

insights:

PERSONALIZATION PATHWAYS: FINDING THE RIGHT ROUTE THROUGH PERSONALIZED PORTFOLIOS

Whether asset managers are focused on growing through new investment products or new markets, being at the forefront of innovation is critical to staying competitive.

As today's investors continue to seek more personalized solutions, managed accounts — including separately managed accounts (SMAs) and model portfolios — have become increasingly popular. Recent data from Money Management Institute and Cerulli Associates shows that managed account assets are on the rise, once again surpassing \$10 trillion after originally hitting this milestone in 3Q 2021.¹

Archer has been a partner to the investment management industry for more than 20 years, and during that time, we have seen investors' preferences around personalized portfolios evolve. Today, more and more investors are looking to build portfolios that can be optimized for after-tax returns, enable increased control over factor exposures, and align with their values. For asset managers looking to expand distribution, offering these products can also be a differentiator as they tend to better align with client-centric, fee-based investment advisor models.

Technology is revolutionizing how asset managers can provide customization cost effectively and at scale, and there are several pathways your firm can take. Here are a few ways we're seeing our clients successfully bolster the way they offer personalized investments.



AVENUES TO ACHIEVE PERSONALIZATION

To offer truly personalized investment options, asset managers need to start with the right type of account structures. In addition to traditional SMAs and model portfolios, three types of investment vehicles that we are seeing grow in popularity are direct indexing, models of models, and multi-sleeve accounts, all of which offer unique attributes and benefits.

¹ Money Management Institute and Cerulli Associates, Advisory Solutions Quarterly, 1Q 2023.

Direct Indexing: With direct indexing, like with other types of SMAs, investors purchase individual equities instead of investing through a mutual fund or ETF. This structure enables investors to simply track an index or customize to manage taxes by harvesting tax losses or modifying to meet personal preferences. These strategies have taken off with index managers who are looking to meet tax optimization needs. By 2027, direct indexed AUM is expected to more than triple to \$1.47 trillion, roughly 1% of total AUM.² Nearly half of asset managers expect to add individualized indexing solutions to their offerings.²

Models of models: Models of models combine distinct models within different custodian accounts to create a single investment strategy, which can be customized for investor preferences and tax optimization. This structure enables asset managers to include both equity and fixed income investments to create a single diversified account where performance and reporting are tracked at the strategy level.

Multi-sleeve accounts: These accounts enable investment managers to deliver multi-asset strategies by holding distinct equity models and fixed income holdings in a single custodian account. Multi-sleeve accounts are similar to models of models in that they are built using a combination of equity and fixed income investments, but they are held in a single custodian account that contains different sleeves. This structure allows for personalization and reporting at the account and underlying sleeve levels.

For asset managers that offer equity and fixed income strategies, models of models and multi-sleeve accounts enable them to bundle these offerings and layer in tax optimization and other personalization capabilities.

WHICH ROUTE WILL YOU TAKE?

In recent years, our team has been working with asset managers to help them identify which strategies best meet their clients' needs and how to bring them to market in a manner that enables them to scale. In addition to technology, it is critical that sponsors, asset managers, and service providers align on how products will be delivered, including workflow processes, asset allocation, and reporting.

More than one-third of model providers (37%) say "incorporating different investment vehicles (e.g., separate accounts)" is one of their top initiatives.¹

Offering true personalization can serve as a powerful competitive advantage for asset managers seeking to grow market share and attract new investors. Doing so will require them to adopt new technology and new ways of thinking. Leveraging the right technology and support provider is a key success factor for asset managers seeking to provide true personalization while continuing to offer a diverse range of investment services, including separately managed accounts (SMAs), direct indexing, models of models, and multi-asset strategies.

Before investing time and resources, it's important for asset managers to partner with a technology and support provider who can empower them with the tools and guidance they need to accomplish their goals. Working with the right partner will provide clarity, confidence, and, ultimately, greater success.

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² PwC, Asset and Wealth Management Revolution 2023: The new context.