Most of his clients are following him again, but one who didn't want to work with a solo adviser is actually returning to FJY Financial, Mr. Joss said.

Mr. Joss left FJY Financial because he and his wife decided they wanted to live full-time at their Williamsburg vacation home, and to allow him to do more life planning with clients. He trained at the George Kinder Institute of Life Planning in 2008.

FJY Financial practices holistic financial planning, but its process doesn't include the deep conversations to help clients uncover their aspirations that life planners practice, Mr. Yankee said.

Mr. Joss would not say what happened to make him decide to form his own solo firm and leave Covenant Wealth Advisors.

"You can't ever know the future," he said. "You try to plan for the ideal, but you have to be willing to accept whatever happens."

lskinner@investmentnews.com
Twitter: @skinnerliz

Donor funds lessen headaches for wealthy

By Liz Skinner

Wealthy Americans think more strategically about their charitable gifting than one might expect.

About 90% of donors who contribute to charities through donor-advised funds each year do so for the immediate tax deduction, a new survey of 119,000 of Fidelity Charitable's donors found.

Specifically, about three-quarters of donors cited an interest in lowering capital gains taxes or being able to give more to charities by using the tax-advantaged vehicle. Seventy-six percent like having the flexibility to stock DAFs with appreciated assets like publicly traded stock, according to the survey released last Wednesday.

But donors are motivated to give beyond the tax breaks.

Three-quarters of donors also liked that the funds allow them to continue to invest and build their charitable funds, and 69% appreciate that using the funds is an organized way of giving and offers a clear record of donations.

"Our account has made us more conscious about where we want to focus our support, and at what level," donor Stephen Sternheimer said in Fidelity Charitable's 2015 Giving Report. "This enables us to have a more reasoned, thoughtful approach to giving."

Understanding the motivation behind investors' use of these funds can offer advisers insight into the minds of clients and potential clients. About $17 billion was contributed to donor-advised funds in 2013, according to the National Philanthropic Trust, and more than $50 billion currently sits in the accounts waiting to be distributed to charities.

> **"OUR ACCOUNT has made us more conscious about where we want to focus our support, and at what level."**
>
> **Stephen Sternheimer**
> Donor quoted in Fidelity's 2015 Giving Report

'WONDERFUL OPPORTUNITY'

Advisers increasingly are discussing philanthropic issues with clients as the industry moves away from a focus on asset management toward holistic wealth management, said Brian Deacy, Fidelity Charitable's national fundraising manager.

"Many advisers have realized discussions about gifting are a wonderful opportunity to optimize the relationship with their clients," Mr. Deacy said.

The survey also found that more than two-thirds of donors like that DAFs afford them time to decide where to send their charitable dollars. Unlike a foundation that must distribute 5% of funds each year, there are no such distribution rules for DAFs.

The majority of donations to the funds, however, are passed on to charities within 10 years, according to the report.

The wealthiest donors surveyed, those who have DAFs worth more than $250,000, especially appreciate that the funds can be built up to provide a large future gift, to leave a charitable legacy and to bring a family together around charitable giving.

The largest DAFs are run by Fidelity, Charles Schwab and Vanguard, which collect fees for administering the funds.

lskinner@investmentnews.com
Twitter: @skinnerliz

Be hypervigilant about cybersecurity

Advisers must protect their own data and ensure clients do same

By Alessandra Malito

Advisers beware: Cyberattacks are occurring with ever greater frequency. But being prepared will help mitigate damage to clients.

Just recently, both the Internal Revenue Service and the federal Office of Personnel Management was the victim of cyberbreaches, compromising the personal data of millions. Advisers, who are the gatekeepers of account holders' assets and sensitive information, can be the target of hackers as well.

"Hackings are happening all of the time," said Sid Yenamandra, chief executive of Entreda, a cybersecurity and risk management company. "Advisers have a very high responsibility factor to their clients to make sure they safeguard their data."

According to a Securities and Exchange Commission sweep on cyberattacks earlier this year, 88% of broker-dealers and 74% of advisers said they have experienced cyberattacks directly or through their vendors. Most of those incidents were related to malware and fraudulent emails, through which hackers tried to transfer client funds.

AFTER AN ATTACK

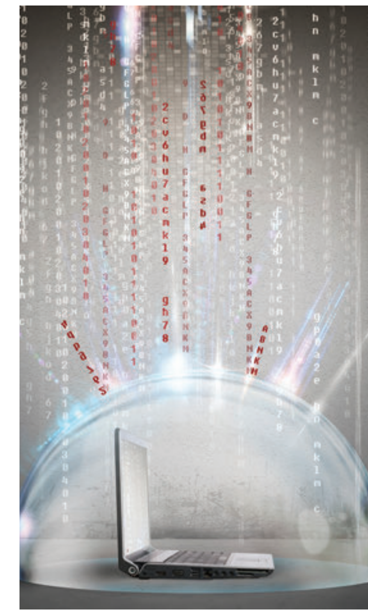
Even when advisers take great measures to ensure air-tight security, sometimes a cyberattack is unavoidable. So once a breach is uncovered, a few quick recovery steps should be taken.

Change passwords. Although it seems obvious, going into every account an adviser has and changing the passwords is crucial once a breach occurs.

"Precious time gets spent in just trying to figure out what is going on," Mr. Yenamandra said. "If you've been breached, the damage is continuing to happen."

Investigate, and get help. Before contacting any affected parties, advisers should assess the state of their equipment and accounts, making a copy of all their computer's files and programs as soon as possible.

Advisers should already have a list of all of the email, software and social media accounts they have control of. They also should check their system for any malware that may have been left behind.



ISTOCK

Brian Edelman, chief executive of Financial Computer Services, a company that specializes in cybersecurity, said the first thing advisers should do — after changing their passwords — is contact an attorney and learn their state's cybersecurity rules.

"The fundamental problem is your knee-jerk reaction and what you should do, [which] are two different things," Mr. Edelman said. "The knee-jerk reaction is to try and fix it."

Notify those involved. After the initial steps are handled, advisers should tell their clients of the occurrence and what they can do.

> "ADVISERS HAVE have a very high responsibility factor to their clients to make sure they safeguard their data."
>
> **Sid Yenamandra**
> CEO
> Entrada

Although it can be a tough conversation to have, being honest and showing clients what steps have been taken to ensure it doesn't happen again is important, said Arlene Moss, a financial adviser coach with Kimberlite Coaching and Community Strategies.

Advisers can come prepared with a list of actions client can take, and win points "just letting your clients know that you're there for them and you're going to take care of them, no matter what," she said.

Advisers should notify their compliance offices and the SEC or Financial Industry Regulatory Authority Inc.

Be proactive. The SEC is urging advisers to create cybersecurity plans, which would address the risks of potential breaches. The written, formal document would recommend conducting periodic data assessments, as well as encrypting and backing up sensitive data. According to the SEC's sweep, 93% of broker-dealers and 83% of advisers have adopted these written policies.

"I would hope they take all of the precautions: firewalls, filters and encryptions," said Sheryl Rowling, a financial adviser with Rowling & Associates. But hackers, she added, "are becoming more and more aggressive and more and more sophisticated."

amalito@investmentnews.com
Twitter: @malito_ali

A mere slip of the tongue could cost you your business

A close friend of mine in the industry had been an independent financial adviser for decades. He worked hard to build a strong business, made a great living and, most importantly, helped hundreds of clients and their families reach their financial goals and dreams. One day it all came perilously close to crashing down, all at once — and all due to an innocent verbal comment.

Over a casual social dinner, a client briefly mentioned a potential real estate investment he was thinking of making on his own — with no involvement whatsoever on my friend's part — and asked in passing what my friend thought of the potential investment. Without thinking too much about it, the financial adviser responded that it sounded reasonable and the conversation quickly turned to another topic.

This passing exchange, however, became problematic when the investment turned sour a few years later. The client sued him, alleging bad advice — even though my friend never made any money from the transaction and was not involved in any way. Unfortunately, those details made no difference. In the resultant regulatory process, my friend ended up almost losing his Finra registration, which meant he very nearly lost everything: his business, his livelihood and all his client relationships … it had all been jeopardized by one unwitting mistake.

SERIOUS RISK

If this scenario sounds extreme to you, that's because it is. It's also true. Financial advisers across the country are putting their businesses at serious risk every day by making similar gaffes. There's typically no malice or ill intent, just momentary thoughtlessness with no monetary gain to the adviser.

So this begs the question: How much is your registration worth to you? For many successful independent advisers, a securities registration is extremely valuable, after factoring in yearly production figures and what the book of business could capture on the open market. With this in mind, when it comes to managing compliance and other risks, advisers should consider the following approach:

Rely on your broker-dealer for compliance support. Given today's increasingly complex and ever-changing regulatory environment, it's nearly impossible for advisers to shoulder their compliance responsibilities alone. Nor should you try. If you're not sure about something, ask your broker-dealer's compliance department. Arbitration hearings are an unfortunate reality in this business, and if an adviser comes armed with highly detailed notes, it's often the difference between winning and losing a case.

Be in the know at all times. If you are an adviser registered with the Financial Industry Regulatory Authority Inc., you are expected to know what your regulatory and compliance responsibilities are. You have taken — and passed — countless exams and have ongoing continuing education obligations, but it's impossible to know too much about compliance and regulatory issues.

Always be vigilant about what you say and how you say it. Always have your adviser hat on. Anytime you are talking about an investment or personal finances — even at a party, on the golf course or at dinner with a friend — be aware of your compliance responsibilities, along with the potential consequences. Even seemingly harmless and inadvertent verbal slip-ups can cost you your ability to do business.

Stay mindful of overlapping client and family relationships. Conflict-of-interest rules apply to family as much as to any other type of client. This often means common and otherwise harmless personal financial transactions between family members are impermissible once it overlaps with a professional advisory relationship. For example, if your parents are clients, you may be restricted from helping to pay for their long-term-care needs, since this could be considered a gift. Advisers should have any such payments fully vetted and documented and should always bring these types of issues to the compliance department.

Eliminate potential bad actors. You don't have to work with everyone who walks through the door. While the overwhelming majority of retail investors simply want to save for retirement and protect their families, bad actors exist. It's difficult to fully screen every client, but if they have unrealistic expectations at the outset, it's probably best to move on to the next opportunity. No one likes to lose revenue, but it's not worth risking your business for one client.

It is easy to definitively answer the question of how much your Finra registration is worth: a great deal. Your approach to risk management and compliance should reflect that reality.

Marshall T. Leeds is president and chief executive of Summit Brokerage Services Inc., an independent broker-dealer within Cetera Financial Group.

Time to create a workable 'best interests' standard

The following is an edited speech given by Richard G. Ketchum, chairman and chief executive of the Financial Industry Regulatory Authority Inc., before the 2015 Finra annual conference on May 27.

I would like to discuss the important question of the appropriate standard of care for brokers and dealers or, more directly, whether the time has come to require broker-dealers, when recommending a security or strategy to retail investors, to ensure that the recommendation is in the "best interests" of the investor.

A "best interests" or "fiduciary" standard is, of course, not new. It has existed under common law for centuries and has applied to investment advisors for over 50 years. Under common law, a broker-dealer also has a fiduciary duty under certain circumstances, as many court cases demonstrate.

The Securities and Exchange Commission staff, responding to one of the Dodd-Frank provisions, authored a thoughtful study recommending that there should be a common fiduciary standard applicable to both broker-dealers and investment advisers in their interaction with retail investors. The fiduciary question is now even more front and center with the Labor Department's recent proposal to expand the definition of "fiduciary" for ERISA and IRA purposes. The Prohibited Transaction Exemptions, or PTE, has been crafted with the stated intent of accommodating various business models and preserving investor choice in how to obtain advice.


GETTY IMAGES

"BEST INTERESTS"

I have spoken out in support of a "best interests of the customer" standard for a number of years. I continue to believe today that, for both investor protection and firm cultural reasons, a best-interests standard for broker-dealers — under the securities laws — is the direction we must go. Yet I have to admit that I have been disappointed regarding some of the recent rhetoric about the broker-dealer industry and its regulation that accompanied the Labor Department proposal. This strident dialogue is a disservice to a wide range of investment firms truly working to serve their clients' interests. It also ignores the strengths of the present securities regulatory system which has evolved over decades to encourage a culture of compliance, demanding proper management and disclosure of a firm's conflicts, and holding firms and registered persons accountable if they fail to meet those standards.

I would like to lower the noise level and explain why, notwithstanding the strength of the present regulatory system, I believe moving to a properly designed best-interests standard is a must; why, notwithstanding their good- faith intentions, I believe the current Labor Department proposal is not the appropriate way to meet that goal; and, finally, suggest an alternative approach that might help move us forward.

A best-interests standard tailored for broker-dealers aligns the needs of the investor with the goals of the securities firm. It protects investors by providing a more consistent set of obligations across securities advice providers. And it supports the direction of many broker-dealers today.

A best-interests standard tailored for broker-dealers would build on the extensive protections already provided by broker-dealer regulation. The SEC and Finra, of course, regulate virtually all aspects of a broker-dealer's business. The overarching principle that drives that regulatory structure is that a broker-dealer "hangs out a shingle" that implicitly represents that it will deal fairly with the public. While the shingle theory does not generally assume that broker-dealers are fiduciaries, brokers with investment or trading discretion or effective control over a customer's account have been deemed to be fiduciaries. It is important to underline that the rules require that brokers perform due diligence on a product they recommend to ensure that it is reasonably suitable for any customer, and is also suitable for the specific client based on his or her needs, sophistication, risk tolerance and financial circumstances.

FINRA EXAMS

Finra rules are backed by an active program that examines all broker-dealers, depending on their size and activity, none less than every four years and, for large firms, every year. Combine that with strong written supervisory requirements and comprehensive oversight of firms' advertising to ensure both fairness and balance, and the result is a very strong and effective regulatory framework.

> *Brokers with … discretion or effective control of a customer's account have been deemed to be fiduciaries.*

In addition, Finra rules and their enforcement have consistently addressed conflicted advice and self-dealing. In particular, there are limits on compensation, required disclosure of various conflict circumstances and prohibited transactions. Our rules (1) restrict the payment of noncash compensation to broker-dealers and registered representatives in connection with the sale of mutual funds, variable annuities and various other products, (2) prohibit recommendations of investment companies whose 12(b)-1 fees and sales loads exceed the caps in our rule, (3) require that principal trades, commissions, fees and expenses must be disclosed to the customer and (4) require that revenue-sharing arrangements with mutual funds generally must be disclosed if they form a basis for the selection of funds that the broker-dealer recommends.

Through rule adoption and enforcement actions, the SEC and Finra have adjusted regulatory requirements to address many conflict issues. Moreover, our Conflicts Report emphasizes that many financial firms have made progress in improving their conflict management process by, among other things, (1) increasing the independence of their private wealth groups in making product selection and product approval decisions, (2) increasing the availability of third-party, nonproprietary products, (3) improving the disclosure regarding product and administrative fees and (4) improving their supervision of product sales that involve higher commission and fee incentives. And we explicitly point out in our Conflicts Report that it is an effective practice for firms to adopt a "best-interests of the customer" standard.

While this summary is not, in any way, meant to suggest that the present regulatory system is perfect, it does show that depictions of the present environment as providing "caveat emptor" freedom to broker-dealers to place investors in any investment that benefits the firm financially with no disclosure of their financial incentives or the risks of the product, are simply not true. Nor are they an accurate starting point to justify a new standard of care.

THE RIGHT WAY TO GO

Notwithstanding the effectiveness and fundamental integrity of the present Finra/SEC regulatory structure for broker-dealers, I continue to believe that it is the right time to move forward to a best-interests standard for broker-dealers. Why?

First, our examinations and enforcement dockets continue to reveal unacceptable instances of unsuitable sales of more-complex products without the appropriate disclosure to clients of the downside risks and fees associated with the products. Second, while we provided best-practice examples in our Conflicts Report of firms implementing rigorous programs to identify and aggressively manage conflicts relating to their retail client businesses, some firms continue to approach conflict management on a haphazard basis, only implementing an effective supervisory process after a failure event involving customer harm occurs. Third, despite our notice on firms' obligations regarding recommendations of 401(k) conversions to IRAs, we continue to be concerned that there is often not enough effort made to provide a balanced discussion of the potentially higher fees involved in IRAs to permit a customer to make a fully informed decision. In addition, there is the simple but important matter of investor confusion about today's differing standards for broker-dealers and investment advisers.

STEP FORWARD

In summary, I continue to believe that the clarity of a "best interests of the customer" standard would be an important step forward in encouraging firm compliance cultures that translate to consistent actions to place the interests of the customer first.

I am focused here on a broker-dealer best-interests standard under the securities laws, rather than the present Labor Department proposal. Let me be clear that I believe that the proposal was a very good faith effort to address an important investor protection imperative and clearly DOL has a special interest in recommendations to move assets out of 401(k) s and IRAs. Moreover, the core features of their relevant proposed Prohibited Transaction Exemption — the demonstration that a recommendation was in the customer's best interest, through (1) the identification of material conflicts of interest, combined with adoption of procedures to prevent such conflicts from causing unbalanced advice, (2) the management of compensation practices to avoid improper incentives for conflicted advice, and (3) implementation of effective fee and risk disclosure requirements — are aimed at exactly the right areas.

While right directionally, I have practical concerns with the DOL proposal in a number of areas. First, the warranty and contractual mechanism employed by Labor used to address their limited IRA enforcement jurisdiction, appears to me to be problematic. In one sweeping step, this moves enforcement of these provisions to civil class action lawsuits or arbitrations where the legal focus must be on a contractual interpretation. I am not certain how a judicial arbiter would analyze whether a recommendation was in the best interests of the customer "without regard to the financial or other interests" of the service provider. I'm not sure, but I suspect, a judicial arbiter might draw a sharp line prohibiting most products with higher financial incentives no matter how sound the recommendation might be. Similarly, I'm not sure how a judicial arbiter would evaluate which compensation practices "tend to encourage" violations of the exemption. It would appear likely, however, that firms would be required to demonstrate, at least, that any higher compensation was directly related to the time and expertise necessary to provide advice on the product, as specifically suggested by DOL. To say the least, making that case is not a simple proof standard.

It is the right time to move forward to a best-interests standard for broker-dealers.

Richard G. Ketchum
CEO
Finra

BLOOMBERG

This all leads to my second concern that there is insufficient workable guidance provided either to the firm or the judicial arbiter on how to manage conflicts in most firms' present business models other than moving to pure asset-based fees, or a completely fee-neutral environment. It is not that the DOL's conflict concerns don't have validity; it is that I fear that the uncertainties stemming from contractual analysis and the shortage of useful guidance will lead many firms to close their IRA business entirely or substantially constrain the clients that they will serve. Put another way, the subjective language of the PTE, coupled with a shortage of realistic guidance, may lead to few providers of these critical investor services.

Finally, I believe that it is not optimal for investors to apply a different legal standard to IRAs and 401(k)s than to the rest of an investor's assets. A great many investors simply do not plan for their retirement by segregating tax-advantaged vehicles from their other investment strategies. An effective regulatory

Continued on Page 28

Workable 'best-interests' standard

Continued from Page 27

environment would apply a consistent best-interests standard across, at least, all securities investments, and have the examination and enforcement mechanisms to oversee compliance with the standard.

GO WITH THE SEC

While, for all the reasons described above, it is clear to me that the SEC is the right agency to apply a "best interests" standard to broker-dealers, there is no question that designing such a standard is challenging.

Accordingly, in a desire to advance this important conversation, let me suggest a number of markers that might provide useful guidance in crafting a best-interests standard. First, the best-interests standard should make clear that customer interests come first and that any remaining conflicts must be knowingly consented to by the customer. And as I discussed above, no standard should be implemented that does not provide sufficient guidance to permit compliance with its requirements. Second, any such proposal should include a requirement that financial firms establish carefully designed and articulated structures to manage conflicts of interest that arise in their businesses. This would include creating an ongoing process to specifically identify any conflicts that might impact their provision of fair and effective investment advice and develop written supervisory procedures to address how those conflicts would be eliminated or managed. Third, any best-interests standard should apply know-your-customer and suitability standards as "belt and suspenders" backstops, similar to what is contained in Finra's rules.

Any best-interests standard should apply know-your-customer and suitability standards as "belt and suspenders" backstops.

Fourth, there should be more effective disclosure provided to investors. Broker-dealers should be required to provide customers an ADV-like document annually that provides clear, plain English descriptions of the conflicts they may have and an explanation of all product and administrative fees. Moreover, the firms' representatives should provide either point of sale disclosures regarding relevant conflict, risk and fee issues relating to a recommendation, or, in the alternative, follow up any discussion involving a recommendation with a written or email communication that memorializes the conversation by describing the key contractual terms and fees entailed in the product. Such communication, including a balanced explanation of the benefits of the product or strategy recommended, as well as the potential adverse risk scenarios that the customer should be aware of, would be critical to ensure that the investor had a clear understanding of the benefits, risks and costs of the recommended investment.

Finally, firms should take concrete steps to address the incentives for their registered persons from differential product compensation. One way firms might address this issue would be to follow what has become a growing best practice of creating fee neutrality across products that minimize incentives for salespersons to favor one type of product over another. For example, by providing consistent compensation for their registered persons regarding mutual fund purchases, irrespective of the load or trails resulting from the particular fund, firms could clearly demonstrate their efforts to manage the conflicts imbedded in differential fee compensation. I recognize that fee leveling may be complex or competitively problematic for some firms' business model.

TARGETED FEE LEVELING

Moreover, I don't think the goal should be to eliminate all fee differences across different investment products. Alternatively, or in combination with targeted fee leveling, a firm could create targeted compliance oversight that specifically focuses on the sale of more expensive products and demands a clear rationale as to why it was in the best interests of the customer.

Let me hasten to add that this strong suite of suggestions is not meant to be exclusive but only intended as a starting point to move the conversation constructively forward. Nor does it assume that each of these requirements is equally appropriate for smaller firms, where the burden of compliance may be greater, although it can be easier at a smaller firm to create a culture of consistent compliance. Indeed, I would envision that an effective best-interests standard would provide firms with the flexibility to develop alternative means of demonstrating that their recommendations are consistently in the best interests of customers.

In conclusion, it is time for us to reach agreement on a best-interests solution that embraces three essential tenets: active identification and management of firms' conflicts, dramatically improved disclosure of risks associated with the product and product-related fees, firm and third party incentives, and more effective management of the compensation incentives to registered persons.

‘Low-fee’ loophole unlikely to make it into DOL rule

Safe-harbor element of advice proposal ‘hopelessly vague’

By Trevor Hunnicutt

A plan by the Labor Department to allow brokers to sidestep stringent requirements for giving advice on retirement accounts if they sell index funds or other approved products faces an increasingly uphill battle.

An investor-advocacy group that has been deeply supportive of the Obama administration’s plans to reshape standards of advice around retirement plans has said it’s unlikely for a final rule to include the so-called “low-fee streamlined exemption.”

That safe harbor is one of the contentious elements of the Labor Department’s broader efforts to require brokers to act in their clients’ best interests and disclose any conflicts when offering guidance on retirement investment accounts.

The rule also raises the possibility that standards regulators apply to investment advice could steer investors to a far narrower range of investment products and providers.

In its proposal, the Labor Department said academic literature generally, though not universally, supports the idea of investors buying and holding “a diversified portfolio of assets calibrated to track the overall performance of financial markets.”

SCARCE PRODUCT

It cited a low-cost, index-tracking target date fund “consistent with the investor’s future risk appetite trajectory” as an example of a high-quality investment for long-term investors. Just nine U.S. fund companies offer such products and one, the Vanguard Group Inc., controls four-fifths of the $252 billion market, according to an *InvestmentNews* analysis of data from Morningstar Inc.

For a shorter time period of five to 10 years, the Labor Department said a “risk-matched balanced fund or combination of funds” was an example of a recommendation also “likely to be sound” from the point of view of academic literature. That group could potentially include a larger range of funds.

It’s unclear whether the examples of balanced funds and index-tracking target date funds reflect the federal government’s views about passive investing versus active investing or were just examples.

The more stringent standard for brokers is at the heart of a regulation that seeks to limit conflicts of interest for retirement advice that may cause some brokers to steer investors into low-quality investments with high costs. The White House Council of Economic Advisers has said conflicted retirement savings advice costs investors up to $17 billion annually.

Privately, industry officials said the safe harbor is too vague. And some supporters of aggressively enforced fiduciary standards have also taken exception to the idea of evaluating funds solely on cost.

“I haven’t heard anyone who’s had good ideas on how to do it,” said Barbara Roper, director of investor protection at the Consumer Federation of America. “I don’t think it’s going to be ready for primetime.”

Meanwhile, the Investment Company Institute issued its own denunciation of the Labor Department proposal on June 3. The organization represents asset managers such as Vanguard, BlackRock Inc. and Fidelity Investments.

“The questions posed by Department of Labor about a so-called ‘low-cost, high-quality’ exception are hopelessly vague,” ICI general counsel David Blass wrote in an emailed statement. “DOL simply has not provided enough information for us to know what they have in mind with those questions. We would have deep concerns, though, if DOL contradicts its long-held position that cost is not and cannot be the sole factor in choosing an investment.”

Labor Department spokesman Michael Trupo did not respond to a request for comment. But the agency has previously said it’s committed to move forward with the safe harbor and to collect feedback on how to make the provisions work through the ongoing public comment period.

Under its proposal, brokers advising on retirement accounts could be compensated with commissions and other payments if they contractually agree to place the interests of clients first. Among other things, they would have to adopt policies to prevent harm from conflicts of interest and receive “reasonable” levels of compensation. Broker-dealers have said those requirements expose its firms and brokers to excessive legal liabilities.

Under a “low-fee exemption,” brokerage firms that sell favored products would be allowed to sidestep some of those requirements “without satisfying some or all of the conditions.”

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

Betting Fed will raise rates slowly is a dangerous game of chicken

BLOOMBERG

Bloomberg News

If the Federal Reserve is really so intent on raising interest rates this year, why is Wall Street chopping its forecasts for bond yields?

For all the hand-wringing over the recent sell-off that wiped out about $1.2 trillion in value from the global bond market, the fixed-income market's best and brightest have actually taken down their year-end estimates for Treasuries in four of the past five months.

It amounts to a dangerous game of chicken, in which many analysts and investors are betting the Fed won't lift rates too fast because of the damage it may inflict on the economy — even after the stronger-than-expected jobs report earlier this month. And the stakes have never been higher for holders of debt globally, who are more exposed to the potential for big losses than at any time in history, based on a metric known as duration.

BACK TO FUNDAMENTALS

"When things have settled down, as they inevitably will, the U.S. will trade on fundamentals again," said Chris Low, chief economist at FTN Financial.

Mr. Low, one of the few who correctly predicted last year's rally in Treasuries, cut his year-end yield forecast for 10-year notes in April to 2.1% from 2.5%. They have been trading around 2.4%.

When it comes to Treasuries, Mr. Low has been among the most bullish on Wall Street, even as forecasters in a Bloomberg survey consistently reduced their yield estimates this year to a median of 2.5% from 3.01% in December.

> "EVERY DAY you come in and there's been a complete flip-flop on … where interest rates are going."
>
> **Cathy Roy**
> CIO for fixed income
> Calvert Investments

The risk, of course, is that those projections get overrun as money managers start to question whether the more than three-decade bull market in bonds has finally run its course.

That has real-world consequences for everyone from governments to businesses and consumers since Treasuries serve as the benchmark for borrowing costs on trillions of dollars of debt worldwide.

Fed Chairwoman Janet Yellen, who said in May she expects to raise borrowing costs this year if the economy meets her forecasts, also warned yields may soar once that happens.

The data "really confirms what Janet Yellen's been signaling," said Christopher Sullivan, who manages $2.4 billion as chief investment officer at United Nations Federal Credit Union. "Bonds could be in for a further tough go from here."

After all, the potential for losses is now greater than at any time on record, based on duration levels for $50 trillion of debt tracked by Barclays PLC. If yields on 10-year Treasuries rose to 3% by year-end, investors today would face losses of 3.6%, data compiled by Bloomberg show.

While there's little doubt the U.S. economy is the world's bright spot, growth is still far from booming. And there's lingering concern the recent slowdown was more than just the result of some bad weather.

That suggests there's room for Fed officials to remain patient when it comes to how soon and how much they need to increase borrowing costs, according to Peter Yi, director of short-term fixed income at Northern Trust Corp., which oversees $960 billion.

Even as the labor market has shown signs of improvement, household spending and retail sales have fallen short of economists' estimates every month in 2015.

If the Fed does decide to raise rates before January, it would be doing so when U.S. corporate earnings are forecast to grow less than at the start of any tightening cycle since 1980.

FUTURES TRADERS SPLIT

"Unless you start hitting on all cylinders, it's really difficult to see the Fed raise rates more than the market is expecting today," said Mr. Yi.

Traders in the futures market are still largely divided on a September rate boost, and most expect the Fed will hold off until December.

Regardless of when exactly the first increase comes, the market doesn't foresee rates exceeding 1.25% before the end of 2016, versus the Fed's own estimate of 1.875%.

For many bond investors, those diminished rate expectations reflect just how little inflation the economy has been able to generate over the course of the expansion.

Using the Fed's preferred measure, inflation reached just 0.1% in April from a year earlier — the 36th straight month the gauge has fallen short of the central bank's 2% goal.

It's this lack of price pressure that has prompted so many investors to pour into longer-term debt to generate higher real returns as yields hover close to their historical lows — a decision that's roiled the market as bonds tumbled.

Cathy Roy, the chief investment officer for fixed income at Calvert Investments, which oversees $13 billion, is convinced the most recent bond market hiccup is just that.

"Every day you come in and there's been a complete flip-flop on the consensus view on where interest rates are going," Ms. Roy said. "We're staying the course with our long-term outlook of lower rates for longer and then trying to take advantage of this volatility."

Small-caps' big run-up goes against market logic

Usually harbingers of an upturn, they're hot 6 years after a bottom

By Jeff Benjamin

The powerful run by small-cap sector stocks so far this year has upended traditional market logic, giving some investors a reason to believe the long bull market still has room to run.

Smaller-company stocks, which typically lead the way out of a market downturn, are suddenly the hottest category more than six years after the market's 2009 bottom.

Small-cap growth mutual funds, as tracked by Morningstar Inc., have gained 7.7% since the start of the year, and the category is up 14.1% over the past 12 months.

That compares with a 6.9% gain this year for mid-cap growth funds, which are up 12.7% over the past 12 months.

Thinking small

Average returns of growth funds, by category

Fund category	YTD	Trailing 12 months
Small-caps	7.7%	14.1%
Midcaps	6.9%	12.7%
Large-caps	5.2%	12.3%

Source: Morningstar Inc.

Large-cap growth funds, which traditionally lead the way toward the end of a bull market cycle, have gained 5.2% so far this year, and are up 12.3% over the past 12 months.

"I have put my eggs in the small-cap basket over the Dow and S&P 500," said Paul Schatz, president of Heritage Capital.

Mr. Schatz is attributing the strong run by small-cap stocks to the surging strength of the U.S. dollar, which tends to hurt larger multinational companies that derive more revenue from non-U.S. sales.

'FASTER REVENUE GROWTH'

Smaller companies are generally better insulated from global currency fluctuations because they do a higher percentage of business inside U.S. borders. According to Jonathan Golub, managing director at RBC Capital Markets, large-cap companies, on average, do more than a third of their sales outside the U.S., compared with about 17% for small-cap companies.

While Mr. Golub recognizes the impact of the strong dollar on corporate earnings, he added that there are other factors that also favor smaller companies.

"At this point, small caps are delivering faster revenue growth, and the market is rewarding fundamentals," he said.

But "there is something very strange happening in this cycle right now," he said. "Coming out of a financial-driven crisis, a lot of smaller companies lost access to financing, so their business models were under a lot of pressure, while the larger companies that were in better shape were able to get financing to grow."

In addition, small-cap stocks are coming off a rough 2014, when the category gained just 2.5%.

The small-cap growth story over the past several months has been in stark contrast to small-cap value funds, which gained 10% last year, and are up just 2.8% this year.

"Small cap growth is showing better relative strength, especially when compared to the S&P 500 and the Dow over last three months," said Edward W. Gjertsen II, vice president at Mack Investment Securities and president of the Financial Planning Association.

The disparity between value and growth, he added, makes the case for diversification.

"Just throw yourself into a blended portfolio and you'll be OK," he said. "But sometimes, chasing the latest performance is something we struggle with as a profession."

'IT'S NOT NORMAL'

Todd Rosenbluth, director of mutual fund and ETF research at S&P Capital IQ, acknowledged "it's not normal for small-cap stocks to lead this late in the bull market cycle. Normally, at this point, we see more choppiness and the bull gets tired, and large-caps tend to be a good safe-haven investment," he said.

"The strong dollar is definitely playing a role this year," he said. "But you also have factors such as the strength of the health care sector, which is going to have a larger weighting among smaller-cap funds."

Among the sector-fund categories, health care is well ahead of the pack, with a 14.8% gain this year, and a 12-month gain of 36.2%.

Technology, the next-best performing sector, has gained half as much over the same periods.

Even if the small-cap run is somehow out of sync with historical market cycles, there is still a reason to rely on logic for navigation purposes, according to Mr. Schatz.

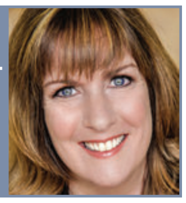
For starters, he said, the mega-cap multinational companies will adapt and the small-cap currency advantage will eventually dissipate.

"Even if the dollar rally continues for five years, it doesn't mean small-caps will continue to lead," he said. "But the best part is, small-cap leadership is very bullish in the intermediate term for the U.S. market, because this type of leadership typically doesn't happen at the end of the bull market."

jbenjamin: @investmentnews.com
Twitter: @jeff_benjamin

PRACTICE MANAGEMENT

Julie Littlechild



Take time to re-examine engagement

If you are working off a set of faulty assumptions, your team may not be operating efficiently

Assumptions play an important role in decision making. They help us sift through millions of data points quickly to make routine decisions. The downside is that when the assumptions are wrong, they can drive us completely in the wrong direction. This is true in the minute-by-minute decisions we make in our lives, like what to eat for breakfast, and it's true when it comes to bigger decisions like how we engage our team.

Assumption #1: My team is satisfied

The Financial Planning Association recently released a study that examined, among other things, the level of job satisfaction across different roles in the industry. Happily, the study showed that 77% of industry participants are somewhat or very satisfied with their jobs. Dig deeper, however, and you find a significant range. It turns out that 65% of CEOs are very satisfied while just 22% of support staff said the same.

Do you really know how your team feels about their work or are you making assumptions just because they show up every day? Great businesses measure team engagement. Here are a set of questions, based on Gallup's work in this area to assess true engagement.

For archived columns, go to InvestmentNews.com/practicemanagement

Q: To what extent do you agree or disagree with the following statements?

I am optimistic about the future of my firm.

I am optimistic about my future success within the company.

I feel that the company cares about its people.

I feel that working for the firm will support my personal goals for the future.

I feel that, at my firm, people get ahead primarily on the merits of their work.

I understand the direction and goals of our company.

I understand how our company's strategy differentiates us from the competition.

I understand how my work helps the company accomplish its goals.

I consider the firm a leader in the industry.

I feel the company is a strong competitor in the financial services industry.

I feel that our company does important work for our clients.

I am proud to work at the firm.

If you have a small team, formal surveys clearly don't make sense. But you can accomplish some of the same goals with a conversation.

Assumption #2: Satisfaction = engagement

If we look at team members who are somewhat satisfied with their jobs and those who are very satisfied (which we'll use as a simplified proxy for engagement), they tend to feel about the same about their compensation. However, there are gaps between the two groups on the following statements:

I am optimistic about my future success within the company.

My firm cares about its people.

Working for my firm supports my long-term personal goals.

At my firm, people get ahead primarily on the merits of their work.

Engagement starts with an employee's role and future within the company. Once those needs are satisfied, they focus more on the firm's overall direction.

Assumption #3: Employees focus on the right fit

In order to understand why team members stay, it will help to understand why they leave. We often get that very wrong. In the same FPA study, decision-makers were asked why their team members leave, and the No. 1 reason was "they weren't a good fit" followed by "want to change careers." When staff members who planned on leaving were asked the same question they said "unhappy with compensation" and "unhappy with the work environment." The risk of not getting this right is that we may not recognize where we need to focus our attention to drive deeper engagement.

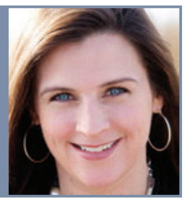
Assumption #4: Team engagement starts with the team

In speaking with some of the most successful financial advisers across the country, it is clear that they not only take a more scientific approach to measuring the engagement of their team, but that they are equally analytical about themselves. They recognize that leadership is an inside-out process that begins with self-reflection. Based on a poll of 250 financial advisers, we found that nearly three-quarters of the larger advisers had used some form of self-assessment, a number that dropped to 6% for others.

When we measure, we leave our assumptions at the door and focus on what is real. Start with yourself and then move to your team. You'll be surprised what you find out, and your employees might just appreciate being asked how they feel.

Julie Littlechild is the founder of If Not Now Research, which researches the drivers of innovation and translates that into programs to help advisers take action.

ON SOCIAL MEDIA
Kristin Andree



Avoid summer slowdown via social media

If your calendar doesn't seem as full as it should, use social media to help fill it. Identify the gaps

If you are anything like most of the advisers I coach, your brain has recently switched to summer mode — kids are out of school, vacations are planned and everything seems just a little more relaxed. You are accepting the "let's just follow-up after the summer" excuse from clients, and you aren't pushing quite as hard to get in front of new prospects. For many advisers, this leads to a dip in productivity or production over the summer months. It doesn't have to be this way.

Many of my adviser clients have some of their biggest months between now and Labor Day. How? They use the summer months, when the majority of people are in a pretty good mood, to stay connected with clients and actively look for opportunities to engage with new prospects.

Here is how social media can help.

SOCIAL EVENTS

Summer is naturally a time of engagement and interaction. There are barbecues to throw and parties to attend. Charitable organizations and networking groups plan summer bashes to help members unwind and socialize. All of these present tremendous opportunities to your practice.

> **MANY ADVISERS** use the summer to hold events, and always receive great feedback.

While making your way around an event proclaiming you are a financial adviser is, surely, the quickest way to have guests moving in the opposite direction, you can strategically use these events to bolster your business. For each event you attend, make it a goal to meet two or three interesting people who you are able to have an engaging (non-business) conversation with.

At some point, the "What do you do?" question will likely come up. Keep your response light and non-technical. At the end of the event, simply tell your new connection you enjoyed chatting with them and would like to talk further to see how you might be resources for one another. Afterwards, connect with them on social media to continue building the relationship and to learn all you can about your connection prior to meeting them in person.

CLIENT ENGAGEMENT

It seems like most of my clients and prospects post far more pictures in the summer than they do at any other time of year. This presents a tremendous opportunity for engagement. Pay attention to the milestone events happening for your clients and their children (graduations, weddings, children heading off to college). What opportunities do these present to reach out? A quick phone call to catch up, or a thoughtful hand-selected gift goes a long way to strengthen your relationship with the client. Always remember, your A+ clients are someone else's A+ prospects. If you aren't treating them like the VIP clients they are, someone else will. Let social media help you gather ideas to let them know you are paying attention and that you care.

For archived columns, go to InvestmentNews.com/onsocialmedia

CLIENT EVENTS

Many advisers use the summer months to hold events, and always receive great feedback from attendees. One adviser holds an annual "family" picnic at a local park for his clients. Over the years, his clients have gotten to know one another and have even made business connections among themselves. It has grown into something his clients look forward to each year. If you host such an event, share pictures of it on social media.

Tagging others (with their permission, of course) and using #hashtags in your posts or tweets are great ways to make your updates have an even greater reach.

PROACTIVELY PROSPECT

If the calendar still doesn't seem as full as it should during the summer months, use social media to help fill it. Identify gaps in your calendar, and determine the area of town or companies you will be visiting on certain days.

Use LinkedIn to identify your connections (or second-degree connections) in that part of town or at those companies. Make a few phone calls on Monday of each week to fill in those gaps. You never know where these impromptu meetings can lead.

Not letting off the gas as the summer moves into full swing is a great way to ensure you stay on track with your goals. Use these strategies to make this summer your most productive one yet.

Kristin Andree (kristin@andreemedia.com) is president of Andree Media & Consulting.

MSCI delays adding Chinese shares to indexes

Company will work to resolve issues such as quotas, restrictions

By Trevor Hunnicutt

MSCI Inc. declined last Tuesday to add China's domestic financial markets to its widely used indexes, but said it will work with local authorities to provide access to the world's second-largest, and fastest-growing, stock market soon.

The index company said it would add a stake in the onshore securities known as A shares to its global benchmarks "as soon as the issues it has outlined are resolved."

"We learned that major investors around the world are eager for further liberalization of the China A shares market," MSCI's global head of research, Remy Briand, said in a statement. "Because MSCI's client base is so large and diverse, we have a strong interest in ensuring that remaining issues are addressed in an orderly and transparent way."

Globally, index funds manage $254 billion in accordance with the MSCI Emerging Markets Index, which would be affected by the addition of A shares. Trillions more in assets track or attempt to beat the firm's benchmarks.


ISTOCK

While U.S. investors' stakes in emerging markets have underperformed — the MSCI Emerging Market Index is off 7.3% over the last year — China's equity markets have been delivering incredible returns. For example, the Shanghai Stock Exchange Composite Index is up 152% over the last year.

Although such returns raise fear of a bubble, many in the U.S. are eager to invest in China. The problem is that most Chinese securities have been kept off limits to foreign investors by the insular communist government.

Now, MSCI said it will work closely with Chinese capital-markets authorities in a "working group" to resolve issues around the allocation of quotas to foreign investors and restrictions on outflows, among other impediments.

SLIVER OF SECURITIES

Even when MSCI decides to include the A shares in its indexes, it will move very slowly. The proposal the index firm floated with institutional investors included a sliver of securities traded onshore, weighted at 5% of their market value. That could mean about 1% exposure to China A shares in the MSCI Emerging Markets Index, and a slightly larger weight to China overall, according to some estimates. Full inclusion could follow in the years to come.

In a statement, BlackRock Inc. said it supported MSCI's "deliberate process on the inclusion of China A shares into its global indexes, recognizing the practical obstacles that remain for their addition." The world's largest money manager is a major MSCI client.

"We believe that the Chinese authorities understand these issues and intend to resolve them quickly," the statement said. "We will continue to work closely with the Chinese government as it takes further steps

Looks familiar: Tourists take photos of the bull statue in front of the Stock Exchange in Shanghai, China.

GETTY IMAGES

to implement their policies."

Separately, MSCI said it would make a decision soon on whether to include Pakistan in its emerging-markets indexes next year. The firm made Pakistan a "frontier" market in 2009.

Last year, when MSCI said it wouldn't include China A shares in its indexes, it based its decision on concerns about international investors' ability to access the markets.

But since then, the market has opened up. For instance, the Shanghai-Hong Kong Stock Connect opened in November. The program gives offshore investors significantly expanded access to A shares. Like other programs for foreign investors, only certain institutions can buy in, and their access is limited by a quota.

VANGUARD'S HEAD START

On June 2, the Vanguard Group Inc. unexpectedly announced it would add exposure to China A shares to its $68.7 billion Emerging Markets Stock Index Fund (VEIEX) and a related exchange-traded fund (VWO).

Other asset managers will struggle to match Vanguard's ability to access onshore markets without being granted a share of the action by Chinese securities regulators.

A Vanguard affiliate in Australia secured access in March through a license granted selectively to institutional investors that allows it to access $1.6 billion in securities.

Joseph Brennan, the firm's global head of equity indexing, said the firm is not worried about concerns the market is overheated or dominated by unsophisticated retail investors.

"We believe it's the right thing to do," he said in an interview on June 3. "The market dynamics will change over time and that's not a concern at all."

Vanguard uses indexes constructed by FTSE, whose flagship benchmarks do not currently include China A shares.

BlackRock's popular iShares ETFs are benchmarked to MSCI and will have to buy A shares if MSCI adds them to its MSCI Emerging Markets Index. BlackRock has access to $1.52 billion in onshore Chinese securities, according to asset management consultancy Z-Ben Advisors.

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

HighTower may be headed toward IPO, sources say

By Mason Braswell

HighTower Advisors, a hybrid advisory firm whose trajectory has been followed closely as a barometer of the success of the independent model, made a presentation June 2 on taking the firm public, according to sources who requested anonymity because they did not have permission to speak publicly.

Advisers at HighTower's roughly 50 partner firms who have equity in the company were briefed on the plans at a confidential meeting in advance of HighTower's annual conference in Chicago, a source present at the meeting said. Almost all of the partners approved of an initial public offering, and those who hesitated did so only because they wanted more clarity, the source said.

The firm's recruiting growth and earnings are on track to make an IPO a possibility as early as the latter part of 2016, according to the source. It would depend on a number of factors, including the condition of financial markets next year, whether HighTower can maintain its growth and, most importantly, sources said, when the firm's private-equity investors thought the timing was appropriate.

JONATHAN LOCKWOOD SMITH

Elliot Weissbluth: Going public is a "realistic option" for the firm.

$30B IN ASSETS

HighTower does not disclose earnings, but executives have said it has about $30 billion in assets under management and around $200 million or more in revenue. The firm has around $165 million in private investor backing and has received about $150 million in credit lines from various banks.

In an interview with *InvestmentNews* June 3 at HighTower's annual conference, its chief executive, Elliot Weissbluth, offered a more conservative outlook. He said that a decision would likely be made over the next two years on whether to go public or find other private capital to replace the firm's original investors. He described an IPO as a "realistic option" now given the firm's financial standing, but said that the firm has not hired an investment banker nor ruled out going to other private-equity sources.

"The reality for any business that takes in private equity is that you have to give the capital back," Mr. Weissbluth said. "I'm a little amused by everybody's fascination with this topic because to me it's just going from one kind of capital to another."

He said possible negatives of going public include additional compliance costs and regulatory requirements. But going public would give the firm the benefit of more flexible capital and brand recognition, Mr. Weissbluth said.

A couple of independent advisers have already tested the public markets, but the markets have not always been welcoming. The Edelman Financial Group Inc., for example, went public in late 2010 only to be taken private less than two years later.

"No one really understood the company, and therefore the stock price did not accurately reflect the value of the firm," the company's founder, Ric Edelman, recalled in an interview. "I'm not convinced, with the benefit of hindsight, that some of the companies who currently go public will like their decision."

Silvercrest Asset Management Group Inc., a large fee-only registered investment adviser and asset manager with $18.2 billion in assets under management and $70 million in annual revenue, went public in 2013 at $12 per share. Its stock (SAMG) is relatively thinly traded and was priced at about $13 last Friday, giving the company a valuation of just over $163 million.

Silvercrest's chief executive, Richard R. Hough III, said the company decided to go public in order to provide an exit for private-equity investors and liquidity for the partners. The decision was "perhaps a bit harder than we expected," he said. Still, the company has grown substantially since the IPO, he said.

David DeVoe, founder of DeVoe & Co., a firm that values RIA businesses, said businesses generally need a valuation of at least $300 million to go public. He noted that HighTower could have a compelling story to tell investors as a way for Main Street investors to buy into a "non-Wall Street" investment company.

"I hope that the public markets welcome it and sustain the positive view," Mr. Edelman said. "That would be good news for our industry."

mbraswell@investmentnews.com
Twitter: @masonbraswell

Wells sues RIA over 'Trojan horse'

Continued from Page 4

joined Wells Fargo & Co. in 2011, threw the first punch in November 2013 with a suit against Wells Fargo alleging that he should be allowed to keep his bonus because Wells Fargo failed to deliver on the recruiting promises, such as referring clients from the bank, as well as creating an inhospitable working environment.

Mr. Griffis said in the complaint that he "worked for about 21 months in a working environment that was physically unbearable due to poor lighting conditions, heat, poor air circulation, and lack of physical space in which he could work."

The case was moved to arbitration at Wells Fargo's request and ended in a panel that awarded Wells Fargo $290,000 for the bonus and attorneys' fees in March. An attorney for Mr. Griffis in that case, Elliot Richardson at Korey Cotter Heather & Richardson, did not respond to a request for comment.

It was during that arbitration, however, that Wells Fargo uncovered the additional evidence of "raiding and recruiting" after RCM was subpoenaed in arbitration and had to turn over hundreds of documents and emails, according to the complaint.

The evidence showed that Mr. Griffis was referring business opportunities, including a $250,000 fixed annuity, to RCM for several months before he left Wells Fargo in September 2013, according to Wells' complaint.

> "WELLS FARGO might never have known of [Mr.] Griffis' fraudulent conduct but for the fact that he refused to repay his loan."
>
> **Wells Fargo Advisors**
> Complaint filed in U.S. District Court, Northern District of Illinois

"Defendants were elated by the prospect of usurping that business opportunity for themselves," the firm said in the complaint. "They even provided Mr. Griffis with additional marketing materials for him to distribute to his clients on behalf of RCM while he remained employed by Wells Fargo."

RCM has around $131 million in advisory assets, according to SEC filings.

Wells Fargo said that Mr. Griffis also inflated his annual production by $30,000 to obtain a higher recruiting bonus, which was calculated as 70% of his yearly revenue at his previous firm, Edward Jones. Wells Fargo said that the discrepancy came out in February during the arbitration and it included a word of warning to others who might consider leaving without repaying their bonus.

"Wells Fargo might never have known of [Mr.] Griffis' fraudulent conduct but for the fact that he refused to repay his loan," the firm said.

mbraswell@investmentnews.com
Twitter: @masonbraswell

Critical questions to ask in weighing CCRC options

By Liz Skinner

Advisers looking to help clients plan where to live in retirement need to ask the right questions to make sure facilities offer what the clients need most.

Understanding the cost of continuing care retirement communities, which guarantee housing, social activities and increased levels of care for life, is the first challenge to be tackled. Those details can be found within the contracts that cover the entrance fees, monthly fees and amount of health care and insurance included — but they can be difficult to comprehend.

"It's challenging to sort out the different care and cost options at available retirement facilities," said Joel Gemmell, an adviser with McLean Asset Management Corp. "Clients need advisers to help with this."

FEE REFUNDS, INCREASES

Ask how much of the entrance fee is refundable, what the historical monthly fee increase has been and what will happen to residents if they outlive their assets, Justine Vogel, chief executive of RiverWoods CCRC, said at a National Association of Personal Financial Advisors regional symposium in Washington, D.C., last Wednesday.

Advisers also should study the provider's annual financial reports, ask about its accreditation and look at what rating agencies have concluded about the owner.

In additional to financial questions, advisers should investigate and ask about how involved the residents are in the community, the owner's mission and the occupancy rates of the facility over time, she said.

ISTOCK

"You want to get to know the people; you want to get to know the mission of the owner," Ms. Vogel said.

Advisers can play a crucial role in helping aging Americans, who typically underestimate the cost of long-term care, plan where to spend their later years. About 70% of Americans will need some form of long-term care option in the future because people are living longer with more complex diseases, Ms. Vogel said.

Costs and benefits of moving to a CCRC have to be weighed against other options, like retrofitting a home to accommodate health challenges and arranging medical care for individuals at home. Additional issues such as loneliness and transportation difficulties have to factor into the solution.

Tom Conway, founder of Connemara Fee Only Planning, has personal experience with the issue. His parents spent $125,000 on repairs to make their home senior friendly, only to wind up needing to move to a care facility two years later because of health issues.

"There are pros and cons of these facilities, but in terms of avoiding big-ticket items, it has been a godsend," he told about 50 advisers at the meeting.

GUIDELINES

An individual or couple must meet financial and health guidelines for one of the nation's 1,900 CCRCs to be an option. The wealthiest 25% to 30% of the population can afford to move into a CCRC, Ms. Vogel estimated.

A "life care at home" model is another option that is increasingly available around the country, where clients would essentially buy the level of continuing care that a CCRC offers but have it provided in their own home. The Goodwin House in Alexandria, Va., for example, offers such an option.

Other options include skilled nursing facilities, which provide 24-hour care to seniors who can't care for themselves, or living with a family member who can provide care.

lskinner@investmentnews.com
Twitter: @skinnerliz

Will Medicare hit the road with clients?

Continued from Page 4

medical emergency benefits have a $50,000 lifetime limit.

Combo Medicare can be used anywhere in the United States and its territories for a true medical emergency. Beyond that, most combo plans offer maximum benefits for in-network care. With combo plans, beneficiaries can use any emergency room for a true medical emergency, but if they need urgent care they will get the best bang for their buck by going to an in-network center.

They can easily determine which providers are in network either by calling the customer service number on the back of their insurance card or by looking at the plan website for in-network health care services. Very few combo Medicare plans offer any foreign travel medical emergency coverage. For those that do, the dollar amounts are very limited.

FOREIGN HOSPITALS

Medicare may pay for health care services in a foreign hospital if the person is:

- In the U.S. experiencing a medical emergency and the foreign hospital is closer than the nearest U.S. hospital.
- Traveling through Canada by the most direct route between Alaska and another U.S. state when a medical emergency occurs, and the Canadian hospital is closer than the nearest U.S. hospital.
- Living in the U.S. and the foreign hospital is closer to their home than the nearest U.S. hospital that can treat their medical condition, regardless of whether it's an emergency.

By the way, under certain limited conditions, Medicare will even pay for services on a cruise ship.

Medicare's prescription drug coverage, whether as part of a combo plan or original Medicare, is fairly flexible when traveling through the U.S. and the territories. All Medicare prescription drug plans involve networks. The best cost for any medication will be at a preferred or in-network pharmacy. As I mentioned earlier, folks can call customer service or check out the plan website for covered pharmacies.

A word to the wise: Consider recommending that your clients purchase medical evacuation insurance, particularly if they are traveling to exotic locations or have complex medical conditions. Neither Medicare nor Medigap pay for medical evacuation, which can run in excess of $100,000. Travel services are a good source for that type of insurance.

Help your clients prepare for that bon voyage by giving them the gift of knowledge about how to travel well and use Medicare.

ISTOCK

(Want to get more out of Medicare? Go to InvestmentNews.com /medicareguide.)

Katy Votava, Ph.D., RN, is president of Goodcare.com, a consulting service that works with financial advisers and consumers concerning health care coverage.

SEC judge rules against agency

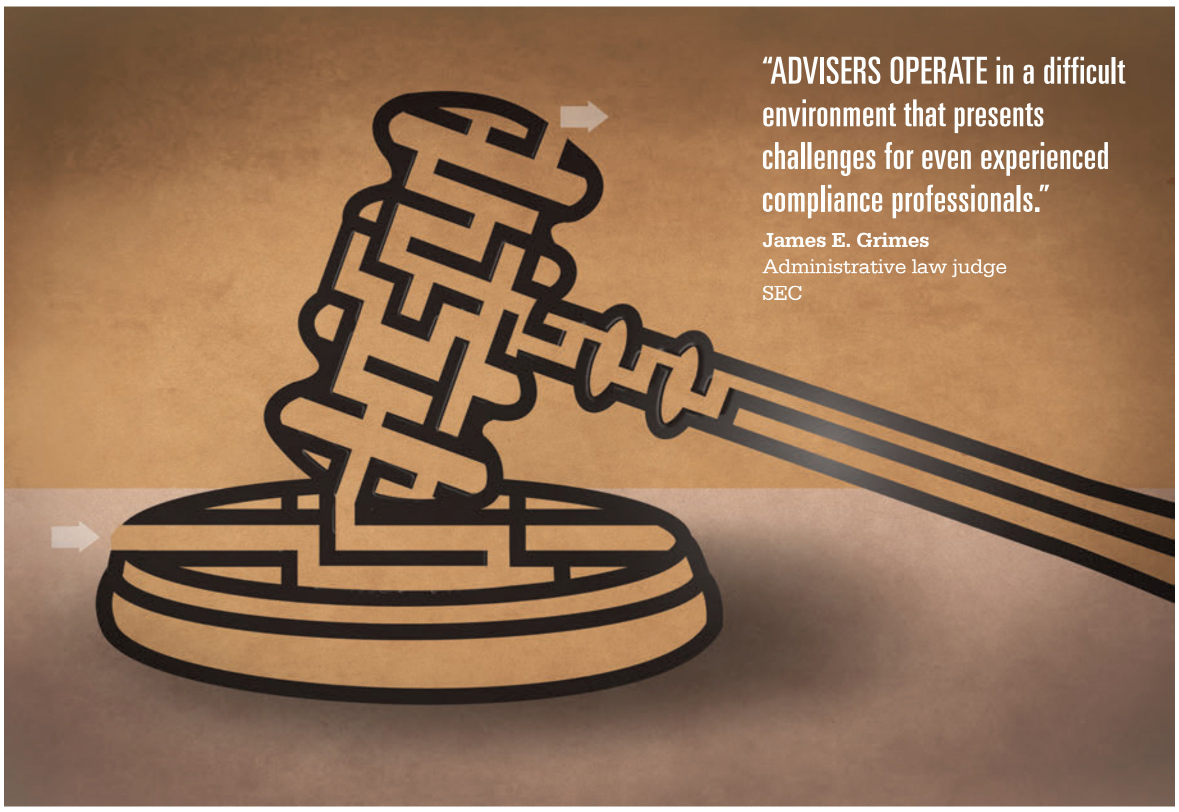
Continued from Page 3
the Business Law Institute at the University of Mississippi School of Law, wrote in an email. "If the defendants' conduct was not at least negligent, I don't know what would be."

A spokeswoman for the SEC, Judith A. Burns, said the agency is reviewing the decision.

Since 2004, the Robare Group has been enrolled in a program in which Fidelity pays a share of the revenue it earns on some third-party mutual fund sales to the advisers who sell the funds. The funds are also made available to the advisers without transaction fees.

Transaction-free platforms are popular with advisers and lucrative for custodians, who receive payments from fund companies to participate. Custodians sometimes pay financial advisers who participate.

But Fidelity does not describe the payments as a commission; instead it calls them compensation for "shareholder administrative services." That's despite the fact that advisers provide the exact same services to other funds not enrolled in the program.



JOHN BLACKHAM/ILLUSTRATION SOURCE

VAGUE LANGUAGE

Robare disclosed those payments in vague language that referred to commissions and sales-related payments in its Form ADV, and separately provided new clients with a Fidelity document that more explicitly acknowledged the payments. But Fidelity determined the firm's own disclosures were inadequate and told it to update its filings in 2011.

A Fidelity spokeswoman, Erica Birke, declined to comment.

The judge said the evidence didn't suggest the advisers were acting fraudulently. He noted that a high percentage of their clients' assets were in funds not offering revenue-sharing, including, at times, Fidelity-managed index funds. Robare manages $160 million for clients.

"To come away with as clean a victory as we did was very rewarding," said Alan M. Wolper, a lawyer at Ulmer & Berne, who represented the advisers and noted that his clients were offered a settlement if they agreed to admit fraud. "They just couldn't stomach that," he said.

'MOVING TARGET'

Mr. Wolper said deciding what and how much to disclose is a "moving target" for advisory firms. While the advisers argued that the disclosures of the Fidelity payments were not "material," the judge did disagree.

The chief compliance officer for Robare's broker-dealer, Triad Advisors Inc., and another compliance adviser to broker-dealers testified "without contradiction," that "advisers operate in a difficult environment that presents challenges for even experienced compliance professionals," the judge said. Regulators had argued that the advisers could not rely on Triad's guidance "in good faith" because Triad is not independent and disinterested, according to the decision.

An external publicist representing Triad did not respond to an emailed request for comment.

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

Social Security benefit wasted

Continued from Page 3
70. And by ensuring that the husband delays collecting his retirement benefit until age 70 when it would be worth the maximum amount, it also locks in the largest possible survivor benefit after the death of one spouse.

But even though the husband would be 68 when he filed and suspended his benefit, at which point he would have automatically earned two years' worth of delayed retirement credits totaling 16%, the wife's spousal benefit would still be based on just half of his full retirement age amount, not half of a larger benefit. Spousal benefits do no accrue delayed retirement credits.

SURVIVOR BENEFIT

However, if the husband died first, his wife's survivor benefit would be worth 100% of his retirement benefit — including four years' worth of delayed retirement credits. In this case, the husband's benefit would increase by 32% at age 70 (8% x four years) to $3,379 per month plus annual cost-of-living adjustments thereafter. If he died first and the wife collected a survivor benefit, her own smaller benefit would disappear.

If the wife died first, then the husband would continue collecting his larger benefit, but the wife's smaller benefit would stop when she died.

Next, the adviser suggested a strategy that she thought would boost the couple's benefits even further.

"When the husband turns 68 and the wife is 66, can't he file a restricted claim for spousal benefits, allowing him to collect half of her benefit amount — $400 per month — until he turns 70?" she asked.

Sorry, that won't work. "Everyone is entitled to one Social Security claiming election," I replied. "If the husband files and suspends at 66 or later to trigger a spousal benefit for his wife, he cannot also file a restricted claim for spousal benefits," I explained. "It is one choice per person."

The adviser was incredulous. "So her Social Security benefit based on her own work record is a waste?" she asked. "In other words, their combined benefit is the same as if she never worked at all?"

SMALL EARNINGS RECORD

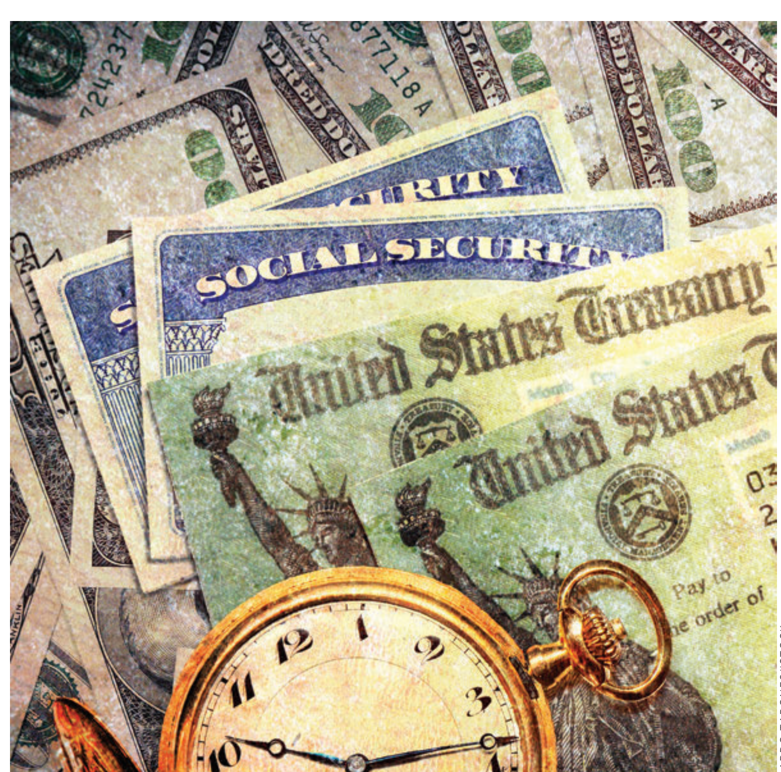
That's correct. When one spouse's retirement benefit based on her own earnings record is smaller than a spousal benefit, it may seem that her benefit is wasted. But it all depends on the facts and circumstances of the couple's individual benefits and their relative ages.

If, for example, the lower-earning spouse were older than her higher-earning husband, then she could collect hear own smaller Social Security retirement benefit first until her husband either claimed his benefit or filed and suspended his benefit at his full retirement age, triggering a higher benefit for her.

But for some people who have worked only sporadically throughout their lives and have accumulated less than the minimum of 40 credits or 10 years of work needed to be eligible to collect Social Security benefits on their own earnings record, it may not be worth it to work longer to qualify for a retirement benefit that will never be higher than their benefit as a spouse.

(Questions about Social Security? Find the answers in my ebook at investmentnews.com/MBFebook.)

mbfranklin@investmentnews.com
Twitter: mbfretirepro



GERARDO TABONES/ISTOCK

Home office tops advisers

Continued from Page 3
portfolios outperformed their "packaged" counterparts in two out of three quarters where those home office portfolios delivered negative returns. In the third quarter, advisers and home offices tied. The down periods for packaged portfolios occurred in the third and fourth quarters of 2011 and the second quarter of 2012.

Yet despite the outperformance of advisers in the very worst quarters, their portfolios underperformed overall, which Cerulli attributed to their decision not to stay invested through the market's bottom. By staying invested, home offices could capture the greatest gains, Cerulli said.

Not all industry executives agree that centrally managed portfolios work best. Paul Hatch, head of advice and solutions at UBS AG's

GETTY IMAGES

Wealth Management Americas division, has argued that the increasing use of one popular adviser-managed program — called rep-as-PM — benefits investors by putting control in the hands of advisers better suited to meet the specific and often complex needs of their clients.

REP-AS-PM GROWING

Rep-as-PM, which now represents more than a quarter of the money moving into the $4 trillion U.S. managed accounts industry, has also helped brokers transition more of their business to a fee-for-service model, in which clients directly foot the bill, as opposed to the advisers being paid commissions by product sponsors, Mr. Hatch has said.

In all, about half of the money in managed accounts is enrolled in discretionary advisory programs. About 29% is in nondiscretionary programs, with the rest in separate accounts, according to an earlier report by Cerulli, an industry research firm.

The top managed-account programs are run by the largest U.S. wealth managers, Morgan Stanley Wealth Management, Bank of America Corp. and Wells Fargo Advisors. But the programs have been growing at the fastest clip elsewhere, at firms such as LPL Financial and Fidelity Investments, which serve independent advisers, according to the Money Management Institute, a trade group, and Dover Financial Research, a consultant.

Cerulli said its data, which cannot be independently verified, is based on "quarterly surveys of asset managers, broker-dealers and third-party vendors, which captures more than 95% of industry assets."

thunnicutt@investmentnews.com
Twitter: @trhunnicutt

SPONSORED SECTION

Portfolio Manager Viewpoints

Selectivity: Uncovering Opportunities in Global Fixed Income

T. Rowe Price
INVEST WITH CONFIDENCE

Ted Wiese
Head of Fixed Income
T. Rowe Price

Jim Cronin
Head of U.S. Investment Services,
Financial Advisors–Broker-Dealers
T. Rowe Price

Ted Wiese and Jim Cronin of T. Rowe Price sat down with InvestmentNews contributing correspondent Consuelo Mack in a recent installment of Portfolio Manager Viewpoints to discuss finding value in global fixed income investments by making discriminating choices.

Jim Cronin | I'm going to begin by asking my colleague some overview questions. First, what's the basic case for adding global fixed income investments to a portfolio?

Ted Wiese | If investors take a global view they'll see not only a broad set of options for diversifying their portfolios through bonds but opportunities to increase return and, in some cases, outright yield.

Cronin | What about countries' different policy choices after the financial crisis? What does growth look like outside the U.S.?

Wiese | In the U.S., nonfinancial sector debt has fallen from 170% of GDP at the height of the financial crisis to less than 150% today. The United Kingdom took a similar approach and continues to achieve significant private sector deleveraging.

In the eurozone, a number of factors have slowed deleveraging. Having been in deleveraging mode for decades, Japan has had difficulty jump-starting its growth. China weathered the global recession by investing heavily in real estate and manufacturing capacity; this temporarily lifted growth but left its economy overleveraged. Other developing countries' prospects are mixed.

Investors can take advantage of this diversity with targeted duration exposures.

Cronin | Can you talk about the influence of current interest rates in fixed income investing?

Wiese | Given historically low interest rates, long durations, and high interest rate sensitivity in many traditional core fixed income markets, investors will need to be more discriminating and to look for idiosyncratic opportunities. Less fixed income return will come from broad allocation decisions, and more will come from narrow allocation decisions and security selection.

Even in municipal bonds, much of the attractive relative value has been squeezed out in the years since the financial crisis. The spread between AAA and BBB munis is near its long-term average.

There are ways to protect against rising rates, such as investing in higher-coupon, high yield munis, particularly in the short or intermediate term. The fundamental picture remains intact in high yield, with the muted default rate expectation next year. Our analysts favor certain lower-rated issuers working to improve their balance sheets and higher-rated names that may be candidates for upgrade to investment grade.

Cronin | Could you give an example of what you mean by investors' needing to be more discriminating and to look for more idiosyncratic opportunities?

Wiese | Let's look at the opportunity created by oil's impact on credit spreads. Much of it was driven by indices' exposure to the energy sector — and, in some cases, by particular energy names.

In the high yield market, energy names represent a significant portion of outstanding high yield debt. The growth in this sector over the last decade has been driven by technological innovations in drilling and fracking and the rapid growth in U.S. shale oil production. Plummeting oil prices have driven a sell-off across the entire sector, improving valuations.

Energy sector returns continue to lag over the trailing 12-month period, creating opportunities for investors who have the resources to distinguish the winners from the losers.

Cronin | After this comment, I'll hand it over to Consuelo. There's considerable concern about the adverse impact that can accrue on these portfolios as a result of the strong dollar.

Wiese | Debt denominated in foreign currencies performed poorly in dollar terms during 2014, while dollar-denominated debt performed well. Some bonds denominated in local currencies present strong relative value, although we are selective about currency exposure. We'll hedge into dollars or create cross-currency proxy hedges to mitigate foreign exchange risk when it's at odds with the debt fundamentals we may find attractive.

Increased volatility is likely to continue as U.S. rates move away from zero. While somewhat nerve-wracking, the trend can create fertile ground for alpha generation.

Consuelo Mack | Thanks, Jim. What do you hear from advisors as being the biggest challenge in today's fixed income environment?

Cronin | All financial advisors have clients who are retired or getting close to retirement. Though they know a portion of those clients' portfolio has got to be allocated to fixed income, they see the low yields and correspondingly high prices of a lot of the fixed income markets.

They remember what happened to credit-sensitive portfolios in 2008, and their concern is, "How do I give my clients the stability and income that fixed income can provide and still protect them from some of the risks?"

Wiese | Whether it's a floating rate fund or a bank loan fund, a global high-income fund or a global unconstrained bond fund, we're trying to offer yield-oriented strategies with less rate sensitivity. Advisors also seemed to be worried about the fact that rates will go up, so how can we avoid getting burned in the bond portfolio?

Mack | What's your view of Treasuries and the role they should play in portfolios?

Wiese | Treasuries now are primarily a vehicle for providing safety and liquidity. They have almost no yield and no real attractive relative value, but they are almost bulletproof investments that are among the most liquid you can find.

Mack | Given that clients are U.S.-based and therefore U.S. dollar-focused, does it make sense for a foreign bond fund to be anything but fully dollar-hedged?

Wiese | Unhedged nondollar bonds have a diversifying role in portfolios. That's going to be more helpful at some times than at others, and with the improving U.S. economy and Fed tightening, it may not be the best time to carry unhedged exposure.

By the same token, the dollar has rallied. And for investors who want to use nondollar exposure to diversify overall portfolio risk, it's not a bad time to think about increasing that.

Mack | Where are the best opportunities for predictable income?

Wiese | It gets down to how much principal risk investors are willing to take or how much principal they're willing to spend.

Income is very low in most of the world right now. You've got a 10-year Treasury that earns you 2%. And most investors who saved to retirement were hoping that they'd get more than 2% out of their investment portfolio. That's hard unless you're willing to invest in products that are exposed to emerging markets or some form of global high-income or high yield market.

That means more volatile investments. But if you trust you're using financial advisors or asset managers who are minding the shop and mitigating risks, you should be able to look past the volatility and enjoy the higher income potential offered by some of those vehicles.

The alternative is to invest in really high-quality, low-yielding markets and just take down the principal. That's the annuity concept that the Japanese have relied on for some time. ❖

Watch the full webcast: www.investmentnews.com/selectivity.

DOL fiduciary rule takes fire as industry piles on

By Mark Schoeff Jr.

The leader of a prominent retirement-plan company and a top business trade group both warned last Tuesday that a proposed Labor Department rule to change investment-advice standards for retirement accounts would hurt small investors and small companies.

Robert Reynolds, president and chief executive of Great-West Financial and Putnam Investments, said the DOL rule, which is designed to reduce conflicts of interest for brokers, would create "red tape and restrictions" that would significantly increase the liability risk and costs for brokers and discourage workplace retirement plans at small employers.

The rule would "stymie offering advice to low-balance retirement savers, hitting those who need advice the most the hardest … [and] open a new advice gap that would actually worsen inequality in this country," Mr. Reynolds said at the Spark Institute national conference in Washington.

Mr. Reynolds said he supports the DOL's effort to protect investors from brokers who put them in high-fee products, but that goal can be accomplished without a new rule. He called for "strict enforcement" of measures on the books and full disclosure of fees, compensation and conflicts of interest.

"It's time to really get tough about serving the saver's best interest," Mr. Reynolds said. "Let's build on existing law to drive bad actors out of our business."

"LET'S BUILD on existing law to drive bad actors out of our business."
Robert Reynolds
President and chief executive
Great-West Financial and Putnam Investments

THE BOSTON GLOBE/GETTY IMAGES

Separately, the U.S. Chamber of Commerce released a report Tuesday that asserted the DOL rule would "impose significant new compliance costs and legal liabilities on advisers" to small businesses offering Simple IRAs to employees in lieu of traditional 401(k) plans.

The DOL proposal's mechanism for giving brokers flexibility in compensation arrangements — allowing them to charge commissions and collect revenue-sharing payments as long as they sign a legally binding contract to act in their client's best interests — doesn't help advisers to small business plans, according to the Chamber.

The so-called best-interests contract exemption applies to individual IRA owners, but it is not clear whether the exemption is available for Simple IRAs while they are being offered by employers, according to the report. "Further, even if it does apply, the new exemption would itself substantially increase costs for advisers due to its many conditions and requirements," the report states.

Tuesday's pushback on the rule follows similar criticism June 4 from the Securities Industry and Financial Markets Association and in May from Richard Ketchum, chairman and chief executive of the Financial Industry Regulatory Authority Inc.

But the mounting resistance from the financial industry is opposing a potentially much stronger force: President Barack Obama, who backs the DOL rule.

Kathleen McBride, chairwoman of the Committee for the Fiduciary Standard and a proponent of the rule, expressed confidence that the White House will get the rule finalized before Mr. Obama's term ends in 2017.

"This is too important to the economy," said Ms. McBride, founder of FiduciaryPath, a consulting firm.

The industry is engaged in "an act of desperation" to protect the status quo that has allowed it to "take trillions of dollars from retirement investors over the decades," she said.

'UNDERLYING ASSUMPTIONS'

Mr. Reynolds criticized the DOL rule's "underlying assumption" that brokers are not treating clients well.

"That's just a flat wrong assumption," Mr. Reynolds said. "The client's best interest is our best interest without a doubt."

A financial watchdog group disputed Mr. Reynolds' assertions about the industry's always doing what's best for its customers.

Better Markets scoured Putnam's Securities and Exchange Commission registration and found a line in which Putnam warned that conflicts could arise involving its use of affiliates' products and services.

"Unless Putnam's CEO states that Putnam has never used, uses or will ever use 'affiliated products and services when those products and services are not in our clients' best interests' and amends the SEC ADV filing, then he should retract his statement that Putnam's 'client's best interest is our best interest without a doubt,'" Dennis Kelleher, president and chief executive of Better Markets, said in a statement.

A Putnam spokesman said the language in the firm's ADV is a "broad disclosure" that has been an "industry standard for many years" to satisfy SEC mandates.

"Under Bob Reynolds' leadership, Putnam has sought to bring a customer-first approach to every facet of its business and to its daily interactions with clients and investors," Jon Goldstein, Putnam director of public relations, said in a statement. "Putnam and its investment management peers are required by the SEC to explain potential risks and conflicts in Form ADV client documents — even if those conflicts are remote."

The DOL did not respond to a request for comment.

mschoeff@investmentnews.com
Twitter: @markschoeff

RIAs sell securities-backed loans

Continued from Page 1

There is no upfront cost to set up a securities-based line of credit, and firms offer competitive rates, which are sometimes lower than traditional bank loans and are particularly attractive in a time of low interest rates. The loans can be made in a relatively shorter period of time than traditional bank loans, as well. They take as few as eight business days at Pershing.

But there are other reasons wirehouses like securities-backed lending. The loans provide another income source from clients in fee-based accounts and can be more profitable for the firms than other investment products because they don't have to share as much of the revenue with the advisers who sell the loans to clients.

STICKIER CLIENTS

"Lending growth will enhance the stability of revenue and earnings for the firm as a whole and make our client relationships deeper and stickier," Morgan Stanley former chief financial officer, Ruth Porat, said in an earnings call last July.

RIAs don't receive any additional compensation from a bank or custodian for selling securities-backed loans, but there are other benefits. For example, the loans allow wealthy clients to make million-dollar purchases without cutting into the assets under management, upon which most RIAs base their fees. Bob LaRue, a managing director at BNY Mellon, said new business from clients often results as well — and, of course, the dollars left in the portfolio have the potential for gains, which raise AUM.

And therein lies the rub, according to Tim Welsh, president and consultant at Nexus Strategy, a wealth management consulting firm. "[The clients] don't sell, so the assets under management stay the same — so it inherently has a conflict of interest," he said.

Since RIAs are required to act in the best interests of their clients, they have to determine that the securities-backed loans they are recommending are the best option for their clients. Mr. Welsh said client demand for securities-backed loans typically is highest at the wrong time.

"In every bull market I've seen, this is always a predictor of the top," he said. "When people start borrowing money against their assets, they're really confident that they're going up. And investors are always one step behind in terms of tops and bottoms."

The risk is that if the value of a client's portfolio drops, the firm can call the loan in or demand more securities. Using securities as collateral can result in greater volatility than other avenues, such as a home equity loan.

"When the markets rationalize, bills come due, and if you don't have liquidity, all of a sudden you have to sell," Mr. Welsh said.

Adviser Josh Brown of Ritholtz Wealth Management has dubbed the growth in these loans a "rich man's subprime."

"Once again, supercheap financing based on an asset whose value can fluctuate wildly (a stock and bond portfolio, in this case) is being used for the purchase of assets that can be significantly less liquid, like real estate, fine art or business expansion," Mr. Brown wrote in a story published in Forbes last year on the growth of the loans in the wirehouse space.

FINRA WARNING

Regulators have taken notice as well. The Financial Industry Regulatory Authority Inc. warned in January it was looking into the marketing of securities-backed loans as part of this year's regulatory agenda.

"Finra has observed that the number of firms offering [securities-backed loans] is increasing, and is concerned about how they are marketed," the regulator said.

That said, Mr. Sullivan and others who defend securities-backed lending said it works well if that risk is taken into account.

"It's really about staying invested for the long-term and meeting short-term cash flow needs with some borrowing that's not going to exceed a certain percentage on the assets," Mr. Sullivan said.

Mr. LaRue said advisers have to consider whether it makes sense to trade leverage for the tax benefits.

"The appropriateness of leverage depends on each individual client's needs," he said. "If you are borrowing [to avoid capital gains] taxes and keep a favorable investment strategy in place, then perhaps leveraging those assets at a low interest rate makes sense."

mbraswell@investmentnews.com
Twitter: @masonbraswell

EDITOR'S NOTE

Advisers surviving change

Continued from Page 2

management at a fraction of the cost charged by most advisers.

Now many advisers are in the position of having to redefine their value proposition to clients. Do they want to be known to their clients as comprehensive wealth managers or alpha generators?

Matt Cooper's firm, Beacon Pointe Wealth Advisors, wants to be known as the former. So does Mr. Liptak's firm, SignatureFD.

RELATIONSHIP FOCUSED

"You can't commoditize a relationship," he said. "So we are working hard to make sure our firm is centered on the relationship, not investment performance."

With that in mind, Beacon Pointe is adding a myriad of ancillary services to its offerings, including tax planning.

Alpha Cubed's Todd Walsh, also believes wholeheartedly in the value of forming relationships. In fact, he frequently refers to the client relationship as the "house" around which his firm is built. That said, he is placing all of his chips on investment management.

He gets Mr. Cooper's point of view, but he doesn't want to deal with the increased regulatory burden that comes with selling insurance, trusts or mortgages.

"We're probably leaving a ton of money on the table, but I worry about the compliance

LILA PHOTO, FOR TD AMERITRADE

Meeting: Fred Gabriel, left, and Matt Cooper of Beacon Pointe.

issues associated with all those products."

Only time will tell who is right. Or, even, if there is a "right" and "wrong."

But after listening to the advisers at my informal round table grapple with whether they want to be known as full-service financial planners or investment advisers, it occurs to me advisers everywhere should be asking themselves the same question.

fgabriel@investmentnews.com
Twitter: @fredpgabriel