



IVY EXPANDS MODEL DELIVERY LINE-UP, LOOKS TOWARD GROWTH



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Q: OVER THE PAST TWO YEARS, IVY HAS LAUNCHED A NUMBER OF MODEL SMA STRATEGIES. WHY IS THIS MARKET ATTRACTIVE AND HOW DO YOU EXPECT IT TO EVOLVE IN THE FUTURE?

As long-term, fundamental active managers, we're constantly evaluating ways to deliver our investment strategies within the ultimate context of client success. According to Fuse Research Network, demand from distribution partners is driving the majority of asset managers into the model SMA business. Regarding vehicle structure, investor preferences continue to evolve but the job of the active manager is largely the same – deliver strong long-term returns with expected and acceptable levels of risk at a competitive price. Our goal, from a product perspective, is to make our investment strategies available in the vehicle best suited to meet a client's goals.

Model SMA traditionally served investors ranging from the upper end of the mass affluent to high and ultra-high net worth. Platform sponsors allow varying degrees of customization, potentially allowing clients to better express their individual values and impose custom constraints, and greater adoption of Unified Managed Account platforms simplifies the process of including these vehicles in client portfolios.

Liquidity and ability to execute the transactions delivered by asset managers continue to be primary considerations. Fractional share technology could help broaden demand to clients who are more accustomed to investing in pooled or commingled vehicles like mutual funds and ETFs. SMA structures that historically made sense for higher net worth investors could become more viable for a wider variety of account sizes. A number of sponsors have expressed interest in building or expanding fractional share capabilities. To illustrate how that could potentially benefit certain clients, consider a company like Amazon which is currently trading at well over \$3,000 per share.¹ Assume an investor with \$100,000 to invest would like to allocate 5% to Amazon, or \$5,000. Historically, they'd be forced to choose between owning one share or two. Fractional shares could enable more precise asset allocation and risk management within the account, limiting the dispersion of returns experienced by clients.

Q: HOW DID YOU DETERMINE WHICH STRATEGIES TO INITIALLY OFFER, AND WHERE DO YOU EXPECT TO TURN NEXT?

We have offered model delivery since 2014 and, in 2018, formalized our program by introducing model SMA for seven strategies – Concentrated Large Cap Growth, Concentrated Large Cap Value, Mid Cap Growth, Mid Cap Income Opportunities, Small Cap Growth, Science and Technology, and Energy. Each of these strategies had mutual fund counterparts managed in a similar way, except the concentrated large cap strategies, and were a natural extension

of core equity investment capabilities covering two specialties – domestic large cap and domestic mid cap. Earlier this year, we added two additional strategies to our model SMA lineup – Large Cap Growth and International Core Equity ADR. The International Core Equity ADR model allowed us to expand into a third specialty – global/international equity investing. Not all foreign investments have ADRs or U.S. listed securities, so while it is not identical to the mutual fund, the model is managed by the same team executing a similar investment process. Large cap growth is managed in similar fashion as the mutual fund counterpart and has a strong heritage that dates back to the mid-1990s.

Our focus initially has been on strategies with successful long-term track records, consistent execution of investment processes, and tenured management teams. As we look forward, we will continue to focus on those products where we feel we have credibility and differentiation in the marketplace. We believe meaningful opportunities exist to meet investor demand with our existing offerings as well as other global/international strategies, capacity-constrained styles like small and mid-cap, and active, differentiated large cap.

Q: WHAT HAS THE INITIAL RESPONSE BEEN FROM YOUR DISTRIBUTION PARTNERS AND THE INVESTMENT COMMUNITY?

Our model SMAs have been embraced by a variety of platform sponsors reaching multiple distribution

channels. Two model SMA strategies – Mid Cap Growth and International Core Equity ADR – were added to recommended lists earlier this year and, a little over a year ago, our Science and Technology strategy was added to a platform serving RIA, broker/dealer and bank trust clients. The launch of our Large Cap Growth model SMA strategy was in direct response to demand from a bank trust client. The pipeline for future opportunities continues to grow. We've been pleased with some of the early successes, and as more asset managers pursue model SMA, clients tell us our ability to clearly articulate expectations and points of differentiation will be critical for growth.

Q: WHERE WILL GROWTH COME FROM IN 2021 AND BEYOND FOR IVY?

As we think about future model SMA distribution efforts, our goal is to deliver investment strategies in a way that helps clients be successful. From the perspective of distribution partners, clients from RIAs, bank trust companies, and traditional broker/dealers are all showing more interest in our model SMA capabilities. Some research teams prefer to see a model-specific track record while others are happy to consider a strategy based on the long-term composite. Most of our model SMAs reached their two-year anniversary in August 2020, so we expect the pipeline to grow as we approach the three-year threshold, especially at some traditional broker/dealer partner firms where we have strong long-term relationships.

¹As of November 19, 2020.

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