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SUNSTAR STRATEGIC CONFERENCE FOR BOUTIQUE MUTUAL FUNDS
THRIVING IN AN EVER-CHANGING INDUSTRY

CONFERENCE TRANSCRIPT

Success on the BD Platforms

Ryan Tagal, Envestnet | PMC

Moderator: Dave Carson, Ultimus Fund Solutions

Tagal, Ryan

Director of Product Management

Envestnet | PMC

Ryan Tagal is the Director of Product Management at Envestnet lPMC ('PMC'). In this role, he oversees all product management and development for PMC's suite of product and service offerings. This includes product oversight of PMC's managed portfolios, consulting, and research offerings. He also participates in the overall leadership and management of PMC, from a strategic positioning standpoint.

Prior to his current role, Mr. Tagal was a Vice President of Product Management for Envestnet's Product Group, overseeing product ownership for areas of the Envestnet platform relating to Envestnet's separately managed account program and manager research. Mr. Tagal also acted as the Associate Portfolio Manager for PMC's Paradigm Liquid Alternatives Portfolios and continues to serve on the firm's liquid alternatives group. He was a key member in the development of Envestnet's classification and portfolio construction framework for mutual funds that employ alternative investment strategies.

Prior to joining Envestnet, Mr. Tagal led Morningstar's hedge fund initiative. In this role, he oversaw the development of Morningstar's hedge fund database, associated product development, and related research and methodology. Before that, Mr. Tagal was the Director of Quantitative Research at Cerulli Associates where he initiated Cerulli's research in managed accounts, alternative investment products, and hedge funds in the mid-1990's.

Mr. Tagal has frequently been quoted in financial publications such as The Wall Street Journal, Barron's and BusinessWeek as an expert in emerging trends in the hedge fund and managed account industries. He holds an SB in Physics from MIT and an MBA from the University of Chicago Booth School.

Carson, Dave

Vice President, Director Client Strategies

Ultimus Fund Solutions

Dave joined Ultimus in 2013. As Director of Client Strategies, Dave's primary responsibilities include serving as president for two series trusts and as president or officer of stand-alone trusts, providing expert assistance to investment managers considering starting a fund, and serving as senior relationship manager for certain clients.

Dave has been in the financial services industry since 1981 and has almost twenty-five years of fund and asset management experience. Dave has been Chief Compliance Officer for mutual fund families, registered investment advisers, and an ETF trust. He also served as Chief Operations Officer for a mutual fund family, and previously had senior management responsibility for fund and adviser marketing, fund wholesaling, transfer agency, shareholder servicing and adviser compliance. Earlier in his career Dave was a corporate IT audit manager, and managed holding company-level credit quality reporting.

Dave co-founded and served as president of Advancing Fund Governance, a forum for fund trustees and senior officers. He is also a former trustee and secretary of the Greater Cincinnati Mutual Funds Association, and former trustee and board president of the Cincinnati Shakespeare Festival. Dave enjoys running, biking and critiquing cooking shows with his wife, daughter and adult sons, and reading history and biographies.

He is a graduate of Kenyon College in Gambier, Ohio.

Dave Carson: Thank you very much, Kathryn and the whole SunStar team for letting us be here.

Just very quickly if you're not familiar, Ultimus is a fund administrator. We were in the news fairly recently as we are in the midst of combining with Gemini and having a lot of fun going through the integration and definitely working on best practices. I should have brought the numbers, and I didn't bring the numbers with me, but a whole lot of funds and a whole lot of advisors, and we absolutely appreciate those of you who are in the room. And if you're not in that group, I'll be here so you can talk.

And, with that, I want to introduce Ryan, who is director of product management with Envestnet PMC. Tell us about you and the very short story on Envestnet.

Ryan Tagal: Short story. We'll do the short version. And I think it's the panel is about on success and media platforms, but as many of you may know – some of you may not – Envestnet is a not a broker-dealer, but we will talk about that topic in a lot of detail.

So first I want to thank all the folks at SunStar for inviting me to be on this panel here with Dave today, and very excited to talk about some of the things that we're seeing with our roster of managers and how we're working to help advisors create an experience for their end investors.

So my name again is Ryan Tagal. I'm the director of product management at PMC, which is the investment consulting arm of Envestnet. So Envestnet, we'll talk a little bit more about Envestnet does in a little bit, but we had our origins in 1999 as a – in an industry called a turnkey asset management platform. We've evolved in a lot of ways since then. We're now calling ourselves a financial wellness platform, and we're doing a lot of very interesting things to help advisors really serve their clients with asset management solutions. We're going to have our conference out in Austin later this week.

So, Ryan Tagal at PMC. So PMC is really the investment consulting arm of Envestnet. And so we're a group of about 60 folks who are really responsible for manager research on individual managers, funds and SMAs and exchange-traded funds that are added to our platform and used by our clients. We also do consulting.

There are two types of consulting that PMC does. One is where we help our broker-dealer clients and our RIA clients determine product lineup. We also help individual RIAs as they're building cases for their clients. If it's typically a $2 million case or on up, we'll use managers from our product list to kind of help advisors advise their clients.

So research, consulting, and then PMC is also a portfolio management arm of Envestnet. So we have about $16 billion in assets under management, where PMC portfolio managers are selecting the underlying mutual funds and/or ETFs in the various types of portfolios that we offer. So that's a really brief intro on myself and Envestnet, and I'm sure we'll talk more about.

Dave Carson: So I'm sure that you've got a lot of questions and we'll throw the door open very quickly because you probably have more interesting things to talk about than what I've got to talk about with Ryan. But I did want to just riff on the SunStar tagline: Strategic PR and Inspired Marketing. I think getting to know Ryan and Envestnet will certainly be a very strategic thing for you and I hope when we're done you walk away feeling inspired. So, did I get that right? [Laughs]

So the very first thing I wanted to ask you, Ryan, if you could talk just a little bit about the nature of the relationship that Envestnet has with RIAs, broker-dealers, banks, retirement platforms, kind of the whole span there.

Ryan Tagal: Right. So Envestnet is an interesting point in the kind of flow chart of assets in the investment management industry. So, as I mentioned, we are not a broker-dealer. We do have an RIA, but we're not really an RIA the way you would think about it. We're not a custodian. We're custodian neutral. And our origins are really as a wealth management platform, and that's how we started thinking about ourselves about ten years ago.

Our sole goal is to help advisors build better outcomes for their end clients. We'll always be building tools for financial advisors. We're never going to go directly to the public in terms of offering of our services, so we're always interested in empowering the advisors. We talk a lot about that.

Envestnet, at its core we have sort of basically whatever you want from outsourcing of wealth management capabilities. We often talk about Envestnet: we have 1,000 points of configuration, and each broker-dealer or RIA can choose to turn on one of those points of configuration, maybe reporting only, or all 1,000 of them, including access to our research lists, what we think are select list managers from our PMC team, access to our various trading programs, our unified manage account program.

But it's a suite. Those 1,000 points of configuration really consist of front office capabilities: so the ability to have access to managers, the ability to do risk profiling on those managers, information on what those managers are all about – sort of tear sheets, if you will, similar to like a Morningstar. We have asset allocation services in our front offices, our research lists.

In our middle office suites we have the ability for our broker-dealer, bank, RIA clients – all of them sort of in one bucket for now – to do connecting with custodians, to open accounts, to raise cash, to do billing on those accounts, to do service requests – meaning cash in and out of the accounts.

And on the back end we do a lot of kind of after-the-investment services, so we do about $1 trillion of rebalancing for advisors. We think that's a really important thing that advisors can do, and as part of our Tamarac group we have about $800 billion where we're doing trading – where we're providing trading tools to advisor so they can trade their own accounts, then about $500 billion where we run performance reporting report – only for information.

So about $3 trillion flows through Envestnet. If you did the math there and followed along, there's about $2.3 trillion of that is through these point solutions, if you will, where Envestnet's not really the kind of discretionary oversight in any way, where we kind of see the assets flowing through our platform. And then there's another $700 billion of assets where they're in managed account programs that we can talk about a little bit later.

Dave Carson: Just show of hands, how many of you already have some sort of relationship with Envestnet?

Ryan Tagal: Great.

Dave Carson: Okay, good. Very good. Well, I think you just answered a question anybody might have had about is Envestnet relevant, so I think that's a good place to start. Could you talk just a little bit about the best ways for somebody that is either not engaged with Envestnet or is maybe wondering, "Am I as engaged as I could or should be?"

Ryan Tagal: Sure. So at Envestnet we're really looking to be the industry standard platform for all wealth management and also financial wellness. And by what I mean by that is, in addition to having access to investments and wealth management, we're looking to create new products and services for the end advisor for their client, including things like credit and insurance and that sort of thing.

For money managers, I think for most of the group in here we have a group in our manager relations department. That's run by Estee Jimerson, who is one of our managing directors. She oversees a team of about ten folks in Chicago. Estee's office is right down the way from mine. And her team really is – they're responsible for talking to every single asset manager, whether they're very large or very small, and making sure they can help to navigate the very complex place that is Envestnet. So for those of you who aren't already speaking with anyone, Estee and her team – I would recommend speaking with them first. But they can help you to understand a little bit more about the opportunity sets on our platform.

I can help by talking a little bit more about what our research team does. The questions I often get from you all is, "How does my boutique kind of find some shelf space on your platform? How do I get in front of your research team? How do I differentiate myself? How do I get into asset allocation models, either ones run by a PMC, or are there other strategies to run our platform?" So those are some of the things that I can help folks in this room with.

Audience: So I'm curious. As you do research on these funds and try and help figure out whether or not they can end up on a particular platform – obviously everybody's thinking about fees and performance, but going past that – what other data points might surprise some of the folks in this room that may end up playing a role in that decision?

Ryan Tagal: Sure. So we do have a classic research organization. I'm an ex-Morningstar person as well. And so we have our research list of managers, and there's a lot of kind of characteristics that we look for in terms of does the manager really have a differentiated story – how can they position themselves versus their peers? But really what we're seeing in these days is how are managers kind of fitting into the overall asset allocation of the advisors and portfolio. And by what I mean by that is I think that the more successful managers can realize, even they're focused and really good at a particular asset class, how that asset class may interplay with the construct of a larger model, and so what value it provides to models and themes that either PMC is building or our other platform sponsors are providing. I think that's one thing that's I think really important.

I mean I'll state some of the same statistics you mentioned. There's been a lot of emphasis on low cost. We'll talk about the whole active versus passive debate in a second. But folks are looking at things like strategic beta or smart beta products as potentially maybe the new actor of management in some way.

We are actually seeing a lot of interest in ESG and impact investing. I've been in the industry for 25 years now and I've heard about SRI a lot over the years, but I really do think there's a difference today as we're looking at younger investors and the technology that's evolved to be able to highlight your choices and the reporting on those choices Envestnet can do for a particular area that you're focused in on.

So I think those some of the things that we look at in terms of differentiating sort of advisors versus just other kind of – you know, we hear a lot of the same pitches, if you will, and sometimes we just need to focus on things that are a little bit different.

Dave Carson: So I want to follow up. On the last panel, Beverly was indicating that you probably need to have a bunch of years of track record, and you probably need to have several hundred million dollars for Barron's to really kind of pay attention to you. Do those same criteria apply to people talking to you?

Ryan Tagal: Yeah, well, it's interesting. So I've looked at many different research organizations over the years and I've seen the funds and SMAs on their lists, and there's a lot of the same names if you look at ours or broker-dealers or of kind of the research providers. And so there's sort of this kind of safety in numbers, if you will, type of thing.

For our research analysts who are qualitatively evaluating money managers, we do look to have at least about $100 million and the strategy getting close to that three-year track record. Those are pretty common numbers I'm sure a lot of you have heard. And so I think those are sort of the minimum numbers that our research team will look at.

But I think, in kind of in relation to the last panel, just being able to build those relationships with the research team is important because you don't want to come in and just have a pitch that you do, but if there's something really interesting about a certain area of research and your style that can correlate to some of the research that our analysts are looking at – and our analysts are focused into kind of four different categories. Most of our analysts are in Denver. There's a few in Boston.

But we have our equity analysts and we have our fixed income analysts. We have our strategist analysts who are evaluating entire portfolios that are being put together. And we have our liquid alternative analysts. And if you're seeing kind of new themes in each of those and can articulate those with our research team, you're more likely to be able to have that ongoing conversation or dialog.

One thing I will say is that getting on our research list is important, but it's really interesting. We have access to $3 trillion of assets on our platform, and we have these tools to really see where the pockets of money are. And so a lot of the boutique fund managers have really done really well in concentrating in a couple of really key areas. And the point earlier about boiling the ocean is extremely important because the asset managers that have to really choose where they're allocating the resources, you can tell by sort of the flows to specific broker-dealers and RIAs that we can tell the relationship has been formed there. And so we see that in the data that we see, and we see that in the conversations that we have with our clients.

Dave Carson: Good. Maybe you could talk just a little bit – I think it kind of fits in with that – about the available list and the approved list and what does that mean.

Ryan Tagal: Sure. So for all mutual funds and exchange-traded funds, Envestnet is really sort of one hurdle, if you will, of several in order to get access to the end advisor client. First you have to be available at your major custodians. About 80 percent of our assets are with what we call the big four custodians – Fidelity, Pershing, Schwab, and TD – and there's about 20 percent with the rest. And then there's – our broker-dealers have their own gates, if you will, and RIAs, and you still have to sell to the home office.

But what Envestnet does is we have this concept. It's called the investment management and research status, so that any fund or ETF, if you call, our manager relations team will add it to our platform. So it'll show up in our UMA programs that are available or our advisor different programs, but if you don't have any track record, your profile page is going to look pretty sparse. So there's no minimum requirements for a fund or ETF to be on our available list. You just kind of gotta call us up, and it's literally called a service request, and it just basically flips some buttons on.

For our approved list, there are basically two ways to become – get on the Envestnet PMC approved list. We have a quantitative process where we run through every single mutual fund, ETF, and separately managed account that's in existence. We take the Morningstar databases and we run through our quantitative algorithm that looks at managers based on a process. It's a very quantitative process. It requires at least three years, but in many cases five-year track record in order to get approved in this quantitative process. It's our way of being able to have a broad list of approved managers for those broker-dealers that would want us to do that screening for them.

In addition to five years of track record, there are things like your – we have to be able to categorize them correctly. We look at R-squared. Like the quantitative process tends to favor managers that have higher R-squareds versus their peers. And so those can be become – those are automatically considered for our approved list, our approved quantitative list.

In order to get onto our approved qualitative list or our select list, that really requires a conversation with our research analyst teams out in Denver or Boston. And it's kind of we're thinking about the pyramid of products in terms of how many we cover. There's something like 15,000 funds and 2,000 ETFs and 2,000 SMAs that we have sort of as available. And then there's 2,000 mutual funds and about 500 or 600 SMAs that would be approved quantitative. And then there's 200 that would be approved qualitative on top of that.

Dave Carson: Would it be fair for people in the room here to view dealing with you the same way we heard, again, on the last panel? That it's build a relationship, it's not, you know, snap your finger and all of a sudden I'm set there?

Ryan Tagal: It's pretty critical for getting on our approved quantitative list – qualitative list; excuse me – because of that rapport with our research analyst team I think is very important. For our quantitative process – some of you have spoken to me – we have a very sort of dispassionate process. You either make it or you don't and it kind of is what it is and you can't really go around that, but our broker-dealer clients have sort of liked it as a filtering mechanism.

One thing I will say, though, is that whether or not PMC calls something approved or available is really just a small piece of the puzzle of navigating Envestnet. A lot of broker-dealers will use our approved list funds and ETFs and SMAs only. Many of them do not. Some of them will partially use our list, and they'll have their own research team and they can add other products to their list in conjunction with PMC does with – you know, you think about PMC does as basically as a sort of outsourced CIO kind of component.

And so specific broker-dealers, specific RIAs, the lists of products that are made available to them. Getting on the custodial list is step one. Getting approved is great if you can get that, but even getting approved still means that you have a couple other maybe potential gatekeeper hurdles that you'll have to go through to really get the focus of like a home office person and then, even after that, the individual advisors.

Dave Carson: Yeah.

Audience: Asking for a friend, of course. But I get asked this a lot. I'm serious, Ryan. Do you guys ever get your hands dirty with respect to the broker-dealer platform trying to – I don't want to use the word "advocate," but try to push and try to improve the chances of the odds of the fund reaching the actual trading platform? People ask me that once a month.

Ryan Tagal: Oh. So if you're talking about the custodial platform or the broker-dealer?

Audience: Yeah. In other words, does anyone within Envestnet – and I realize this is a difficult question because you represent yourself – does Envestnet ever get involved on behalf of one of your own clients, so to speak, in trying to help get that product up and running on a particular platform for which they may be having some troubles for any number of reasons?

Ryan Tagal: If you're talking about the custodial platforms, Envestnet doesn't have any say in any revenue sharing that's going on between the broker-dealer and the custodian, so we kind of don't know what's going on there. We often get asked about clean shares and lowest-cost share classes a little bit and the PMC as a fiduciary. We often will say, well, that's the decision of each individual broker-dealer and their custodial relationships to have what access they have. We want to represent what's out there in the investment industry, so if there's lots of boutique fund companies out there, we want to have lots of boutique fund companies. One of the questions will be what does Envestnet think about active versus passive. We kind of don't care because we want whatever the advisor is using to be available on our platform. So we don't advocate for funds in that way per se, and we'll give our research opinions on them for sure. That's really just sort of a research opinion versus any of the operational kind of hurdles that funds need to go through.

Audience: You mentioned that getting on the select list or the qualitative list is just kind of step one and then there's the process of gaining traction, let's call it, with the end advisors or whoever is allocating. How does that process work at Envestnet?

Ryan Tagal: So for our select lists and our approved qualitative list, we have a team of analysts. We have about 25 research analysts amongst those four categories I mentioned before. And really it's about building relationship with them, and that's the starting point.

They're looking for managers that have a repeatable process. We talked about this a little bit earlier. What is your alpha thesis that's repeatable and can you really demonstrate that? Our research analysts will take that into consideration as part of the write-ups that they would do that then are kind of work product for our broker-dealer clients.

Audience: So an RIA or a BD that's utilizing Envestnet will talk to or read those analyst recommendations as opposed to ever talking to the end fund manager?

Ryan Tagal: No, I think a lot of them will use it in kind of as a third-party assessment of that manager. Sometimes a home office person is more comfortable if they know someone at Envestnet or PMC, one of our research analysts, is doing their annual follow-up visit with the manager, looking at them quarterly to see if anything has really changed, the portfolio manager has left. These are some of the things that our research team does. They're comfortable to know that someone at PMC in our research team is at least following those.

So we'll provide the home office person the write-up and we might even give the end advisors the write-up, but a lot of times they may not even read the whole write-up. We were talking about ten pages before. Our write-ups tend to be about three or four pages. I think a lot of times folks just want to know are you on the select list or are you on the approved qualitative list. And then, if they want, usually there's a home office person who has a CFA that reads that stuff, but after that it goes out to the advisors in the field and you're kind of comfortable with it.

Dave Carson: So our title is "Success on BD Platforms," and I think many of you know Bob Dorsey, who is founder of Ultimus; I've had the pleasure of working with for many years. I think my first week I was at the company Bob taught me the mantra "access and awareness." And for success on BD platforms you really need to have both. So I think what we're talking about here is more on the awareness side because you're making – you know, they're seeing the list.

But I'm sitting here wondering, okay, on the access side, if I know that I've got relationships with these ten – I've got agreements with ten broker-dealers, can I go through that list with you and have you say, "Well, we really don't do a whole lot with any of these," and maybe it's a better use of my time not to spend a whole lot of time trying to work through you? What do you say?

Ryan Tagal: It could be. It could be because maybe at Envestnet we're trying to – you know, I mentioned 1,000 points of configuration. Some of those points are our research services. So for some broker-dealers, we're probably trying to sell them on some of our research, so we may or may not know – just because we haven't sold them as a client may not mean that they're a good opportunity for your asset management firm.

So we're a part of the cycle as well, and I think we have tools on the Envestnet platform which show basic product availability, and we have some competitive statistics in our Envestnet analytics tool that some of you have probably seen. But sometimes we're kind of competing for – within PMC anyway – for kind of awareness of outsource and research for some of those home offices. So sometimes it may or may not be the best thing to rely on kind of what our opinion is on who a good broker-dealer or RIA client could be.

Audience: Just a quick question. You mentioned earlier about the big four broker-dealers with their supermarket platforms there. We, as managers of funds, if we're able to go through and look at their portals as to who's involved in our particular funds through whatever channel, are we always going to see, or would we look to see, Envestnet's name there necessarily? Or, very often we may well see somebody else there that we maybe don't know that there's a relationship with Envestnet? Can you just give a little color on that for us?

Ryan Tagal: That's a great question and it goes to the types of configuration we have. So, for a lot of our assets, so for about $2.3 trillion of our $3 trillion in assets which flow through our platform, a lot of times you may not know that Envestnet is providing one point service on that asset. So if you go to the broker-dealer custodial platforms, it may not say Envestnet. It maybe may say the end broker-dealer, although we might be touching it in a small way or observing the assets flow through. In other cases we have quite a bit of influence, if you will, on sort of some of the assets or flows through that.

Unfortunately, it's very hard – I know what your questions is – to decipher that because there's no tag on the feeds that you're getting from the custodian's _____. It's flowing through Envestnet and it's flowing through these 20 of their 1,000 programs. And then when you know that those 20 programs are ones where there's certain types of influence, then you could build your strategy.

It's a really tough thing to try and reverse engineer anyway, and a lot of folks have asked me about that. And so I might say to not spend too much time reverse engineering all of that. Instead, focus times on a couple of key clients and RIAs where you know you have traction or your story is resonating. I think that'll be much more better return on effort.

Audience: I mean one of the main reasons for asking is obviously we like to know who our underlying advisors or BDs are who are earning our funds. And particularly if there's some action or a change in recommendation or weighting or something like that, that can have a major impact on flows in the fund and that's always helpful.

Ryan Tagal: Yes, it is. And I'll sort of defer again to my colleagues on the investment – the manager relations team. We do have tools that allow you to see, at least for the brokerage – the end RIAs and broker-dealers and custodians that we have access to. And we do have the programs that they're on as well, so if it's a performance reporting account, we know that and we can share that, versus a UMA account where we have trading discretionary authority. So we have a couple of extra things that we have available. But sometimes that level and even knowing the name of the RIA or BD doesn't still tell you how all of those things got put together in the first place.

Audience: How do you get kicked off the program? How do you get kicked out? What sorts of things happen to cause you to get knocked off?

Ryan Tagal: Oh, sure. So, for our mutual funds and ETFs – and, actually, I apologize. I haven't even talked about our managed program, our managed accounts yet. For mutual funds and ETFs, you kind of stay on until the fund merges together or it gets terminated, et cetera. But we have a separate process called our Business Partners Acceptance Committee from basically managed accounts, so separately managed accounts of stocks and bonds or what we call fund strategies portfolios, where the money manager or the advisor is putting together a basket of 10 or 15 mutual funds, usually across the efficient frontier.

So we have a compliance team and a due diligence team that there's an RFI submission that you need to register with our team. You need to have a clean ADV to be eligible to register. You have to have $125 million in AUM in order to kind of get your managed account models sort of in front of this committee. This committee meets [clears throat] – excuse me – every Friday. I'm on that committee. And we basically vote about whether a certain manager provides value for our platform. Is it differentiated? Is there a broker-dealer of a client of ours that wants it? And so we'll take that in consideration. Does our research team want it? We take that in consideration.

So I'll get to the answer of that question, though, because once an SMA or a fund strategist is on our platform, it basically kind of stays there until a lot of times the manager may close it because the assets have not really gotten traction, or they thought they could put it on our shelf and the money would flow. That never happens. If you put it on our shelf and you find a couple broker-dealers that you know use Envestnet, then maybe money will flow.

But other times there's other managed accounts where after every annual certification we may find a compliance issue with their ADV. We may find something with their trading activity, where they're trading too much. So we will terminate those managers. Our termination rate is very low. It's about five percent per year, and most of those are just products that just ran out of gas, to be honest. But we do look. We do check for compliance and regulatory things as part of that process.

Dave Carson: Good. I want to borrow Warren's thesis earlier today on your thinking about competitors – maybe three, probably one or two. And I think the same thing applies in the broker-dealer space. Our clients that we've seen be really successful, focus. You used that word, Ryan, is focus. And I mean it's great to have the access through the relationship with Envestnet, but they have to have your awareness as well of who you are and what you're doing. And I've seen a lot of people that had great investment strategies that – and I don't have if it's an ADHD thing or what – where they won't just do that relentless "I'm going to be sure these two firms, maybe three firms, really know me really well." And I think you're kind of talking about the same thing there.

Ryan Tagal: I think so: focus and relationships. I mean we have a big, complicated platform, but that's still such a critical component to it. So for our research team's select list and approved qualitative list, about I'd say two-thirds, or maybe a little bit more, of the managers on there are kind of your big kind of firms, but they do like to have at least about a third or so of boutique managers on their platforms, especially managers that are really good at what they're doing.

And I sit on our analyst calls every Thursday, and they'll talk about a really unique, short-term muni manager, and our analyst will say, "These guys really know what they're doing because of this and this," or international emerging markets or something like that. And so part of that is focusing on your strategy, what you're really good at, and then articulating that strategy and getting our analysts excited about it. So that's one way to really focus your activities with working with Envestnet.

And the same thing not just with getting on our approved list – which is what results in that – but doing the same thing with some of our broker-dealer clients. So maybe you've gotten approved because of the conversation or approved quantitatively through our process, but then it's kind of talking to the other gatekeepers who are down the road from us a little bit more.

Audience: Can you say some more about the relationships, building relationships? Can you say some more about that? How does a company do that?

Ryan Tagal: Sure, it's tough to do for a large, complex company like Envestnet. So we have about 4,000 employees now. I think we work with over 1,000 different individual – independent RIAs is how I call them, hundreds of broker-dealers, like insurance broker-dealers or bank broker-dealers. And part of relationship is sort of how you are networking with folks and who you talk to at conferences like this, and you get the business card and you make that relationship.

It's hard to come into big Envestnet and kind of say, "Well, how do I build relationships with this broker-dealer or this research client?" Because oftentimes you can build relationship one-to-one, but if it's three people down this six degrees of separation, it's a little bit harder to translate that. So it's a great question. I think it's –

Dave Carson: I told Clinton, Ryan, that I was going to call on them, and this might actually be the time to call on them because you guys have gone through the process and gotten to the point of having meetings with the team in Denver. So maybe you can kind of do a quick case study on where did the relationship start and how have you nurtured your firm's relationship with Envestnet.

Audience: Hello. On behalf of Envestnet, I will say they have a portal that you can buy. It gives the contact information at the individual RIAs, the end investors, essentially. We're in the initial stages of creating those relationships with the qualitative research team, so that's in process.

Ryan Tagal: Yes, we do have that portal, which I think we do sell. I mean since I'm on the research side, I focus more on sort of what our investment team's process is. And we haven't really talked about it a lot too much, but the success we're seeing with more of the boutique fund companies are placing your funds or your ETFs in manager models.

So at PMC we run all kinds of models. We have all-active models where we're picking active managers using returns based on analysis. Don Frericks has been running that portfolio for 30 years. It's the oldest mutual fund wrap in the industry. We have models where we're picking ETFs. We have models where we're picking strategic beta ETFs. One of our more successful sets of models these days at PMC are our impact models, where we have a series of seven models across the efficient frontier from conservative to aggressive. We're picking funds that are focusing on an ESG theme, and so those have seen inflows. It's actively managed and it has inflows.

And if you can be one of those funds in that model, right? And so we're selecting the models and we choose your fund and we put ten percent in there; that's a great way to raise assets through PMC. Now, PMC is one of just about of 200 different asset allocators or fund strategists on our platform, and so a lot of them are doing the same thing. They're creating types of models and they're looking for managers to differentiate themselves.

Now, at the same time, I won't lie. So we have these other very big models from some very big fund companies, which have pretty passively asset allocated strategies with passive products within them and low costs. And those are done very well as well. So in terms of models, of those 150, 200 model providers, there are some of those types of behemoths out there, but there are lots of boutique strategist managers who I think could be really good opportunities to reach out and find pockets of assets that you may not have the bandwidth to go in and find. And a lot of that information is available in our kind of analytics tools.

So there are lots of asset allocators on our platform, and we're seeing a lot of that growth. Our biggest growth these days is in our UMA program, which is where the advisor can select either individual funds or SMA managers, but also the sleeves of managed portfolios. And they can even put their own advisory managed sleeves on them, so it's kind of the kid in the candy store with our UMA model.

But we have the technology now to be able to allocate what we call FSPs, fund strategist portfolios, within our UMA program, and that's the fastest growing area in Envestnet. So if there was one other thing that – besides sort of Envestnet is very complex and there's lots of steps – that I would say, is that really try to seek out these model providers and see if you can find some shelf space with them, because they're great ways to raise assets.

Audience: I'm just wondering are you seeing any trends? There was a lot of noise around clean, cleaner, and cleanest. And you've talked a lot about models. So are you seeing any trends that people should be paying attention in terms of the stripped down, externalized compensation, those type of things?

Ryan Tagal: Yeah, so that's a great question. So we had spent a lot of time building our technology a couple years ago in preparation for what we thought was going to be the DOL rule, and we kind of built our whole technology stack to address that. And then, obviously, things changed, and so there was a lot of sort of pullback from our broker-dealer clients to utilize those types of things.

And there are a couple fund companies that would introduce really clean shares, and some of them made a lot of noise in the press. And a couple of our key broker-dealer clients did convert assets into the cleaner shares, maybe even the cleanest shares – depending on what that means. But we've seen a lot of slowdown in that the past two years.

What I will say, though, is that the regulators are still kind of looking across the books of business for trying to get to cleaner shares, and really they're focusing more on books of business where there's a C share or an A share; and if there was a investor share available, they're kind of asking questions of our clients, not necessarily of Envestnet, of "Why didn't you move over? Are you going to move over?" And so that activity is still going on, and a couple of our broker-dealer clients have had their cages rattled a little bit about that. But I think even that activity is starting to subside a little bit as there's become less emphasis on that.

Dave Carson: I would echo that from what we see, that there's not been a rush to get there, but maybe slightly faster than glacial kind of push towards cleaner shares. We actually had somebody very recently that talked about adding a C share, and I grilled them – almost literally – and their case it made sense, but we talked a lot about why in a lot of cases doing a C share today wouldn't make sense. So I don't want to see somebody go down a path where they're going to spend time and money where they're not going to get a return on that investment. So there's that.

We touched just a little bit on active and passive. Can you speak a little more about your firm's view on that?

Ryan Tagal: Sure. So PMC, we're kind of one of the founders of an active-passive strategy. I know Morningstar has had one for a long time as well. We've done research on combining active and passive management for the past 14 years, and actually that's one of our more popular model programs. So we'll combine active managers with passive managers in the asset classes where we think the active managers provide greater alpha.

But we also have pure passive products at PMC. We also have pure active products at PMC. We're doing a lot more with impact these days in terms of fund models. We're doing more with factor based models as well within PMC. So if you consider impact and factor as sort of new areas of active management, that's one of the things that we're seeing a lot of. So, again, we observe what's going on. A lot of assets are really going to, I would say, low cost and maybe more so than passive per se. But this industry is cyclical. I mean I think there is a long-term trend towards maybe passive management in US large-cap equities. I think that's clear and I think we're seeing that. I still think that in a lot of the other asset classes – and our research team thinks the same as well – once you get outside of that, even mid-cap – you know, US mid-cap or technology or international – there's definitely some good alpha theses out there, and our research analysts like to find those boutique managers that are doing things in these other asset classes.

Now US large-cap is, what, typically 40 percent of an average advisor's portfolio, so it's a big chunk of change and we're still seeing that in terms of flows, but at PMC we don't really have an opinion one way or the other just to sort of – you know, we see the trend. We at PMC think, when we put together an active managed portfolio, is that we can pick funds that have potential, so we write white papers about the benefits of active management as well. We also have papers about passive management. So as the sort of clearinghouse of an industry, we sort of are going to go where the industry assets are.

Dave Carson: Good. So I think we have time for one last question, and Chris already has his hand up. So, Chris, you get the last word, or at least the last question.

Audience: Thanks, Dave and Ryan. A question for you, Ryan: are there products or types of products that you wish you had at your disposal, that there's a demand from the _____ broker-dealers or wealth managers, where there's maybe capacity constraints or the product type that's out there doesn't fit the needs of the demand?

Ryan Tagal: One of the things we're seeing more kind of interest in is kind of concentrated stock positions and overlay management capabilities and options-based strategies. That's one thing where we're seeing a lot more interest in. Our asset allocation models, which we publish, we have a little bit more in international fixed income than most models you'll see out there. So we're always looking for good international fixed-income managers, so for those of you that have those types of strategies, there's an opportunity there.

And then on the strategist side of things, there's a lot of money going into the sort of really plain-vanilla asset-allocated strategist models where the firm has come up with an asset allocation; they fill it in with all of their own funds. And we're looking – at PMC we don't have – you know, we're picking from your funds for our models, so we're always looking to differentiate funds by finding asset classes that fit a particular theme of a new portfolio that we're building.

I would say impact, that we're seeing a lot of interest in impact these days. So that's one area. In terms of asset classes, I think high-yield REITs, high-yield and REITs, and then international bond.

Dave Carson: Good. Well, Ryan, thank you very much.

Ryan Tagal: Thanks.

Dave Carson: It's been a pleasure being up here. Thank you all for being here.