

Model Hubs Contend for SMA Manager, Sponsor Adoption

By Danielle Verbrigghe

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A growing list of firms are crafting hubs aiming to streamline the way separately managed account (SMA) managers communicate model instructions to advisory program sponsors. For SMA managers, the appeal of such programs will likely depend on pricing, the type of data sponsors are providing back to managers, and which sponsors ultimately get on board.

The Money Management Institute (MMI) and Envestnet are about to begin test-driving the first iteration of their newly built hub. At the same time, other vendors are busy developing their own offerings that could compete for adoption. **Fiserv** has built out a model hub for SMA program sponsor and asset manager clients, which it is promoting to existing client firms, and considering eventually offering outside of its network. Charles River also last year launched its own model delivery platform.

"There's no doubt that if there were a cost effective utility connecting the money managers to the sponsors that would be very beneficial," says Bevin Crodian, a consultant with Fincastle Consulting. "The question is will the ecosystem support more than one utility. If it won't, then it remains to be seen which one will come to dominate."

Standardized data communication, and a centralized hub, could help SMA managers by streamlining the process of communicating trade instructions for model SMAs to overlay managers and program sponsors, MMI has posited.

The initial iteration of MMI and Envestnet's model hub program, slated for the second quarter of the year, will focus on model communication functionality, says Gary Jones, senior director at Collaborative Consulting, who is working with MMI on the project. But down the road, the hub may add additional capabilities such as providing more transparency to managers on performance or how a model is being used.

MMI's model hub is intended as a way to help industry participants embrace a uniform set of data communication standards, which aim to provide a streamlined way of sending trade instructions for model-delivery of SMAs to sponsor platforms, without firms having to invest big to rebuild internal platforms to comply with the standards, says Jones.

But while multiple hubs from separate vendors could potentially work in tandem, or even link together, a slew of disparate hubs operating on different sets of data standards could undermine MMI's effort to get everyone on board with a uniform set of data communication standards, Jones says.

"If we end up with multiple hubs each speaking their own language, then we've really not accomplished much. We've just changed the nature of the problem, but we haven't fixed it," Jones says. "The definition of fixing it is that everybody's speaking the same language. It's not necessarily about everybody going through one hub."

If they all speak the same language, the industry could likely support more than one hub, Jones says. Some sponsors might even eventually agree to accept models through more than one interface. But having several hubs on the market could also slow adoption, at least initially, if firms don't want to participate in multiple hubs. "The challenge is going to be, at least initially, if some firms are going to say 'I don't want to get messages from multiple places.'"

For its part, Fiserv will adhere to the MMI standards when they are finalized, according to **Tirdad Shojaie**, head of product, marketing and business strategy for Fiserv Investment Services. Charles River, however, has taken a standard-agnostic approach, translating manager instructions into the format requested by sponsors, according to information from the firm.

Fiserv's hub is integrated within its Model Management Solutions program, says Shojaie. Twelve sponsor firms currently use the program, and Fiserv is in the process of incrementally activating extended hub capabilities, he says. He declined to specify which sponsors were using it. As part of the offering, Fiserv has beefed up its ability to provide data on performance information, changes managers make to models, and mechanics for managers to be able to articulate instructions that accompany a change.

"For us, we feel that we have many managers and sponsors and we can get the kind of volume necessary to make it a legitimate hub," Shojaie says.

If the program catches on, it could potentially gain even wider reach. Overall, Fiserv's network includes more than 70 sponsor firms, more than 200 managers, more than 90 custodians and trading partners and more than 80 vendor and content providers. And down the road, Fiserv may look to offer up the hub to firms outside of its network.

"For us now it's about driving the adoption internally among our managers and sponsors," Shojaie says. That includes promoting adoption among current manager and client sponsors. "Then we start turning more of our attention to the outside."

Shojaie says that Fiserv's hub doesn't necessarily compete with MMI's model. "Fiserv is an active participant in the MMI discussion regarding model communication standards," Shojaie said in an emailed response to follow-up questions. "Fiserv will comply with the MMI standard."

For its part, Charles River also launched its own model hub program, as reported last summer. At that time Charles River was in the process of onboarding Merrill Lynch.

"Charles River's communication hub is agnostic to file standards," says Cem Er, a senior product manager at Charles River in an emailed response to questions. "We use asset manager extracts and convert the data to the sponsor's required data structure. As a result, we do not comply with MMI's standards."

While platform agnostic hubs could still work with the MMI hub, such "translator" hubs "are one way of dealing with the issue, but don't actual[ly] solve it," Jones says. "It concentrates the problem in one platform which the industry then becomes dependent on.

In future iterations, there will be room for more innovation to solve other types of problems for managers and sponsors, Jones says.

"If you look at any communications standards effort, it usually starts out trying to solve a problem that's meaningful, but it doesn't take long for people to start to get creative," Jones says.

Envestnet and MMI will begin testing the hub in the next few weeks, at first internally, and then with some select firms.

One thing that hasn't yet been hammered out is pricing, says Jones. The expectation is that managers will pay a fee, based on usage of the hub. There may be some cost for sponsors, as well, he says. "There is more efficiency for managers than for sponsors, so they might bear more of the costs potentially, but I don't think anybody sees it as being free to the sponsors either."

On the sponsor side, so far Morgan Stanley and Envestnet have agreed to use the hub. Jones says MMI hasn't been focused on signing up sponsors quite yet, but talks with Merrill Lynch and other sponsors have been promising so far. Merrill Lynch was one of the supporters of the earlier hub attempt with DTCC.

Attempts to establish uniform data standards for the SMA business, and a central hub, span back years. MMI's previous effort was hampered by the earlier appointed systems operator, Depository Trust & Clearing Corp. (DTCC), backing-out unexpectedly in 2012. Despite some of the biggest SMA program sponsors backing the previous effort it failed to get off the ground. At various points, the initiative has been hampered by other issues such as timing problems and lack of support, as previously reported.