SMA Shop Snags Partners in ETF Strategist Push

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An asset manager long focused on separately managed accounts built with stocks and bonds is elbowing its way into the newer and faster-growing segment of SMA products crafted with exchange-traded funds. American Independence Financial Services has announced two deals in recent weeks to tap established "ETF strategist" firms in subadvisor-style partnerships in order to distribute their products under its own brand.

The arrangements the manager has made with Cougar Global Investments and JAForlines Global stem from the same impetus – helping these firms establish sales relationships in the advisory marketplace. The firm found both partnerships through introductions from BlackRock, which works closely with asset managers that use ETFs through its iShares business, says John Pileggi, managing partner of American Independence.

"Getting dealer agreements and [brokerage] distribution arrangements with the wirehouses and regionals and independents – we have that," he says. "You can't manufacture a capability like that overnight."

Pileggi says his firm will carry the banner for the strategies using its existing relationships. "We would like to be a 'go-to' provider of premier ETF strategists under our brand," he says.

American Independence aims to add more ETF strategist options, whether through subadvisory deals, lift-outs, or acquisitions. "I wouldn't leave you with the impression we'll do 50 of these, but there's room for more," Pileggi says. "There are differentiated, distinct skills sets out there, an abundance of riches, and we'll work with a certain number where we can really add value."

JAForlines, based in Locust Valley, N.Y., runs about $378 million in assets, according to its federal Form ADV, mostly through direct distribution to independent advisors and institutions, while Toronto-based Cougar runs about $1.8 billion, according to Morningstar. American Independence, which itself has about $1 billion in assets, is distributing four varieties of Cougar's "macroeconomic assessment of risk" strategy and a tactical risk-managed global asset allocation product from JAForlines.

The new relationships could make American Independence a brand to reckon with in the ETF strategist rankings Morningstar tracks each quarter. Its most recent tally of second-quarter data found the sector overall has grown to $80 billion across 645 strategies from 145 firms. The market grew assets by 18% from the start of the year and 46% year over year.

The market's leaders remain Charles Schwab-owned Windhaven Investment Management with $17.4 billion in assets; F-Squared Investments with $13.5 billion; and Good Harbor Financial at $5.6 billion. Cougar makes the top 10 with its $1.7 billion in ETF-based SMA assets.

Only a few of the top 10 ETF strategist firms have built sales infrastructure to connect to SMA advisory platforms, and fewer still have gotten products into the wirehouses, which just this year have focused due diligence efforts on the growing segment.

One of the leaders in establishing brokerage platform relationships is RiverFront Investment Group, sixth on the Morningstar list with $3.7 billion in assets, which launched several years ago by splitting away from Wachovia Securities. RiverFront recently added its ETF-based moderate growth and income strategy on Morgan Stanley Wealth Management's unified managed account programs.

Another ETF strategist building up brokerage market distribution is Stadion Money Management, 10th on Morningstar's ranking with $1.5 billion in assets. Stadion recently hired three sales veterans – Patrick Hynes, Chris Hawn, and Tim Murphy – from established shops such as Hartford Investment Management Co. and John Hancock Investments. Hynes covers North Carolina and South Carolina, while Hawn oversees eastern Pennsylvania and New Jersey, and Murphy works the Midwest in Illinois, Wisconsin, Missouri, Nebraska, Kansas, and Iowa.

American Independence actually tried to bump up its ETF strategist presence last year by launching its own all-ETF Dynamic Conservative Plus product, adding to its traditional lineup that has municipal bond and large-cap value strategies. Pileggi says the firm is winding down that new ETF-based product, however, finding it difficult to break into the market without a long track record.

He says the firm doesn't plan to launch its own ETF-based products in the future, but would consider liftouts or acquisitions. Its preference, however, is the subadvisory route.

The ETF strategist market may indeed see more merger and acquisition activity in the coming years as traditional SMA firms buy their way into the upstart segment, says **Daniel Seivert, CEO of Echelon Partners**, an investment bank and strategic consultant. "The last six years have been a boom time for these firms," he says. "We're probably at an inflection point where they're moving on from Chapter 1 to Chapter 2."

To date, most investment has been from private equity and venture capital firms, but asset managers are likely to be in the next wave, he says. Larger ETF strategists seeking to build distribution or add specialties may fuel some acquisition activity, but the main driver is likely to be traditional managers that don't want to enter the segment by starting from scratch, **Seivert** says.

"You can't get a five-year track record in two years," he says.