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Getting your outsourced investment management model spot-on – the first time

5 things to look for in a turnkey asset management outsourcing partner

Introduction

Gaining as much efficiency, productivity, and investment knowledge as possible is essential for competing successfully and surviving in the wake of three bear markets in the last four years. But many advisors who are looking to grow and scale their practices end up feeling constrained by the limitations and capacity challenges of a small firm.

In recent years, rapid technological advancements, fast-evolving consumer needs, and fear-driven behaviors during multiple volatile market events may have shifted advisors' attitudes toward outsourcing investment management. The turmoil brought to the financial advice space during the COVID-19 pandemic led many advisors to outsource investment management, with about one-third turning to outsourcing for the first time during the pandemic.[1]

Advisors that want to avoid becoming engaged in portfolio manufacturing and maintenance should look to turnkey asset management platforms (TAMPs) as a part of investment management outsourcing.

TAMPs allow advisors to scale sales, servicing, and operations activities while helping to increase their focus on higher-level functions like financial planning. 88 percent of advisors outsourcing investment management believe doing so has had a positive overall impact on their firms.[2] The top two reasons wealth advisors use TAMPs are to have more time to service client needs and access to best-of-breed investment management.[3]

However, there are differences in service and support, flexibility, and investment management approaches from TAMPs. Here, we look at the potential benefits of outsourcing investment management through TAMPs and the key factors to consider in the selection process.

Why advisors outsource investment management

- Increase in efficiency and productivity
- Enhanced service, support, and flexibility
- Stronger growth, scale, and competitive positioning

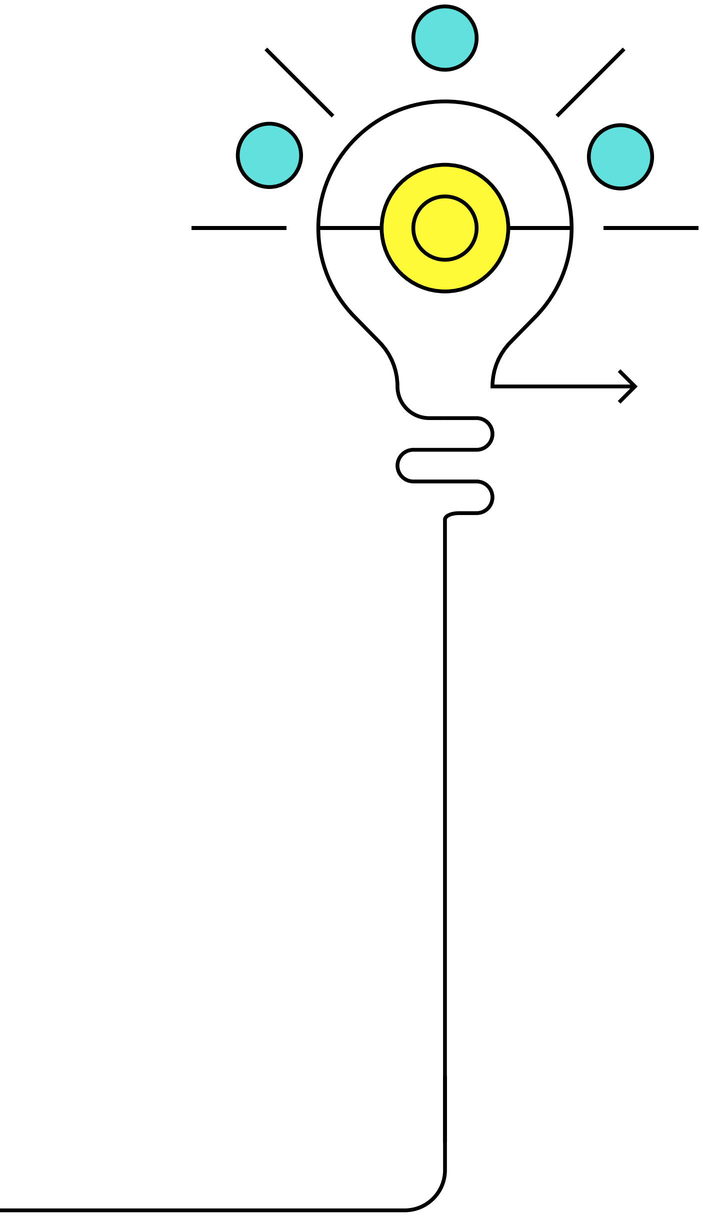
The benefits of TAMPs

A TAMP provides an advisor outside of your own firm to facilitate investment selection and management. This option allows you to offload time-consuming back-office functions such as research, manager due diligence, portfolio construction, rebalancing, reconciliation, performance attribution, tax optimization, and reporting. Here are their primary advantages:

Increase in efficiency and productivity

According to a WealthManagement.com outsourcing survey, 52% of advisor respondents said the primary driver in their decision to outsource investment management is enhanced efficiency and productivity, allowing them to spend more time with clients.[2] More than two-thirds (69%) said the primary benefit is allowing more time to spend on other services, client relationships, and business development, followed by AUM growth (53%).[2]

Since you no longer must support redundant or commoditized operations, paperwork, running reports, rebalancing portfolios, and generating invoices, outsourcing investment management to a TAMP delivers greater operational efficiency and time savings. Instead, you may use the extra time to prospect additional accounts and market yourself more effectively rather than competing with top asset managers. You can profit from an investment manager's expertise while your customers still receive top-notch solutions from a front end they like and rely on. Outsourcing can also be more efficient and less costly than hiring people or buying technology.



Enhanced service, support, and flexibility

TAMPs provide more advisor service, assistance, and flexibility than robo-advisors which only use automation to deliver investment models. Delegating these activities means advisors can concentrate on what they do best – providing sophisticated investment strategies, financial planning, and strong multi-generational relationships.

For years, advisors have successfully built new business processes around tax strategies, customization, socially responsible or “impact” approaches, planning-driven solutions, and more. Just over a third of advisors (36%) are outsourcing investment management, and an additional 17% plan to do so within the next 18 months.[2] The vast majority of those currently outsourcing (81%) have been doing so for at least three years.[2]

Stronger growth, scale, and competitive position

In a market that is already quite competitive, advisors can make money without having to take client assets: this is advantageous for them and a win for everyone, including your clients.

Virtually all advisors outsourcing investment management (96%) report experiencing growth in AUM since their decision to outsource, including 38% who report growth of at least 15%.[2] Most of those reporting AUM growth (60%) believe outsourcing has had a meaningful impact on that growth.[2]

The impact of outsourcing on advisors’ bottom line is hard to ignore: Most report operating costs have decreased (58%), and they attribute outsourcing as having had a meaningful impact (59%).[2]

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5 things to look for in an outsourcing partner

Advisors not currently outsourcing investment management cite three primary deterrents: cost, reduced control, and inability to customize or personalize solutions.[2] After cost, the most critical considerations in selecting a partner are the service and support model (48%), historical investment returns (48%), and experience (45%).[2]

But when it comes to selecting an outsourcing partner, it comes down to the capabilities you value most. When evaluating potential partners, here are six key factors to consider:

1. Product match and flexibility

The partner should offer a product, and manager mix that aligns with your firm's strategy and client needs now and in the future. And since TAMPs integrate with custodians for account setup, trading, and reporting, they should be custodian-agnostic with built-in workflows. Check to see if there are any limitations to which products or custodians you can use or have access to.

Ideally, you will want the flexibility to pick and choose what you want to outsource. After all, your goal is to provide your clients with a tailored experience. A one-size-fits-all offering will not make the cut. Assess the flexibility of investment management and any limitations due to heavy reliance on third-party models and potential reporting and risk management challenges of blending the TAMP model with other holdings.

If the platform is open architecture, there will be no limitations on the goals the provider can help you set for your clients, such as wealth accumulation, long-term growth, income, retirement income, legacy, and more. And asset allocation that can be driven by the strategists on the platform (as chosen by the advisor) or by the advisor provides added flexibility.

Flexibility personified

Look for a partner who not only does the heavy lifting but gives you the flexibility to choose from a menu of capabilities depending on your needs and wants:

- Investment proposals
- Goal planning
- Risk tolerance & solution mapping
- Fully digital onboarding
- Multi-custodian access & management
- Client money movement
- Billing & fee management
- Client invoicing
- Portfolio accounting & reporting
- Client, advisor & home office dashboards
- Model & platform management
- Pre- and post-trade compliance
- Daily monitoring
- Portfolio rebalancing
- Tax efficiency capabilities
- Overlay management

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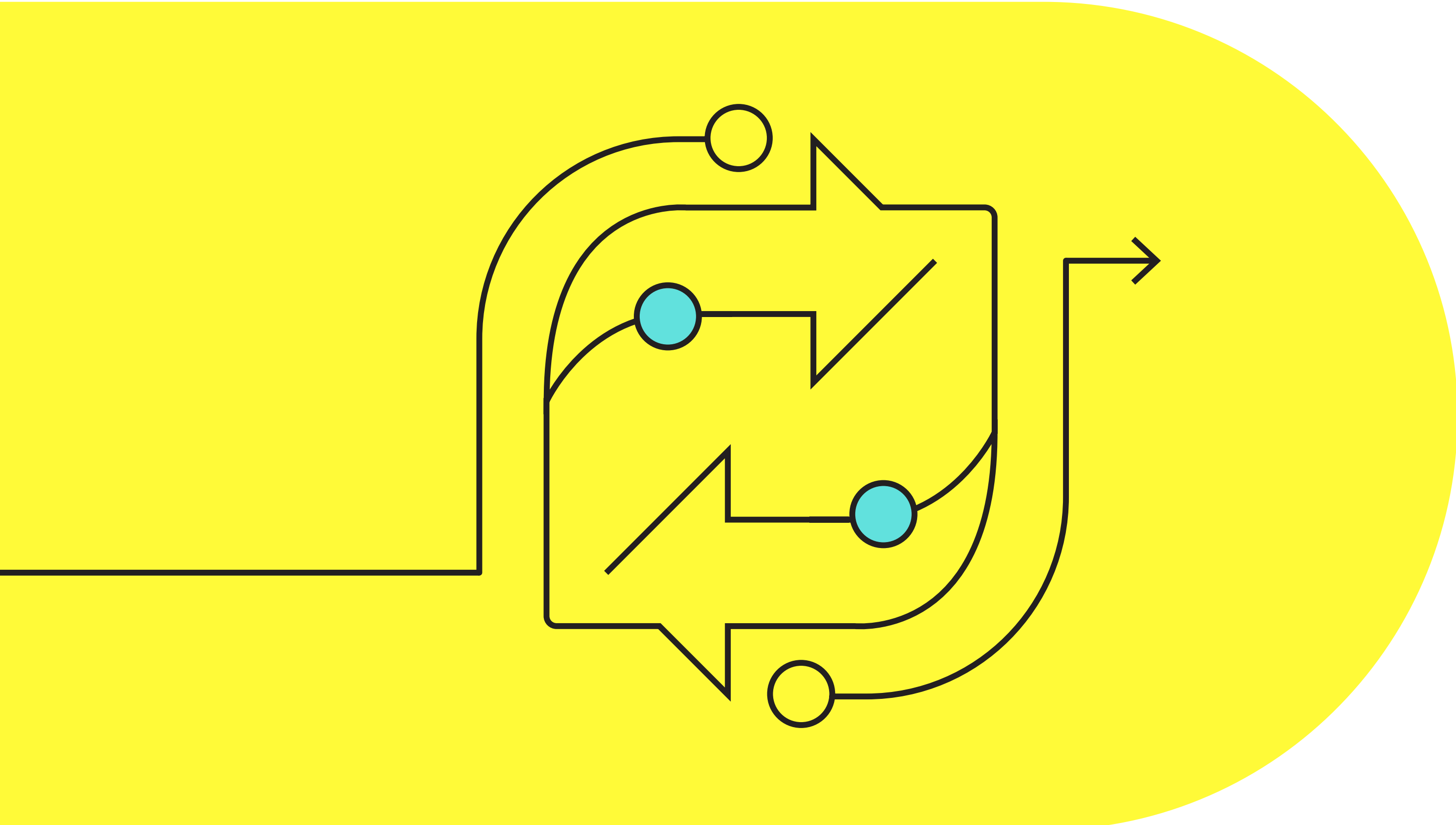
2. Cost and value

What is the cost to deploy the system, both initially and in terms of ongoing costs? Is billing based on the number of client assets on the platform, the number of accounts, a flat fee, or a subscription basis? Is pricing à la carte or all in one? What are the switch costs should it become necessary to replace a current provider with a new solution provider? How do the expenses offset the actual value delivered?

An outsourcing partner should help you reduce the resources needed to run your business by handling lower-value middle and back-office functions. You'll need to not only factor in time savings, but overhead cost savings also (since you don't have to hire a trader or buy additional technology for rebalancing, for example)

The cost of outsourcing involves sunk costs like the platform and setup fees. But when it comes to ongoing costs, TAMP fees can range from 15 to 280 basis points (bps), so evaluate the relationship between cost and value wisely. In addition, it may become difficult to price the model to your end client, making billing capabilities especially important.



3. Service, support, and expertise

A good TAMP should assist with your day-to-day business operations and help you think strategically, grow your business, and increase real income. Outsourcing providers with deep expertise can help you navigate the complexities of running your business, offer training in professional areas and for your staff, and provide tailored service.

How fast can the TAMP roll out, and how soon will it make a difference in client/asset acquisition and retention? Does the provider have a dedicated team of seasoned professionals to handle proposals, goals-based planning, portfolio construction, reporting, billing – and just about everything else?

Some outsourcing providers offer marketing programs, training programs, technology, and practice management support, all aimed at helping you become more efficient and successful. In addition, technical support can assist with philanthropy, retirement distribution planning, asset protection, tax planning, and business succession.

It's also essential that the partner has processes in place to eliminate drag. Find out how much time your team will need to spend working with the provider on routine maintenance and upkeep once the system is implemented.

Before you shop, do this

The first step in selecting a TAMP is identifying and understanding your client segments. The second is determining your investment style and strategy.

Consider what specific type of client will most benefit from your services, expertise, and advisory knowledge. This strategy will help you to find the right outsourcing provider match.

4. Reputation

Providing outstanding customer service is your primary responsibility. Therefore, identifying any existing contradictions between the provider's reputation and your professional identity (independent, upscale, nuanced) is crucial.

Although TAMPs are mainly unknown to most investors, the reputation and image of the company where disclosed – custodians, asset managers, reporting, and so on – is still important to clients and prospects. That's why it's critical to ensure the selected firms do not compete with them at a retail level and are committed to the solution provider role.

5. Technology

If you want to compete for client accounts, having cutting-edge, dependable technology is essential. The platform should offer extensive support to integrate your firm's technology, custodial, and operations workflows or allow you to associate your practice with their sophisticated technology.

Access to advanced, integrated tools, such as rebalancing, will allow you to serve more sophisticated client needs. In addition, a solid range of features and functionality, including model portfolios, tax capabilities, client experience tools, and more, helps you stand out in a crowded market and continuously exceed client expectations.

Focus on what you do best

You probably take delight in offering your clients specialized knowledge and advice. However, attempting to be a jack of all trades for every client can prevent you from genuinely offering individualized service.

Delivering streamlined services and solutions for your clients quickly and efficiently, all while strengthening your connections, is the foundation for a mutually beneficial relationship.

Your best chance to help your clients achieve their unique financial goals is to free up your own time to further improve their customer experience by outsourcing investment management services.

As a result, you'll be able to alleviate the tiresome effort associated with completing investment research, creating portfolios, and continuously tracking performance – devote more time to providing knowledgeable, individualized money management advice.

Sources:

[1] FAs Flocked to Outsourced Investment Management During Pandemic, FinancialAdvisorIQ, September 23, 2022.

[2] SURVEY OF INDEPENDENT RIAS – JANUARY 2021: Outsourcing Investment Management, WealthManagement.com and Vestmark, January 2021.

[3] America's Best TAMPs 2023 Guide, The Wealth Advisor, January 2023.

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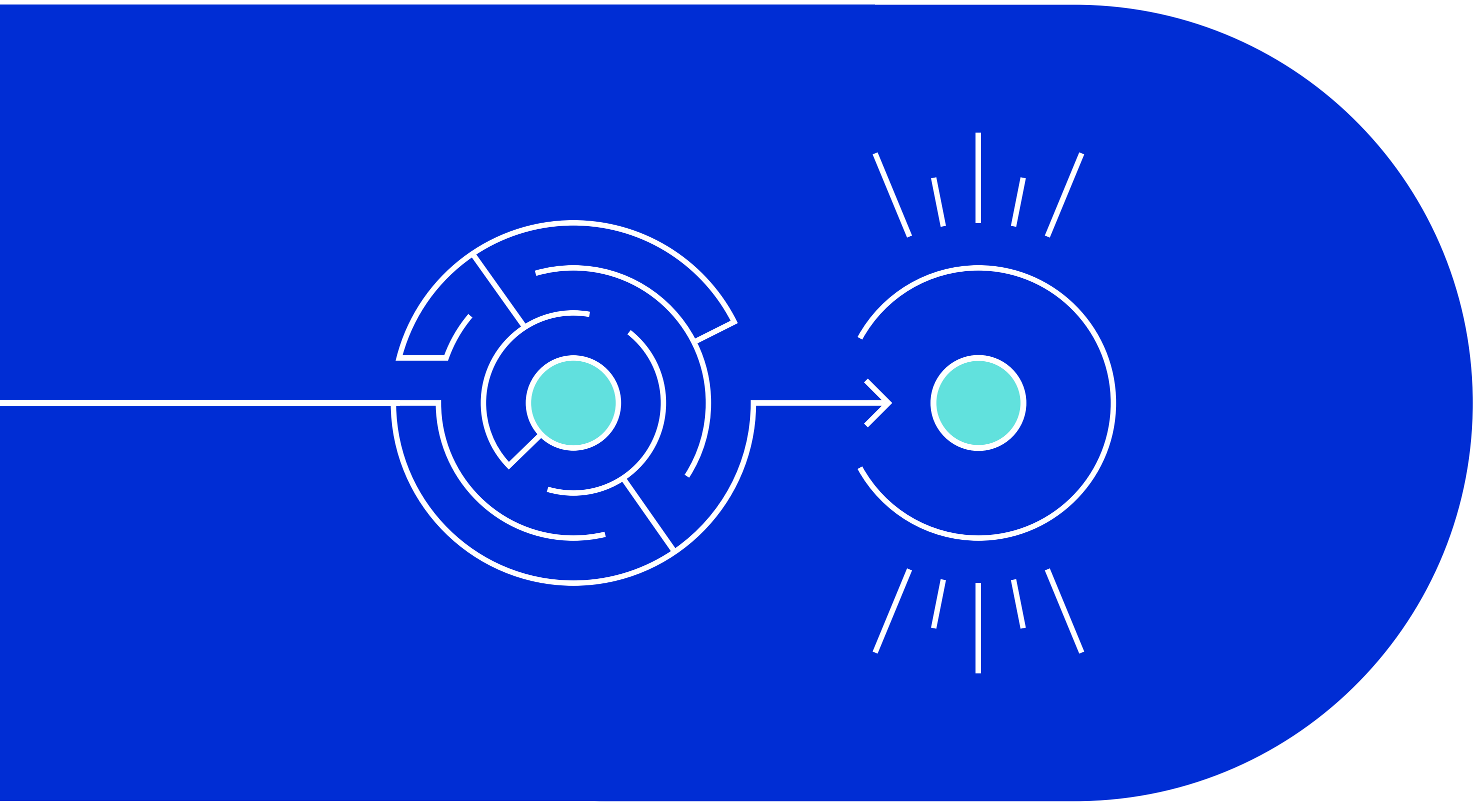

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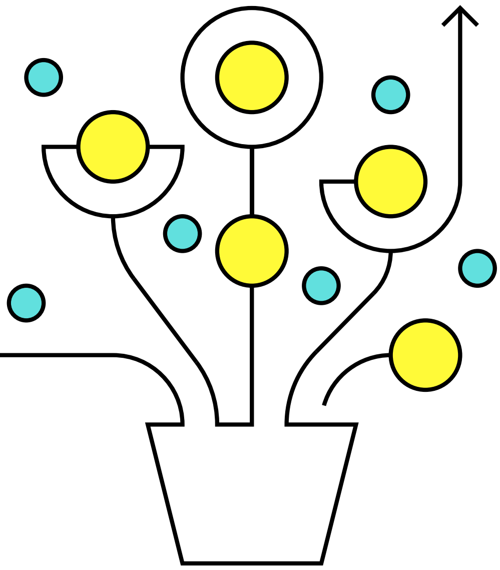

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