FULL COVERAGE: THE ADVICE INDUSTRY TACKLES COVID-19 PAGE 4

MARCH 16-20, 2020

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TOO BIG TO IGNORE

RIA MEGA MERGERS DRAW SCRUTINY FROM THE FEDS PAGE 10

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Cover illustration: Taylor Callery

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The 2020 Refinitiv Lipper awards.
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She persists
Erin Botsford on the advantages of women advisers.
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EDITOR'S NOTE

Heed your inner Kipling

Rudyard Kipling extolled the virtues of keeping your head "when all those about you are losing theirs." As the COVID-19 panic rages, the financial advice industry faces a challenge to adapt a business built on relationships to one of "social distancing." As Ryan W. Neal reports on Page 5, in-person meetings are being replaced by phone and video calls, while industry events are being rescheduled as coronavirus fears spread. Some advisers, naturally, are worried about the impact digital-only communications will have on client relationships.

GEORGE B. MORIARTY

But a key component of relationship management is wealth management. Here are three resources that provide invaluable circumspection.

In a March 9 post on Josh Brown's blog, The Reformed Broker, he offered these nuggets: "This is the Super Bowl for financial advisers … I can tell you definitively that these are moments when advisor-client relationships are solidified … Keeping people from doing what might feel like a relief now but is sure to represent a mistake in hindsight."

And Meb Faber posted on MebFaber.com: "Will my strategy be the best strategy devised, or the best strategy for everyone? Absolutely not. But is it the best strategy for me? I think so."

Finally, *InvestmentNews* has a great video series on good investment behavior: Investmentnews.com/onyourbestbehavior.

None of us knows when this pandemic will resolve, but it will resolve, and cooler heads today will prevail tomorrow.

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Bear market hammers TDFs, but designs improved since 2008

BY EMILE HALLEZ

> **KEY POINTS**
> - Some target-date funds have seen 25% losses since Feb. 25.
> - Fund managers are adjusting how these products approach risk.

THE COVID-19 bear market has provided a test for target-date funds, some of which have seen negative returns of 25% since Feb. 24.

Those products, the predominant investment vehicles in 401(k) plans, suffered big hits in the 2008 financial crisis and were heavily scrutinized for the losses many near-retirees saw in their portfolios.

But since then, fund managers have adjusted how their products approach risk, in many cases reducing stock allocations in favor of fixed income. In other instances, fund providers have ramped up their levels of risk, seeking higher returns. And one of the most significant changes is the wider ability that portfolio managers have in quickly adjusting allocations in response to market conditions.

With the recent performance test, some of those changes appear to have paid off, at least

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Trump's payroll tax plan doesn't cut it on the Hill

BY MARK SCHOEFF JR.

PRESIDENT DONALD TRUMP is calling for a payroll tax cut as an antidote to the economic sickness brought on by COVID-19, but the idea is getting a lukewarm initial reception among lawmakers.

"Currently, there is little appetite for a payroll tax cut on Capitol Hill in both parties," said Brian Gardner, managing director at Keefe Bruyette & Woods, an investment bank and broker-dealer that specializes in the financial services sector.

Relief from payroll taxes, of which Social Security and Medicare taxes are part, is not likely to be included in any legislative package Congress puts together in the next week or so. The Senate will be in session this week, but the House is scheduled to be on recess.

Sen. Charles Grassley, R-Iowa and chairman of the Senate Finance Committee, is considering "targeted tax relief measures" to respond to the economic shock caused by the coronavirus, spokesman Michael Zona said in a statement.

He did not reveal Mr. Grassley's position on a payroll tax cut

"All reasonable options remain on the table," Mr. Zona said.

Sen. Ron Wyden, D-Ore., and the

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Working from home increases compliance risks for advisers

BY MARK SCHOEFF JR.

IN RESPONSE TO the rapidly spreading coronavirus, some financial advisory firms are telling their staffs to work from home, a move that adds compliance challenges to the other problems caused by the pandemic.

Market volatility, working remotely and the enhanced cybersecurity vulnerability introduced by doing so, take firms into a danger zone, said G.J. King, president of RIA in a Box, a compliance consulting and software firm.

"Everyone is scattered while you're busier than ever," Mr. King said. "It's a perfect storm, unfortunately, for bad things to happen to your business. The risk of compliance issues and violations increases dramatically."

The chief compliance officer is the key person to help a firm avoid missteps. But the logistics of that role change when advisers are working from far-flung locations instead of under one roof, and the CCO can't roam the halls to check on colleagues.

NO SUPERVISION

"If people are not in the office, you can't tell if they're working or not working and what exactly they are saying to customers," said Amy Lynch, president of FrontLine Compliance. "You're counting on staff coming to you rather than you being able to discover [problems] yourself because you're not physically present."

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Finra guides on COVID-19 plans

BY BRUCE KELLY

LAST MONDAY, the Financial Industry Regulatory Authority Inc. encouraged the 3,600 broker-dealers it oversees to dust off their business continuity plans as COVID-19 continues to spread in the U.S.

Finra last gave guidance on how to operate during an outbreak of a severe illness during the swine flu outbreak in 2009.

Finra advised B-D firms to have their employees and financial advisers work remotely or in backup offices, inform Finra when they make such arrangements, and look out for cybersecurity events like phishing.

"The risk of cyber events may be increased due to use of remote offices or telework arrangements, heightened anxiety among associated persons and confusion about the virus," according to Finra.

Finra also urged B-Ds to stay focused on their clients, many of whom may call or use online accounts given the large moves in the markets.

B-Ds "are encouraged to review their [contingency plans] regarding communicating with customers and ensuring customer access to funds and securities during a significant business disruption," Finra's notice stated. "If registered representatives are unavailable to service their customers, member firms are encouraged to promptly place a notice on their websites indicating to affected customers who they may contact concerning the execution of trades, their accounts, and access to funds or securities."

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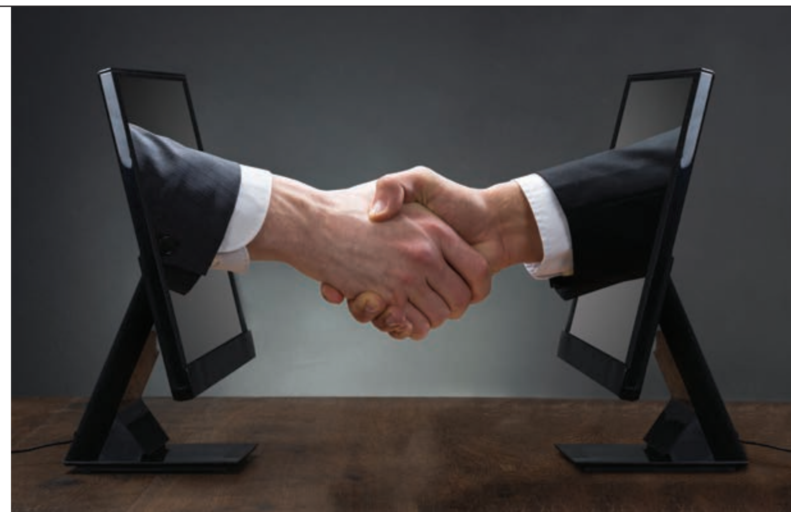

Advisers prepping to work remotely fear losing 'human' relationship

BY RYAN W. NEAL

INVESTMENT FRAUD is on the rise, and the SEC, which is supposed to be Wall Street's cop on the beat, is closed for business.

As advisers test technology platforms to ensure they can work seamlessly from home in the event of a COVID-19-related quarantine, some worry about the impact digital communication will have on their client relationships.

Mitchell Kraus, a principal at Capital Intelligence Associates, says his firm hasn't started working from home yet but is doing additional testing of its digital capabilities. Trading and rebalancing are all handled digitally and can be done from anywhere, and the firm uses virtual phone numbers to remain in communication with each other and clients, Mr. Kraus said.

Whether an adviser is working from the office or from home, communication should be seamless for the client, but phone calls can't fully capture the in-person experience, he said.

"We think we're most effective one-on-one, face-to-face with clients, which cannot be done when avoiding personal contact," Mr. Kraus said. "But we all have devices that we can work with clients via video chat when needed."

VIDEO CHAT UNDERUTILIZED

So far, none of Mr. Kraus' clients have taken advantage of the video chat. "Right now, the panic among most of my clients is around the markets," he said.

Trevor Scotto, principal and co-founder of Fiduciary Financial Group, has similar worries about how digital technology could affect prospecting. While his firm has everything in place to support remote work — Zoom video conferencing, Slack for internal team communication, Redtail CRM to manage cli-

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Trump's payroll tax holiday could hurt US economy more than help

BY EMILE HALLEZ

A PAYROLL TAX cut proposed by President Donald Trump to help combat the economic effects of the COVID-19 outbreak would mean bigger paychecks for workers, but it could come with big consequences later.

Temporary elimination of Social Security and Medicare taxes would mean that workers would see as much as 7.65% more money in their take-home pay, but halting payments into those entitlement systems would further threaten their solvency and could increase the U.S.'s debt considerably, numerous sources interviewed for this story said.

Further, the strategy would only affect people who are currently employed – those without jobs or in hourly positions would see no benefit.

The tax holiday could cost as much as $840 billion, depending on the size and duration of the temporary suspension, said Marc Goldwein, head of policy at the Committee for a Responsible Federal Budget.

"There are risks on the back end," Mr. Goldwein said. If the government did a full suspension of all payments into entitlement programs, "bringing it back is going to feel like a 12% tax increase," he said, adding that it "could be a big shock."

When the loosely proposed tax holiday expires, that would bring household income back down and could have an emotional impact on workers, he said. It also would almost certainly have macro-economic consequences, he said.

NOT A PRECEDENT

It would not be the first time the federal government has instituted a payroll tax suspension. Under the Obama administration, Congress passed one in 2010, cutting two percentage points from the rate workers paid for Social Security in 2011 and 2012, reducing it during that period to 4.2% from 6.2%.

The costs to Social Security were reimbursed from the General Fund,

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Kitces joins Buckingham Wealth

BY EMILE HALLEZ

MICHAEL KITCES

BUCKINGHAM WEALTH Partners is increasing its nerd quotient by hiring Michael Kitces, the firm announced last Thursday.

Mr. Kitces, well-known for his social media presence and his Nerd's Eye View blog, had spent 17 years at Pinnacle Advisory Group, where he was a partner and director of wealth management. In his new role as head of planning strategy at Buckingham, he is tasked with helping "design and further enhance its evidence-based planning approach."

Buckingham could also benefit from the association – Mr. Kitces' blog draws about 250,000 readers per month, according to the firm.

Buckingham also hired Jeffrey Levine, previously CEO of BluePrint Wealth Alliance. He started March 2 as director of advanced planning at Buckingham, responsible for leading the firm's financial planning strategies and providing education and support to its advisers. Mr. Levine is also a contributor to Nerd's Eye View and the "lead financial planning nerd" for Kitces.com.

ALIGNMENT OF FIRMS

"We had a bit of an implicit conflict" in driving business to two different firms via that site, Mr. Kitces said. "I needed to make a change so we could align ourselves to be on the Kitces platform and have a common advisory firm on the other end."

They saw joining Buckingham as a way to further focus on "evidence-based" financial planning, Mr. Kitces said. In addition to his duties as head of planning strategy, he will help Buckingham determine its corporate initiatives, the firm said in its announcement.

Mr. Levine's partner at BluePrint, Patrick Kuster, also joined St. Louis, Mo.-based Buckingham as a wealth adviser. Mr. Kuster and Mr. Levine will serve as Buckingham's new Long Island, N.Y., office.

"This is the headline talent news of the year," Adam Birenbaum, Buckingham chairman and CEO, said in an interview. "To add Michael Kitces and Jeff Levine, who are the industry's two premier financial planning talents, it's an opportunity for us to enhance advisory capabilities in a way that we've never had before."

RIA UNIT

The firm's RIA unit, Buckingham Strategic Wealth, includes 140 advisers in 40 offices, according to the company. Its wealth management business,

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As market tanks, what's the plan at Wells Fargo?

As stocks reel amid the fears provoked by the coronavirus, let's pause a moment and look at how three of the largest, most prominent brokerage firms have spent the past few years preparing for this very moment: an intense market sell-off that shakes advisers and clients to their cores.

It's clear that Merrill Lynch and Morgan Stanley have carefully crafted business strategies for their financial advisers and are working on their execution. It's also clear that Wells Fargo Advisors, which has seen hundreds of brokers and financial advisers leave in the past 3½ years, is trying to emerge from a mess.

BRUCE KELLY

ONADVICE

And that's in large part due to the continued dilemma facing its parent bank, Wells Fargo & Co. Last Tuesday, the bank's new CEO, Charles Scharf, was dragged over the coals by the House Financial Services Committee for the account opening scandal and other wrongdoing that occurred long before Mr. Scharf joined the giant leaking ship last fall.

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SEC adopts rule to streamline variable annuity, variable life prospectuses

BY MARK SCHOEFF JR.

THE SECURITIES AND Exchange Commission approved a rule Wednesday that it said would help investors better understand variable annuities and variable life insurance contracts.

Under the rule adopted by the commission, issuers can provide an initial summary prospectus that includes a table outlining a product's fees, features and potential risks. The prospectus also would include an overview of the contract and more detailed disclosures relating to fees, purchases, withdrawals and other benefits, according to an SEC fact sheet.

Such a document would be considerably shorter than current variable annuity prospectuses, which run anywhere from 150 to 300 pages.

An initial summary prospectus would go to new customers. An updating summary prospectus, which includes a description of changes made to the contract during the previous year, would go to existing investors.

If investors want to drill down on a contract, they can access a longer prospectus online through a link in the summary prospectus.

LAYERED DISCLOSURE

The SEC describes a summary prospectus as "a concise, reader-friendly summary of key facts about the contract." The agency characterized as "layered disclosure" the option of using an initial summary prospectus or taking a deeper dive online.

Variable insurance products can provide an income stream in retirement and other benefits for investors. They are also complex and can come with high fees and high risk.

"The commission is taking this important step to improve Main Street investors' understanding of these products," SEC Chairman Jay Clayton said in a statement. "With today's technology and the benefits of layered disclosures, investors should not have to work through hundreds of pages of disclosure to understand these products' risk, fees and features in order to make informed investment decisions."

JAY CLAYTON

The Insured Retirement Institute and other insurance industry organizations have been pushing the SEC for a VA summary prospectus for a about decade.

'MAJOR LEAP FORWARD'

"This is a major leap forward in the ability to provide consumers with information they need to make educated investment decisions about financial products that can be essential to ensure a secure and dignified retirement," Jason Berkowitz, chief legal and regulatory affairs officer at IRI, said in a statement. "We are carefully scrutinizing the final rule with our members to fully understand its ramifications and to ensure that it allows for a more rational disclosure of important consumer information versus today's required book-length paper versions delivered by U.S. mail."

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CEO, Beacon Pointe Advisors

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The questions advisers need to ask in bear markets

It's now official. The 20% decline from the stock market's intra-day, mid-February peak means we have crossed from the land of the bulls to the land of the bears.

While there's nothing better for advisory practice business-building than an 11-year bull market, bear markets, and especially those that come on quickly like this one, are the true measure of an adviser's worth. These are the times that define the value of the advisory relationship. Sound financial advice is always appreciated and recognized, but what's critical now is for advisers to acknowledge and deal with the confusion and emotional pain that actual and potential monetary losses can cause. Achieving that means advisers must step up their client communications.

Of course, many advisers wonder what they should be saying in times like this. With so many unknowns — the severity and spread of COVID-19 and the degree to which it will affect business, government action and how markets will continue to react — it's impossible to provide a clear picture of the future for either the economy or the value of clients' investments.

But because the role of advisers and the services they provide have changed over the years, providing clients definitive answers to questions about market performance is less important today than in the days of yore. With individuals now largely responsible for generating their own retirement income, most clients now want an adviser who is less of a market guru and more of a solution-provider for the issues that concern them most.

Some clients will ask if we will continue to see more stomach-churning daily drops (interspersed with a few strong upsurges). No one knows, of course. But the adverse economic effects of the coronavirus are likely to grow. If investors themselves turn bearish in their thinking, expect more stock prices to show up in red than in green.

Aside from that relatively small segment of the public for whom outstanding investment performance is the sole measure of an advisory relationship, most investors want an adviser who can help them define and progress toward their goals, manage risk, minimize taxes and select investments wisely to help them accomplish all that. A market downturn, even one that may turn out to be steep, doesn't change what investors want from advisers. And it doesn't change the broad range of questions and concerns clients have.

> **A MARKET DOWNTURN, EVEN ONE THAT MAY TURN STEEP, DOESN'T CHANGE WHAT INVESTORS WANT FROM THEIR ADVISERS.**

Particularly in times of stress, clients want to know:

- Will I have enough to retire?
- How much longer do I have to work?
- Will my children still be able to attend college or get the education they need?
- What happens if I get sick?
- Should I pay off debts first or continue to invest?
- Can I afford to help my elderly mother?
- Does it make more sense now to own a car or to lease a car?
- What about renting or buying a home?

These questions are on clients' minds, and in clients' minds questions related to money, investments, risk and family frequently overlap.

At times of market stress, clients may feel embarrassed discussing troubling issues with their advisers, especially if those issues are only indirectly related to investments. After all, if an adviser has never asked about a client's debts, insurance coverage or the health of extended family members, how important to the adviser can those concerns be? Especially if an adviser's background is product- or sales-focused, they may not be comfortable venturing too far from investment-related issues, perhaps as a result of feeling they have insufficient knowledge to be of help or because touching emotional hot buttons can be unsettling.

During this period of market turmoil, therefore, advisers need to not overthink what to say. The most effective way to communicate with clients is simply to ask what concerns them now, and then engage in a conversation that acknowledges those concerns and starts to address them.

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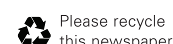

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WHEN IT COMES TO RIA CUSTODY, HOW BIG IS TOO BIG?

THE DOJ'S ANTITRUST SQUAD HAS ITS EYE ON THE RIA LANDSCAPE, FOCUSING ON THE SCHWAB-TD COMBO. THE MERGER OF THESE TWO COMPANIES MAY BE TOO FORMIDABLE TO PASS MUSTER. BY BRUCE KELLY

SINCE THE CREDIT CRISIS, the market for giant mergers by institutions where financial advisers work has been nearly nonexistent, making intense reviews of anti-competitive issues by the Department of Justice practically absent in the financial advice industry.

That is rapidly changing.

The past few months have seen the announcement of two huge deals that directly affect thousands of registered reps and financial advisers. First, in November, The Charles Schwab Corp. said it was acquiring TD Ameritrade Holding Corp. for $26 billion in stock. Then, last month, Morgan Stanley said it had agreed to buy ETrade Financial Corp. for $13 billion.

With giant mergers and acquisitions of financial institutions back in vogue, the Department of Justice's antitrust division is taking a particularly hard look at Schwab's acquisition of TD Ameritrade. The proposed combination would create a financial services powerhouse with $5 trillion under management. The deal raises immediate concerns around the combined custody business. Plus, there's a technology issue that can't be ignored: With two huge custody platforms coming together, and with TD wearing the mantle of an industry innovator, will the deal inhibit the development of new technology for advisers?

The combined Schwab-TD Ameritrade would control 11% of overall investable assets of the $25 trillion to $26 trillion wealth management market, according to Schwab.

Meanwhile, Morgan Stanley's purchase of ETrade would merge what some in the industry estimate to be half what the Schwab-TD combination would control of the wealth management market, which includes wirehouses, independent broker-dealers and banks. Schwab and TD's custody units appear to have a unique overlap of businesses, specifically the RIA custody market. The proposed merger would bring together 50% of the financial advice industry's custody business, and some say that's a low esti-

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mate. That raises a series of questions for the Department of Justice that Morgan Stanley's impending purchase of ETrade does not, according to attorneys, industry executives and consultants.

"The deal between Schwab and TD Ameritrade, two of the largest low-cost brokerage companies, should concern the DOJ's antitrust division," said David S. Stone, senior managing partner at Stone & Magnanini. "While ostensibly it can potentially benefit consumers through efficiencies of scale and new product offerings, it poses many of the concerns that regulators focus on in such mergers."

WEALTH MANAGEMENT SPACE

There are roughly 20,000 RIAs in the wealth management space who manage about $4 trillion in client assets, according to industry consultants. Schwab Advisor Services, TD Ameritrade Institutional, Fidelity and Pershing already control 80% of the market. In a presentation to investors from 2019, Schwab reported a 30% custody market share. Combined with TD, that would create a service platform for more than 14,000 RIAs, some of whom already use both to split up client assets.

11%

AMOUNT OF $26T WEALTH MANAGEMENT MARKET'S OVERALL INVESTABLE ASSETS SCHWAB-TD WOULD CONTROL

"Between them they appear to control over 70% of the custodial market for RIAs," Mr. Stone said. "RIAs use custodians to store and protect their securities and clear trades. This increased market power will give Schwab the ability to raise prices for these services and will discourage innovation."

According to industry attorneys, executives and consultants, the key questions that raise antitrust concerns around any deal focus on multiple theories of harm, including:

- Is the deal hurting competition?
- Is the company being acquired a maverick? Does it innovate and keep the rest of the industry on its toes?
- Will prices increase after a deal?
- Will an acquisition stifle innovation and advocacy?

"What the adviser needs to look out for is a consolidation of their specific niche," said Timothy Z. LaComb, an associate at MoginRubin. "The retail investment side of the TD-Schwab deal doesn't raise a lot of red flags because neither is the major or dominant player in retail wealth management. But on the RIA side of the combination, that's where you see some issues that could raise antitrust flags."

"If you are an RIA, especially one that has a lower assets under management than the average Schwab RIA, you need to look at what or how you are going to be treated after the merger," Mr. LaComb said. "Schwab has indicated that it will transition away from TD's platform. Firms with lower assets under management could potentially see a decrease in service and no longer have an individual client [service] rep but will be diverted to call centers when trying to access your custodian."

The two sides are working to close the acquisition by the end of the year, but it could take two to three years to integrate the companies.

VIGOROUS INQUIRY

From all accounts, the Department of Justice is making a vigorous inquiry. It is reaching out to consultants, smaller custodians, technology vendors and others, asking for background about the RIA custody business.

At the end of January, the Department of Justice requested additional information from both Schwab and TD as part of its research into the deal's antitrust implications.

"I spoke to the DOJ in the middle of February and the conversation lasted more than two hours," said Tim Welsh, an industry consultant who worked for Charles Schwab more than a decade ago. "The DOJ is taking this very seriously, and the conversation was before the announcement of the Morgan Stanley acquisition of ETrade."

ETrade has a small custody business, with 225 advisers and $19 billion in assets. Morgan Stanley, which employs more than 15,000 registered reps and financial advisers, is widely considered to not want to hang onto that business as it would create a direct competitor for its wealth management business under its own roof.

"That means ETrade is likely gone and takes one more alternative [custodian] off the table," Mr. Welsh noted. "That's another potential theory of harm for the antitrust attorneys at DOJ — fewer and fewer places for small advisers to go for custody."

In December, the owner of BlackCrown Inc., Franklin Tsung, filed a lawsuit in federal court in Manhattan, that alleged the Schwab and TD combination would "harm competition and disenfranchise a great majority and minority of RIAs and [investment adviser reps] most of whom are legally referenced as small to medium-sized businesses."

"IF YOU ARE AN RIA ... YOU NEED TO LOOK AT HOW YOU ARE GOING TO BE TREATED AFTER THE MERGER."

TIMOTHY Z. LACOMB, ASSOCIATE, MOGINRUBIN

"Most prominently, the acquisition would eliminate competition to deliver and administer custodial services for the entire independent wealth management industry, disenfranchise a great segment of the industry by effectively establishing a caste system for independent business owners within the entire wealth management industry," according to the complaint, which was dismissed days later, but not for its allegation.

BlackCrown is a buyout firm that is also a registered investment adviser but has no client assets, according to its Form ADV, filed with the Securities and Exchange Commission. The judge in the matter, Gregory H. Woods, ruled that since BlackCrown's owner, Mr. Tsung, was not an attorney, the complaint could not go forward because corporations must be represented by attorneys.

Schwab is not sweating questions about anti-competitive implications over its deal for TD, at least not in public. "We feel very confident that the transaction as announced is in the best interests of all consumers, both end investors as well as RIAs," said Schwab's CEO, Walt Bettinger, when the TD acquisition was announced. "And we feel, continuing to demonstrate through facts, that that's the case."

BIG ANTITRUST HURDLE

Technology is one more big antitrust hurdle, according to industry attorneys, executives and consultants. TD's current open platform — dubbed VEO Open Access and which supports 175 third-party vendor applications — is extremely popular, particularly with advisers who want to customize their technology to their practice, much like gamers want their computers customized to their exact specifications. By comparison, Schwab's technology platform has about half as many vendors, higher barriers of entry and limited integration abilities.

"There are so many tech vendors that will feel an impact because of the Schwab and TD deal, especially the small ones," said Robb Baldwin, CEO of TradePMR, a small RIA custodian. "It will be a major pain point for advisers."

Schwab is clearly aware of the antitrust hurdles and is sending a message to the RIA custody market that it embraces small advisers, or those with $100 million or less in assets. Schwab does custody business with 3,500 advisers that are registered with the states and not with the SEC, meaning they have less than $100 million in client assets.

PLUCKED FROM RETIREMENT

In a move that was highly regarded across the industry, Schwab in December plucked the retired Tom Bradley, former head of TD's RIA group, from the sidelines to lead its small adviser group and initiative. In February, the firm embarked on a goodwill public relations program about how it has always had the best interests of small advisers at heart.

To many financial advisers in the industry, Schwab is fighting the common perception among veteran advisers and the RIA industry that the biggest custodian had no interest in working with them when they were small.

"The DOJ is trying to get their hands around what that looks like," said Bernard "Bernie" Clark, head of Schwab Advisor Services, in an interview last month. "It's hard to believe that people could worry about increased pricing when you're talking about is a company that has gotten rid of transaction-fee pricing. We are about every size adviser and always have been."

"We're are serving that [small adviser] community and serving it well," Mr. Clark said. Regarding the common perception in the industry, that Schwab in the past has overlooked smaller advisers, he added: "That's why we have Tom's group."

Each side faces a potential $950 million termination fee if the deal collapses. But the antitrust burden that could trigger the hefty fee appears to weigh more heavily on Schwab than TD, attorneys said.

"Schwab at this point is going to say all the right things," said Mr. LaComb. "The company is on the hook for a $1 billion termination fee to TD. That's a significant financial incentive for Schwab to convince the DOJ the deal should go through."

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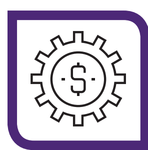

Planning

1 IN 4 NUMBER OF AMERICANS BETWEEN AGES 55 AND 60 WHO WOULD CONSIDER CLAIMING SOCIAL SECURITY EARLIER IF THE STOCK MARKET DROPS ANOTHER 10%.
SOURCE: SIMPLYWISE

A survivor's guide to claiming Social Security benefits

MARY BETH FRANKLIN

ONRETIREMENT

Widows and widowers have more flexibility than other Social Security beneficiaries when it comes to claiming strategies because retirement benefits and survivor benefits represent two different pots of money.

A surviving spouse or an eligible surviving divorced spouse can choose one type of benefit first and switch to the other benefit later if it results in a larger monthly amount. It doesn't matter in which order they claim those benefits or when they were born.

Unlike Social Security claiming strategies that limit the ability of some people to claim only spousal benefits while their own retirement benefits continue to grow up to age 70 to those born on or before Jan. 1, 1954, surviving spouses and ex-spouses have no such birth-date restrictions.

In general, to be eligible for a Social Security survivor's benefits, a widow or widower must have been married to the deceased worker for at least nine months and at the time of his or her death.

SURVIVING EX-SPOUSE

In the case of a surviving ex-spouse, the couple must have been married at least 10 years before divorcing. In general, the surviving ex-spouse must be single to collect survivor benefits or must have waited until age 60 or later to remarry. In the latter case, a remarried ex-spouse can collect survivor benefits on a deceased ex-spouse even if married to someone else.

Survivor benefits are worth 100% of what the deceased worker collected or was entitled to collect at time of death, provided the survivor claims the benefit at full retirement age or later. Survivor benefits are reduced if collected before full retirement age. In some cases, full retirement age for retirement benefits and survivor benefits may be different.

Generally, the earliest age for collecting retirement or spousal benefits is 62. Survivor benefits, however, are available as early as 60. But there are exceptions in both cases for younger spouses, who can claim benefits earlier if they are caring for a minor dependent child or the permanently disabled child of a retired, disabled or deceased worker.

WIDOWED CLIENT

A financial adviser recently consulted me about his widowed client, who is 65 and entitled to a survivor benefit worth $2,300 a month. In addition, her own Social Security retirement benefit would be worth $2,527 at her full retirement age of 66.

"Can she opt to take the survivor benefit now and allow her Social Security benefits to accrue 8% per year in delayed retirement credits up to age 70?" the adviser asked. Yes, she can. Her retirement benefit would be worth about $3,335 per month if she waited until age 70 to claim it.

Now imagine a surviving widow with a small retirement benefit on her own earnings record. She may want to collect her own reduced benefit as early as age 62. And even though her retirement benefits would be permanently reduced for collecting before full retirement age, it would have no impact on her survivor benefits if she waited until her full retirement age to collect it.

One caveat: Anyone who collects any type of Social Security benefit — retirement, spousal or survivor — before full retirement age is subject to earnings restrictions if they continue to work.

In 2020, they would lose $1 in benefits for every $2 earned over $18,240. In the year they reach full retirement age, there is a higher earnings limit in the months before their birthday. They could earn up to $48,600 without sacrificing any Social Security benefits. Earnings over that limit would reduce benefits by $1 for every $3 earned over that limit. Earnings restrictions disappear once you reach full retirement age.

60 EARLIEST AGE TO COLLECT SURVIVOR BENEFITS

If the deceased worker started receiving retirement benefits before their full retirement age, the survivor's benefit will also be reduced. But the surviving spouse or surviving ex-spouse can mitigate some of the damage by waiting until their full retirement age or later to collect survivor benefits. If the widow or widower is full retirement age or older, he or she would receive the larger of what the deceased worker collected or 82.5% of the worker's full-retirement-age benefit.

The goal for most married couples should be to maximize survivor benefits by having the higher-earning spouse delay collecting his or her retirement benefit up to age 70. The largest retirement benefit will continue as a survivor benefit for the remaining spouse and the smaller benefit would disappear upon the death of the first spouse.

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

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Fidelity's new mutual funds target HSA investments

BY EMILE HALLEZ

FIDELITY LAUNCHED TWO new mutual funds designed specifically to be used within health savings accounts, as part of a push to entice more clients to use the accounts as investment vehicles.

The Health Savings Fund and Health Savings Index Fund are designed to balance growth and downside market protection "to address the inherently uncertain timing of future medical expenses," according to a Fidelity release. The funds are available in retail share classes, though the Health Savings Fund also comes in a lower-cost institutional share class.

The products invest in a mix of about 30% equity funds and 70% bond funds, though the company can adjust those ranges by 10% in either direction, according to the Health Savings Fund's prospectus.

INVESTMENT VEHICLE

The new investment options are a means of encouraging more people to use their HSAs as investment vehicles rather than solely as checking accounts for medical expenses, the company noted in its announcement. Within Fidelity's $6.7 billion HSA business, for example, only about 12% of accounts include invested assets, according to the firm.

"Though this figure is more than double the industry average, and an increase from 8.8% at the end of 2018, this still represents a significant missed opportunity for those with cash balances intended to be used for future health expenses," Fidelity said.

$66B TOTAL HSA ASSETS AS OF DECEMBER

Only about half of HSA holders are aware their assets can be invested, according to survey results cited by the company.

HSA ASSETS

Industrywide, about $15.7 billion of the total $65.9 billion in HSA assets as of the end of 2019 is invested, according to a report published March 3 by Devenir. Meanwhile, roughly $50.2 billion of that total is held in deposits. Only about 4% of all HSAs include investments.

The new Fidelity funds are only sold within Fidelity's HSA business, which serves individual investors and participants in employer-sponsored plans. Assets grew 62% in 2019, with about 1.5 million accounts at the end of the year, according to the announcement.

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† Dividends will vary depending on the fund's income; past distributions are not indicative of future trends.

All investments involve risks, including possible loss of principal. The fund's portfolio includes a substantial portion of higher-yielding, lower-rated corporate bonds and some floating rate loans, which are also higher-yielding and lower-rated. These investments have more credit risk than investment-grade securities and are subject to increased risk of default and potential loss of principal. The fund's share price and yield will be affected by interest rate movements. Bond prices generally move in the opposite direction of interest rates. Thus, as the prices of bonds in the fund adjust to a rise in interest rates, the fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Foreign investing involves additional risks such as currency and market volatility, as well as political and social instability. These and other risk considerations are discussed in the fund's prospectus.

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Planning

Tallying the many winners and losers of the SECURE Act

GUESTBLOG
FRED BARSTEIN

The open multiple-employer plans (MEPs) now called pooled employer plans (PEPs) under the recently adopted SECURE Act are the most important legislative change for defined-contribution plans since the 2006 Pension Protection Act. The question for advisers is whether they can ride the wave or be drowned, missing major opportunities and losing current clients.

With pension plans becoming less common and the viability of Social Security in question, DC plans or payroll-deduction retirement plans have moved from being "nice to have" to a required benefit.

Yet about half of American workers do not have a DC plan or an individual retirement account, showing the current need for PEPs. Many advisers think those plans will be adopted primarily by startups and small employers. They are wrong.

PEPs are attractive to plans of all sizes, even those of larger employers. MEPs, and now PEPs, offer plan sponsors what they really want: limited work, reduced liability and lower costs. Very few businesses are willing to allocate more money or personnel; nor do they want to take on additional liability — especially in light of increased litigation and regulatory oversight.

And while MEPs are required for pooled-employer organizations and available only to groups of employers that have a nexus, like associations, PEPs can be sponsored by record keepers, RIAs, broker-dealers, advisers, third-party administrators and money managers. That means employers get an expertly managed plan with institutional investments, while facing less work and liability.

What could go wrong? Who wins? And, by the law of economics, who loses?

WINNERS

First, participants will win. They will get superior investments that can better weather turbulent markets. And plan sponsors can offload more of the work and liability to pooled plan providers, employing savvy advisers, or at least those who have professional oversight.

Record keepers that adopt PEPs, whether as the pooled-plan provider (PPP) or partnering with a provider like a TPA, will enjoy more efficient distribution. Larger retirement plan advisers may create their own PEP, either acting as a PPP or, more likely, outsourcing to a third-party PPP. Less experienced RPAs can use open PPPs or those sponsored by their broker-dealers.

LOSERS

Who loses? What are the pitfalls?

The SECURE Act will not change the dynamic that plans are sold, not bought. Plan sponsors will not abandon their current provider or adviser overnight. It will take time, education and sales.

Regardless, the sale and administration of PEPs will become more efficient, leading to lower costs for record keepers, which could lead to reductions in their field forces.

While pooled plan providers and record keepers will likely distribute through advisers, some might see an opening to go direct. New entrants like health insurers and property and casualty providers could leverage existing relationships through their brokers. Those brokers only need to introduce clients to a PEP with superior service at lower costs. Brokers will need little to no expertise or involvement, and not only will they get paid, but they will solidify the relationship.

THE GOVERNMENT NEVER SCREWS THINGS UP, RIGHT?

PEPs can expose the clunky, outdated technology used by almost all record keepers, opening the door for new tech companies. It only makes sense for PEPs to have one record keeper to allow participants to easily transfer jobs and retain in-service credits — so some providers might get shut out. Managing participant data and privacy issues will become more essential within a PEP.

Finally, how the Labor Department crafts the regulations will determine whether PEPs become easy to adopt without unnecessary restrictions. The government never screws things up, right?

Advisers, broker-dealers, record keepers, money managers and TPAs that get ahead of the curve and prepare a go-to-market strategy will benefit greatly. Those that do not will become a footnote in the history of the DC market.

Fred Barstein is founder and CEO of The Retirement Advisor University and The Plan Sponsor University. He is also a contributing editor for InvestmentNews*'s Retirement Plan Adviser newsletter.*

Vanguard cements its hold on the target-date fund marketplace

BY EMILE HALLEZ

VANGUARD GOBBLED UP even more of the target-date fund market last year, and is nearing $1 trillion managed in those products, according to a report from Sway Research.

With $862 billion in target-date assets at the end of the year, the asset management giant oversees 38% of the $2.3 trillion target-date market. That's up a third from the $649 billion Vanguard managed at the end of 2018, when it oversaw 37% of all U.S. target-date assets, excluding custom products, according to the research. Those figures, which include assets in mutual funds and collective investment trusts, are up from $356 billion in 2015.

By comparison, Vanguard's share of the target-date fund market was 32% at the beginning of 2016, according to Sway.

The reason behind that rise is something familiar to nearly all plan sponsors — fees, said Chris Brown, principal of Sway. Advisers often pitch 401(k) plan designs that include Vanguard target-date funds "as a means to lower cost," Mr. Brown said.

"It's a huge savings. You can immediately knock a lot of the costs right out of the plan," he said.

For plan sponsors, that is meaningful. Investment management fees are among the top factors considered when selecting or retaining target-date funds, second slightly to portfolio construction, according to a recent survey by Callan.

TWO THEMES

Chris Thixton, adviser and principal with Pension Consultants Inc., said he sees two themes driving target-date sales in defined-contribution plans: fees and the choice between passive and actively managed underlying funds.

"Our research has shown that high costs don't provide results," Mr. Thixton said, noting that his firm does not recommend Vanguard's target-date funds to plan clients. But, he said, "fees without results are meaningless."

His firm includes Vanguard funds in its research process, as well as funds from other low-cost providers, after an initial screening, he said.

"We stay away from having cheap for the sake of showing cheap," he said. That allows the firm to recommend, if necessary, target-date series that primarily hold actively managed funds, Mr. Thixton said.

Nonetheless, the trend toward lower costs in 401(k) plans has benefited index-fund based target-date series across the market, Mr. Brown said. And fund providers that have an affiliated record-keeping business have a distinct advantage — a big reason why Vanguard, Fidelity Investments and T. Rowe Price are the largest target-date fund managers and collectively account for 63% of the market, according to Sway.

While just over half of target-date products are sponsored by companies that have their own record-keeping businesses, those same firms manage 85% of target-date assets, the report noted.

LOWERING FEES

The trend toward lower fees has also favored the use of collective investment trusts, Mr. Brown said. Since 2015, total assets in target-date CITs have increased by an average annual rate of 27%, compared with just 16% for target-date mutual funds, according to the report. In all, about 40% of target-date assets are now in CITs.

30%
TARGET-DATE FUND PRODUCTS CONSIDERED HYBRIDS

That trend has particularly benefitted one firm — NFP, Mr. Brown said. NFP, which only provides target dates in CIT form, was the 28th largest manager of target-date assets in 2015 but the 14th largest as of the end of 2019, he said.

To try to win over investors through low costs, numerous investment providers have added "hybrid" series that hold a mix of active and passive underlying investments. As of 2019, about 30% of target-date products fell into the hybrid category, but sales have not followed, according to Sway. Those products represented 8% of target-date assets last year, behind active series (36%) and passive ones (55%).

"It really still comes down to price," Mr. Brown said. "Vanguard is winning the passive war. And if plans are using funds that are active, it's American Funds."

Total assets in American Funds' target dates increased by about 50% year over year, hitting $155 billion, up from $104 billion at the end of 2018, the report shows.

Another category that has struggled is multimanager target-date suites, which invest in a mix of funds managed by third parties. These products accounted for only 3.5% of target-date assets as of 2019, according to Sway.

"Nobody seems to care that it's all one firm managing all these funds underneath," Mr. Brown said.

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As of 12/31/19, Janus Henderson Short Duration Income ETF VNLA Class I Shares Morningstar Ratings™ in the Ultrashort Bond category: 5 stars out of 161 funds, for the 3-year period.

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Legal woes mount for B-D that sold GPB placements

BY BRUCE KELLY

> **KEY POINTS**
> - Triad Advisors is facing investor lawsuits over sales of GBP's private placements.
> - Potential damages are close to $2.3 million.

LEGAL WOES ARE increasing for at least one broker-dealer that sold GPB Capital Holdings' private placements.

Triad Advisors is facing nine investor lawsuits alleging negligence on behalf of its advisers and representatives for selling the private investments, with potential damages reaching close to $2.3 million, according to a financial statement filed March 2 with the Securities and Exchange Commission.

THREE NEW COMPLAINTS

That's an increase of three new investor complaints since November, when Triad's former parent company, Ladenburg Thalmann Financial Services, said the B-D had been named in six customer arbitration complaints seeking a total of $1.65 million in damages.

Triad Advisors updated its exposure to the new GPB investor lawsuits as part of its annual audited financial statement, called a Financial and Operational Combined Uniform Single report, or FOCUS report, in industry parlance.

ACQUISITION COMPLETED

Last month, Advisor Group completed its acquisition of Ladenburg Thalmann and its independent broker-dealer subsidiaries, including Triad Advisors.

A spokesman for Advisor Group, Joseph Kuo, did not comment by deadline.

GPB Capital's legal problems are mounting quickly, and that could spell bad news for the 60 or so B-Ds that sold $1.5 billion of the firm's private placements. GPB is under investigation by the FBI and the SEC, and it has failed to produce audited financial statements for its funds. Investors don't know the value of the GPB funds, and thus, of their own investments.

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Betterment surpasses $22 billion AUM in 500,000 user accounts

BY RYAN W. NEAL

BETTERMENT APPEARS to be growing in the face of increased competition and market volatility.

The digital adviser now boasts more than 500,000 accounts, said Dan Egan, Betterment managing director of behavioral finance and investing.

A look into Betterment's book of business dispels some of the myths around the demographics of consumers who are turning to automated investment advice. A third of Betterment's customers, for example, are over the age of 50, Mr. Egan said. Average account size has also grown to $44,000, tripling what it was in 2012.

A lot of Betterment's account growth is coming from retirement plan rollovers from large institutions like Fidelity and Vanguard, which Mr. Egan said proves people are willing to pay a premium for Betterment's technology and guidance.

Across its various business lines — retail brokerage, RIA platform (Betterment for Advisors), defined-contribution plans (Betterment for Business) and checking and savings (Betterment Everyday) — Betterment said it now manages $22 billion.

The fact that total asset growth isn't as meteoric as it was several years ago does not surprise Mr. Egan, who compares Betterment's development as a growing company to that of his 4-year-old child.

"In the first year of a human being, the growth rate is something ridiculous, like 8%," he said. "As you get bigger, it's harder to maintain that growth."

ATTRACTIVE UPDATES

Recent updates to make the robo-adviser more attractive to traditional advisers and employers using its 401(k) platform have helped. The recent market volatility and coronavirus fears have also steered some clients away from investment products and into Betterment's checking and savings accounts.

Of course, new assets are harder to come by when nearly every bank, broker-dealer, custodian and registered investment adviser has its own robo-adviser, Mr. Egan admits.

"Over the past four or five years, every single large player has tried to come out with a product that looks and feels like ours," he said.

Overall assets managed by robos surged in 2019, but most of the growth came from full-service wealth management firms launching their own digital platforms, according to research from consulting firm Aite Group.

The robo-advice market is expected to reach $1.26 trillion by the end of 2023, up from $283 billion in 2019, according to the research. Robos like Wealthfront and Betterment, however, will likely be squeezed by competition from traditional financial services firms.

NEW COMPETITION

Robo-adviser entrants from Vanguard and Charles Schwab still own the market in terms of assets, with $148 billion and $43 billion in assets under management, respectively, according to the most recent Robo Report from research firm Backend Benchmarking.

Micro-investing app Acorns has gathered nearly 3 million accounts with its strategy of investing spare change from customers' credit card purchases, but only $1.8 billion in AUM, according to its most recently filed form ADV.

A spokesperson for Wealthfront, Betterment's Silicon Valley-based rival, said the company has about 400,000 accounts and manages more than $23 billion.

Betterment remains undaunted by the competition, and Mr. Egan said it's encouraging to see the vision of low-cost, digitally powered financial advice become a widespread reality.

"We forced a lot of the industry to take on what we are doing," he said.

Betterment plans to go public and believes it is on track to do so with its ongoing user growth.

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Regulation/Legislation

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

SEC's Lee: Advertising rule overhaul is too vague

BY MARK SCHOEFF JR.

A SECURITIES AND Exchange Commission proposal to overhaul rules involving investment adviser advertising may be too vague to ensure compliance, a commissioner said March 5.

The agency released the proposed amendments in November, marking the first attempt to update the requirements since 1961. Under the proposed rule, the SEC would allow advisers to post testimonials, endorsements and third-party ratings on social media.

The effort to bring adviser advertising regulations into the internet era was mostly welcomed by adviser trade associations. But in comment letters last month, they also expressed concern that it was too expansive and unclear in certain areas.

SEC Commissioner Allison Herren Lee expressed concern that the proposal's principles-based approach would lead to compliance uncertainty.

"If rules are too broad or vague, we may end up circumscribing conduct that we never intended to capture," Ms. Lee said at an Investment Adviser Association conference in Washington, D.C.

She cited two areas in the proposed rule that may need more specificity: One would govern the use of illustrations of past investment performance in marketing materials and the other would set the parameters for the use of testimonials.

ALLISON HERREN LEE

PAST CRITICISM

Ms. Lee noted past criticism of the commission for engaging in "regulation by enforcement," or cracking down on advisers even though its own rules don't provide specific compliance requirements.

"The current proposal may rely too heavily on high-level principles, which can certainly exacerbate this issue," she said. "I would sincerely like to hear from the folks in this room and have you help us get that balance right."

Ms. Lee said she supports the broad thrust of the update to the advertising rules.

"It represents a meaningful improvement on the existing framework," she said.

The IAA is pushing the SEC to classify clients of investment advisers as sophisticated investors who would be eligible to purchase unregistered securities, or private placements. Currently, the burgeoning private market is limited to so-called accredited investors, who meet certain income and wealth thresholds.

Last year, the SEC proposed to expand the definition of accredited investor to include people with securities licenses or other special knowledge and experience. It did not include a provision, however, to make working with an investment adviser a qualification.

Ms. Lee, the lone Democrat on the now four-person commission, was cool to the suggestion.

"I have some concerns about it writ large and whether it would work and whether, in fact, we really ought to be looking for ways to expand access into these markets for retail investors rather than, potentially, taking steps to making the public markets more attractive so that there's more investment choice in that area," Ms. Lee said.

In another session at the IAA conference, Dalia Blass, director of the SEC's Division of Investment Management, said the agency is considering ways to allow retail investors to participate in private markets. She pointed out that they cannot use private securities in their defined-contribution retirement plans.

But Ms. Blass did not commit to IAA's idea of making investment advisers a gatekeeper to unregistered securities for mom-and-pop investors.

"We are looking at private access," she said.

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Financial Services Institute's top advocacy priorities for 2020

Representing our members' interests as effectively as possible on regulatory and legislative matters requires us not only to be deeply involved in issues that are top of mind today, like the Securities and Exchange Commission's Regulation Best Interst, but to anticipate where the next potential challenges for independent advisers and firms may emerge.

GUESTBLOG
DALE BROWN

With this in mind, we continually identify the issues most likely to impact our members' businesses both today and six to 12 months from now, in order to develop effective engagement strategies Here are our advocacy priorities for 2020.

Issues of concern to independent financial services firms and advisers. Tax treatment of financial services and businesses. Independent advisers continue to face challenges to their independent contractor status. Reclassifying advisers would have profound tax implications that would undermine our industry's economic model. We will continue to educate lawmakers on the unintended consequences of such efforts. In addition, we will continue to oppose proposals to tax financial services and transactions or impose professional privilege taxes on advisers.

Reducing burdens on business entities operated by advisers. The industry has evolved, and it is time for the SEC to allow payment of securities income directly from firms to business entities operated by advisers. We will continue to seek relief on this issue, as well as push to ease the burden of audits by the Public Company Accounting Oversight Board on small firms and allow association health plans.

Issues of concern to the financial services industry standard of care. We are committed to working with our industry and regulators to ensure that Reg BI successfully establishes an effective standard of care that improves investor protection and supports access to financial advice and services. At the same time, we will continue to vigorously oppose efforts by states to create their own fiduciary standards or disclosure requirements to prevent a confusing patchwork of potentially conflicting regulations.

Regulation by enforcement. We will continue to fight back against enforcement actions that are predicated solely on staff guidance or that create new requirements without a transparent rule-making process that includes notice and comment. Accordingly, we remain committed to raising concerns about the SEC's share class disclosure initiative, monitoring FINRA's new examination program, and pressing for a "grace period" for Reg BI implementation.

Federal cybersecurity requirements. We support legislative efforts to create a national data breach notification requirement that preempts states' own patchwork of unique approaches. We will also advocate for uniform, scalable requirements that will not unduly burden small firms.

Issues of concern to clients. Retirement security solutions provided by the private sector. We support the adoption of multiple-employer plans under Reg BI. Our efforts include supporting state MEPs and voluntary state-run retirement plans as alternatives to mandatory state-run retirement plans. We are also working to bolster Main Street Americans' ability to save for retirement by advocating to restore the deductibility of advisory fees.

Prevention of financial exploitation of vulnerable adults. We will continue to encourage states to establish legislation to protect senior investors, patterned on NASAA's model rule. Bolstered by the support and engagement of our members, we look forward to a productive year working toward achieving these priorities.

Dale Brown is president and CEO of the Financial Services Institute.

IT'S ONE THING TO START UP

IT'S ANOTHER TO KEEP GOING

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ClearBridge Investments

84% PORTION OF INVESTORS IMPLEMENTING AN ESG STRATEGY WHO SAY IT HAS A POSITIVE ASSOCIATION WITH FINANCIAL PERFORMANCE
SOURCE: INVESTMENTNEWS RESEARCH

2020 Lipper Awards: ESG investments the big winner

BY JEFF BENJAMIN

THE 2020 REFINITIV LIPPER Awards stand out as the latest evidence that investors aren't giving up performance when they support investments based on environmental, social and governance criteria.

Exhibit A is Calvert Research and Management. The $22 billion asset management firm that has long been associated with sustainable investing strategies is the overall winner in the small-company category.

"This is one of a number of occurrences that verify the fact that environmental impact and social impact really matter to companies' financial outcomes, and that investors benefit from companies knowing the ESG policies' impact on their own bottom line," said John Streur, Calvert's president and chief executive officer.

This is the first time Calvert received the annual award, which, like all the Lipper awards, is based on risk-adjusted performance over the past three-, five- and 10-year periods.

"We are very purposeful in our ESG research to focus on financial materiality," Mr. Streur said. "We understand in order to do this in a way that works for investors we have to produce the kind of results that Lipper recognizes."

While seeing an ESG-focused firm like Calvert earn the high honor of overall company winner is an endorsement of ESG investing, the winner of the overall large-company category might be an even stronger endorsement for ESG analysis and research factors.

ESG-FRIENDLY WITHOUT LABEL

MFS Investment Management, the nation's oldest mutual fund company, which manages $528 billion, doesn't have a single fund labeled ESG, but for the past two years it's been rated as the most ESG-friendly shop, based on a global rating system at Morningstar.

"We don't think you have to forego returns for ESG strategies," said MFS Chief Executive Mike Roberge, who said the asset manager is moving past the labels to apply ESG analysis as part of its broader investment research.

MFS also is the overall winner in the large company category, an accolade it hasn't received since 2011 coming out of the financial crisis, which Mr. Roberge described as an ideal time for active managers to prove their worth.

"As the industry has been challenged by the move to passive investing, it's clearly more challenging than it was 10 years ago if you just look at industry flows," he said. "We didn't need to remake ourselves, we just needed to stay true to what we are."

MFS also won the large-company equity award this year. WCM Investment Management won the small-company equity award.

Eyes on the Lipper prize: [Top] Pradeep Menon, managing director, Refinitiv; **[Bottom, from left]** Antony Currie, host, Reuters Breakingviews; Kate Starr, CIO, Flat World Partners; Robert Jenkins, global head of research, Lipper; George Moriarty, chief content officer, *InvestmentNews*

While Lipper recognizes 324 individual fund winners and eight fund family awards, the unintentional ESG theme was not lost on Robert Jenkins, head of research at Lipper, Refinitiv.

"For the fund company awards, we're looking at the mix for good returns across the product pallet, and companies are rewarded for having less volatile returns because less volatile funds tend to be the ones retail investor stick to," he said. "I'm particularly excited about Calvert because they've been doing ESG since the 1970s before it was cool, and the ESG space suffers a bit from the myth that you have to take a hit on performance."

INDIVIDUAL FUND AWARDS

As in past years, companies with a large number of funds won the most individual fund awards. Fidelity Investments, The Vanguard Group and Pimco were the biggest winners of the night, raking in a combined total of more than two dozen individual fund awards.

"The reason Fidelity exists hasn't changed since our founding in 1946: to strengthen and secure our clients' financial well-being," said Bart Grenier, Fidelity's head of asset management.

"Delivering strong, consistent long-term performance for our fund shareholders is core to that mission, and we're honored that the commitment and hard work of our investment professionals have been recognized by Lipper," he said.

Even though the trophies are awarded based on risk-adjusted performance over three different multiyear periods, Mr. Jenkins of Lipper admitted the 20% market correction at the end of 2018 set the table for strong returns by actively managed funds in 2019.

"Last year, active managers benefited from the trough in the fourth quarter of 2018," he said. "And right now, it's looking at the exact same thing. Active managers that might have taken some cash off the table are smiling now."

In the fixed-income and mixed assets categories, including target-date funds, Nuveen Fund Advisors and its parent company TIAA were the big winners this year.

Nuveen was acquired by TIAA in 2014, but last year was its first full year operating with complete integration of the combined $1.1 trillion TIAA platform.

Nuveen won the large-company award for fixed income, and the fund family still branded as TIAA won the large-company mixed assets trophy for an unprecedented fifth straight year.

> **"WHEN YOU COMBINE THE TWO ORGANIZATIONS, IT'S A PERFECT COMPLEMENT."**
> BILL HUFFMAN, HEAD OF EQUITIES AND FIXED INCOME, NUVEEN

"When you combine the two organizations, it's a perfect complement from a fixed-income standpoint," said Bill Huffman, Nuveen's head of equities and fixed income.

"It's the proof point that we can manage across a broad, diverse number of asset classes and drive competitive performance over a long period of time that really sets us apart," he added. "Whenever you have very volatile markets, active management can show its true colors and if you're doing it well you're going to win awards like this."

Diamond Hill Capital Management won the small-company award for fixed income, and Astor Investment Management won the small-company mixed assets award.

"It's meaningful for a smaller shop like ours to get this recognition," said Rob Stein, founder and chief executive of Astor, which manages $2.7 billion across three funds.

A first-time Lipper award winner, the 17-year-old firm also won an individual fund trophy for Astor Macro Alternative (GBLMX).

"For whatever reason, the broker-dealers and wirehouses like us, and we've always been able to get on platforms," Mr. Stein said. "It's a combo of performance and service, and the value you're adding to the client."

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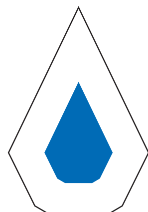

REFINITIV LIPPER FUND AWARDS

RECOGNIZING TOP-PERFORMING FUNDS

PRODUCED BY
IN Content Strategy Studio

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U.S. FUND FAMILY WINNERS

AWARD	FIRM SIZE*	MANAGEMENT COMPANY NAME
Overall	Large Company	MFS Investment Management
Overall	Small Company	Calvert Research and Management
Equity	Large Company	MFS Investment Management
Equity	Small Company	WCM Investment Management
Fixed Income	Large Company	Nuveen Fund Advisors, LLC
Fixed Income	Small Company	Diamond Hill Capital Management, Inc.
Mixed Assets	Large Company	TIAA Investments
Mixed Assets	Small Company	Astor Investment Management, LLC

*Large and Small Breakpoint set at $87.6 billion AUM

AWARDS METHODOLOGY

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, 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

ASSET CLASS GROUP AWARDS

Asset class group awards will be given to the best large and small groups separately. Large fund family groups with at least five equity, five bond, or three mixed-asset portfolios in the respective asset classes are eligible for a group award. Small fund family groups will need to have at least three distinct portfolios in one of the asset classes – equity, bond, or mixed-asset. 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.

OVERALL GROUP AWARD

An overall group award will be given to the best large and small group separately. Large fund family groups with at least five equity, five bond, and three mixed-asset portfolios are eligible for an overall group award. Small fund family groups will need to have at least three equity, three bond, and three mixed-asset portfolios. An overall group award will be given to the group with the lowest average decile 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. 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 to as promoter or sponsor company.

ASSETS-UNDER-MANAGEMENT BREAKPOINT CALCULATION

- **United States:** All eligible open-end funds (see Specific Methodology Issues for the U.S.) with sales permission in the United States will be considered. The assets-under-management breakpoint is found at 85 percent accumulated weight value.

TROPHIES AND CERTIFICATES

Winning funds over three years within the 20 largest classifications per award universe according to assets under management will be awarded a trophy. Where appropriate, only funds domiciled in the respective country will be taken into consideration for determining the largest classifications. All winning groups will be awarded a trophy as well. The methodology for awarding trophies in regions is subject to change based on local market needs. However, all winners will receive a certificate, which can be downloaded by entering a fund name or ticker on lipperfundawards.com.

TROPHY WINNERS

MANAGEMENT COMPANY	LIPPER CLASSIFICATION	FULL FUND NAME	TICKER SYMBOL
Vanguard Group, Inc.	Corporate Debt A-Rated Funds	Vanguard Long-Term Investment-Grade Fund, Admiral	VWETX
Grantham Mayo Van Otterloo & Company, LLC	Alternative Global Macro Funds	GMO Special Opportunities Fund, VI	GSOFX
Orrell Capital Management, Inc.	Precious Metals Equity Funds	OCM Gold Fund, Advisor	OCMAX
Nuveen Fund Advisors, LLC	California Municipal Debt Funds	Nuveen California High Yield Municipal Bond Fund, I	NCHRX
Vanguard Group, Inc.	California Intermediate Municipal Debt Funds	Vanguard California Intermediate-Term Tax-Exempt Fund, Admiral	VCADX
Morgan Stanley Investment Management, Inc.	Core Plus Bond Funds	Morgan Stanley Institutional Core Plus Fixed Income Portfolio, I	MPFIX
Franklin Templeton Investments	Convertible Securities Funds	Franklin Convertible Securities Fund, R6	FCSKX
ProFunds Group	Dedicated Short-Bias Funds	ProFunds Short Oil & Gas ProFund, Investor	SNPIX
Fidelity Management & Research Company	Emerging Markets Funds	Fidelity Advisor Emerging Asia Fund, I	FERIX
Gateway Investment Advisers, LLC	Alternative Equity Market Neutral Funds	Gateway Fund, Y	GTEYX
Columbia Threadneedle Investments	European Region Funds	Columbia Acorn European Fund, I2	CAEEX
Loomis Sayles & Company, LP	Flexible Portfolio Funds	Loomis Sayles Global Allocation Fund, Y	LSWWX
PIMCO	General Bond Funds	PIMCO Long-Term Credit Bond Fund, Institutional	PTCIX
Crossmark Global Investments	Global Equity Income Funds	Steward Global Equity Income Fund, Institutional	SGISX
Fidelity Management & Research Company	Global High Yield Funds	Fidelity Series High Income Fund	FSHNX
John Hancock Group	Global Large-Cap Value Funds	John Hancock Global Equity Fund, R6	JGEMX
PGIM Investments, LLC	Global Income Funds	PGIM Global Total Return Fund, R6	PGTQX
Invesco Funds	General & Insured Municipal Debt Funds	Invesco Oppenheimer Rochester AMT-Free Municipal Fund, Y	OMFYX
AllianceBernstein, LP	Global Multi-Cap Core Funds	AB Global Core Equity Portfolio, Advisor	GCEYX
Morgan Stanley Investment Management, Inc.	Global Multi-Cap Growth Funds	Morgan Stanley Institutional Global Opportunity Portfolio, IS	MGTSX
PIMCO	GNMA Funds	PIMCO GNMA and Government Securities Fund, Institutional	PDMIX
Grantham Mayo Van Otterloo & Company, LLC	Global Natural Resources Funds	GMO Resources Fund, IV	GOVIX
PIMCO	General U.S. Government Funds	PIMCO Long-Term U.S. Government Fund, Institutional	PGOVX
Vanguard Group, Inc.	General U.S. Treasury Funds	Vanguard Extended Duration Treasury Index Fund, Institutional Plus	VEDIX
Fidelity Management & Research Company	Health/Biotechnology Funds	Fidelity Select Medical Technology and Devices Portfolio	FSMEX
Invesco Funds	High Yield Municipal Debt Funds	Invesco Oppenheimer Rochester High Yield Municipal Fund, Y	ORNYX
Fidelity Management & Research Company	Industrials Funds	Fidelity Select Defense and Aerospace Portfolio	FSDAX
MML Investment Advisers, LLC	International Large-Cap Core Funds	MassMutual Select Overseas Fund, I	MOSZX
Vanguard Group, Inc.	International Large-Cap Growth Funds	Vanguard International Growth Fund, Admiral	VWILX
PIMCO	International Multi-Cap Core Funds	PIMCO StocksPLUS International Fund (U.S. Dollar-Hedged), Institutional	PISIX
Morgan Stanley Investment Management, Inc.	International Multi-Cap Growth Funds	Morgan Stanley Institutional International Advantage Portfolio, I	MFAIX
Harvest Global Investments Limited	International Income Funds	Harvest Asian Bond Fund, Institutional	HXIIX
Fidelity Management & Research Company	International Small/Mid-Cap Core Funds	Fidelity Advisor International Small Cap Fund, I	FIXIX
Invesco Funds	International Small/Mid-Cap Growth Funds	Invesco Oppenheimer International Small-Mid Company Fund, R6	OSCIX
Dimensional Fund Advisors, LP	Intermediate U.S. Government Funds	DFA Intermediate Government Fixed Income Portfolio, Institutional	DFIGX

TROPHY WINNERS

MANAGEMENT COMPANY	LIPPER CLASSIFICATION	FULL FUND NAME	TICKER SYMBOL
PIMCO	Inflation-Protected Bond Funds	PIMCO Long-Term Real Return Fund, Institutional	PRAIX
DoubleLine Funds	Large-Cap Value Funds	DoubleLine Shiller Enhanced CAPE, I	DSEEX
Eaton Vance Management	Loan Participation Funds	Eaton Vance Floating-Rate Advantage Fund, I	EIFAX
Vanguard Group, Inc.	Massachusetts Municipal Debt Funds	Vanguard Massachusetts Tax-Exempt Fund, Investor	VMATX
TIAA Investments	Mixed-Asset Target 2010 Funds	TIAA-CREF Lifecycle 2010 Fund, Institutional	TCTIX
T. Rowe Price Associates, Inc.	Mixed-Asset Target 2020 Funds	T. Rowe Price Retirement 2020 Fund	TRRBX
American Funds	Mixed-Asset Target 2035 Funds	American Funds 2035 Target Date Retirement Fund, R6	RFFTX
American Funds	Mixed-Asset Target 2050 Funds	American Funds 2050 Target Date Retirement Fund, R6	RFITX
T. Rowe Price Associates, Inc.	Mixed-Asset Target 2025 Funds	T. Rowe Price Retirement 2025 Fund	TRRHX
American Funds	Mixed-Asset Target 2040 Funds	American Funds 2040 Target Date Retirement Fund, R6	RFGTX
American Funds	Mixed-Asset Target 2045 Funds	American Funds 2045 Target Date Retirement Fund, R6	RFHTX
BlackRock, Inc.	Mixed-Asset Target Today Funds	BlackRock LifePath Dynamic Retirement Fund, K	LPSAX
Touchstone Advisors, Inc.	Mid-Cap Core Funds	Touchstone Mid Cap Fund, Institutional	TMPIX
MFS Investment Management	Mid-Cap Value Funds	MFS Mid Cap Value Fund, R6	MVCKX
Madison Asset Management, LLC	Multi-Cap Core Funds	Madison Investors Fund, R6	MNVRX
Fidelity Management & Research Company	Multi-Cap Growth Funds	Fidelity Advisor Series Growth Opportunities Fund	FAOFX
Nuveen Fund Advisors, LLC	Minnesota Municipal Debt Funds	Nuveen Minnesota Municipal Bond Fund, I	FYMNX
MFS Investment Management	Mixed-Asset Target Allocation Aggressive Growth Funds	MFS Aggressive Growth Allocation Fund, I	MIAGX
Vanguard Group, Inc.	Mixed-Asset Target Allocation Conservative Funds	Vanguard Wellesley Income Fund, Admiral	VWIAX
Putnam Investment Management, LLC	Mixed-Asset Target Allocation Moderate Funds	George Putnam Balanced Fund, R6	PGEJX
Fidelity Management & Research Company	Retirement Income Funds	Fidelity Advisor Managed Retirement 2025 Fund, I	FIRFX
Vanguard Group, Inc.	New Jersey Municipal Debt Funds	Vanguard New Jersey Long-Term Tax-Exempt Fund, Admiral	VNJUX
Icon Funds	Natural Resources Funds	ICON Natural Resources Fund, S	ICBMX
Invesco Funds	New York Municipal Debt Funds	Invesco Oppenheimer Rochester Municipals Fund, Y	RMUYX
Invesco Funds	Pennsylvania Municipal Debt Funds	Invesco Oppenheimer Rochester Pennsylvania Municipal Fund, Y	OPAYX
TIAA Investments	Real Estate Funds	TIAA-CREF Real Estate Securities Fund, Institutional	TIREX
Needham Investment Management, LLC	Small-Cap Core Funds	Needham Small Cap Growth Fund, Retail	NESGX
MFS Investment Management	Small-Cap Value Funds	MFS New Discovery Value Fund, R6	NDVVX
PGIM Investments, LLC	Short High Yield Funds	PGIM Short Duration High Yield Income Fund, R6	HYSQX
PIMCO	Short Investment-Grade Debt Funds	PIMCO Low Duration Income Fund, Institutional	PFIIX
Transamerica Asset Management, Inc.	Short-Intermediate Investment-Grade Debt Funds	Transamerica Asset Allocation Short Horizon, R4	TSHFX
Eaton Vance Management	Short-Intermediate Municipal Debt Funds	Eaton Vance Short Duration Municipal Opportunities Fund, I	EMAIX
Fidelity Management & Research Company	Short-Intermediate U.S. Government Funds	Fidelity Intermediate Government Income Fund	FSTGX
Voya Investments, LLC	U.S. Mortgage Funds	Voya Securitized Credit Fund, P	VSCFX
Fidelity Management & Research Company	Utility Funds	Fidelity Select Utilities Portfolio	FSUTX

MFS: Analyzing What Could Go Wrong

The top Overall Large Company and Equity Large Company winner looks beyond the macro

Earning a Lipper Fund Family Award is a notable achievement. Winning two such awards, which MFS Investment Management accomplished this year in the Overall Large Company and Equity Large Company categories, constitutes an outstanding accolade. To understand how MFS was able to achieve this honor, and to learn where the award-winner sees risks and opportunities ahead, *InvestmentNews* Content Strategy Studio recently spoke with Ted Maloney, the firm's Chief Investment Officer. Below are edited excerpts of the interview, which was conducted before the market turmoil of the last week of February.

IN CONTENT STRATEGY STUDIO: Where do you see equity and fixed-income markets headed over the remainder of the year?

TED MALONEY: That question ties into our investment philosophy and methodology, which takes a long-term approach, generally over market cycles of five to 10 years. Over those time periods, the primary lever of alpha generation is security selection, whether on the fixed-income side or the equity side. As a result, the macro market or economic picture isn't the most important driver of our process.

That said, this market cycle has gone on much longer than the typical cycle. We've been in an equity bull market for more than 10 years, and we're 20 years into a period of declining interest rates. The duration of the cycle has been unprecedented, and it is influencing what we do day to day. We remain focused on risk management, downside protection and preserving capital — now only more so.

We're looking for where things can go wrong after so many years of things going right. But one of our key competitive advantages is that we don't make year-to-year calls. We try to think about what would happen if we bought a particular security or underweighted a security longer term. Would we outperform for our clients? That said, given where we are in the cycle, we expect lower returns in both equities and fixed income over the next 10 years. Could that look like a stark downturn then recovery over that period? Yes. Could returns just muddle along? That's possible, too; the way lower returns come in could take any shape.

INCSS: How does that outlook inform what you are doing in fixed income currently?

> "We believe our collaborative approach differentiates us, our U.S. strategies benefit from our global perspective, and our equity and fixed-income strategies benefit from analysts on each side working together."
>
> **Ted Maloney**
> **Chief Investment Officer**
> **MFS Investment Management**

TED MALONEY: During this cycle, we were able to add value through duration calls. But our confidence in making a duration call in either direction is lower now than in recent years because of how low rates are and what's driving them so low. One factor, of course, has been the recent coronavirus situation, which is causing supply chain disruptions and demand destruction in Asia. So we're focusing harder than ever on credit and pulling fewer duration levers than in recent years.

INCSS: What about equities?

TED MALONEY: We've always been highly focused on sustainability. That word has evolved to mean different things, and now it is most often associated with ESG factors. For us, it's about investing long-term in companies that will have sustainable and durable earnings and cash flow. Owning companies at the higher end of the spectrum of those characteristics has driven our performance over the years. We will continue to do that, but we don't buy at any price. The companies we like have gotten to very high levels compared to the rest of the market, so we're always looking at valuations.

Although we're still looking for quality, we now may find much better value if we forego some of the highest levels of quality, which we're doing on a stock-by-stock basis. We also have to make sure the companies we select will maintain the durability of their earnings and cash flow because the degree to which the market now punishes any drop off is greater today than it was in the past.

In general, U.S. equities have massively outperformed in recent years. The drivers of that have been better growth and higher valuations. Some of that growth, which has come from transitions in technology, has been sustainable and commands higher margins. But some companies have boosted margins unsustainably by gouging on price or by enjoying some advantages that can change. Others have taken on tremendous leverage at current low rates. We see these as unsustainable ways to increase margins and avoid those issues.

INCSS: Tells us about the MFS investment process.

TED MALONEY: We believe our collaborative approach differentiates us, our U.S. strategies benefit from our global perspective, and our equity and fixed-income strategies benefit from analysts on each side working together. Because we have strong micro views rather than macro views, we've been able to add value by underweighting or overweighting securities based on where we find value regionally.

Just as the tools that we use have evolved to help us get better at sustainability, we also have increased our use of data analytics. We have embedded data analysts within teams — the same way that we have embedded ESG experts — to help us capture our insights more efficiently and put them to work for our clients. ■

Calvert: Recognizing the Mainstreaming of ESG

The top Overall Small Company has been a champion of responsible investing from day one

Calvert Research and Management, a subsidiary of Eaton Vance for just over three years, has been in the forefront of responsible investing since its founding in 1976. While winning several Lipper Awards in the past in various categories, this is the first time the firm has won an overall Fund Family award, signaling that investing according to environmental, social and governance (ESG) principles is no longer a niche approach. To find out more about the firm's strategies and outlook, *InvestmentNews* Content Strategy Studio spoke with Anthony Eames, vice president and director of responsible investing. Edited excerpts of the interview, which took place before the late February market decline, follow.

IN CONTENT STRATEGY STUDIO: Undoubtedly, most advisers associate Calvert with ESG investing. Tell them some things about Calvert they may not already know.

ANTHONY EAMES: At the end of last year, we managed $21.5 billion through 28 distinct mutual funds as well as through separately managed accounts. We manage fixed-income and equity portfolios using active and passive strategies across the U.S. and other developed markets, as well as emerging markets. By integrating ESG with traditional criteria, we think we are uniquely positioned to provide access to global capital markets for responsible investors.

We view last year as having been a tipping point for us and the industry generally in that assets flowing to ESG strategies were at an all-time high — four times what they were in 2018. We're finding that investors are looking for a manager who can deliver investment strategies that integrate traditional analysis with an evaluation of how companies are managing their nontraditional capital in ESG areas.

INCSS: Explain "nontraditional" capital.

ANTHONY EAMES: Using the ESG lens, the "E" represents how companies are using natural capital, or the natural resources that are associated with their product or service. The "S" represents human capital and deals with issues such as product safety, human rights, data security and anything else related to people. The "G" is about governance characteristics, including whether company boards are independent, how the company manages diversity, whether investors have rights, the transparency of corporate audit controls and whether there is a check on executive compensation.

We have developed a very deep research process to understand how companies are managing these issues. The process focuses on factors most relevant to specific companies. We call that "financial materiality." For software makers, for instance, we'll focus less on their environmental impact than on how they manage their human capital. For a utility company, we'll focus more on how it manages its natural resources.

Our research process allows us to rank and score companies on their financial materiality factors. We identify companies that are the most attractive in terms of managing their financial materiality factors; we avoid the companies that have high risk in these areas. We then combine that work with traditional analysis, including research by analysts at Eaton Vance.

> "Academic research has shown that giving more weight to ESG issues that are most important to specific companies greatly improves the chances for outperformance over equally weighting all ESG factors."
>
> **Anthony Eames, Vice President and Director**
> **Calvert Research and Management**

Part of what we do also includes reporting on the ESG impact of the companies we invest in, such as noting the level of their toxic emissions and how much water they use, and then comparing that to traditional benchmarks. Our funds generally have less adverse impact. We also engage with companies and push them to do better and to improve their ESG performance, which we believe will improve their financial performance.

INCSS: Have financial materiality screenings helped performance?

ANTHONY EAMES: Academic research has shown that giving more weight to ESG issues that are most important to specific companies greatly improves the chances for outperformance over equally weighting all ESG factors. In fact, you could argue that a company using the wrong ESG criteria would make poor capital allocations and misuse capital. Our suite of nine indexes, on which our passive funds are based and which incorporate our financial materiality view, generally beats traditional indexes.

INCSS: How do you detect and protect against "greenwashing," in which companies and some asset managers say they are doing more along ESG lines than they truly are?

ANTHONY EAMES: We're seeing a lot more of this as ESG investing becomes more popular. For investment managers, it takes a lot of effort and resources to evaluate companies and vet data from various sources to make sure companies are actually doing what they say they are doing. We have a 30-person team devoted to that. Advisers and investors who want to protect themselves from greenwashing should make sure their investment manager is actually allocating the necessary resources to do the job properly.

INCSS: Finally, what is Calvert's outlook for equities and fixed income for the remainder of the year?

ANTHONY EAMES: On the equities side, after a tremendous run of more than a decade, evaluations are lofty. We're not necessarily predicting a recession or increased volatility, but as time passes, those become increasingly likely. Most of our funds on the equity side have a high-quality orientation in addition to an ESG focus, and we believe securities with those factors do better on a relative basis in volatile markets and when the economy doesn't perform. So we believe being defensive and diversified makes sense in equities.

It's similar in fixed income. Our view is that rates will be range-bound and stable, but we definitely advocate diversification. Because yields are so low, we're making thoughtful investments in a variety of fixed-income asset classes. ■

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Nuveen/TIAA: Where's the Bond Market Going?

The Large Company winner in Fixed Income and Mixed Assets looks ahead

A Lipper Fund Family Award winner for so long that its absence from the list of annual honorees might be more surprising than its presence, Nuveen Fund Advisors/TIAA Investments captured the top spots this year in the Large Company Fixed Income and Large Company Mixed Assets categories. For the firm's views of where fixed-income markets are and where they are likely to be going, *InvestmentNews* Content Strategy Studio asked Bill Huffman, head of Nuveen equities and fixed income, and Bill Martin, Nuveen's global fixed income chief investment officer, to weigh in. Below, are edited comments of an interview conducted Feb. 20.

IN CONTENT STRATEGY STUDIO: Gentlemen, first give us a thumbnail of what "large" means in the context of a fixed-income manager.

BILL HUFFMAN: Overall, we manage $500 billion in fixed-income assets and have depth in almost every sector of the market. We have over $20 billion in high-yield exposure, $60 billion in investment-grade, and we're a long-time industry leader in municipal debt, with over $180 billion in direct mandates. We also oversee $12 billion in emerging-market debt. Our team consists of more than 100 research analysts. And we're extremely proud of being honored for the fifth straight year for our work in mixed assets. We're also proud of an investment process that has been built over decades and for being one of the few asset managers that has been incorporating ESG (environmental, social and governance) factors in the fixed-income investment process since the early 1990s. We have $12 billion in dedicated ESG strategies and $4.5 billion dedicated to impact investments.

INCSS: So let's jump into some forecasting. What's your fixed-income outlook? Where are interest rates headed?

BILL MARTIN: Our outlook is informed by our heritage as an asset manager, and especially our work for insurance and retirement clients, which has cemented our risk management culture. Because credit markets have asymmetric risk in which there is little upside and big downsides, our portfolio managers are really risk managers and apply that perspective to their forecasts.

When we look forward now and see equities markets responding to the coronavirus with greater volatility than fixed-income markets, our general view is that the Federal Reserve will try to remain patient, given that U.S. consumers remain relatively resilient due to historically low unemployment and their growing income. But as we look at the growth outlook for 2020 in light of recent events, we're now more cautious. Where we saw a 2020 GDP growth range of 2% to 2.25% late last year, because of recent events we now see growth more likely to end the year in the 1.5% to 2% range.

Bill Huffman
Head of Equities and Fixed Income
Nuveen Fund Advisors/TIAA Investment

That said, as risk managers, we are certainly monitoring what's going on in China because China contributes double the level of global GDP growth as the U.S. We have revisited our assumption of China growth and lowered it to below 3%, or possibly even closer to 0%. So while equities may be too optimistic about a V-shaped recovery, we believe the bond market, given its bearish outlook, may be too pessimistic. We're still calling for a range of 1.5% to 2% for 10-year Treasuries by year-end.

Bill Martin
Global Fixed Income Chief Investment Officer
Nuveen Fund Advisors/TIAA Investment

INCSS: Are you concerned by the level and quality of corporate debt?

BILL MARTIN: It doesn't bother us; it influences our investment approach. Again, it's a question of managing risk. In high-yield and investment-grade corporate credit, we're laser-focused on picking our spots. Overall, we think valuations are stretched relative to the overall strength of issuers. In the investment-grade area, we're focused on the deleveraging trends that are supportive of improving fundamentals, particularly in telecoms. In high yield, when we look at fundamentals and where we are in the cycle, we believe spreads are tight and valuations are a bit rich. We think there will be better times ahead to enter the market.

We're currently carrying lower allocations to corporate credit so that can fund additional asset-class exposure to areas less exposed to U.S. corporate volatility, such as portions of the asset-backed securities market tied to the resiliency of the consumer, including receivables and the residential mortgage market. In addition, we see investing in the emerging-markets (EM) area, where we also won a Lipper Award, as offering tremendous opportunities to diversify. On a historical basis, EM debt offers compelling value on a select basis by country and across sovereign and corporate credit.

INCSS: Broadly, what advice would you offer for financial advisers and their clients?

BILL HUFFMAN: We would encourage advisers and clients to continue to favor fixed income as an allocation within a broader set of investments. But given where rates are, we suggest diversifying risk in fixed income and relying on managers with sector expertise who can exploit relative value across sectors. Security selection and sector allocation will drive alpha in this market environment.

INCSS: What about municipal bonds?

BILL MARTIN: There have been tremendous flows into the market, and we don't see that abating. One of the more interesting developments so far in 2020 has been the heightened issuance of taxable municipals, which has created opportunities across the fixed-income complex for us to assign portions of the portfolio to taxable munis rather than to corporate issues. Against a global backdrop of a chase for yield, where in many cases investors face the prospect of negative yields, taxable munis are stepping in to fill some of that void. ■

Diamond Hill: A Nimble Player in a Market of Giants

What the Small Company Fixed Income winner sees for markets in 2020

Diamond Hill Capital Management views being a relatively small player in a field of giants as an advantage, especially for its clients. To find out why, and to understand how the Columbus, Ohio-based firm became the Fixed Income winner in the Small Fund Company category, *InvestmentNews* Content Strategy Studio recently spoke with the co-managers of its corporate credit and high-yield strategies, John McClain and Bill Zox, who also serves as Diamond Hill's Chief Investment Officer; and Henry Song, portfolio manager for the firm's short-duration total return and core bond strategies. Following are edited excerpts of the conversation, which took place Feb. 20.

Bill Zox
Chief Investment Officer
Diamond Hill

IN CONTENT STRATEGY STUDIO: Let's start with an overview of fixed-income markets in 2020. Where are the markets now, and where are they headed?

BILL ZOX: First, it's important to note that all asset classes are richly priced. In this environment, the role of fixed income to keep pace with inflation and to preserve capital is more important than ever. But investors should be seeking value and taking advantage of opportunities as they arise, not chasing returns.

Currently, there is uncertainty over fundamentals. At some point soon, fundamentals will have to validate current prices. If they do, that will put pressure on interest rates. If not, there is room for Treasury yields to come down. In any scenario, it's hard to see rates going to 3.25% anytime soon. Inflation has been well contained for a very long time, and as long as low inflation persists, real yields will remain low as well, despite likely bouts of volatility in other markets.

John McClain
Chief Investment Officer
Diamond Hill

INCSS: Looking at specific areas within fixed income, where do you see the below-investment-grade market going?

JOHN McCLAIN: The high-yield/below-investment-grade space presents lots of opportunities because it's a $1.2 trillion market that is inefficient and getting less efficient over time. It's a lot like the small-cap equities market in that it's dominated by large players; between 40% and 50% of assets are controlled by big mutual funds.

Large fixed-income managers are limited by constraints imposed by their mandates as well as by the market itself. But in fixed income, the less you are constrained, the better you can perform. Many of the big managers can't touch nonrated companies, for example, or deals that are too small for their funds to buy or securities from first-time issuers. We can exploit those inefficiencies. In the case of nonrated bonds, for instance, the lack of a rating doesn't necessarily mean the issue is of low quality. It could just mean that the issuer didn't want to pay for a rating. If we do our homework correctly and find value, we can take advantage of situations like that because in high yield especially, getting the fundamentals right is more important than making the right call on the macro issues.

The rest of the year will make or break how CCC-rated credits will perform. Currently, it's the only part of the market that offers meaningful yield. But since we're in the late part of the cycle, we don't want to get caught with our hands in the cookie jar. Although everything is priced for perfection, with the coronavirus spreading and its economic effects likely to grow, it doesn't cost much to be defensive, and that's where we are. We're holding a little more cash, and we have very little duration or credit risk. At some point, we will see a more rational market, but not just yet.

Henry Song
Portfolio Manger
Diamond Hill

INCSS: Are you worried about credit quality?

JOHN McCLAIN: We're not particularly concerned about leverage in high yield. The loan space is a little different, however. There are a lot of smaller companies with excessive leverage in that market, which offers limited covenant protection. That's why we prefer high yield to loans. There has been an explosion of private credit, and it's our feeling that the space will continue to grow, despite the risks.

INCSS: What about the outlook for investment-grade bonds?

HENRY SONG: As we said, the market is currently fully valued. So how do you deliver income? How do you manage potential spread-widening risk and mark-to-market risk even if you're not that concerned about it? The answer lies in finding value in the marketplace, which does not necessarily come in the form of home runs.

Sometimes, the value comes from first-time issuers. We have to do more work in those cases, but we're not afraid of it. Sometimes, value comes from giving up a little liquidity or buying a maturity that is not quite long-term or short-term. Those kinds of opportunities might be missed by peers who are too big to take advantage of them or who manage too closely to a benchmark or who have to focus on one narrow part of the market. We are able to identify inefficiency and can take advantage of it, which goes hand-in-hand with our goal of delivering superior performance over the long-term, not necessarily the best performance in a particular year. ■

Astor: Investing for a 'Less Good' Scenario

The Small Company Mixed Assets winner tries to capture volatility's alpha

Using a proprietary reading of the U.S. economy known as the Astor Economic Index as the cornerstone of its investment process, this year's Fund Family winner in the Mixed Assets Small Company category is Chicago-based Astor Investment Management. With roots dating to 1994, the firm serves as investment manager to three Astor mutual funds: the Sector Allocation Fund, the Dynamic Allocation Fund and the Macro Alternative Fund. Firm founder and Chief Executive Officer Rob Stein spoke with *InvestmentNews* Content Strategy Studio before February's market decline and explained his firm's process and its outlook.

> "One thing we've learned is that markets can go up or down 10% or more for any reason, not just because of something directly related to the economy."
>
> **Rob Stein**
> **Chief Executive Officer**
> **Astor Economic Index**

IN CONTENT STRATEGY STUDIO: Rob, please explain how your investment process works and how you define mixed assets.

ROB STEIN: We base our investing approach on an economic view of the world. John Eckstein, our firm's chief investment officer, and I developed our investment philosophy after looking at business cycles. We noted certain periods in the business cycle when there was greater likelihood that risk assets would do well. It seemed to us that employment and production were strong indicators of better performance, and we came up with the Astor Economic Index, which uses those indicators.

The Index is not overly complicated, nor is it based solely on employment and production. But it indicates that when job growth is running at a certain pace and total output is growing, equities are likely to appreciate. In our research, we also identified assets that move in a non-correlated way. Those include currencies, commodities including metals and energy, and long-short non-U.S. fixed-income investments. The Index produces a score between -1 and +1, with zero being average. When the Index is negative, we expect the stock market to decline; when it's positive, we expect stocks to go up, but they still tend to go up when the Index is at zero. Over the last few months, our Index has been at that point.

INCSS: Anything else about the process advisers should know?

ROB STEIN: We use exchange-traded funds to implement our strategy. We also buy volatility through investments in certain securities because if we get it right enough, we can deliver alpha. Many investors are not aware that if all their portfolios are long — and most are — they are short volatility.

INCSS: It sounds like you're saying that investors shouldn't necessarily shun volatility.

ROB STEIN: It's a matter of understanding it better. One thing we've learned is that markets can go up or down 10% or more for any reason, not just because of something directly related to the economy. If the economy is healthy, the market generally recovers fairly quickly. If not, the market recovery is much slower. But because returns of index funds are so concentrated, passive investing has made investors more vulnerable to volatility.

INCSS: What are your signals telling you now?

ROB STEIN: We like to say that we aren't market timers and aren't great at making forecasts. Instead, we "now-cast." We try to interpret what the numbers are telling us in real time. Currently, we're noticing a lack of acceleration in most data points, although not in employment. Even if economic numbers remain positive, it will be hard to surpass the gains of the last four or five years. And less good data may not be good enough to keep our Index in positive territory. Simply put, we're not seeing the acceleration necessary to keep the rally going.

The Federal Reserve's intervention in the overnight repo market also has been meaningful. Money from that effort appears to be slipping into the economy and markets. But once that changes, the market may decline. There's also the possibility that the Fed lowering rates further may not work as well as it has in the past. Still, if we see a market retreat for whatever reason and investors give back some of the gains from the last three to five years, they still will have seen good performance over that time period and would have been right for having invested.

INCSS: That sounds slightly negative.

ROB STEIN: Actually, we're at our Index average level for equities, and we're maintaining exposure to credit. I can envision data points showing that the economy is strengthening, as well as signs that it is slowing. Treasuries, for example, are saying we are in a low-growth environment. We're at the unusual point at the Index where there's an equal chance of accelerating or slowing. But rather than react to something that might happen, we think it's the time to consider finding alpha in asset classes that are uncorrelated to large-cap stocks. Maybe take a little from stocks and a little from bonds to do that. That's what we do in our strategies, and we're honored that Lipper chose to recognize us for it. ■

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Loan provider adds 401(k) service for debt-weary workers

BY EMILE HALLEZ

MANY EARLY CAREER workers saddled with college debt forgo contributing to their 401(k)s until they've made a dent in their loans, and one company is seeing a big opportunity to change that.

Student loan provider CommonBond announced a service that lets plan sponsors make 401(k) contributions on behalf of employees who are paying down loans. That service, Retirement Contribution, is provided by the firm's CommonBond for Business unit.

What makes the service unique is that it can verify for employers that their workers are making student loan payments and are thus eligible for 401(k) contributions under such an arrangement. That product is customizable and is "easily added to existing employer benefit programs and retirement record keeper" services, the company said in an announcement last Monday.

CommonBond currently has about six companies that are either using Retirement Contribution or are in the process of adding it, said Tara Fung, the firm's chief commercial officer. The new service went live Jan. 1, although Commonbond is just now making the formal marketing push.

"For a while, plan sponsors have been treating [retirement savings and student loans] as utterly distinct," Ms. Fung said.

EMPLOYEES MUST OPT IN

Employees who want to participate must opt in, giving CommonBond permission to verify their student loans and payments, she said. But by verifying that information, the company takes the burden from clients' human resources departments, Ms. Fung said.

"We built tech that allows us to validate that someone has student loans and allows them to sync their student loans with our platform," she said.

CommonBond bills itself as one of the first businesses to offer its own employees a student loan benefit plan at work, having done so since 2015.

Numerous companies have added perks for recent grads over the past several years. In 2018, a private letter ruling from the IRS indicated that the regulator was open to arrangements in which employers treat student loan payments like 401(k) contributions in order to make matching contributions to retirement plans. But that guidance was specific to one employer, Abbott Laboratories. Last year, the IRS wrote that it plans to issue broader guidance on such arrangements.

$1.5T TOTAL U.S. STUDENT LOAN DEBT

"That was a really huge ruling for us," Ms. Fung said. It meant that "student loans were now being used to unlock other [employer] benefits in a way that is really compelling."

Across the U.S., student loan debt totals approximately $1.5 trillion, and surveys show that workers want help dealing with it. About two-thirds of people age 21 to 27 said they wanted their employers to help them pay their loans, according to a recent report by Hearts & Wallets.

Fidelity Investments, which provides student-debt services for plan sponsors, has said companies that give assistance on student loans can see a 75% reduction in turnover.

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Women who persist have the edge over men as financial advisers

The financial services industry is the ideal career field for women. I'm living proof that a woman can come into the business with no knowledge of finance and excel beyond her wildest dreams.

GUESTBLOG
ERIN BOTSFORD

The only requirement is resilience. Ours is an industry of ups and downs — if you can just get back up after being rejected by a prospect or suffering a market setback, you'll do well. It's really that simple. Just keep getting back up.

I started when I was 31 years old. My husband, an Air Force pilot, and I had just moved to Panama City, Fla., where I knew no one. Looking for a job as a secretary, I walked into a stock brokerage firm. Low and behold the branch manager offered me a job as a stockbroker!

At the time, I didn't know the difference between a stock or a bond and had never heard of a mutual fund. A few weeks later I was sitting for my exams and the next thing I knew I was a stockbroker!

When I got back from my three weeks of formal training, my boss asked to see my business plan. What? I had no idea what a business plan looked like and in 1989 Google didn't exist, so I couldn't look it up.

MAKING A PLAN

After a trip to the library, I presented him with my plan. He responded: "Erin, this is probably the best business plan I've ever seen." (I soon learned it was the only business plan he'd ever seen because he never asked the guys for one.)

He then went on to say: "I just don't want you to be disappointed when you fail." Stymied, I asked: "Why do you think I'm going to fail?"

He replied: "Erin, you are a recipe for disaster. You are young, you're a female and this is the South. This is never going to work."

Despite the initial shock of hearing those statements, I now consider them a gift. As I walked out of his office, picking myself up off the proverbial floor, I decided to put on my Scarlett O'Hara big-girl pants and said to myself, "As God is my witness, I'm going to prove this man wrong."

And boy, did I prove him wrong. I went on to become one of America's top financial planners.

THE FEMALE ADVANTAGE

So why do I think being a female in the financial services business is an advantage? One, you certainly stand out in a crowd. Our industry is still dominated by men and I considered my femaleness to be an advantage.

In a competitive situation — and I have had many — I had something the guys didn't have: a sense of empathy.

The financial services business is really just a people business. It's not a stock or bond or managed money business. There are always real people sitting on the other side of the table who are making a decision to entrust you with their life's work and their hard-earned savings.

The extent to which you can relate to them on a personal level is the extent to which they will trust you and make the decision to work with you. There's no one who can do that better than a woman.

Also, something the guys don't realize is that in a couple situation, women always retain "absolute veto power." If the woman doesn't like the adviser or feels marginalized, that adviser is history.

One of the values of being a woman is that we intuitively know what it feels like to be marginalized, so we can win by winning her over!

Erin Botsford founded Botsford Financial Group. To learn more about what it takes to be a super successful adviser, check out her website.

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PAYROLL TAX CUT

CONTINUED FROM PAGE 4

top Democrat on the Senate Finance Committee, has expressed doubts about whether a payroll tax cut can stem a coronavirus economic fallout.

"A payroll tax cut can be an effective tool, but it's not the best answer in this case," Mr. Wyden said in statement last Tuesday. "A payroll tax cut would do little to help workers without paid sick days or those who have lost shifts and tips."

Senate Democrats have offered a bill that focuses on paid sick days and emergency unemployment insurance, as well as small-business, housing and health initiatives. House Democrats have floated a similar measure.

Although Mr. Trump advocated for a payroll tax cut in his national address about the coronavirus last Wednesday night, there hasn't been a strong push for the policy from Republican lawmakers.

Dean Zerbe, national managing director at alliantgroup, a tax services firm that works with small and mid-sized businesses, said proponents of a payroll tax cut haven't been doing a good job selling it.

"I haven't seen Republicans or pro-business Democrats making the case on the benefits to businesses that are trying to keep their employees on payroll," said Mr. Zerbe, a former senior tax counsel on the Senate Finance Committee.

POLITICAL ATMOSPHERE

The political atmosphere surrounding economic responses to COVID-19 may change as the pandemic continues.

Lawmakers could change their minds. Democrats supported temporary payroll tax relief during the Obama administration. Tax cuts always have been a staple of Republican policy.

"We're in early days," Mr. Gardner said. "Things are likely to change rapidly."

Marc Gerson, a member at Miller & Chevalier, said Republicans and Democrats could come together on some form of payroll tax suspension.

"I think bipartisan agreement will depend on a variety of factors, including the length and severity of the crisis, its impact on the economy and whether or not there is an effort to pay for the cost of the relief," Mr. Gerson, a former tax counsel to the House Ways and Means Committee, wrote in an email.

One investment adviser doesn't want to see a payroll tax cut gain traction.

"For a typical garden variety type recession, a payroll tax cut is a good idea," said Boyan Doytchinov, director of financial planning at Snyder Capital Management. "I don't think in the coronavirus situation it would be very helpful."

Mr. Doytchinov supports giving all workers two weeks of paid sick leave.

"That type of benefit would incentivize people to stay home and recover rather than feel pressured to go to work to provide for their families while they're sick," he said.

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TAX-HOLIDAY HARM

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but a larger payroll tax holiday, today, would likely need to be paid back by borrowing, Mr. Goldwein said. Or, the Social Security system would simply take a hit and would have to be adjusted to reduce payments to retirees.

"It's possible this time would be different," Mr. Goldwein said. "[Now, at] 15 years from the insolvency date, if we did a bigger tax holiday, it could make it harder to unwind."

President Trump similarly proposed a payroll tax suspension last year for 2020. Had that gone into effect, a two-percentage-point reduction in Social Security taxes would have cost between $141 million and $151 million over 10 years, according to a report from researchers at the University of Pennsylvania's Wharton School. It would have boosted gross domestic product by about 0.3% for 2020, "with effects eventually turning slightly negative over time with higher deficits."

Because the proposed payroll tax holiday would not help people who have no take-home pay, "We really have to ask: Is this the most effective way to help people right now?" said Jeffrey Levine, director of advanced planning at Buckingham Wealth Partners. "Having a lower tax rate on income you don't have doesn't matter."

Further, the option of replenishing Social Security and Medicare through loans is a shaky proposition in the current global economy, he said.

"Our trade borrowing partners like China might not have the same ability to finance us as they once did," he said.

SOCIAL SECURITY AT RISK

Though the proposed tax suspension would boost take-home pay this year, it could have the effect of reducing Social Security payments for people when they retire, said Danielle Seurkamp, founder of Well Spent Wealth Planning.

"Social Security benefits are based on your highest-earning 35 years of work history, but the benefits calculation is based on how much tax you paid in, not the actual amount of your income," Ms. Seurkamp said.

For millennial workers, the long-term effects "would be largely negative," said Shaun Melby, who runs Melby Wealth Management.

"For my younger clients, I'm already factoring in a reduced social security benefit when they are retired as that is one of the more practical and realistic 'fixes' I foresee being on the table," Mr. Melby said in an email. "If this were enacted, it would only solidify my stance."

But because of the 35-year calculation for highest earnings, the effect of a payroll tax holiday on Social Security payments down the road could be minimal for many people, said Andy Panko, owner of Tenon Financial, in an email.

"I don't know how much a payroll tax cut will help minimize the economic impacts of the coronavirus," Mr. Panko wrote. "Having a little more take-home pay won't incentivize people to take cruises, go on planes, end factory closures in other countries, etc."

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'HUMAN' RELATIONSHIP

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ent communications, eMoney financial planning and BlackDiamond for clients to access accounts — Mr. Scotto doesn't want to be fully digital.

"I feel that sometimes I lose the human connection that is needed to establish new client relationships," he said.

BODY LANGUAGE

Keystone Financial Services CEO and founder Joshua Nelson said it is important for his clients to see an adviser's body language in meetings. His clients increasingly have been preferring video conferencing, even before the coronavirus outbreak, and while some clients leave their camera off, Mr. Nelson always turns his on.

However, the technology didn't work perfectly right away, Mr. Nelson said. There was some "awkward trial and error" at the beginning as the team got familiar with both the software (his firm uses Zoom and GoToMeeting) and the hardware needed for video chat.

"My best advice is to test it out BEFORE you get on a real call with the client," Mr. Nelson said in an email.

Mr. Kraus also noted that working remotely slows work flow a bit just because of differences between office and home technology. For example, his office uses Microsoft PCs while he uses Apple products at home.

Communicating in person will always be easier, but ultimately the firm is making do with the technology, he said.

"Things are set up to work remotely, and health is more important than a day or two of working in the office," Mr. Kraus said.

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ADVISERS WFH

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Advisory firms must ensure they're able to supervise staff members who are working outside the office and must be able to archive communications between staff and clients, Mr. King said.

The problem is that many firms are still using a paper-based compliance system.

"Compliance software is one of the least used types of software within the broader RIA industry," Mr. King said.

Firms must have the means to track email and social media interactions between advisers and clients. They should also have audio and video-conferencing capabilities, said Marianna Shafir, regulatory adviser at Smarsh, a provider of cloud-based information archiving.

"Technology is really key right now," Ms. Shafir said. "You want to make sure you have technology solutions in place to capture those conversations. If you don't have it at this point, you should be getting it on board."

"YOU WANT TO MAKE SURE YOU HAVE TECHNOLOGY SOLUTIONS IN PLACE."

MARIANNA SHAFIR, REGULATORY ADVISOR, SMARSH

Last Monday, the Financial Industry Regulatory Authority Inc. released a regulatory notice telling its broker-dealer members to review their business continuity plans to ensure they're responsive to a pandemic situation. The notice also outlined Finra's expectations about the supervision of employees working from home.

'SUPERVISORY SYSTEM'

"FINRA understands that the use of remote offices or telework arrangements during a pandemic may necessitate a member firm to implement other ways to supervise its associated persons who change their work locations or arrangements for the duration of the pandemic," the notice stated. "In such cases, FINRA would expect a member firm to establish and maintain a supervisory system that is reasonably designed to supervise the activities of each associated person while working from an alternative or remote location during the pandemic."

Testing remote working capabilities and doing related training are also important.

"Firms must provide adequate training to their employees regarding the use of remote work, including technology making sure customer records and information are kept confidential," Ms. Shafir said.

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TDF PERFORMANCE

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slightly. Many target-date funds designed for people close to retirement appear to be less risky than they were in 2008.

On average, target-date funds with a 2020 vintage had negative returns of 12.1% between Feb. 24 and March 12, according to date from Morningstar Direct. Meanwhile, funds with target years of 2030 had negative returns of 17.1%, and those dated to 2050 returned -23.3%. During that time the Dow Jones Industrial Average dropped by 26.9%, while the S&P 500 fell by 25.7%.

-12%

AVERAGE 2020 VINTAGE TDF RETURNS BETWEEN FEB. 24 AND MARCH 12

By comparison, a simple average of returns for all target-date funds dated 2000 to 2010 saw returns of -24.2% during the full year of 2008, and funds in the 2040 vintage saw negative returns of -37.4%.

To sum that up, funds designed for retirees last week had negative returns about 52% of the size of those seen by funds 30 years from their target date. However, for the week of Feb. 24 through Feb. 28, that ratio was considerably lower, at 45%. But notably, a comparable rate for the full year of 2008 was about 65%, according to an analysis of the Morningstar data.

"The industry has seen a lot of providers increase their equities [allocations] since the financial crisis – the average equity today is probably a bit higher today," Rich Lang, target-date investment director at Capital Group, said in a prior interview with InvestmentNews.

The company's American Funds Target Date Retirement Funds line made several changes following the crisis, including reductions to high-yield bonds and equities for funds built for retirees, Mr. Lang said.

The company still has an equities allocation of about 45% for investors at retirement, which is at least 3 percentage points higher than average, he said.

"We feel that at age 65, you're still a long-term investor," he said.

WELLS FARGO TDF REVAMP

In 2017, Wells Fargo revamped its legacy target-date series, bringing management in-house and increasing stock exposure in the glide path. The change came along with a repackaging of its actively managed product, the Wells Fargo Dynamic Target Date series, which is designed to allow hedging in bear markets.

"This type of market is perfect for those [tactical] strategies," Christian Chan, the portfolio manager overseeing both lines of target-date funds, recently told InvestmentNews.

In the bull market, 401(k) plan sponsors had started paying more attention to performance, he said.

"Sponsors have really gravitated toward higher-risk glide paths," he said. "The last couple weeks in the market might change that conversation a little bit."

In 401(k) plans, trading by account holders has been up dramatically, spiking at more than 12 times the average rates on Feb. 24 and March 12, according to data from record keeper Alight Solutions.

But target-date investors should think twice before switching out those products in the current market, Jeffrey Ptak, Morningstar head of global manager research, wrote in a recent paper.

"What's paramount isn't how you use a target-date fund. It's that you have a well-founded plan and stick with it," Mr. Ptak wrote. "What you don't want to do, though, is change up your investments in haste or with little forethought."

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KITCES

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Buckingham Strategic Partners, has a staff of about 500 and provides services to "thousands of independent financial advisers" since its recent merger with Loring Ward, the company stated. That wealth management unit oversaw a total of about $50 billion in assets as of the end of 2019, according to the firm.

Mr. Kitces said he saw a match with Buckingham, as the firm was founded by CPAs and has focused on evidence-based investing.

"It's just a dream scenario to have this ability – I get to spend part of my life working on the theoretical with Michael Kitces," Mr. Levine said. "And on the other hand … put that [financial planning theory] into practice with Buckingham."

Mr. Kitces will work remotely from his current location near Washington, D.C. He will not have individual clients at Buckingham, he said.

OTHER VENTURES

Along with his work on the website bearing his name, Mr. Kitces co-founded the XY Planning Network. His other ventures include AdvicePay, New Planner Recruiting, fpPathfinder and FA BeanCounters. He is also a regular contributor to *InvestmentNews*.

"We enjoyed 17 years of working with Michael," said David Poulos, director of marketing at Pinnacle. "He's always been a friend of the firm and will continue to be. We look forward to seeing him at the next conference."

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WELLS FARGO

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In his prepared testimony, Mr. Scharf admitted the depths of the problems at Wells Fargo.

"Simply said, we had a flawed business model in how the company was managed," he said. "Our structure was problematic, and the company's leadership failed its stakeholders. Our culture was broken, and we did not have the appropriate controls in place across the company."

While Wells Fargo, the bank, and its retail brokerage network of more than 13,000 financial advisers continue to dig out of a hole, its competitors have been busy.

At Merrill Lynch, the focus has been on rewarding advisers for bringing in new households and clients; they are also encouraged to cross-sell banking products. Morgan Stanley wants its brokers to use its new technology, do financial planning and grab a bigger share of the clients' overall finances, known as the "wallet" in the industry.

IF YOU DON'T LIKE IT, LEAVE

Some advisers at Merrill and Morgan Stanley don't like the changes, complaining there is too much emphasis on selling banking products and not enough on financial advice. That's fine. Those advisers can either grin and bear it — or leave.

While its competitors posted record financial results during the bull market, which is now dead, Wells Fargo's wealth and investment management group, which includes Wells Fargo Advisors, has seen mixed results. Retail brokerage advisory assets hit a high of $590 billion at the end of last year, up 18% from 2018. At the same time, the wealth and investment management group took a $166 million charge related to technology equipment. Advisers grumble about the out-of-date tech at the firm.

BEAR TERRITORY

With the stock market now in bear territory, having sold off 25% from the market peak in February, the rest of the year is going to be excruciatingly tough for advisers and their firms. One adviser has not been happy with the recent efforts at the firm in the wake of the banking scandal.

18%
AMOUNT RETAIL BROKERAGE ADVISORY ASSETS GREW FROM 2018 TO 2019

"We lost existing business and referrals," said the adviser, who spoke anonymously because the banks do not allow advisers to speak to the press. "There's been no additional funds to support business, no advertising, and no technology and improvements in process."

Senior executives at Wells Fargo Advisors, while admitting that there was no question the parent bank's account opening scandal has had a negative impact, privately say that their strategy is not that dissimilar from the approaches of their chief rivals, Merrill Lynch and Morgan Stanley. (As part of a series of management moves, Wells Fargo promoted Jim Hays last summer to be president of the brokerage network, replacing David Kowach.)

The focus is financial planning, generating revenue through banking and tapping into the bank's areas of strength, such as being a top mortgage underwriter, to find new clients. The goal is to boost community banking referrals to advisers. And recruiting financial advisers has improved.

The problem for Wells Fargo Advisors is that their competitors have been focusing on these same areas for the past three or four years. With Mr. Scharf and Mr. Hays now in charge, can it make up lost time?

"Wells Fargo is a great institution with many opportunities ahead," Mr. Scharf said on Capitol Hill last Tuesday. "I know that we can and will do what it takes to create the right environment inside the company that will allow us to provide leadership in the marketplace for years to come."

I'm sure the financial advisers at Well Fargo Advisors will place Mr. Scharf and Mr. Hays under intense scrutiny in the months to come. True leadership in the financial advice industry emerges in times of financial crisis, and that's exactly where we are now.

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2020 IN Events Calendar

Event	Date	Location
RETIREMENT INCOME SUMMIT	April 20-21	Chicago
women adviser summit	April 22 June 30 **July 14** October 1 October 20 November 18	Chicago Boston Huntington Beach – **NEW DATE** Denver San Francisco New York City
INNOVATION SUMMIT & AWARDS	April 30	New York City
FUTURE OF OUR BUSINESS	June 4	New York City
WOMEN to WATCH	**June 23**	New York City – **NEW DATE**
EXCELLENCE IN diversity & INCLUSION AWARDS	September 15	New York City
FUTURE OF FINANCIAL ADVICE	November 19	New York City
ESG & IMPACT FORUM	December 2-3	New York City

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

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