

Final Release
May 28, 2015

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Major Trends Driving Change in Portfolio Construction – Recognizing The Key Opportunities and Challenges Facing Asset Managers and Distributors

New study identifies important trends in ways financial advisors build portfolios and forecasts how use of Passive and Active Management, Smart Beta solutions, Actively Managed ETFs, and Liquid Alternatives will continue to evolve

BOSTON, May 28, 2015 – While many financial advisors are increasingly gravitating to passively managed solutions, active management remains a core pillar to how advisors build portfolios as availability of innovative investment solutions such as liquid alternatives, Smart Beta products, and actively managed ETFs and ETMAs changes the landscape for portfolio construction according to a new report released today by **Practical Perspectives**, an independent consulting, competitive intelligence, and research firm working with wealth management providers and distributors.

The 89 page report “**Financial Advisors and Key Trends in Portfolio Construction 2015**” examines leading activities and trends in how advisors are building portfolios and the opportunities and challenges that product providers and distributors such as mutual fund companies, third party asset managers and broker-dealers need to prepare for in working with advisors. The analysis reviews important aspects of portfolio construction including the extent to which advisors are hands-on in making investment decisions, the factors driving many advisors to shift to passive solutions, growing interest and use of Smart Beta products, familiarity and use of various liquid alternative strategies, and opportunities across major asset classes for actively managed ETFs, including the newly conceived Eaton Vance Navigate Exchange Traded Managed Accounts.

Key findings of the research report include:

- More than half of advisors have not shifted their relative mix of actively managed and passively managed solutions in the past year

- Advisors who have recently changed their relative mix of passive and active management in constructing portfolios are far more likely to have increased their allocation to passively managed investments and done so for long-term strategic reasons
- Advisors still perceive active management as the preferred option in several equity and fixed income asset classes including specialty equities, international, emerging markets, small cap, high yield, and strategic income
- Actively managed ETFs pose a significant opportunity and threat to traditional actively managed mutual funds, with advisors expressing significant interest in learning more about innovative solutions such as ETMAs
- Smart Beta solutions have grown dramatically in terms of assets but are still used by a narrow range of advisors, with many practitioners unfamiliar with these products and unsure whether to view the strategy as an active or passive option
- The vast majority of advisors (more than 9 in 10) use liquid alternatives, although most leverage these solutions selectively for retail clients and represent just 10% or less of total assets they currently manage
- The most important factors driving advisors to use liquid alternatives are diversification and the desire to manage portfolio risk/reduce volatility

“Portfolio construction is evolving quickly with advisors facing a growing range of options in how to manage assets for clients” says Howard Schneider, President of Practical Perspectives and co-author of the report. *“The challenge for product providers and distributors is to drill beneath the broad patterns and understand to what extent advisors are really changing their stripes as far as passive management, liquid alternatives, Smart Beta, and actively managed ETFs.”*

“Our analysis underscores many of the competitive challenges facing product providers, especially those who rely heavily on actively managed mutual funds” according to Richard Gauger, experienced advisor-focused marketing professional and co-author of the report. *“The report identifies many differences in how advisors build portfolios depending on key factors such as channel, the extent to which active management is blended with passive management, and emphasis on using newer solutions such as Smart Beta and liquid alternatives.”*

The analysis is based on over 600 on-line surveys conducted in April 2015 with financial advisors and representatives, as well as interviews with advisors and industry executives. Those surveyed include full service brokers, independent brokers, financial planners, and Registered Investment Advisors (RIAs).

The detailed report includes 84 Exhibits and is available for purchase by contacting: howard.schneider@practicalperspectives.com

For more information or for a press copy of the full report, call Howard Schneider at 978-590-7290.

About Practical Perspectives

Practical Perspectives provides customized strategic and tactical support to companies involved in the creation and distribution of asset management products and services. Our support is provided for a variety of challenges including marketing, marketing research, competitive intelligence, product, and retirement issues. We issue several reports each year that focus on key issues from the perspective of financial advisors.

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