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## Unbundling of the TAMP and Rise of the Model Marketplace

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**INVESTMENTS & WEALTH INSTITUTE**  
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# Unbundling of the TAMP and Rise of the Model Marketplace

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**T**he turnkey asset management platform (TAMP) has been a popular solution for financial advisors who want to provide comprehensive wealth management to clients but would rather focus on financial planning and client-facing duties than investment management. Due to the decline in transaction costs and the rise of portfolio management tools since the 1980s, today's TAMP marketplace is estimated by Tiburon Advisors at more than \$2 trillion of assets under management.

But as robo automation tools have become more capable of handling the trading, rebalancing, and management of investment models, a TAMP's back-office support has become less relevant.<sup>1</sup> Now, robo-technology appears to be presenting a new competitive threat to TAMPs: the rise of the model marketplace.

A model marketplace is a centralized platform where financial advisors can select from a series of third-party-created investment models but retain control and discretion to implement the trades themselves (in an efficient manner) by leveraging trading and rebalancing software. In early 2017, both TD Ameritrade (via iRebal rebalancing software), Riskalyze (via its Autopilot rebalancing tools), and Orion Advisor Services (via its Eclipse trading and rebalancing solution) rolled out model marketplaces. The emergence of model marketplaces appears to be supported by asset managers, who are seeking new

paths to distribute their (otherwise increasingly commoditized) investment products, along with new revenue opportunities from adding a layer of fees for model management itself.

It remains to be seen whether model marketplaces will gain traction and which platform—e.g., robo onboarding tools, portfolio accounting software, or a registered investment advisor (RIA) custodian—advisors will choose to adopt. Nonetheless, the transition of robo trading and rebalancing tools into the creation of model marketplaces represents a significant disruptive threat for both existing marketplace incumbents (such as Envestnet) and the entire world of TAMPs as advisors gain newfound choices about whether to outsource just the creation of investment models or their back-office implementation as well.

## HISTORY OF THE TAMP

At its core, a TAMP provides a combination of back-office support for a financial advisor and third-party asset management for that advisor's client portfolios.<sup>2</sup>

The TAMP movement emerged in the 1980s, after the deregulation of fixed trading commissions in 1975 collapsed the traditional stockbroker business model and financial advisors began the transition from selling stocks to selling investment managers instead. The bulk of that shift went to the rise of the mutual fund complex, but as financial advisors sold the leading mutual funds

and their managers, many of those who operated in a fee-based environment adopted TAMP solutions instead.

The appeal of the TAMP, whether adopted as a managed mutual fund (or later an exchange-traded fund or ETF) wrap account, or a separately managed account (or later a unified managed account) holding individual stocks and bonds, was the opportunity to have a third-party investment manager set the investment models and implement the investment trades, but without a requirement for the client's assets to be pooled with others (e.g., in the form of a mutual fund). Instead, client accounts and the underlying assets were owned individually and directly by the client, and the third-party investment manager simply had discretion to execute the trades necessary to implement the agreed-upon investment strategy in the client's accounts. From the financial advisor's perspective, it was feasible to provide clients with an individually held professionally managed investment account, but without the advisors needing to create the investment process and staff a back office.

TAMPs quickly become a combination of back-office staffing and technology (including account opening and transfers, trading and rebalancing, billing and fee sweeps, performance reporting, and compliance) along with the investment management solution itself (either managed directly, or by providing vetting and due diligence of third-party managers for which the TAMP is an

intermediary). In some cases, the TAMP functions entirely as a stand-alone platform and custodian, and in other cases it ties into or overlays existing brokerage or RIA custodian platforms. Early players that are still around today include PMC<sup>3</sup> (now part of Envestnet), Brinker Capital,<sup>4</sup> AssetMark,<sup>5</sup> Lockwood,<sup>6</sup> Loring Ward,<sup>7</sup> and SEI.<sup>8</sup> The TAMP space in aggregate is estimated at more than \$2 trillion of assets under management.<sup>9</sup>

### ROBO-ADVISORS AND RISE OF THE MODEL MARKETPLACE

In recent years, we've witnessed the rise of robo-advisors, which threatened (at least in their own words) to replace human financial advisors with automation tools that facilitate the implementation of a (usually passive strategic) asset-allocated diversified portfolio, matched to the client's particular goals and time horizon.

In reality, though, robo-advisors have struggled to gain market share and their growth rates have lagged in recent years,<sup>10</sup> due to a struggle to attract assets and actually gain market share given the hyper-competitive marketplace for asset management and the incredibly high client acquisition costs it entails.<sup>11</sup> In other words, robo-advisors created an efficient operational solution (digital onboarding, automated trading, and rebalancing tools to manage model portfolios) but ran into a distribution problem (getting a particular managed account solution into the hands of consumers).

But that doesn't mean robo-technology itself, as a tool that automates onboarding and, more importantly, the trading, rebalancing, and management of models, isn't valuable. For instance, several years ago I wrote:<sup>12</sup>

*Robo-advisor software as a "trading" tool creates the potential for investors (and/or their advisors) to implement and self-automate their own tilts, filters, screens, trading*

*algorithms, and rules-based investment strategies. Popular strategies (e.g., various forms of smart beta?) could be licensed directly through the platform, allowing any investor to have access to the "strategy" of an investment manager, implemented automatically on their behalf. Or alternatively, investors (or their advisors) could create any number of their own investment strategies as well, and then allow the software to automate their implementation.*

In February 2017, this exact prediction began to play out. First it began at the TD Ameritrade National LINC conference, with the RIA custodian announcing the creation of a new iRebal "Model Marketplace"<sup>13</sup> where advisors directly access third-party investment management strategies by having their models uploaded directly into the iRebal trading software for the advisor to implement. Then at the Technology Tools for Today (T3) Advisor Technology Conference, Riskalyze announced that its robo-advisor-for-advisors Autopilot platform was launching a "Partner Store"<sup>14</sup> that would allow advisors to use its new trading and rebalancing tools to directly implement the models from a series of third-party investment managers. At the same conference, Orion Advisor Services announced the launch of Eclipse,<sup>15</sup> its own version of a newly launched trading and rebalancing software platform that includes "Eclipse Communities," where advisors can share investment models for implementation with other advisors in a form of (peer-to-peer) model marketplace.

In other words, in the span of barely a month, three different major platforms all announced the rollout of a model marketplace where advisors can use robo trading and rebalancing automation tools to implement third-party-managed models, without the need to fully delegate to a TAMP. Instead of using the TAMP, the advisor can simply use the robo software to implement directly all of the models

and trade signals from the investment manager using the advisor's existing investment platform.

### DELEGATION VS. AUTOMATION AND THE UNBUNDLING OF THE TRADITIONAL TAMP

As noted earlier, a TAMP bundles two core functions: a third-party investment management strategy (i.e., portfolio model), and implementation (the back-office trading and other tasks that support the investment implementation process). From this perspective, the emergence of model marketplaces effectively represents the unbundling of the traditional TAMP.

In essence, the opportunity of a model marketplace is to distribute third-party investment management strategies (via their model portfolios) to financial advisors, for the advisors to implement. Thus, the advisor can get access to outside managers, and their models, without fully delegating the portfolio management role and the associated discretion; instead, the manager sends the model (and its trade updates) to the marketplace, and the advisor implements it. Except, with the typical modern trading and rebalancing software for financial advisors, the implementation itself becomes largely automated anyway.<sup>16</sup>

Of course, that still requires the financial advisor to retain responsibility for configuring and implementing the trading and rebalancing software itself. Client accounts still have to be onboarded by the advisor, loaded into the rebalancing software, and assigned to the model. And the advisor still must (or at least, should want to) review the suggested model trades (when the model changes) and hit the button to authorize the model trades in client accounts that the software queues up.

Nonetheless, model marketplaces fundamentally change the decision-making process about using a TAMP in the first place (see table 1). Now, it's no longer a question of whether to create and

Table  
1

**MODEL MARKETPLACES AND PORTFOLIO MANAGEMENT IMPLEMENTATION AS A FINANCIAL ADVISOR**

	Investment Models	Back-Office Implementation	Advisor Control
Self-Managed	Rep-as-PM	Staff?	Retained
Traditional TAMP	Delegated	Delegated	Delegated
Model Marketplace	Selected	Automated	Split

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manage your own investment process and implement it, or delegate it all to a TAMP. Instead, for those who want access to outside managers, now it's simply a question of whether you want to retain control to implement the third-party investment models yourself (the so-called "Rep as Portfolio Manager" [Rep-as-PM] approach), or delegate someone else to handle the trades and other back-office work of those third-party models too (with a full-TAMP solution).

In other words, it's no longer a decision about whether to fully retain control or fully delegate the process of investment model building and implementation. The model marketplace introduces a hybrid option—to select from third-party investment models but retain control about whether and how to implement them, while using technology to ensure that implementation isn't onerous.

**OPPORTUNITIES FOR INVESTMENT DISTRIBUTION OF MANAGED PORTFOLIO MODELS**

Notably, the rise of the model marketplace isn't solely a function of robo rebalancing and model management technology tools making it feasible to implement. It's also being driven by asset managers, who are seeking new ways to drive distribution into increasingly commoditized ETF and index fund products (that aren't very differentiated), and to generate additional revenue given the competitive cost-cutting happening to the underlying investment products. In other words, asset managers are struggling to gain market share and make money on the underlying investment products, and instead they are

looking at model management as an opportunity for both fund distribution and a new layer of management fees.

This business model also was indirectly validated by the robo movement, as the rapid growth of Schwab Intelligent Portfolios—using a preponderance of Schwab ETFs—demonstrated that it's feasible to distribute managed models of otherwise largely commoditized ETFs as a way to grow market share and revenue.<sup>17</sup> Of course, Schwab itself has (so far) offered its managed account service for "free" because its underlying ETFs are still profitable.<sup>18</sup> But the validation that robo-managed accounts can help to distribute ETF products, and the potential to charge for the ETF strategies they manage, helped to drive robo mergers and acquisitions, including BlackRock's (and iShares ETFs) acquisition of FutureAdvisor,<sup>19</sup> the Invesco (which also owns PowerShares ETFs) acquisition of JemStep,<sup>20</sup> and WisdomTree ETFs investing into AdvisorEngine.<sup>21</sup>

In other words, as expense ratios on so many ETFs crash down to just basis points in the low single digits, the potential to sell managed models of those ETFs for a managed account fee of 10, 20, or 30 basis points (bps) represents a substantial revenue expansion opportunity. Managed models that are well-diversified (i.e., not all in a <5 bps S&P 500 index fund) also create the potential for asset managers to allocate at least a portion of client funds to less-commoditized and therefore higher-cost (and higher-revenue-generating) funds in their lineup that can generate more revenue. As a result, it's no coincidence that TD Ameritrade announced that its

initial models would be provided by a series of asset managers likely to predominantly comprise ETF providers who will construct portfolios of their own ETFs (and either charge a management fee, or generate more expense-ratio revenue by allocating across a range of their ETFs with varying expense ratios).

Ultimately, though, the opportunity isn't unique to just asset managers that produce investment products. Model marketplaces create opportunities for any investment manager to distribute investment strategies, including asset managers, specialized investment managers, and even other financial advisors. Now, those who want to gather more assets into their investment strategies won't need to build their own TAMP or outsourcing solution, or try to create their own ETF or mutual fund; instead, they'll simply need to get their models into a model marketplace, and then try to get advisors to adopt the solution without all the back-office hassle.

**ENVESTNET AND THE COMPETITION OF MODEL MARKETPLACES**

The idea of being a platform that connects a wide array of third-party investment managers directly to financial advisors isn't new—it's one of the primary ways that Envestnet generates its revenue. Most independent RIAs simply know of Envestnet as a provider of advisor technology—including Tamarac CRM and rebalancing software,<sup>22</sup> FinanceLogix financial planning software,<sup>23</sup> and more—but Envestnet's investment solutions, including PMC, its unified managed account solution and fund strategist network, are an entire marketplace of third-party investment management for financial advisors.<sup>24</sup>

However, Envestnet still functions primarily as an intermediary that connects and introduces financial advisors to various forms of TAMPs (often as separately managed accounts), as well as its own (PMC) managed solutions, but not necessarily as a model marketplace that

helps advisors implement those third-party investment solutions themselves. From this perspective, arguably the rise of the model marketplace is also a direct competitive challenge (and alternative solution) to Envestnet itself.

The question remains, though, as to where it is best to situate a model marketplace. It's notable that the three initial providers so far have all built their model marketplaces into their rebalancing software—because it's the rebalancing software that's crucial to facilitating the implementation itself.<sup>25</sup> Riskalyze's Autopilot Partner Store is part of its “robo-advisor-for-advisors” solution and an extension of its risk tolerance assessment tools; Orion Eclipse Communities is part of a portfolio accounting software solution; and the iRebal Model Marketplace is part of TD Ameritrade's offering as an RIA custodian. Yet it's unclear where advisors actually will want to engage in a model marketplace—through their robo tools, portfolio accounting software, or directly via their custodians.

In the meantime, it seems likely that other rebalancing software competitors will soon create their own competing model marketplaces.<sup>26</sup> Notably, Envestnet itself owns Tamarac rebalancing software, and it's not hard to imagine that it might soon begin to offer its existing third-party manager and strategist network directly as advisor-implemented models through Tamarac, rather than just via the managers directly. And with the 2015 acquisition of Total Rebalance Expert (tRx) software by Morningstar,<sup>27</sup> it wouldn't be surprising to see Morningstar get into the model marketplace game soon as well, especially because Morningstar already has extensive capabilities for building and distributing investment management strategies and getting paid for investment models.

Perhaps the greatest competitive challenge of the new model marketplace, though, won't be the competition

among the marketplaces but the new-found pressures they place on TAMPs.<sup>28</sup> After all, according to one recent study, the typical all-in cost of most TAMPs still varies from 0.75 percent to 1.5 percent, but it's hard to imagine advisors and their clients tolerating such fees for models that they themselves implement, once the back-office implementation no longer falls to the TAMP provider. Clearly, the value of investment models and their underlying intellectual property is worth something. But once the back-office services are unbundled, the price point almost certainly will be much lower. It will be up to advisors to decide whether to also outsource the back-office duties and go “full TAMP” or simply to leverage the model marketplace and let the trading and rebalancing software make it as easy as possible.

The bottom line, though, is simply to recognize that the emergence of model marketplaces is a major shift in the landscape of investment management, with respect to the distribution of both third-party investment managers and the products that asset managers produce. In the process, model marketplaces will threaten both existing marketplace incumbents such as Envestnet and the current paradigm of third-party TAMPs. In the end, that doesn't necessarily mean the existing solutions will go away altogether; Envestnet still brings other capabilities to the table, and some advisors (particularly smaller independent advisors with limited staff resources) will still want to rely on full TAMPs to fully delegate their investment process and its implementation. Nonetheless, the rise of the model marketplace appears to represent one of the true disruptive threats of robo-advisor technology finally coming home to roost.<sup>29</sup> ●

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