FT SPECIAL REPORT

FT 300

Top Registered Investment Advisers

Thursday June 18 2015

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Robos change the rules

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Illustrations: Ian Dodds

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The second annual listing of FT 300 Top Registered Investment Advisers is revealed as the industry faces changes. *Loren Fox* explains

Robo consultants and fiduciary rules will benefit clients

Investment advice in the US has evolved since the financial crisis, becoming more sophisticated and accessible. Leading the charge were the registered investment advisers, or RIAs, who pioneered the selling of advice in the 1940s and have been gaining momentum since the 1990s. Along the way, it was the RIAs who helped popularise low-cost investments such as index-tracking exchange traded funds (ETFs).

Now, as the financial crisis recedes and wealthy investors stand on the brink of another leap forward in investment advice (one that could represent a potential crossroads for RIAs), we unveil the second annual listing of Financial Times 300 Top Registered Investment Advisers.

On one hand, the RIA approach seems poised to overtake the older world of investment advice. Under that model, advisers received commissions for brokering transactions on behalf of investors and had to recommend "suitable" investments. The RIAs pioneered the business of being paid directly for advice rather than for transactions, and adhered to the "fiduciary standard", under which advisers are legally obliged to put investors' interests first.

The fiduciary standard has gained some momentum. Most Wall Street companies offer this brand of advice alongside their traditional, commission-based, business. Mary Jo White, chair of the Securities and Exchange Commission, recently called for all advisers and brokers to be held to the fiduciary standard of care (although there are currently no concrete plans to make this mandatory). And the US Department of Labor has proposed strict rules to apply the standard to the business of advising defined contribution retirement plans.

On the other hand, RIAs face a potential threat in robo advisers. These companies, such as Betterment in the US and Nutmeg in the UK, use computerised interfaces and algorithms to create portfolios for investors.

Many observers are excited by the potential of robo advisers to spread investment advice to the widest possible audience. Indeed, the robos, some launched by industry stalwarts such as Charles Schwab and Vanguard, have already attracted billions of dollars in assets. And this year, Betterment became the first pure robo adviser to earn a spot in the FT 300 (*see story, Page 3*).

Some robo advisers say they are platforms that RIAs can use to better serve ordinary investors. Industry observers wonder, however, whether robo advisers will instead put many RIAs out of business.

It is not clear if RIA companies will be able to adapt so easily. Years of success have turned them into another part of the establishment, with independent boutiques maturing into small institutions. One can see it in this year's list, in which the average RIA company had 20 employees, up from an average of 14 in last year's FT 300.

Will RIAs, which once served as the disrupters of the brokerages' transaction-based business model, become the disrupted? The question of how broadly investment advice can be offered becomes more critical as the fiduciary approach and its foundation of advice increasingly becomes the industry standard. Either way, the twin forces of fiduciary-led advice and "robo" investing will bring benefits to investors.

That is why this is such an opportune time to look again at what makes a top independent RIA. This edition of the FT 300 Top Registered Investment Advisers, like last year's, provides a snapshot of the very best across the US.

> The robos have already attracted billions of dollars in assets

The FT 300 is a collaboration between the Financial Times and Ignites Research, a subsidiary of the FT that provides business intelligence on the investment management industry.

We set a minimum standard for RIA companies of $300m in assets under management (AUM), then invited more than 2,000 qualified firms to apply for consideration. The judging team used a combination of the RIA companies' self-reported data, regulatory disclosures and their own research to score the candidates on attributes such as AUM, AUM growth rate and compliance.

The methodology is explained fully in a separate article published with this list (*see Page 8*).

The competition, as always, was fierce. Dozens of high-quality advisers just missed the list this year, edged out by peers with slightly better profiles — sometimes the difference was a few more years of experience, or a slightly more impressive growth rate.

The FT 300 is listed state by state, 34 plus Washington DC; those with higher populations and higher concentrations of wealth have more advisers on the list.

As we found last year, New York City, as an international wealth and financial centre, has the single biggest concentration of FT 300 member companies, with 22. That was more than double the number in any other city.

Worth special mention, however, are the 22 RIAs from the greater San Francisco Bay and Silicon Valley areas combined — a reflection of how much the current tech boom is spurring demand for wealth management services.

The average company on the list has been in existence for 23 years and manages $2.6bn. Similarly, the average FT 300 practice saw its assets under management rise by a solid 18 per cent in 2014. One out of five practices has been advising clients for more than 30 years and can draw on its partners' experience in managing money through multiple market cycles.

In keeping with the trend towards larger and more corporate RIA companies, some 94 per cent of the FT 300 work in teams, and only 6 per cent are solo practitioners. That marks an increase from last year, when 89 per cent of the FT 300 had a team structure.

As we would expect, the FT 300 represents many wealth managers. On average, high-net-worth individuals (those with $1m to $10m to invest) account for 36 per cent of the assets managed by the FT 300. And ultra-high-net-worth clients (those with more than $10m) account for another 27 per cent, on average.

Among these advisers' institution-centred businesses, a little more than 5 per cent of their client assets, on average, are in endowments and foundations. Also, some 5 per cent of advised assets are in employers' defined contribution retirement plans.

The fact that the FT 300 leans towards larger firms means that the groups on show can offer a diverse array of specialised services.

For example, 65 per cent of the companies specialise in serving baby boomers, while 24 per cent cater to millennials. About 12 per cent of practices provide estate planning, while 5 per cent specialise in helping entrepreneurs, and 3 per cent of companies offer specialised expertise in philanthropy.

No matter what the future may hold for RIAs, the FT 300 list of companies represents a range broad enough to meet the advice needs of the readers of the Financial Times.

Digital upstarts draw middle class investors with means

Robo advisers

Online automated platforms offer low prices and easy-to-use websites, writes *Beagan Wilcox Volz*

Fuelled in part by a retirement system that increasingly puts the onus on individuals to safeguard their financial future, a growing number of US citizens are looking for professional help with their investments.

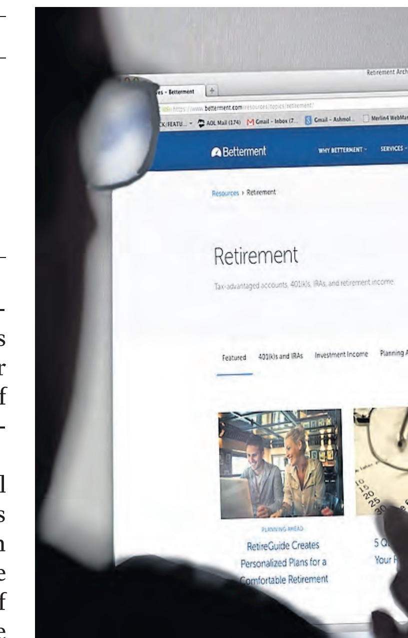
But many traditional financial advisers will not bother with clients who are not wealthy. Seizing upon this dearth of services for the middle class and mass affluent, dozens of start-ups in recent years have launched online, automated investment platforms, known as robo advisers.

While their models vary, robo advisers generally gauge an investor's risk tolerance from an online questionnaire and then use algorithms to recommend an investment portfolio, often made up of low-cost exchange traded funds from giant asset managers such as Vanguard, Schwab and BlackRock's iShares.

Robo advisers cost a fraction of the average 1 per cent fee of managed assets charged by flesh-and-blood financial advisers.

And, while financial advisers often require high minimum investments, robo advisers have a low, or no, required balance. Investors generally also pay the costs of the underlying exchange traded funds, which Wealthfront, the robo adviser, says is 0.12 per cent of assets on average.

The low prices and sleek, user-friendly websites, such as that of Betterment (the first pure robo adviser to earn a spot in the FT 300), which has been called the Apple of finance, have attracted thousands of investors.



User friendly: sites have won fans

Since launching in 2010, Betterment has grown to have $2.2bn under management, while Wealthfront, another US automated investment service, has gathered $2.4bn since its launch in 2011.

Eleven robo adviser start-ups polled last December by Corporate Insight, the researcher, were advising $19bn in assets, up 65 per cent from $11.5bn last April. Traditional asset managers have taken notice. "The big incumbents are playing catch-up," says Bill Doyle, principal analyst at Forrester Research, who tracks robo advisers. "But the incumbents have the thing that everybody needs, and that is customers."

Charles Schwab, the discount broker with more than $2.5tn in assets, launched its own robo adviser, Schwab Intelligent Portfolios, in March. The company has undercut its start-up competitors by not charging any advisory fees, commissions or account services fees. As with several other robo advisers, the minimum investment is $5,000.

Schwab can afford to give up these fees because it makes money from its own ETFs that constitute investors' portfolios and from other ETF providers paying to gain access to the platform, as well as from investment returns from clients' cash allocations.

The offering has grown to more than $2.2bn in assets and 30,000 accounts. More than 70 per cent of the clients are existing Schwab customers, says Naureen Hassan, head of Schwab's robo adviser service.

Vanguard entered the fray in May, although the $3.1tn investment giant does not call its Personal Advisor Services a robo adviser, but rather a "hybrid" advice model. There is a big online component of the service, but 300 financial advisers are also on hand to help clients create a financial plan. The minimum investment is $50,000 and the fee is 0.3 per cent of managed assets.

Rather than build their own automated systems, some of the biggest custodians to registered investment advisers have partnered with start-ups during the past year.

Beginning in October, the 3,000 RIAs that hold their assets with Fidelity, for example, could use Betterment as an optional platform.

Jon Stein, head of Betterment, says the "slower moving, big companies" entering the space are bringing a greater awareness to the public that benefits his firm.

"If anything, it's really accelerated our growth to have these other companies out there making noise about the importance of good advice," he says.

But the incumbents do not have the same capital constraints as the start-ups, notes Matthew Fronczke, director of product consulting and research at Kasina.

"It's not like Wealthfront and Betterment are going to be perpetually ahead of the game, it's just that they are right now," says Mr Fronczke. "Anytime there's competition, it's a good thing."

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Proposed rule could put an end to commission

Rollover Fiduciary status may be a tricky proposition for advisers, writes *Emile Hallez*

A recent proposal by the US Department of Labor (DOL) would bestow fiduciary status on most financial advisers. That could make the individual retirement account (IRA) rollover business (the transfer of savings at or near retirement) a difficult proposition for independent advisers who serve 401(k) plans.

US President Barack Obama has described a forthcoming "standard of care" for advisers as similar to that applied to doctors and lawyers. In all instances, advisers would be required to put first the best interests of individual retirement account clients, rather than simply recommending "suitable" investments, which may pay the adviser a higher commission than similar investments that would be a better fit for a client.

It is a more stringent standard than one being considered by the Securities and Exchange Commission, which could centre more on disclosing potential conflicts of interest to clients, rather than avoiding them altogether, according to people familiar with the matter. The SEC, which has reportedly been in co-ordination talks with the DOL about a forthcoming rule, has not yet come forward with its proposal.

But the DOL rule would have the heaviest impact on commission-based advisers, observers say. While advisers would still be able to receive variable payments from their 401(k) and IRA clients, they would be required to sign "best-interest" contracts with those clients, agreeing to place their own financial interests behind those of customers.

Independent advisers, who are typically fiduciaries for their retirement plan clients and do not often receive commissions, would be affected little by the proposed rule, says Fred Reish, an employee-benefits lawyer and partner at Drinker Biddle. But for those who solicit IRA rollover business from the 401(k) plan participants they serve, the proposal stands to be a rude awakening.

The problem would arise for advisers who charge higher fees for their services to IRA customers — a common practice, as smaller accounts can require a relatively higher amount of work. Large registered investment adviser companies gravitate towards high net-worth clients, such as chief executives with at least $500,000 in their accounts, Mr Reish says.

"If you charge more in the IRA than in the plan, then the recommendation that [participants] take a rollover with you could be a prohibited transaction," he says. "With their business model and overheads they can't afford to do the small accounts."

Rather than advising 401(k) clients to roll their savings into an IRA managed by the adviser at retirement, those adviser companies will probably provide education to clients about their distribution options, including leaving money in an existing plan, he says.

When it comes to winning rollover business, the proposed rule could put RIAs serving retirement plans at a disadvantage, compared with those who do not have 401(k) clients, says Nevin Adams, a spokesman for the American Retirement Association, an industry trade group. "The regulation would define a distribution recommendation as fiduciary advice," he says. "It's pretty easy to imagine that there will be fewer of those [independent advisers] that work with retirement plans offering rollover advice."

But even with the potential that the DOL's proposal could have on rollover

> 'It's a good thing . . . to put their clients' best interests first'
>
> Nevin Adams, American Retirement Association

Retirement: 401(k) clients may receive education instead of advice — Alamy

business for independent advisers, the rule would have a much larger impact on commission-based advisers and broker-dealer companies, which would have to invest resources in educating their networks of advisers on how to comply with the regulations, Mr Reish says.

"The people who will be most hurt by this are the small broker-dealers," he says. "This thing is a bear."

Broker-dealers would generally not be allowed to give their advisers incentive payments for selling certain investment products, he says.

"Effectively, the rule would almost make the adviser fee-for-service, rather than commission [-based], which is huge," he says.

The DOL put forward its conflicts of interest rule in April and is collecting public comments that could affect how the regulator revises the rule before finalising it. The proposal is a new incarnation of a similar fiduciary rule the DOL floated in 2010, which the agency withdrew because of opposition from the financial services industry and members of Congress.

Much of that criticism has returned over the latest proposal. Some contend that charging advisers with fiduciary status would discourage them from accepting small accounts, potentially depriving lower-income workers from having access to professional investment advice.

"Certainly it's a good thing for advisers to put their clients' best interests first," Mr Adams says. "But by eliminating [commission structures] directly, or via conditions so onerous that they constitute a prohibition, there would seem to be a high likelihood that fewer individuals will have access to advice than previously and that those who do have access will be asked to pay more for it."

But the proposal has support from some advisers who already function as fiduciaries.

"It's easy for an advisory firm to make an honest living, by acting unconflicted, in our client's best interest," says Gregory Fulk, chief operating officer at RIA company Valeo Financial Advisors.

Mr Fulk, whose company has 34 advisers and about $1.8bn in assets under management among 900 clients, says the proposed rule would have no effect on his company's business model.

"There is a dramatic lack of transparency in our industry . . . Half of all clients that hire financial advisers think they're getting their services for free," he says.

Case study
Creative Planning

When Peter Mallouk took over Creative Planning in 2004, the advisory company managed $30m. The company now runs about $15bn with 260 employees, but Mr Mallouk most enjoys spending time working directly with clients as their wealth manager. "Just as I want my employees [to be excited], I want to be excited, too," he says.

Creative Planning's staff have ample chance to grow, with the freedom to specialise in one area or take on new challenges. This type of culture is a welcome relief compared with larger companies, where employees are stuck in limited roles or expected to tackle multiple responsibilities across various disciplines, leaving many feeling frustrated.

"Here, we give wealth managers lots of control," Mr Mallouk says. "They have the ability to really run a business rather than being pigeonholed into one role."

The Kansas-based company provides portfolio management and financial planning to about half its clients. But Mr Mallouk says it "shines" with its approach to wealth management that touches on everything from providing investment advice and tax guidance to legal services and estate planning.

The 90 per cent retail client base ranges from those with a net worth of less than $1m to those with more than $10m. There were 8,500 clients with an average account size of about $1.6m by 31 December 2014, all fee-based.

Staff are encouraged to take on new challenges. In one case, an employee on the company's trading team moved to the tax team, while several staff members on the estate planning team have shifted to wealth management. "The great thing about a company our size is that it is small enough to be nimble, but big enough to have opportunities," says Mr Mallouk.

Peter Ortiz

Peter Mallouk

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FT 300 Top Registered Investment Advisers

On a roll: actively managed US equity funds have outperformed their benchmarks during the first four months of 2015 — Reuters/Lucas Jackson

Active investing is still alive

Stock picking
The tide against passive strategies may finally be about to turn, writes *Greg Shulas*

For registered investment advisers with an active management bias, the past decade has been tough. As low interest rates and a Federal Reserve stimulus buoyed equity markets, cost-efficient passive funds thrived, raising doubts about pricier active strategies.

Only 45 per cent of active portfolios beat their benchmark during the 10 years up to January 1 2014, with a majority of those outperformers failing to generate a return greater than 1 per cent, according to financial magazine Barron's analysis of stockpicking funds that month. The last year active large-cap stock managers outperformed their benchmark was 2009, data provider Lipper says.

But recent Morningstar research suggests the tide may be turning in favour of active investors and RIAs who kept faith are expecting a resurgence. To highlight opportunities, they are publishing economic outlooks explaining why active investing is the most effective way to generate returns and hedge risk today.

"Active management is alive," says Elliott Elbaz, founder of Gordian Wealth Advisors. Indeed, Mr Elbaz's latest outlook emphasises three themes active investors should exploit: a stronger dollar, weaker oil prices and low interest rates. "We looked for active managers in regions abroad that would benefit most from a more muscular greenback," Mr Elbaz says. "The best opportunities have been managers with exposure to Europe, Asia and India."

RIA company executives agree that active managers are poised to benefit from the widening performance spreads between the different asset classes. "Markets are rewarding companies that are performing well earnings wise . . . And they are punishing companies that are not performing," says Kevin Guth, partner and managing director at Snowden Lane Partners, an FT 300 company that oversees $1.7bn in assets. "Markets were largely correlated after the financial crisis, but that has changed."

Morningstar data show actively managed US equity funds have outperformed their benchmarks during the first four months of 2015. Such strategies returned 2.25 per cent compared with 1.9 per cent and 2.20 per cent for the S&P 500 and index funds, respectively.

In a sign of confidence, large active equity managers are stepping up their advertising. For example, Fidelity Investments launched a "power of active management" advertising campaign this year touting two veteran portfolio managers.

Active-oriented RIAs contend that retail investors will have no choice but to break the long trend of favouring passive funds over active funds, especially given pending market volatility. Net flow assets to passive-oriented exchange traded funds and index funds stood at $239.88bn and $182.7bn, respectively, in 2014, Morningstar data show. Yet active funds attracted only $43.3bn during that period.

"Active management will absolutely make a comeback," says RIA Don Garman, founder of Mirador Capital Partners, which oversees $300m in assets. "If you think about the math, when passive management becomes so widely adopted that people are blindly buying more of the highest market cap securities, active management will once again matter."

To warn of a passive-fuelled equities bubble, Wintergreen Advisers published an outlook last month saying the rush into index funds has caused market capitalisations of mega-cap companies to balloon while smaller, strong-performing companies were overlooked.

The trend has caused risky capital misallocations that will harm investors, the report said.

Meanwhile, RIAs who base their active strategy too closely on their future macroeconomic outlook may be making a mistake, warns Scott MacKillop, former president of Frontier Asset Management.

"On close examination, I would expect that RIAs who based their investment processes on their ability to make accurate economic forecasts probably have pretty unimpressive track records," he says. "There are few instances of asset managers who produce consistently good results for their clients by trying to invest based on their economic forecasts."

Case study Lessons in inheritance

At times, managing others' wealth requires Art Doglione to dig deep into sensitive family situations.

Sometimes, parents who want to pass on big inheritances to their children may have finances that look great on paper, but their portfolios offer no clues to the extent of personal problems that can destroy wealth that took decades to build up.

"We've had situations where the children of successful families have had substance abuse issues and have been through a number of different programmes," Mr Doglione says. "The last thing [we] want to do is dump $10m into their lap, because you know where that's going to go."

Mr Doglione is president of Alpha Fiduciary and manages $740m for 230 clients from his Arizona-based advisory company. After nearly two decades of working for a leading wirehouse, he started his own wealth management business in 2006. By the end of December 2014, the average size of his clients' accounts was $1.6m.

"I wanted to be able to focus on achieving or attaining my clients' most important goals without the conflicts of interest woven into the major wirehouses," he says.

Those conflicts were embedded in a culture that limited Mr Doglione to offering products to clients based on agreements the wirehouse had with various providers.

By branching out on his own, he and his team of 10 built client relationships that were not limited by sales agreements and where "we have no alliance to anyone other than our clients".

The company specialises in preparing generations on how to handle and manage wealth, he says. Accomplishing this requires knowing who the key decision makers are in a family, and encouraging clients to confront tough questions about how best to pass their wealth down to children and grandchildren.

The company's staff include counselling experts, so Alpha Fiduciary can recommend the right help to resolve conflicts among family members.

Family values: Art Doglione **Peter Ortiz**

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FT 300 Top Registered Investment Advisers

Heightened focus on building a legacy for ultra-wealthy investors

Family affairs Advisers to the extremely rich will probably be supporting their clients' children, too, writes *Danielle Verbrigghe*

Ultra-wealthy investors — those with $20m or more in investible assets — can be lucrative clients for wealth managers. But conversely, these clients often have more complex planning and investment needs than some financial advisers are prepared to handle.

The ultra-high-net-worth market in the US includes about 94,161 households with an average of $38m in assets, according to a 2014 report from asset manager Cerulli Associates. It is easy to see why such investors present an attractive market for wealth managers who win their business, but the competition for these clients is intense. Independent registered investment advisers (RIAs) contend with banks, wirehouses, multifamily offices and many other companies hoping to manage this wealth. Advisers who do not already have a foothold in the market may have a difficult time breaking in.

"Advisers are attracted to [this] space because of the size of the potential assets. They view it as a relatively easy way to scale up their business," says Michael Zeuner, a managing partner of WE Family Offices.

But that approach is likely to fail, he says. To serve such clients successfully, advisers must be able to help them plan for multi-generational wealth, which is a more complex and less scalable endeavour.

While many affluent or even high-net-worth clients may burn through their assets within their lifetime, ultra-wealthy investors often intend to leave their money to their children or grandchildren, raising the level of complexity for wealth managers, says Maria Elena Lagomasino, chief executive and managing partner of WE Family Offices.

Serving this market requires more resources and time, says Ms Lagomasino. For example, her company has about 50 personnel serving about 70 families.

A typical adviser at the company will work with five families or fewer. The investment process is also more complex, she says.

"[These clients] see the world as opportunity and most of them have made money in real estate or operating businesses," Ms Lagomasino says. "They don't just like to invest in stocks and bonds. It becomes a very diverse set of investments, all of which have to be knitted together to [meet] a specific investment objective of the family."

Ultra-wealthy clients have less need for short-term liquidity and can invest more in long-term illiquid propositions, says Jack Markwalter, chief executive and chairman of Atlantic Trust. That means their portfolios may include private equity, hedge funds, emerging markets investments and property.

"Once you reach the level of ultra-high-net-worth, from an investment point of view, you are able to lean into risk to a greater extent," Mr Markwalter adds. "You can absorb more volatility if necessary."

Greater levels of wealth also allow ultra-wealthy families to have a heightened focus on using their wealth to create a family legacy or to make a positive impact, he says. "As clients move up the wealth curve, there's more of an opportunity and propensity to have wealth with purpose."

Advisers of ultra-wealthy clients should also be able to assist families with talking about money in the family, raising children who are financially aware, dealing with security issues, creating a trust or foundation and making decisions around philanthropy, Mr Markwalter adds.

Very wealthy families often ask advisers for help with everything from walking their dogs to structuring the ownership of their private jets, says Andy Hart, managing partner at Delegate Advisors. But that does not mean that RIAs serving ultra-high-net-worth clients have to do it all. Part of what makes the top companies successful is knowing when to outsource, Mr Hart says.

RIAs serving such clients do not need to walk the dog themselves, but they do need to know the best third-party experts to whom to delegate such a task, he adds.

Delegate Advisors does not share revenue with providers, but those providers will sometimes offer referrals of prospective new clients.

Intermediaries such as trust and estate lawyers, accountants, and other investment companies, can be good sources of referrals, says Eric Propper, president of Atlantic Trust. "Client satisfaction goes a long way in helping us attract new business."

But for advisers who do not already serve the ultra-wealthy, breaking into the market can be tough, says Mr Hart.

"The most profitable RIAs are the ones that scale into the ultra-high-net-worth business and have fewer, larger clients," he says. "It's just hard to get into that business."

And even if a RIA is able to lure away an ultra-wealthy client, the resources required to serve them effectively may be tough for some companies to provide.

"It's a relatively non-scalable business," Mr Hart says. "Everybody says they want to serve $500m dollar families, but when you realise what you need to do to serve them effectively, it's hard to scale a business."

High ambitions: the ultra-rich are likely to have 'wealth with purpose' — Alamy

> Wealthy families often ask advisers for help with walking their dogs and owning private jets

Wirehouses in decline as advisers seek independence

Breakaways

The movement may not be retreating, but rather settling into a regular flow, writes *Tom Stabile*

Along with the startling financial headlines in the closing months of 2008 came news that big adviser teams were leaving the US wirehouse brokerages — footsteps that threatened to lead to a stampede.

The high-profile exits of a $5bn group led by Lori Van Dusen from Smith Barney, and a nearly $1bn team of four Merrill Lynch veterans (who formed LLBH Private Wealth Management) were most notable for where they went: to the independent channel. And they led a flurry in the years since, not only of wirehouse advisers going independent but also of platforms launching to support these breakaways.

Today, however, the breakaway movement is no longer big news, even though the wirehouse share of assets in the US adviser market has shrunk from more than 50 per cent before 2008 to less than 40 per cent today. By 2017 it may fall to 37 per cent, behind the independent sector for the first time, according to Cerulli Associates. Has breakaway growth levelled off, or moved into the deceptively calm eye of the storm?

It may be just that the market is now used to advisers going their own way, says Bill Willis, president of Willis Consulting, an adviser recruiting company. "It's not quite as shocking as it was three or four or five years ago," he says.

Indeed, the phenomenon that once made headlines has become "an old story", says Shirl Penney, president and chief executive of Dynasty Financial Partners, a platform that provides wirehouse-calibre products and services to independent advisers including Dynasty Private Wealth Management, an FT 300 company.

"It's now accepted as the norm," says Mr Penney. He was a Smith Barney executive before he helped form Dynasty Financial in 2010; it now has nearly $30bn in assets.

Some of the original buzz stemmed from turmoil at the big companies after 2008, with Smith Barney being sold to Morgan Stanley and Merrill Lynch to Bank of America. That made breaking away more compelling, says Jeff Fuhrman, chief operating officer at LLBH, which is now affiliated with Focus Financial Partners, an "aggregator" of independent advisers.

"Arguably [LLBH was] leaving a big, stable firm. But soon, independence looked far more stable," he says.

Today, the breakaway movement may also seem less exotic because many advisers have at least enquired about the basics, says Mr Willis. "We were getting a lot more calls a few years ago from people who wanted to learn what going independent meant," he says.

The breakaway movement may not be retreating, but rather settling into a regular flow, says Mr Penney.

"But it has kept pace because the number of advisers moving has slowed, but the teams moving to independence now are larger and more sophisticated," he says.

Other factors may also have tempered the growth rate, including an equity bull market since 2009 and wirehouse efforts to lock in advisers with retention bonus packages of nine-year "forgivable loans", says Tim Welsh, president of Nexus Strategy, a strategic consultant.

Advisers jumping ship today are responding to the main argument for independence — giving clients advice without ties to investment product sales and offering independent custody, trading and service plans, Mr Penney says. "Clients respond to that model where the adviser gives you choice," he adds.

The pitch to wirehouse advisers and their clients is that independence is "the same religion, different church", says Mr Fuhrman.

Independence is also attractive to wirehouse advisers in their 50s and 60s who aim to "monetise" their practices by gaining ownership and selling them in the future, says Mr Willis.

However, a big change since 2008 is that the market now has a large network of providers which can smooth the path for wirehouse advisers to become independent, helping with transitions and operations, says Mr Welsh. "The fact that many of them won't have to do it from scratch but can go to a platform that supports them, or join an existing firm, is significant," he says.

Today's independent channel options, from product platforms to custody, are much more "credible" and similar to what wirehouse advisers might leave behind, says Mr Willis. In that light, with a ramp of viable independent platforms already built, any tipping point could lead to a dramatic breakaway movement revival and "exponential growth" for the independent channel, says Mr Welsh.

"We will see Breakaway 2.0," he adds. "There is really nothing holding them back."

Americans seek to align investments with values

Sustainable investing

Interest is growing, especially from women and younger clients, as environmental problems increase, writes *Clare Trapasso*

Sustainable investing has been slow to catch on among individual investors in the US compared with Europe. But financial advisers and money managers say interest and assets are growing rapidly as Americans increasingly seek to align their investments with their values.

From the beginning of 2012 to the start of 2014, US assets in sustainable, responsible and impact strategies jumped 76 per cent, from $3.74tn to $6.57tn, according to a 2014 report on sustainable investment trends from the Forum for Sustainable and Responsible Investment, a trade body.

"Consumers care about sustainability more than they used to," says Stephen Freedman, head of thematic and sustainable investing strategy at UBS Wealth Management Americas.

The main drivers in the US are institutional investors, who include large pensions schemes and endowments, he says. Millennials and women also tend to be more drawn to such investments. Interest among ultra-high-net-worth investors is picking up, too.

As environmental problems such as pollution become more apparent, Mr Freeman says he expects socially responsible investments (SRI) and impact investments in industries such as clean energy to catch on even further. He also says environmental, social and governance (ESG), a set of standards used to evaluate corporate behaviour, will also drive investment demand. Impact is typically private market investments seeking to solve social or environmental problems. "We're only seeing the beginning of this trend," Mr Freedman says.

The increased availability of SRI and ESG company data are making it easier for managers to incorporate the information into their investment processes, says Amy O'Brien, head of responsible investment at retirement fund TIAA-CREF.

From early 2012 to early 2014, the US has been the fastest-growing country for sustainable investments, according to the Global Sustainable Investment Alliance's 2014 review.

However, nearly 59 per cent of European assets were in sustainable investments in 2014, a trend driven by institutional demand, the report says. This compared with almost 18 per cent of US assets.

That is because of European regulations, such as a law passed last year that will require large, publicly traded companies, as well as certain banks and insurance companies, to disclose ESG factors in their annual reports by 2017.

In the US, just 3 per cent of the financial advisers who made the FT 300 listed SRIs as a speciality.

Audrey Choi, chief of Morgan Stanley's Institute for Sustainable Investing

Galvin Gaustad & Stein, a registered investment adviser, has attracted new clients interested in sustainable investments over the past two to three years through its customised portfolios, says Robert Krenn, the firm's director of portfolio management. The company, which had $402m in assets under management by the end of 2014, is on the FT 300 list.

Most clients interested in sustainable investing screen out certain industries, such as tobacco, pharmaceuticals and fossil fuels. They also tend to be inspired by seeing institutions make similar investment moves, Mr Krenn says.

Dixon Financial Services, an RIA that has also entered the FT 300 list, made responsible investing a focus after several high-net-worth individuals, mostly women and younger clients, expressed interest in such investments.

About 5 per cent of the company's more than 200 clients have now invested in social and sustainable mutual funds, says Michelle Dixon, client services manager at the FT 300 firm. It had $465.8m in assets since the end of 2014.

She hopes to find other passive, responsible funds with low fees that the company can turn into core client offerings.

About 42 per cent of financial advisers agreed that clients are requesting products with SRI and ESG attributes, a survey from Boston-based asset manager Cerulli Associates said. Yet 58 per cent said such features are a bonus, but not necessary when choosing investments.

Those considering these strategies should research the product provider, says Pamela DeBolt, associate director of Cerulli's asset management practice. "There's a whole other layer of analysis that goes with SRI and ESG investing," she says. "You have to understand their process and their reputation in the space."

The investments must also contend with the "myth that responsible investing requires you to give up returns", says Alex Bernhardt, head of responsible investment at Mercer Investments.

Sustainable investments have typically met or exceeded the performance of traditional investments, according to Morgan Stanley's Sustainable Reality report in March.

For example, sustainable equity mutual funds saw equal or higher median returns and the same or lower median volatility for 64 per cent of the periods examined over the past seven years, compared with traditional investments, according to the report.

Meanwhile, sustainable separately managed accounts had equal or higher median returns for 36 per cent of the periods and the same or lower median volatility for 72 per cent of the periods.

"Sustainable investment is very much consistent with high-quality investing," says Audrey Choi, chief executive of Morgan Stanley's Institute for Sustainable Investing.

FT 300 Top Registered Investment Advisers

RIAs of the year

Listing Our snapshot of the best Registered Investment Advisers in the US

FT 300

The FT 300 top registered investment advisers in the US listed alphabetically by state

Firm name	City	Client segments served: Retail (individuals with <$1m)	HNW (individuals with $1m – $10m)	Ultra HNW (individuals with $10m +)	Institutional
Alaska					
Alaska Permanent Capital Management	Anchorage		✓		✓
Arizona					
Miller Russell Associates	Phoenix	✓	✓	✓	✓
TCI Wealth Advisors, Inc.	Tucson	✓	✓	✓	✓
TFO Phoenix	Phoenix	✓	✓	✓	✓
United Planners Financial Services of America	Scottsdale	✓	✓	✓	✓
California					
AMI Asset Management Corporation	Los Angeles		✓	✓	✓
Aspiriant	Los Angeles		✓	✓	✓
Atherton Lane Advisers LLC	Menlo Park	✓	✓	✓	✓
Baker Street Advisors, LLC	San Francisco		✓	✓	✓
Beacon Pointe Advisors	Newport Beach	✓	✓	✓	✓
Brouwer & Janachowski LLC	Tiburon	✓	✓	✓	✓
California Financial Advisors	San Ramon	✓	✓		
Cardiff Park Advisors	Carlsbad	✓	✓	✓	✓
Churchill Management Group	Los Angeles	✓	✓	✓	✓
Clifford Swan Investment Counsel	Pasadena	✓	✓	✓	✓
Destination Wealth Management	Walnut Creek	✓	✓	✓	✓
Dowling & Yahnke, LLC	San Diego	✓	✓	✓	✓
First Republic Investment Management, Inc.	San Francisco	✓	✓	✓	✓
Gemmer Asset Management LLC	Walnut Creek	✓	✓	✓	✓
Genovese Burford & Brothers	Sacramento	✓	✓	✓	✓
Golub Group, LLC	San Mateo	✓	✓	✓	✓
Halbert Hargrove	Long Beach	✓	✓	✓	✓
Hanson McClain Advisors	Sacramento	✓	✓		✓

FT 300 Top Registered Investment Advisers

Firm name	City	Client segments served: Retail (individuals with <$1m)	HNW (individuals with $1m – $10m)	Ultra HNW (individuals with $10m +)	Institutional
Kayne Anderson Rudnick Investment Management	Los Angeles	✓	✓	✓	✓
KCM Investment Advisors LLC	San Rafael	✓	✓	✓	✓
Litman Gregory Asset Management	Larkspur	✓	✓	✓	✓
Loring Ward	San Jose	✓	✓	✓	✓
LourdMurray	Beverly Hills	✓	✓	✓	✓
Mission Wealth Management, LLC	Santa Barbara	✓	✓	✓	✓
Morton Capital Management	Calabasas	✓	✓	✓	✓
Osborne Partners Capital Management, LLC	San Francisco		✓	✓	✓
Pence Wealth Management	Newport Beach	✓	✓	✓	
Pillar Pacific Capital Management, LLC	Daly City	✓	✓	✓	✓
PlanMember Securities Corporation	Carpinteria	✓			✓
Pure Financial Advisors, Inc.	San Diego	✓	✓	✓	
Quantum Capital Management	San Francisco	✓	✓	✓	✓
Rand & Associates	San Francisco	✓	✓	✓	✓
Sand Hill Global Advisors	Palo Alto	✓	✓	✓	✓
Saratoga Research & Investment Management	Saratoga	✓	✓	✓	✓
Scharf Investments LLC	Scotts Valley	✓	✓	✓	✓
Signature Estate & Investment Advisors (SEIA)	Los Angeles	✓	✓	✓	✓
The Advisory Group of San Francisco, LLC	San Francisco	✓	✓	✓	✓
The Presidio Group	San Francisco			✓	✓
The Sierra Group	Santa Monica	✓	✓	✓	✓
Thomas Wirig Doll	Walnut Creek	✓	✓	✓	✓
United Capital Financial Advisers, LLC	Newport Beach	✓	✓	✓	✓
Vista Wealth Management, LLC	Palo Alto	✓	✓	✓	
Washington Wealth Management	San Diego	✓	✓		✓
WESCAP Group	Burbank	✓	✓	✓	✓
Westmount Asset Management, LLC	Los Angeles	✓	✓	✓	✓
Wetherby Asset Management	San Francisco	✓	✓	✓	✓
Willow Creek Wealth Management Inc.	Sebastopol	✓	✓	✓	✓
Colorado					
BRC Investment Management LLC	Greenwood Village	✓	✓		✓
BSW Wealth Partners	Boulder	✓	✓	✓	
Capital Investment Counsel	Denver	✓	✓	✓	✓
Crestone Capital Advisors LLC	Boulder		✓	✓	
Sargent Bickham Lagudis, LLC	Boulder	✓	✓	✓	✓
Connecticut					
Beirne Wealth Consulting Services, LLC	Milford	✓	✓	✓	✓
Bradley, Foster & Sargent, Inc.	Hartford	✓	✓	✓	✓
Essex Financial Services	Essex	✓	✓	✓	✓
Fieldpoint Private	Greenwich		✓	✓	✓
Greenwich Wealth Management	Greenwich	✓	✓	✓	✓
NorthCoast Asset Management	Greenwich	✓	✓	✓	✓
Resnick Investment Advisors, LLC	Westport	✓	✓	✓	✓
Delaware					
Capital Markets IQ	Wilmington	✓	✓	✓	✓
District of Columbia					
Avenir Corporation	Washington	✓	✓	✓	✓
Farr, Miller & Washington, LLC	Washington		✓	✓	✓
Marshfield Associates	Washington	✓	✓	✓	✓
Florida					
Banyan Partners LLC	Palm Beach Gardens	✓	✓	✓	✓
Bott-Anderson Partners, Inc.	Jacksonville		✓	✓	✓
Cumberland Advisors	Sarasota	✓	✓	✓	✓
Evensky & Katz LLC	Coral Gables	✓	✓	✓	✓
Foldes Financial Management	Miami	✓	✓		✓
GenSpring Family Offices	Jupiter		✓	✓	✓
Global Financial Private Capital, LLC	Sarasota	✓	✓	✓	✓
Investacorp Advisory Services, Inc.	Miami	✓	✓	✓	✓
Investor Solutions, Inc.	Coconut Grove	✓	✓		✓
Palisades Hudson Asset Management, L.P.	Fort Lauderdale	✓	✓	✓	
ProVise Management Group, LLC	Clearwater	✓	✓	✓	✓
Singer Xenos Wealth Management	Coral Gables	✓	✓	✓	✓
Wasmer, Schroeder & Company	Naples	✓	✓	✓	✓
WaterOak Advisors	Winter Park	✓	✓	✓	✓
WE Family Offices	Miami			✓	
Georgia					
Arcus Capital Partners LLC	Atlanta	✓	✓	✓	✓
Asset Preservation Advisors	Atlanta			✓	
Balentine	Atlanta	✓	✓	✓	✓
Brightworth	Atlanta	✓	✓	✓	✓
CornerCap Investment Counsel	Atlanta	✓	✓	✓	✓
Crawford Investment Counsel, Inc.	Atlanta	✓	✓	✓	✓
GV Financial Advisors	Atlanta		✓	✓	✓
Henssler Financial	Kennesaw	✓	✓	✓	✓
Homrich Berg	Atlanta	✓	✓	✓	
SignatureFD, LLC	Atlanta	✓	✓	✓	✓
Hawaii					
CKW Financial Group	Honolulu	✓	✓	✓	✓
Idaho					
Yellowstone Partners	Idaho Falls	✓	✓	✓	✓
Illinois					
Altair Advisers, LLC	Chicago		✓	✓	✓
Balasa Dinverno Foltz LLC	Itasca	✓	✓	✓	✓
Brookstone Capital Management, LLC	Wheaton	✓	✓		✓
Cedar Hill Associates, LLC	Chicago	✓	✓	✓	✓
Chesley, Taft & Associates, LLC	Chicago		✓	✓	✓
Chicago Partners Wealth Advisors	Chicago	✓	✓	✓	✓
Cozad Asset Management, Inc.	Champaign	✓	✓	✓	✓
Embree Financial Group	Chicago	✓	✓		✓
Geneva Advisors	Chicago	✓	✓	✓	✓
Great Lakes Advisors	Chicago	✓	✓	✓	✓
HighPoint Planning Partners	Downers Grove	✓	✓	✓	✓
HighTower's The Lerner Group	Deerfield	✓	✓	✓	✓
IPI Wealth Management, Inc.	Decatur	✓	✓	✓	✓
JMG Financial Group, Ltd.	Oak Brook	✓	✓	✓	
Kovitz Investment Group, LLC	Chicago	✓	✓	✓	✓
Leonetti & Associates, LLC	Buffalo Grove	✓	✓	✓	✓
Mid-Continent Capital, LLC	Chicago		✓	✓	✓
Pekin Singer Strauss Asset Management	Chicago	✓	✓	✓	
Relative Value Partners LLC	Northbrook	✓	✓	✓	✓
RMB Capital	Chicago	✓	✓	✓	✓
Savant Capital Management	Rockford	✓	✓	✓	✓
Strategic Wealth Partners LLC	Deerfield	✓	✓	✓	✓
Whitnell & Co.	Oak Brook	✓	✓	✓	
Indiana					
Bedel Financial Consulting, Inc.	Indianapolis	✓	✓		✓
Column Capital	Indianapolis	✓	✓	✓	
Donaldson Capital Management, LLC	Evansville	✓	✓	✓	✓
Oxford Financial Group, Ltd.	Indianapolis	✓	✓	✓	✓
Phillips Financial Management, LLC	Fort Wayne	✓	✓	✓	✓
Valeo Financial Advisors, LLC	Indianapolis	✓	✓	✓	✓
Iowa					
Honkamp Krueger Financial Services, Inc.	Dubuque	✓	✓	✓	✓
Steele Capital Management, Inc.	Dubuque	✓	✓	✓	✓
Kansas					
Creative Planning, Inc.	Leawood	✓	✓	✓	✓
Vantage Investment Partners, LLC	Merriam	✓	✓	✓	✓
Kentucky					
ARGI Investment Services	Louisville				

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FT 300 Top Registered Investment Advisers

Firm name	City	Client segments served: Retail (individuals with <$1m)	HNW (individuals with $1m – $10m)	Ultra HNW (individuals with $10m +)	Institutional
MCF Advisors	Covington	✓	✓	✓	✓
Louisiana					
Resource Management, LLC	Metairie	✓	✓	✓	✓
St. Denis J. Villere & Co. LLC	New Orleans	✓	✓	✓	✓
Maryland					
Baltimore Washington Financial Advisors	Columbia	✓	✓	✓	✓
Chevy Chase Trust	Bethesda	✓	✓	✓	
Convergent Wealth Advisors	Potomac		✓	✓	✓
FBB Capital Partners	Bethesda	✓	✓	✓	
Heritage Investors Management Corp.	Bethesda	✓	✓	✓	✓
Highline Wealth Management, LLC	Rockville		✓	✓	✓
HighTower Bethesda	Bethesda	✓	✓	✓	✓
HighTower's Kelly Wealth Management	Hunt Valley	✓	✓	✓	✓
Maryland Capital Management	Baltimore	✓	✓	✓	✓
Pinnacle Advisory Group, Inc.	Columbia	✓	✓	✓	✓
Retirement Management Systems	Annapolis	✓	✓		
WMS Partners, LLC	Towson	✓	✓	✓	
Massachusetts					
Adviser Investments	Newton	✓	✓	✓	✓
Athena Capital Advisors LLC	Lincoln			✓	✓
Baldwin Brothers, Inc.	Marion		✓	✓	✓
Ballentine Partners, LLC	Waltham	✓	✓	✓	✓
Breckinridge Capital Advisors	Boston	✓	✓	✓	✓
Choate Investment Advisors LLC	Boston	✓	✓	✓	✓
Federal Street Advisors, Inc.	Boston	✓	✓	✓	✓
Grimes & Company, Inc.	Westborough	✓	✓	✓	
Kaplan Financial Services, Inc.	Newton	✓	✓	✓	
Reynders, McVeigh Capital Management, LLC	Boston	✓	✓	✓	✓
SCS Financial	Boston			✓	✓
The Colony Group, LLC	Boston	✓	✓	✓	
Welch & Forbes LLC	Boston	✓	✓	✓	✓
Wellesley Investment Advisors	Wellesley	✓	✓	✓	✓
Michigan					
Flexible Plan Investments, Ltd.	Bloomfield Hills	✓	✓		✓
LJPR, LLC	Troy	✓	✓		✓
Mainstay Capital Management, LLC	Grand Blanc	✓	✓	✓	
Rehmann Financial	Lansing	✓	✓	✓	✓
Retirement Income Solutions, Inc.	Ann Arbor	✓	✓		✓
Telemus Capital, LLC	Southfield		✓	✓	✓
Minnesota					
JNBA Financial Advisors	Minneapolis	✓	✓	✓	✓
Minneapolis Portfolio Management Group LLC	Minneapolis	✓	✓		✓
Riverbridge Partners, LLC	Minneapolis	✓	✓	✓	✓
Windsor Financial Group, LLC	Minneapolis	✓	✓	✓	✓
Mississippi					
Medley & Brown	Jackson	✓	✓	✓	✓
Missouri					
Acropolis Investment Management, LLC	Chesterfield	✓	✓	✓	✓
BKD Wealth Advisors, LLC	Springfield	✓	✓	✓	✓
Matter Family Office	St. Louis		✓	✓	
Moneta Group Investment Advisors, LLC	Clayton		✓	✓	✓
Plancorp, LLC	St. Louis	✓	✓	✓	✓
Zemenick & Walker, Inc.	Clayton	✓	✓	✓	✓
Montana					
Stack Financial Management	Whitefish	✓	✓	✓	✓
Nebraska					
Carson Wealth Management Group	Omaha	✓	✓	✓	
Lawson Kroeker Investment Management	Omaha	✓	✓	✓	✓
New Jersey					
Condor Capital Management	Martinsville	✓	✓	✓	✓
Massey, Quick & Co. LLC	Morristown	✓	✓	✓	✓
Meyer Capital Group	Marlton	✓	✓	✓	✓
Modera Wealth Management	Westwood	✓	✓	✓	✓
Pathstone Family Office	Fort Lee	✓	✓	✓	✓
Private Advisor Group	Morristown	✓	✓	✓	✓
RegentAtlantic	Morristown	✓	✓	✓	✓
The MDE Group	Morristown		✓	✓	✓
New York					
Alesco Advisors LLC	Pittsford	✓	✓	✓	✓
Altfest Personal Wealth Management	New York	✓	✓	✓	
Barrett Asset Management LLC	New York		✓	✓	✓
Bridgewater Advisors Inc.	New York	✓	✓	✓	✓
Capital Counsel LLC	New York		✓		✓
Clarfeld	Tarrytown		✓	✓	✓
Constellation Wealth Advisors LLC	New York		✓	✓	✓
Courier Capital Corporation	Buffalo	✓	✓	✓	✓
Douglas C. Lane & Associates, Inc.	New York	✓	✓	✓	✓
Douglass Winthrop Advisors LLC	New York		✓	✓	✓
Dynasty Wealth Management, LLC	New York		✓	✓	
Edge Wealth Management LLC	New York	✓	✓	✓	✓
Evercore Wealth Management	New York		✓	✓	✓
Geller Family Office Services, LLC	New York			✓	✓
Gerstein Fisher	New York	✓	✓	✓	✓
HighTower's HSW Advisors	New York		✓	✓	✓
Highmount Capital	New York		✓	✓	
HighTower's Morse, Towey & White Group	New York	✓	✓	✓	
Ingalls & Snyder LLC	New York	✓	✓	✓	✓
Joel Isaacson & Co., LLC	New York		✓	✓	
Klingman & Associates, LLC	New York	✓	✓	✓	✓
Linden Global Strategies LLC	New York		✓	✓	✓
LVW Advisors, LLC	Pittsford		✓	✓	✓
M. Griffith Investment Services, Inc.	New Hartford	✓	✓	✓	✓
Matrix Asset Advisors, Inc.	New York	✓	✓	✓	✓
Nottingham Advisors	Buffalo	✓	✓	✓	✓
Offit Capital	New York		✓	✓	✓
Schafer Cullen Capital Management, Inc.	New York	✓	✓	✓	✓
Silvercrest Asset Management	New York	✓	✓	✓	✓
Sontag Advisory	New York	✓	✓	✓	✓
TAG Associates, LLC	New York			✓	✓
The Portfolio Strategy Group, LLC	White Plains	✓	✓	✓	✓
Tiedemann Wealth Management	New York		✓	✓	✓
Tirschwell & Loewy, Inc.	New York		✓	✓	
North Carolina					
Carroll Financial Associates, Inc.	Charlotte	✓	✓	✓	✓
Horizon Investments	Charlotte	✓			✓
Novare Capital Management	Charlotte	✓	✓	✓	
Parsec Financial	Asheville	✓	✓	✓	
Stearns Financial Group	Greensboro	✓	✓	✓	✓
Ohio					
Bahl & Gaynor Investment Counsel	Cincinnati	✓	✓	✓	✓
Bartlett & Co., LLC	Cincinnati	✓	✓	✓	✓
Budros, Ruhlin & Roe, Inc.	Columbus	✓	✓	✓	✓
Carnegie Investment Counsel	Beachwood	✓	✓	✓	✓
Foster & Motley, Inc.	Cincinnati	✓	✓	✓	✓
Hamilton Capital Management, Inc.	Columbus	✓	✓	✓	✓
Johnson Investment Counsel	Cincinnati	✓	✓	✓	✓
McDonald Partners, LLC	Cleveland	✓	✓	✓	✓
OBS Financial Advisors, Inc.	Whitehouse	✓	✓		✓
RiverPoint Capital Management	Cincinnati	✓	✓	✓	✓
Spero-Smith Investment Advisers, Inc.	Cleveland	✓	✓	✓	✓
Summit Financial Strategies, Inc.	Columbus	✓	✓	✓	✓
Truepoint Wealth Counsel	Cincinnati	✓	✓	✓	✓
Oklahoma					
Capital Advisors, Inc.	Tulsa	✓	✓	✓	✓
Exencial Wealth Advisors	Oklahoma City	✓	✓	✓	✓
Tom Johnson Investment Management, LLC	Oklahoma City	✓	✓		✓
Oregon					
Ferguson Wellman Capital Management	Portland	✓	✓	✓	✓
Northside Capital Management, LLC	Hood River		✓	✓	
Vision Capital Management, Inc.	Portland	✓	✓		✓
Pennsylvania					
Cornerstone Advisors Asset Management, Inc.	Bethlehem		✓	✓	✓
Fort Pitt Capital Group	Pittsburgh	✓	✓	✓	✓
Fragasso Financial Advisors	Pittsburgh	✓	✓	✓	✓
HBKS Wealth Advisors	Erie	✓	✓	✓	✓
Logan Capital Management, Inc.	Ardmore	✓	✓	✓	✓
Mill Creek Capital Advisors, LLC	Conshohocken	✓	✓	✓	✓
myCIO Wealth Partners, LLC	Philadelphia	✓	✓	✓	✓
Palladiem, LLC	Malvern		✓		✓
Prudent Management Associates	Philadelphia		✓	✓	✓
Sage Financial Group	Conshohocken	✓	✓	✓	
Schneider Downs Wealth Management Advisors, LP	Pittsburgh	✓	✓	✓	✓
Tower Bridge Advisors	Conshohocken	✓	✓	✓	✓
Veritable, L.P.	Newtown Square		✓	✓	
Wescott Financial Advisory Group LLC	Philadelphia	✓	✓	✓	✓
XPYRIA Investment Advisors	Pittsburgh	✓	✓	✓	✓
Rhode Island					
Endurance Wealth Management	Providence		✓	✓	✓
Professional Planning Group	Westerly	✓	✓	✓	✓
Tennessee					
CapWealth Advisors	Franklin	✓	✓	✓	✓
Highland Capital Management, LLC	Memphis	✓	✓	✓	✓
Legacy Wealth Management	Memphis	✓	✓	✓	✓
TrustCore	Brentwood	✓	✓	✓	✓
Texas					
Covenant Multifamily Office LLC	San Antonio	✓	✓	✓	✓
Money Matters with Ken Moraif	Plano	✓	✓		
Retirement Advisors of America	Addison	✓	✓		
Sendero Wealth Management	San Antonio	✓	✓	✓	✓
SFMG Wealth Advisors	Plano	✓	✓	✓	
South Tex as Money Management	San Antonio	✓	✓	✓	✓
Tanglewood Wealth Management, Inc.	Houston	✓	✓	✓	✓
True North Advisors	Dallas	✓	✓	✓	✓
Vermont					
Manchester Capital Management LLC	Manchester	✓	✓	✓	✓
Virginia					
Burney Company	Falls Church	✓	✓	✓	✓
Cassaday & Company, Inc.	McLean	✓	✓	✓	
Catawba Capital Management	Roanoke	✓	✓		✓
Edelman Financial Services LLC	Fairfax	✓	✓	✓	✓
Glassman Wealth Services	McLean	✓	✓	✓	✓
Mason Investment Advisory Services, Inc.	Reston	✓	✓	✓	✓
SIGNATURE.	Norfolk		✓	✓	✓
The London Company of Virginia, LLC	Richmond	✓	✓	✓	✓
West Financial Services, Inc.	McLean	✓	✓	✓	✓
Wilbanks Smith & Thomas Asset Management, LLC	Norfolk	✓	✓	✓	✓
Washington					
Badgley Phelps Investment Managers	Seattle	✓	✓	✓	✓
Brighton Jones	Seattle	✓	✓	✓	✓
Bristlecone Advisors, LLC	Seattle		✓	✓	✓
Empirical Wealth Management	Seattle	✓	✓	✓	
Evergreen Capital	Bellevue	✓	✓	✓	
Fisher Investments	Camas	✓	✓	✓	✓
Freestone Capital Management	Seattle	✓	✓	✓	✓
Laird Norton Wealth Management	Seattle		✓	✓	✓
Merriman Wealth Management, LLC	Seattle	✓	✓	✓	
SNW Asset Management	Seattle		✓		✓
Threshold Group	Gig Harbor		✓	✓	✓
Wisconsin					
Annex Wealth Management, LLC	Elm Grove	✓	✓		✓
Cleary Gull	Milwaukee	✓	✓	✓	✓
Diversified Management, Inc.	Milwaukee	✓	✓	✓	
Orgel Wealth Management	Altoona	✓	✓	✓	✓
Sadoff Investment Management	Milwaukee	✓	✓		✓

Methodology Selection criteria

In assembling the FT 300 list, we assessed registered investment adviser (RIA) practices from the perspective of current and prospective investors.

The FT's methodology examines the database of RIAs that are registered with the US Securities and Exchange Commission and selects those practices reporting to the SEC that have $300m or more in assets under management (AUM). This assures a list of companies with established and institutionalised investment processes. The RIA companies have no subjective input.

The FT then invites those qualifying RIA groups, which amount to more than 2,000, to provide further information about their practices.

That is augmented with our research, including data from regulatory filings. Some 650 RIA companies qualified, meaning 48 per cent of them made the list.

The formula the FT uses to grade advisers is based on six broad factors and calculates a numeric score for each company. Areas of consideration include AUM, asset growth, the company's years in existence, industry certifications of key employees, SEC compliance record and online accessibility:

• AUM: signals experience in managing money and client trust
• AUM growth rate: growing assets is a proxy for performance, asset retention and ability to generate business
• Company's years in existence: indicates reliability and experience in managing assets
• Compliance record: provides evidence of past client disputes — a string of complaints can signal potential problems
• Industry certifications (such as CFA and CFP): show technical and industry knowledge and a commitment to investment skills
• Online accessibility: this illustrates commitment a to providing investors with easy access and transparent contact information

AUM and asset growth comprised roughly 80 to 85 per cent of each adviser's score.

We present the FT 300 as an elite group, not a competitive ranking from 1 to 300. This identifies the industry's best advisers while accounting for the firms' different approaches and varied specialisations.

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With live annualised outperformance of 2.37%,[1] these Smart Beta 1.0 indices based on the Efficient Maximum Sharpe Ratio methodology have shown that a good diversification method can lead to significant and robust outperformance over cap-weighted indices.

Since 2013, with the Smart Beta 2.0 framework, EDHEC-Risk Institute has created Scientific Beta multi-smart-factor indices that are even better diversified and therefore more successful. Over the long term, these indices exhibit outperformance of 3.85%[2] compared to their cap-weighted benchmark and have outperformed our Smart Beta 1.0 offering over the live period.[3]

We believe that the academic consensus and concern for robustness that underlie the design of our smart beta indices are always demonstrated, not only in our long-term track records, but also in our live performances.

For more information, please visit www.scientificbeta.com
or contact Mélanie Ruiz on +33 493 187 851
or by e-mail to melanie.ruiz@scientificbeta.com

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1 - The average annualised returns of the FTSE EDHEC-Risk Efficient Developed Index are 13.00%, compared to 10.63% for its cap-weighted benchmark, computed using daily total returns from November 23, 2009 (live date) to December 31, 2014.
2 - The average annualised returns observed with US data over 40 years (December 31, 1974 to December 31, 2014) of the Scientific Beta US Multi-Beta Multi-Strategy EW index are 16.11% and 15.91% respectively, compared to 12.16% for a reference index based on the 500 largest market-cap US stocks.
3 - The average live outperformance across all Scientific Beta developed regions of Scientific Beta Multi-Beta Multi-Strategy (Equal Weight and Equal Risk Contribution) indices is 3.47% and 3.39% respectively, while that of the Efficient Maximum Sharpe Ratio strategy in the same period is 2.53%. This live analysis is based on daily total returns in the period December 20, 2013 (live date) to December 31, 2014 for following developed world regions – USA, Eurozone, UK, Developed Europe ex UK, Japan, Developed Asia Pacific ex Japan, Developed ex UK, Developed ex USA, Developed, and Extended Developed Europe. The benchmark used is a cap-weighted portfolio of all stocks in the respective Scientific Beta universes.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

Boxing clever: advisers are paying more attention to the risk-return characteristics of asset classes — Dreamstime

Managers avoid being boxed in

Risk assessment Advisers have developed alternative ways of applying weightings to assets, writes *Matthew Beaton*

Increasingly complex investment vehicles such as liquid alternatives and more highly correlated equities markets have pushed financial advisers away from Morningstar style boxes, industry experts say.

The three-by-three style box grids first came out in 1992. They segment equity investments by market capitalisations and value-versus-growth characteristics, and split up fixed-income strategies by credit quality and interest-rate sensitivity. Though methods vary, advisers who seek market-neutral portfolios weight each style box to correspond with its capitalisation in the market, says Brad Stark, co-founder and chief operating officer of California-based Mission Wealth Management.

For example, if 70 per cent of the world's equity capitalisation is in large-cap stocks and 30 per cent is in small-caps, then the adviser would allocate 70 per cent of the portfolio's equity assets across the large-cap style boxes (growth, value and blend) and 30 per cent across the small-cap boxes, he says.

"[This is] so that you're not taking more or less risk than the world has voted on . . . as far as what the capitalisation is in the world," Mr Stark says.

But now advisers "are being much more thoughtful about the risk-return characteristics of asset classes, as opposed to just filling in the box", says Lawrence Petrone, director of research at Kasina, a New York-based consulting firm.

A Kasina survey of 2,000 financial advisers in 2014 showed just 14 per cent use style box asset allocation; 32 per cent use strategic allocation, that is assigning portfolio percentage weights to various asset classes; and 23 per cent rely on core-satellite — putting most of their holdings in index strategies and a small portion into actively managed vehicles.

Ten years ago, 40 per cent to 50 per cent of advisers probably used style boxes, but they have defected to strategic and core-satellite allocations, according to Mr Petrone. The 2008 financial crisis drove advisers away from style boxes because all equity correlations went to one, meaning stocks across the board dropped precipitously regardless of how diversified the portfolio was within the various equity categories, Mr Petrone adds. A portfolio's losses from the rapid decline in large-cap equities were not mitigated by its small and mid-cap stock holdings.

After that, advisers began assessing portfolios' risk-return characteristics more closely, not just assuming that ticking all the boxes would provide greater protection and diversity, he says. For those still using Morningstar style boxes, "the 1990s called, and they want your portfolio back", says Barry Glassman, founder and president of Glassman Wealth Services.

The North Virginia firm managed $735.5m in assets at the end of 2014. "When you think of some of the best investors over decades, they didn't stick with just one part of the tic-tac-toe box," he says.

Style box diversification will not lower equity correlations, they will remain just as likely to plummet in unison during a down market, but plenty of advisers still fill out the matrices because they do not have time to research mutual funds and exchange traded funds and discuss them with the product manufacturers, Mr Glassman adds.

Jeff Ptak, Morningstar's global head of manager research, acknowledges that the "style box was never meant to be a single, all-encompassing solution to an adviser, an institution [or] individual investor".

> 'Investors didn't stick with just one part of the tic-tac-toe box'

But he receives feedback from advisers that they are "still a very powerful tool for sorting through a universe of different mutual funds or other types of vehicles and making apples-to-apples comparisons".

Some investments, such as liquid alternatives, which can offer hedge fund investment tactics in mutual fund form, do not fit easily into the style boxes. That is because managers have considerable leeway in the tactics they use, which can shift across a range of styles. But Morningstar is working to "continuously improve" how they are classified, Mr Ptak says.

Mission Wealth Management uses a core-satellite asset allocation, but the company employs style boxes to "audit" its portfolios, ensuring the underlying investment products are not succumbing to style drift, says the company's Mr Stark.

The wealth manager oversaw $1.1bn in assets at the end of 2014. "If you're a diversified asset allocation firm, then style boxes are important," Mr Stark says.

"If you are a money manager that wants to be 'tactical', which is the new word for 'market timer', then you don't want to be associated with a style box."

"In the institutional world and for wealth management firms that follow disciplined academic approaches, [style boxes are] going to stay," he adds. However, some advisers are in essence trying to time the market, shifting quickly in and out of positions, despite the imperfect record of this portfolio management style.

This is because investors want advisers who, they believe, know when to get in and out of the market and what areas to stay away from, Mr Stark says.

"When has that been successful? Honestly, I've been in the industry for 23 years; I've never seen it be successful," he adds.

A survey earlier this year of the Financial Times Top 400 Advisers at broker-dealers found that 27 per cent use tactical allocation, while 32 per cent rely on core-satellite and 19 per cent cling to style boxes. However, in the Kasina survey, 19 per cent were tactical.

Style boxes are inappropriate for this tactical style, Mr Stark says. With tactical advisers, it is difficult to measure and understand risk-return factors and portfolio expectations based on their investing style because they do not take a clear disciplined approach, he says.

In the future, style boxes will remain a tool for attribution analysis, even as their popularity wanes, says Nathan Erickson, chief investment officer at Miller Russell Associates, which managed $2.3bn in assets at the end of 2014. The Arizona-based firm does not use the nine-box grids.

An adviser can review a fund and look at its holdings to see where they fit in the style box universe, to make sure a large-cap growth manager is not actually a large-cap blend manager, Mr Erickson says.

"I don't know if the [style box] concept will ever go away," he says. "I think it's relevant to understand what you're invested in, but I don't see a targeted allocation to style boxes coming back."

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