MONEY management executive

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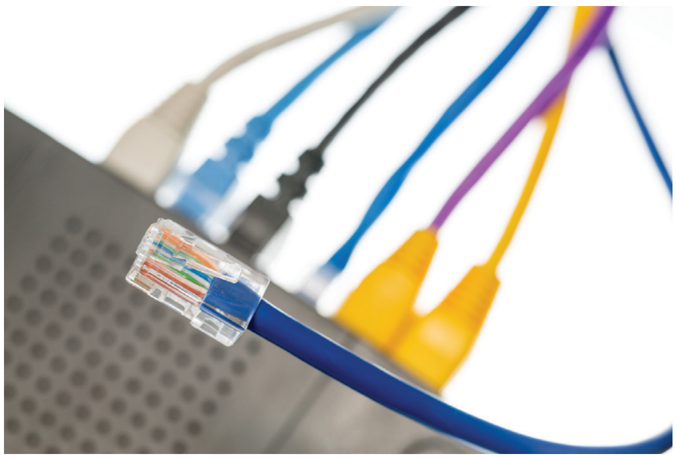
January 26, 2015 | Volume 23 • Number 4 | mmexecutive.com | feedback-mme@sourcemedia.com

Data Breaches Changing Security Vendor Roles

OPERATIONS

By Suleman Din



IN THE WAKE OF MORGAN STANLEY's recent massive data breach, one detail became clear: the financial institution had the technology and systems in place to quickly detect and trace the breach, but an employee was still able to access confidential customer information he should not have been able to.

For vendors in the data security realm serving asset managers, banks and other financial institutions, the incident serves as a reminder of the greater roles they now have.

With cybersecurity generating so much attention, vendors say they cannot be simply purveyors of service or products, but rather continuously involved in educating a company 's policies and cyber defense.

"I think vendors have a huge role to play in educating the financial industry about best practices in the information security," says Sid Yenamandra, CEO and co-founder of Entreda, a San Mateo, Calif.-based IT firm. "Too often vendors try to sell a product rather than focus on solving a customer problem."

In the last few months, there has been a shift among firms away from procurement to trying to get a risk strategy in place with the help of vendors, says Tom Patterson, head of cyber-

VENDORS, *on page 5*

Average NAV returns, closed end funds	Equity Funds	Bond Funds	All CEFs
December 2014	-1.43	-0.24	-0.74
Oct. - Dec. 2014	-0.66	0.71	0.14
2014	6.65	11.56	9.58
2013	16.03	-1.74	5.17

Source: Lipper

Obama Cyber Initiatives Target Financial Firms

REGULATION

By Victoria Finkle and Ian McKendry

A NEW EFFORT BY PRESIDENT OBAMA TO tighten cybersecurity at financial institutions and other businesses could help light a fire under some firms that have historically been slower to react in the wake of a data breach and help financial institutions dealing with a tangle of confusing state laws.

The president teed up several new initiatives, urging lawmakers to renew the hot-button issue after multiple bills failed to gain traction in Congress last year. They included new legislation, the Personal Data Notification and Protection Act,

CYBER, *on page 6*

Managing Regulation and Expectations

Q&A

By Suleman Din

THE BIGGEST CHALLENGE FOR ANY NEW firm considering an entry into the ETF market is overcoming the regulatory hurdles placed between a product and customers. Few understand that difficulty as keenly as Eric R. Ervin, CEO and co-founder of San Diego, Calif.,-based ETF provider Reality Shares.

In the second part of a conversation with *Money Management Executive*, Ervin says after the launch of his firm, it took roughly three years to receive regulator approval for their product. In that time the former Morgan Stanley advisor

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DIGITAL
MUTUAL FUND SERVICE GUIDE

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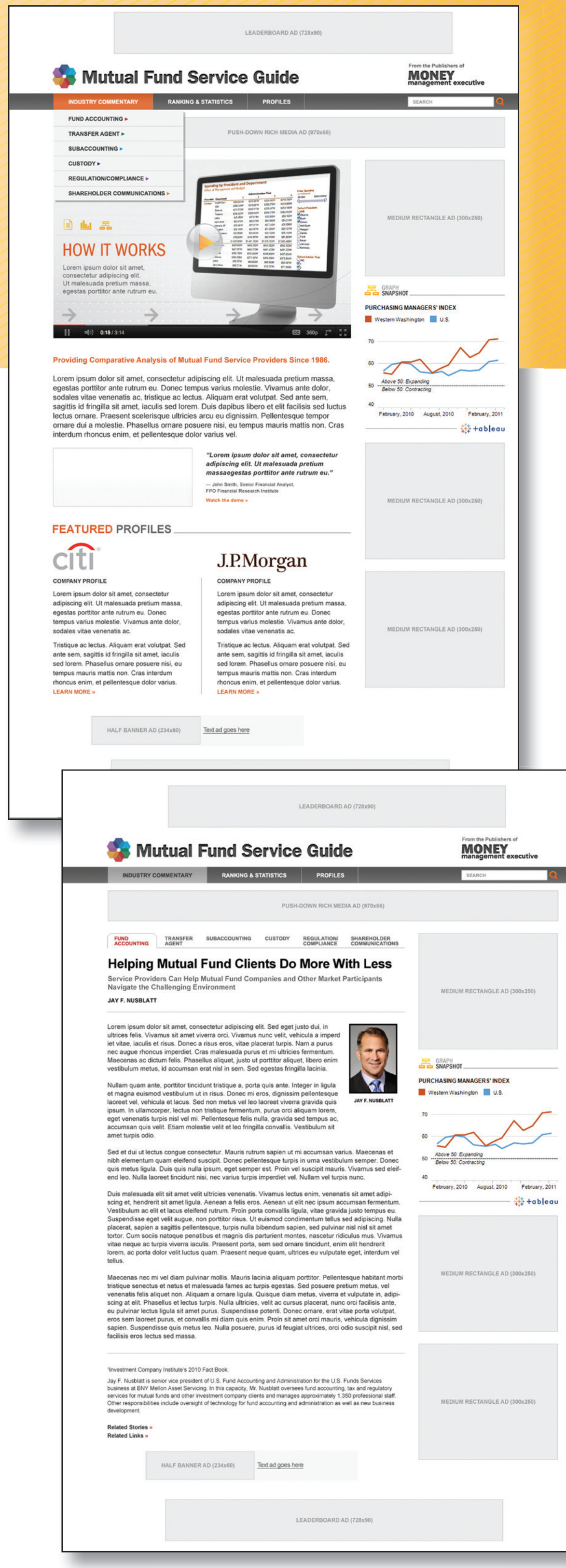

The Mutual Fund Service Guide is the annual reference guide for operations and marketing executives in the mutual funds industry to review and select vendors and obtain insight into the changing directions of the industry.

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***The new Digital version allows operations and marketing executives to:**

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INDUSTRY HIGHLIGHTS

Industry Consortium Forms Dark Pool

The industry's biggest firms have joined to create a new dark pool trading platform for large stock trades that will open later this year. Called Luminex, it will admit asset managers who are looking to trade a large quantity of shares at once, according to a statement.

The consortium is led by Fidelity and includes BNY Mellon, BlackRock, Capital Group, Invesco, J.P. Morgan Asset Management, MFS Investment Management, State Street Global Advisors and T. Rowe Price, a group that collectively manages 40% of U.S. fund assets.

"Our goal is to build trust among users through transparent trading rules and protocols and efficient execution," Michael Cashel, interim chief executive officer of Luminex, said in the statement.

Regulators are closely reviewing dark pools, Bloomberg reports. The SEC and the New York attorney general are at the front of such efforts; recently UBS was fined by the SEC on a dark pool for failing to follow rules designed to ensure stock trades are executed fairly.

In the Luminex market, traders must commit to a minimum block size when entering orders to buy or sell stock.

The venue will be independently operated by Luminex Trading & Analytics, but it will be governed by a board with a representative from each of the asset managers. It will seek to be "self-sustaining," according to the statement.

Chief Fund Regulator Leaving SEC

The SEC announced that Norm Champ, who led regulation efforts of mutual funds, private equity and hedge funds at the agency, will resign later this month. Champ had been with the SEC for five years, during which time he oversaw new regulation for money market mutual funds that the SEC approved in July.

Previously, Champ was general counsel of hedge fund firm Chilton Investment and on the board of directors of the hedge fund lobbying group, the Managed Funds Association. His next role is visiting scholar at Harvard Law School, the SEC said

Champ is leaving one month after SEC Chair Mary Jo White announced plans for new rules targeting mutual funds that have adopted more complex strategies, according to Bloomberg.

"The commission has benefited greatly from Norm's expertise and sound judgment and we have been very fortunate to have had him work on behalf of U.S. investors and our markets," White said in a statement.

Estimated Flows to Long-Term Mutual Funds

(in $ millions)

	1/14/2015	1/7/2015	12/30/2014	12/22/2014	12/17/2014
Total equity	1,740	-3,935	-1,505	-2,431	-6,877
Domestic	-21	-5,432	-1,431	-1,057	-4,444
World	1,761	1,497	-74	-1,374	-2,433
Hybrid	248	-1,042	-628	-809	-2,356
Total bond	3,564	-3,554	1,011	-3,024	-9,351
Taxable	2,598	-4,882	-386	-3,350	-10,302
Municipal	966	1,328	1,397	326	951
Total	**5,553**	**-8,530**	**-1,122**	**-6,264**	**-18,583**

Flow estimates are derived from data covering 98% of industry assets. Components may not add to the total due to rounding.

Source: Investment Company Institute

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Veteran Vanguard Manager Stepping Down

The head of Vanguard's $1.9 billion Convertible Securities Fund, Larry W. Keele, will retire at the end of June, the firm said. Keele is a principal and co-founder of Oaktree Capital Management, which has advised on investments for the fund since 1996.

"Larry and his colleagues at Oaktree have delivered strong long-term results for Vanguard shareholders," said Vanguard CEO Bill McNabb in a statement. "We wish to thank Larry for his service to our clients and his able stewardship of the fund for a period of nearly two decades."

Keele will remain a member of Oaktree's board of directors. Stu Spangler joins the fund's management team as part of the transition, and will work alongside two other senior Oaktree portfolio managers, Jean-Paul Nedelec and Abe Ofer.

RESEARCH

European Managers Seek Affordable Drawdowns

Drawdown strategies have become a favorite among European asset managers, according to a new survey by Cerulli Associates. Spurring the interest is a looming move to make annuitization optional for U.K. defined contribution savers. "In the United Kingdom, asset managers that were fairly ill-prepared to satisfy retiree investors just 12 months ago have seen the pending opportunity, and are focusing on making income drawdown investing more affordable," said David Walker, director at Cerulli Associates.

PRODUCTS

Large-Cap, Small-Cap ETFs Based on Zacks Strategies

Two new fund launches from ETF Securities are based on Zacks earnings investment strategies covering U.S. equities. They are ETFS Zacks Earnings Large-Cap U.S. Index Fund and ETFS Zacks Earnings Small-Cap U.S. Index Fund. Both are NYSE listed. ETF Securities notes that risk mitigation measures are in place with both funds, including high liquidity and capacity screens and a focus on high diversification across sectors and stocks.

New Portfolio Focuses on Russell Index

Invesco PowerShares launched the PowerShares Russell 1000 Equal Weight Portfolio on the NYSE, which will attempt to match the price and yield of the Russell 1000 Equal Weight Index. Roughly 90% of its total assets will be invested in the common stocks that comprise the Russell index. "We are excited that Invesco PowerShares has selected our Russell 1000 Equal Weight Index as the basis for a new smart beta ETF," said Ron Bundy, CEO of Russell Indexes, in a statement.

Hedge Fund Platform Attracts Key Managers

A platform designed to allow broader investor access to hedge fund managers gained a leading industry partner. HedgeCoVest announced Fred Alger Management will offer products through its real time hedge fund replication platform, which mirrors the portfolio and trading strategies of hedge funds directly into an investor's brokerage account.

"Over 60 hedge fund models are signed to participate, and the response from fund managers and investors is amazing," said Evan Rapoport, CEO and founder of HedgeCoVest. The platform has an account minimum of $30,000 and is open to institutional and retail investors. Cornerstone Capital, The Boston Company and London-based Gems Advisors are all offering products through the platform.

New Index Values Core Infrastructure Firms

For the investor seeking to gain exposure to companies involved in critiical infrastructure, MSCI is launching its MSCI World Core Infrastructure Index. "Real assets, such as real estate and infrastructure, are increasingly being viewed by investors as a foundational building block of a modern investment portfolio, rather than an alternative," said Diana Tidd, managing director and head of the MSCI index business in the Americas.

ARRIVALS

Aberdeen Names North American Equities Head

Aberdeen Asset Management's head of North American equities, Paul Atkinson, will be leaving at the end of June, the firm announced. Ralph Bassett, deputy head of North American equities, will succeed Atkinson. Bassett joined the North American equity team in 2006 and was appointed deputy head in 2012.

"It will be sad to see Paul go, but he will leave in June with our thanks and best wishes for the future," said Hugh Young, global head of equities at Aberdeen Asset Management. "Ralph is the obvious successor given his current role and his experience within Aberdeen."

American Capital Selects Private Finance President

Brian Graff was named president of private finance at American Capital, the firm announced. He is currently a senior vice president and senior managing director of the firm. He joined American Capital in 2001. Previously, he was a principal of Odyssey Investments Partners, a private equity fund.

TCW Group Names Vice Presidents

Melinda Newman and Drew Sweeney have joined the TCW Group's fixed income team in Los Angeles as senior vice presidents. Newman comes from First Pacific Advisors and will serve as a senior analyst regarding high-yield and investment-grade credits. Sweeney comes from Bradford & Marzec, and is a senior bank loan trader. MME

News Scan by Suleman Din

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security consulting at global firm CSC.

"They've purchased a lot of stuff, and unfortunately a lot of it is the equivalent of shelfware," he says. "It is not set up right, it it is not monitored well. These are real world problems, and it is part of the responsibility of the entire ecosystem — product vendors, service providers and strategists, to all come together. We look at becoming long term partners with clients, because that is the only way to manage risk."

The reason for more engagement with firms is two-fold, says Ray Pompon, director of security for Linedata Capitalstream. Not only because cybersecurity vendors have the expertise to share, but to ensure that they remain competitive.

"After a breach, a bank's customers are going to be made right, business goes on," he says. "But for vendors, a breach means business is over for us, we'll lose all our customers."

BREACH REASONS

According to *American Banker*, an executive at Morgan Stanley who did not want to be named said the employee gained access to client records by finding a way to run reports in the bank's wealth management software.

The executive said the employee did not hack into the system, but used it in a way he wasn't authorized to. "He figured out how to run internal reports on our systems and he downloaded them," the executive said. The information included names and account numbers, as well as some asset value and transactional information.

Yenamandra says Morgan Stanley is obviously different in its resources and scale than a small broker-dealer representative or money management firm and can afford better protection. Still, he adds, even at a high level there are reasons that breaches occur:

1. Lack of a cohesive work flow when dealing with information (or cyber) security risk management and governance.

2. Inadequate access controls and monitoring services when it comes to critical infrastructure.

3. Revisiting the workflow periodically and training the IT staff and employees.

"There are a number of technologies available to deal with several aspects of security," Yenamandra says. "For example, there are some powerful tools available in the market to perform network access control functions or cyberthreat detection.

"However, technology can only go so far and ultimately to ensure a cohesive end-to-end information security work flow, manual intervention is still required. That's the weakest link in the chain."

"The best way is to audit, and the earlier in the process, the better," he says. "The audit process should now be part of procurement. Have a third party audit done. The biggest question should be, has someone tested your security thoroughly?"

Pompon adds that smart vendors will welcome the extra scrutiny, since, unlike the financial firms they service, cybersecurity vendors are not directly regulated.

"We see it as a tremendous business opportunity," Pompon says. "It allows us to show we can go above and beyond. When customers come, we have years of audits that we can throw down."

"After a breach, a bank's customers are going to be made right, business goes on. But for vendors, a breach means business is over for us, we'll lose all our customers."

Ray Pompon, director of security for Linedata Capitalstream

EARLY AUDITS

Among the areas where a breach postmortem should happen is within company leadership and the relationship the relationship it has with its security vendors, Pompon says.

Having investigated a number of breaches, Pompon says that often in financial institutions, "education is missing at the top. The security person's job is to inform upper management about any serious problems, and inadequate controls."

What sometimes happens, he adds, is that upper management takes a chance with cybersecurity policies and tech. "they ask, 'What's the chance of this happening?'" he says. "But cybersecurity is very difficult to understand. You have all the problems of technology and under adversarial conditions."

What Pompon recommends is that financial firms insist on audits of cybersecurity vendors, and that vendors welcome the opportunity to be tested and verified.

GOVERNANCE SHIFT

CSC's Patterson says among financial institutions, the conversation with vendors is shifting away from hardware purchases and into boardroom strategies.

"The biggest change has really been the attitude shift from governance committees," he says. "Cybersecurity has always been an IT issue, about what products should a company buy, but not nearly enough attention was devoted toward who's going to watch it over weekends and during shift changes."

Vendors have the opportunity to capitalize on the trend by changing their approach with clients to more preventative strategies, Patterson adds.

"Large banks and organizations will continue to have security events. But firms will be graded less on how person got in, and more about what they did once in. Preparing a response saves jobs, saves money and beats prosecutions." MME

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which would establish national notification standards that mandate a notice to consumers within 30 days of a breach.

"That is significant because a lot of companies have been dilly-dallying because they say they are in the middle of an investigation and law enforcement needs time," said Avivah Litan, a vice president at Gartner Research. "Timeliness is really important when there is a breach because the longer you wait the less chance you have of stopping the damage."

ISSUE RESONATES

The president's move is part of a three-day rollout of cyber measures from the White House. His State of the Union address also featured commentary on the recent spate of cyberattacks against retailers, banks and others.

Sony Pictures became the latest high-profile target earlier this winter, when personal data about Sony employees and emails between top executives were stolen and released.

Earlier in January, Morgan Stanley fired an employee it said stole data, including account numbers, for as many as 350,000 wealth management clients and posted some of the information online.

It's possible that these incidents could spur greater attention for these issues, though earlier attacks — like that against Target last winter — failed to translate into legislative wins. It's also not clear that the Republican-controlled Congress will have much appetite for a plan put forward by Obama.

Still, observers noted that the issue is one that resonates well with the public, making it a strategically savvy focus for the president's national speech.

"The issue of cybersecurity is more palpable for everyday Americans than a considerable amount of likely topics in the president's State of the Union address — it's both politically and practically important," said Isaac Boltansky, an analyst at Compass Point Research & Trading.

Obama touted the new cyber proposals, including the 30-day requirement, saying consumers needed to be able to move quickly to head off potential damage to their credit rating.

He also called the current patchwork of state regulations "confusing" and "costly." Many financial professionals agree.

"We've long supported the idea of unifying under a single national standard — that's good for the financial industry," said Jason Oxman, chief executive of the Electronic Transactions Association.

Additionally, the president announced that the administration is moving forward with a revised consumer privacy bill, among other initiatives within the banking industry. "What he is proposing seems very tactically sound because it is something that can actually be acted on," said Julie Conroy, an analyst at Aite Group.

SECURITY STANDARD?

Still, others in the industry were more pessimistic the latest push would have much impact, noting that lawmakers have debated the notification issue for years without any resolution and that notification standards alone won't stop new attacks.

"The immediate question I have is, will the president's legislative proposal also include a data security standard?" said Nathan Taylor, a partner at Morrison & Foerster. "Even given the recent spate of breaches, I haven't heard calls that notification is broken (i.e., that consumers aren't being alerted to breaches) — the concern has been that the underlying security of the data needs to be improved."

Ryan Donovan, a senior vice president at the Credit Union National Association, added that while the effort is a positive one, it's also unclear whether the notification legislation would touch on how the costs of a breach should be shared among financial institutions, merchants and others involved.

"Here we are almost 13 months after the Target breach was disclosed and credit unions have received — as of December — nothing," he said. "Yet it costs credit unions tens of millions of dollars and ultimately that cost is borne by our members. We would like in a data security bill more that speeds up the reimbursement for the costs incurred as a result of merchant negligence."

> **"The immediate question I have is, will the president's legislative proposal also include a data security standard?"**
>
> ***Nathan Taylor, partner at Morrison & Foerster***

Observers added that the White House has so far released very few details on its proposed legislation — beyond the 30-day number — raising questions about what exactly the policy, if enacted, would mean for the financial services industry and others.

"Just having a set number without knowing the conditions around what that really means and what may justify a delay — it's tough to pass judgment," said Jason Kratovil, vice president of government affairs for payments at the Financial Services Roundtable.

Congress debated expanding information-sharing across government and the private sector last year, but legislation never came up for a vote on the Senate floor.

States meanwhile continue to develop their own cyber laws, including a new proposal for tougher data security legislation from New York. Attorney General Eric Schneiderman. MME

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was faced with some crucial decisions to make, from hiring decisions to budget allocations.

"Sometimes we'd get to a point where we would be told, 'Well, we have no further questions,' and we'd have our hallelujah moment," Ervin said. "And then they'd come back with, 'At this time.' "

Given your mentoring background at Morgan, what did you do to motivate your team and provide them with a sense of confidence?

As a brand new financial advisor — drawing on that previous experience at Morgan — you don't know anybody and you have to convince somebody to give you their money over the phone, and they've never met you. That is the most painful, dreaded thing in any new financial advisor's day. And that is what I had to do, day after day, and get kicked in the teeth, day after day. So I broke it down into these tiny baby steps. I'd say, "I'm going to make 15 calls, and then I can get up and take a break. And I'm even going to give myself a little reward — a quarter in the jar, and the second I get four quarters, I'm going to go buy a coffee." I'd play these little games with myself, just to do the awful thing that was cold calling. Eventually that mini-reward system isn't necessary, because you develop that thicker skin, you learn to talk to people and things start going better. It just starts to snowball up rather than melt away.

So that's the big thing with our employees: How can we build in these little behavioral reward systems in the things that are tough. Whether that's calling into S&P even though they don't know how to do it, or getting quotes from some of the major investment banks, and they feel like they don't want to bother them. You tell them, "You know what you did it today, great job. It wasn't that hard."

You're constantly reaffirming, and continuing that cycle of small rewards, maybe making a target and providing compensation if they meet those targets. It's mostly about rewards, not so much about punishments.

Everyone in a leadership role has their own moments of doubt. You ask yourself, "Did we make the right decision, do we really understand the product we're trying to sell?"

So many times we were faced with these situations — there was a lot of hurry up and wait, especially in the regulatory process. You don't know when you are going to get approved. Yet you've got to make these hiring decisions based on whether or not you're going to get approved. You have no knowledge and no wisdom there. We just decided to hire and assume we were going to get approved.

keeps us motivated.

Your hiring decisions must have been very important.

They were incredibly challenging. In hindsight obviously we made a — well, I don't know if it was a mistake, honestly. Because it gave the sales team the opportunity to go out and talk to the market while there was no product, just to test the market and change, test the brand and go through some of these ideas. We'll see whether it turned out to be a bad decision, but if you were standing on the outside you could definitely critique me on that one, which was hiring too early and not adjusting for that.

"You don't know when you are going to get approved. Yet you've got to make these hiring decisions based on whether or not you're going to get approved. You have no knowledge and no wisdom there."

Eric R. Ervin, co-founder and CEO, Reality Shares

Let's take the positive, optimistic approach, but let's keep in mind that these guys are going to get frustrated as we get delayed, because there's nothing for them to sell. And because there's nothing for them to sell, there's no income — there's a salary, but not what they are used to. So how do you motivate them, to tell them to hang in there and reinforce that we're going to be awesome and huge?

It's really just being like a family, where everyone is dedicated to the mission of what we're doing. Not just for the promise that we're going to make a lot of money. Most of us came from the world of investment management. It's that we will finally be able to do this. Clients will be able to invest in just the dividends. Financial advisors are going to be able to tell their clients, hang in there, because you don't have to worry about whether the market is going up or down. Just, do you think Coke is going to raise their dividend or shrink it? We're giving this thing that people want and that's what

I'm pretty good at planning, so we doubled everything. Everything we thought we were going to spend, we doubled it in terms of our budget. We have plenty of capital as a result, because we expected it to take twice as long and cost twice as much. That's fine, but it just stinks to have to use the contingency.

You're in a unique position to talk about how regulation puts barriers to entry for new companies into the market. As a small firm, how did you get through a process that is difficult even for large firms to manage?

It's been three years since we started the firm, and we're just now getting our first product approved. So think about the amount of capital that was spent, the amount of brain damage suffered: "Why won't this end?" And also, the education required. In our case, in hindsight, as challenging as it has been, it was a good experience.

The SEC was very professional and we

were really impressed how they did their homework and cared about the individual investor. It wasn't dealing with a staffer who worked 9 to 5. There were moments, where you would be stewing, "Why isn't this getting off that person's desk? Oh she's on vacation. What do you mean, she's on vacation?" So that was frustrating. But the questions that they asked of us and the reasons they asked those questions, you could tell they were all based on the premise of, "Is my mom going to lose money if she invests with you?" I liked that, and I have a lot of respect for that part of the process. It's just the length of it.

Sometimes we'd get to a point where we would be told, "Well, we have no further questions." And we'd have our hallelujah moment. And then they'd come back with, "At this time." We'd then ask when would they have questions, and the response was, "Maybe we won't." So there was no clarity. And right before deadline, they'd say, "Hey, we have a few questions." We'd wonder why they waited until that moment, but it was because they were handling other issuers, and they only had so much bandwidth. Without that aspect, you might be able to launch in half the time.

You brought up mom, so I'd like to know what you told your family about making the switch from being an established financial advisor with Morgan Stanley to a startup in ETF products.

It's simple when you talk about it as a solution. I had individual clients and I cared a lot about them. They relied on me to do the right thing for them. It was so frustrating to tell them they were losing 30% of their wealth; it wasn't going to change their vacation schedule, but still, it was a lot of capital that would just evaporate, and then come back. My clients hated the market. "It's up one day, it's down the next, I'd rather put my money back into my own business." That was the mentality many of my clients had. I knew if I could bring them this solution, even if I was a financial advisor, they would appreciate it. So the fact that nobody did it, I made up my mind that I would. From that perspective, people understood. As a financial advisor, you're in the trenches, you see the problem.

How comfortable are you being in ETFs now, rather than financial advice?

It's great. As a financial advisor, you're a blend of counselor, helping people and learning how to talk to people and communicate your points effectively. It's in a way like a physician. He still has to convince you to exercise more, to eat better. He can write you prescriptions and help you with little problems, but his biggest problem is, "How do I make you a healthier person?" And that's what the financial advisor does, he wonders how he can persuade his clients to like him enough to continue to work with him, but also how to build a comprehensive financial solution and keep them in that. Now take that skill into the role of a CEO of an ETF company. You still need to persuade your employees to work harder, you still need to persuade prospects to buy your new product, you need to persuade service providers to give you better pricing. Of course, you also need the practical skills to build the product.

And, I have that optimal perspective — I know how many crappy products came through the door that did somehow make it onto a platform. I know they get a rap sometimes, but I have this belief that advisors are very intelligent. They are managing their clients' money and they are the closest to the client in that decision process. They know best what the client needs and doesn't need. It's not a firm's due diligence department. That might be some 27-year-old analyst who really doesn't know how to take care of client assets, but he made up some rules as to what will and what won't make it onto a platform. That was always frustrating as an advisor, our client would want to do something but couldn't, because it hadn't been through "the process." So there were those ambiguities of the bureaucracy at the firm level, and then the wholesaler process as well. In any market there are probably four good wholesalers. There's so much money being spent on wholesalers just going through the motions, they don't understand the investment business, they are just trying to sell a product.

> **"The questions that the SEC asked of us and the reasons they asked those questions, you could tell they were all based on the premise of, 'Is my mom going to lose money if she invests with you?' "**

ETFs have now caught on with investors at large. You must feel good about the timing of this venture.

That was the genesis of this. (Co-founder) Mike Rosen said we have to get into the ETF business, there's such a tremendous opportunity right now. So many fund management companies know they're losing money, the writing is on the wall. I knew I could create something compelling and do it in an ETF. The industry has evolved enough now where this solution can be delivered in an ETF, and they had an idea to get into the ETF business.

I do think that innovation and change is going to keep coming, and the ETF is a good tool for investors. But it's just that, it's a delivery mechanism. I was one of the first users of ETFs in the early 90s among my sphere of advisors. With regards to creation, redemption and much of the mechanical aspects of ETFs, I've learned a lot. Those systems developed with the SPDR, and now it's about how do you use those systems. MME

A Global Perspective on Technology and Growth

EXPERT VIEW

By Debasis Sahu

In the last couple of months, the issues of data management and data protection have dominated technology discussions within the financial industry. Now more than ever, we firmly believe that all asset managers face a challenging and rapidly evolving environment that poses both risk and opportunity in technology as we look toward the end of this decade.

PwC predicts a 6% compound annual growth rate for global AUM by 2020. Although North America and Europe will continue to control a large portion of the assets, significant growth will be generated from developing markets where the asset management sector is yet to mature. Technology will play a key role in bridging the gap between the matured markets and the high growth regions. Together, the technology and operations teams in asset management firms comprise a group that will see tremendous changes over the next five to six years.

NICHE ADVANTAGE

The "globality" theme will put pressure on large firms to expand their technology infrastructure to new products, markets and regions; and demand a nimble architecture to support diverse needs from various regions. It will test the ability of technology and operations organizations to navigate proliferation of multiple systems within the same functional area across several regions, a problem that still plagues many large asset managers that have grown through M&A activities.

Smaller niche players may have an advantage in tapping into new technology capabilities, rather than relying on extending old infrastructure. In order to achieve growth, stability, and powerful execution capabilities, most asset managers will need to take a close look at how technology can be real partner in the business strategy.

For growth, significant focus will be on diversifying the asset classes, offering more alternatives and passive vehicles, and increasing access to retirement assets. For consistent profitability, a healthy combination of sticky assets, effective pricing, and consistent asset inflows will need to be maintained. Regulatory demands and the subsequent need for a robust controls environment and accurate reporting will put tremendous pressure on the technology infrastructure.

Given the large investment and longer time horizon of payback, technology initiatives will have different starting points for different firms depending on their growth strategy, profitability, and application / infrastructure maturity.

On one end of the spectrum, some asset managers continue to run their business on under invested technology platforms where most of the focus is on upgrades, or minor adjustment where they are always two steps behind achieving optimal capabilities. On the other end, some managers have taken the bold step to relinquish control over building and maintaining non-core functions and chosen the outsourcing route to rely on service provider's capabilities.

All firms within that spectrum will be challenged to take some bold decisions as to which end they need to move, especially when they are required to support multiple asset classes, complex and evolving financial instruments, complex reporting requirements, and connectivity across multiple geographic regions. Service providers will have to step up their investments to be worthy long term business partners where outsourcing relationships will take on a new meaning.

MISSION CRITICAL

Data management is, and will continue to be, the life blood of a successful asset management business. The business case for adequate investment in data management will be more apparent as asset managers will be challenged to produce accurate client, regulatory, and operations control reports.

Having a robust data management environment — clean data, good governance, controls, clear data dictionary and traceability — will be the foundation for more ambitious initiatives around big data and digital intelligence.

We anticipate innovative technology offerings that bridge the gap between product manufacturing and consumption whether it is about mining data from social media, CRM systems, and distribution network; or partnership between technology firms and financial services players to monetize available data.

By 2020, technology will have become mission critical to drive everything from customer engagement, to data mining for information on clients and potential clients, to operational efficiency, and of course regulatory and tax reporting. In addition, the demand for a seamless, integrated and tailored solution for each customer will drive technology for asset managers in the future.

Cybersecurity is the new hot topic and it has touched a nerve at the C-suite level given its relevance and impact.

At the recent Technology and Strategy for Asset Management Boston Congress and Expo, some shared how they sifted through volumes of data to design models that help them make better trading decisions and managing operational risk. Some of these initiatives were more than 10 years in the making. Others averred that despite using the best of the technologies, they often can't harness the full potential that the systems offer due to lack of training, skill set, or incentives.

Firms that can successfully deploy and use technology will have an operational edge over those that cannot. MME

Debasis Sahu is an asset management advisory partner with PwC.

2014 ETF Closures, September to December

Name	Ticker	Sponsor	Close Date
iShares Target Date 2010 ETF	TZD	BlackRock (iShares)	10/14/2014
iShares Target Date 2015 ETF	TZE	BlackRock (iShares)	10/14/2014
iShares Target Date 2020 ETF	TZG	BlackRock (iShares)	10/14/2014
iShares Target Date 2025 ETF	TZI	BlackRock (iShares)	10/14/2014
iShares Target Date 2040 ETF	TZV	BlackRock (iShares)	10/14/2014
iShares Target Date 2030 ETF	TZL	BlackRock (iShares)	10/14/2014
iShares Target Date 2035 ETF	TZO	BlackRock (iShares)	10/14/2014
iShares Target Date 2045 ETF	TZW	BlackRock (iShares)	10/14/2014
iShares Target Date 2050 ETF	TZY	BlackRock (iShares)	10/14/2014
iShares Industrial/Office Real Estate Capped ETF	FNIO	BlackRock (iShares)	10/14/2014
iShares NYSE 100 ETF	NY	BlackRock (iShares)	10/14/2014
iShares NYSE Composite ETF	NYC	BlackRock (iShares)	10/14/2014
iShares Retail Real Estate Capped ETF	RTL	BlackRock (iShares)	10/14/2014
iShares Target Date Retirement Income ETF	TGR	BlackRock (iShares)	10/14/2014
iShares MSCI Far East Financials ETF	FEFN	BlackRock (iShares)	10/14/2014
iShares MSCI Emerging Markets Financials ETF	EMFN	BlackRock (iShares)	10/14/2014
iShares MSCI Emerging Markets Materials ETF	EMMT	BlackRock (iShares)	10/14/2014
iShares Global Nuclear Energy ETF	NUCL	BlackRock (iShares)	10/14/2014
Global X Canada Preferred ETF	CNPF	Global X	10/16/2014
Global X Pure Gold Miners ETF	GGGG	Global X	10/16/2014
Barclays ETN+long B Leveraged ETN Linked to S&P 500	BXUB	Barclays	11/20/2014
Barclays ETN+long C Leveraged ETN Linked to S&P 500	BXUC	Barclays	11/20/2014
VelocityShares Emerging Asia DR ETF	ASDR	Velocity Shares	11/21/2014
VelocityShares Russia Select DR ETF	RUDR	Velocity Shares	11/21/2014
VelocityShares Emerging Markets DR ETF	EMDR	Velocity Shares	11/21/2014
Market Vectors Colombia	COLX	Van Eck Associates Corporation	12/12/2014
Market Vectors Latin America Small-Cap Index ETF	LATM	Van Eck Associates Corporation	12/12/2014
Market Vectors Germany Small-Cap ETF	GERJ	Van Eck Associates Corporation	12/12/2014
Market Vectors Renminbi Bond ETF	CHLC	Van Eck Associates Corporation	12/12/2014
Market Vectors Bank and Brokerage ETF	RKH	Van Eck Associates Corporation	12/12/2014
Teucrium Crude Oil Fund	CRUD	Teucrium	12/18/2014
Teucrium Natural Gas Fund	NAGS	Teucrium	12/18/2014
EGShares EM Dividend High Income ETF	EMHD	Emerging Global Shares	12/24/2014
EGShares Emerging Markets Dividend Growth ETF	EMDG	Emerging Global Shares	12/24/2014
Direxion Daily Gold Bear 3x Shares	BARS	Direxion Shares	12/26/2014

Source: First Bridge Data