

## **=DJ GETTING PERSONAL: UMAs: What They Are And What They Do**

**By Jen Ryan**

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**NEW YORK (Dow Jones)**--Some people think unified managed accounts, or UMAs, will be the next big thing. Others aren't sure they even exist.

Scott MacKillop, president of US Fiduciary LP, a financial-services firm, assures the doubters they do: His firm has been offering UMAs for about a year, and others have traced the first UMA back to 2002. The debate people have about whether it really exists and how many people actually have it is really more of a definitional debate," he said.

Jean Sullivan, managing principal with research and consulting firm Dover Financial Research said the lack of a clear definition had caused confusion. "I think they absolutely exist," Sullivan said, but until recently there was no research to identify if they existed, who had them, and what exactly they were.

But that's changing. Sullivan recently worked with the Money Management Institute - the national organization for the managed accounts industry - to create this definition of UMAs: Loosely, a UMA is a single, fee-based account that is designed to hold multiple products - generally separately managed accounts, mutual funds and exchange-traded funds. These accounts, (some call them platforms) incorporate a level of investment management or coordination among the various investments including rebalancing and monitoring wash sales.

In its most basic form, the sponsor of the UMA provides its financial consultants with a number of

preset asset allocation models, which they can choose from to best fit their client's needs.

For instance, there may be one set asset allocation model for clients with \$100,000 to invest, another for an investor with \$500,000 and so on. In these models, what you see is what you get. The financial consultant has no flexibility to alter the asset allocation, the investments or the investment managers that are inside the UMA.

Another UMA version provides a little more flexibility, allowing the financial consultant to "implement a more customized version of the model," said Sullivan.

That includes making tweaks to the asset allocation model or inserting different managers from the sponsors approved list.

A third version, which seems to be generating the most excitement in the industry, gives the financial consultant complete control over the UMA. While generally using a preconfigured model as a jumping off point, the consultant has free reign to determine how the assets should be allocated, include different managers from the sponsors list and even add other products to the mix, such as hedge funds or other alternative investments. Some refer to this model as unbundled, or having limited open architecture.

It's also important to note, though, that sponsors have a lot of flexibility and can create platforms that don't fall neatly into any one of these three models.

According to data provided by Dover, 57% of UMAs provide financial consultants with the flexibility to tweak the initial model. In all other cases the model remains unchanged.

Half of the time, the asset allocation of the UMA

is set by the sponsor, but in 30% of cases the financial consultant will tweak the asset allocation, and in 20% of UMAs the financial consultant completely overrides the preset asset allocation.

In 50% of UMAs, the financial consultant can select a different manager from the list of managers that the sponsor provides. In another 40%, the sponsor has control over manager selection. In the remainder, the sponsor uses third-party research.

While a lot of the excitement over UMAs seems to revolve more around the flexible model, some say that the packaged approach to UMAs can still provide good value to clients.

"Right now, most of what exists sits more on the packaged product side of the spectrum," said MacKillop, adding that while people often frown on pre-packing, people often don't need much customization.

"If a firm has five portfolios with different risk/returns, those are likely to be useful for 75% to 80% of investors that financial advisors encounter," he said.

Flexibility aside, financial consultants also need to consider the levels of overlay management that's applied.

"The overlay manager effectively is the 'quarterback' of the underlying client account. We effectively sit between the participating investment," said Randy Bullard, executive vice president at overlay manager Placemark Investments.

In its most active form, an overlay manager will execute all trades, monitor wash sales, rebalance, adjust for tax management purposes and customize

individual client portfolios. This requires the underlying investment managers to hand off their model to the overlay manager.

Sponsor firms can perform these overlay services in-house or outsource to companies such as Placemark and Parametric Portfolio Associates - two well-known overlay managers.

The role of the overlay manager can also be more limited. In a "hybrid" model, the trading function can be split between the investment managers and the sponsor. Here, the investment managers will typically implement trades across all accounts to maintain their model and the sponsor will implement certain tax management trades or customize the account for the client.

In the most passive model, the investment managers are only responsible for executing trades that maintain the investment model of the UMA. In this case the sponsor will generally take care of other basic functions like rebalancing and monitoring wash sales.

Despite which model an investor gets, many believe that UMAs offer several benefits to both advisors and clients.

Bullard of Placemark said that in the past, an advisor would have to open several accounts to deliver a complete investment solution. That was burdensome.

"A UMA allows an advisor to sell a single comprehensive solution to meet a variety of client investment needs with fully automated services," he said. "The UMA delivers a better risk-adjusted return solution for the client. Regardless of what the right mix of products is for the client they're going to get the fundamental services that everyone believes

they should get."

Bullard said a third benefit is that UMAs are operationally very efficient for the sponsor as it can cut down on paperwork and it requires fewer people than if you were to own the different products outside of the UMA.

But there are also some operational challenges facing UMAs.

According to MacKillop of U.S. Fiduciary, the technology certainly exists to allow UMAs to be created, but there are also some operational issues mainly related to back-office reporting that have presented challenges for UMA providers.

This has prevented some from rolling out more flexible platforms; however, that will change as the technology gets better and financial advisors can "really change the asset allocations and substitute funds with just a few clicks of the mouse."

-(Jen Ryan is one of four Getting Personal columnists who write about personal-finance issues ranging from new tax proposals to education-funding strategies to estate planning.)

-By Jen Ryan, Dow Jones Newswires; 201-938-5219;  
[jennifer.ryan@dowjones.com](mailto:jennifer.ryan@dowjones.com)