PRIVATE WEALTH ADVISER: FAMILY OFFICES BOOMING **PAGE 12**

InvestmentNews®

APRIL 15-19, 2019

THE LEADING INFORMATION SOURCE FOR FINANCIAL ADVISERS

$5.00 / $89 Year

WARNING

INVESTORS ARE GETTING RIPPED OFF BY NETWORKS OF SALES AGENTS PUSHING ILLEGAL UNREGISTERED SECURITIES. HERE'S HOW THEY'RE DOING IT. PAGE 8

NEWSPAPER | VOL. 23, NO. 15 |

INVESTMENTNEWS.COM

401(k) settlement
Anthem Inc. will pay $23.7 milion to settle charges Vanguard fees in its plan were too high.
Page 4

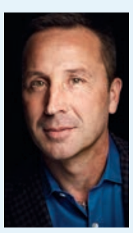
Digital fiduciary
Shlomo Benartzi says 401(k) responsibilities extend to design of web pages for participants.
Page 25

ONLINE
Connecting with teachers key to adviser impact on financial literacy
InvestmentNews.com/teacher

EDITOR'S NOTE

Introducing our PWA supplement

InvestmentNews is proud to introduce our PWA supplement, which aims to bring intelligent, insightful and practical editorial content to financial advisers who serve ultra-high-net-worth clients.



FRED GABRIEL

Our quarterly Private Wealth Adviser report features stories on the issues and trends that affect very wealthy investors and the financial advisers who serve them.

We'll also gather commentary and business advice from some of the smartest minds in the profession.

If you're a financial adviser who already serves ultra-high-net-worth clients, we'll help you serve them better. If you're trying to break into this highly competitive market, we'll help you get there.

In this inaugural edition of Private Wealth Adviser, we look at the rise of family offices as well as emerging investment trends, such as dialing back exposure to hedge funds and putting more money into private-equity funds. We also take a look at the opportunities created by 2017's Tax Cuts and Jobs Act for wealthy individuals to pass more assets to their heirs.

There's lots more to read in this quarter's PWA.

In addition to editorial content, *InvestmentNews* will produce events and research aimed at helping private wealth advisers better serve existing clients and attract new ones.

This is an exciting initiative here at *InvestmentNews*, one that has been in the works for nearly a year. We look forward to covering the private wealth advisory market and being a part of its growth.

fgabriel@investmentnews.com
Twitter: @fredpgabriel

Ohio National case heads to arbitration

BY MARK SCHOEFF JR.

A DISPUTE between Commonwealth Financial Network and Ohio National Life Insurance Co. over the insurer's decision to end trail commissions on certain variable annuities will be decided in Finra arbitration.

The venue was settled in a decision by a Massachusetts federal judge, who ruled that an addendum to the selling agreement committed both firms to arbitration.

Ohio National argued that it and Ohio National Life Assurance Corp. could not be forced into the arbitration system run by the Financial Industry Regulatory Authority Inc. because the two entities are not Finra members.

Commonwealth, a broker-dealer regulated by Finra, filed its suit against Ohio National both in court and in Finra arbitration simultaneously, asking the court to compel arbitration. The action, which alleges a breach of contract, also was brought against Ohio National Equities Inc., which is a Finra member.

Judge Denise Casper held

CONTINUED ON PAGE 26

Merrill adds 300 to branches

BRUCE KELLY

ONADVICE

Merrill Lynch's plan to seat up to 300 young advisers in branch offices with its most experienced and profitable financial advisers could be a boon to business, with referrals flying back and forth, or it could backfire and add unnecessary friction among its sales force, according to industry observers.

Merrill Lynch has long been the advice industry's leading trainer of young brokers. Along with two key competitors, Morgan Stanley and UBS Financial, the firm has said in the past couple years it was going to reduce its effort to recruit experienced advisers from rivals, which is expensive and risky.

Instead, those firms want to focus on organic growth, push advisers to use new technology and, in Merrill's case, reward advisers for selling products from its parent, Bank of America.

SALARY COMPENSATION

Now Merrill is taking those initiatives one-step further. It said last Monday it intends to hire 300 young advisers, who will be paid in salary, to work alongside the firm's veterans, who are typically paid 35 cents to 45 cents per dollar of revenue they produce.

Paying a flat salary, plus an annual bonus, is widely believed to be a much more profitable formula for the firm, according to industry observers.

The advisers will be drawn from new applicants and those already working in Merrill Lynch's call centers, where clients with less than $250,000 in money to invest talk to an adviser who is part of the firm's Financial Solutions Advisors group, or FSAs. The FSAs work under the firm's online and robo-advising brand, Merrill Edge.

"A large number of call center, Merrill Edge advisers can get burnt out," said Casey Knight, executive vice president and managing director at ESP Financial Search, a recruiting firm. "From a morale standpoint, this is good."

From Merrill's standpoint, adding the Merrill Edge advisers to offices is a way to better serve a wider range of clients, said industry recruiter Louis Diamond.

"[But] some advisers will think it's an encroachment on their territory," he said. "It's kind of like putting enemy soldiers into allied territory."

Jerome Dubrowski, a spokesman for Merrill Lynch, downplayed any potential friction.

"Look at the referrals. Last year Merrill Edge referred 45,000 potential opportunities to Merrill Lynch FAs. And Merrill Lynch referred 46,000 clients to Merrill Edge."

bkelly@investmentnews.com
Twitter: @bdnewsguy

Cetera to buy assets of Foresters Financial

INVESTMENTNEWS

CETERA HAS agreed to purchase select assets of Foresters Financial's U.S. broker-dealer and advisory business. Terms of the transaction, which is expected to close in June, were not disclosed.

As part of the asset purchase agreement, Cetera said it will be permitted to invite Foresters Financial's approximately 500 independent financial advisers to affiliate with Cetera. It also will have the option to assume the leases of 40-plus branch office locations throughout the United States, as well as make offers to current employees of the business, who will be expected to continue to play key roles in its growth.

500
NUMBER OF ADVISERS CETERA CAN INVITE AS AFFILIATES

40
NUMBER OF BRANCH OFFICES CETERA COULD ASSUME THE LEASE OF

In a release, Cetera said the business will operate as a distinct division. It will be led by Sean Casey, who will report to LeAnn Rummel, president of Cetera Investment Services.

Foresters Financial's decision to focus and invest in its core life insurance business drove the move to sell its brokerage and advisory business, Cetera said.

 Vol. 23, No. 15, April 15, 2019. **InvestmentNews** (ISSN 1098-1837) is published weekly except for the first week of January, the first, third and last week of July, the second and fourth week of August and the last week of December by InvestmentNews LLC. The agent is Crain Communications Inc., 1155 Gratiot Avenue, Detroit, MI 48207-2912. Periodicals postage paid at Detroit, MI and additional mailing offices. POSTMASTER: Send address changes to InvestmentNews, Circulation Dept., 1155 Gratiot Avenue, Detroit, MI 48207-2912. U.S. subscription price: $89 a year.

Principal-Wells deal hints at fee compression

BY GREG IACURCI

> **KEY POINTS**
> - Wells Fargo sold its $827B AUA retirement-plan business to Principal for $1.2B.
> - Price per assets is lower than other deals, some speculate due in part to lower fees.

THE BLOCKBUSTER DEAL inked by Principal Financial Group and Wells Fargo & Co. last week provides a glimpse into the economics prevailing in the defined-contribution-plan record-keeping business.

Specifically, the deal's $1.2 billion price tag for Wells' retirement-plan services unit, which has $827 billion in assets under administration, hints at the fee compression that's plagued the industry for the last several years.

Publicly disclosed details of other large retirement-focused deals over the past decade and a half indicate that Principal paid Wells Fargo less money per dollar of acquired assets under administration than other big deals, such as ING Groep's acquisition of CitiStreet (2008), Massachusetts Mutual Life Insurance Co.'s purchase of The Hartford's retirement-plan business (2008), and Prudential Financial Inc.'s deal for Cigna Corp.'s retirement business (2003).

Principal, for example, paid 15 basis points per dollar of Wells' retirement assets. However, the others paid more handsomely for the assets — ING paid 34 bps, MassMutual 73 bps and Prudential 420 bps, according to an *InvestmentNews* analysis.

While there have been other large mergers that aren't part of this analysis, the purchase prices involved weren't publicly disclosed, making a similar analysis impossible.

DOWNWARD TREND

While each of these deals is different, fee compression likely played a role in the downward trend in deal prices, experts said. Fee compression causes $1 of assets to be worth less on a relative basis, they said, hence a reduction in cost per dollar acquired.

"It's a significant factor," said Philip Chao, principal and chief investment officer at Chao & Co. "If revenue is lower [due to fee compression], why should they pay more for it?"

CONTINUED ON PAGE 26

THE COST OF BIG RETIREMENT DEALS

BUYER	SELLER	PRICE	AUM	INDEX [PRICE/ASSETS]	YEAR
PRINCIPAL	WELLS FARGO	$1.2 BILLION	$827 BILLION	0.15%	2019
ING	CITISTREET	$900 MILLION	$262 BILLION	0.34%	2008
MASSMUTUAL	THE HARTFORD	$400 MILLION	$54.9 BILLION	0.73%	2008
PRUDENTIAL	CIGNA	$2.1 BILLION	$50 BILLION	4.2%	2003

Source: *InvestmentNews* analysis of publicly available data

Betterment for Advisors adds DFA

BY RYAN W. NEAL

POPULAR FUND provider Dimensional Fund Advisors will soon make its mutual funds available on the Betterment for Advisors platform.

Betterment CEO Jon Stein said the move is part of a number of enhancements designed to broaden the appeal of its digital-advice platform for advisers, and one current customers have requested for years.

"Dimensional really has an incredible relationship with their community," Mr. Stein said. "They are very philosophically aligned with Betterment. It felt like a natural fit. The types of advisers who are likely to use Dimensional are likely to use Betterment."

Simpatico: John Stein said DFA "felt like a natural fit."

FIRST MUTUAL FUNDS

The Dimensional funds, coming to Betterment for Advisors in the third quarter, will be the robo's first mutual funds. It primarily offers exchange-traded funds from Vanguard, BlackRock and Charles Schwab, but also offers model portfolios from an expanding number of asset managers.

Adding the products is part of a larger trend of giving advisers more control over the portfolios they offer clients on the digital platform. In 2018, Betterment added commodities to the platform, revamped its adviser-facing dashboard and launched the Flexible Portfolios feature to let advisers customize allocation models.

Over the next quarter, Betterment will be collecting feedback from advisers on other model portfolios they are most interested in, Mr. Stein said.

DIMENSIONAL TRAINING

Dimensional requires advisers to receive training on its products before they are approved to sell the funds. Only approved advisers can access the funds on Betterment.

"We are constantly looking to help the advisers we work with deliver outstanding client experiences by providing them with solutions and access to value-added services," Dimensional co-CEO Dave Butler said in a statement.

Betterment does not plan to offer Dimensional funds on its retail robo-adviser.

The firm currently manages more than $16 billion in assets but does not break down how much is on the retail side verses Betterment for Advisors or Betterment for Business, its 401(k) product.

rneal@investmentnews.com
Twitter: @ryanwneal

Woodbridge execs charged with criminal fraud in Ponzi

INVESTMENTNEWS

Editor's note: Our cover story on fraudulent unregistered securities that begins on Page 8 includes details about Woodbridge Group of Companies' Ponzi scheme. Because of an early deadline, that story does not include the latest developments in this article.

THE FORMER head of Woodbridge Group of Companies and two former directors were arrested last Thursday on federal criminal charges for their roles in a massive Ponzi scheme that the SEC claims defrauded up to 8,400 investors, many of them senior citizens.

The defendants include Woodbridge owner Robert H. Shapiro, 61, and directors Ivan Acevedo, 42, and Dane R. Roseman, 35. They were charged with conspiracy to commit mail and wire fraud and other violations in an indictment unsealed in the Southern District of Florida, according to a statement from the U.S. Attorney's Office.

In January, a federal court in Florida ordered Woodbridge, related companies and Mr. Shapiro together to pay $1 billion in disgorgement and fines for operating this Ponzi scheme.

In a separate civil action last Thursday, the SEC charged Mr. Acevado and Mr. Roseman for their roles in the scheme. Mr. Shapiro had previously been charged in a civil action by the SEC.

THREE ARRESTED

The three executives were arrested last Thursday in California, according to the U.S. Attorney's Office. Mr. Shapiro

CONTINUED ON PAGE 26

Finra helps departing reps

BY MARK SCHOEFF JR.

BROKERS LEAVING firms could more easily hang on to their clients and avoid being disparaged by their former employers under recent Finra guidance.

The Financial Industry Regulatory Authority Inc. issued a regulatory notice April 5 that told brokerages to "communicate clearly, and without obfuscation, when asked questions by customers about the departing registered representative."

In response to a customer query, the firm must clarify that the customer can retain assets at the firm or transfer them elsewhere. The firm also must give the customer the former broker's new contact information, if it has been provided.

BROKER PROTOCOL

The guidance comes as some brokerages have decided to leave the Broker Protocol for Recruiting agreement that set informal rules for how firms deal with broker transitions.

"This gives the client an opportunity to contact a broker, which arguably may jump over a nonsolicitation agreement," said securities lawyer Brent Burns. "It will facilitate representatives breaking away from nonprotocol firms."

By emphasizing that communication about former brokers must be fair, balanced and not misleading, the guidance should help change the tone when firms describe a former broker, according to Jon Henschen, president of Henschen & Associates, a recruiting firm.

"They just make things up and throw them under the train to keep the assets," Mr. Henschen said. "We've heard horrific things said about departing advisers over the years, so anything in writing by regulators that counters slandering of a representative's reputation is a positive trend."

The guidance doesn't represent new Finra policy; it's a reminder to firms.

"We believe the vast majority of Finra member firms are acting consistently with this guidance," Finra spokeswoman Michelle Ong wrote in an email.

mschoeff@investmentnews.com
Twitter: @markschoeff

Suit over Vanguard fees settles for $23.7M

BY GREG IACURCI

HEALTH INSURER Anthem Inc., who had been sued by employees who claimed its 401(k) plan had excessive fees even though its provider was the Vanguard Group, has settled the case for $23.7 million.

The lawsuit was filed in December 2015 by Jerome Schlichter, the attorney representing plaintiffs who brought the original tranche of excessive-fee lawsuits against 401(k) plan sponsors more than a decade ago.

Anthem's $7 billion 401(k) plan had 11 Vanguard mutual funds and a suite of Vanguard target-date collective investment trust funds, in addition to an Anthem common stock fund and two non-Vanguard funds.

In addition to paying too much for record-keeping services, plaintiffs alleged plan participants paid "far higher" investment fees than they should have since there were lower-cost share classes and investment vehicles available for the funds.

LOW-COST PROVIDER

The lawsuit surprised advisers since Vanguard is widely seen as a low-cost fund provider.

Anthem, which denied the allegations, settled for $23.65 million, according to a court document filed last Monday in the U.S. District Court for the Southern District of Indiana. The plan sponsor also will have to hire an investment consultant to review the plan's investment lineup, and conduct a record-keeper search to determine whether to keep Vanguard.

$7B
SIZE OF ANTHEM'S 401(K) PLAN

An Anthem spokeswoman declined to comment.

"We're pleased that Anthem employees and retirees will receive not only compensation for their past losses, but also will have an improved plan going forward to enable them to build their retirement assets," said Mr. Schlichter, a founder and managing partner of Schlichter Bogard & Denton.

Mr. Schlichter won a $55 million settlement at the end of March in the lawsuit Tussey v. ABB, which dates back to 2006. His largest settlement was in 2015, for $62 million, in a case against Lockheed Martin Corp.

giacurci@investmentnews.com
Twitter: @gregiacurci

Congress must put investors' interests first

Main Street investors are an engine of prosperity that drives our nation forward, and when we empower them by putting their interests first, our capital markets, our economy and our country all win.

A team approach is necessary to best safeguard the financial futures of hardworking Americans and foster capital formation for local businesses and entrepreneurs, and Congress plays a key role. Given investment advisers' central function of guiding investors, and their position as constituents of lawmakers, they too can influence the direction of any policies to come by supporting legislation that puts investor interests first.

GUESTBLOG
MICHAEL S. PIECIAK

A TEAM APPROACH IS NECESSARY TO BEST SAFEGUARD HARDWORKING AMERICANS.

What is the roadmap to better investor protection, and on what issues should our leaders in Washington be focused?

State securities regulators, like my fellow members of the North American Securities Administrators Association, have a unique view here. Our position as the closest regulators to the public provides a window into the concerns of Main Street investors and small businesses, which enables us to make specific policy recommendations to help them both.

CONTINUED ON PAGE 26

Help parents plan early, realistically around their kids' college costs

THE PRICE OF COLLEGE and the burden of student loan debt is frequently cited as a barrier to young people's efforts to buy a home, marry and start a family. What receives less attention is the impact that paying for college can have on parents, and even grandparents.

As the cost of higher education has ballooned over the last couple of decades, older generations have been dragged into the whole mess, as the financial assistance they provide their children may be interfering with their own preparations for retirement.

A recent survey commissioned by Discover Student Loans shows that 31% of parents said they might have to work longer as a result of helping to pay for their child's college education. An equal portion said paying for college meant they might not have as much saved for retirement as they'd like, and 25% said college education costs meant they would have to skip vacations or other entertainment in the future.

Then there's the far end of the spectrum. In *InvestmentNews*' cover story on this topic in last week's issue, senior reporter Mark Schoeff Jr. cited one adviser who said two of his clients "completely sacrificed their retirement for their kids' college education."

Advisers may not be experts on college planning, but given the financial implications that college tuition can have for both parents and children, they should be talking to clients and their children about college, and helping them think through how to pay for it.

One good starting point is setting up 529 plans for children soon after they're born.

Once clients' children are in middle school or high school, advisers should check that both children and parents have a realistic idea of what the various options — private universities, state schools and community colleges — would cost and how such costs would fit into the family budget.

The recent college admissions scandal reveals the intensity with which some families pursue prestigious, and costly, private universities. But students can get a good education at state schools as well.

How does the expected tuition cost fit into the family's budget? Are there other areas where the family can cut back in order to pay for tuition? Should the family consider a second mortgage or some other type of financing to help pay student bills?

Advisers don't have a crystal ball that lets them see into a student's future, but they can help families talk over the amount of borrowing it would take to allow a child to attend a particular school, what such an amount would mean in terms of monthly repayments once the student graduates, and what the student can reasonably expect to earn after college in the career they're aiming for. High school students aren't yet experienced consumers; they need help to understand the ramifications of signing up for that student loan.

HOW DOES THE EXPECTED PRICE OF TUITION FIT INTO THE FAMILY'S BUDGET?

There are a couple of important roles advisers can play in clients' college planning. First, they can serve as a trusted outside voice. Parents can talk until they're blue in the face, but their children may not be listening. Advisers may be able to get through to kids who've been resisting certain messages from their parents.

Perhaps most importantly, advisers can continue to advocate for the importance of their clients' own retirement plans, even as those clients are concentrating on what their children need for college. Many parents would do anything for their kids, no matter what it ends up costing them. Advisers can provide a useful counterbalance to the insanity of college costs by reminding parents about what they need to do to prepare for a secure retirement and helping them figure out a way to navigate the two responsibilities.

WE WANT TO HEAR FROM YOU. Send a letter to the editor with your thoughts about a story we've published, and include your name, title, company, address and telephone number for verification. Keep your letter under 250 words, and email it to Frederick P. Gabriel Jr. at fgabriel@investmentnews.com. All letters will be edited.

InvestmentNews
The Leading Information Source for Financial Advisers
InvestmentNews.com

CEO/Publisher:
Suzanne Siracuse
ssiracuse@investmentnews.com

EDITORIAL
Editorial Director: Frederick P. Gabriel Jr.
fgabriel@investmentnews.com
Deputy Editor: Robert Hordt
Managing Editor: Christina Nelson
Assistant Managing Editor: Susan Kelly
Special Projects Editor: Liz Skinner
Copy Editor: Anne Marie D. Lee
Contributing Editor: Mary Beth Franklin
Senior Columnists: Jeff Benjamin, Bruce Kelly
Senior Reporter: Mark Schoeff Jr.
Reporters: Greg Iacurci, Ryan W. Neal
Digital Content Producer: Ellie Zhu
Social Media & Engagement Editor: Scott Kleinberg
Director of Multimedia: Matt Ackermann
Senior Multimedia Manager: Stephen Lamb
Multimedia Project Manager: Audrey Rose Joseph
Special Projects Coordinator: Brittney Grimes

ART DEPARTMENT
Executive Art Director: Scott Valenzano
Associate Art Director: Pablo Turcios
Senior Graphic Designer: Kyung Yoo-Pursell

DIGITAL, CUSTOM AND RESEARCH
Managing Director, Associate Publisher:
Mark Bruno, mbruno@investmentnews.com
Director of Digital Products & Strategy:
Michael Palazuk
Senior Manager, Research and Data:
Matthew Sirinides
Research Associate: James Gallardo
Digital Operations Manager: Gillian Albert

ADVERTISING
National Sales Manager:
Senior Client Relationship Manager, Western Region:
Rich Kiesel, rkiesel@investmentnews.com
415-538-0206
Client Relationship Manager, Midwest Region:
Sarah Haase, shaase@investmentnews.com
312-504-8755
Client Relationship Manager, East Region:
Nicole Casement, ncasement@investmentnews.com
212-210-0167
Client Relationship Manager, SouthEast Region:
Kevin Reardon, kreardon@investmentnews.com
212-210-0476
Client Relationship Manager, NorthEast Region:
Lauren DeRiggi, lderiggi@investmentnews.com
212-210-0154
Strategic Project Sales Manager:
Julie Parten, jparten@investmentnews.com
952-495-0422
Manager US Event Sales:
Dan Rubinetti, drubinetti@investmentnews.com
212-210-0432
Account Manager, US Events:
Kelly D. Maier
KMaier@investmentnews.com
Reprint Manager: Laura Picariello,
lpicariello@investmentnews.com 732-723-0569
Ad Operations Manager: Letitia Y. Buchan,
lbuchan@investmentnews.com 212-210-0451

AUDIENCE, MARKETING AND EVENTS
Director of Audience and Analytics:
George Ortiz, gortiz@investmentnews.com
Audience Data Analyst: Amy Zhu
Director of Marketing and Communications:
Theresa Gralinski,tgralinski@investmentnews.com
Director of Events and Integrated Solutions:
Josh Brous, jbrous@investmentnews.com
Senior Operations Manager: Tara Means
Events and Operations Manager: Natalie Taylor
Events Marketing Manager: Alanna Guardino
Marketing Coordinator: Kate Arends
Marketing and Sales Coordinator: Madeline Terrell

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

PRODUCTION
Prepress/Production Director: Simone Pryce
Production Manager: Paul Vaccari

INVESTMENTNEWS OFFICES
Headquarters:
685 Third Avenue, New York, NY 10017-4024
Bureau office:
Washington:
601 13th Street, N.W. Suite 900 South
Washington, DC 20005

Advertising main number: 212-210-0451
Fax: 212-210-0117

BONHILL GROUP, PLC
Chief Executive Officer: Simon Stilwell
Chief Operating Officer: James Robson

Head Office:
Bonhill Group, Plc
14 Bonhill Street, London EC2A 4BX

For subscription information and delivery concerns, please e-mail customerservice@investmentnews.com or call 877-812-1589 (in the U.S. and Canada) or 313-446-0450 (all other locations).

Audit Bureau of Circulations

Please recycle this newspaper

INVEST IN THE POWER OF DISRUPTION

An unprecedented level of disruption is creating compelling investment opportunities for those who know where to look.

At Janus Henderson Investors, our experts actively seek companies with the potential to benefit from disruption and those with unique business models that are difficult to disrupt.

Harness the power of disruption in your portfolio.

GROWTH AND INCOME FUND (JGINX)

★★★★★

Overall Morningstar Rating™
out of 1218 Large Blend Funds as of 3/31/19

BALANCED FUND (JBALX)

★★★★★

Overall Morningstar Rating™
out of 690 Allocation – 50% to 70% Equity Funds as of 3/31/19

FORTY FUND (JCAPX)

★★★★

Overall Morningstar Rating™
out of 1256 Large Growth Funds as of 3/31/19

GLOBAL TECHNOLOGY FUND (JATIX)

★★★★

Overall Morningstar Rating™
out of 186 Technology Funds as of 3/31/19

GLOBAL LIFE SCIENCES FUND (JFNIX)

★★★★

Overall Morningstar Rating™
out of 133 Health Funds as of 3/31/19

janushenderson.com/disruption

Janus Henderson
—KNOWLEDGE. SHARED—

Please consider the charges, risks, expenses and investment objectives carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, please call Janus Henderson at 800.668.0434 or download the file from janushenderson.com/info. Read it carefully before you invest or send money.

Past performance is no guarantee of future results. Investing involves market risk. Investment return and fund share value will fluctuate and it is possible to lose money by investing.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets. Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens. Investments focused on a single sector, country or region are subject to increased volatility because such investments may react similarly to market developments and a significant portion of assets may be invested in a small number of issuers. Actively managed portfolios may fail to produce the intended results. No investment strategy can ensure a profit or eliminate the risk of loss.

As of 3/31/19, Growth and Income Class I Shares Morningstar Ratings™ in the Large Blend Funds category: 5 stars out of 1218 funds, 5 stars out of 1081 funds and 3 stars out of 810 funds, for 3-, 5- and 10-year periods, respectively.

As of 3/31/19, Balanced Fund Class I Shares Morningstar Ratings™ in the Allocation – 50% to 70% Equity Funds category: 5 stars out of 690 funds, 5 stars out of 601 funds and 4 stars out of 439 funds, for the 3-, 5-, and 10-year periods, respectively.

C-0419-23480 06-30-19

As of 3/31/19, Forty Fund Class I Shares Morningstar Ratings™ in the Large Growth Funds category: 4 stars out of 1256 funds, 5 stars out of 1114 funds and 3 stars out of 805 funds, for the 3-, 5-, and 10-year periods, respectively.

As of 3/31/19, Global Technology Fund Class I Shares Morningstar Ratings™ in the Technology Funds category: 4 stars out of 186 funds, 4 stars out of 174 funds and 4 stars out of 146 funds, for the 3-, 5-, and 10-year periods, respectively.

As of 3/31/19, Global Life Sciences Fund Class I Shares Morningstar Ratings™ in the Health Funds category: 4 stars out of 133 funds, 4 stars out of 122 funds and 4 stars out of 98 funds, for the 3-, 5-, and 10-year periods, respectively.

The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating™ metrics.

Ratings and/or rankings may be based, in part, on the performance of a predecessor fund or share class and are calculated by Morningstar using a methodology that differs from that used by Janus Henderson. Methodology differences may have a material effect on the return and therefore the rating/ranking.

The Morningstar Rating™ for funds, or "star rating", is calculated for funds with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The Morningstar Rating does not include any adjustment for sales loads. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. Ratings may vary by share class.

Ratings based on risk-adjusted returns.

166-41-423480 04-19

SCAMS, *SCHEMES* & CONS

MORE UNREGISTERED SECURITIES ARE ILLEGALLY BEING SOLD TO UNSUSPECTING INVESTORS AND ARE GIVING THE FINANCIAL ADVICE INDUSTRY A BLACK EYE

BY BRUCE KELLY

TO AN INVESTOR, Castleberry Financial Services Group's promise of up to a 12.2% annual yield on the alternative investment fund it was selling might have seemed awfully tempting. So might the assurance that your principal would be insured and bonded by well-known insurance companies CNA Financial Corp. and Chubb Group.

In promotional materials, Castleberry claimed to have invested almost $800 million in local South Florida companies and to have a portfolio of real estate holdings that was generating $2.8 million in rental income annually.

But in late February, the Securities and Exchange Commission went into court to shut the company down, claiming it was all a fraud, including the involvement of CNA and Chubb.

Before the SEC acted, though, it said that Castleberry had managed to raise $3.6 million from investors, some of which was used to pay the personal expenses of its principals. Other funds were transferred to family members or other businesses the principals controlled, according to the SEC.

By all indications, the marketplace for all types of private, unregistered securities, including private placements sold to wealthy investors and institutions, is thriving. But what's growing alongside this legitimate, if risky, market is a seedy side of the financial advice industry. Investment funds promising above-market returns that employ networks of brokers, former brokers, insurance agents or others lurking on the fringes of the industry to sell their investments are taking advantage of unsuspecting investors.

Add in the ability to offer private securities over the internet and solicit clients via social media, and unregistered, private securities being sold to less-than-wealthy investors, many of them senior citizens, are becoming increasingly dangerous. Fraudulent securities are damaging the reputation of the legitimate financial advice industry, and the industry itself might serve as the best solution to safeguarding the investing public.

"I'm seeing more of it: the spike in the sale of nontraditional investments," said David Chase, a former SEC staff attorney who's now in private practice and based in South Florida.

SALES SOAR

The proliferation of potentially fraudulent schemes comes at a time when the sale of legitimate private securities, which are exempt from having to be registered if they meet certain SEC guidelines, has taken off. While the annual amount of public stock offerings has remained relatively steady over the past decade, the sale of new private stock offerings has soared.

The most popular of these, known as Regulation D offerings, have more than doubled, from 18,295 in 2009 to 37,785 in 2017. Those deals, along with other types of private offerings, raised a total of $3 trillion in 2017.

Brokers and advisers can sell private, unregistered shares to only the wealthiest clients; investors need a net worth of $1 million or an annual individual income of $200,000 to buy in. But the public disclosure is negligible, making the securities opaque, some sources said, and that is hazardous.

The game plan of the fraudulent unregistered securities schemes currently roiling the

CONTINUED ON PAGE 10

CONTINUED FROM PAGE 9

investment advice market is simple. An investment manager claims to have an alternative investment to the stock market that beats the return on bonds or bank deposits. The investments are heavily marketed with investment seminars, dinners, and ads on radio and in local newspapers.

James Park, securities professor at UCLA, said the internet is giving the promoters one more outlet to sell their fraudulent investments.

"It's now possible to get investors from everywhere," he said. "In the old days, brokers would have to call up people to convince them to invest or put on a road show. Now it's normalized with online platforms."

In one of the largest recent cases, the SEC said the owners of Woodbridge Securities raised $1.2 billion over a five-year period by claiming they were selling loans to real estate developers.

Promising returns of 10%, the scheme reeled in 8,400 investors, many of them senior citizens, with the help of a network made up mostly of insurance agents and former stock brokers, according to the regulator. Woodbridge's owners kept the scam going, the SEC said, by using money from new investors to pay off old investors — a classic Ponzi scheme.

Without admitting or denying the allegations, Woodbridge and its former CEO Robert Shapiro settled with the SEC for $1 billion in disgorgement and fines. Ryan O'Quinn, a lawyer for Mr. Shapiro, did not return a call seeking comment.

$3T

AMOUNT RAISED THROUGH ALL PRIVATE OFFERINGS IN 2017

BEYOND FINRA'S REACH

One of the reasons these cons take time to detect is because the agents selling them mostly work outside the supervision of licensed broker-dealers, who are under the purview of the Financial Industry Regulatory Authority Inc. This gives the fraud ample time to flower before the SEC or a state regulator gets a complaint from an investor, investigates and shuts it down.

"The largest Ponzi schemes in general are those that have tapped into a very successful and productive line of independent sales agents who typically have long-standing relationships with clients," Mr. Chase said. "They sell the deal, and clients get defrauded."

The SEC did a better job of shutting down what it said was a fraud in the case of Castleberry Financial Services Group after only a year in business. In February, the SEC was granted a temporary restraining order and temporary asset freeze against Castleberry and its principals.

Among other allegations, the SEC said the firm's president, T. Jonathon Turner, formerly known as Jon Barri Brothers, had falsely claimed to have had extensive finance industry experience, an MBA degree and a law degree, while concealing that he had served 18 years in prison for multiple fraud, theft and forgery felonies.

Attorneys for Castleberry Financial and its executives did not return calls seeking comment.

STATE ENFORCEMENT

In 2017, state regulators reported that enforcement actions against unregistered brokers and salespeople increased at a faster pace than actions taken against registered individuals. That means the risk from salespeople on the fringes of the financial advice industry is growing. And they are the type of people who often sell scams that are being marketed as unregistered securities.

"[The] enforcement survey reflects a large increase in enforcement actions against unregistered individuals and firms," according to an October 2018 report from the North American Securities Administrators Association. Members of the group reported actions in 2017 against 675 unregistered individuals and firms — an increase of 24% over the prior year — and 647 registered individuals and firms — a 9% increase.

"The surge in cases against unregistered actors reversed a two-year trend in which registered individuals and firms in the securities industry, broker-dealers and investment advisers, had constituted the majority of respondents in state enforcement actions," according to NASAA.

Perhaps the poster boy for selling phony unregistered securities is Barry Kornfeld, a leading seller of the Woodbridge Ponzi scheme.

The SEC barred Mr. Kornfeld from working as a broker in 2009. Regardless, he continued to sell private securities; he and his wife allegedly solicited investors at seminars and a "conservative retirement and income planning class" they taught at a Florida university, according to an SEC complaint.

From 2014 to 2017, he and his wife received $3.7 million in commissions after selling more than $60 million of the Woodbridge private securities, according to the commission. Mr. Kornfeld reached a settlement in January with the SEC, agreeing to be barred for a second time from the securities industry. Robert Harris, a lawyer for Mr. Kornfeld, did not return a call seeking comment.

REGISTERED REPS INVOLVED

Unregistered reps aren't the only ones selling fraudulent securities. Registered reps working at broker-dealers also are involved.

"We're starting to see more sophisticated means for registered reps within the broker-dealer space to get investors to invest in private securities," Thomas Drogan, senior vice president at Finra, said in testimony last year about investor fraud before the SEC's Investor Advisory Committee. "The challenge in that space has been reps encouraging their customers, for example, to send money from their brokerage account to their bank account. And once the money gets to the bank account, instructing the customer to then send the money to the individual reps' outside business activity. This creates a problem. This creates a very big challenge for broker-dealers to conduct surveillance on."

The practice, known as "selling away," can be grounds for disciplinary action if the broker-dealer employing the broker has not approved the broker's actions.

Advisers at independent broker-dealers are commonly paid 7% commissions when selling private placements, clearly on the high end of a broker's pay scale.

"What's driving this?" asked Adam Gana, a plaintiff's attorney. "It's commissions, commissions, commissions. Brokers think they can get away with selling whatever they want on the side."

Even though these dubious private securities are creating havoc for investors and the financial advice industry, regulators may soon change the rules about how private securities transactions are supervised.

SIMPLIFY SUPERVISION?

Last year, Finra proposed rule changes that are intended to simplify how broker-dealers supervise a hybrid rep's outside business activity and sale of private securities. The new rule focuses on the rep's RIA firm and decreases some of the responsibility the broker-dealer has to watch over that separate line of business. It would cut costs for the firm and the broker. But some think these changes could prove dangerous.

William Galvin, secretary of the Commonwealth of Massachusetts and the most feared regulator in the securities industry, does not care for the Finra rule proposal.

"Finra claims that the proposed rule will strengthen investor protections, but it is not at all clear how investors will be protected by the removal of supervisory oversight," Mr. Galvin wrote in a comment letter last April about the proposed rule. "The absence of proper oversight of outside business activities will increase the risk of fraud and abuse."

Can financial advisers and the financial advice industry do anything to contain this problem?

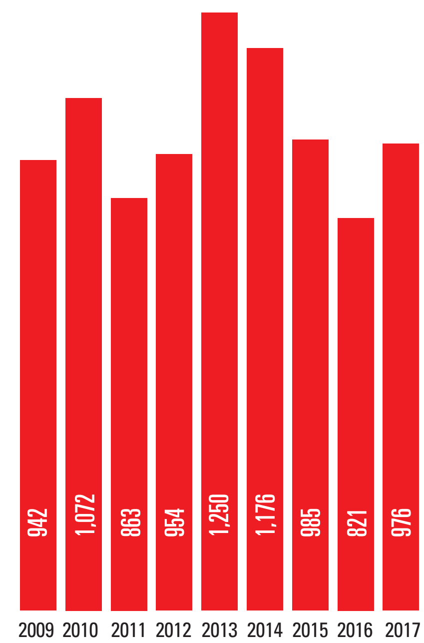
Local investment advisers are often the best cops on the beat for detecting such frauds. Their knowledge often comes from clients who are being pitched such deals at "free" steak dinners that are provided to get them in the door for a presentation.

Advisers have the responsibility to report a suspicious private securities deal to their firm, said Mr. Chase, the former SEC attorney.

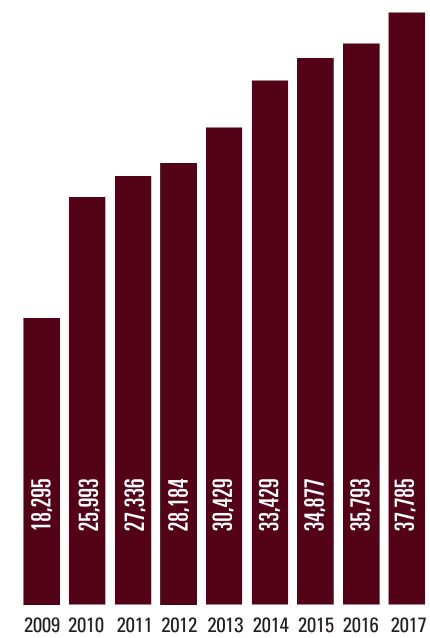
"If brokers get wind of these types of deals, they've got to go to the broker-dealer's compliance department and report to the SEC or Finra," he said. "They have the ability and obligation to report. There's nothing wrong with putting these suspicious deals in front of regulators."

bkelly@investmentnews.com
Twitter: @bdnewsguy

NUMBER OF PUBLIC EQUITY OFFERINGS



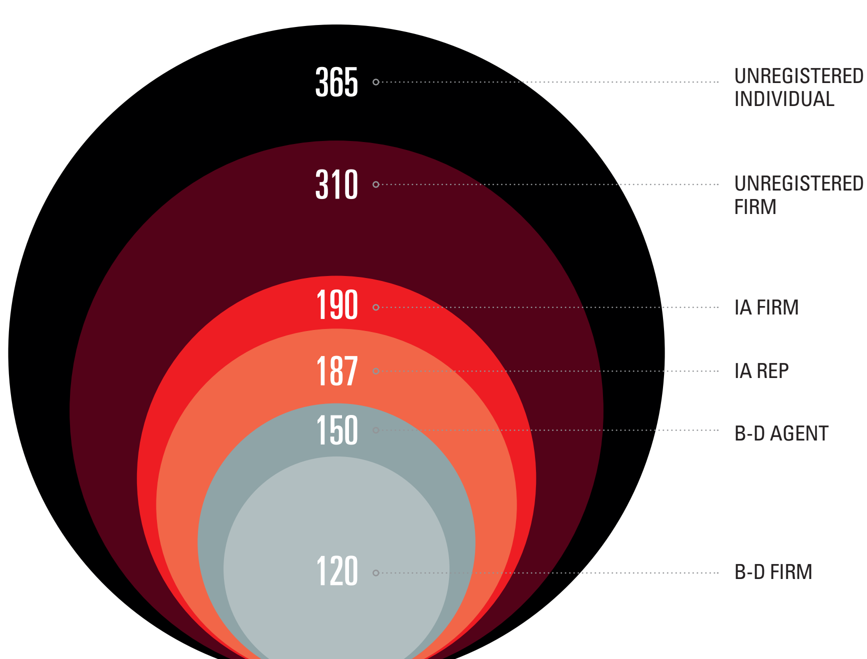
NUMBER OF PRIVATE REGULATION D OFFERINGS



Source: Securities and Exchange Commission

ENFORCEMENT TARGETS

UNREGISTERED FIRMS AND INDIVIDUALS TOPPED THE LIST OF DISCIPLINARY ACTIONS BY STATE SECURITIES REGULATORS IN 2017



Source: North American Securities Administrators Association

privatewealthadviser

By Adam Shell

RISING RICH BOOST STATURE, GROWTH OF FAMILY OFFICES

The market for serving wealthy families may be bigger than some data suggest

In Rhona Vogel's line of work, family comes first.

As CEO and founder of wealth management firm Vogel Consulting, she manages the personal fortunes and increasingly complex financial lives of about two dozen wealthy American families.

Her 30-person firm — which helps families with investible assets in the tens of millions of dollars select suitable investments, identify future deals worth doing, and make prudent financial moves to ensure their wealth will last generations — is part of the fast-growing family office segment of the financial advice industry.

CONTINUED ON PAGE 17 >

INSIDE

Tax Cuts and Jobs Act takeaways

Practical insights into the TCJA and its provisions regarding income tax and gift and estate tax

The Tax Cuts and Jobs Act was enacted in late 2017 but individuals had to grapple for the first time with many of its temporary provisions as they prepared their 2018 income tax returns. Wealthy donors may be eyeing the chance to pass more property to their heirs thanks to the law's temporary doubling of the $5 million gift and estate tax exclusion, to $10 million. (The 2019 inflation-indexed exclusion is $11.4 million for individuals and $22.8 million for married couples.)

Although these temporary provisions generally last through 2025, here are some immediate takeaways regarding TCJA and income tax and gift and estate tax.

Income tax

Many individuals in high-tax states such as New York, New Jersey and California fear the new $10,000 cap on the deduction for state and local taxes, known as SALT, will significantly increase their taxes, since that deduction was previously uncapped.

Yet if those same individuals, pre-TCJA, were subject to the alternative minimum tax, they couldn't take the SALT deduction anyway, since the AMT disallows it. So who is most likely affected by this $10,000 cap? High-income individuals who paid enough "regular" tax to be outside the scope of the AMT and had a sizable SALT deduction that saved them significant federal income tax. If these individuals vote with their feet and move to lower-tax jurisdictions, high-tax states will lose tax revenue.

The 2018 income tax year has been a test run for taxpayers. Now that this filing season is behind us, taxpayers should have a better idea of how TCJA works and what they might do differently in 2019.

Gift and estate tax

Even before this law was enacted, many people were already exempt from federal estate tax, which now affects even fewer people given the 2019 exclusion of $11.4 million ($22.8 million for married couples). Yet those who are wealthy enough to take advantage of this higher exclusion may want to accelerate their timetable for making significant gifts.

If Democrats control the White House, Senate and House after the 2020 or 2022 elections, they could revisit TCJA's provisions well before they expire in 2026. If the exclusion reverts to $5 million (or lower), this would be a missed opportunity.

There are also portability considerations. Portability allows the surviving spouse to receive the predeceased spouse's unused exclusion — an election is made. So if Dad dies in 2019 leaving an $8 million estate and his full $11.4 million exclusion intact, Mom will only receive that unused exclusion if Dad's executor files a federal estate tax return.

Mom may wonder if it's worth the expense of having someone prepare that return if she doubts she'll have more than, say, $10 million at her death. Although there is no right answer for Mom, she might be happy to have Dad's leftover exclusion if some of her property appreciates unexpectedly or if, at her death, the exclusion is only $5 million or less.

Blanche Lark Christerson

> **"Now that this filing season is behind us, taxpayers should have a better idea of how TCJA works."**

In other words, portability is like insurance: You may never need it, but if you do, you'll be glad it's there.

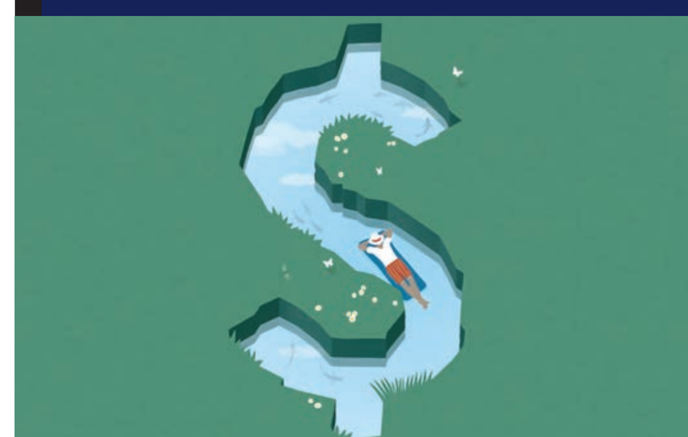
Blanche Lark Christerson is a managing director with Deutsche Bank Wealth Management in New York City.

Case study:

Creative planning for the lone retiree

Clients with great wealth but no friends or family require extra sensitivity

By Liz Skinner



When a client is an older woman who has never married and has no children, or close relationships with other natural heirs to leave her considerable wealth to, extraordinary planning steps and creative thinking are needed.

Multiple professionals must work together to save her estate from taxes, to help her spend down some of the money she's amassed, to help choose who will act as trustee or executor for the estate, and most importantly, to give her peace of mind that she won't run out of money.

Andrew Altfest, president of Altfest Personal Wealth Management, said his firm had such a 75-year-old client who, despite having north of $10 million and spending only about $200,000 a year, regularly worried that she would not have enough money to pay for her health care and other needs through the end of her life.

"She had a lot of fears even though she stands no chance of running out of money," he said. "After a health scare, she was very concerned with long-term-care costs."

Mr. Altfest and Keith Feinberg, an estate attorney with the firm, said every case will be different. However, these are some of the most important things to contemplate with such a case, keeping in mind the ultimate goal — which for this client was peace of mind.

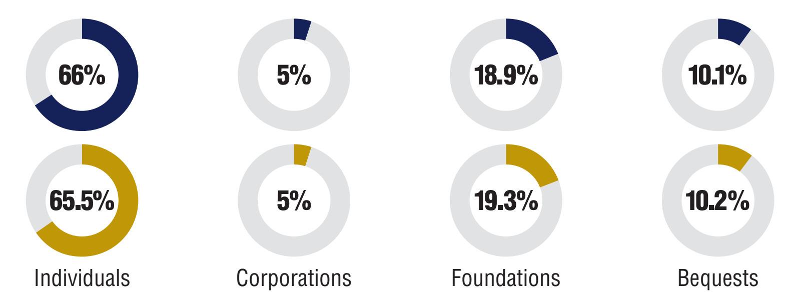
Charitable giving

Figuring out which philanthropic activities someone wants to support is more challenging than it sounds. For this client, they held a series of discussions with her about what she wanted

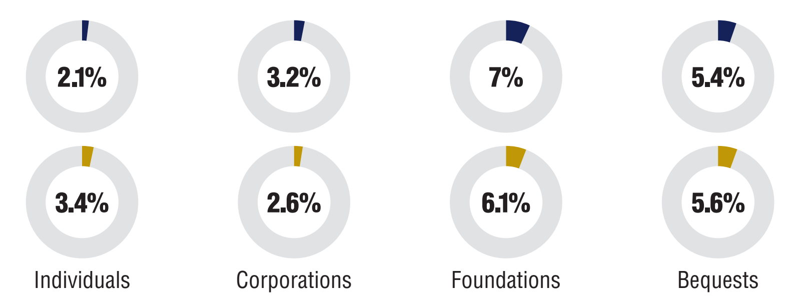
CONTINUED ON PAGE 16

Dynamic philanthropic giving environment expected through 2020

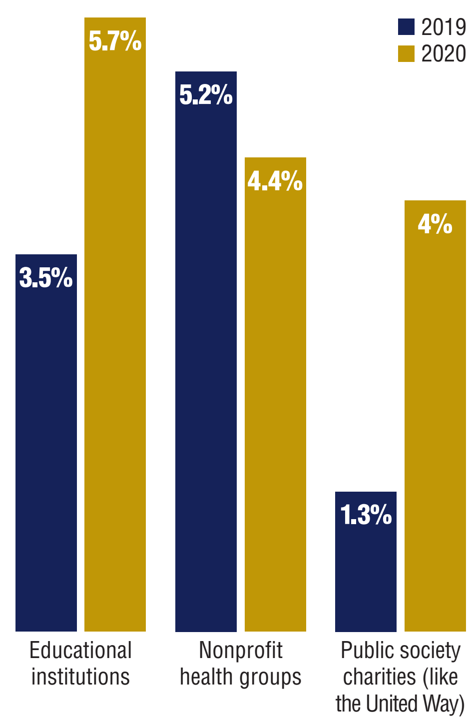
Who's doing all this charitable giving?



Who's giving more in 2019 and 2020



Which U.S. organizations are receiving the extra funds?



Total giving is projected to rise

3.4%

in 2019 and

4.1%

in 2020 — higher than the historical 10-year, 25-year and 40-year annualized average rates of growth.

These are the factors behind the boost:

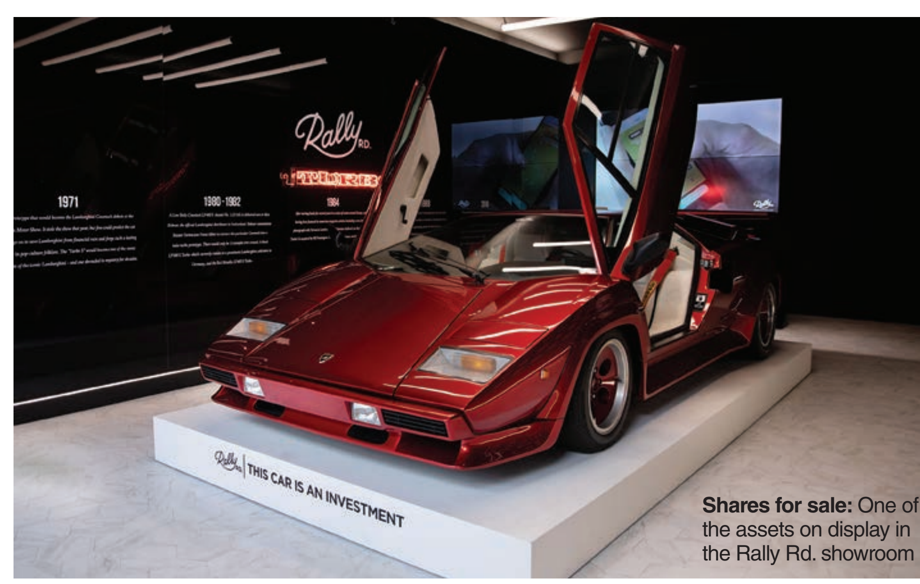
- Above-average growth in the Standard & Poor's 500 in the preceeding and projected years
- Growth in personal income
- Growth in the preceding years' GDP

Source: *Philanthropy Outlook 2019 & 2020, Indiana University Lilly Family of Philanthropy and Marts & Lundy, January 2019.*

Online marketplaces offer rare collectibles

Investors can buy shares of automobiles, artwork

By Ryan W. Neal



Shares for sale: One of the assets on display in the Rally Rd. showroom

Investors often turn toward luxury collectibles like expensive cars and paintings as alternative investments. But owning physical assets doesn't always make sense, even for the ultra-wealthy.

A car-loving millionaire, for instance, may be looking to invest in vintage automobiles, an asset class that has returned 288% over the last decade, more than twice the return of the S&P 500, according to the Knight Frank Luxury Investment Index. But if the investor lives in a car-unfriendly place like Manhattan, where will he or she keep it?

Enter Rally Rd., an investment firm that splits high-value physical assets into shares and offers them as equity investments on a digital trading platform. Rally Rd. currently offers shares of blue chip cars like Jaguars, Ferraris and Aston Martins, and it plans to expand into other types of collectibles.

After finding a car that passes Rally Rd.'s strict investment criteria — such as one of only two 1980 Lamborghini Countach Turbos in existence, valued at $635,000 — the company acquires the vehicle. Then it holds a Securities and Exchange Commission-registered initial public offering, allowing investors to learn about the car and purchase shares. For each car, Rally Rd. issues between 2,000 and 5,000 shares, valued from $7 to $245 each. The Lamborghini used in this example sold for $100 per share at its IPO.

The company doesn't charge commissions or management fees; it makes money by taking a small sourcing fee as the underwriter of the initial offering, according to Bloomberg. It also takes a position in each vehicle, of up to 10% of the shares, at the same price and share class as the individual investors.

While Rally Rd. began with the idea of providing access to expensive collectibles to people who traditionally couldn't afford them, co-founder and CEO Christopher Bruno said there is also value for high-net-worth investors and the advisers who serve them.

"There's a long history with uncorrelated returns associated with this type of asset class," Mr. Bruno said. "A lot of individuals would value that."

Online platforms

- **Rally Rd.:** Splits high-value physical assets into shares and sells equity investments.
- **Masterworks:** Offers the opportunity to buy shares in expensive paintings.
- **Maecenas:** U.K.-based market for buying shares in fine art.

Less risky

Making that immediate, all-in decision to buy an expensive car can be too risky for some, but no one wants to wake up in 10 years to see the value of the car they looked at but ultimately declined to buy has surged in value, he said. Rally Rd.'s share offerings let investors get as involved as they want, and a wealthy person could later decide to buy out the rest of the car.

"People should be diversified and have access to good quality investments that are worth it to them," Mr. Bruno said.

A similar movement is occurring in the fine art world. Online marketplaces like Masterworks and United Kingdom-based Maecenas offer an opportunity to buy shares in expensive paintings.

These platforms are possible thanks to the JOBS Act, signed into law during the Obama administration, which allows small companies to sell shares to the general public without needing to be a part of a major stock exchange.

Collectibles such as fine art and rare cars provide diversification, and can act as a status symbol.

It helps that classic cars can be easier to wrap one's head around than something like bitcoin, Mr. Bruno said.

Although investors can't drive the rare car they own shares in, they can see the cars via webcams Rally Rd. operates from its "museum-grade" storage facilities.

The company has a storefront in Manhattan where it displays autos prior to their IPOs, and it is planning to launch a larger facility in New York in the future.

rneal@investmentnews.com
Twitter: @ryanwneal

There's value in family-controlled businesses

Their long-term approach may require patience, but family companies can offer a big payoff

Investing in family-controlled businesses requires a good amount of patience and a measure of faith, but the benefits are hard to ignore.

David Marcus

Exactly what constitutes a family-controlled business varies, but a general definition is one in which the company founder or descendants have a significant economic interest in addition to a voting stake that is enough to influence the board. These voting stakes are often augmented by prominent positions within the company, such as a seat on the board or a C-suite position.

Research over the last 10 to 15 years from Credit Suisse, Boston Consulting Group and McKinsey & Co. suggests that family-controlled businesses outperform peers that are not family-controlled.

So where does the patience come in? Family-controlled businesses typically take a long-term approach. Oftentimes, they are conglomerates. They are looking for investments that might not yield compelling returns the next quarter or even the next year. But the good ones will add real value over time. They tend not to overextend their balance sheet, are mindful of borrowing, and do not take unnecessary risks or swing for the fences.

While they may favor long-term capital preservation and value creation, the well-run businesses aren't content to sit on their assets. They are aggressive in taking advantage of opportunities and they think about how they can change the trajectory of the business over time to create more value.

These companies and the families behind them like to take stewardship of the company's capital and drive it to create value over longer periods of time.

The element of faith is important, too. This is partly due to family-controlled businesses' long-term trajectory, often spanning several generations. But they also do not hold the same attitude toward their shareholders as their non-family controlled counterparts.

Focus on wealth, not shareholders

Simply put, the focus is not on meeting the needs of the shareholders. It is instead fixed on creating and building the wealth of the family. They can be less transparent than other businesses, and research shows that family-controlled businesses are significantly more likely to have a higher percentage of interested board directors, which often includes family members.

Many family-controlled businesses do not disclose their long-term plan metrics, and a significant percentage do not include financial targets.

Moreover, the overarching strategy pursued by leaders of family-controlled businesses is not always clearly laid out or communicated. Some, like Vincent Bolloré, chairman and CEO of French conglomerate Bolloré, which controls media giant Vivendi, which in turn owns Universal Music Group, can be ruthlessly aggressive because they take such a long-term view of the business.

They may not care what the markets think in the short term and are often cryptic about their big-picture strategy for the conglomerate.

Lack of transparency

That lack of transparency can be frustrating to shareholders. They often do not want to wait for the complete picture to emerge over time. They want to see it every step of the way.

But for the patient investor capable of putting a measure of faith in the CEO's vision and business acumen, the payoff is the opportunity to ride the coattails of the family as they work to create value over time and compound their wealth.

That said, not all family-controlled businesses are the same, and there are always risks that need to be examined. Investors should look at how the family has transacted with the company over the years. Are they good stewards of the company's capital? If they treat the business like their personal piggy bank, that is a huge red flag.

Succession is another area that bears watching. Nepotism is common in family-controlled businesses, but you want to see a process in which successive generations of the family earn their positions and learn the business from the ground up. Not all include family members in the management ranks but instead keep them in the boardroom. There is no one right recipe.

The companies that fill management with cronies are not likely to be the ones that live on and grow from generation to generation. Investing in family-controlled businesses focused on compounding value and family wealth offers shareholders a long-term opportunity. The payoff awaits.

David Marcus is CEO and portfolio manager of Evermore Global Advisors.

What to look for:

- Entities that take a long-term approach to the business.
- Firms that don't overextend their balance sheet.
- Those that don't take unnecessary risks.
- Firms that are aggressive in looking for opportunities and think about improvements.

LONE RETIREE

> CONTINUED FROM PAGE 14

to accomplish and then they discussed the benefits of charitable lead trusts and charitable remainder trusts.

In the end they decided to create a charitable remainder annuity trust that was intended to provide the client with steady, reliable income, while also fulfilling her philanthropic intent. The client funded the CRAT with highly appreciated assets, which helped her to avoid realizing embedded capital gains, as well.

Estate taxes

It's important to leverage the options that the IRS and states have provided to shield money and put it to charitable use. The use of the CRAT allowed the client to divest a substantial amount of assets from her taxable estate, provide herself with a constant income stream and even receive an income tax deduction in the year of funding.

Insurance

There are special high-net-worth carriers that should be involved in such cases because they can provide more protection than the average policy.

This client still had an insurance policy from the 1980s, which did not provide sufficient coverage for additions and alterations. So they worked with one of the specialized carriers to increase her umbrella coverage, secure more coverage for her apartment, and provide additional coverage for her jewelry and collectibles. They also suggested raising her deductible in order to significantly decrease her annual premium payments

Spending habits

Consider lifestyle changes that could improve the quality of the client's life by learning about what she does with her days and her priorities. In this case, by using cash flow projections and sources of income, Mr. Altfest convinced her to increase the frequency of her housekeeper to once a week.

Trustees

Choosing a trustee, a power of attorney and a health-care proxy is tricky. The goal is to find an individual or a combination of people who will make decisions consistent with the client's values and wishes.

In this case, the Altfest executives helped the woman decide a trusted niece should be the person who would take on all of these roles. They also helped the client have a frank and open discussion with her niece to express her desires and intents regarding end-of-life decisions.

Income-tax planning

The client's portfolio consisted mainly of marketable securities with some real estate and other investments. The case was complicated by the fact that some assets were with outside investment managers.

The firm pulled together information regarding all of the assets and coordinated investment income in all the portfolios to determine the impact of different income-tax thresholds. Observing that the client's medical expenses for the previous year were just short of the medical expense deduction threshold, they increased her allocation to municipal bonds and took available capital losses, which helped to lower taxable income and allow the client to take the deduction in the following year.

Health care and housing

Helping anyone decide how and where they'd like to live out their final years can be daunting, but working with someone with no family or friends who might help care for her requires the team to be very thorough and quite sensitive.

Overall, planning in such a case, as with most planning for clients who have significant wealth, requires advisers and attorneys to coordinate with all the client's outside accountants, attorneys, investment professionals or sometimes even doctors.

lskinner@investmentnews.com
Twitter: @skinnerliz

> CONTINUED FROM PAGE 12

"I view my role as being the family's chief financial officer," Ms. Vogel said. "This is a great space to be in."

She added two well-heeled families to her client list in 2018 and expects similar growth this year.

"I continue to think there will be more opportunities. These wealthy families need a different level of service," she said.

By one global count, there are about 2,350 family offices — including single-family and multifamily businesses — according to FINTRX, a family office data and research platform.

That's up 23% from 1,910 a year ago, according to firm founder and CEO Russ D'Argento. The average amount of assets managed by those family offices has grown 38% to $900 million in the past year.

"The family office space continues its clear upward trend, both in terms of assets and number of offices," he said.

The family office universe may be even bigger than FINTRX's database suggests.

Ernst & Young estimates there are "at least 10,000 single-family offices" around the globe, and at least half of them were set up in the past 15 years, according to its Family Office Guide.

In another sign of growth, assets managed by family offices are "growing at a faster pace" than those of advisers catering to the more traditional high-net-worth market, or those with $5 million or more in investible assets, according to Cerulli Associates.

Assets under management at multifamily offices, which Cerulli defines as those managing $100 million-plus in total assets with average family assets of $10 million or more, totaled $668 billion at the end of 2017, up 70% from year-end 2012. That 14% annual growth rate topped the 9.5% gain in the broader high-net-worth space, said Asher Cheses, a research analyst in Cerulli's high-net-worth practice.

'Virtual' family office

One new twist in the sector has been the emergence of the so-called "virtual" family office.

$900M

AVERAGE ASSETS MANAGED BY FAMILY OFFICES, WHICH GREW 38% IN PAST YEAR, ACCORDING TO FINTRX

While it has the ring of a robo-adviser, a virtual family office is more about doing a few key functions in-house and outsourcing the more complex functions to outside professionals with specific expertise, said Alexandre Monnier, president of the Family Office Exchange, a group that provides educational and networking support for roughly 380 families of wealth.

"There is some automation happening in the family office space, but it's far from plug-and-play," he said.

New investment trends are emerging in the family office space as the bull market moves into its record-setting 11th year, and mega-wealthy families look to engage the younger generations in the family business.

Wealthy families are dialing back their exposure to hedge funds, mainly due to subpar performance in recent years and high fees. They are still making sizable investments in traditional private-equity funds that invest in companies with the goal of cashing out with a profit in a five- to seven-year period.

But family offices are increasingly striking out on their own and buying direct stakes in established operating companies, early-stage upstarts and real estate, such as hotels, commercial buildings and apartment buildings.

About 45% of family offices said they plan to invest more in "direct investments" in the next 12 months, according to UBS' Global Family Office Report 2018.

A typical wealthy family, which has a much longer investment time horizon than funds do, evaluates 75 to 100 deals a year, industry experts said. In many cases, these direct investments are with the same businesses that made the family rich.

Similarly, there's been an increased family office focus on "impact investing," which seeks profit while at the same time investing in environmentally friendly companies or technologies that aim to combat global warming, for instance. One-third of the family offices responding to the UBS study said they are now engaged in impact investing.

In addition, some family offices are taking advantage of the 2017 change in the federal tax code by taking part in the Qualified Opportunity Zone program, which provide tax breaks on investments in economically distressed communities, said Robert Konrad, chairman of Socius, a multifamily office.

Higher "tax-equivalent returns are something a lot of wealthy clients are looking for," he said.

Rich getting richer

One explanation for the growth in family offices is that the rich have gotten richer over the past decade, thanks to historically low interest rates, a slow but steady economic recovery and the longest bull market in Wall Street history.

There were 1.35 million ultra-high-net-worth U.S. households with between $5 million and $25 million at the end of 2017, up 7% from a year earlier and up 32% from five years ago, according to Spectrem Group's Market Insights 2018 report. The number of households worth more than $25 million climbed to 172,000 at the end of 2017, a 50% increase in the past five years.

That greater wealth creates greater financial complexity — and a greater need for families to get professional advice on a wide range of financial issues, Mr. Monnier said.

"All this complexity requires delicate solutions," he said.

Adam Shell is a freelance writer.

$96B AMOUNT OF INDEXED ANNUITY SALES BY THE END OF 2023, AS PROJECTED BY LIMRA — A 38% INCREASE FROM 2018

Alternative strategies managing volatility

BY JEFF BENJAMIN

IT'S BEEN AT least five years since Dick Pfister can recall a six-month period so favorable to alternative investment strategies.

Mr. Pfister, founder and president of AlphaCore Capital, which allocates between 15% and 30% of client assets to alternative investments, said the Jekyll-and-Hyde scenario of the last two quarters was an ideal test for noncorrelated investments.

Viewing alternatives as tools for managing volatility and balancing risk, Mr. Pfister points to the 1.34% fourth-quarter gain in the market-neutral strategy BlackRock EventDriven Equity Fund (BILPX) against the 13.5% drop in the S&P 500 Index. And in the first quarter, when the S&P rebounded with a 13.6% gain, he was perfectly happy with the 5.4% increase in the long-short equity strategy Balter Invenomic Fund (BIVIX).

"WE LOOK AT SOME ALTERNATIVES AS DIVERSIFIERS."

DICK PFISTER, FOUNDER AND PRESIDENT, ALPHACORE CAPITAL

"We look at some alternatives as diversifiers," he said. "But we will also look at other alternatives as ways to capture chunks of up markets."

The big-picture perspective rarely looks good for alternatives, which is why those who dwell on broad category averages often get stopped at the gate.

The Morningstar Inc. market-neutral fund category, for example, produced an average gain of just 12 basis points in the first quarter, while the nine categories representing U.S. equity funds gained between 11.3% and 18.4% over the same period.

Making the case for alternatives, which are generally designed to neutralize market beta and enhance alternative alpha, is never easy when market beta is robust in the form of a bullish stock market.

BEST-PERFORMING

The influence of market beta is illustrated by the options-based alternative fund category, which gained 6.63% as the best-performing alternative fund category in the first quarter, according to Morningstar.

"With equity markets rallying, strategies with higher beta exposure to equities have done better," said Tayfun Icten, senior analyst at Morningstar.

The options-based fund category had an average decline of 5.51% last year, versus the 4.38% decline in the S&P.

Read the full story at InvestmentNews.com/altstrategy.

jbenjamin@investmentnews.com
Twitter: @benjiwriter

Factor investing gets reboot amid low demand

BLOOMBERG NEWS

A ROUGH start to the year for more than $850 billion in exchange-traded funds with quantitative strategies is fueling a product rethink.

Smart-beta stock ETFs, which use characteristics such as a company's value, size or momentum to direct investments, lured the least money in 12 months in the U.S., dragging asset growth below the five-year average for a second quarter, according to data compiled by Bloomberg.

Instead of quitting, ETF providers are doubling down and trying to woo investors with all-in-one funds that pull together several factors.

Money managers have come to rely on smart-beta funds. As differentiated products, they can justify higher fees, offsetting lower revenue from broad-indexed funds — which are now virtually free.

So factor investing is getting a reboot: Rather than teach investors how to pivot between products, issuers are creating multifactor funds that offer exposure to several return-enhancing characteristics. And that seems to be working.

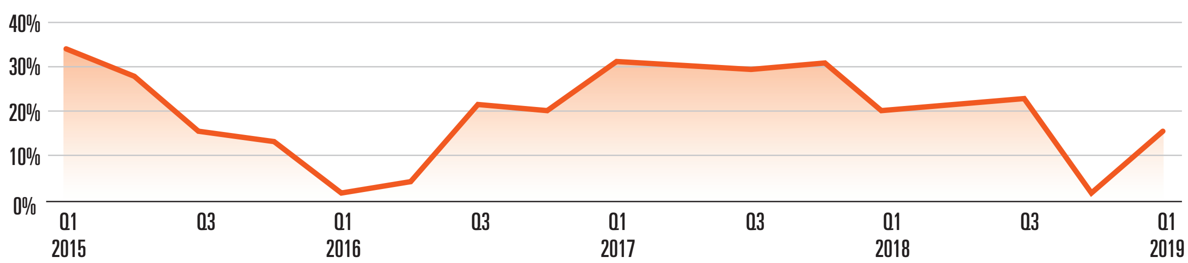
Multifactor ETFs emerged as a bright spot amid the smart-beta slowdown last quarter. These funds added $5.7 billion, half of the overall intake of equity factor funds, with inflows in March exceeding all but one rival — low volatility — data compiled by Bloomberg show.

No wonder then that BlackRock, Pacific Investment Management Co. and OppenheimerFunds have all started funds targeting more than one equity characteristic.

Many of these funds rotate between different types of stocks in response to market conditions, countering a concern that buy-and-hold factor investors could suffer long periods of underperformance.

SMART-BETA SLOWDOWN

YEAR-ON-YEAR ASSET GROWTH IS BELOW THE FIVE-YEAR AVERAGE



Source: Bloomberg

"THEY JUST HAVE TO COME FROM SOME PLACE [OUTSIDE WELLS] AND THEY SHOULDN'T COME FROM WALL STREET."

WARREN BUFFETT, CHAIRMAN OF BERKSHIRE HATHAWAY INC. AND THE LARGEST SHAREHOLDER IN WELLS FARGO & CO., ON THE TROUBLED BANK'S SELECTION OF A NEW CHIEF EXECUTIVE

Redefining ‘tunnel vision’

Taking an insightful view of a famed crossing’s increase in debt

Many Mid-Atlantic and New England drivers heading south often take a shortcut: the almost 18-mile-long Chesapeake Bay Bridge-Tunnel, linking the Delmarva Peninsula with the Norfolk/Virginia Beach area. Consisting of two bridges, miles of causeway, and two one-mile tunnels in the middle of open water where the Bay meets the Atlantic, the crossing opened in 1964, and it has awed engineers and the driving public ever since. In 2016, the District operating the facility sought to raise money for an expansion, raising questions about the rating of its bonds. T. Rowe Price credit analyst Colin Bando explains how his approach to credit analysis went beyond the numbers and how that has helped increase opportunities for investors.

COLIN BANDO
credit analyst
T. Rowe Price

INCSS: What were the District’s expansion plans and why did they raise a red flag?

COLIN BANDO: Over the years, traffic has grown and the District’s commissioners have acted to meet demand. In 1991, the District sold revenue bonds to finance studies in connection with expanding the bridges and causeways from two lanes to four lanes, and construction began in 1995. But the tunnels weren’t part of that plan. In 2013, the commissioners approved adding another two-lane tube to one of the tunnels, and the District began to seek financing in 2016. The tunnel project would cost about $800 million, take five years to complete, and would materially change the District’s financial profile since its outstanding debt would increase significantly.

INCSS: How did that affect its bond ratings?

COLIN BANDO: The ratings agencies downgraded the District, which is typical when a project of this size is undertaken. That, of course, caused the price of the District’s existing bonds to fall, since investors perceived them as riskier, given the lower rating. But we viewed the downgrade as an opportunity, because our research and experience with the issuer led us to the conclusion that its debt was far less risky than the market was saying.

INCSS: Why?

COLIN BANDO: T. Rowe Price has been an investor in Bay-Bridge bonds for many years, going all the way back to the first expansion in the early 90s. Since we are located relatively nearby in Baltimore, we’ve been able to visit the facility regularly over the years, and we have developed a comfortable relationship with the District and Commission. Going by just the downgrade alone, we believed that other investors would miss certain characteristics of the District that made its finances much sounder than the dramatic increase in debt would indicate.

First, unlike similar expansion projects on other bridges and tunnels, current traffic on the crossing wouldn’t be affected, nor would revenue. The new tunnel would be constructed alongside the existing one, which would continue in use throughout the project, switching from two-way traffic currently to northbound-only traffic when the new southbound tunnel opened. Second, this wasn’t an all-new project based on “build it and they will come” projections. The facility was already in place and had delivered results for a long time, and existing traffic and tolls were sufficient to cover the new debt, which meant that any greater revenue generated would be a plus.

Finally, because of our longstanding relationship with management, we felt comfortable that they had taken a conservative approach to financing and constructing the new tunnel.

INCSS: What was the outcome?

COLIN BANDO: The District wound up redeeming its earlier bond issues in 2016 before issuing new bonds to pay for the tunnel construction. The rating agencies upgraded the District’s issues, which not only vindicated our research and analysis by confirming our perception of their risk, but also resulted in higher prices for the District bonds—a positive outcome for investors. ■

90% PORTION OF ADVISERS OVER AGE 60 WHO SAID CASH AT CLOSING WOULD BE "IMPORTANT," "VERY IMPORTANT" OR "CRUCIAL" WHEN CONTEMPLATING A SALE OF THEIR PRACTICE AT RETIREMENT, ACCORDING TO A SURVEY BY SKYVIEW PARTNERS

Teaching clients' kids about finance

FINANCIALLITERACY
THOMAS J. HENSKE

Advisers have a unique opportunity to make a difference in the way our country approaches the development of financial literacy.

On the surface, helping young people develop a basic understanding of money does not seem to be an agenda item that can realistically get traction in the already chaotic world of financial advice practices. When you contemplate adding yet another item to your to-do list, it seems like a Herculean task to take on educating your clients' children about money.

If you could only find a way to engage your current clients in a values-based discussion about their children's financial education without having to actually meet with the child, you could still serve a valued role that separates you from your competitors.

It's the type of conversation your clients are having with their friends — you know, those people you are hoping your client will recommend you to. For the majority of our clients, the three things that are most important to them are health, wealth and kids.

TOOLS AND RESOURCES

You want your clients to be out at dinner with another couple on a Saturday night talking about how their adviser is arming them with tools and resources to help them educate their kids about money.

Without giving away our secret sauce, Lenox Advisors sought to do this for our clientele by developing age-appropriate lesson plans we put in front of clients on an annual basis (depending on the client's interest). They give parents a clear, easy-to-follow blueprint of the lessons they might want to go through with their children to make sure money conversations are happening in their household.

This lesson could be as basic as teaching a 6-year-old the difference between pennies, nickels, dimes and quarters, or it could be as robust as starting an allowance program with a 12-year-old. That could eventually morph into budgeting for that soon-to-be 16-year-old's car, gas and insurance money.

One of the most important parts of financial literacy is for families to help their children understand the values that surround the money decisions they make. Where a family spends its money is a huge tell about what it values. Assuming children will simply pick up these lessons through osmosis is careless.

The adviser community has a wonderful opportunity to build lifelong relationships with clients by showing a genuine interest in the betterment of those clients' children. It is also an unbelievable client retention strategy; it will make you feel as if you are giving back and attracting other like-minded clients to want your services.

Thomas J. Henske is partner at Lenox Advisors.

Technology alone is no longer a differentiator

> **KEY POINTS**
> - The ubiquity of fintech removes any digital advantage firms once had.
> - The key is bringing value to the overall "client experience."

One of the best things about financial technology is how it has helped level the playing field for advisers.

With so many vendors offering technologies for every possible use and price point, registered reps at a big Wall Street firm can no longer claim a digital advantage over a Main Street solo practice. Anyone can go out and find a financial planning tool or CRM or client portal that works for them.

RYAN W. NEAL

ONTECHNOLOGY

On the other hand, now everyone has access to more or less the same quality of technology. Fintech that just a few years ago was a major differentiator for a firm is now table stakes across the industry.

"Most technology is available to any adviser at a reasonable price," said Ryan Marshall, partner with ELA Financial Group. "We use MoneyGuidePro, Morningstar and Riskalyze, and so can everyone else."

If this is the case, how do firms show clients they offer anything different from the adviser down the street? This is why advisers today hear so much about "client experience." Advisers may all have digital tools, but the key is turning that into something of value.

> **"TECHNOLOGY IS AVAILABLE TO ANY ADVISER AT A REASONABLE PRICE."**
>
> RYAN MARSHALL, PARTNER
> ELA FINANCIAL GROUP

For Mr. Marshall, it's about focusing on the service and support the firm can provide.

"We try to distance ourselves from what we can't stand about customer service, which is press one for this and two for that," he said. "When [clients] call they know they are going to speak with one of our team members who will ask how the grandkids are doing or catch up on where the family just got back from vacation."

SPECIALIZED KNOWLEDGE

Allan Katz, president of Wealth Management Group, a solo practice in Staten Island, N.Y., said his focus is on having specialized knowledge not yet delivered by any of the technology products. For him, it's being an expert in funding college.

Another idea is to use underlying client data, unique to every firm, to find new ways to bring clients help they can't get from anyone else. For example, Captrust chief technology officer Jon Meyer said his firm developed an analysis of retirement plan fees to make plans more efficient for participants.

This practice will only become more important for firms as the adoption of technology increases.

Aaron Schaben, executive vice president at Carson Wealth Management, said technology can still play a role in differentiating firms, as few firms are successfully putting the pieces together so clients get something more akin to the experience of shopping on Amazon or watching movies on Netflix.

"That's where the biggest competition is — integration, and doing it so that our clients aren't going to a bunch of different websites," Mr. Schaben said.

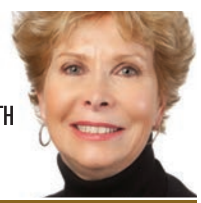
Again, it all comes back to client experience. It's not really the technology that matters. It's how you use it.

rneal@investmentnews.com
Twitter: @ryanwneal

REGULATION/LEGISLATION

SEC / FINRA / STATE REGULATORS / CONGRESS / FIDUCIARY / COMPLIANCE

Social Security reform update



MARY BETH FRANKLIN

ONRETIREMENT

Well, it's a start. A House panel held hearings in mid-March on a bill that would expand Social Security benefits and stabilize the long-term finances of the nation's premier retirement system.

But don't get too excited. The Social Security 2100 Act, first introduced in 2014 and reintroduced in 2017, now has more than 200 Democratic co-sponsors but zero Republican support.

This is the first time the legislation has been the subject of a congressional hearing. Why now? After years of Republican control, Rep. John Larson, D-Conn., the bill's sponsor, is chairman of the Ways and Means subcommittee on Social Security. But even if the legislation eventually works its way to the House floor and is approved by the Democratic-controlled House, it would be dead on arrival in the Republican-controlled Senate.

If Congress does nothing, the Social Security trust fund is expected to run dry in 2034. If that happens, there would only be enough revenue from ongoing payroll taxes to pay 79% of promised benefits, resulting in a 21% across-the-board cut for all beneficiaries, according to the 2018 Social Security and Medicare Trustees' Report.

No one expects the worst to happen, but Social Security reform will require bipartisan support, and the sooner lawmakers tackle the problem, the better.

Social Security benefits have become increasingly important as traditional pensions have disappeared and many Americans have failed to save enough for retirement. More than 62 million Americans already receive Social Security benefits and every day another 10,000 baby boomers become eligible for retirement benefits.

KEY POINTS

- Legislation to expand Social Security benefits was the subject of a House hearing.
- The two political parties disagree on the best way to shore up the program.

MAJORITY OF INCOME

For nearly two-thirds of beneficiaries, Social Security represents the majority of their income. For more than one-third, it is more than 90% of their income.

"Doing nothing isn't an option," Mr. Larson said as he opened the hearing, which he promised would be the first of many.

Generally, Democrats want to increase Social Security benefits and raise taxes. Republicans oppose tax increases and want to eliminate restrictions on how much people can earn while collecting benefits before full retirement age.

Some Republicans also support eliminating reductions of Social Security benefits for public employees. The Windfall Elimination Provision and the Government Pension Offset rule reduce, or in some cases eliminate, Social Security benefits for workers who didn't pay FICA taxes during their government service, but who also worked long enough in the private sector to qualify for Social Security.

But just as in 1983 — the last time Congress reformed the Social Security program — both sides will have to compromise.

The Democratic-backed Social Security 2100 Act would slightly increase benefits for all recipients beginning in 2020 and would switch the cost-of-living adjustment formula to one that more closely reflects the spending patterns of seniors. The subcommittee's top Republican, Tom Reed of New York, stressed that his party's mission is to secure the future financing of Social Security without tax increases. Instead, the GOP solution would focus on a "LEAP" into the future.

Mr. Reed said LEAP stands for: Long-term economic growth by encouraging work, not penalizing it; Equal treatment for public servants; Acting now to defend those future generations' benefits; and Protecting the most vulnerable people through focused reforms.

The two parties are far apart on their initial approaches to Social Security reform, but at least they are talking about it for the first time in years, and that's a good start.

(Questions about Social Security rules? Find the answers in my ebook at InvestmentNews.com/mbfebook.)

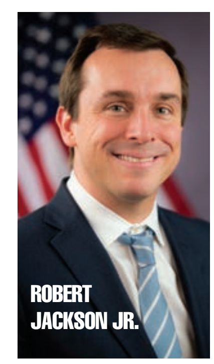
Mary Beth Franklin, a certified financial planner, is a contributing editor for InvestmentNews.
mbfranklin@investmentnews.com
Twitter: @mbfretirepro

Jackson warns Reg BI must be bipartisan to last

BY MARK SCHOEFF JR.

SECURITIES AND Exchange Commission member Robert Jackson Jr. urged his colleagues to approve an advice reform rule across party lines so that it can withstand court challenges.

"Fundamentally, this can and should be a bipartisan effort of the commission," Mr. Jackson said last Monday at the Practising Law Institute's SEC Speaks conference in Washington.



ROBERT JACKSON JR.

Mr. Jackson is currently the lone commissioner selected by congressional Democrats. The other three members, including chairman Jay Clayton, were chosen by Republicans.

Allison H. Lee was nominated April 3 to be the fifth SEC commissioner. She would hold a Democratic seat if confirmed by the Senate, which would put the agency at full strength.

LEGAL SCRUTINY

Political unity is necessary on a final advice rule, Mr. Jackson said, for it to hold up to legal scrutiny.

"A rule like this is going to be long litigated, not just in the D.C. Circuit [Court of Appeals] but in the marketplace for years," he said. "This is a unique moment in which we can and should speak with one voice."

The chances for a lawsuit over the advice rule increased recently when a group of former SEC chief economists submitted a comment letter questioning the quality of the economic and regulatory impact analysis done on the proposed rule.

Mr. Clayton didn't seem worried about such criticism.

"I'm very confident that the economic analysis that will accompany a final rule in this space will be robust," Mr. Clayton told reporters on the sidelines of the PLI conference.

In order to secure Mr. Jackson's vote for a final rule, he said some revisions would have to be made to its centerpiece, Regulation Best Interest. The measure would prohibit brokers from putting their interests ahead of their clients'.

Mr. Jackson said the rule should clarify that brokers should put their clients' interests first, and limit or ban compensation practices that can cause conflicts of interest.

"There are significant changes we should make to this proposal before it goes final," he said.

Mr. Clayton didn't say whether the final Regulation Best Interest would change significantly from the proposal. Instead he emphasized his overall goal with the rule.

"The standards of conduct should reflect what retail investors would reasonably expect from these types of financial professionals, while preserving investor choice," he said.

mschoeff@investmentnews.com
Twitter: @markschoeff

Finra bars ex-LPL rep

INVESTMENTNEWS

THE FINANCIAL Industry Regulatory Authority Inc. has barred former LPL broker James Bylenga of Kalamazoo, Mich., for failing to take part in a Finra inquiry regarding his conduct.

Mr. Bylenga was affiliated with LPL Financial from 2016 until he was discharged in August 2018 as a result of "concerns over his advisory fee structure," according to a Finra letter of acceptance, waiver and consent.

In October, LPL filed an amended Form U5 reporting that it began an internal review in September 2018 to determine whether Mr. Bylenga received loans from clients while associated with the firm.

Mr. Bylenga began his career in 1980 and worked at five firms before affiliating with LPL. He has not worked at a securities firm since leaving LPL.

Fiduciary responsibility includes digital

BY GREG IACURCI

RETIREMENT PLAN advisers often act as investment fiduciaries for 401(k) clients, helping plan sponsors select and monitor funds to offer their employees. However, such actors also have fiduciary responsibility related to the digital operation and design of a retirement plan — and they are likely not aware of it.

Shlomo Benartzi, a behavioral economist, believes the digital design of web pages for participants — from the way default savings rates are positioned, to the use of prompts such as cashing out versus rolling over assets — can influence participant behavior more significantly than the composition of an investment menu.

"Digital design can have a huge impact on retirement outcomes," Mr. Benartzi said at the National Association of Plan Advisors annual 401(k) Summit in Las Vegas last Monday. "More than you would expect."

"DIGITAL DESIGN CAN HAVE A HUGE IMPACT ON RETIREMENT OUTCOMES."

SHLOMO BENARTZI, BEHAVIORAL ECONOMIST

Therefore, fiduciary 401(k) advisers — as well as plan sponsors and service providers — have a modern-day responsibility to be "digital fiduciaries," said Mr. Benartzi, professor and co-chair of the behavioral decision-making group at the UCLA Anderson School of Management. This duty entails transferring the same set of investment oversight and skill to the digital side in order to help participants make sound financial decisions.

DIFFERENTIATING SERVICE

And, since investment management has largely been commoditized, being a digital fiduciary will be a differentiating service for advisers.

"In the 21st century, one of the most critical components is online design," Mr. Benartzi said. "The success of your participants and all those plans you advise, guide and manage will be determined by the apps, the web design, the interfaces."

Mr. Benartzi, who is also the senior academic adviser for Voya Financial's Behavioral Finance Institute for Innovation, used Voya's record-keeping data to test 401(k) participants' response to certain digital concepts.

One area tested was online enrollment architecture: changing things like color, language and the presence of additional plan details on the web page when a participant is enrolling in a 401(k) plan.

Prior to the changes, about 60% of participants personalized their 401(k) savings rate, 18% opted out of plan enrollment and the remainder were automatically enrolled at the default savings rate of 3%. After implementation, the number of employees who personalized their savings rate increased to 69% and the number of people who opted out declined to 15%. The people who personalized their savings contributed at an average 8% rate, as opposed to the automatic-enrollment rate of 3%.

So how can advisers put the concept of being a digital fiduciary into practice? They could adopt a digital policy statement that says digital interfaces will minimize unnecessary leakage and help participants make better decisions, Mr. Benartzi said. They also could include an individual with digital design knowledge on 401(k) plan committees, whether that's some type of in-house digital design officer or an outsourced expert.

"Let's not let the digital revolution go to waste," Mr. Benartzi said.

giacurci@investmentnews.com
Twitter: @gregiacurci

SHLOMO BENARTZI

OHIO NATIONAL

CONTINUED FROM PAGE 2

that the insurance operations of Ohio National also are subject to Finra arbitration.

"The court first concludes that the addendum contains a valid, enforceable arbitration agreement between the parties, not just those entities already bound to Finra arbitration under the Finra rules," Ms. Casper wrote in a decision April 3.

An Ohio National spokeswoman declined to comment. A Commonwealth spokeswoman was not immediately available for comment.

HOME-COURT ADVANTAGE

Trying the case in Finra arbitration could help Commonwealth win because it has a home-court advantage in that venue, according to Andrew Stoltmann, a Chicago securities attorney. Commonwealth has tried many disputes in the Finra system.

"They likely feel they know Finra arbitrators and how the Finra game is played — and that's really important," Mr. Stoltmann said. "There's a repeat-player bias, and Commonwealth is a repeat player."

Ohio National roiled the annuity community last fall when it announced that it would terminate selling agreements with brokerages and stop paying brokers' trail commissions associated with certain Ohio National annuities.

Commonwealth filed its lawsuit and arbitration claims in November. The brokerage and financial adviser Margaret Benison, also a plaintiff in the case, allege Ohio National concocted an "unlawful scheme" to shed unprofitable variable annuities sold with a guaranteed minimum income benefit rider.

mschoeff@investmentnews.com
Twitter: @markschoeff

WOODBRIDGE

CONTINUED FROM PAGE 3

was ordered to be detained in prison, while Mr. Roseman and Mr. Acevedo were ordered to appear for arraignment in U.S. District Court in the Southern District of Florida.

An attorney for Mr. Shapiro, Ryan O'Quinn, did not return a call seeking comment. Mr. Roseman and Mr. Acevedo could not be reached for comment.

The SEC complaint alleges that Mr. Acevedo oversaw Woodbridge's fundraising for its securities from 2012 until his departure in 2015, when he was succeeded by Mr. Roseman.

According to the complaint, the defendants were responsible for hiring and training Woodbridge's sales force, approved fraudulent marketing materials and sales scripts, and helped create the false appearance that Woodbridge was a legitimate operation when in reality it was a Ponzi scheme that used money from new investors to pay existing investors.

"Instead of telling investors the truth — that Woodbridge's third-party lending business was a sham almost from inception — we allege that Acevedo and Roseman worked diligently to perpetuate this sham by preparing and disseminating false marketing materials to induce more investments, keeping this massive Ponzi scheme afloat," Eric I. Bustillo, director of the SEC's Miami Regional Office, said in a news release. "The SEC is committed to continue to hold responsible parties accountable in this far-reaching scheme."

> **"ACEVEDO AND ROSEMAN WORKED DILIGENTLY TO PERPETUATE THIS SHAM."**
>
> ERIC I. BUSTILLO, DIRECTOR OF THE SEC'S MIAMI REGIONAL OFFICE

CALL ON CONGRESS

CONTINUED FROM PAGE 4

First, Congress can prioritize Main Street interests by strengthening investor protection and encouraging greater participation in our capital markets. One simple way to accomplish this goal is by preventing investment advisers and stockbrokers from putting their interests ahead of their clients'. Congress should exercise its oversight to ensure the Securities and Exchange Commission's Regulation Best Interest rulemaking requires this standard of conduct for financial professionals — and that any final rule is implemented quickly and fully.

Second, Congress must strengthen the ability of state regulators to police our capital markets to ensure their integrity. This is an area where regulators can — and must — be the first line of defense. But regulators can only be successful if they have the resources and tools necessary to prevent and deter fraud and other forms of misconduct. Investor trust in the markets hinges on strong and effective regulators empowered to root out wrongdoing.

Third, Congress should take a comprehensive look at recently enacted laws and rules designed to expand the private and quasi-private securities markets. In particular, Congress members should study the impact of the JOBS Act and similar laws that have been implemented since the Great Recession. Policymakers have a duty to ensure these various initiatives are working effectively together and equitably serving all investors and issuers.

BAN MANDATORY ARBITRATION

Finally, Congress must affirm investor rights in the modern securities marketplace by banning the use of pre-dispute mandatory arbitration clauses in investor contacts and working to reduce unpaid awards from disputes between investors and securities firms.

Remarkably, Financial Industry Regulatory Authority Inc. data indicate that in recent years more than one in four arbitration awards goes unpaid, making it clear that more work is needed on this issue. In a recent NASAA survey of investors, 58% said they would support congressional action to reduce or eliminate unpaid arbitration awards.

These are just a few of the steps Congress can take to put the interests of Main Street investors first. Our agenda for the 116th Congress offers a series of policy recommendations, from intergenerational issues affecting millennial and senior investors, to promoting shareholder rights, to privacy and cybersecurity related to financial technology innovations.

We look forward to engaging with Congress to find solutions on these key issues, protecting Main Street investors in the process and helping to make sure our capital markets remain the world's most secure, transparent and successful.

Michael S. Pieciak is president of the North American Securities Administrators Association and commissioner of the Vermont Department of Financial Regulation.

PRINCIPAL, WELLS

CONTINUED FROM PAGE 3

According to consulting firm NEPC, median record-keeping fees fell by half over the past decade — to $59 per participant in 2017 from $118 in 2006.

Jane Slusark, spokeswoman for Principal, declined to comment on other industry deals, but said her firm is paying a "fair price for a good business."

"We gain immediate scale that will make us a top-three record keeper at closing in addition to growth opportunities that will be realized over time," she said.

A spokeswoman for Wells Fargo declined to comment.

Of course, not all deals are created equal, and many factors may have influenced Principal's lower purchase price relative to others.

The Principal-Wells Fargo deal, for example, included assets held in pensions; executive deferred compensation (nonqualified) plans; and the institutional trust, custody and asset advisory businesses. Of the $827 billion in acquired assets under administration, DC plans held $239 billion, or 29%, at the end of 2018.

The remaining $588 billion includes assets with services that would "command a very low price multiple," said Peter Demmer, CEO of consulting firm Sterling Resources Inc.

> **$59** MEDIAN RECORD-KEEPING FEES PER PARTICIPANT

In addition, plan size and "fit" also influence purchase price, Mr. Demmer said. For example, The Hartford deal had a higher multiple because the transfer included large numbers of higher-revenue small plans, and the business was an "exact fit" with MassMutual's current book of business, he said.

It's also unclear whether any behind-the-scenes concessions were made between the parties that could have reduced the price.

For example, Wells could have negotiated that Principal not sell its investment products to the retirement plans (and therefore not compete with Wells' products) for a certain period, or that Principal make its platform available to Wells Fargo advisers at a reduced cost, Mr. Chao speculated.

giacurci@investmentnews.com
Twitter: @gregiacurci

"Schwab Charitable makes it easy to support my clients' philanthropic goals."

Michael Kossman | Aspiriant

Give your clients a smarter way to give.

For more and more high-net-worth clients, philanthropy is an important part of how they manage their wealth. In fact, 94% say they want to learn more about charitable giving.[1] And 80% of advisors rank charitable planning as a top value-added service, which helps attract new clients and grow existing relationships.[2] Schwab Charitable has the experience, tools, and people to help you do exactly that.

To learn more, download the Schwab Charitable information kit at schwabcharitable.org/advisors or call 888-733-0630

SCHWAB CHARITABLE®

[1] 2016 U.S. Trust Study of High-Net-Worth Philanthropy.
[2] 2018 RIA Benchmarking Study from Charles Schwab, fielded January to March 2018. Study contains self-reported data from 1,261 firms. Results for firms with $250 million or more in assets under management.