Go Deeper.

Taking client relationships to the next level.

Eaton Vance Advisor Institute

Reflecting on your investment approach

Inspiring Intentional Outcomes*

*In 2015, David Richman and long-time collaborator Alan Parisse, released the book, “Client Primacy -- Inspiring Intentional Outcomes.” The subtitle, “Inspiring Intentional Outcomes,” had the dual meaning of helping advisors inspire intentional outcomes in the lives of their clients AND helping to inspire intentional outcomes in their practices. With permission, this paper borrows the subtitle of “Client Primacy” while focusing on investment management.

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Investment Managers

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“Thriving in the new abnormal”

$8 trillion in “benchmark-hugging active assets” in motion over next decade

“an environment … where your clients end up becoming **far more discriminating**”

“Probably a **once-in-a-generation shift** in the industry”

“Never has a client … **needed more help** in managing their portfolio than they have or will have in the next 20 years.”

McKinsey and Co. Excerpted from FundFire, November 2, 2016.

Reflecting on…

YOUR CLIENTS

- Reasonable cost
- Full transparency
- Desired outcomes
- Alignment with core beliefs
- Tax relief
- Feel understood

YOU

YOUR APPROACH

Reflecting on…

YOUR CLIENTS

YOU

- Time
- Go deeper 
- Differentiation
- Customization
- Capacity

YOUR APPROACH

Crescendo…

Proposed regulatory changes

Robo providers

Intergenerational wealth transfer

Your relevance?

Your value?

For Investment Professional Use Only.

"In pursuit of an investor's goals, the advisor can 'spend' from 4 budgets:

- Risks
  (loss, not volatility),
- Costs,
- Taxes,
- Client goodwill."

The big picture…

What's going on within YOUR Pie Chart?

Where are your SPENDS?

Is the value of your advice worth your aggregate spends?

Reflecting on…

YOUR CLIENTS

YOU

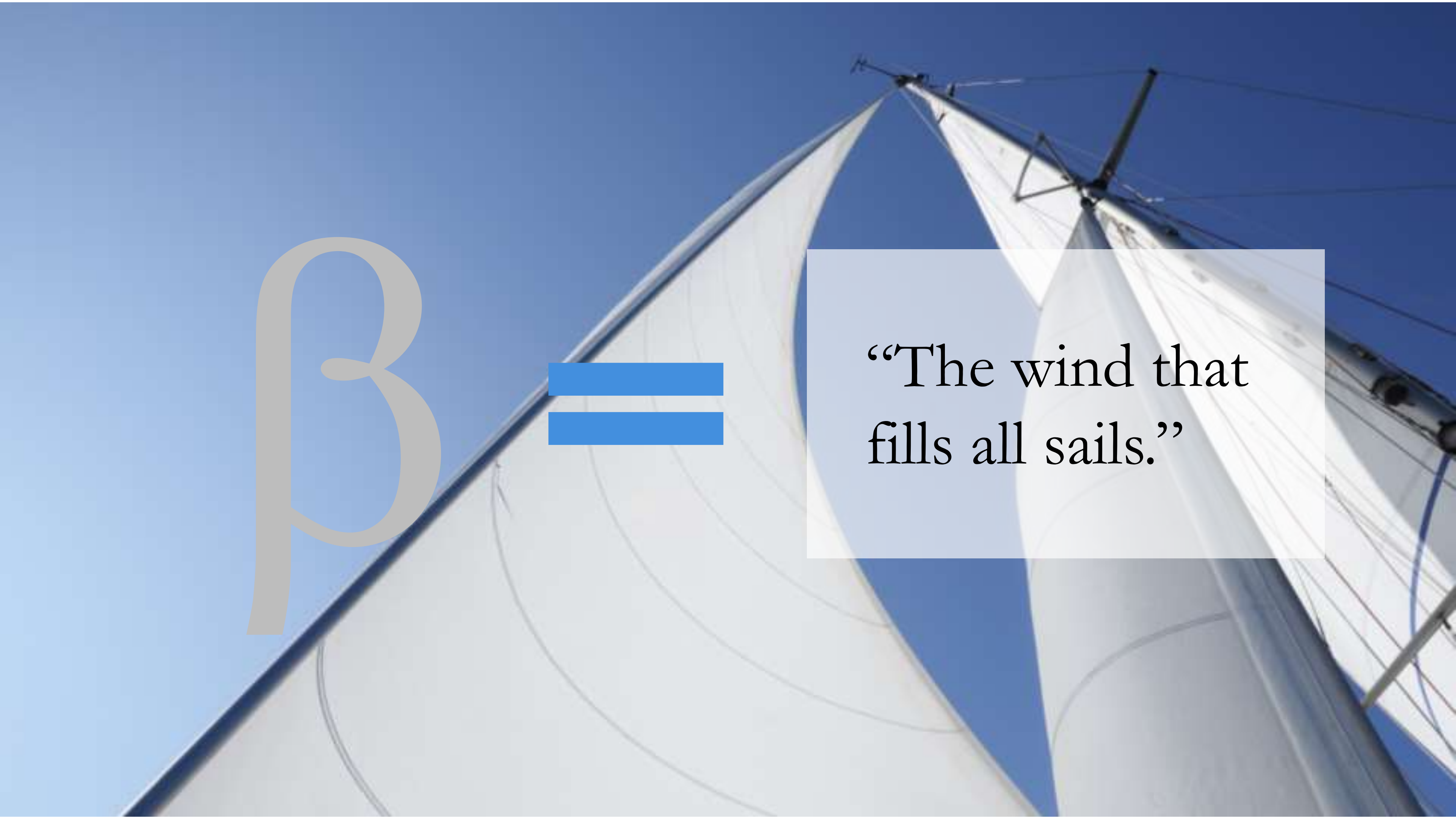
YOUR APPROACH

- Capturing beta
- Seeking alpha
- Mitigating costs
- Reducing tax drag
- Scalability vs. Customization
- Today's interest-rate environment

Capturing beta

β = systematic risk & accompanying return

Capturing beta



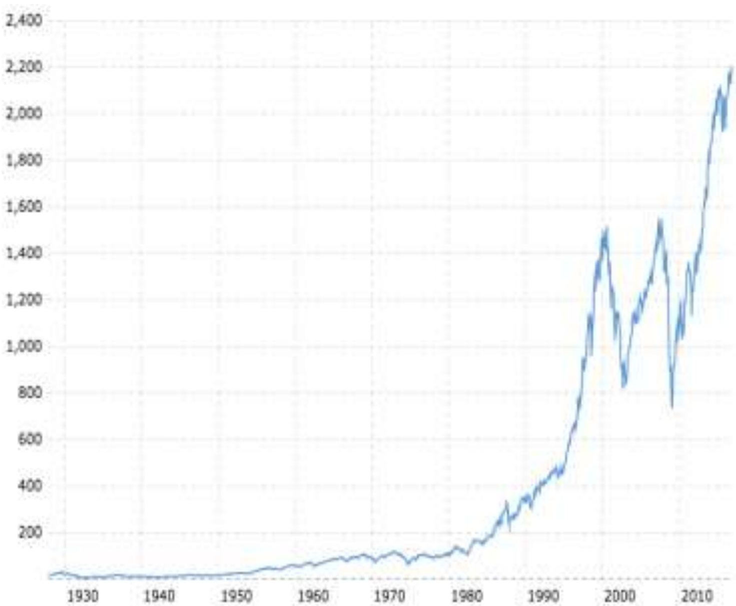
YOUR APPROACH

Capturing beta

Equity beta =
equity index exposure

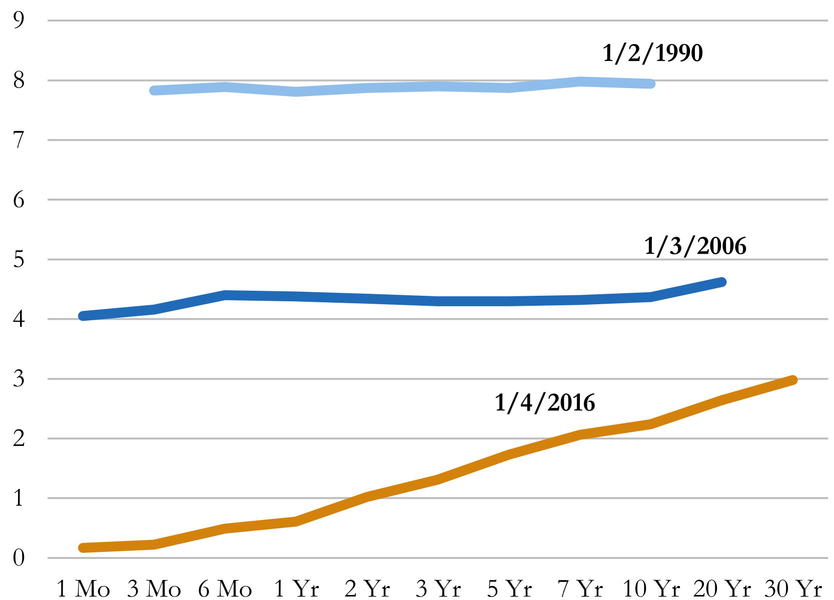
Bond beta =
exposure to changes
in the yield curve

S&P 500 - 90 Year Historical Chart



Source: http://www.macrotrends.net/2324/sp-500-historical-chart-data
The modern design of the S&P 500 stock index was first launched in 1957. Performance back to 1928 incorporates the performance of the predecessor index, the S&P 90.

U.S. Treasury Yield curves



Source: U.S. Department of Treasury

Capturing beta

Are we intentional about the role of beta in our allocation decisions?

Is the financial media framing client perceptions of our degree of success?

When our clients ask questions – like "Why don't we just index?" – how do we respond?

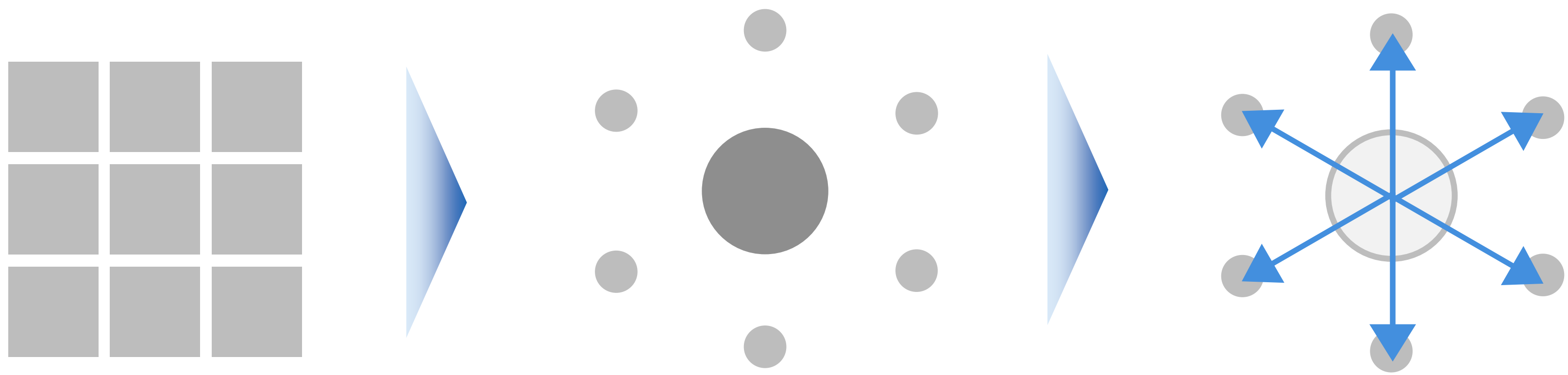
Seeking alpha

α = diversification across "styles"

Classic style box approach

	Value	Blend or Core	Growth
Large Cap			
Mid Cap			
Small Cap			

Evolution



Style Box | Core-Satellite | Tax-Managed Core-Satellite

Seeking alpha

- Do we keep following the style box approach simply because we've been doing it for years?

- Wouldn't a Core-Satellite approach improve investment outcomes?

- Is our investment approach sufficiently differentiated from our competitors in the minds of our clients?

YOUR APPROACH

Mitigating costs

Availability and visibility of ETFs and Index Funds

Significant shift in clients' appetite

- Active to Passive
- Don't like paying for under-performance

DRIVERS

Clients "feel" fees more in low-yield, low-return environments

Clients no longer perceive fundamental active management as worth higher fees

Mitigating costs

Bulk beta

Identical shares as everyone else

Separately Managed Accounts

Customizable, unique

Strengthens the connection between advisor and client.

Mitigating costs

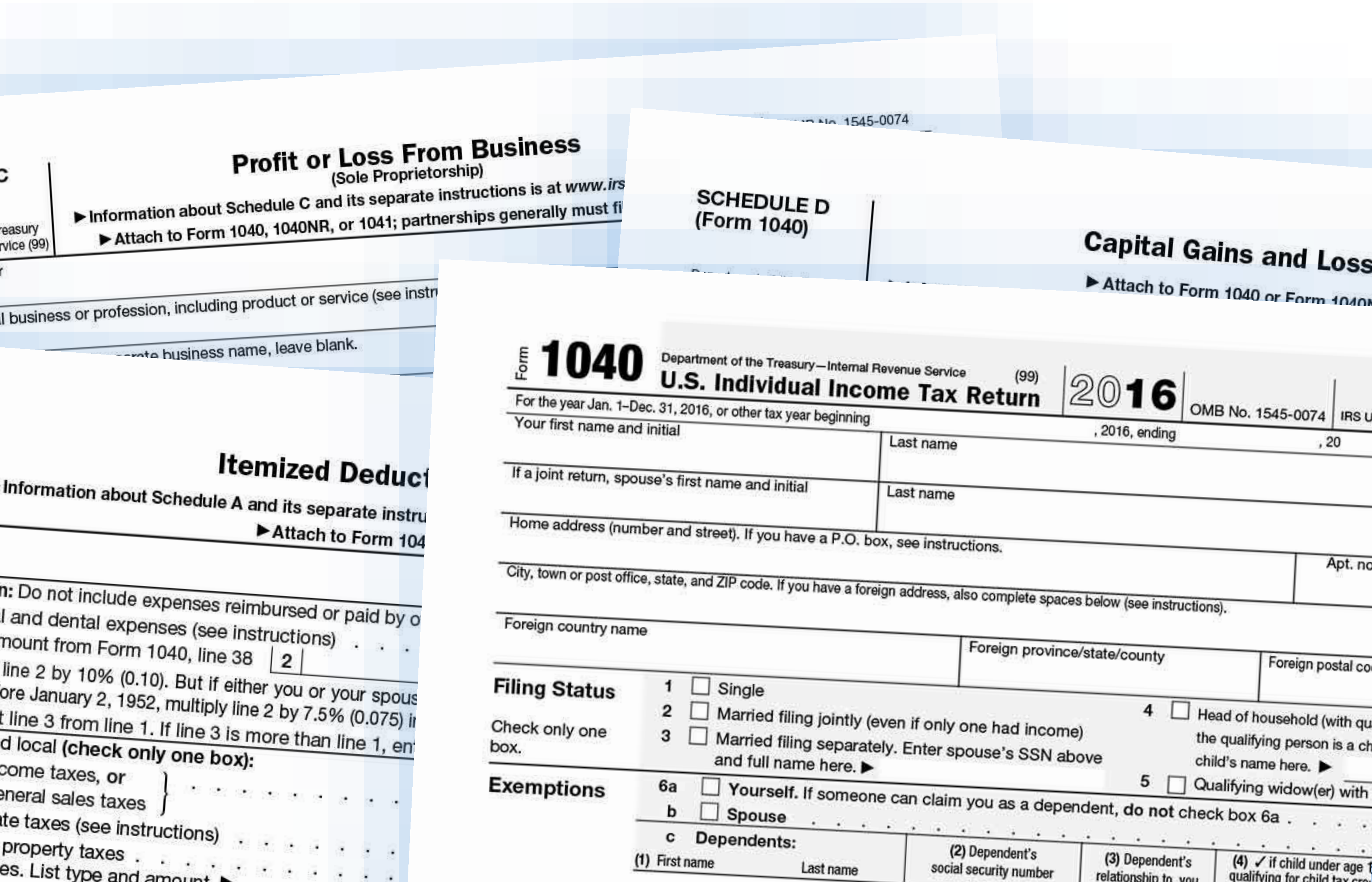
If we face considerable fee compression, can we grow our practice at a rate sufficient to maintain our standard of living?

How much of our decision to use index funds and ETFs is driven by a desire to "make room" for our fees?

Is our use of "bulk beta" commoditizing our practice?

YOUR APPROACH

Reducing tax drag



Reducing tax drag

How has tax drag stayed under the radar?

- Institutions are the "smart money," but
  - They have much lower transaction costs
  - They have much longer time horizons
  - They have access to different strategies
  - They're often non-taxable
- Performance is typically quoted pre-tax for convenience

Reducing tax drag

Tax-aware asset location **is key**

TAXABLE

- Realize **losses** here
- *Tax-exempt* investments

TAX-DEFERRED

- Plan for lower future tax bracket/rates
- *Becomes* taxable
- Long term growth investments

TAX-EXEMPT

- Realize **gains** here
- *Taxable* investments

YOUR APPROACH

Reducing tax drag

- Do we view and communicate the performance of our investment recommendations through a pretax lens or an after-tax lens?

- How focused are we on asset location when making recommendations?

- Do we anticipate and factor in future client taxable events in our overall planning process?

Scalability vs. Customization

YOUR APPROACH

Scalability vs. Customization

Head says
“scalability”

Heart says
“customization”

Which path do we choose?

Scalability vs. Customization

Does our current investment advice and management model help or hinder the growth of our practice?

Do our clients feel that we value them personally and deliver unique, customized service?

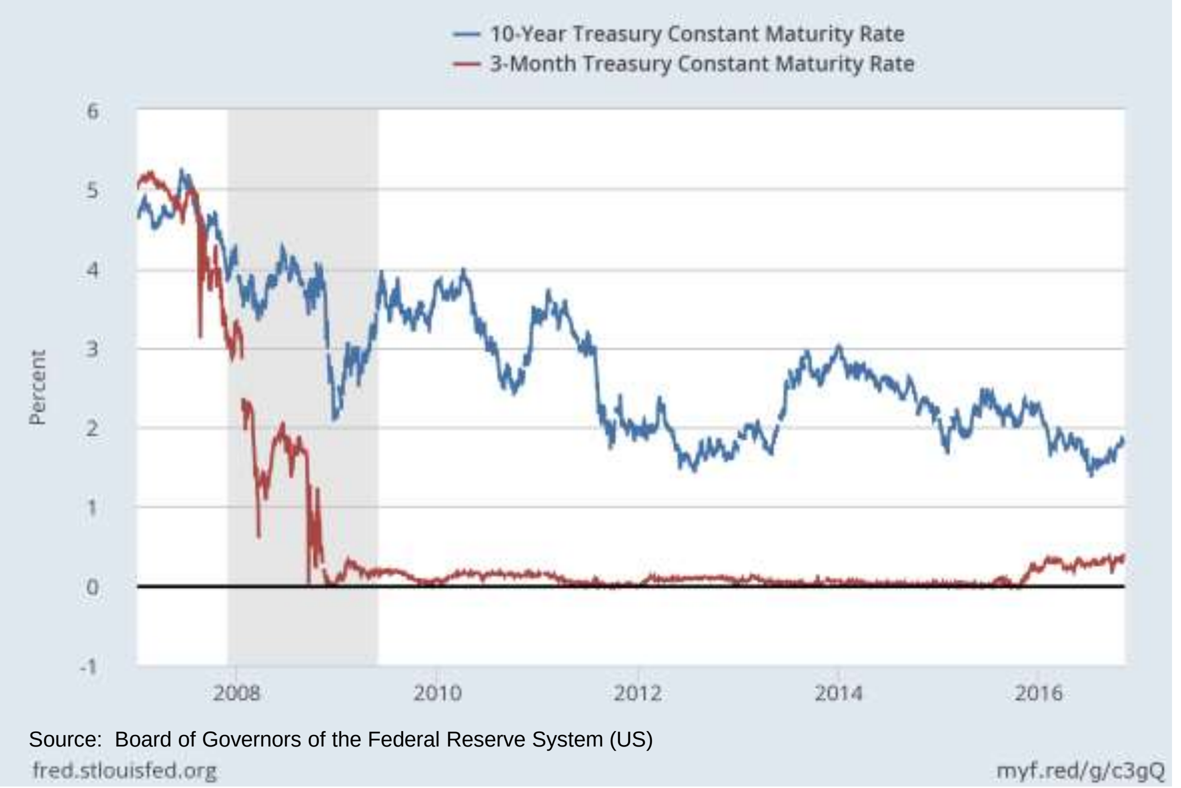
Do we tailor our advice to the unique goals, aspirations, values and tax constraints of our clients?

Today's interest-rate environment

Today's interest-rate environment

Still waiting on the sidelines?

- Sitting in cash and hoping for better 10-year yields has cost clients a lot over the past 9 years

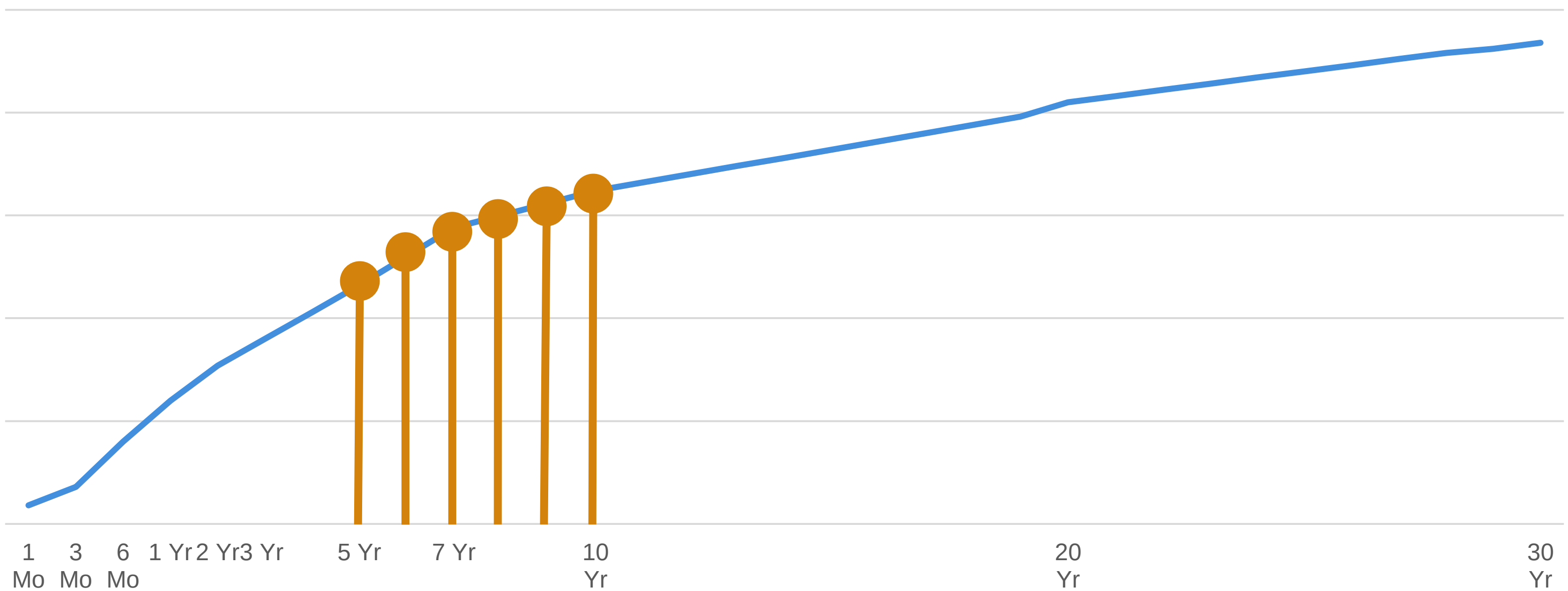


Source: Board of Governors of the Federal Reserve System (US)

Today's interest-rate environment

Manage the risk of rate increases

- A bond ladder is an effective way to own a portion of the yield curve
  - Equal amounts in each maturity preserves opportunity to "roll" into long end when rates rise



Today's interest-rate environment

Can we continue to manage our clients' bonds the same way we've been managing them for years?

Can we provide continuing credit oversight?

Do we get the best possible execution for our clients by buying bonds for them from our own firm's bond desk?

Is McKinsey right?

Are we on the cusp of a **transformative era**?

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For more information, contact your AssetMark consultant or call 844-540-0972.

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