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MSWM Tweaks SMA Roster, Hunts for New Managers

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Morgan Stanley Wealth Management has made a few tweaks to the roster of managers available on its sub-advisory separately managed account (SMA) and unified managed account (UMA) platforms, while continuing to hunt for a few strategies in capacity constrained asset classes.

In this round of changes, Morgan Stanley added an exchange-traded fund (ETF)-based model SMA from boutique manager, **Richard Bernstein Advisors**, and a concentrated U.S. equity model SMA from AB. Morgan Stanley also subtracted two options from Turner Investment Partners.

The Consulting Group manager research team is also on the hunt for new strategies in several areas where capacity constraints can be an issue, says Paul Ricciardelli, managing director and head of investment advisor research for Morgan Stanley's Consulting Group. "We've got certain capacity needs we're looking at for this year," Ricciardelli says.

On the equity side, that includes mid-cap and small-cap U.S. equity high-conviction SMA and UMA strategies. The firm is also considering adding high conviction international and global strategies including international small-cap, frontier markets equity and emerging markets equity. Morgan Stanley may also add new core plus or high yield fixed income SMA strategies. In addition, '40 Act alternative mutual funds continue to be of interest, Ricciardelli says.

Morgan Stanley Wealth Management is the largest sponsor of SMA and UMA programs, according to Cerulli Associates data. This makes the firm an important distribution focus for many SMA managers. The wirehouse had $283.4 billion in SMA program assets across both subadvisory and dual-contract programs at the end of 2014. That represents 33.8% of the overall SMA program market, according to Cerulli. In addition, Morgan Stanley had $92.9 billion in UMA assets at the end of last year, holding 25% market share.

For boutique manager Richard Bernstein Advisors, this marks the first time it has landed a model-SMA strategy on the platform. Morgan Stanley added Richard Bernstein's global risk-balanced moderate allocation model SMA to both its Select UMA and Fiduciary Services SMA programs.

"We thought that they did a good job in terms of their macro-driven top-down approach," Ricciardelli says. "We like the fact that there are qualitative and quantitative elements to the portfolio."

The ETF-based strategy uses a macro-based process to look for gaps between perception and reality, says Richard Bernstein, CEO of Richard Bernstein Advisors. The firm launched a strategy in model SMA format on the UBS platform in 2010, and added a global tactical SMA strategy to Merrill's platform in 2013, as reported.

While the bulk of Richard Bernstein Advisors's approximate $3.2 billion in assets under management is in mutual fund and collective investment trust (CIT) offerings, the SMA strategies are the fastest growing part of the business, Bernstein says. "It's the most exciting part of our business," he says. Between the UBS, Merrill Lynch and Morgan Stanley platforms, Richard Bernstein Advisors has more than $500 million in SMA assets.

In fact, the strategies have seen AUM grow 49% in 2014, and 10% in January 2015 alone, according to an email from Jordan Rosen, a marketing associate for Richard Bernstein Advisors.

Building a five year track record, and growing assets in the SMA strategy has helped the firm broaden distribution, Bernstein says. "It's only natural as you go from one year, to three years, to five years that people feel more comfortable."

But working through the due diligence process at Morgan Stanley, and other distribution partners, has taken time, Bernstein says. "The Morgan Stanley due diligence that we just went through quite recently was quite rigorous," he says.

Morgan Stanley also added an additional strategy from AB, the firm formerly known as Alliance Bernstein before a recent rebrand. The wirehouse added the AB's concentrated U.S. growth strategy to both the Select UMA and Fiduciary Services program menus.

The Concentrated Growth strategy is managed by a team from W.P. Stewart, that AB acquired in 2013, says Christopher Thompson head of retail for AB. Since then AB has seen strong demand for the strategy, available both as an SMA and as a mutual fund, driven by interest in concentrated, high active share equity strategies. The strategy has more than $2 billion in assets under management, according to information from the firm. "AB is seeing a great deal of demand for our strategies, particularly in the high-active share, concentrated portfolio space," Thompson says.

Indeed, active share is a component Morgan Stanley's research team looks at as part of a quantitative process for evaluating active equity managers.

AB also distributes several other strategies on Morgan Stanley's SMA and UMA platforms including its Strategic Research, Strategic Research Balanced and Tax Aware Fixed Income Portfolio.

Morgan Stanley also cut two strategies from Turner Investment Partners from the Select UMA and Fiduciary Services platforms, including an all-cap growth equity strategy and a core growth equity offering. The research team decided to remove the Turner strategies from the menu over concerns about decreases in asset levels and in staffing, Ricciardelli says.

A Turner Investment Partners executive didn't respond to a request for comment in time for publication deadline.

The changes are part of the ongoing process of reviewing strategies throughout the year, says Jim Tracy, head of the Consulting Group at Morgan Stanley Wealth Management. "It's a dynamic ongoing strategy of continuously adding managers to the platform and removing them for a multitude of reasons," he says.

Reasons for trimming a manager from the list include performance problems, a lower level of conviction from research analysts, an overabundance of options in a particular asset class, or a particular strategy failing to attract assets, he says.

Morgan Stanley's Consulting Group research team uses a quantitative research process, which it calls the Adverse Active Alpha Manager Ranking Model, to evaluate active equity managers and identify new ideas. The firm secured a patent for that process, which aims to identify strategies that tend to differ from their index and have performed well in periods where the majority of active managers underperformed, last year. "We feel it led to a number of very strong ideas," Ricciardelli says.

Along with research team conviction, the firm also factors in how strategies fit in the context of broader allocation and market themes from the Global Investment Solutions Group, and which types of strategies are in demand from advisors, Tracy says.