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Sponsors Consider Adding More Options to UMA Programs

By Danielle Verbrigghe
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Investment advisory program sponsors are looking to boost their unified managed account (UMA) programs by providing greater options on discretion and asset allocation modeling.

With managed account program sponsors expressing interest in adding rep-as-portfolio manager and rep-as-advisor type sleeves to their UMA programs, some technology vendors say they are rolling out new trading technology to provide these capabilities. In addition, some sponsors are considering, or have already opted to add more flexibility at the asset allocation level.

At **Fiserv** the changes include more streamlined workflows and an updated interface for incorporating advisor-discretionary, and non-discretionary sleeves that can be combined with third-party models in a single account, says **Tirdad Shojaie**, senior v.p. of product, marketing and business strategy for Fiserv's investment services division. Fiserv also added more capabilities for sponsor firms to implement more guardrails and controls around the rep-discretionary and non-discretionary sleeves.

These types of capabilities appeal to sponsors considering adding more flexibility to their UMA program, and those that are consolidating legacy programs into a single platform, Shojaie says. As that occurs, the distinctions between individual programs may fade in significance.

"You want to get to a point where the label on the platform becomes irrelevant," Shojaie says.

Rob Klapprodt, president of Vestmark, notes interest from brokerages adding rep-discretionary or client-discretionary sleeves within UMA programs. But most brokerages haven't implemented this yet, he says.

"On the broker-dealer side, a lot of firms are looking at it, talking about it, contemplating how to work that into their current UMA offering, but we're not seeing many people live today," Klapprodt says.

Banks, on the other hand, which have often given internal trust officers control over managing client assets, have been faster adopters of this technology, says Klapprodt.

"We do see more activity today in the banking world, but I do expect it to move more and more to broker-dealers as well as independent RIAs," Klapprodt says.

Making such changes requires thinking through a number of business and work flow questions, including who determines asset allocation, who determines security selection within a sleeve, and who does the trading work for each sleeve, Klapprodt says.

Vestmark has implemented technology to allow sponsor firms to do this in a variety of ways. "We can allow sponsor firms to control all those knobs along the way," Klapprodt says.

Sponsors also have to consider how they can put guardrails in place and ensure proper oversight to maintain compliance, Klapprodt says.

For firms that elect to build such a capability in house, tech challenges include figuring out trading coordination, and cash management work flows, Klapprodt says.

"Once you have an advisor running a sleeve alongside a third-party money manager or someone in the home office, all of a sudden there's a lot of trading coordination and cash management that needs to be done very diligently," Klapprodt says. "Otherwise you're going to have everyone stepping on each others' toes.

While UMA technology has long allowed multiple parties to control trading in various sleeves, when opening up sleeves to advisor discretion, the biggest concern of some sponsors may be oversight and compliance, says Gary Jones, president of Jones & Jones Consulting.

"Typically sleeves are managed by RIAs, registered advisors that you're doing due diligence on and you're monitoring at the firm level," Jones says. "You're needing to have oversight capabilities that you don't necessarily need when you're not allowing reps to do something like that."

In addition to figuring out the technology, there are a lot of business level decisions that sponsors have to make before moving forward with such a step, Jones says. "The devil is in the details," he says.

These changes come as the UMA program type continues to grow at a fast pace. UMA program assets grew 19% in 2015 to reach $440.8 billion, according to Cerulli Associates data.

At Merrill Lynch, which recently streamlined investment advisory offerings onto a single platform, the firm's UMA-like program, which it calls Custom Managed Strategies, has continued to gain adoption from advisors who previously used the legacy rep-as-portfolio manager (PM) program, says Peter Malafronte, head of financial advisor discretionary programs at Merrill Lynch.

"We've seen a transition of business away from traditional rep-as-PM to 'Custom Managed' because the [financial advisors] are saying, 'I'm doing just funds and ETFs, Custom Managed can accommodate that and I can take myself out of trading and leave it to people who've got more experience,'" Malafronte says.

While the new Merrill Lynch One platform still has a rep-as-PM option, which allows advisors discretion over trading individual securities as well as mutual funds and exchange traded funds (ETFs), those assets still can't be combined with third-party or home office sleeves in a single account, Malafronte says. It's too early to say whether that will eventually change, he says.

In addition to considering adding new discretion options at the sleeve level, some sponsors are also moving to add more flexibility in other ways, such as letting advisors manage asset allocation level models. For example, Morgan Stanley Wealth Management recently added new capabilities to its UMA program to allow advisors to manage asset allocation models across multiple clients, as reported.