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skills would be described as ______ (ADJECTIVE).

And I don't usually ______ (NOUN),

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The C-Suite
Rob Francais talks about his leadership style and the kind of culture he tries to foster as CEO of Aspiriant. **Page 10**

Spotlight | **NEXT GENERATION OF ADVISERS:** Many new recruits decide on their first day whether they've made the right choice and will stay. **Pages 14-16**

ON-THE-JOB TRAINING

Young advisers need a hand in developing so-called soft skills

By Liz Skinner

DANIEL MOCK, 24, is highly educated, graduating college with a double major in economics and political science. He later added a master's degree in quantitative economics.

But when he started his career as an associate adviser with FMB Wealth Management last year, he lacked the communication skills that some more seasoned advisers take for granted.

"I struggled coming out of the academic environment with creating research and presentations for people who don't have a financial or analytical background, such as small-business owners," Mr. Mock said.

"Being able to communicate at the appropriate level was a challenge," he said. "One of the most important things for me to learn was to be able to listen passively and not jump in right away."

As newly minted graduates make their way into the advisory workforce over the next few months, many of them will be facing the same challenges

Continued on Page 16

Daniel Mock: When he started at FMB, he had to figure out how to prioritize tasks.

JAMIE RECTOR

Wealth unit execs reap rewards

By Mason Braswell

It's a good time to be a brokerage executive.

As markets rise and wealth management becomes the golden child at many of the major financial services firms, these executives have been awarded steadily increasing payouts, some of which have doubled in recent years.

"The brokerage business has been the recent star," said compensation consultant Andy Tasnady of Tasnady & Associates. "With the government reducing the leveragability of some of the other businesses, a lot of firms are making less money in the non-brokerage business while brokerage has been chugging along and going steady."

DOUBLE-DIGIT RAISE

The head of Morgan Stanley's wealth unit, Greg Fleming, for example, was awarded a pay package of $16 million for 2014, up around 10%

Continued on Page 56

Advisory fees show signs of a rebound

By Liz Skinner

Fee-based pricing for financial advice is on an upswing after years of downward pressure in the industry — from cheaper investment products to low-cost robo-advisers. Fees charged on assets under management even fell below the standard marker of 1% in 2013.

But a new report finds the falling trend reversing. Advisers charged an average of 1.02% on client assets in 2014, compared with 0.99% the previous year, according to a PriceMetrix Inc. report released last Monday.

1.02% Average fee charged on client assets in 2014

Industry analysts wonder whether fees have finally hit rock bottom and the upward trend will continue.

Philip Palaveev, chief executive of The Ensemble Practice, said quality advisory firms have feared for years that they would have to lower fees because of market pressures. Instead,

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Raking it in
In just three weeks, Schwab has attracted more than $500 million in assets to its new robo-adviser.

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'Blindsided'
Thomas Buck, a $1.3 billion adviser for Merrill Lynch, describes how he was suddenly fired last month.

Page 5

Kicked out
Tony Thompson, who specialized in selling private real estate investments a decade ago, has been barred from the securities industry.

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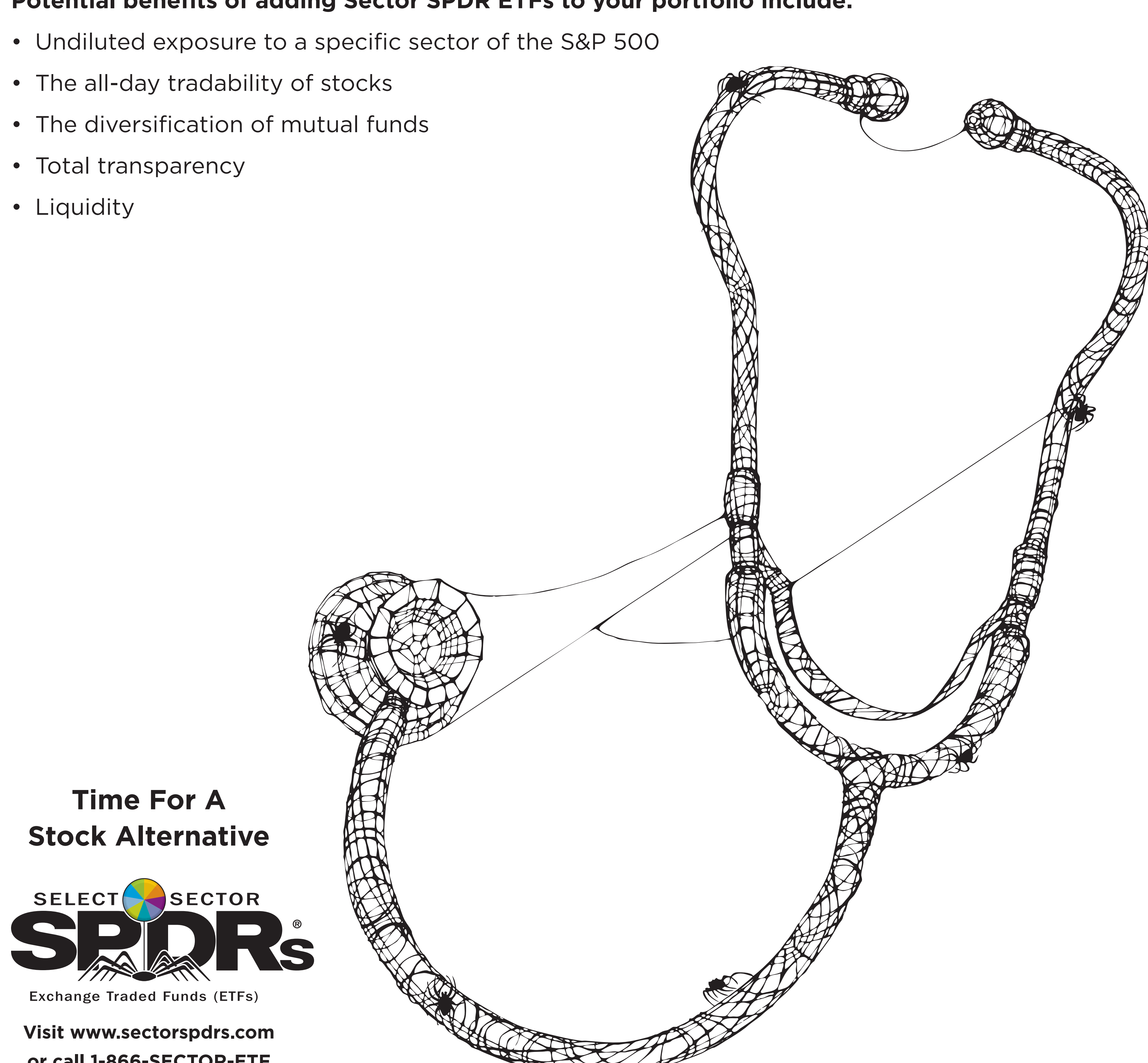
WHY BUY A SINGLE STOCK WHEN YOU CAN INVEST IN THE ENTIRE SECTOR?



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3	Merck	MRK	6.03%
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5	Amgen	AMGN	4.33%
6	Medtronic	MDT	3.99%
7	Unitedhealth	UNH	3.97%
8	Bristol-Myers Squibb	BMY	3.67%
9	Biogen Idec	BIIB	3.57%
10	Celgene	CELG	3.51%

** Components and weightings as of 2/28/15.*
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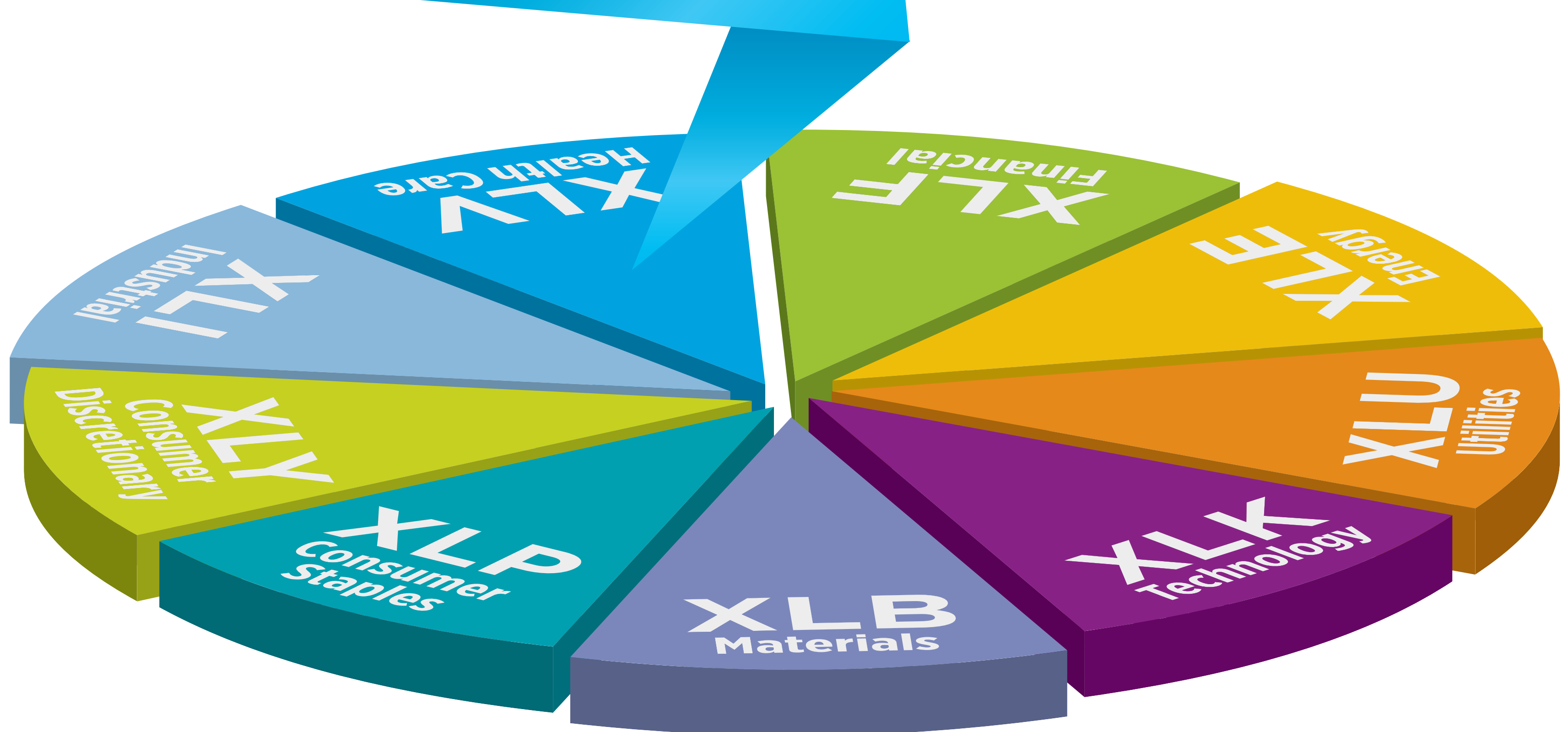

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EDITOR'S NOTE

New recruits need help with soft skills

Every occupation requires those who work in it to master specific skills. Electricians, for example, must be up to date on electrical codes and how to interpret technical drawings. Financial advisers had better understand how the time value of money affects planning and what it takes to put together a solid financial plan. Those skills, of course, are learned in school and mastered through lots of training.

Frederick P. Gabriel Jr.

But what about the skills that are almost never taught in school? I'm talking about so-called soft skills, which tend to involve our personality traits, work habits or how we connect with others.

In our spotlight report on the next generation of advisers, which begins on **Page 1**, we look at the challenges new advisers face as they enter the workforce.

What we found is though many are well-equipped to tackle the technical aspects of being a planner, they lack training and experience in such important skills as listening to clients or using the right tone of voice when speaking to clients. Many also find it difficult to navigate workplace conflicts, prioritize tasks and receive constructive criticism.

"I struggled coming out of the academic environment with creating research and presentations for people who don't have a financial or analytical background, such as small-business owners," admits Daniel Mock, a self-aware, 24-year-old newbie adviser who started his career last year as an associate adviser at FMB Wealth Management.

Our report — which also includes a piece by Paul Blanco, managing director at Barnum Financial Group, on the importance of making new advisers' first day on the job a memorable one — offers advice on how firms can help young advisers develop soft skills. Four key areas are: business communication, personal productivity, interpersonal skills and prospecting.

No matter what size your firm is, I think you will find this report worth reading. After all, with the right training and experience, soft skills can be developed and improved in anyone.

While it's unlikely a hardcore introvert will ever become a natural rainmaker, he or she can certainly learn to become proficient at prospecting for new clients. And young advisers can learn how to respond when clients express irrational fears or coworkers try to take up too much of their time.

And you can be the one to teach them.

Go easy on your newbies. Though they may show up for their first day on the job armed with a gazillion Twitter followers and knowing more about the time value of money than you do, they have much to learn about providing real-world advice to real-life clients.

Don't forget, you were there once too.

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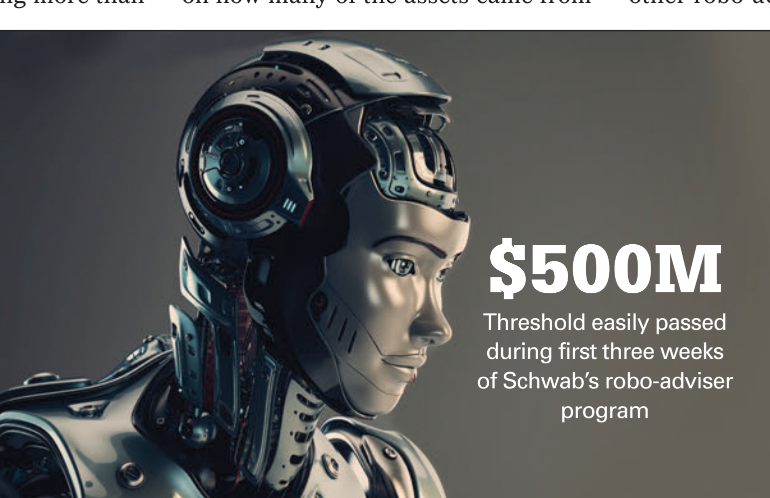
Schwab robo already raking it in

Intelligent Portfolios surpasses half-billion-dollar mark in less than three weeks

By Trevor Hunnicutt

The Charles Schwab & Co. robo-adviser has crossed a symbolic threshold in just three weeks, raising more than half a billion dollars, the San Francisco-based firm told *InvestmentNews* last Monday.

Schwab spokeswoman Alison Wertheim said the Intelligent Portfolios program has raised "considerably over" $500 million in assets. The platform was formally launched to significant fanfare March 9.


$500M Threshold easily passed during first three weeks of Schwab's robo-adviser program

ISTOCK

MARKETING

Marketing for the program since then has included advertisements in New York City subway stations and television spots during the NCAA men's college basketball tournament.

Schwab has said a white-label version of Intelligent Portfolios will be launched during the second quarter this year.

"The responses we are receiving from advisers indicate significant interest on their part," Ms. Wertheim said.

Ms. Wertheim declined to comment on how many of the assets came from existing clients.

"It's pretty phenomenal," said Matthew Fronczke, director of product consulting and research at kasina. "The $500 million, no matter where it's coming from, shows that, at least at the onset, the market is looking at this as a solution."

Mr. Fronczke, whose consultancy has not worked on Intelligent Portfolios or on competitors' platforms, said it took other robo-advisers years to raise the same amount of money as Schwab did in weeks. But he said that Schwab would not have entered the marketplace as quickly or competitively if not for firms such as Betterment and Wealthfront.

Meantime, some advisers have questioned Schwab's use of mandatory allocations to cash in the program.

Intelligent Portfolios places investors in a portfolio of index-tracking exchange-traded funds and cash. It does not charge a management fee on top of the underlying investments for retail investors.

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IBDs fined over consolidated client reports

By Mark Schoeff Jr.

Finra issued six-figure fines last Monday to three independent broker-dealers for lapses in supervising reports to clients that summarize all their assets, including those not handled by the firms. The regulator cited concerns about the potential for the reports to conceal fraudulent activity.

H. Beck Inc., LaSalle St. Securities and J.P. Turner & Co. were hit with fines of $425,000, $175,000 and $100,000, respectively. All three were deficient in reviewing and verifying account information on the consolidated reports, according to the Financial Industry Regulatory Authority Inc.

$425K Fine Finra levied against H. Beck, one of three firms it disciplined

The firms settled with Finra without admitting or denying the charges.

"Inadequate controls around consolidated reporting create the risk that unscrupulous representatives will provide inaccurate and misleading reports to their clients to conceal fraud and theft," Finra executive vice president and chief of enforcement Brad Bennett said in a statement. "These actions, along with previous actions involving consolidated reports, should be a message to firms that we will continue to examine for this issue and sanction firms that are not supervising the function properly."

LaSalle St. had written procedures in place for compiling and disseminating the reports, but didn't follow them, according to Finra. The other two firms lacked formal procedures.

LaSalle's disciplinary action also involved problems related to private placements, while H. Beck's included violations surrounding sales of unit investment trusts.

It's not so much the reports themselves that have Finra bearing down in this area. The regulator's concern involves brokerages' other activities, such as those at affiliated advisory firms, that are reflected in the reports, according to Todd Cipperman, principal at Cipperman Compliance Services.

"The bigger issue is brokers doing business away from the firm," he said. "Those outside business activities create a higher level of compliance infrastructure."

MOVING PARTS

The proliferation of money management options for clients makes it difficult for brokerages to crystallize a client's financial life in one document. Keeping track of all the moving parts increases the compliance burden for advisers.

"The problem is so many things are being held away from the firms today," said Philip Wilson, president of AdvisoryWorld, a tech compliance consultancy.

Another stumbling block is analog processes for compiling consolidated reports. Part of H. Beck's violation involved mistakes brokers made when they manually entered valuations for illiquid investments.

In April 2010, Finra issued a regulatory notice outlining best practices for firms to use in compiling consolidated reports.

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Wholesale exodus from Cole Capital

2 dozen exit REIT firm; many join rival Griffin

By Bruce Kelly

With sales of nontraded real estate investment trusts on the skids, Cole Capital Corp. suffered a massive talent drain last month, with two dozen wholesalers and account executives leaving, according to a review of those employees' BrokerCheck profiles.

The lion's share of those employees went to rival nontraded-REIT wholesaler Griffin Capital Corp., according to the BrokerCheck profiles. The torrent of departures in March from Cole Capital, the nontraded-REIT wholesaler and manager owned by American Realty Capital Properties Inc., capped a yearlong hemorrhage of talent from the former powerhouse.

Since April 2014, 37 licensed internal and external wholesalers and account executives have left Cole Capital, according to a review of BrokerCheck profiles. At least two dozen of them landed at Griffin Capital.

The exodus at Cole Capital coincides with the previously reported departure of three of its leading marketing and wholesaling executives — James Ryan, Philip Graham and Colin Cosgrove — who recently moved to Griffin Capital. According to industry sources, Griffin Capital is building a new distribution arm for its nontraded REITs and other illiquid investment products.

It's not clear what percentage of Cole Capital's licensed staff the former employees represent.

John Bacon, an ARCP spokesman, said the company did not comment on

Continued on Page 54

Merrill rep 'blindsided' by firing

Thomas Buck plans to move on; won't contest firm's allegations in court

By Mason Braswell

Thomas Buck, a 33-year veteran of Bank of America Merrill Lynch who was fired last month, said he never saw it coming.

He arrived at his office at 8 a.m. on March 4 for what he thought was going to be a routine meeting with local and regional managers. By the end of the day, he was being escorted out of the building.

"I was totally blindsided," Mr. Buck said.

Mr. Buck, 61, who was the firm's top adviser in Indiana by assets, is one of the latest in a string of big-producing brokers, including a $2.5 billion Bank of America Merrill Lynch team in Rochester, N.Y., and a $3.8 billion LPL Financial adviser in Texas, to find themselves suddenly and unexpectedly terminated.

Brian Hamburger, founder of MarketCounsel, a firm that provides legal counsel for independent advisers, said it's becoming more common as larger firms take a closer look at compliance. Mr. Buck is a client of Mr. Hamburger's.

$1.3B Size of Mr. Buck's practice, making him Merrill's top adviser in Indiana

"I don't want to sound the alarm and say that every financial adviser at Merrill Lynch is in jeopardy of losing their job," he said. "But this type of sudden line of questioning and inquiry leading to termination without notice is becoming more the norm at every level of production."

When Mr. Buck arrived for the meeting the day he was fired, he was greeted by three attorneys representing the firm, along with the local manager, who said they wanted to ask him some questions about how he ran his $1.3 billion practice, the adviser explained in an interview. They said nothing was going to happen that day and that they planned to be in touch in the coming weeks if they had suggestions for improving his practice, Mr. Buck said.

ESCORTED FROM BUILDING

"I was trying to explain everything as thoroughly as I possibly could, looking for help to make sure I'm doing everything in perfect com-

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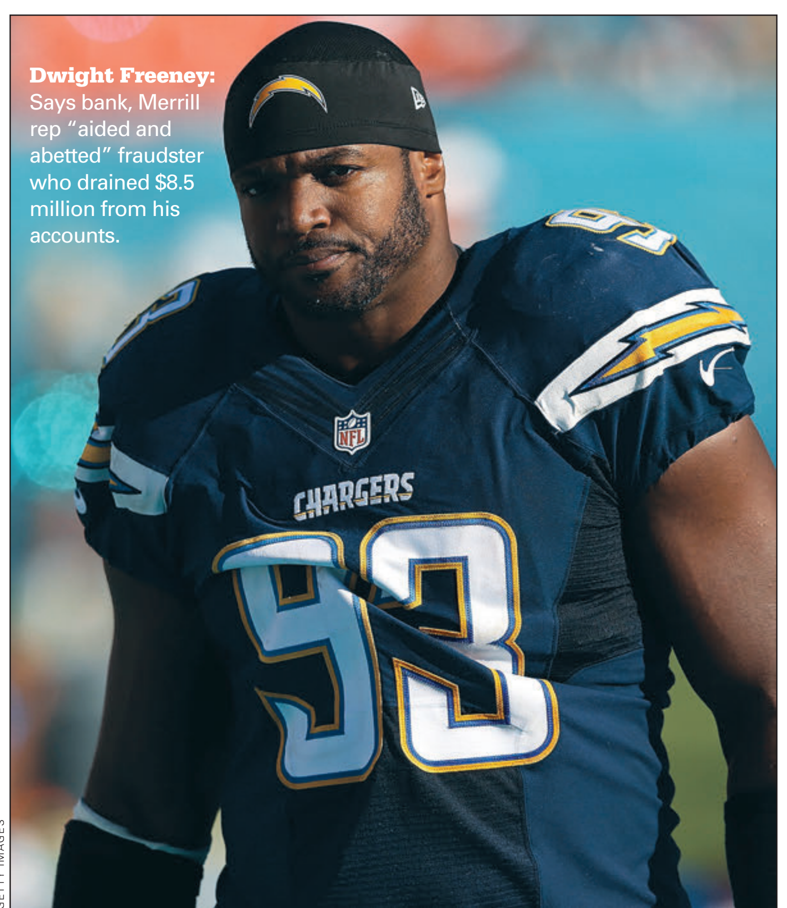

Dwight Freeney: Says bank, Merrill rep "aided and abetted" fraudster who drained $8.5 million from his accounts.

GETTY IMAGES

NFL star sues BofA, adviser for $20M

By Mason Braswell

NFL star Dwight Freeney is suing Bank of America and a Merrill Lynch financial adviser for more than $20 million in damages for their alleged role in leading him into a massive fraud that brought him to the brink of bankruptcy.

Mr. Freeney, along with his company Roof Group, claims that the bank's global wealth and investment management unit played an "integral and indispensable part of the scheme." He blames the bank and a current adviser, Michael Bock, for "aiding and abetting" a fraudster who siphoned more than $8.5 million from his accounts at the firm, according to the complaint.

"In 2010, Dwight Freeney authorized Bank of America to manage his assets, including his NFL salary," Mr. Freeney's attorney, Jeffrey B. Isaacs, said in a statement. "Two years later, Dwight had lost more than $20 million because of BofA's fraud scheme."

FRAUDSTERS IN PRISON

It is the latest development in a series of court battles that have gone on since 2012, when the FBI arrested a former Merrill Lynch adviser, Eva Weinberg, and her associate Michael Stern. Both are currently serving time in prison after pleading guilty to their roles in defrauding Mr. Freeney, according to the complaint.

Ms. Weinberg, who left Merrill Lynch in July 2010 to become a personal financial manager for Mr. Freeney, and Mr. Stern were engaged in an "elaborate and malevolent"

Continued on Page 53

Morgan to sell ETF firms adviser data

By Trevor Hunnicutt

Morgan Stanley is developing a first-of-its-kind plan to sell data about which of its financial advisers are selling exchange-traded funds — and which ones they are selling — to ETF sponsors, according to several people briefed on the plans.

The nation's largest wealth manager by adviser head count has told ETF providers that it plans to start the program later this year, according to people with first-hand knowledge of those conversations.

Those people spoke on condition of anonymity because they are not authorized to discuss the plans. A Morgan Stanley spokeswoman, Christine Jockle, did not respond to phone calls and emails seeking comment.

Morgan Stanley's retail brokerage unit has 16,000 advisers.

"It's a big deal," said Matt Hougan, president of ETF.com. "Being able to have great transparency into who's buying and selling has been the holy grail for the ETF industry for years."

Mr. Hougan said the program could lead to other broker-dealers making similar arrangements with fund companies. Morgan Stanley's plan could also increase the marketing push around ETFs, he said.

"ETFs have been bought and not sold, and it fosters this sense of independence," Mr. Hougan said. "This breaks that wall down a little further."

Compared with mutual fund companies, managers of ETFs have little information about the advisers selling their products. Unlike mutual funds, ETF companies sell their shares exclusively to a small club of Wall Street firms. Individual investors buy the shares in a secondary market.

> "BEING ABLE TO have great transparency into who's buying and selling has been the holy grail for the ETF industry for years."
>
> **Matt Hougan**
> President
> ETF.com

That creates a veil between ETF providers and their customers, which some fund sales managers say puts them at a disadvantage to their counterparts at mutual fund companies.

Knowing which advisers are selling ETFs and what they are selling will allow ETF sponsors to target their sales efforts better.

Mutual funds held $13 trillion in assets at the end of January, nearly seven times the assets held in ETFs, according to the Investment Company Institute, a trade group.

Fund companies typically purchase information on advisers from third-party data brokers, such as Broadridge Financial Solutions Inc. and Strategic Insight.

But broker-dealers might be able to provide more information on the practices of individual advisers and increase the revenue they can command for selling ETFs.

The funds are generally low-cost and often lack the distribution fees charged on other investment products.

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Practice Makeover

Season 3, Episode 3: Building a succession plan that will work for you

You've thought about succession planning. But how are you going to execute a plan? **John Furey**, right, principal and founder of Advisor Growth Strategies, and **Greg Opitz**, executive business consultant at Peak Advisor Alliance, offer tips and strategies.

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Income spikes can lower monthly Social Security check

Blame the temporary reduction on higher Medicare premiums

Retired clients are often surprised — and sometimes angry — when they receive a notification from the Social Security Administration that their monthly Social Security benefits will decline for the coming year. Naturally, those clients turn to their financial advisers for help.

The culprit? An increase in income one year can result in higher Medicare Part B premiums two years later. As Medicare Part B premiums are deducted directly from Social Security benefits, the result is a smaller net Social Security benefit.

Premiums for Medicare Part D drug plans also increase when income rises, but those premiums usually are paid directly to the drug plan. However, you can choose to have Part D premiums deducted from your Social Security benefits, too.

Mary Beth Franklin
On Retirement

Kyle Mostransky, a registered representative with Mostransky Financial Services in Huntington, N.Y., contacted me recently about one of his clients who had gotten such a notice.

"She was receiving a certain amount of income from Social Security, and then in 2013 sold a property that increased her income that calendar year," Mr. Mostransky wrote in an email. "She just received notice of a decrease in income from Social Security and was asking if she was able to go back to the amount she had prior to the home sale."

Most retirees pay $104.90 per month for Medicare Part B, which covers doctors' visits and outpatient services. But higher-income retirees pay more. When modified adjusted gross income (MAGI), which includes all income on your tax return plus any tax-free interest, exceeds $85,000 per year for single individuals or $170,000 for married couples filing jointly, monthly Medicare premiums increase.

PART B INCREASE

The income is based on your latest tax return. So a 2013 tax return filed in 2014 is the basis for the Medicare premiums paid in 2015. If your clients experience an increase in income this year, whether due to harvesting investment gains or selling a home, business or investment property, they could see their Medicare premiums increase and their net Social Security benefits decrease in 2017.

There are five Medicare premium brackets with surcharges ranging from $42 to $230.80 per month on top of the standard $104.90 per month premium. These are cliff brackets, meaning if you go

Continued on Page 54

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[2] Ratings current as of 3/31/14. Financial strength ratings do not apply to the principal amount or investment performance of the separate account or underlying investments of variable products.

[3] Service Quality Measurement (SQM), 2013.

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Finra bars Thompson from industry

By Bruce Kelly

Tony Thompson, the leading seller of private real estate investments known as tenant-in-common exchanges a decade ago, has been barred from the securities industry.

Mr. Thompson "made material misrepresentations and omissions in the sale of private placement securities to investors" in violation of securities industry rules, according to the Financial Industry Regulatory Authority Inc.

$50M
Amount of high-yield notes TNP Securities sold that later went into default

Finra alleged in July 2013 that Mr. Thompson deceived and defrauded investors who bought $50 million in high-yield promissory notes sponsored by a broker-dealer he owned, TNP Securities. The notes had missed payments and went into default.

TNP Securities was also expelled under Finra's administrative order, issued last Monday.

Finra originally wanted Mr. Thompson to pay $36.2 million in restitution to clients. According to its administrative order, Finra later found that there was an "insufficient basis" to conclude investors' losses in Mr. Thompson's private placements were caused by the very misstatements and omissions that wound up causing him to be booted from the securities industry. Instead, he was assessed costs of $6,082.04 for the administrative proceeding.

NEGATIVE EQUITY

TNP Securities was the wholesaler for Mr. Thompson's various products, including the private placements at the center of Finra's decision to bar him. TNP did not disclose, for example, the firm's negative equity of $18 million in the private placement offering documents, according to the Finra order.

Mr. Thompson "still does not accept responsibility" for his misconduct prior to its detection by Finra, according to the order. "He insists

Continued on Page 56

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VIEWPOINT

EDITORIALS

Make the most of tax season

AS A PROFESSIONAL building a business, you know that to succeed, you need to answer when opportunity knocks.

Opportunity is knocking now.

Can you hear it?

It's knocking amid the steady drip (growing louder as the days go by) of tax season and the rapid approach of April 15. It's signaling a chance for you not only to reinforce your value to clients but help them prepare for a better future.

Many advisers work with clients on tax planning and filing. If you are one of these, you're already having important conversations about income, deductions, capital gains and losses and other key tax issues.

If you don't regularly work with clients on their taxes, all it takes is a telephone call. That one call sends the message that you not only are engaged but actively looking out for the financial well-being of your clients. And that is why you're in this business in the first place, right?

Chances are pretty good that over the course of pulling all their 2014 tax information together, your clients may have reached out to you to check on 1099-DIV forms, details on investment purchases and sales or other data, so the ice most likely has been broken.

But with less than two weeks left before the tax deadline, most clients are still very focused on that task.

So the first questions you ask should be whether your clients are on track for filing either their taxes or an extension, whether they have everything they need from you and if there is anything you can do to assist them.

Presuming the answers are yes, yes and no, now would be a great time to bring up a couple of key planning issues: retirement and, for retired clients, Social Security and Medicare.

A LOOK AHEAD

As Tim Steffen, director of financial planning for Baird's Private Wealth Management group, writes on Page 48 of this issue, tax season is the perfect time to help clients take a look back — and ahead — at their retirement plan.

First of all, certain clients (those who are younger than 70½ and had earned income last year) can make a contribution to a traditional individual retirement account for 2014. In addition, some clients make be able to take deductions for contributions.

> **IF YOU DON'T** regularly work with clients on their taxes, all it takes is a telephone call.

There is also the discussion around Roth IRA contributions. If a client's income is too high to qualify for a tax deduction for IRA contributions, a Roth contribution might be in order.

That leads to the bigger question of Roth conversions. Though it's too late to do a conversion for 2014, if clients did a conversion last year and the tax consequence is bigger than expected, they have until Oct. 15 of this year to undo it.

Turning to this year, there is no better time than now to go over retirement plan contributions. Ensuring that clients are contributing as much as possible to their retirement accounts and squeezing as much efficiency out of that process as possible (for example, by determining whether a Roth conversion makes sense this year) will help them sleep more soundly at night.

As for clients who are retired, helping them better understand Social Security and Medicare can be a lifesaver.

Clients have a lot going on at this time of year, and they are no doubt acutely focused on getting their taxes done on time. If you're interested in once again proving your worth to them, seize this opportunity.

Letters

More regulation not the answer

David Tittsworth, former president and chief executive of the Investment Adviser Association, asserted in an op-ed, "Why all investment advisers should join forces to promote the profession" (*InvestmentNews*, March 2), that we all should be fiduciaries, and seems to be OK with further empowering the regulators to help achieve this goal.

A letter to the editor from Jonathan Roberts, "IAA has online tool to contact legislators" (*InvestmentNews*, March 9), seems to espouse similar opinions.

While I am a fiduciary fee-only registered investment adviser, I also believe there is a place in our universe for commission-based brokers. And that is not due to the same self-serving shibboleth that it is our only competitive advantage.

To say brokers are bad is not helpful to investors. To say only fiduciary advisers are good also is not helpful. There is a place for each and there is plenty of opportunity for each to thrive.

In a similar manner, optometry and ophthalmology, with very different education [requirements] and licensed capabilities, can and do thrive, particularly when working in concert on behalf of patients. I should know, as a retired ophthalmologist.

The regulators' biggest error lies in their willingness to allow persistent lack of "truth in nomenclature."

Since when did stockbrokers become "financial advisers"? To make matters worse, the client is also hurt when the financial media (your august publication is not guilt-free in this), in conjunction with certain brokers, encourage investors to engage in the harmful behaviors of security selection, track-record chasing or various forms of market timing.

> **THERE IS A PLACE** in our universe for commission-based brokers.

That is the opposite of prudent investing. That is also why so many brokers can make so much money. They may be gambling and speculating with your money. So you take the risk, while they take the upside.

Ultimately, it is not the firms or their agents and representatives that are harmful, per se. Rather, it is their respective behaviors and the behaviors of the investors that cause the most harm.

We already have enough laws, rules, regulations. More is not the answer. Transparency, disclosure, truth, integrity — these are the answers.

Mitch Levin
CEO and managing director
Summit Wealth Partners
Orlando, Fla.

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

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THE C-SUITE

MANAGEMENT INSIGHTS FROM ROB FRANCAIS

Give others the space to make mistakes

By Liz Skinner

ROB FRANCAIS learned about sales and customer service at the young age of 7 working swap meets in Orange County, Calif., with his father.

At 11, he was running his own stand and figuring out that mistakes aren't the worst things that can happen in business.

Today, at 49, the chief executive of Aspiriant, one of nation's largest registered investment advisers with $8 billion in assets, believes in giving his employees the space to learn from their mistakes, too.

Mr. Francais says he's no longer trying to prove he's a good leader; instead, he's focused on giving the firm's 132 employees a sense of purpose.

He's found that one great approach is letting clients speak for themselves.

As for his own greatest challenge — time management — Mr. Francais has found his way around this deficiency.

WILLIAM MERCER MCLEOD

LS: *Tell me about your leadership style.*
RF: Three words stick out for me: empowerment, partnership and diversity.

LS: *How do you seek to empower through leadership?*
RF: People have to have a sense of purpose, a clarity of the mission. They have to understand their role, and whatever the rules of the road are — we'll call that governance, culture and compensation models. All that has to align the interests of the people involved, whether that's customers and the organization or alignment of interests of people on the team.

LS: *What are the most important leadership lessons you've learned over the years?*
RF: I had to learn diversity. I had to learn how to embrace other people's differences and incorporate that. It didn't come naturally to me.

When I was young and first had to lead a team of people, I looked for people who were more like me, and that wasn't as effective. I figured out that I work well with people who are not like me. You can't reach your full potential without diversity.

LS: *What is the role of a leader in an organization?*
RF: You have to be the cultural governor. You have to create that sense of purpose and be the spokesperson. You have to make sure roles are defined and make sure the interests of the participants are aligned. It's making sure those pieces of the puzzle work.

LS: *Where do you fall short as a leader?*
RF: It's probably active listening. If there are issues, I seek more education, more information. In reality, it's probably the emotional component that's required. I think that exercising the emotional components of it and recognizing the emotional aspects of somebody's needs may often be the answer.

LS: *Tell me about someone who really influenced your life.*
RF: I had a mentor at Deloitte & Touche, Al Frank, where I started my career and he had an extraordinary passion for client service that was an 'above and beyond the call of duty' kind of orientation. That influenced me, and my father-in-law influenced me — the integrity and discipline that he applied to his own profession. He was a litigator and I got to work closely with him and I learned a lot through that experience.

LS: *Were you interested in business at an early age?*
RF: Growing up, my dad used to work the swap meets on the weekends, so I started interacting with adults and selling T-shirts and socks at age 7. My father would get me to handle transactions at a very young age, and there's a lot of negotiations that go on at swap meets. He'd let me do the deal and then he'd ask me what I might have done differently. There's no question, part of my leadership is allowing others to make mistakes and giving them the space to learn from them, because it was a very effective way for me to learn.

LS: *What kind of culture are you trying to foster at Aspiriant?*
RF: A really strong sense of purpose. That we make a difference for the people we touch. We are thoughtful and we are fun. Every Wednesday the firm eats lunch together. Now we're in seven cities so obviously we don't all eat together every Wednesday, but the idea is that in each office co-workers know each other. There's about half an hour to eat and chitchat and then we have a short agenda, and that is very purposeful and thoughtful. It's things like a client story, where someone describes a client and talks about a service issue or something they've overcome with them. The client story is to connect our people to what we do for a living. We don't just do taxes and portfolio management and pay bills, there's a purpose, a family on the other end.

> *"You have to be the cultural governor. You have to create that sense of purpose."*

LS: *What else do you do to foster a purposeful culture?*
RF: Every year the whole office shuts down for 3½ days and everyone comes to one city. I do a state of the union, updating where we are in the evolution of our organization, and discuss progress since last year and what we're working on. We give out core value awards, and an actual client comes in to talk about their values and the role Aspiriant plays in their life.

LS: *What's the value of this first-person client account?*
RF: It's to connect all of our people, so they can see the result of the work we all do as a team. You are not just the receptionist, you are not just the portfolio administrator and you aren't just the COO, all the work we do collectively goes into making a difference for families that we serve.

One year we had a woman come in, a widow who had three teenage daughters when her husband died. She talked about how Aspiriant had played an essential role in helping them survive that period. There wasn't a dry eye in the house. It shows how we make a difference.

LS: *How do you encourage fun as part of the culture there?*
RF: Every time we get together at our annual event we do team building exercises, and these are always really great. Last year we were in Scottsdale and we all had to build a boat. You had to work as a team to design it and build it, and then there was a boat race. When people get in their boats and they don't work as designed and they're sinking in the pool, it was a lot of fun.

LS: *What qualities do you look for in potential hires?*
RF: I look for someone who is hungry, has street smarts, has overcome challenges in his or her life and might be a bit of an underdog. Hiring also is always about building a team. I look for people I can work with successfully. I look for people who have different qualities than I do.

My assistant, Jill Schroer, is probably the best example. I'm somebody who [finds it] very easy to be present and in the moment, and the moment can carry me away. So I know I need somebody who is much more oriented to time and space and how these things connect.

Visit InvestmentNews.com/csuite for a longer version of this interview.

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InvestmentNews **readers weigh in on top stories**

Big Apple comptroller gives reps, advisers something to chew on

The debate over the fiduciary standard took a nasty turn when New York City Comptroller Scott Stringer suggested that a law be enacted to force brokers to verbally warn clients that they are not required to act in their best interests. The suggestion seemed to bring out the worst in both sides of the fiduciary debate. To read the complete story and leave your own comments, visit InvestmentNews.com/stringer.

"A more accurate disclosure: 'I am not a fiduciary. I will sell you a product that pays me 90% of my fees upfront. Once pocketed, I will earn next to nothing from our relationship, so don't expect to hear from me — at least not until the grand marketing wizards from HQ recycle another has-been product into something I can reasonably convince you is really different and good for you. Rinse (we will both want a shower after this transaction), repeat.' "

loneMADman

"Shower after this transaction? How about taking a shower after you make a "C" share look like a deep discount. Unless one has asset allocation models that require 25 different fund families to achieve some alpha, a simple, properly diversified portfolio can do the trick. Look it up, trust me. You don't need to charge a client 1.5% over the life of his/her account to achieve results."

scott_oliver

"I think government officials should have to state that 'I am from the government and I am here to help — help myself to as much of your tax dollars as I can to provide myself with a large pension at an early age after providing little or no benefit to taxpayers during my tenure as a bureaucrat.' "

Dan Hart

"Maybe RIAs should have to say that 'I may give you bad advice but you still have to pay me and I am not liable for the advice unless you can prove I wasn't acting in my own interest.' Most Americans don't even know what a fiduciary is, nor do they care."

VINCE_MORRIS

"Another example of politicians purporting to be experts in everything: they're economists, health care professionals, insurance actuaries — and now, investment advisers."

TS062005

"I wonder how many [RIAs] call themselves fiduciaries but don't live up to the standard, and how many brokers are acting in the best interests of their clients and never get credit for doing so. It's so difficult to lump business models together, or make one better than the other. When one feels superior, they're more apt to make mistakes — or worse."

Maria_Marsala

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PABYX

YEARS			
10	5	3	1
MIXED-ASSET TARGET ALLOC. MOD.			
23/264	12/407	9/456	17/537
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Putnam Dynamic Asset Allocation Conservative Fund

PACYX

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10	5	3	1
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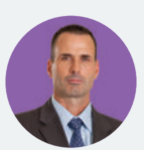
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Spotlight
Next Generation of Advisers

ONLINE BONUS

Cameron Routh of Scivantage discusses the differences he is witnessing between how younger and older advisers use technology, and what each can learn from the other, at InvestmentNews.com/NG2015.

DAY ONE IS MAKE OR BREAK FOR RETAINING NEW HIRES

Be sure your recruits feel appreciated and part of the team from the beginning

By Paul Blanco

ANASTASIA VASILAKIS

DO YOU REMEMBER your first day on your first job? I do, and I think it's an event that stays in almost everyone's memory bank. Hopefully, it is a fond memory. But some people doubtless have not-so-fond ones. Examples might include: the new manager who happened to be on vacation when you arrived, the HR department that could not locate your record, the quick handshake followed by a dreary day filling out forms, and lunch by yourself — once you found the cafeteria or a local spot.

At my firm, we want to provide new college grads with an initial day that caps the recruiting process and confirms for them that they have made the right decision.

The author of "Y-Size Your Business," Jason Ryan Dorsey, speaking on behalf of Generation Y, has asserted: "We decide on our very first day at work whether or not we are going to stay with an employer long term."

LAUNCHING PAD

Even though your new grad likely has had contact with the firm's recruiter or other officers, day one raises the curtain on his or her career at your firm. He or she will meet new colleagues, learn more details about the job and, most important, start to absorb the culture of your organization. The day should be a launching pad for a successful and fulfilling career path. First-day experiences should confirm what a recruit has been told about the company, its work style, its mission and its culture.

> *"We decide on our very first day ... whether or not we are going to stay with an employer long term."*
>
> **Jason Ryan**
> Author
> "Y-Size Your Business"

Making the new employee's first day an event to remember should include some tangible, fun elements in addition to meeting people and starting to learn the ropes.

Some of the things we do are simple, inexpensive and scalable for organizations of every size. It just takes a little planning.

PLAN AHEAD

For one thing, we don't wait for the first day to get to know new hires. Once they have accepted an offer, we ask them to check off a few things on a simple card — they don't know the reason. Then on the first day, new hires get:

• A gift bag filled with things they mentioned on the card, such as their favorite candy, a frequently read magazine and a Hot Wheels model of their favorite car.

• A buffet breakfast with new colleagues, who introduce themselves and offer to provide guidance and help with any questions.

Continued on Page 16

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iShares Core S&P 500 Fund

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Market Price	**13.62%**	**15.38%**	**7.62%**
Gross Expense Ratio	**0.07%**		

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1. Morningstar, as of 12/31/14. Comparison is between the Prospectus Net Expense Ratio for the average iShares ETF (0.38%) and the average Open-End Mutual Fund (1.27%) available in the US. 2. Based on $4.652 trillion in AUM as of 12/31/2014.

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Young planners need job training

Continued from Page 1
as Mr. Mock. These individuals are well-equipped to tackle many of the technical duties of a financial planner, but they sometimes lack the soft skills needed to interact successfully with clients and even some co-workers.

New planners need to know the proper language and tone to use with clients, how to be a good listener and how to prioritize their workload. Budding advisers who receive training in these skills during their early years could find greater success and satisfaction in the advice industry, experts say.

Edward Jones, which plans to hire about 500 undergraduates this year, has a year-long training program for recent college grads that covers everything from generating clients and building relationships to being productive and speaking to clients.

"We try to teach the soft skills of how you ask open-ended questions to ensure you're drawing out information from the client," said John Rahal, head of financial adviser talent acquisition.

FOUR KEY AREAS

Experts generally recommend that financial advisory firms of any size offer new graduates training in four key areas: business communications, personal productivity, interpersonal skills and prospecting.

1. Business communications

Wescott Financial Advisory Group in Philadelphia works with new graduates to help them sound polished in their writing and speech, especially when communicating with clients, said Stephanie Curtis, a financial adviser and manager of Wescott's associate adviser program.

That includes using templates, such as a typical follow-up email to be sent to a client after a meeting. During an associate adviser's first year, all written communications to clients are reviewed by senior advisers before they are sent out, Ms. Curtis said.

The firm also directs new associates to pay attention to the client relationship management system, which indicates whether clients like to communicate via phone or email, she said.

New advisers also learn presentation skills and the importance of fact-checking to make sure every detail is correct, Ms. Curtis said.

Of course, training in what is appropriate to say to clients, and what not to say, is also important.

Individuals coming out of college today "grew up in a culture of abbreviated words and short messages," which won't work with the average financial advice client, said Craig Pfeiffer, chief executive of Advisors Ahead, a firm that prepares college graduates for jobs in the financial advice field.

2. Personal productivity

New graduates also often have trouble with "the 9-to-5 concept," Mr. Pfeiffer said.

Young hires are extremely busy juggling the new job, certification classes and extracurricular activities, but they are used to breaks during the day and may accomplish a great deal of their work late at night or very early, Mr. Pfeiffer said.

In transitioning to full-time work, they often feel overly busy because work is expected to be completed during the traditional workday, he said.

Ms. Curtis said many of the young professionals who join Wescott know how to prioritize their own tasks, but have little experience when it comes to weighing the importance of different duties at work. This is especially true if they have been assigned tasks or projects by multiple people.

> *"We try to teach the soft skills of how you ask open-ended questions."*
>
> **John Rahal**
> Head of financial adviser talent acquisition
> Edward Jones

During his first days at FMB, Mr. Mock said he had to figure out how to prioritize tasks and say no when too many people were throwing work his way.

"It's about being able to manage time and priorities and being able to say no when you really have to," Ms. Curtis said.

Wescott's next-gen advisers are taught to communicate openly with everyone involved and ask which tasks they should be concentrating on when conflicts arise.

3. Interpersonal skills

Training at Wescott also focuses on how to listen to conversations and take relevant notes, how to handle constructive criticism from others at the firm and how to build strong relationships, both with clients and colleagues, Ms. Curtis said.

The firm has new hires participate on teams and in committees so it can evaluate how well they work with other people, and identify leaders.

Ms. Curtis acts as a mentor to the young advisers, providing feedback on how well they're doing and areas for improvement. Initially she talks with them each week, but the meetings become less frequent over time as the need dissipates.

4. Prospecting

New graduates also need direction on whom to pursue as clients and how.

At Edward Jones, financial adviser candidates are sent into the town in which they will be working to figure out what their market looks like and how they will generate clients, Mr. Rahal said.

They'll evaluate which strategies — from face-to-face meetings to leveraging a referral network or hosting seminars — are likely to be most effective, he said.

Wescott's client development group does presentations for the next-gen professionals, sharing their two-minute elevator speeches and describing different ways to ask for referrals.

"It's hard for new advisers to have the confidence that they're capable of handling clients no matter what their age," Ms. Curtis said.

lskinner@investmentnews.com
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Paul Blanco: New hires want reassurance they made the right call.

Making day one special

Continued from Page 14

- A tour of the facility, including introductions to colleagues who will be particularly important.
- Quality time with the managing director (that's me), which includes a presentation of firm highlights, my vision of the future and a question-and-answer session.
- A welcome reception with the entire management team.
- Informal mentoring conversations with financial services representatives who were in their shoes just a few years prior.

PHOTO SHOOT

We are always looking for ways to enhance the first-day experience. Future new employees, for example, will have their photos taken in front of the firm logo. Those pictures will undoubtedly find their way to Facebook pages and other social media. The ultimate goal is to make new arrivals feel special — and they are special as far as we are concerned.

One of our recent graduate hires, now working on a team, said this about his first day: "All the people I met, including my future team members and senior managers, were so supportive, offering their time and knowledge to be helpful. It so happened that there was a charity bowl-a-thon the firm was sponsoring that evening, too, and meeting new colleagues, enjoying their company and doing something worthwhile for a charity was exhilarating. I felt very strongly that I had made the right decision."

SHOW APPRECIATION

There has been an outpouring of research and articles over the years on the characteristics of younger generations, focusing on what makes them distinctive. In assessing what makes them unique, though, we should not forget what makes us all similar, from baby boomers to Gen X and Gen Y: We all want to be appreciated and have some reassurance that we are making good decisions that will advance our careers and, in fact, instill more meaning into our lives.

Paul Blanco is managing director at the Barnum Financial Group, an office of MetLife and part of the MetLife Premier Client Group.

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1 Since inception on 12/19/11, the fund's correlation to the S&P 500 Index, MSCI World Index, and Barclays Global Aggregate Bond Index has been 0.56, 0.59, and 0.31, respectively.

2 For each fund with at least a 3-year history, Morningstar calculates a Morningstar rating based on a Morningstar Risk-Adjusted Return that accounts for variation in a fund's monthly performance (including effects of sales charges, loads, and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10.0% of funds in each category, the next 22.5%, 35.0%, 22.5%, and bottom 10.0% receive 5, 4, 3, 2, or 1 star(s), respectively. Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages. The overall Morningstar rating for a fund is derived from a weighted average of the performance associated with its 3-, 5-, and 10-year (if applicable) Morningstar rating metrics. The fund's Class I share overall rating was 4 stars out of 214 multialternative funds for the 3-year period. Please note that Class I shares may not be available to all investors and that performance of other share classes will vary. Past performance does not guarantee future results.

Absolute return funds are not designed to outperform stocks and bonds in strong markets. There is no guarantee of a positive return, of the fund achieving its objective, or that volatility-reducing strategies will be successful. The use of hedging and derivatives could produce disproportionate gains or losses and may increase costs. Certain market conditions, including reduced trading volume, heightened volatility, and rising interest rates, may impair liquidity, the ability of the fund to sell securities or close derivative positions at advantageous prices. Currency transactions are affected by fluctuations in exchange rates. Foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability. Investments in higher-yielding, lower-rated securities include a higher risk of default. The stock prices of midsize and small companies can change more frequently and dramatically than those of large companies. Please see the fund's prospectus for additional risks.

A fund's investment objectives, risks, charges, and expenses should be considered carefully before investing. The prospectus contains this and other important information about the fund. To obtain a prospectus, contact your financial professional, call John Hancock Investments at 800-225-5291, or visit us at jhinvestments.com. Please read the prospectus carefully before you invest.

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Lipper Large-Cap Core Funds: 5 Years

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Lipper International Multi-Cap Core Funds: 3 Years

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PGOVX | PIMCO Long-Term U.S. Government Fund, Institutional
Lipper General U.S. Government Funds: 5 & 10 Years

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PDMIX | PIMCO GNMA Fund, Institutional
Lipper GNMA Funds: 5 & 10 Years

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Investors should consider the investment objectives, risks, charges and expenses of the funds carefully before investing. This and other information is contained in the fund's prospectus and summary prospectus, if available, which may be obtained by contacting your investment professional or PIMCO representative or by visiting pimco.com/investments. Please read them carefully before you invest or send money.

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InvestmentNews
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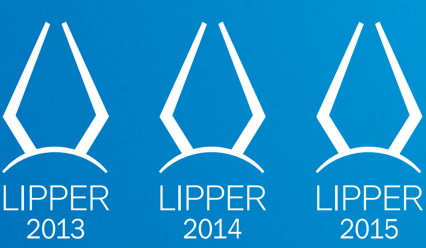
BEST OVERALL LARGE FUND COMPANY THREE YEARS IN A ROW.

FOR THE FIRST TIME EVER.



TIAA-CREF is the only company ever to win Best Overall Large Fund Company[1] three times in a row, a historic achievement for a global asset management powerhouse.

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Financial Services

LIPPER 2013 LIPPER 2014 LIPPER 2015

BEST OVERALL LARGE FUND COMPANY[1]

The Lipper Awards are based on a review of 36 companies' 2012 and 48 companies' 2013 and 2014 risk-adjusted performance.

[1] The Lipper Award is given to the group with the lowest average decile ranking of three years' Consistent Return for eligible funds over the three-year period ended 11/30/12, 11/30/13, and 11/30/14 respectively. TIAA-CREF was ranked against 36 fund companies in 2012 and 48 fund companies in 2013 and 2014 with at least five equity, five bond, or three mixed-asset portfolios. Past performance does not guarantee future results. For current performance and rankings, please visit the Research and Performance section on tiaa-cref.org. TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, members FINRA and SIPC distribute securities products. ©2015 Teachers Insurance and Annuity Association of America–College Retirement Equities Fund (TIAA-CREF), 730 Third Avenue, New York, NY 10017. C22459B

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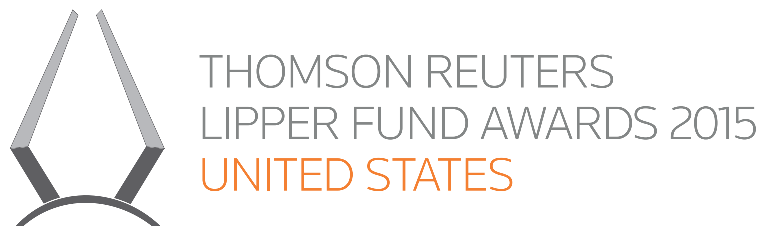

2015 Lipper Fund Awards U.S. Fund Family Winners

Management Company Name	Phone Number	Award	Firm Size*
TIAA-CREF	877-518-9161	Overall	Large Company
MassMutual Retirement Services	888-309-3539	Overall	Small Company
Oakmark Family of Funds	800-625-6275	Equity	Large Company
Hotchkis & Wiley Capital Management, LLC	866-493-8637	Equity	Small Company
Lord Abbett & Company, LLC	888-522-2388	Fixed Income	Large Company
Guggenheim Investments	800-888-2461	Fixed Income	Small Company
American Funds	800-421-4225	Mixed Assets	Large Company
Thrivent Asset Management, LLC	800-847-4836	Mixed Assets	Small Company

**Large and Small Breakpoint set at roughly $52.6 billion AUM*

Awards Methodology

The Lipper Fund Awards are presented annually in the United States and 21 other countries. The methodology for deciding the award winners includes:

Criteria (Cumulative)

- Funds registered for sale in the respective country as of the end of the calendar year of the respective evaluation year.
- At least 36 months of performance history as of the end of the calendar year of the respective evaluation year.
- Lipper Global classifications with at least 10 distinct portfolios based on the primary share class definition, excluding residual classifications, institutional and other non-retail funds, private, closed-end, exchange-traded, insurance and linked funds.
- Asset classes: equity, bond, and mixed-asset, commodity and alternatives. Absolute Return funds screen over all asset types except real estate.

Fund Classification Awards

The currency for the calculation corresponds to the currency of the country for which the awards are calculated and relies on monthly data. Classification averages are calculated with all eligible share classes for each eligible classification. The calculation periods extend over 36, 60 and 120 months. The highest Lipper Leader for Consistent Return (Effective Return) value within each eligible classification determines the fund classification winner over three, five or 10 years. For a detailed explanation please review the Lipper Leaders methodology document on www.lipperweb.com.

Fund classification awards are given to the company that has the day-to-day responsibility of investing and monitoring the assets under management within the fund's portfolio in order to achieve the investment objectives of the fund. This company is also referred to as portfolio management company or investment adviser. The award goes to the fund management company in case that no such company has been appointed or several such companies share the task.

Asset Class Group Awards

Fund groups with at least five equity, five bond or three mixed-asset portfolios in the respective asset classes are eligible for a group award. The lowest average decile[1] rank of the three years' Consistent Return measure of the eligible funds per asset class and group will determine the asset class group award winner over the three-year period. In cases of identical results, the lower average percentile rank will determine the winner.

Asset class group awards will be given to the best large and small groups separately. Small groups will need to have at least three distinct portfolios in one of the asset classes – equity, bond or mixed-asset.

Overall Group Award

Fund groups with at least five equity, five bond and three mixed-asset funds are eligible for an overall group award. An overall group award will be given to the group with the lowest average decile[1] ranking of its respective asset class results based on the methodology described above. In cases of identical results the lower average percentile rank will determine the winner.

An overall group award will be given to the best large and small group separately. Small groups will need to have at least three equity, three bond and three mixed-asset funds.

No asset class and/or overall group awards are handed out if there are less than three competing companies.

Asset class and overall group awards are given to the company that is responsible for establishing the fund by appointing the fund management company, promoting and/or distributing the fund, the brand of the fund and the product range. This company is also referred as promoter or sponsor company.

Assets-Under-Management Breakpoint Calculation

- Europe: In order to define the breakpoint between large and smaller companies, Lipper will calculate the sum of the single fund sizes of all funds (excluding closed-end funds) with sales permission in any European country per company and then sort the results in descending order. For each company a percentage share value of the total assets under management will be calculated and accumulated to 100%. The assets-under-management breakpoint is found at 80% accumulated weight value.
- United States: All eligible open-end funds (see Specific Methodology Issues for the US) with sales permission in the United States will be considered. The assets-under-management breakpoint is found at 85% accumulated weight value.

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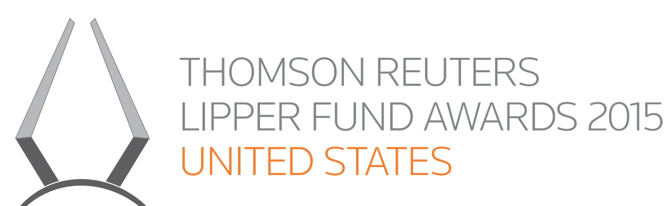
*[1] The decile ranking is obtained by the percentile ranking according to the formula: INT((((Percentile Rank – 1) * (1 – 0.01)) / 10) +1) in order to eliminate the percentile ranking bias within very small and very large sectors by number of funds.*



2015 Lipper Three-Year U.S. Fund Classification Winners

Management Company	Lipper Classification	Fund Name	Ticker Symbol
GuideStone Funds 888-984-8433	Corporate Debt A-Rated Funds	GuideStone Extended-Duration Bond Fund, Institutional	GEDYX
America First Capital Management, LLC 877-217-8363	Alternative Multi-Strategy Funds	AmericaFirst Quantitative Strategies Fund, A	AFIAX
Delaware Management Company 800-523-1918	Corporate Debt BBB-Rated Funds	Delaware Extended Duration Bond Fund, Institutional	DEEIX
Nuveen Fund Advisors, LLC 800-257-8787	California Municipal Debt Funds	Nuveen California High Yield Municipal Bond Fund, I	NCHRX
Vanguard Group, Inc. 800-662-7447	California Intermediate Municipal Debt Funds	Vanguard California Intermediate-Term Tax-Exempt Fund, Admiral	VCADX
Allianz Global Investors 800-498-5413	Convertible Securities Funds	AllianzGI Convertible Fund, Institutional	ANNPX
ProFunds Group 888-776-3637	Dedicated Short-Bias Funds	ProFunds Short Precious Metals ProFund, Investor	SPPIX
Grantham Mayo Van Otterloo & Company, LLC 617-346-7646	Emerging Markets Hard Currency Debt Funds	GMO Emerging Country Debt Fund, IV	GMDFX
Putnam Investment Management, LLC 800-225-1581	Flexible Portfolio Funds	Putnam Capital Spectrum Fund, Y	PVSYX
American Funds 800-421-4225	Global Large-Cap Core Funds	American Funds Capital World Growth & Income Fund, R-6	RWIGX
Gabelli Funds, LLC 800-422-3554	Global Large-Cap Growth Funds	GAMCO Global Growth Fund, I	GGGIX
Morgan Stanley Investment Management, Inc. 800-548-7786	Global Income Funds	Morgan Stanley Global Fixed Income Opportunities Fund, I	DINDX
Artisan Partners, LP 800-344-1770	Global Multi-Cap Core Funds	Artisan Global Value Fund, Investor	ARTGX
Polaris Capital Management, LLC 888-263-5594	Global Multi-Cap Value Funds	Polaris Global Value Fund	PGVFX
PIMCO 888-877-4626	GNMA Funds	PIMCO GNMA Fund, Institutional	PDMIX
PIMCO 888-877-4626	General U.S. Government Funds	PIMCO Long-Term US Government Fund, Institutional	PGOVX
Vanguard Group, Inc. 800-662-7447	General U.S. Treasury Funds	Vanguard Long-Term Treasury Fund, Admiral	VUSUX
Nuveen Fund Advisors, LLC 800-257-8787	High Yield Municipal Debt Funds	Nuveen High Yield Municipal Bond Fund, I	NHMRX
Dodge & Cox 800-621-3979	International Large-Cap Core Funds	Dodge & Cox International Stock Fund	DODFX
Waddell & Reed Investment Management Company 888-923-3355	International Large-Cap Growth Funds	Waddell & Reed Advisors International Growth Fund, Y	WAIYX
BlackRock, Inc. 800-441-7762	Intermediate Municipal Debt Funds	BlackRock Strategic Municipal Opportunities Fund, Institutional	MAMTX
PIMCO 800-927-4648	International Income Funds	PIMCO Foreign Bond Fund (US Dollar-Hedged), Institutional	PFORX
Fidelity Management & Research Company 877-208-0098	International Real Estate Funds	Fidelity Advisor International Real Estate Fund, Institutional	FIRIX
Oberweis Asset Management, Inc. 800-323-6166	International Small/Mid-Cap Growth Funds	Oberweis International Opportunities Fund	OBIOX
Dimensional Fund Advisors, LP 800-366-7266	Intermediate U.S. Government Funds	DFA Intermediate Government Fixed Income Portfolio, Institutional	DFIGX
PIMCO 800-927-4648	Inflation-Protected Bond Funds	PIMCO Fixed Income SHares Series R	FXIRX
Shelton Capital Management 800-955-9988	Large-Cap Growth Funds	Shelton NASDAQ-100 Index Fund, Direct	NASDX
Highland Capital Management Fund Advisors, LP 877-665-1287	Loan Participation Funds	Highland Floating Rate Opportunities Fund, Z	HFRZX
Eaton Vance Management 800-262-1122	Massachusetts Municipal Debt Funds	Eaton Vance Massachusetts Municipal Income Fund, I	EIMAX
American Funds 800-421-4225	Mixed-Asset Target 2010 Funds	American Funds 2010 Target Date Retirement Fund, R-6	RFTTX

2015 Fund Winners continued on S6

2015 Lipper Three-Year U.S. Fund Classification Winners

Continued from S5

Management Company	Lipper Classification	Fund Name	Ticker Symbol
T. Rowe Price Associates, Inc. 800-225-5132	Mixed-Asset Target 2020 Funds	T. Rowe Price Retirement 2020 Fund	TRRBX
American Funds 800-421-4225	Mixed-Asset Target 2030 Funds	American Funds 2030 Target Date Retirement Fund, R-6	RFETX
American Funds 800-421-4225	Mixed-Asset Target 2035 Funds	American Funds 2035 Target Date Retirement Fund, R-6	RFFTX
American Funds 800-421-4225	Mixed-Asset Target 2025 Funds	American Funds 2025 Target Date Retirement Fund, R-6	RFDTX
American Funds 800-421-4225	Mixed-Asset Target 2040 Funds	American Funds 2040 Target Date Retirement Fund, R-6	RFGTX
American Funds 800-421-4225	Mixed-Asset Target 2045 Funds	American Funds 2045 Target Date Retirement Fund, R-6	RFHTX
American Century Investment Management, Inc. 800-345-3533	Mixed-Asset Target Today Funds	American Century One Choice In Retirement Portfolio, Institutional	ATTIX
PRIMECAP Management Company 800-729-2307	Mid-Cap Growth Funds	PRIMECAP Odyssey Aggressive Growth Fund	POAGX
Hotchkis & Wiley Capital Management, LLC 866-493-8637	Mid-Cap Value Funds	Hotchkis & Wiley Mid-Cap Value Fund, I	HWMIX
T. Rowe Price Associates, Inc. 800-638-5660	Maryland Municipal Debt Funds	T. Rowe Price Maryland Tax-Free Bond Fund	MDXBX
OppenheimerFunds, Inc. 800-225-5677	Minnesota Municipal Debt Funds	Oppenheimer Rochester Minnesota Municipal Fund, A	OPAMX
PIMCO 888-877-4626	Multi-Sector Income Funds	PIMCO Income Fund, Institutional	PIMIX
GW Capital Management, LLC 866-831-7129	Mixed-Asset Target Allocation Aggressive Growth Funds	Great-West Aggressive Profile II Fund, Initial	MXAPX
MFS Investment Management 800-225-2606	Mixed-Asset Target Allocation Conservative Funds	MFS Diversified Income Fund, R4	DIFGX
Wells Fargo Funds Management, LLC 800-222-8222	Mixed-Asset Target Allocation Moderate Funds	Wells Fargo Advantage Index Asset Allocation Fund, Administrator	WFAIX
Fidelity Management & Research Company 877-208-0098	Retirement Income Funds	Fidelity Advisor Income Replacement 2042 Fund, Institutional	FIRFX
BlackRock, Inc. 800-441-7762	New Jersey Municipal Debt Funds	BlackRock New Jersey Municipal Bond Fund, Institutional	MANJX
Viking Fund Management, LLC 800-276-1262	Natural Resources Funds	Integrity Williston Basin/Mid-North America Stock Fund, A	ICPAX
Eaton Vance Management 800-262-1122	New York Municipal Debt Funds	Eaton Vance New York Municipal Income Fund, I	EINYX
Franklin Templeton Investments 800-342-5236	New York Intermediate Municipal Debt Funds	Franklin New York Intermediate-Term Tax-Free Income Fund, Advisor	FNYZX
OppenheimerFunds, Inc. 800-225-5677	Ohio Municipal Debt Funds	Oppenheimer Rochester Ohio Municipal Fund, A	OROHX
Wells Fargo Funds Management, LLC 800-222-8222	Pennsylvania Municipal Debt Funds	Wells Fargo Advantage Pennsylvania Tax-Free Fund, Institutional	EKVYX
Fidelity Management & Research Company 800-544-8544	Pacific Region Funds	Fidelity Pacific Basin Fund	FPBFX
PNC Funds 800-622-3863	Small-Cap Core Funds	PNC Multi-Factor Small Cap Core Fund, I	PLOIX
Hotchkis & Wiley Capital Management, LLC 866-493-8637	Small-Cap Value Funds	Hotchkis & Wiley Small Cap Value Fund, I	HWSIX
Lord Abbett & Company, LLC 888-522-2388	Short Investment-Grade Debt Funds	Lord Abbett Short Duration Income Fund, I	LLDYX
Cavanal Hill Funds 800-762-7085	Short-Intermediate Investment-Grade Debt Funds	Cavanal Hill Intermediate Bond Fund, Institutional	AIFBX
Loomis Sayles & Company, LP 800-225-5478	Short-Intermediate U.S. Government Funds	Loomis Sayles Limited Term Government & Agency Fund, Y	NELYX
TCW Investment Management Company 800-386-3829	U.S. Mortgage Funds	TCW Total Return Bond Fund, I	TGLMX
USAA Asset Management Company 800-531-8722	Virginia Municipal Debt Funds	USAA Virginia Bond Fund, Fund	USVAX

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Past performance is no guarantee of future results. Mutual fund investing involves risk; principal loss is possible. The best overall fund company award ranking does not imply that the funds had positive performance and the returns for any fund may have been negative over the time period specified. For current performance and rankings, please visit the Research & Performance section on www.tiaa-cref.org.

Before investing, carefully consider fund investment objectives, risks, charges and expenses. For this and other information that should be read carefully, please request a prospectus or summary prospectus from your financial advisor or Nuveen Investments at 800.257.8787 or visit nuveen.com.

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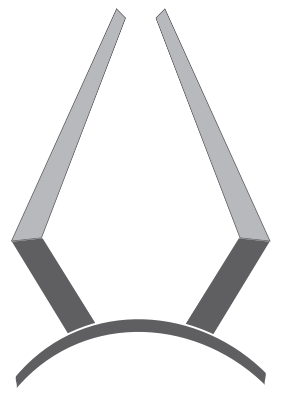


TIAA-CREF

WINNER: OVERALL LARGE COMPANY

Three in a Row

Approach that emphasizes research and teamwork propels TIAA-CREF

Rob Leary
President

TIAA-CREF made it three in a row when the firm won the overall Lipper award in the large company category for the third year, following up on wins in 2013 and 2014.

"To win it three times consecutively makes us feel really great about what we're doing," says Rob Leary, president of TIAA-CREF Asset Management. Mr. Leary adds that in 2014, TIAA-CREF acquired Nuveen Investments – which was the overall large company winner in 2012.

"So if you add Nuveen, we've actually won it four years in a row," he smiles.

As of Sept. 30, 2014, TIAA-CREF Asset Management had 62 funds and about $611 billion in assets under management, including about 41% in fixed income, 41% in equity, 14% in alternatives and 4% in other. The sizable majority of its investors are individuals investing for retirement.

Mr. Leary says that Nuveen operates independently from TIAA-CREF Asset Management; it is a stand-alone entity under TIAA-CREF, which now has about $850 billion in assets under management, including the assets of Nuveen.

TIAA-CREF was formed in 1918 with the help of Andrew Carnegie, famed industrialist and philanthropist. The original mission was to help educators be able to retire with dignity. "That's still the core business of TIAA-CREF, but we have now become more of a diversified financial services company," Mr. Leary says.

Still, in keeping with its background as an important resource for teachers, TIAA-CREF Asset Management follows a lesson plan that the firm's management believes will help it create success for its investors.

That plan begins with research. "We're very disciplined, very research-driven," Mr. Leary says. Some of that is quantitative, model-based, core research. But much of it is bottom-up research.

Mr. Leary says that TIAA-CREF Asset Management spends a lot of time visiting with the management of companies in which it invests or is interested in investing. Analysts and portfolio managers usually visit a company in the country where it operates, so that they can observe and understand the local conditions and business environment. And, he adds, company management is usually more than happy to answer TIAA-CREF Asset Management's questions because it is such a large and well-known firm.

Most of TIAA-CREF Asset Management funds are actively managed, and, although each portfolio manager has the ultimate say, the firm has a team approach in which the portfolio managers make decisions with considerable input from sector specialists on the research team.

"It's a decentralized approach to how decisions are made," Mr. Leary says. "It is a culture and a way of sharing ideas." Professionals regularly walk around the trading floor to visit with colleagues, and video screens connect offices with each other.

That sharing of ideas includes extensive collaboration not only among people in the same asset class, but across classes as well. For example, the emerging markets equity team and the emerging markets fixed income team talk regularly and share insights. "We are not just raising ideas, we are challenging each other," Mr. Leary says.

A final consideration is recognition of the long-term impact of fees. "The other part is being competitive on fees," Mr. Leary says. "While we are not necessarily the cheapest, we certainly think that longer term, fees are important to investors in terms of delivering returns."

The TIAA-CREF Asset Management approach, which gives investment professionals a lot of independence and at the same time provides them with a lot of research support, also results in its professionals staying with the company. "People like being part of our team," Mr. Leary says, a factor that gives the funds stability and helps to continually reinforce the firm's culture.

At its core, that culture is based on the recognition that the investors in TIAA-CREF Asset Management funds are relying on the success of those funds for some very important life events. Many are saving for retirement, of course, but the firm is also one of the largest providers of 529 plans.

> "We are about having investment teams that are very, very focused on picking the right securities, backed by centralized research teams that are constantly and rigorously evaluating portfolio ideas and positions." **– Rob Leary**

"We do not have a system that showcases star portfolio managers," Mr. Leary says. "We are about having investment teams that are very, very focused on picking the right securities, backed by centralized research teams that are constantly and rigorously evaluating portfolio ideas and positions."

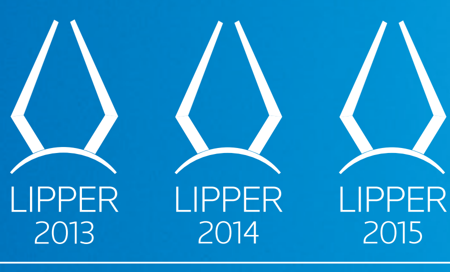
The asset management teams are responsible for a specific area, such as a strategy, sector or asset class; each team is responsible for that area across all the TIAA-CREF Asset Management portfolios, from mutual funds to variable annuities and the TIAA General Account.

The firm never loses sight of its responsibility to its wide range of investors, Mr. Leary says.

"If you think about it, this is really about delivering outcomes," he says. "We believe we have a culture, a sense of team and values, and a way of working together that really drives results."

BEST OVERALL LARGE FUND COMPANY[1] THREE YEARS IN A ROW.

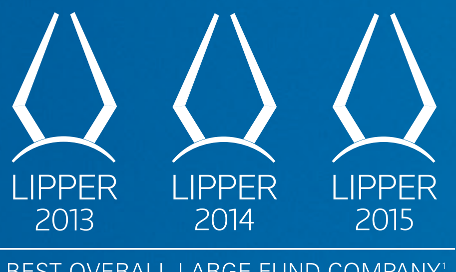
FOR THE FIRST TIME EVER.



BEST OVERALL LARGE FUND COMPANY[1]

The Lipper Awards are based on a review of 36 companies' 2012 and 48 companies' 2013 and 2014 risk-adjusted performance.

IT'S A WIN-WIN-WIN
FOR OUR CLIENTS.



Lipper just named TIAA-CREF Best Overall Large Fund Company[1] for the third year in a row. That's a historic achievement for a global powerhouse in asset management. The consecutive awards reflect our consistent risk-adjusted returns over three years across asset classes. But we measure success in better outcomes for our clients.

THE FIRM CREATED TO SERVE ITS INVESTORS.
FIRST. LAST. ALWAYS.

We're here to create long-term value for our clients, not short-term shareholder profits. Our disciplined investment approach builds lasting relationships with clients, who include institutions, advisors and individual investors.

$620 BILLION
ASSETS UNDER MANAGEMENT[2]

We have deep expertise in a range of traditional and alternative asset classes.

OVERALL MORNINGSTAR RATINGS OF 4 OR 5 STARS

ON TIAA-CREF MUTUAL FUNDS.[3]

52% 4 stars and 18% 5 stars, based on risk-adjusted returns as of December 31, 2014.

TIAA-CREF MUTUAL FUNDS:

OPPORTUNITIES FOR EVERY INVESTOR.

Investors can select from a wide variety of equity, fixed income and asset allocation asset classes, including:

$72 BILLION IN RESPONSIBLE INVESTMENT STRATEGIES.[4]

Our Social Choice Equity Fund and Social Choice Bond Fund combine responsible investment criteria with impressive performance against broad market indexes.

$22 BILLION INVESTED IN TARGET DATE FUNDS.[5]

We offer actively managed and index target date funds. Not only are expenses for these funds rated in the bottom decile, they also earn high ratings from Morningstar.

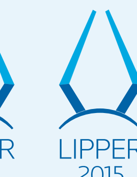
THE BOTTOM LINE

FOR ONE OF THE WORLD'S TOP ASSET MANAGERS.

We're honored and humbled by the accolades from Lipper the last three years. But it only makes us more excited about what we can accomplish in the years to come.

Get award-winning performance at TIAA.org/3Awards

[1]The Lipper Award is given to the group with the lowest average decile ranking of three years' Consistent Return for eligible funds over the three-year period ended 11/30/12, 11/30/13, and 11/30/14 respectively. TIAA-CREF was ranked against 36 fund companies in 2012 and 48 fund companies in 2013 and 2014 with at least five equity, five bond, or three mixed-asset portfolios. [2]Based on assets under management across TIAA-CREF investment management teams as of December 31, 2014. [3]Morningstar ratings based on the lowest cost share class (Institutional Share Class) for each mutual fund, based on U.S. open-end mutual funds. For a fund with multiple share classes and the same pricing, the share class with the longest performance history is used. Morningstar ratings may be higher or lower on a monthly basis. Morningstar is an independent service that rates mutual funds. The top 10% of funds in an investment category receive five stars, the next 22.5% receive four stars and the next 35% receive three stars. Morningstar proprietary ratings reflect historical risk-adjusted performance and can change every month. They are calculated from the fund's three-, five- and ten-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments, and a risk factor that reflects fund performance below 90-day T-bill returns. The overall star ratings are Morningstar's published ratings, which are weighted averages of its three-, five- and ten-year ratings for periods ended December 31, 2014. [4]For performance information please go to https://www.tiaa-cref.org/public/tcam/InvestResearch?defaultview=mfretailonly. Please note investments in socially responsible funds are subject to Social Criteria Risk, namely the risk that because social criteria excludes securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. [5]45% 5 stars, 55% 4 stars, for both active and index as of December 31, 2014. Past performance cannot guarantee future results. For current performance and rankings, please visit www.tiaa-cref.org/public/tcfpi/InvestResearch. TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association of America (TIAA) and College Retirement Equities Fund (CREF), New York, NY. Each is solely responsible for its own financial condition and contractual obligations. C22762 ©2015 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund (TIAA-CREF), 730 Third Avenue, New York, NY, 10017.



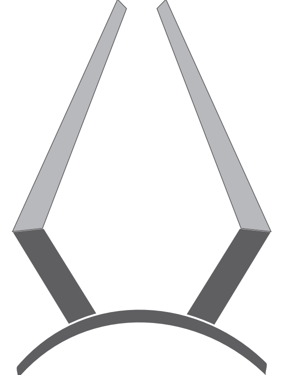
LIPPER 2013 LIPPER 2014 LIPPER 2015

BEST OVERALL LARGE FUND COMPANY[1]

The Lipper Awards are based on a review of 36 companies' 2012 and 48 companies' 2013 and 2014 risk-adjusted performance.

Please note Lifecycle Funds are subject to the equity and fixed income risk, as well as asset allocation risk. The target date for Lifecycle Funds is the approximate date when investors plan to start withdrawing their money. The principal value of the fund(s) is not guaranteed at any time, including at the target date. TIAA-CREF has 24 Lifecycle Funds (12 actively managed funds and 12 index funds). The Morningstar category for Lifecycle Funds is named Target Date and Morningstar groups funds within the same target date in compiling its individual fund rankings.

Consider investment objectives, risks, charges and expenses carefully before investing. Go to tiaa-cref.org for product and fund prospectuses that contain this and other information. Read carefully before investing. TIAA-CREF funds are subject to market and other risk factors.



MassMutual Retirement Services

WINNER: OVERALL SMALL COMPANY

Clarity of Focus

Building a firm around retirement investors is key to MassMutual success

Brian Haendiges
Senior vice president, investment services

When MassMutual Retirement Services created its approach to investment management, it did so with very specific investors in mind: people saving for retirement. The firm has focused exclusively on that investment demographic, and its approach has propelled it to a second consecutive Lipper award as the overall winner among small companies; the firm also won in the small company mixed asset class in 2013 and 2014.

"We started down this path many years ago, and the focus all along has been that our customer base is retirement investors, so everything that we've built, the way that we go about things, is all oriented around the objectives of that long-term investor," says Brian Haendiges, senior vice president, investment services, for MassMutual Retirement Services. The firm's investment arm for retirement products is MML Investment Advisers, LLC.

"I think that a lot of our success is because that long-term focus leads to consistency, and consistency leads to awards in multiple years," he says.

However, this singular focus has particular challenges, Mr. Haendiges says. Short-term investment success can involve an element of luck. "But over the long-term, it's much tougher to be lucky," he says. "You have to have some skill and a process and stick to that process."

In implementing its strategy, MassMutual seeks to give its investors access to the best of the best fund managers. The investment management team headed by Michael Eldredge spends a lot of time on the road talking to portfolio managers, getting to know them and considering how they might fit with other managers. A subsidiary of financial giant MassMutual Financial Group, MassMutual Retirement Services has about $150 billion in assets under management, including non-mutual-fund assets. As a result, most portfolio managers are more than happy to talk with Mr. Eldredge and his team, Mr. Haendiges says. But the team is looking for a specific kind of manager.

They do due diligence from a quantitative perspective. "But there's a big qualitative aspect as well," Mr. Haendiges says. "You want to be able to look the management in the eye and see what level of conviction they have, see how they've done under duress, what their self-discipline is, those sorts of things."

The investment management team selects the managers, including some who are also affiliated with MassMutual and many who are not. Then, it lets those managers manage.

"The fund management is done by these managers we contract with," Mr. Haendiges says. There are a total of about 25 managers, and they represent a wide variety of styles. MassMutual Retirement Services is looking for diversity in managers, and they want to have a mix of management styles. "Then we put that together in ways that are unique," Mr. Haendiges says.

In the pure retirement space, MassMutual Investment Advisers has a total of 54 funds, with about $26 billion in assets under management.

Although the managers have the freedom to manage as they see fit, the investment team regularly monitors them. The team looks at performance, but they are particularly interested in consistency.

"One of the things they look for is, do they stick to their process in a time of duress?" Mr. Haendiges says. "If managers change direction when things start to go south, they might not be there to benefit when things start to go up again."

From time to time they get rid of a manager. "But we don't do it because they've had a bad year," Mr. Haendiges says. Instead, they might make a change if a manager has drifted away from his or her style or if there has been an organizational or major leadership change at the manager's firm.

They also look carefully at their managers' long-term track record against their peers and against the applicable benchmarks. The MassMutual team wants its managers to show successful adherence to a strategy that maximizes long-term growth and minimizes short-term ups and downs. That has become even more important in recent years, as a result of market volatility.

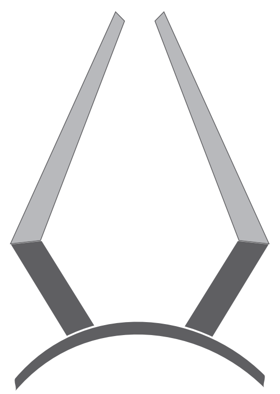
"You want a very good long-term return, but you don't want that rocky volatility that goes from year to year," Mr. Haendiges says. He notes that many funds with good long-term performance have very erratic short-term results. That is not what MassMutual wants for its investors, he says, because short-term volatility often causes investors to get nervous and take their money out of a fund at precisely the wrong time.

This investor reaction became very clear during the financial crisis. During that period, "we saw some very bad behavior from a long-term-investment standpoint, and that's one of the reasons why we build funds designed to deliver consistent performance over time," Mr. Haendiges says. "So for us, it's not just about the investment returns; it's about how individual investors in the retirement plans that we operate use those investments and what kind of behavior they exhibit."

> "If managers change direction when things start to go south, they might not be there to benefit when things start to go up again."
> **– Brian Haendiges**

He adds that lower volatility is increasingly important with investors of all ages, not just those who are nearing retirement. And giving retirement investors what is important to them has always been MassMutual's goal.

"When we put this together 10-plus years ago, it was all oriented around what this investor needs," he says. "We built it from that standpoint."



Oakmark Funds

WINNER: LARGE COMPANY EQUITY

One-Stop Shopping

Equity winner Oakmark takes singular approach to investing

Daniel A. Nicholas
Client portfolio manager, Harris Associates

At Harris Associates, they believe in sticking with what works. “We just have one investment team, one investment philosophy and one investment process,” says Daniel A. Nicholas, CFA, client portfolio manager. Chicago-based Harris Associates is the sole adviser of the Oakmark Funds, which was the winner of the Lipper award in the large company equity category.

> “We are definitely value investors and not momentum investors. We are always moving to the area where the market is giving us an opportunity.” **– Daniel A. Nicholas**

Oakmark has six equity funds: Oakmark Fund, a large-cap U.S. fund with about 55 stocks; Oakmark Select Fund, a similar fund with 20 stocks; Oakmark International Fund, a large-cap non-U.S. fund; Oakmark International Small-Cap Fund, a small-cap non-U.S. fund; Oakmark Global Fund, which has about 40 stocks, both U.S. and international; and Oakmark Global Select, which has 20 stocks. Its Oakmark Equity and Income Fund is about 65% equity. As of Dec. 31, 2014, Harris Associates had $132 billion in assets under management.

All the Oakmark Funds are value funds, with a strong emphasis on capital preservation and long-term capital growth, Mr. Nicholas says. Harris was founded in 1976 as a family office by entrepreneur Irving Harris, who told his investment professionals that while he wanted them to grow his capital, he also wanted to protect his capital.

“What we are trying to do is find absolute returns for our shareholders over time, and we think the best way to go about that is by investing in companies trading at a discount to their intrinsic value,” Mr. Nicholas says. In general, he says, Harris is willing to consider a stock it believes is trading at 70% of its value or less.

“But that’s just price. It’s not enough to just invest in low-price stocks, because you might run into value traps,” Mr. Nicholas says. “We also have to understand the businesses. We want to end up in companies that are growing intrinsic value over time. So although we’re value investors, we require growth in per-share value.”

The firm’s analysts look at the free cash flow that a business generates, but they also look at how the company management allocates that free cash flow, looking for “management teams that act in the interest of outside shareholders, so they think and act as owners.” Mr. Nicholas says.

That’s where the research comes in. The same bottom-up, analyst-driven research process is used for all the funds, Mr. Nicholas says. Analysts talk to company management, model projected cash flow, and study the industry and the market to determine a company’s intrinsic value – what its true worth is.

“And then the market gives us a price,” Mr. Nicholas says. “We will go where the market gives us the biggest values.”

The analysts at Harris hold more than 1,000 meetings a year with the management of companies the firm is considering. The analysts “are really intellectually curious; all they are trying to do is find good quality businesses trading at a value,” Mr. Nicholas says. “That enables us to retain talent over the long period, because those analysts are doing exactly what they want to do.”

The firm has 19 investment analysts and nine portfolio managers, many of whom started out as analysts.

When an analyst identifies a stock that meets the firm’s investment criteria, the analyst can take that stock to a stock selection group, which then vets the stock even further. As they consider stocks to present to this group, analysts consider three criteria: They want to buy businesses that are trading at a significant discount to Harris Associates’ estimate of the company’s intrinsic value, invest with companies expected to grow shareholder value over time, and invest with management teams that think and act as owners.

One stock selection group considers U.S.-domiciled stocks, and one considers non-U.S.-domiciled stocks. The entire investment department is required to attend these meetings, and they are encouraged “to poke holes in the idea,” Mr. Nicholas says. There are three voting members of each selection group, and a stock needs at least two votes to be placed in the firm’s approved list.

Portfolio managers can only choose a stock from the approved list, which has about 300 stocks, Mr. Nicholas says. The approved list turns over about 25% a year. The investment team is constantly reevaluating the intrinsic value of the stocks on the list relative to their price, but as long as it continues to meet Harris’ criteria, a stock can stay on the list.

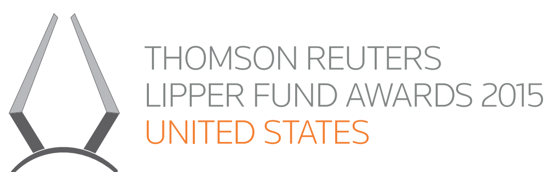
When a stock held in a portfolio reaches about 90% of its intrinsic value, the portfolio managers begin trimming the holding. When it hits 100%, they sell the stock.

“We are definitely value investors and not momentum investors,” Mr. Nicholas says. “We are always moving to the area where the market is giving us an opportunity”

At the moment, for example, the funds own what traditionally are considered growth businesses, such as Amazon and Google. “We think they are trading in line with what an average business is worth, and they are above-average businesses,” Mr. Nicholas says.

“We think that’s value investing as well – buying high-quality growth companies trading like an average business.”

ANOTHER TOP PERFORMANCE.



For the second year in a row, MassMutual is the winner of the Lipper Fund Award for **Best Overall Small Fund Group**. 2015 also marks our fourth Lipper Asset Class Group Award in three years — a testament to the consistent strength and depth of the MassMutual Funds lineup.

MassMutual is committed to working with plan sponsors and financial professionals to help plan participants retire on their own terms, and we look forward to another year of mutual success.

To learn how MassMutual Funds can help you and your clients, or to obtain a prospectus, call MassMutual at 1-866-444-2601 or visit MassMutualFunds.com

TOTAL RETIREMENT SERVICES + TPA + DEFINED CONTRIBUTION + DEFINED BENEFIT + NONQUALIFIED + NONPROFIT + PUBLIC SECTOR + TAFT-HARTLEY + STABLE VALUE + PEO + IRA

To qualify for the Overall Small Fund Group award, fund groups must have at least three mixed-asset funds, three equity funds and three fixed-income funds. MassMutual Funds ranked #1 out of 26 eligible companies. Small Fund Groups are defined as having less than $52.6 billion in assets under management as of November 30, 2014. The lowest average decile rank of the three years' Consistent Return measure of the eligible funds per asset class and group will determine the asset class group award winner over the three-year period. In cases of identical results, the lower average percentile rank will determine the winner. Consistent Return measure does not reflect sales charges.

Lipper, a wholly owned subsidiary of Reuters, is a leading global provider of mutual fund information and analysis to fund companies, financial intermediaries and media organizations.

Past performance is no guarantee of future results. Principal value and investment return will fluctuate, so an investor's shares/units when redeemed may be worth more or less than the original investment. Investment portfolio statistics change over time. The investment is not FDIC-insured, may lose value and is not guaranteed by a bank or other financial institution.

Investors should consider a Fund's investment objective, risks, charges and expenses carefully before investing. This and other information about a Fund is available in its prospectus (or summary prospectus). Read it carefully before investing.

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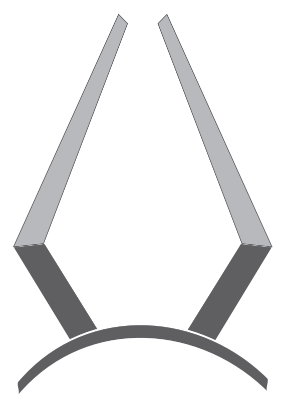


Hotchkis & Wiley Capital Management, LLC

WINNER: SMALL COMPANY EQUITY

Value of the Long View

Hotchkis & Wiley strives to balance price and potential

George Davis, Jr.
Chief executive officer, portfolio manager and principal

Hotchkis & Wiley Capital Management has a long-term investing approach for two reasons. First, its management believes that taking the long view helps investors avoid making bad decisions based on emotional reaction to short-term market moves.

Second, a long time line is essential to the success of its value investing strategy, according to George Davis, Jr., chief executive officer, portfolio manager and principal at the firm, which was the Lipper winner in the small company equity category.

The Los Angeles-based, privately held company has about $30 billion in assets under management, including about $9 billion in its mutual funds. Its equity mutual funds are: Diversified Value, Large Cap Value, Mid-Cap Value, Small Cap Value, Small Cap Diversified Value, Global Value and Value Opportunities.

The managers of all the equity funds follow the same basic approach, which begins with research. Hotchkis & Wiley has about 26 investment professionals, including both portfolio managers and analysts, who conduct extensive, bottom-up research.

They start by screening data bases to find companies that might meet their basic criteria – companies that are trading for less than they might be worth over time. The analysts "want to understand what the drivers of profitability are and what sustainable normal earnings should be over time," and then see how that compares with the price, Mr. Davis says.

"We are looking for companies that offer us great earnings and cash flow and dividends for the price that we pay," he says. "Value managers care about what you get for the price that you pay."

Analysts review more than 500 companies a year, talking to company management, competitors, suppliers and other industry experts. Their goal is to find companies in which the price does not reflect the potential.

"We are trying to determine what long-term profitability should be in these companies, and why that is different from current profitability," Mr. Davis says.

For example, they often ask a company's management about the company's priorities for allocating its capital and what they are doing from an operational standpoint to address some of the issues that led to its being undervalued.

A stock could be underpriced relative to its value because it is a very new company, still getting its legs under it. But many stocks are underpriced because "they are misunderstood because of their near-term business issues," Mr. Davis says. If Hotchkis & Wiley believes the company has addressed those issues in a way that is likely to be successful, they will consider buying that stock and holding it until it returns to a more appropriate valuation.

"We are looking at the return potential alongside the assessment of risk in that investment," Mr. Davis says. "Risk and return are the core of any investment analysis. That's very simple, but very true and very powerful."

Analysts at Hotchkis & Wiley have an average of 13 years with the firm, so they have amassed a significant amount of knowledge and experience, Mr. Davis says. The bottom-up approach only enhances that knowledge base.

"When you are visiting with that many companies over the course of the year, you are learning a lot about the landscape in whatever industry you're looking at," he says.

The firm has six sector teams: financial, consumer, energy and commodities, health care, tech and telecomm, and capital goods. Each team reviews opportunities in its sector.

"Industry analysts then bring their research to the appropriate sector team, and we employ what we call peer review," Mr. Davis says. The peer review is conducted by other analysts and portfolio managers. "The whole team is really involved in driving the research assessment."

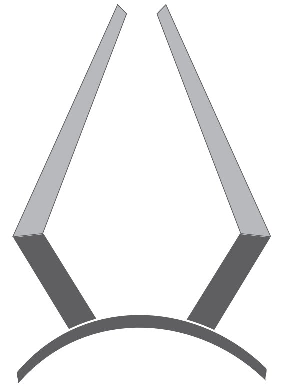
Stocks that make it through the peer review might be added to multiple Hotchkis & Wiley fund portfolios, based on the specific strategy of the fund. There is a lot of communication and sharing of ideas among the investment professionals, Mr. Davis says. Each portfolio manager can manage more than one fund, and each fund can have multiple managers – and all the portfolio managers rely heavily on the analysts' information.

"Each of the funds is managed by the full investment team," he says. "The information is bubbling up to the portfolio managers, but it's driven by the research analysts and the entire team that works here."

> "We are looking for companies that offer us great earnings and cash flow and dividends for the price that we pay."
> **– George Davis, Jr.**

The final piece of the puzzle is holding the stocks for the long term. Hotchkis & Wiley holds most stocks for three to five years, giving the companies time to reach their full potential. That is particularly critical with value investing, Mr. Davis says.

"A value approach over a longer period of time can add performance value because investors tend to be too short term in their assessments of opportunities," he says. "You can generate some good performance if you get the research right and you're patient."



Lord Abbett & Co. LLC

WINNER: LARGE COMPANY FIXED INCOME

Know Thyself

Fixed income winner Lord Abbett holds to its convictions

Lord Abbett & Co. LLC, winner of the Lipper fixed income award in the large company category, has never been afraid to act on its convictions. The firm was founded on Nov. 18, 1929, less than a month after the crash that signaled the start of the Great Depression.

"It was a brave time to start an investment firm," says Daria Foster, managing partner at Lord Abbett & Co. LLC, and president and chief executive officer of the Lord Abbett Family of Funds. "But I think that the founders of the firm thought that it was an important opportunity to make sure that the investing public had their assets managed by professionals. They thought there was a need in the marketplace and Lord Abbett could respond to that need."

The firm, which is headquartered in Jersey City, N.J., has about $139 billion in assets under management, about 70% of which is in fixed income. It has a total of 42 funds, including 20 fixed income funds – 12 taxable and eight tax-free. Its investors include both individuals and institutions.

Investment management "is the only thing we do," Ms. Foster says. And the firm has been following the same basic philosophy since it was founded with an approach it calls "investment-led and investor-focused."

Lord Abbett is a privately owned, independent partnership, and that allows the firm always to put clients' interests first, Ms. Foster says, explaining, "We've long had the understanding that the only reason we come to work every day is to manage our clients' assets. That means that our success is very much tied to their success; our interests are aligned."

Lord Abbett's investment philosophy is based on a few overarching ideas, starting with active management.

Lord Abbett continued on S22

ARE YOU INVESTED IN ASIA?

WE ARE.

The Asia Fund Class I (MILAX) shares won the 2015 Lipper Fund Award Best of Fund Over 3 years in the Pacific Ex-Japan Category among 41 funds as of 12/31/2014 in the Asset Class Group.

The Lipper Fund Awards program honors funds and funds management that have excelled in consistently delivering strong-risk adjusted performance, relative to their peers.

Mirae Asset Global Investments. Emerging market experts with roots in Asia[1].

★★★★★ **Asia Great Consumer Fund (MGCIX)**
Overall and 3-Year performance in the Pacific/Asia ex-Japan category (out of 73 funds)

★★★★★ **Asia Fund (MILAX)**
Overall and 3-Year performance in the Pacific/Asia ex-Japan category (out of 73 funds)

★★★★★ **Emerging Markets Great Consumer Fund (MICGX)**
Overall and 3-Year performance in the Diversified Emerging Markets category (out of 527 funds)

★★★★ **Emerging Markets Fund (MILGX)**
Overall and 3-Year performance in the Diversified Emerging Markets category (out of 527 funds)

Morningstar Ratings as of 2/28/15

[1]Source: Investments and Pensions Europe, January 2014. Morningstar Ratings are based on risk-adjusted returns. The Overall Morningstar Rating for a Fund is derived from a weighted average of the performance figures associated with its 3-year Morningstar Ratings metrics. The Fund may experience negative performance. Lipper designates award-winning funds in most individual classifications for the three-, five- and ten-year periods and fund families with high average scores for the three year time periods. The Lipper Fund Awards are presented annually and are not a ranking of performance. Performance based methodology. The Lipper Fund Awards are part of the Thomson Reuters Awards for Excellence, a global family of awards that celebrate exceptional performance throughout the professional investment community. The Thomson Reuters Awards for Excellence recognize the world's top funds, fund management firms, sell-side firms, research analysts and investor relations teams. The Thomson Reuters Awards for Excellence also include the extel survey awards, the starmine analyst awards, and the starmine broker rankings. For more information, please contact markets.awards@thomsonreuters.com or visit excellence.thomsonreuters.com.
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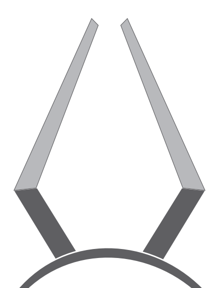

Guggenheim Investments

WINNER: SMALL COMPANY FIXED INCOME

Scott Minerd
Chairman and global chief investment officer

Building on a Legacy

Institutional-caliber performance is goal of winning Guggenheim funds

Guggenheim Investments is the global asset management and investment advisory division of Guggenheim Partners, formed in 1999 as an outgrowth of Guggenheim Brothers, a family office that dates to the 1800s. The firm's roots are in institutional asset management. In 2007, it began expanding into mutual funds, with the goal of delivering institutional-caliber investment performance to financial advisers and their clients.

Guggenheim Partners was built on the principles that guided the Guggenheim family business: engaging highly talented people, challenging them to think creatively, and encouraging them to achieve extraordinarily high standards in their fields of expertise, says Scott Minerd, chairman of Guggenheim Investments and global chief investment officer.

"We take a differentiated approach to fixed income management," Mr. Minerd says. "We're much more interested in driving positive risk-adjusted client outcomes than hugging a benchmark. We also believe a shift away from traditional core fixed income management to a more diversified, multi-sector approach ... offers a more sustainable way to manage interest rate risk and generate attractive returns."

Guggenheim Partners has more than 2,500 professionals in more than 25 offices around the world; its largest offices are in New York, Chicago and Santa Monica, Calif. As of Dec. 31, 2014, Guggenheim Investments had more than $195 billion in assets under management. About $6 billion is in the seven mutual funds for which it won the small company fixed income Lipper award.

In its fixed income funds, "The goal of Guggenheim's investment process is to make the best possible relative value, security selection and risk management decisions consistent with a portfolio's

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The 2015 Lipper Fund Awards.
9 winners. One winning approach.

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Fixed income investing entails credit risks and interest rate risks. When interest rates rise, bond prices generally fall, and a fund's share price can fall. Below investment grade ("high yield" or "junk") bonds are more at risk of default and are subject to liquidity risk.

Lipper awards are granted annually to the funds in each Lipper classification that achieve the highest score for Consistent Return, a measure of funds' historical risk-adjusted returns, measured in local currency, relative to peers. Winners are selected using the Lipper Leader rating for Consistent Return for funds with at least 36 months of performance history as of 11/30/14. Awards are presented for the highest Lipper Leader for Consistent Return within each eligible classification over 3, 5 or 10 years. Although Lipper makes reasonable efforts to ensure the accuracy and reliability of the data contained herein, the accuracy is not guaranteed by Lipper. Lipper Awards are not intended to predict future results.

Shares of Oppenheimer funds are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including the possible loss of the principal amount invested.

Carefully consider fund investment objectives, risks, charges and expenses. Visit oppenheimerfunds.com, call your advisor for a prospectus with this and other fund information. Read it carefully before investing.

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guidelines," Mr. Minerd says. "We believe value can be added by potentially deviating from benchmark duration and sector or sub-sector allocations."

Guggenheim's fixed income investment process has three fundamental tenets:

- Fixed income markets are inefficient.
- Indices are investable, but not designed to maximize risk-adjusted returns.
- Capturing attractive yields, while remaining focused on the preservation of capital, is the surest path to superior long-term investment results.

In selecting holdings for their portfolios, they use both macro research and bottom-up research. On the macro side, Mr. Minerd says, "We believe global themes and strategies reflect dynamics of relative value, economic drivers, inflation, interest rates and geopolitical actions."

For example, he says, the firm's top-down research in 2006 helped it avoid excessive exposure to the sub-prime housing market. Macro views influence a number of factors in the portfolios, including average credit quality, duration and allocation among investment sectors.

The firm also employs bottom-up research. It has 150 investment professionals, 90 of whom are specifically dedicated to rigorous sector and security research, including sectors not included in benchmark indices.

Individual security selection is done by specialized teams within individual fixed income sectors, such as investment grade corporate bonds, asset-backed securities and municipals. Each sector has its own investment committee supported by a staff that evaluates individual credits and securities for approval by the committee. Portfolio managers implement specific portfolio strategies by selecting from the securities that have been analyzed and approved by the sector teams.

"We find it extremely effective to have teams of sector specialists intensely focus on credit and portfolio managers focus on relative value and portfolio risk management," Mr. Minerd says.

Each portfolio has a dedicated team of managers, and each team is usually responsible for more than one portfolio, most often in the same strategy. For instance, the portfolio management team responsible for core fixed income strategy might manage both institutional separate accounts and mutual funds.

"Our philosophy is that every portfolio must have performance that is sustainable, predictable and scalable in line with the objectives of the strategy," Mr. Minerd says. The firm's disciplined investment process focuses on delivering consistent risk-adjusted returns.

"Because risk does not emanate from a single source, risk management is a shared responsibility of our organization and permeates our investment process," Mr. Minerd says. "We utilize both qualitative and quantitative tools to understand and manage risks, with an acute focus on downside protection.

"Our approach to risk management incorporates both traditional evaluation of volatility to deliver risk-adjusted returns in terms usually measured by standard formulas. But we also embrace the behavioral finance view of risk that seeks to maximize upside capture while limiting the size and frequency of drawdowns," he says.

"This requires portfolios to be highly diversified with strict limits on individual sector or security concentrations. If you look at our portfolios, our average individual position size is generally very small."

He adds that the funds are designed to help investors bridge the gap between their income targets and the yields available through index-based investing.

"The Guggenheim philosophy has always been to focus on absolute returns and not relative returns. At times that has resulted in higher tracking error to industry benchmarks than our peers; however, we believe that conventional wisdom is a well-worn path to underperformance," he says.

Oppenheimer Corporate Bond Fund Y-shares
#1 out of 165 Core Plus Bond Funds
(for the 3-year period ending 11/30/14) OFIYX

Oppenheimer Limited-Term Government Fund Y-shares
#1 out of 57 Short U.S. Government Funds
(for the 5-year period ending 11/30/14) OLTYX

Oppenheimer Rochester AMT-Free Municipal Fund Y-shares
#1 out of 224 General & Insured Municipal Debt Funds
(for the 3-year period ending 11/30/14) OMFYX

Oppenheimer Rochester Limited-Term Municipal Fund A-shares
#1 out of 37 Short-Intermediate Municipal Debt Funds
(for the 5-year period ending 11/30/14) OPITX

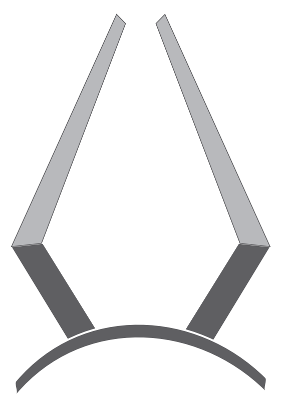
Oppenheimer Rochester Short-Term Municipal Y-shares
#1 out of 80 Short Municipal Debt Funds
(for the 3-year period ending 11/30/14) ORSYX

Oppenheimer Rochester Minnesota Municipal Fund Y-shares
#1 out of 39 Minnesota Municipal Debt Funds
(for the 3-year period ending 11/30/14) OPYMX

Oppenheimer Rochester Minnesota Municipal Fund A-shares
#1 out of 35 Minnesota Municipal Debt Funds
(for the 5-year period ending 11/30/14) OPAMX

Oppenheimer Rochester Ohio Municipal Fund Y-shares
#1 out of 30 Ohio Municipal Debt Funds
(for the 3-year period ending 11/30/14) OROYX

Oppenheimer Rochester Ohio Municipal Fund A-shares
#1 out of 28 Ohio Municipal Debt Funds
(for the 5-year period ending 11/30/14) OROHX



American Funds

WINNER: LARGE COMPANY MIXED ASSET

Value of Empowerment

American Funds gives great leeway to investment professionals

Bradley J. Vogt
Equity portfolio manager at Capital Group, chairman of Capital Research Company, Inc. and a member of the Capital Group Companies Management Committee

American Funds, the Lipper award winner in the large company mixed asset category, does not believe in being all things to all people.

Capital Group, the parent company of American Funds, has been around since 1931. "Investment management is all we do. We are incredibly focused, and we don't do anything else. And that's all we've ever done," says Bradley J. Vogt, who is an equity portfolio manager at Capital Group, chairman of Capital Research Company, Inc. and a member of the Capital Group Companies Management Committee.

> "At the end of the day, we feel like you are investing in actual companies, and you should be doing real research."
> **– Bradley J. Vogt**

Capital Group, which is the adviser to the American Funds, is a private company. It does not sell directly to the public, and it does not do any financial services other than mutual funds. Headquartered in Los Angeles, the firm has more than 7,000 associates, including more than 250 investment professionals, around the globe.

Overall, Capital Group has $1.3 trillion in assets under management, including $280 billion in the American Funds mixed asset funds as of Dec. 31, 2014. Those funds include 10 target-date funds and the American Funds American Balanced Fund, American Funds Capital Income Builder, American Funds Global Balanced Fund and American Funds Income Fund of America.

Each of the target-date funds is made up of 17 to 19 American Funds portfolios. Although some firms create separate underlying portfolios for their target-date funds, "We decided to use our historically experienced funds," Mr. Vogt says. "That means that we have the portfolio teams and the track records of those funds. And also, because they've been around a long time and they are large funds, the fee level on those funds is low."

American Funds' underlying principle of not being all things to all people is reflected in the funds themselves.

"Many of our funds have a mission, they have a job to do, and they're not trying to do everything," Mr. Vogt says, adding, "The fund has a mission that supersedes the portfolio managers. The portfolio managers have to sign up for that particular job."

Within that mission, though, Capital Funds has a multiple manager system. Instead of one person or a committee managing the entire fund, "we have a number of portfolio managers in each fund," Mr. Vogt says, and they all manage their portion of the portfolio in any way they choose, within the constraints of the overall fund mission. American Funds believes that this maximizes both the expertise and the enthusiasm of its managers.

The professionals manage money "in a highly concentrated, passionate way individually, but then we put them together and we get diversification," he says. "You get the best of both worlds, with the individual portfolio managers feeling in full control of their decisions, but you also have diversification for the end shareholders."

Analysts also have a fairly unique role within American Funds. Analysts are directly responsible for about 20% of each fund, called the Research Portfolio. They don't just make recommendations on holdings; they actually invest the fund's money. Portfolio managers can – and often do – follow their lead.

"Analysts here are investors, they are not just researchers," Mr. Vogt says." They are equal partners and very significant investment decision-makers."

In addition, their opportunities and their compensation are very similar to those of portfolio managers, and as a result, many remain analysts for longer than they might at other firms. This benefits American Funds, Mr. Vogt says, explaining, "Our analysts by and large are much more experienced, and we think that's crucial because the longer you're an analyst following an industry, usually the better you get."

This diversified approach helps the funds avoid problems if a portfolio manager leaves, and it allows the firm to ease portfolio managers and analysts into a fund over time. "It makes our group both independent and accountable, but also collaborative," Mr. Vogt says.

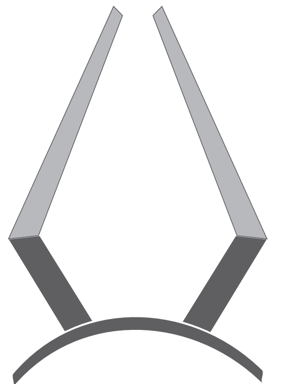
They also have a very non-hierarchal structure; there are no junior or senior portfolio managers or analysts. And compensation is not based on how much in assets a professional manages. As a result, Mr. Vogt says, "We don't have a competition internally for control of assets. It's much more about American Funds succeeding overall."

The firm believes in bottom-up research, and they almost never invest in a company they have not visited. "At the end of the day, we feel like you are investing in actual companies, and you should be doing real research." Mr. Vogt says.

They believe so firmly in a long-term investing approach that they have incorporated it into their compensation structure. Compensation is based on performance over one-year, four-year and eight-year rolling periods.

Finally, Mr. Vogt says, the firm never loses sight of its ultimate clients, most of whom are relatively small investors. In fact, although they manage a lot of assets overall, the average American Funds account size is about $30,000.

"We really all feel passionate that we're doing the right thing," he says. "We're investing in the right way for real people."



Thrivent Asset Management

WINNER: SMALL COMPANY MIXED ASSET

Enabling Generosity

Mixed asset funds help Thrivent carry out its mission

Mark Simenstad
Head of fixed income mutual fund investments

David Francis
Head of equity investments

Thrivent Asset Management, the winner of the Lipper mixed asset award in the small company category, is a wholly-owned subsidiary of Thrivent Financial, a fraternal benefit society. The 110-year-old Thrivent is structured much like a mutual insurance company, except that it contributes well over $100 million in charitable outreach every year to Christian charitable efforts. The firm's goal is to "help Christians be wise with money and live generously."

Thrivent does not employ social screens in choosing investments. But, its management says, the philosophy and culture of the company are influential in ways that are more subtle, but no less important.

The majority of Thrivent Asset Management's $105.4 billion in assets, as of Dec. 31, 2014, are in insurance products. "With our history in insurance, we tend to be focused on fundamental analysis, both on the equity side and on the fixed income side," says Mark Simenstad, head of fixed income mutual fund investments. "We also tend to have a more domestic orientation."

Most of Thrivent's mutual fund assets are in the mixed asset funds for which it won the Lipper award. Its mixed assets products are globally diversified multi-sector strategies aimed at helping investors reach two common goals: growing assets and generating income.

The asset allocation funds focus on longer-term asset growth and include:

- Thrivent Moderately Conservative Allocation Fund, which has a target of about 38% in equities, with the balance in fixed income holdings.
- Thrivent Moderate Allocation Fund, which has a target of about 57% equities.
- Thrivent Moderately Aggressive Allocation Fund, which has a target of about 78% equities.
- Thrivent Aggressive Allocation Fund, which has a target of about 95% equities.

The Income Plus Funds focus on income generation and include:

- Diversified Income Plus Fund, which has a target of 70% fixed income.
- Balanced Income Plus Fund, which has a target of 50% fixed income.

All the funds also follow a similar investment philosophy, according to David Francis, head of equity investments. The funds are differentiated by the level of risk, and they can vary from their target allocations by 5% to 10%, based on market conditions.

Thrivent's basic approach is fairly conservative. Mr. Francis says, "We are bottom-up, fundamental oriented. We tend to have a strong valuation bias and tend to have long-time investment horizons."

Thrivent's Investment Strategy Committee is responsible for the strategic and tactical allocations such as determining the equity/fixed income split in each fund. Based upon the risk profile of each fund, the team decides how the underlying assets are apportioned. However, the individual portfolio managers, working with the research team, decide on the specific holdings that go into each of the asset sleeves in the mixed asset funds. Most of Thrivent's portfolio managers are in-house, although they do have some sub-advisers.

On the equity side, Mr. Francis says, "Each fund has a lead portfolio manager, and typically a co- or an assistant portfolio manager, and they are responsible for structuring the approach that will be used to manage their respective assets."

This freedom results in a variety of investing styles that he believes benefits the funds and their investors. "That brings some diversity," Mr. Francis says. "Different styles or approaches favor or don't favor different types of market environments at any given time. Firms that use the same approach don't have diversity mix and can have all their funds out of favor at the same time. "

On the fixed income side, Mr. Simenstad says, "We tend to want our returns to come from incremental income, so we don't position our fixed income portfolio with bets on interest rates. We have a significant overweight, relative to our peers, in corporate and high-yield bonds."

Central to both the fixed income and equity portfolios is a strong commitment to research. The firm has a dedicated fundamental research team of 22 equity analysts and 16 fixed income analysts, and Thrivent is committed to continuing to invest in its internal research resources.

The firm does Monte Carlo modeling as an early step in designing the mixed asset funds, and then revisits the modeling periodically to consider whether changes should be made. That modeling, combined with the input from the research team, helps the firm adjust appropriately.

"One of the advantages of having the depth and breadth of our research team is that you can see opportunities," Mr. Francis says.

This relatively conservative, research-oriented, long-term approach fits the profile of Thrivent investors, Mr. Francis and Mr. Simenstad say. And in doing that, the funds support the mission of the company.

"We try to help our (investors) be wise with their investments so that they can be generous," Mr. Simenstad says.

LORD ABBETT
Continued from S17

Daria Foster
Managing partner of Lord Abbett & Co. LLC, and president and chief executive officer of the Lord Abbett Family of Funds

"We do think that the markets are inefficient, and when you're in the market every day, you identify those inefficiencies and have the opportunity to exploit those inefficiencies," Ms. Foster says.

The active management is supported by research because, she says, "Research allows us to create an information advantage."

The firm is committed to doing its own research. "We want to know what Wall Street is thinking, we want to know what the consensus view is," Ms. Foster says. "But we want to make sure that when we invest, we are doing the on-the-ground, fundamental research – really knowing, talking about our fixed income products, the credits that are in our portfolios, the companies behind those credits and the management, the competitive environment, etc."

Portfolio managers and analysts visit companies, go to industry conferences, have company management come to their offices, and talk to competitors and suppliers. There is a very collaborative interaction among the managers, analysts and traders, Ms. Foster says. Lord Abbett has a total of 124 investment professionals, including 41 portfolio managers, with an average of 17 years of experience.

"They are very knowledgeable about particular sectors and industries and have developed relationships with people so that we have the connectivity with companies and company management," which brings a special dimension to the firm's research, Ms. Foster says.

In addition to the qualitative research, the firm has a strong respect for quantitative analysis, which it uses to enhance and inform its fundamental research.

"We don't want to rely on quantitative analysis entirely, but we want to incorporate it into our thinking," she says. "The combination of fundamental and quantitative is very important to us."

Another hallmark of Lord Abbett's investment approach is risk management. The firm has developed a number of tools that help it evaluate the risk in portfolios, from the individual credit level to the portfolio as a whole.

"When you construct a portfolio, you want to make sure that you understand the risks that are inherent in that portfolio," Ms. Foster says. "Risk is a good thing to take if you understand it. You just don't want to be surprised by it.

"But it's not about suppressing risk. It's about understanding the risk that is in the portfolio and assuring yourself that you are comfortable in accepting that level of risk," she says.

Finally, Lord Abbett takes a long-term view of investing. "We would never – and never have – engaged in any investment activity that we don't think has a long-term place in an individual's or an institution's asset allocation," she says. "When we design a product, we want to make sure that we will be proud of it 10 and 20 years from now."

> "But it's not about suppressing risk. It's about understanding the risk that is in the portfolio and assuring yourself that you are comfortable in accepting that level of risk."
> **– Daria Foster**

That's because most of Lord Abbett's clients are investing for the long haul, and they want the firm to be right there with them. "We are known for being the dependable, conservative, consistent manager whose interests are guided by your interests," Ms. Foster says.

"This business is about trust. We are asking people to entrust us with their financial assets. ... It takes years to build trust and a reputation where there is a true sense of partnership and loyalty, and that can be destroyed in a minute."

ONLINE

To watch extended one-on-one interviews with the 2015 Lipper Award winners, visit **InvestmentNews.com/LIPPER2015**

Want more referrals? Let clients understand what you do

Client referrals are a vital component of growth for all businesses, especially financial advisory practices. If clients like a product or service and believe in the company behind it, they will probably tell someone else.

But clients must fully understand the benefits of a product or service and how it can help others before they spread the word. And it isn't easy for most to explain the advantages of a financial planning approach or asset allocation strategy.

To maximize referrals, financial advisers need to make sure their clients comprehend what they do, why they do it and how they are different from other wealth managers.

Dan Allison of Feedback Marketing Group spent 18 months conducting interviews and focus groups with investors who fit the ideal client profiles provided by advisory firms and broker-dealers he consults with. The results were eye-opening.

The top reasons investors gave for not referring their advisers included, "I don't understand who my adviser wants to work with"; "I don't know how to explain what they do"; and "I don't know how to make the introduction."

A FIRM implementing regular feedback sessions can grow significantly.

Changing this reality is much less expensive and time-consuming than you might think. All it takes is an effort to make the procurement of referrals a more prominent aspect of the workflow process.

Many advisers already ask clients for feedback, but to harness the referral potential of their client bases, advisers must alter the method and frequency of requesting feedback. Instead of giving clients a questionnaire or survey to fill out at their leisure once a year, hold meetings with them at least annually to solicit and discuss their experiences with the practice.

HOLISTIC RELATIONSHIP

Because these meetings are designed to uncover details about long-term, holistic relationships with clients, they should be held separately from annual investment reviews. This gives advisers enough time to flesh out potential areas of improvement and to educate clients about their practice's goals, suite of offerings and ideal client profiles.

By updating clients on the firm's growth objectives, products and services (as well as the type of client that would most likely benefit from its offerings) during meetings at set intervals, advisers provide them with the insight and confidence they need to make referrals.

The in-person aspect of the meetings enables advisers to take the next step by helping clients facilitate introductions to referrals. Establishing specified times for asking clients about referrals and discussing the practice's full suite of offerings is also helpful. (Advisers know how awkward it is to ask for referrals or advertise other products and services during account-related client meetings.)

A firm that implements regular feedback sessions to solicit referrals can grow significantly in a short time. For example, an advisory practice with $200 million in assets under management holds meetings with 50 of its most influential clients over the course of a year.

If each client provides one referral to a client with investable assets of between $500,000 and $1 million, and all the referrals become clients, the firm would add between $25 million and $50 million (one-eighth to one-fourth of its AUM) in only a year.

Further, the annual cost to the business would amount to just 100 hours (one hour for every feedback meeting with an existing client and one hour for every introductory meeting with a referral).

To demonstrate how quickly this process can yield tangible results, one adviser my firm works with called me to report that after his first meeting with a client to solicit feedback and referrals, he ended up with eight prospects.

FORMALIZE THE EFFORT

The 2014 RIA Benchmarking Study from Charles Schwab & Co. Inc. showed that most advisory firms view growth and the acquisition of clients as top priorities.

However, the study said, "despite widespread agreement that referrals are the main driver of growth, many firms do not dedicate the time and resources required to create a formalized [referral] initiative."

You cannot expand your business if you don't attempt to increase the number of referrals you receive from clients.

The best referral-generating initiatives for advisory firms are those that become important parts of their workflow processes and cultures, leading to long-term asset and practice growth.

Jerry Murphey is co-founder, president and CEO of FolioMetrix, the adviser to the RiskX Funds and creator of the Referable Advisor.

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Overall Morningstar Rating™ 02/28/2015–Advisor Class[1]
Out of 298 U.S.-domiciled World Bond Funds

TEMPLETON GLOBAL BOND FUND

TEMPLETON GLOBAL TOTAL RETURN FUND

Morningstar Ratings measure risk-adjusted returns. The Overall Morningstar Rating™ for a fund is derived from a weighted average of the performance figures associated with its 3-, 5- and 10-year (if applicable) rating metrics. ***Past performance does not guarantee future results.***

FRANKLIN TEMPLETON® INVESTMENTS

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1. Source: Morningstar® 02/28/2015. For each fund with at least a 3-year history, Morningstar® calculates a risk-adjusted return measure that accounts for variation in a fund's monthly performance (including the effects of all sales charges), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive a Morningstar Rating™ of 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. (Each share class is counted as a fraction of one fund and rated separately.) Templeton Global Bond Fund was rated against 298, 230 and 140 funds and received Morningstar Ratings of 4, 4 and 5 stars for the 3-, 5- and 10-year periods, respectively. Templeton Global Total Return Fund was rated against 298 and 230 funds and received Morningstar Ratings of 4 and 5 stars for the 3- and 5-year periods, respectively. Morningstar Rating™ is for Advisor Class shares only; other share classes may have different performance characteristics. © 2015 Morningstar, Inc. All rights reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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ISTOCK

REIT shakes SEC probe, sues two former related parties

By Bruce Kelly

Inland American Real Estate Trust Inc. and its shareholders have had an odd couple of weeks.

On March 25, the nontraded real estate investment trust, which had $7.5 billion in total assets at the end of 2014, said the Securities and Exchange Commission had concluded a 2-year-old investigation of Inland American for potential violations of federal securities laws regarding fees and administration without recommending any enforcement action, according to a regulatory filing.

LEGAL TWIST

But by the end of that week, there was a legal twist perhaps worthy of Franz Kafka.

According to Inland American's annual report, released March 27, it has joined a lawsuit against its former business management firm and property management firm over the payment of fees.

Those two businesses — from which Inland American separated last year — are controlled by The Inland Group Inc., its former sponsor.

Executives with Inland American and The Inland Group Inc. stress that the two are independent companies, but their boards have had clear overlap. Robert Parks, a founder of the Inland Group, was chairman of Inland American's board and a director until the end of 2014.

And Inland American's chief executive, Thomas McGuinness, was president of the property manager, Inland American Holdco Management, from 2005 until 2011. He became president of the business manager, Inland American Business Manager & Advisor Inc., in 2012 and was there until last March, when the REIT terminated its agreements with those businesses but hired many of their employees.

Inland American spokesman Dan Lombardo said the company does not comment on legal matters.

In an email, Inland Group spokeswoman Nicole Spreck wrote: "It is our policy not to comment on continuing litigation. It should be noted that the SEC has terminated its investigation of Inland American without recommendation of any enforcement action."

FAILURES TO DISCLOSE

After the SEC announced its investigation, Inland American shareholders filed three derivative lawsuits requesting that the REIT launch an internal inquiry. Its board created a special committee, which filed its report to the board in December, according to the annual report.

The committee concluded that there was "no evidence to support the allegations of wrongdoing" in the derivative lawsuits.

But it did find something else.

The committee "uncovered facts indicating that certain then-related parties breached their fiduciary duties to the company by failing to disclose to the independent directors certain facts and circumstances associated with the payment of fees to our former business manager and property managers," according to the annual report.

NO TIMELINE

The report makes no specific allegations of misconduct stemming from the failures to disclose, nor does it provide a timeline for the alleged misconduct.

In January, the board authorized Inland American to file a motion to join a derivative lawsuit, Trumbo v. The Inland Group Inc., as lead plaintiff, according to the annual report.

That legal action will "pursue claims against our former business manager, property manager and Inland American Holdco Management for breach of fiduciary duties in connection with the failure to disclose facts and circumstances associated with the payment of fees to related parties," the annual report stated.

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REITs are subject to a real estate industry sensitive to interest rates, general and local economic conditions, property tax rates and other factors. Global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

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Individual fund classification awards extend over 3, 5 and 10 years. The highest Lipper Leader for Consistent Return value within each eligible classification determines the fund classification winner over 3, 5 and 10 years. Principal Global Real Estate Securities Fund rankings were as follows: 2013 – 3 yrs: 2/92 funds; 5 yrs: 1/66 funds; 10 yrs: N/A. 2014 – 3 yrs: 3/95 funds; 5 yrs: 1/81 funds; 10 yrs: N/A. 2015 – 3 yrs: 6/106 funds; 5 yrs: 1/92 funds; 10 yrs: N/A.

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As of 12.31.2014, Total Return Bond Fund Institutional Class was rated five stars for the overall and three-year periods among 913 Intermediate-Term Bond funds, Macro Opportunities Fund Institutional Class was rated five stars for the overall and three-year periods among 216 funds, and Floating Rate Strategies Fund Institutional Class was rated five stars for the overall and three-year periods among 193 Bank Loan funds. 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. Morningstar calculates a Morningstar Rating based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance placing more emphasis on downward variations and rewarding consistent performance. The top 10 percent of funds in each category receive five stars, the next 22.5 percent receive four stars, the next 35 percent receive three stars, the next 22.5 percent receive two stars and the bottom 10 percent receive one star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Ratings for other share classes may differ due to different performance characteristics and different expense structures. The Funds' ratings reflect fee waivers in effect; in their absence, ratings may have been lower. ©2015 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary of Morningstar and /or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar, nor its content providers, are responsible for any damages or losses arising from any use of its information.

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Read the fund's prospectus and summary prospectus (if available) carefully before investing. It contains the fund's investment objectives, risks, charges, expenses and other information, which should be considered carefully before investing. Obtain a prospectus and summary prospectus (if available) at guggenheiminvestments.com.

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Dean Smith: He left $200 to each of 180 players he coached at the University of North Carolina.

BOB LEVERONE/SPORTING NEWS/GETTY IMAGES

Coach's winning strategy

Payouts put focus on revocable trust as an estate planning tool

Bloomberg News

The news that late North Carolina basketball coach Dean Smith left $200 each to about 180 players he had coached over the years is all over the press. The small payouts came not from Mr. Smith's will but from his revocable living trust — an estate planning tool that also merits attention.

While wills are available to anyone who searches public records, trusts are private. Mr. Smith's gesture became known only because players documented it in social media.

"I don't think he would have wanted to draw attention to himself," said the trustee of Mr. Smith's trust, Tim Breedlove. "That was his whole life and legacy. He preferred the attention to be on others and the players."

In that case, a revocable living trust was a good move. The "revocable" means that if you change your mind and want to dissolve the trust at some point, you can do so without a problem. Assuming you don't, whatever assets you transfer into the trust don't go through probate when you die, so they aren't frozen.

You still need a will, though, to account for any assets left outside the trust, such as a car, said Mike Foltz, a principal at Balasa Dinverno Foltz. There's even a specific kind of will, a "pour over," that takes everything left outside the trust and pours it in.

"The trusts aren't really designed to be in place of a last will and testament, but they become the main estate planning document," Mr. Foltz said.

Trusts are more expensive than standard wills. Mr. Foltz said that drafting a pour-over will and a revocable living trust, and setting up various powers of attorney could cost from $2,000 to $4,000 per person, or more.

ONGOING COSTS

Trusts also involve ongoing costs, including the time it takes trustees to administer them. They can charge what the state determines is a "reasonable hourly rate."

And trusts can go on for a long time, as assets usually stay in a trust for the beneficiaries. A surviving spouse can have the trust continue until children reach a certain age or stage distributions to children over years.

One hassle is the legwork people need to do to get all their accounts and real estate in the trust's name while they're alive.

"Many people never finish getting their property into the name of the trust," said Brad Wiewel of the Wiewel Law Firm. "Then they die and have to go through the probate they'd hoped to avoid, because their name is still on the asset."

Such trusts aren't for everyone, though.

"If you have a lot of personal liability, you probably want the last will and testament as your main document to cut off" creditor claims, Mr. Foltz said.

The 5 essential criteria to a successful practice sale

Guest Blog
Kevin Keefe

Can you imagine dedicating most of your working life to building a successful independent financial advisory, only to sell it to a buyer who proves to be a mismatch and proceeds to run the business into the ground?

Unfortunately, this scenario is not uncommon — a point underscored for me when I met with an old industry friend who recently had sold his independent practice. My friend asked the buyer — just as the signatures finalizing the sale had been inked — when he would meet with his newly acquired clients.

He responded, "Oh, I never meet with clients. I'm just not good with them in person."

Suffice it to say, things rapidly went downhill from there.

In this case, most of the selling adviser's clients, feeling underserved by the buyer, began to leave. The three employees, who had served loyally for many years, were eventually let go by the buyer. And because a significant portion of the proceeds from the sale of an advisory practice almost always is based on post-transaction revenues, the seller also lost financially.

BAD FEELINGS

Even worse, there were negative social and emotional consequences. The seller's largest and most loyal clients were personal contacts, so he routinely encountered people in social and community settings who felt personally let down by him.

At the same time, he was consumed by a sense of guilt about his former employees and regret about what was, essentially, the destruction of his business legacy.

How could something like this happen? Too many advisers fail to take into account the fact that the buyer who may be willing to pay the most financially — at least on paper — may not always be the best fit with the practice's clients, service model and employees.

The solution is for selling advisers to approach any transaction from a holistic, long-term value framework. That means looking beyond the deal price to ensure that any potential buyer meets these five key criteria:

1. Is the prospective buyer a fit with my clients from a service model and strategic focus standpoint?

First, the seller must do a deep dive early during due diligence to understand how the prospective buyer typically serves clients, with a particular emphasis on the preferred forms and frequency of communication, as well as in-person interactions.

It's imperative to ensure that a prospective buyer is in alignment with how your clients like to communicate and interact.

In addition, be sure to gain an understanding of the client demographic that a prospective buyer serves to ensure that your practice's clients are either in the same demographic or in an adjacent group the prospective buyer could easily serve.

For example, practices might not mesh if most of your clients are Generation Y mass-affluent investors, and a prospective buyer's clients are largely late-stage (retirees or pre-retirees), wealthy baby boomers. The buyer may have only limited ability to appropriately support your clients.

On the other hand, if your client bases are in different age demographics, but the same economic strata, this may be a strong "adjacency area" that your prospective buyer is well-positioned to expand toward.

2. Does the prospective buyer fit with my employees from a cultural standpoint? The majority of successful independent advisers have built their businesses by relying on trusted and long-tenured employees who have a strong understanding of the clients and know how they can best be served.

Before undertaking a sale of your practice, make sure that the buyer has a full understanding of each employee's role in your practice and the client relationships for which the employee is responsible. Leaving aside any sense of

As big ideas go, this one's monumental.

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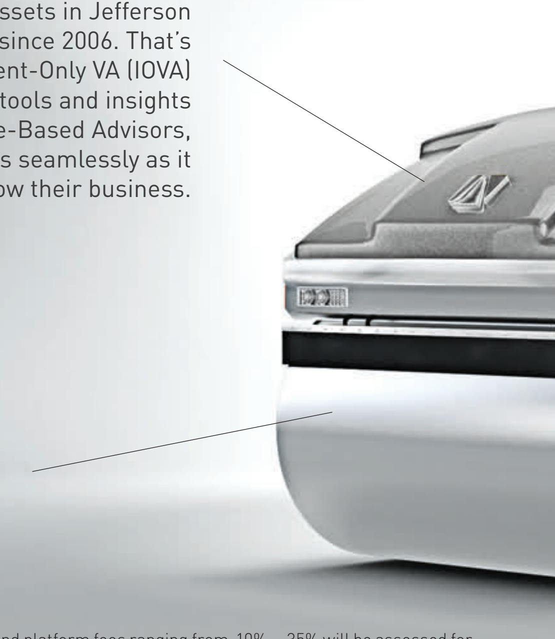

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moral obligation you may have to your employees, chances are good that the team that helped build your practice will be essential to the continued future health of the business.

3. Does the prospective buyer have an established track record of growing his or her own client relationships? It's essential for a selling adviser to verify that the prospective buyer has a proven ability to establish, maintain and nurture client relationships. How many years has the prospective buyer been in business? Did the prospective buyer establish his or her own independent practice, or was it inherited or transitioned in whole?

Just as an attorney or a doctor wouldn't transition their practice to an inexperienced professional, the independent adviser should think about how well served clients will be on the basis of the prospective buyer's experience level.

4. Does the prospective buyer have any track record with acquiring and integrating other advisory practices? Verifying that a prospective buyer has some proven success in acquiring and integrating other practices is a must when determining whether the transaction will be a success over the long term. While it's important to have the ability to build and nurture client relationships, the purchase of an entirely separate practice is a complicated event that can be managed effectively with experience.

5. Does the prospective buyer have a comprehensive business plan for the next three to five years that accommodates the successful integration of your practice into his or her firm? Perhaps the single most important criteria for any selling adviser is to ask the prospective buyer what his or her three- to five-year business plan is, and how this transaction fits within that plan. The most effective way to discern whether a prospective buyer will be successful with the addition of your practice is to ensure that he or she has a detailed road map.

The overwhelming majority of independent advisers have chosen to run their own businesses because they care about far more than just upfront money. Legacy, trust and relationships all play critical roles in their lives.

When it comes time to exit the profession through a planned sale of their practices, independent advisers should ensure that the transaction reflects all of these factors as well.

Kevin Keefe is president and chief executive of First Allied Securities Inc., an independent broker-dealer that is part of Cetera Financial Group.

'Diva of Distressed' accused of fraud

Bloomberg News

Lynn Tilton's three-decade Wall Street career was dealt a blow by U.S. regulators, which accused the self-proclaimed billionaire of fraud for misleading investors about risky pools of corporate loans.

Ms. Tilton and her firm, Patriarch Partners, reported the value of the underlying loans as unchanged, even though many of the companies made partial interest payments or no payments for years to funds in which clients invested, the Securities and Exchange Commission said in a statement last Monday.

The SEC said Ms. Tilton and Patriarch collected $200 million of payments to which they weren't entitled.

The action could hurt a business empire the 55-year-old Ms. Tilton built by selling structured finance bonds before the market for such debt blew up in the 2008 crisis. Once known as the "Diva of Distressed," she gained notoriety for her brash management style.

The SEC's action caps a five-year investigation that centered on three collateralized loan obligation funds, Zohar I, II and III, that raised more than $2.5 billion from investors. The funds held securities Patriarch had assembled — largely loans to companies controlled by Ms. Tilton's firm.

VIGOROUS DEFENSE

In a letter to investors last month, Patriarch said it disagreed with the SEC's claims and had used a conservative methodology to value the loans.

"We are disappointed that the SEC has chosen to bring an enforcement action that is ill-founded and at odds with Patriarch's investment strategy, which was consistently disclosed since the inception of the funds," Barbara Laidlaw, a Patriarch spokeswoman at Edelman, wrote in an emailed statement.

On a conference call with reporters, SEC enforcement director Andrew Ceresney declined to comment on whether the case had been referred to criminal prosecutors. The SEC brought its case as an administrative action, as opposed to filing a civil lawsuit in federal court.

Ms. Tilton claimed the SEC's pursuit of fraud claims against her and her firm violates the Constitution. She is seeking to block the agency from pursuing its case in administrative court, where there's no jury and discovery is limited.

Ms. Tilton started Patriarch in 2000 after working at Goldman Sachs Group Inc. and Marc Lasry's Amroc Investments. She began creating the CLOs in 2003.

Lynn Tilton: Owns companies underlying her firm's CLOs.

GETTY IMAGES

What's unique about the deals is that Ms. Tilton owns all the underlying companies borrowing money from her investors. Typically, different firms handle various aspects of such deals, including underwriting, assembling and selling the bonds. Ms. Tilton runs the businesses and is responsible for valuing them objectively at the same time.

LIKE A PAGEANT JUDGED BY PARENTS

"It's like having a beauty pageant and the judges are the parents of the contestants," said Lawrence Golub, chief executive of investment firm Golub Capital Partners. "It's highly unusual to have a CLO that is concentrated in any one owner."

Ms. Tilton has faced increasing scrutiny from investors and regulators since 2011, when Moody's Investors Service cut the credit rating on one of her deals because of mounting defaults. Moody's and Standard & Poor's have since withdrawn some of their ratings on the Zohar deals because Patriarch had not provided them enough information about the underlying businesses.

The Zohar deals — named after the writings guiding the Jewish mystical tradition of Kabbalah — parceled distressed corporate loans into new securities, including some with AAA credit grades.

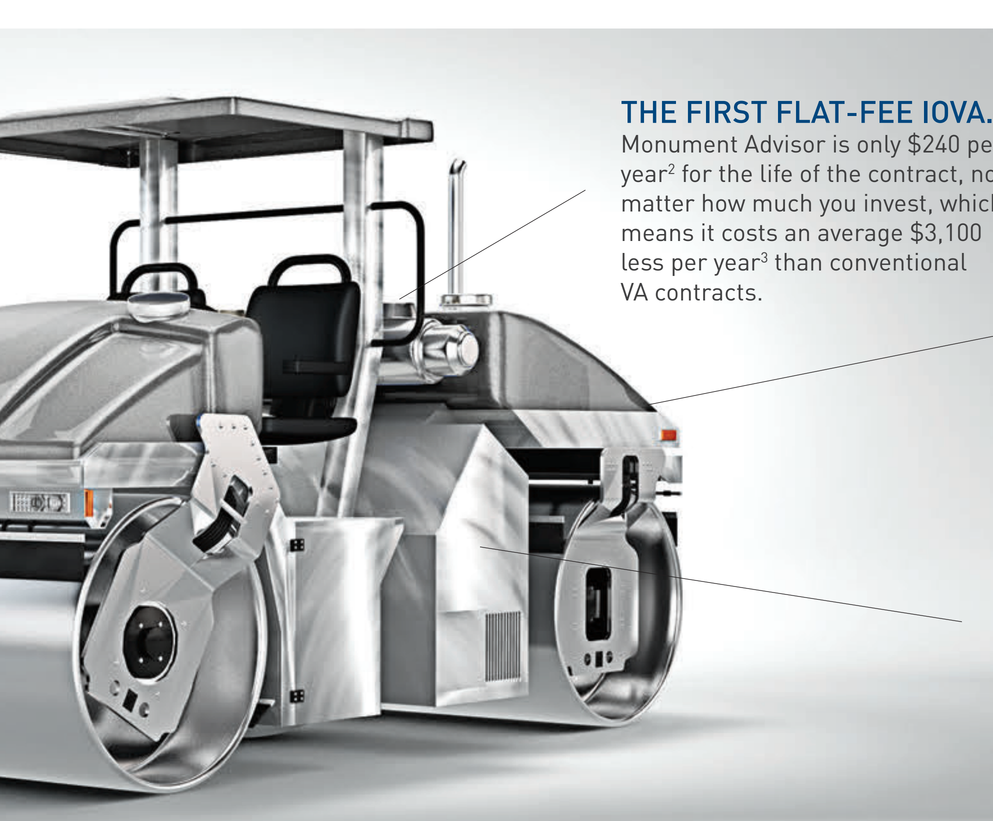
Bond insurer MBIA Inc., which guaranteed some of the CLOs, lost a lawsuit against Patriarch in 2013 that claimed the asset manager had breached its contracts by failing to get part of a deal rated.

Patriarch owns more than 70 companies, including Dura Automotive, Spiegel Catalogs and MD Helicopters, according to its website. In an August 2013 interview with Bloomberg Businessweek, Ms. Tilton said the firm's portfolio companies employ 120,000 people.

Ms. Tilton was once poised to star in a reality television show, "Diva of Distressed," according to Forbes. In the pilot episode, Ms. Tilton flew via private jet to a Maine paper mill that she had bought in hopes of turning wood into jet fuel. The venture proved unsuccessful and Patriarch closed the company in August, according to the Bangor Daily News.

Before the show was canceled in 2011, she used it to bolster her reputation for having a brash management style.

"It's only men I strip and flip," Ms. Tilton said in the pilot. "My companies I keep long term and close to my heart."



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The Bottom Line on Interest Rates: Discovering Overlooked Opportunities for Returns

Tuesday, April 14, 2015 | 4:00pm - 5:00pm ET

Many advisers and their clients tend to underestimate the impact that the looming changes in interest rates can have on the values of different companies and ultimately the performance of their stocks. Not all companies are created equal, however, and advisers are often overlooking some fundamental drivers of outperformance.

While falling rates last year provided a boost to many domestic equities, the benefits were not distributed evenly and a clear trend emerged among the top-performers. In this exclusive webcast, Ariel Investments™ Charles Bobrinskoy (Vice Chairman and Head of Investment Group) and InvestmentNews will examine:

- Why advisers often miss some great stock opportunities
- How falling rates tend to help companies with weak balance sheets
- How interest rates will impact stock valuations in 2015 and beyond
- What advisers can do to separate the wheat from the chaff

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In this exclusive webcast, our panel of experts will take your questions and provide their views on the changing economic landscape and the net impact on your ability to help clients generate income.

Specifically, this live webcast will address:

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- The five truths every advisers and bond investor should hear
- How advisers can explore non-traditional income sources without over-exposing clients to additional portfolio risks
- How advisers can prepare their clients for more volatile swings in both fixed income and equity income sectors

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InvestmentNews

Bond fund investors putting too much stock in duration?

Not all bond yields respond the same way to short-term interest rates

By Jeff Benjamin

Ever since the Federal Reserve pushed interest rates down to zero during the 2008 financial crisis, bond investors have been fretting about the looming threat of an inevitable rate hike, which could have a generally negative effect on bond prices.

So far, that hasn't happened, but as 2015 shapes up for what would be the first rate hike since 2006, bond investors and financial advisers are homing in again on duration as a fundamental risk navigation tool.

Trouble is, duration, as a measure of a bond's sensitivity to interest rates, shows only part of the risk profile, particularly when it comes to bond funds.

"Duration is really meant to be applied to a single bond, and for that reason it is a very imperfect risk metric when you're talking about a portfolio of bonds," said Justin Sibears, managing director at Newfound Research. "In the context of bond funds, duration is not pointless, but it is a gross oversimplification of risk."

In the most basic sense, duration serves the dual purpose of showing investors the average-weighted amount of time it takes to get your money back on a bond investment, and also provides an estimate of how a bond's price will move based on a change in the yield.

TOO MUCH WEIGHT?

The second part is what investors and advisers tend to dwell on, as the threat of higher rates grows larger.

For example, if a 10-year corporate bond has a 1% yield and a duration of four years, the price of the bond will move down 4% for every percentage point increase in yield.

That's the kind of scenario that keeps financial advisers and their clients obsessing over duration. And it could be a real concern for anyone investing in individual bonds. But for the vast majority of advisers who are gaining bond exposure through mutual funds, duration might be getting too much weight as a measurement of risk.

For starters, not all bond yields respond the same way to short-term rates set by the Fed, and mutual funds typically hold a variety of bonds.

Consider one fund that owns just two bonds, each with 10-year durations, and another fund that owns a five-year-duration bond and a 15-year-duration bond. Both funds would have durations of 10 years, but the yields on the individual bonds are not likely to respond the same way to an interest rate hike, meaning that the effects of duration would be different for each fund.

As a general rule, bonds that pay a higher coupon will have a lower duration, which is why a zero-coupon bond's duration will be equal to the bond's maturity, meaning that a 10-year zero-coupon bond will have a duration of 10.

The $125 billion Pimco Total Return Fund (PTTRX), to take a real-world example, has a posted 30-day yield of 1.27%, a portfolio duration of 4.87 and an average bond maturity of 10.47.

"Duration only matters if the yield on the bond you own changes," not whether the Fed raises rates, explained Jason Brady, portfolio manager and head of global fixed income at Thornburg Investment Management. "The duration figure is a good thing to think about, but the correlation between a lot of bonds and Treasuries is not one."

Neil Sutherland, manager of the Schroder Long Duration Investment Grade Bond Fund (STWLX), said a too-strict focus on duration has forced investors to lose out on income for nearly five years.

> **"I THINK just focusing on duration doesn't give the whole picture."**
>
> **Steven Wruble**
> Chief investment officer
> FolioMetrix

"The theory is that when the Fed raises rates, all things being equal, longer-duration bonds will fall more than short-duration bonds," he said. "But what people are not considering is that longer-dated bonds are more sensitive to other things, such as global relative value to other bonds, and if you have traded this market purely on [duration] logic over the last 18 months you would have lost a lot of money."

'MISUNDERSTOOD'

Scott Colyer, chief executive of Advisors Asset Management, describes duration as "probably the most misunderstood measure in bond land today," suggesting that duration has even drawn attention away from the other major part of bond risk, which is credit quality.

According to Morningstar Inc., the high-yield-bond-fund category, as of February, had an effective duration of 3.69, which is lower than bond fund categories investing in intermediate government, intermediate corporate, long-term corporate, long-term government and world bonds.

The long government category had the highest duration, 14.24, followed by long-term corporate bond funds at 9.54.

"Clearly, low-credit quality, lower-duration bond funds are most likely to have a higher yield, but I don't think short-duration junk bonds is the key," said Steven Wruble, chief investment officer at FolioMetrix.

3.69
Effective duration in years of Morningstar's high-yield-bond-fund category, lower than those of longer-term corporate and government fund categories

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"There are many pieces of the risk equation that need to be looked at," he added. "I think just focusing on duration doesn't give the whole picture."

From Mr. Colyer's perspective, the bond market in general is being skewed by monetary policies that have held rates artificially low and are now pushing for inflation and higher interest rates.

Duration, meanwhile, has come along for quite a ride, which is illustrated by the evolution of yield and duration in the BarCap Aggregate Bond Index.

Twenty years ago, the index was yielding more than 7% with a duration of 4.5 years. Ten years ago it was yielding 2% with a duration of 5.25 years. And today the index is yielding 1.6% with a duration of more than 5.5 years.

"It's almost a Catch-22 for bond fund investors, because if they're worried about interest rates, they want a shorter duration, and they think the only way in this low-rate environment to earn anything is to add duration," said J. Brent Burns, president of Asset Dedication.

"From a bond fund manager's perspective, the job is to keep current investors happy and bring in new ones," he added. "In order to do that in an environment like this, they have to reach for yield, which usually adds duration."

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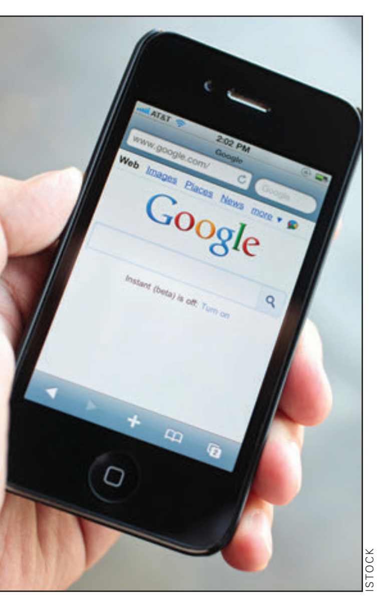
Desktop-saddled advisers need to mobilize



ISTOCK

Google shift threatens firms whose websites aren't mobile-optimal

By Alessandra Malito

Google's latest algorithm change, which will favor mobile-friendly websites starting this month, threatens to make it more difficult for potential clients to find financial advisers' websites in Google searches.

That's because many advisory firms have simply failed to keep pace with the times and are operating websites that are better suited for desktops than for smartphones, tablets and other mobile devices.

Indeed, 41% of the advisory firms that participated in *InvestmentNews*' 2015 Adviser Technology Study conceded their websites were not optimized for mobile use. Meanwhile, 44% said their websites had been optimized and 16% were unsure.

> "IT'S NOT uncommon for someone to build a new website every few years."
>
> **Jimmy Douglas**
> General manager
> Smarsh Sites

"Financial advisers are serving a vast population of people who will be accessing their websites from a variety of different devices," said Jimmy Douglas, general manager of Smarsh Sites, a company that works with 5,000 financial advisers to create websites. "They need to be able to accommodate that."

Starting April 21, advisers' sites will have to be optimized to rank high in Google search results.

A website is deemed mobile-friendly when its text automatically resizes to adjust for various screen sizes. Advisers can determine whether their site is mobile-friendly with a test provided by Google at www.google.com/webmasters/tools/mobile-friendly. Google also offers a guide to making a site more mobile-friendly at that link.

WORLDWIDE CHANGE

"This change will affect mobile searches in all languages worldwide and will have a significant impact in our search results," Google wrote in a blog post about the upcoming change.

"Consequently, users will find it easier to get relevant, high quality search results that are optimized for their devices."

A 2013 report by Google on mobile use found that 94% of smartphone users look for local information and 84% of those users take action thereafter, such as contacting a business.

Advisers who want to pick up such traffic will need to consider moving away from static pages — pages that do little to foster interaction with visitors.

According to Google, there are three things to know when making a website mobile-friendly.

- Make it easy for customers to navigate
- Measure the effectiveness of your website by seeing how visitors can view your page on different devices, like phones, websites and tablets
- Be consistent in the design for your website across all devices

Other factors to consider when trying to create a mobile-friendly site include writing text that's easy to find in search engines, having fewer photos and not relying on downloaded software like Javascript and Flash, which can potentially slow down a website's loading or become clunky on a mobile screen.

Embracing mobile-friendly sites will help Google sift through the infinite amount of content that floods the web every day.

"It creates a specific identifier of a good site," said Brian Kuhn, a financial adviser at Planning Solutions Group Clarity.

CAUSE FOR CONCERN

This new algorithm "gives an opportunity to have a characteristic that not a majority of the sites have."

For those unfamiliar with building a website, it could cause some concern.

"It's not a reason to panic," said Mr. Douglas. "Websites are very cyclical and it's not uncommon for someone to build a new website every few years."

Financial advisers will simply need to make strides to become more visible on the web through search results.

"Websites are like modern day yellow pages," said Chris Horton, a digital strategist at SyneCore Technolgies.

"If you weren't in the yellow pages, people didn't do business with you. They didn't trust you."

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Use tax time to focus on retirement

This time of year is perfect for getting clients to contribute to their nest eggs and save on taxes

As Tax Day looms, your clients' thoughts are probably focused on putting the finishing touches on their 2014 tax return — or at least preparing that extension and kicking the can down the road for a few months. However, don't let tax season slip by without encouraging them to also do some retirement planning.

Tax season is when they're most likely to be thinking about their personal finances. That makes it a great time for them to plan for that period after their working years by looking back on 2014 while looking ahead to 2015 and beyond.

TAX STRATEGIES

Even though April 15 is right around the corner, there are still retirement strategies to employ that can affect your clients' tax liability for last year.

For example, if an individual or his or her spouse had earned income, and is below age 70½, he or she has until April 15 to make a contribution to a traditional IRA for 2014.

Clients who worked last year for an employer that offered a retirement plan and who had adjusted gross income of below $116,000 (for families) or $70,000 (for a single taxpayer), could take a tax deduction for at least some of their contribution. If just the spouse was covered by a plan, they can deduct at least some of an IRA contribution with AGI of up to $191,000. And if neither individual was covered by an employer plan, they can deduct their contributions regardless of their income level.

For archived columns, go to InvestmentNews.com/taxconsciousadviser

Is your client's income too high to get a tax deduction? Then consider recommending a Roth IRA contribution. There's no tax benefit today, but those tax-free withdrawals can be valuable in retirement.

And if the client's income is too high to make a Roth contribution (AGI of over $191,000 for couples, $129,000 for singles), he or she can still make a nondeductible contribution to a traditional IRA. Again, there's no tax benefit today, but at least some tax-deferred growth can accumulate in the IRA. Just remind clients to include Form 8606 in their 2014 tax return to document the contribution, so the IRS knows that amount will be tax-free when they later withdraw it from the IRA.

If your clients own a business or have any self-employment income, they may still have time to shelter some of those dollars in a retirement plan. For example, a SEP IRA can be established and funded as late as the due date of the tax return for the previous tax year, including extensions. If they extend the deadline for filing their return, they can fund the SEP for 2014 as late as Oct. 15 of this year.

These retirement plans aren't just limited to full-time businesses, either. A SEP IRA can be set up even for that consulting or teaching job your client did on the side or for that home-based business they run in the evenings.

ROTH REDO

Roth conversions are also worth considering at tax time. It's too late to do a conversion for 2014 (those must be done by Dec. 31), but if your clients did a conversion last year, they have until Oct. 15 of this year to change their mind. Undoing a Roth conversion, called a recharacterization, makes sense if the tax cost of the conversion turns out to be more than they expected, lessening the value of the transaction to the point where they would be better off keeping the traditional IRA.

Looking ahead to 2015, check that your clients' retirement plan contributions are keeping up with the annual inflation adjustments.

A W-2 from their employer will show how much they deferred into their retirement plan (Box 12). If it was less than the maximum dollar amount for the year, then they have room to increase their contribution for 2015.

The maximum contribution for 2014 varies by plan ($17,500 for 401(k)s and 403(b)s, $12,000 for Simple IRAs), and those limits typically increase by a small amount each year. If an individual is at least age 50 in 2015, he or she can take advantage of catch-up contribution rules to save thousands more.

If your clients expect to have a lower income in 2015 than 2014, they might consider a Roth conversion. Lots of factors can influence the success of a Roth conversion, but doing one in a low-tax year is a great first step. If they're unsure where their 2015 income will fall, recommend starting with a large conversion,; they can use a recharacterization later to fine-tune the actual amount.

There couldn't be a better time than tax season to help guide your clients through an annual retirement plan checkup and take advantage of any tax breaks available to help meet their goals.

Tim Steffen is director of financial planning for Robert W. Baird & Co.

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PRACTICE MANAGEMENT
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Change is a constant for advisers

To thrive, 21st-century firms should reassess client loyalty, revenue streams and service

Financial advisers face some serious challenges: online competition, pressure on fees and an aging client base, to name a few. What are 21st-century advisers to do? Here are three things they should rethink and act on.

1. Client loyalty. Clients are often segmented by annual revenue or total assets, and those who invest the most get the most attention.

But there are other ways.

Advisers must determine how they measure client loyalty — perhaps by years with the firm or number of referrals — and rank clients accordingly.

Even if they haven't invested additional assets, clients who have stayed with you through rewarding as well as difficult market cycles can be considered loyal. They have become part of the fabric of your business.

Clients who don't have extra funds to invest might be sending referrals your way. That should be valued, especially considering that 41% of new clients come via referrals from family and friends, according to Cerulli Associates.

Such recommendations are the No. 1 source of new business — well ahead of professional referrals, which account for just 15%.

Looking beyond annual revenue or assets under management to measure loyalty is important if you want to keep clients. Clients who feel undervalued might walk out the door — and take their money with them.

2. Revenue streams. Many clients (especially millennials) don't want to pay for what they don't use or don't need, such as asset allocation models readily available inexpensively or even free online. Asset allocation may no longer be your bread and butter.

The rise of robo-advisers is much like the late '90s ascent of discount brokerages. You might ask if they can survive, but whether they stay or go doesn't matter ultimately.

The point is that robo-advisers are changing the conversation, just as discount brokers did with their free or low-cost trades.

Even your satisfied customers might say, "I saw an ad for a firm charging 0.15% of AUM; you charge 1.25%. Why?" (These are realistic fees for clients with more than $100,000 to invest, based on Betterment's pricing.)

What can you offer that is valuable and that your client will pay for? You might need to re-examine your business model and consider transforming your operation to one that offers services based on financial planning in areas such as debt and stock option management, college planning or retirement.

In its latest "Advisor Metrics" annual report, Cerulli offers another reason to consider a fee structure that lets people pay for the expertise they need most: Money is going to be leaving your practice more quickly, because your clients are aging. Next year, for the first time, withdrawals in the retirement market are expected to outpace new contributions.

3. Great service. That means getting to know your clients so well that you can anticipate their needs.

What are their financial goals? What motivates them? What keeps them up at night?

When you order from companies like Amazon or iTunes, they let you know what other customers like you purchased or viewed.

Let's apply that practice to advisory firms.

Say the stock market has a dreadful day or string of days. You might send all your clients an email to reassure them and encourage them to stay the course.

What about clients who don't worry about the short term or who see a sell-off as a buying opportunity?

For archived columns, go to InvestmentNews.com/practicemanagement

They probably don't need a comforting email, but they might consider investing more in the market if you send them one suggesting attractively priced stocks.

How do you get to know your clients? By asking them a lot of open-ended questions:

At what point would volatility in the markets start to bother you? What are you willing or not willing to sacrifice to reach your financial goals? What is most important to you about creating wealth? What do you want to teach your children about money or finances? If you could accomplish only one thing in planning for your future, what would it be?

In addition, when your clients call to chat or pick your brain — rather than to invest more money — you should view that as a chance to build the relationship and understand their needs better.

That's how you will know how to serve them and retain those valuable assets.

Wayne Badorf is head of intermediary sales for Wells Fargo Asset Management and president of Wells Fargo Funds Distributor.

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Companies often obstruct 401(k) improvements

Advisers can counter businesses' reluctance to adopt auto features

By Darla Mercado

Employers are sometimes the biggest obstacle to helping workers save for retirement.

It's well-established that features such as auto-enrollment and auto-deferral increases boost the number of employees in a 401(k) plan and raise their savings rates.

Advisers working with retirement plans know that a 3% pay deferral won't provide workers with security in their golden years — especially if they maintain 3% over their career.

If anything, workers in their 30s who want to retire comfortably should be squirreling away 15% of their pay.

Recent data from the Empower Institute show that people who are enrolled automatically in retirement plans at work are on track to replace 82% of their income in retirement, compared with a 73% income-replacement rate for those in plans that don't use auto-enrollment.

Workers in plans with automatic escalation — which raises deferral rates — are on track to replace 92% of their income, versus 73% for those whose plans don't have it.

But it can be difficult to incorporate those elements into plans, as some plan sponsors buck such suggestions, according to plan advisers and industry observers.

For example, only about 30% of plans have adopted automatic escalation, and the figure has remained fairly stagnant, according to Edmund F. Murphy, president of Empower Retirement.

> "THERE IS a disconnect between what employees ... want and ... the plan design."
>
> **Kathleen Kelly**
> Managing partner
> Compass Financial Partners

"We need to do a better job of encouraging plan sponsors," Mr. Murphy said.

Advisers have confronted that opposition head-on when working with prospects.

"There is a disconnect between what employees say they want and what the plan design is," Kathleen Kelly, managing partner at Compass Financial Partners, said March 24 at the National Association of Plan Advisers' annual 401(k) Summit in San Diego.

"That disconnect is a result of the committee and the actions of the company in how they design the plan," Ms. Kelly said. "Often for us, it's a challenging position to be in when you are with a committee that says, 'We've always done it this way. We're not paternalistic, and this is how we view auto-features.'"

Advisers meeting with plan sponsors shouldn't allow themselves to be steamrolled by committees that are unwilling to bring their plan up to date. Making suggestions requires delicacy, however, as you wouldn't want to scare away a prospective client.

DON'T ANGER CLIENTS

"You don't want to make your new client mad, but you're there to inspire participants to save more and use the plan effectively," Ms. Kelly said. "But it has to start at the plan-sponsor level in terms of what levers they have available to import change and improve outcomes."

That can be a matter of providing plan committees — often made up of employees — with context. Advisers should frame changing the plan as an opportunity to have a

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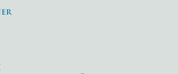

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real impact, experts said.

"Rather than talking about 3(38) and 3(21) services, the real question is, 'Who is going to lead?'" said Don Trone, chief executive of 3ethos and a panelist at the NAPA conference.

"I would hope you'll have, for the first time, a number of trustees and board members think, 'I've never thought about this before, but this 401(k) plan is an opportunity to demonstrate my leadership to the company,'" Mr. Trone added.

Ms. Kelly suggested that advisers talk to plan committees about the reasons for creating the retirement plan and what they hope to provide.

From this dialogue, she said, they can understand what motivates the committee.

"You can turn that into results for retirement plans, which leads to engaged employees and other benefits aside from helping participants retire," Ms. Kelly said.

Employers sometimes reject recommendations for improving plans — especially small ones — because of the cost involved. If automatic features bring more people into the plan and make more of them eligible for matching contributions, the employer's expenses rise.

MORE SKIN IN THE GAME

Advisers could mitigate those costs and overcome objections by starting workers at a lower default contribution rate and automatically raising them over time. They also can design a matching formula that requires workers to contribute more of their own dollars to qualify for a match from the employer.

In the best scenario, advisers will encounter human resources staff and employers who are excited about more plan participants.

Ellen Ford, president of People's Credit Union, who spoke on a panel of employers at the NAPA meeting, said the credit union had adopted a mandatory retirement plan education seminar and provides financial advice to workers at no additional cost.

"We had a significant increase in participation," Ms. Ford said.

But after a year or two of receiving those services, employees thought they were set. To re-engage them, People's Credit is considering annual educational seminars — dinner events that would include spouses — on retirement planning for workers in their 50s.

Advisers are instrumental in getting employees on board and ready to retire.

"One thing our employees like about their advisers is that they speak at their level," Ms. Ford said. "It's important that the person working with the employees makes them feel comfortable."

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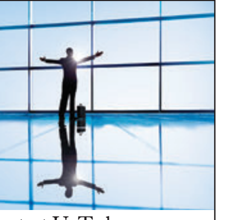
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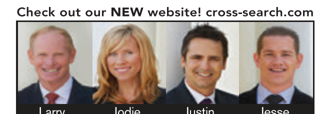

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Higher rates threaten buybacks

As companies shy away from borrowing to fund repurchases, market could suffer

By Jeff Benjamin

Of all the possible ripple effects from rising interest rates, the derailing of the corporate stock buyback bonanza could end up being the most significant in terms of stock market stability.

"Don't be misled by the fundamental earnings picture, because the top-line revenue growth is not moving all that much, and that proves that stock repurchases have been a major contributor to the stock market rally over the past few years," said Bob Rice, managing director at Tangent Capital Partners.

Mr. Rice is among a growing chorus of market watchers warning that share buybacks will drop once interest rates start to move higher.

Higher rates are expected to put a damper on share buybacks in two ways. First, higher borrowing costs will slow the pattern of corporations borrowing to finance share repurchases. Second, higher interest rates likely will mean companies will be able to find better uses for cash stockpiles that, for companies in the S&P 500 Index, currently total $1.33 trillion.

INTEREST-RATE ARBITRAGE

"It's another reason higher rates will be bad for the stock market, because right now so much of share buybacks is driven by the interest-rate arbitrage that low rates enable," Mr. Rice said. "Right now companies can borrow at cheap rates and use the proceeds to buy their own shares, and it all helps to explain why stock prices keep rising while investor interest has remained the same."

As the Federal Reserve kicks the tires on the idea of a rate hike later this year, corporations are binging on their own stock at levels never seen before. The buybacks continue to prop up share prices.

Stock repurchases have risen steadily since 2008, but the record set in February should not be ignored by investors and financial advisers.

According to TrimTabs Investment Research, in February stock repurchases by S&P 500 companies hit a record $104.3 billion, almost double the $55 billion in repurchases during the same month last year.

For investors, share buybacks represent a "win-win in the short term," said Howard Silverblatt, senior index analyst at S&P Dow Jones Indices. "More corporate buying helps support the stock because it impacts the earnings per share and the price-to-earnings ratio."

Stock buyback plans reduce the number of available shares, which increases per-share earnings by spreading them over a smaller number of stocks.

PUT CASH TO USE

Mr. Silverblatt acknowledged that shareholders are exerting a certain amount of pressure on company management to put cash to use and keep stock prices rich. And, according to his research, corporate boards have been dutifully following the blueprint.

In the final three months of last year, S&P 500 companies repurchased $132.6 billion worth of their own shares. While that was down from $145.2 billion in the previous quarter, the pattern of share buybacks is unmistakable.

In the fourth quarter of 2010, for instance, share buybacks totaled $86.4 billion, and in the fourth quarter of 2009 they totaled $47.8 billion.

"All four quarters of 2014 saw one out of five companies reduce their share count by at least 4%, giving them at least a 4% tailwind on earnings per share," Mr. Silverblatt said.

While the strategy may be helping the overall stock market appear stronger than underlying fundamentals would suggest, its effectiveness is hard to deny.

"It's a corporation's job to create shareholder value and not sit on piles of cash earning nothing," said Steven Wruble, chief investment officer at FolioMetrix.

"The money can be distributed to shareholders in the form of dividends, or it can be used for stock buybacks to prop up share prices," he added. "With the current interest-rate scenario, buybacks financed by borrowing might make sense, but in a rising-rate environment that won't work anymore."

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Combining firms? Seek clients' input

By Liz Skinner

Advisers thinking about combining their firms should plan for how the new entity will be branded and rolled out to clients and prospects.

"Talk to a few clients early on to see what their concerns might be," said Amy Zimmerman, principal of AZ Communications.

Address any negative perceptions from the beginning, she said.

The message of all the communications should be that the changes coming will be positive for clients because of new services or resources the combined entity can offer, said Christopher Norton, creative director at Blu Giant Advisor Studios, a division of NorthStar Financial Services Group.

"In the advisory space, you have people who are very tied to a particular adviser, and they trust those people," Mr. Norton said. "It's important to paint the change in a positive light and present it as an evolution of the organization."

Many companies begin with a recorded video announcement from the owners, describing why they are excited to join forces and why the move is good for clients. The video may mention more-diverse portfolio options or strategies, or technologies that will become available to clients post-merger, Mr. Norton said.

> "IT'S IMPORTANT to paint the change in a positive light and present it as an evolution."
>
> **Christopher Norton**
> Creative director
> Blu Giant Advisor Studios

Ms. Zimmerman also recommends that advisers from both firms reach out with phone calls or at least emails to top clients. Both firms should have shared talking points so the message is consistent and reassuring to clients, she said.

Many firms find a merger or acquisition is a good time to move an advisory business away from a name that's linked to particular founders. Advisers today don't want to name a firm after themselves if the end goal is to sell their business.

Another option is to combine both names for a period, such as 18 months, then drop one to make it a simpler label, Mr. Norton said.

A new name requires a new logo and branding campaign that incorporates all signs, letterheads, statements, websites, social media messages, profiles, quarterly newsletters, monthly commentaries and videos. It's a big enterprise, he said.

And it sometimes gets little thought in the heat of a deal.

"People don't realize ... what a massive undertaking it is to rebrand," Mr. Norton said. "It's not just about swapping out a logo."

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Despite loss, ARCP plans for dividend

Bloomberg News

American Realty Capital Properties Inc., which last year disclosed that accounting errors were intentionally concealed, plans to start paying a dividend later this year.

Adjusted funds from operations for the fourth quarter amounted to $205.5 million, or 22 cents a share, compared with $70.5 million, or 26 cents, a year earlier, according to a statement from the Phoenix-based company last Monday. Funds from operations showed a loss of $58.8 million, or 6 cents a share, compared with a loss of $116.7 million, or 43 cents, a year earlier.

In March, ARCP named Glenn Rufrano as its chief executive and said two directors will leave. Mr. Rufrano, the former CEO of brokerage Cushman & Wakefield Inc., assumed his new role last Wednesday, ARCP said in a statement. He succeeded William Stanley, who had been interim CEO and chairman since December.

Last Wednesday, the company announced the appointment of Hugh R. Frater as non-executive chairman. Mr. Frater serves as chairman of Berkadia, a commercial real estate firm owned jointly by Berkshire Hathaway and Leucadia National Corp.

With the arrival of Mr. Rufrano and Mr. Frater, Mr. Stanley will resume his prior role as a director.

ARCP executives including chairman Nicholas Schorsch and CEO David Kay resigned last year after the disclosures of accounting errors.

The REIT, an owner of more than 4,000 properties across the U.S., has been facing pressure from shareholders including Corvex Management to overhaul its board.

DORIANO SOLINAS/ILLUSTRATION SOURCE

"THE BIGGEST head wind ... is that most employers prefer having to deal with a person."

Lou Harvey
President
Dalbar

RIA serves small 401(k) plans

By Darla Mercado

Most retirement plan advisers tend to avoid small retirement plans, but one consultant has built a system to scoop them up and service them.

Chip Morton, president of Team SCM Advisors Inc., has launched Direct 401K, a registered investment advisory that provides fiduciary investment management services to small retirement plans under Section 3(38) of the Employee Retirement Income Security Act of 1974.

The company is working with Envestnet Retirement Solutions, using its technology to scale the provision of fund selection services and portfolio construction for retirement plans with less than $2 million in assets. Direct 401K is also contracting with a number of record keepers as part of the offering; clients will be able to seek quotes from those firms through the service.

LOW INTEREST

The premise is that while advisers seek large retirement plans, there are plenty of small plans that go unnoticed. Such plans don't attract much interest because while their asset levels are low, working with them involves the same fiduciary needs that an adviser would encounter in a large plan.

Many small plans are being serviced by so-called blind squirrel brokers who don't specialize in retirement plans but still have a few in their book of business.

"In the small plan market, when Two-Plan Tony sells the plan, it's very rare that he goes to plan meetings [afterward]," Mr. Morton said. "He probably has a wealth management relationship with the president of the company."

TECHNOLOGY FOR SCALE

Mr. Morton believes that horizontal growth is the way to make serving small plans a successful concept; technology can scale investment management and record-keeping services and provide them to large numbers of tiny plans.

The catch: It's not an arrangement for plan sponsors that want high-touch services from an adviser who will visit and take calls from business owners. Direct 401K is primarily for companies with small startup retirement plans, or companies that want to outsource the fiduciary duty of investment selection and monitoring.

Some industry observers cheered the arrival of Direct 401K. "I think there needs to be in our industry more of an effort to develop products and services for the untapped market of small businesses that don't have retirement plans," said Brian Graff, executive director of the American Society of Pension Professionals and Actuaries.

But retirement plan experts noted that the service has its limitations.

"The biggest head wind for a program like this is that most employers prefer having to deal with a person," said Lou Harvey, president of Dalbar Inc. "It's overcoming that notion that instead of chatting with this adviser who sits in your office and makes you feel warm and fuzzy, you're typing stuff into your computer."

What plan sponsors should know is that there are multiple dimensions to fiduciary duty, and not all of it can be outsourced away. Plan sponsors who sign up for 3(38) investment management services still have exposure to fiduciary liability in two areas: selection and monitoring of the service provider, and administration and reporting, said Jason C. Roberts, chief executive of the Pension Resource Institute.

"The lion's share of litigation is in the service provider bucket, where we get into 12(b)-1 fees and share classes," he added.

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NFL star sues BofA

Continued from Page 5

scheme to defraud Mr. Freeney through a number of means, including stealing $2.2 million and having him take out a worthless $55 million life insurance policy with illegal kickbacks, the complaint said.

Bank of America has yet to file a response, but a spokesman, William Halldin, denied any wrongdoing.

"Although we sympathize with Mr. Freeney as the victim of a crime, the bank had nothing to do with the criminal scheme," Mr. Halldin said in an emailed statement. Mr. Stern "never worked for the bank [or] any of its affiliates and the other person committed her criminal conduct after she left Merrill Lynch."

NEGLIGENCE

Mr. Freeney, who also filed suit last year against his attorneys for allegedly failing to recognize the fraud, said in this suit that Bank of America and Mr. Bock were negligent in failing to protect him from the scheme, which, he alleged, began in January 2010, while Ms. Weinberg was still at Merrill Lynch.

While he was being recruited as a client that January, Bank of America and Mr. Bock fraudulently induced him to join the firm by withholding information from him that would have kept him from getting involved in the scheme, he said.

"ALTHOUGH WE sympathize with Mr. Freeney ... the bank had nothing to do with the criminal scheme."

William Halldin
Spokesman
Bank of America

By 2010, for example, Ms. Weinberg had already testified in a separate court case that she had been assisting Mr. Stern in committing bankruptcy fraud.

ROMANTIC LINK

Mr. Bock also concealed from him that he and Ms. Weinberg, who worked together in the firm's Coral Gables, Fla., office, were married from 1998 to 2009, except for a divorce lasting a few months in 2006.

Mr. Freeney said Mr. Bock failed to act in his best interests and accused Mr. Bock of purchasing some $890,000 in securities without authorization.

Mr. Halldin said, however, that there was "no indication" that Mr. Bock had any involvement in the alleged scheme.

Mr. Freeney entered the NFL in 2002 as a first-round draft pick for the Indianapolis Colts, where he played defense for 11 seasons. He signed a $34 million contract in 2007. He played for San Diego the past three years and is currently a free agent.

He said he came to Bank of America in 2010 as a 29-year-old because he had already had a number of bad experiences with prior financial managers and was seeking the help of a larger, well-established firm.

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Merrill rep 'blindsided' by firing

Continued from Page 5

pliance," he recalled. "I gave them every detail I could."

The meeting lasted an hour-and-a-half. Mr. Buck left to go to a doctor's appointment, thinking that the conversation had gone well, he said. When he returned, however, he was called into his manager's office where he was read his termination letter and told to gather his wallet, keys and coat and was promptly escorted from the building by security.

Mr. Buck was subject to only one client complaint during his career, in 2006, according to his BrokerCheck record with the Financial Industry Regulatory Authority Inc. That complaint alleged excessive fees and an unauthorized trade but was "settled to avoid the cost and time of an arbitration proceeding," according to Mr. Buck's statement from the time on BrokerCheck.

Mr. Buck declined to discuss exactly what questions he was asked at the meeting.

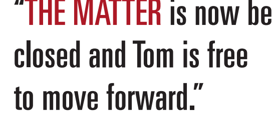
"There were a couple things in there where I said, 'This is the way I do it', and they said, 'Oh, you're not supposed to do it that way,'" Mr. Buck said. "I said, 'Thank you, I didn't know that. I'm glad to know. Going forward I'll do this the way it's supposed to be.'"

'LOSS OF CONFIDENCE'

Mr. Hamburger said advisers who find themselves in that situation should excuse themselves from the meeting and consult with an attorney.

Merrill Lynch officials pointed to a number of problems they said resulted in "management's loss of confidence" in Mr. Buck, according to his U5 filing, which Merrill Lynch submitted to Finra last Thursday.

Mr. Buck was terminated because of "conduct including failing to discuss service level and pricing alternatives with a customer, providing inaccurate information to firm management during account reviews regarding this issue, mismarking bond cross-trade order tickets as unsolicited, and providing information to a client during an active account review that did not correspond to the firm's records," according to the U5.



"THE MATTER is now being closed and Tom is free to move forward."

Brian Hamburger
Founder
MarketCounsel

"The reasons offered by Merrill Lynch are their own," Mr. Hamburger said. He and Mr. Buck declined to comment further, saying Mr. Buck was looking to move on. He does not plan to fight the allegations in court, Mr. Hamburger said.

"Tom sees the path ahead of him as far more fruitful than engaging in any battle with his former firm," Mr. Hamburger said. "The matter is now being closed and Tom is free to move forward and pursue opportunities that he did not even know existed."

Mr. Buck has been working with a recruiting firm but is not sure where he will go next.

He said he has interviewed with regional broker-dealers and independent firms and also is considering the registered investment adviser model. He has narrowed it down to two or three firms and expects to finalize his move this week. Two of his daughters will join him, he said.

A spokesman for Bank of America Merrill Lynch, William Halldin, declined to comment.

Mr. Buck said he has been avoiding reading news stories and blogs speculating about the reasons for his termination.

"I'm going through what has been a horrible month," he said. "I have had very little sleep in the past month."

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Income spikes cut Social Security

Continued from Page 6

over the income limit by just $1, you are going to pay the higher monthly premium all year long.

Mr. Mostransky was anxious to help his client and asked me for guidance in filling out Form SSA-44 to request a reduction in her Medicare premium. The only problem was his client doesn't qualify for a premium adjustment.

The key to qualifying for an income-related monthly adjustment amount, or IRMAA, is whether your income dropped because of a "life-changing event" such as retirement, marriage, divorce or death of a spouse. Loss of an income-producing property due to a natural disaster or other event beyond the property owner's control is another qualifying life-changing event. Merely selling property is not.

NOT QUALIFIED

I gave Mr. Mostransky the bad news that his client would not qualify for a Medicare premium adjustment in 2015 based on her higher income in 2013 that resulted from the sale of her home. (Although single homeowners can exclude up to $250,000 in gains from the sale of their primary residence and married couples can exclude up to $500,000 in gains from federal income taxes, profits above those levels are taxable).

I consulted Katy Votava, president of Goodcare.com, a consulting service that works with financial advisers and consumers on health care coverage issues, and she concurred.

"I agree that she does not qualify for the life changing event criteria to request a reduction in her IRMAA," Ms. Votava told me via email. "In the absence of a life changing event, SSA will not use her 2014 MAGI to determine her 2015 charges. The 2014 income will be used for the 2016 premium."

> **$500K**
> Amount married homeowners can exclude in gains from the sale of their primary home

Mr. Mostransky said the client expects to sell several more properties this year, netting more than $300,000. He wondered if that will affect her Social Security benefits in the future. Absolutely!

EXPERT ADVICE

Ms. Votava suggested that the client squirrel away some of those profits to pay higher Medicare premiums in 2017. Given the anticipated profits from the sale of those properties, she is likely to be in the top Medicare premium tier for both Parts B and D.

The income brackets that determine Medicare premium adjustments are not adjusted for inflation, meaning more retirees could drift into the higher premium brackets each year. And those additional premiums are per person, so a high-income married couple could pay more than $670 per month just for Medicare Part B premiums, plus monthly supplemental Medigap insurance premiums that cover Medicare deductibles and co-payments. Medicare Part D prescription drug plan premiums are also subject to high-income surcharges ranging from an additional $12.30 to $70.80 per month.

(Questions about Social Security? Find the answers in my new ebook, available at InvestmentNews.com/MBFebook.)

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Cole woe

Continued from Page 4

specific personnel changes.

A spokeswoman for Griffin Capital, Jennifer Nahas, declined to comment.

Wholesalers and account executives in the nontraded REIT industry earn commissions and bonuses for sales and will jump to another company if sales are drooping.

Sales of Cole-branded nontraded REITs have plummeted since last October, when ARCP, Cole's parent, revealed a $23 million accounting error that was intentionally uncorrected over the first half of 2014. A number of large broker-dealers and clearing firms suspended sales of Cole products after ARCP detailed the accounting problems.

According to investment bank Robert A. Stanger & Co. Inc., Cole Capital had $8.3 million in sales of nontraded REITs in February — about 1% of its total sales for the same month a year earlier.

ACCOUNTING ERROR

After it revealed the accounting error, ARCP delayed its third-quarter 2014 earnings, releasing them at the start of last month. At that time, ARCP's audit committee reported finding "certain material weaknesses in the company's internal controls over financial reporting and its disclosure controls and procedures."

But the committee did not identify any material changes relating to ARCP's real estate ownership, rental revenue or fundamental business operations. The investigation did not find any changes to the financial statements or operations of the Cole Capital-sponsored nontraded REITs.

The departures at Cole Capital have not diminished ARCP leadership's arguments that sales of Cole-branded REITs can rebound.

In a conference call last Monday, interim chairman of the board William Stanley said Charles Schwab & Co. Inc., a leading custodian for investment advisers, is processing sales of Cole products again.

He also pointed to Cole Capital's recent hiring of William Miller as senior vice president and chief sales officer as a positive.

"The general view that we get from the broker-dealer community is that they — that we — want Cole," Mr. Stanley said.

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InvestmentNews

Wealth unit execs reap rewards

Continued from Page 1
from $14.5 million in 2013 and almost double the $8.6 million he received in 2012. His pay is now higher than that of even top executives at large banks, including Bank of America Corp., whose chief executive Brian Moynihan was paid $13 million last year.

It's easy to see why Mr. Fleming got a raise. Wealth management at Morgan Stanley has been hitting its growth targets and boosted its profit margins to 20% last year from 18% in 2013. Morgan Stanley wealth management now comprises 43% of total revenue at the parent company.

In its 2014 proxy statement, Morgan Stanley praised Mr. Fleming for his unit's improvements, "including increased profit before tax, continued margin improvement and investment performance."

'MIDDLE OF THE PACK'

While Mr. Fleming was one of the highest paid of his peers, his raise was consistent with brokerage executive pay increases across the board, according to Jeff Visithpanich, a managing director at Johnson Associates.

"If you look at just asset management, I would take that to say they thought he did a good to very good job," he said of Mr. Fleming's salary. "There are some [raises] higher than 10%, but the middle of the pack is high single digits to 10%."

At one of Morgan Stanley's wirehouse competitors, Wells Fargo & Co., David Carroll, the head of wealth, brokerage and retirement, earned $9.7 million in 2014, up from $8.8 million in 2013, also a 10% increase.

UBS AG does not break out total compensation for the head of its U.S. wealth group, Robert McCann, but it likely was close to $10 million. The firm reported he made $1.5 million in base salary as well as undisclosed performance rewards, which it said were worth 3.1 times base salary on average for executive board members. Mr. McCann also received almost 90,000 shares of UBS stock, worth around $1.7 million based on the closing value of UBS' stock last Thursday.

Compensation for the head of Merrill Lynch, John Thiel, is not available because the firm now reports under Bank of America Corp., where he is not one of the most highly paid executives whose compensation must be disclosed under Securities and Exchange Commission proxy rules.

Compensation numbers are still well below where they were for top executives in 2006, before the financial crisis, when Mr. Fleming, who was at Merrill Lynch & Co. Inc. at the time, was granted a sizable pay package totaling $34 million. Robert McCann, also at Merrill Lynch, was awarded $23 million that year.

Competition is also driving up pay, as wealth management executives are targeted by head hunters and frequently switch firms, as Mr. McCann and Mr. Fleming have, or are scooped up by asset managers.

Last month, for example, LPL Financial's No. 2 executive, Robert Moore, left to join an institutional money manager.

"There's a lot of [ex-]Merrill Lynch management at other firms, so either they're very good at writing resumes, or they are actually very talented and sought out," Mr. Tasnady said.

Independent broker-dealers also bumped up their executives' pay. Edward D. Jones & Co., for example, paid its chief executive, James D. Weddle, $13.9 million last year, up from $12.9 million in 2013, according to its annual report.

CLARK MOVES UP

And in a testament to the growth of the registered investment advice channel, Bernie Clark, head of Schwab's custody unit, made his first appearance as one of the company's top paid executives, bringing in $2.6 million last year.

Mr. Tasnady said the salaries are sustainable given the improving market performance, but could fall if the market takes a hit.

"When you have direct profitability so easily measured in this business, it's easier to demonstrate their value," he said. But in another downturn, "they'll have to bite the bullet as well."

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Advisory fees show signs of a rebound

Continued from Page 1
these advisers are offering more services and trying to be better at what they do, he said.

"Advisers have the feeling they need to do more for every buck to not lose a client," he said. "In some ways, that's a form of price pressure."

The process of advisers transitioning clients from transaction-based pricing to fee models was one factor that likely put downward pressure on fees for a number of years, Mr. Kennedy said.

"The data suggests advisers and firms are paying more attention to fees now, taking control and actively pricing services as opposed to basing them on what they think the market is pushing," he said.

Movin' on up

Average adviser revenue from fee-based assets

Year	Rate
2009	1.2%
2013	0.99%
2014	1.02%

Source: PriceMetrix Inc.

GERARDO TABONES

The amount advisers charge for fee-based accounts had fallen consistently each year since PriceMetrix, a practice management software firm, began tracking the rate in 2009. That year, advisers charged an average of 1.2%, said Patrick Kennedy, co-founder of PriceMetrix.

Fee business typically generates higher revenue than transaction-based pricing. Last year, transaction revenue on assets was 0.53%, according to the report, which analyzed data on 40,000 advisers.

Overall, average revenue on assets last year was 0.69%, the first annual increase since the beginning of the financial crisis in 2008, the report found.

An *InvestmentNews* survey of advisers last year backs up the rising trend. About 31% of advisers surveyed said they had made changes to fees in the past two years. Of those who adjusted fees, 73% raised their fees and 27% lowered charges, according to the 2014 *InvestmentNews* Financial Performance Study of Advisory Firms.

PRICE OPTIMIZATION

"The trend towards an increasing proportion of an adviser's portfolio being fee-based and increased fee transparency has put downward pressure on fees," said Kendra Thompson, leader of Accenture's wealth and asset management practice for North America. However, advisers are realizing that doesn't have to translate to an outright fee reduction.

Advisers today have access to more pricing analytics than ever before and are getting smarter about using price optimization to generate more revenue from existing clients, she said.

For instance, they can identify less profitable clients, or those who aren't paying enough for what they are getting from the firm. Adjusting fees is one option; advisers also can alter client minimums, increase or decrease the level of service, or make other changes to the value proposition, she said.

In other good news for the advisory industry, client retention rates increased slightly last year and average adviser revenue rose 13%, to $655,000, the PriceMetrix report found. Additionally, average adviser assets grew 8%, to $97 million, in 2014.

Advisers' average number of clients fell about 4% to 150 last year, while the assets of the average client increased 12% year over year, to $628,000, the data found.

"Advisers are focusing on a narrower set of more-affluent clients," Mr. Kennedy said. "It's a positive sign for advisers."

The growth in automated advice platforms may be a factor in advisers' ridding their books of smaller accounts, he said.

"It helps advisers say goodbye to those clients, because there are viable service alternatives," Mr. Kennedy said, noting some firms are developing their own digital platforms for investors with fewer assets.

Of course, not all advisers are sharing in the success.

About 25% of advisers suffered production declines of at least 15% last year, the report found. That group included advisers with mostly transaction-based business and advisers who had been in the industry the longest, Mr. Kennedy said.

One troubling sign for the entire industry is that the proportion of new clients under age 45 has remained at 23% since 2011. A separate PriceMetrix report issued last month showed that advisers with a significant portion of clients under age 45 grow at nearly twice the annual rate as advisers who serve older clients.

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Tony Thompson: Shifted blame to professionals he relied on.

Thompson

Continued from Page 6
that he 'didn't do anything intentionally wrong, never have, never will,'" according to the Finra order.

In his defense before Finra, Mr. Thompson argued he could not be held liable for deficiencies in the various note programs because he, along with his broker-dealer, relied on a team of highly qualified professionals, including an attorney who was the driving force as to what to include in the private placement offering documents, according to the Finra order.

"While acknowledging that he, as chief executive of TNP, was the person ultimately responsible for information included and omitted from offering materials, he maintains that the misrepresentations and omissions resulted from his good-faith reliance on information and advice he received from others, particularly his accountants and counsel," according to the Finra order.

Finra batted away that notion. The Finra order said Mr. Thompson "exercised editorial control over the offering materials [for the private placements]. The emails show Thompson's immersion in details related to the materials, his decisive executive style, and even his readiness to reject, rather than rely upon, advice of counsel concerning disclosures."

FALL FROM GRACE

Mr. Thompson, who has been a licensed securities professional since 1972, did not return a call left at Thompson National Properties, his real estate manager, last Thursday afternoon.

By barring Mr. Thompson, Finra makes it almost impossible for him to raise money for any further private real estate deals by selling his securities through independent broker-dealers, a handful of which have sold his products for years.

Being barred from the securities industry is a fall from grace for Mr. Thompson, who 10 years ago was the undisputed packer and seller of tenant-in-common exchanges, or TICs.

Before launching TNP Securities in 2008, Mr. Thompson founded Triple Net Properties, which packaged TICs and sold them through independent broker-dealers during the run-up to the real estate bubble.

A related Thompson company, NNN Realty Advisors Inc., in 2007 merged with Grubb & Ellis Co. Burdened by debt, that once-iconic commercial real estate company filed for bankruptcy protection in 2012 and then sold its remaining assets for $30 million.

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