

Fi360 Annual Conference San Diego, CA

April 25-27

11:00 am-12:00 pm PT

Thursday, April 26



Presented by:

Mid Atlantic Trust Company ("MATC")

Timothy Friday, President MATC

Group CEO, Mid Atlantic Capital Group, Inc. ("MACG")

Securities offered through Mid Atlantic Capital Corporation, member FINRA/SIPC. Advisory services offered through Mid Atlantic Financial Management, Inc., a registered investment adviser. Trust services offered through Mid Atlantic Trust Company, a non depository trust company.



SMA Strategies

SMA Strategies are no longer just for the executive of a plan. Today, more and more plan sponsors and advisers are taking advantage of using SMAs as Default Investment Alternatives (“DIA”) inside retirement plans making them available to all participants. Historically, hurdles in performance reporting, trading costs, and implementation kept plans from taking advantage of managed accounts. With the technical advances now available, the industry is seeing a large up-tick in adoption rates. SMAs are poised to make a dent into the DC world that was once cornered by the mutual fund industry.



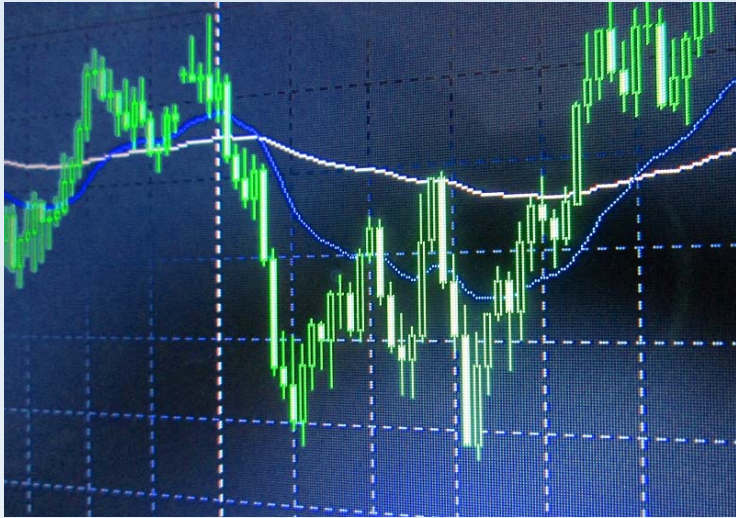
“Your retirement plan of becoming indigent, going to a state run home and dying while needing a bath is right on schedule.”

What is an SMA?

Definition: A separately managed account is a portfolio of individual securities managed on a person's behalf by a professional asset management firm. That person owns the individual securities, which can provide the ownership, control, and transparency they seek.



History



SMA's have been around since the 1970s and since 2008, they have seen increased and renewed interest which has brought active management and customization to a broader array of investors.

According to data from Cerulli Associates, SMA's accounted for just over a trillion dollars in total investment advisory assets in the first quarter of 2017. That translates into a 16% increase from the previous two years and 84% since 2010.

Why SMAs

Yesterday, investors huddled around mutual funds because they were seeking diversification without the headache of buying and selling individual securities.

Today, one of the largest reason SMAs have gained popularity is because investors want the ability to fine tune the portfolio beyond the published investment objective. They also want the ability to actually own the underlying securities as opposed to a pro-rata share. Investors are also seeking transparency coupled with low fees.



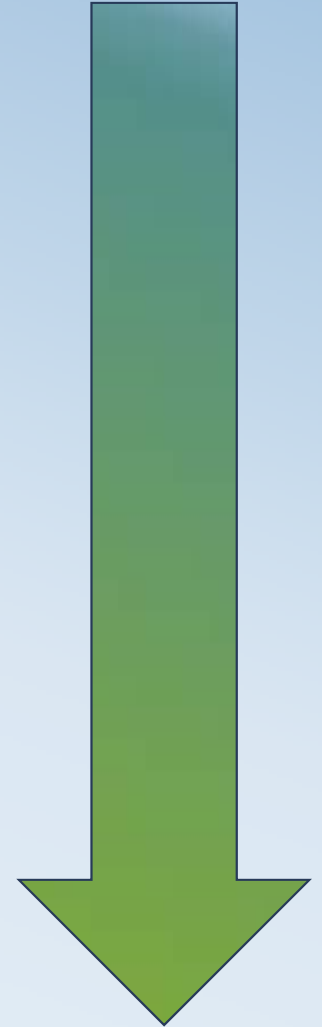
The Hurdles



Historically, if you were an advisor and you wanted to create a unique strategy or use the investment intelligence of a third party manager within a 401(k) application, you could in fact create a “quasi” model strategy using the core line-up of investments that was being offered to the participants as a whole.

The downfall to this was:

- You were limited to a small universe of mutual funds due to Recordkeeping limitations
 - Mutual Funds vs. ETFs (fractional vs whole shares)
 - Only one instance of a mutual fund per plan lineup
- Fund swaps could take up to 30 days due to notification provisions of ERISA
- You typically did not have access to low cost ETFs as a building block, and if you did, trade costs would take a big bite out of performance
- Performance at the composite strategy or SMA level was near impossible
- Auto rebalancing and swapping out securities was not instantaneous and could take days (often done by e-mail or fax by advisor/manager)
- Performance comparison of SMA strategies manual at best
- You would manage one participant's assets at a time through a linked brokerage account



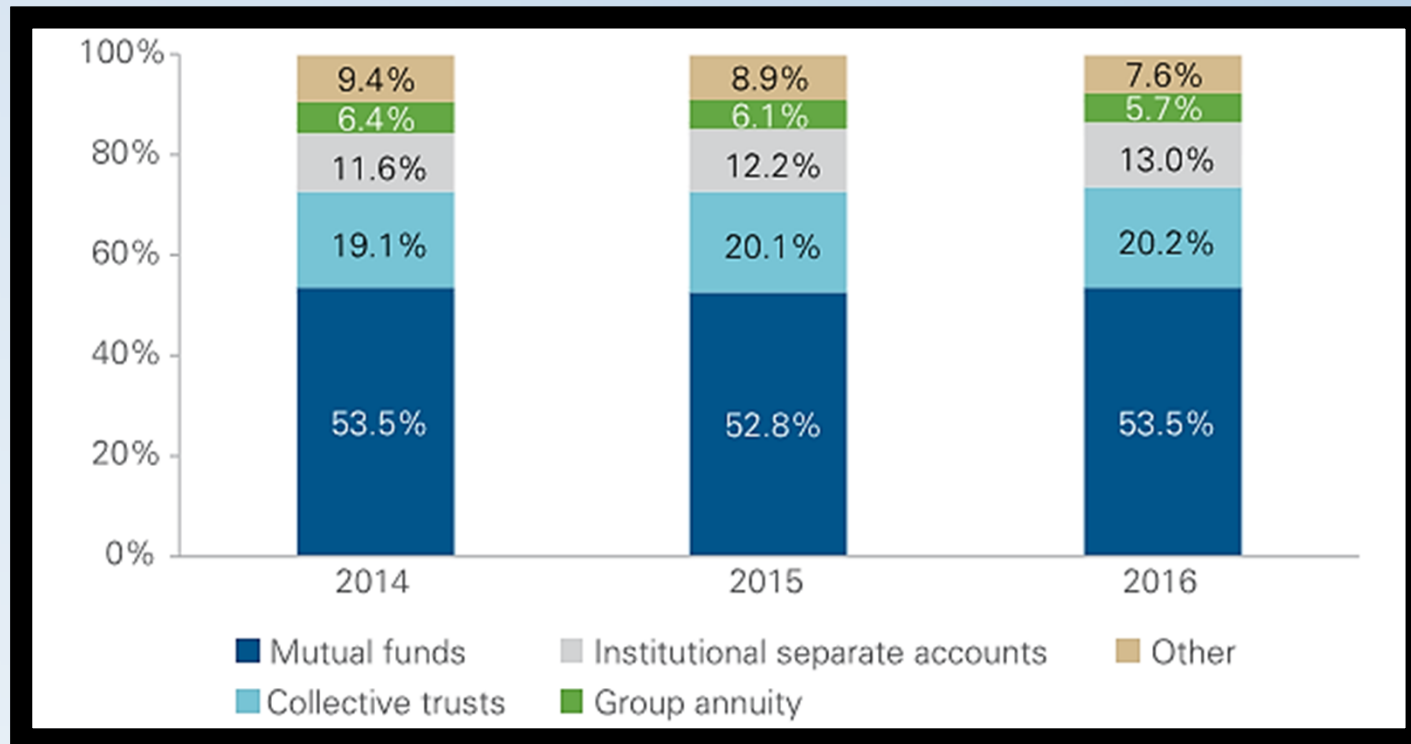
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Today

Due to advancements primarily in the custodial systems and not the Recordkeeping systems

SMAs are now commonplace although adoption in this particular space is still nascent.

401(k) Assets by Investment Vehicle, 2014-2016



According to Cerulli Associates, The Cerulli Report—U.S. Contribution Distribution 2017

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Today we can:

Advisors/
Managers now
using a
combination of
mutual funds
and ETFs

SMA's can sit
alongside
core mutual
fund lineup
nicely. You
can now have
the same
instance of a
fund sit in the
core lineup as
well as in the
SMA strategy

Participants
can move from
core lineup to
SMA whenever
they like (no
limitation)
* Unitization
* Sells and
buys can be
done in
fractional
shares

Payroll
contributions
for
participants
can
automatically
be directed
into SMA
strategy

Advisor/
managers can
set strategy at
global level
and apply to
multiple plans
across multiple
Recordkeepers

Liquidity,
rebalance,
tolerances, can
be set to
automatically
adjust

Investment
flows can be
easily
monitored by
a dashboard

Here is what we see in our small world:

323

Total number of third party managers on the platform

2,623

Total number of models/strategies on the platform

11.5%

Percentage of models/strategies that categorize the "Risk Level" as "Target Date"

88.5%

Percentage of models/strategies that categorize the "Risk Level" as something other than target date

What to look for if wanting to implement an SMA strategy in a 401(k) Lineup



Do you want to use your own strategy or that of your firm's, or an outside manager?

- 3(38) consideration
- Manager of Managers
- Custom Target Dates
- Custom Risk Based

Does your custodian support SMAs or does the Recordkeeper's?

- Unitization

Do you want to offer a core line-up for the do-it-yourselfer alongside the SMA?

- Side-by-side
- Multiple instances of the same security

What to look for if wanting to implement an SMA strategy in a 401(k) Lineup



ASK
YOURSELF

How will performance be monitored?

- Plan level
- Composite level
- Data feeds to recordkeeping system

Who is going to create the proper fee disclosures for the SMA strategy?

- Default Investment Alternative (“DIA”) Definition: An investment made available to participants as an investment choice under the plan
- 404a-5 Participant Disclosure; initially and annually

404a-5 Participant Disclosure includes:

Name of Custom Fund and type or category of investment (example: Target Date)	Performance data for 1,5,10 year periods of for the life of the Custom Fund if shorter	Name and returns of an appropriate broad-based securities market index over 1,5,and 10 year periods	Amount and description of each shareholder-type fee (example: commissions , sales loads, sale charges, redemption fees, etc.), which are not part of the total annual operating expenses of the Custom Fund	A description of any restriction or limitation on the purchase, transfer or withdrawal	Total annual operating expenses expressed as a percentage (Common Fees)	Total annual operating expenses of the investment for a one-year period expressed as a dollar amount for a \$1000 investment	Also, remember, the 404a-5 Regulation also states upon request, the participant must also be provided with copies of prospectuses or similar documents related to the custom SMA strategy.
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Sample Fact Sheet #1



Growth & Income

Data Updated as of 3/31/2018

Ladenburg Thalmann

New York, NY

Contact:	Jaime Desmond	e-mail:	pmckay@ladenburg.com
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Ladenburg Thalmann Asset Management (LTAM), offers a state-of-the-art Asset Management platform focused on providing you with personal and professional investment solutions. The Ladenburg Asset Management Program (LAMP) provides you with an opportunity to receive a complete and diversified asset allocation, in a structured environment, utilizing high quality mutual funds and exchange traded funds (ETFs).

LAMP addresses your financial needs over both the long and short term. A variety of factors are taken into consideration when constructing your portfolio including, your time horizon and risk tolerance as well as your overall financial goals and prevailing market conditions.

Investment Philosophy

Ladenburg Thalmann Asset Management Inc. believes that planning for financial success includes applying core investment principles — portfolio diversification, risk management and disciplined long-term investing.

Our team takes a disciplined approach to investing, using a rigorous research process to find the highest quality investments to meet clients' needs. Our managers use sophisticated diversification and asset allocation strategies to help clients plan for long-term investment success.

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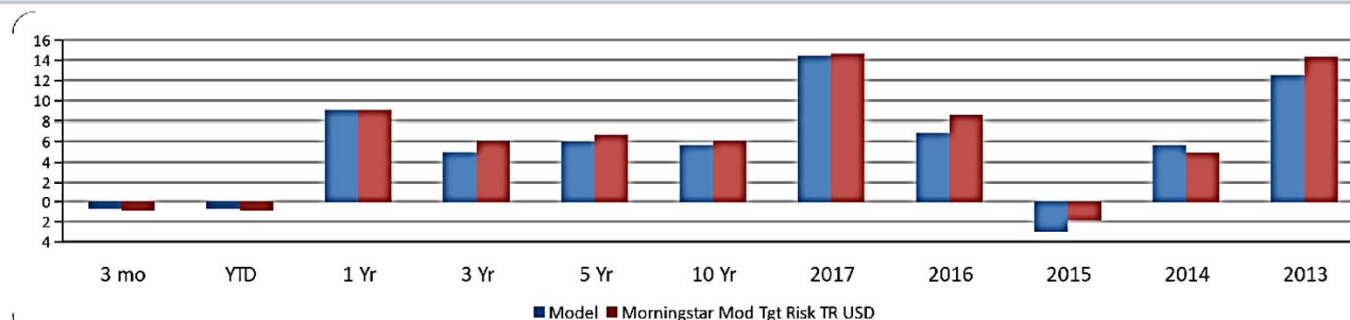
Sample Fact Sheet #2



Growth & Income

Data Updated as of 3/31/2018

Performance Overview



	Trailing Returns		Trailing Returns (Annualized)					Annual Returns				
	3 Mo.	YTD	1 Yr.	3 Yr.	5 Yr.	10 Yr.	Since Incep	2017	2016	2015	2014	2013
Model	-0.68%	-0.68%	9.06%	4.97%	6.02%	5.63%	6.31%	14.40%	6.91%	-2.96%	5.65%	12.55%
Benchmark 1	-0.87%	-0.87%	9.09%	6.13%	6.69%	6.12%		14.66%	8.57%	-1.79%	4.89%	14.31%

Up Market Capture Ratio¹

Down Market Capture Ratio¹

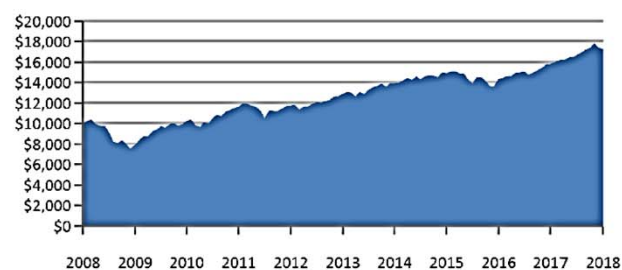
Batting Average¹

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Sample Fact Sheet #3

*May Lose Value * Not Bank Guaranteed*

Hypothetical Growth of \$10,000 Initial Investment

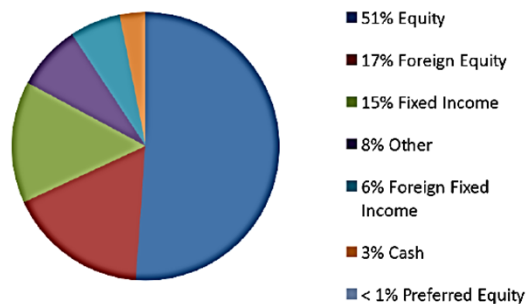


Risk Overview

	3 Year	5 Year	10 Year
Standard Deviation	6.65%	6.33%	9.19%
Sharpe Ratio	0.68	0.90	0.61
Sortino Ratio	1.15	1.56	0.88
Information Ratio ²	(0.79)	(0.47)	(0.27)
Alpha (Annualized) ²	(1.28%)	(0.66%)	(0.02%)
Beta ²	1.03	1.01	0.92
R-Squared ²	95.64	95.27	96.98
Tracking Error ²	1.45%	1.39%	1.79%

²Calculations are based on model compared to Morningstar Mod Tgt Risk TR USD

Asset Allocation



Top 10 Holdings

iShares Russell 1000 Growth ETF
iShares Russell 1000 Value ETF
SPDR® DoubleLine Total Return Tactical ETF
Fidelity® Total Bond ETF
JPMorgan Diversified Return International Equity ETF
iShares Russell Mid-Cap Growth ETF
FlexShares Morningstar Emerging Markets Factor Tilt Index Fund
iShares Msci Eafe Small-Cap Etf
iShares Russell Mid-Cap Value ETF

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ASK YOURSELF

What are the trading costs going to be?

- Per trade
- Wrap fee including trading

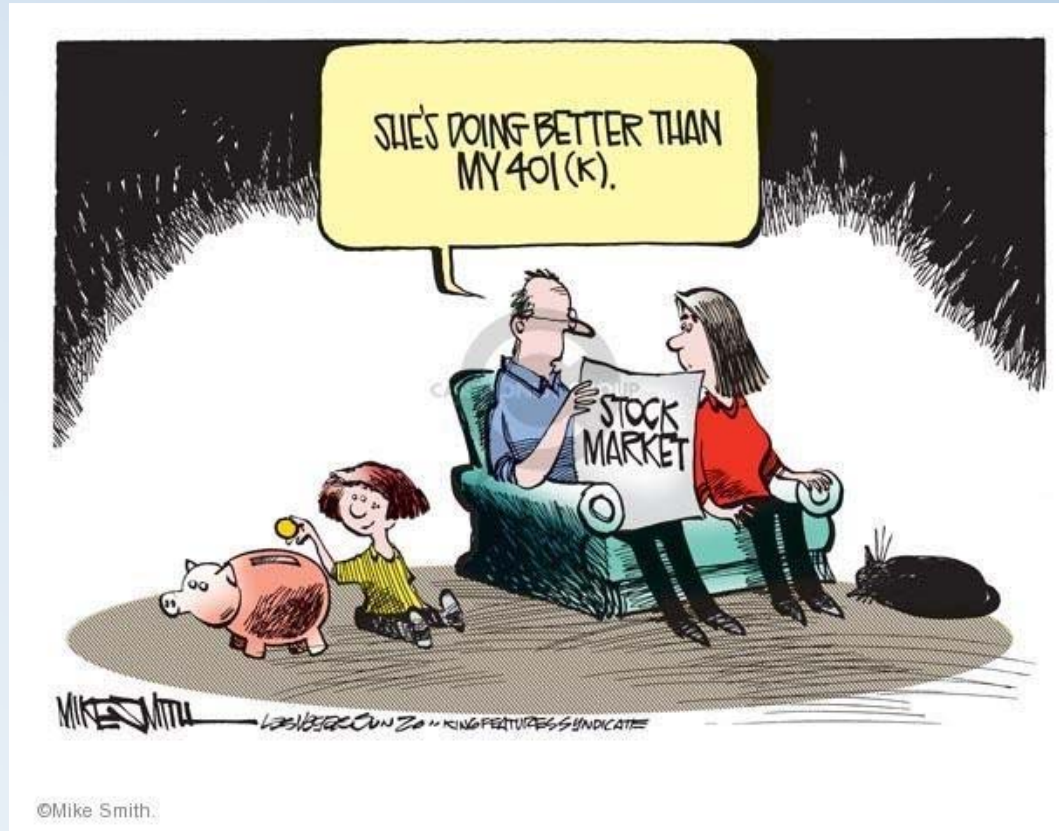
How do I scale the use of these SMA strategies?

- Look to the custodian who is connected to multiple Recordkeepers
- Avoid “one-offs”

Take a global approach

- Make sure you have the ability to create exclusions at the global level as opposed to having to create a unique model for each client
- Use rebalancing and tolerance tools
- Make sure data feeds are available for simplified plan reporting

Why we may need SMA strategies in 401(k)s



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According to “How America Saves 2017” as published by Vanguard

Vanguard recordkeeping statistics

*How
America
Saves 2017*
Reference

	2012	2013	2014	2015	2016
Number of participant accounts (millions)	3.4	3.4	3.6	3.9	4.4
Number of plans (thousands)	2.0	1.9	1.9	1.9	1.9
Median participant age	46	46	46	46	45
Median participant tenure	8	8	7	7	6
Percentage male	59%	59%	59%	59%	58%
Median eligible employee income (thousands)	\$61	\$63	\$63	\$66	\$52
Median participant income (thousands)	\$67	\$70	\$70	\$73	\$65
Median nonparticipant income (thousands)	\$46	\$45	\$45	\$44	\$33

- At end of 2016, over half of Vanguard participants were solely invested in an automatic investment program compared to just 17% at the end of 2007
- 46% were invested in a single target-date fund; 3% in other balanced fund; and 4% used a managed account program
- **THESE DIVERSIFIED, PROFESSIONALLY MANAGED INVESTMENT PORTFOLIOS DRAMATICALLY IMPROVE PORTFOLIO DIVERSIFICATION COMPARED WITH PARTICIPANTS MAKING CHOICES ON THEIR OWN**
- Due to the growing use of the target-date option, Vanguard anticipates that 3/4s of all participants will be solely invested in a professionally managed option by 2021. These professionally managed investments signal a shift in responsibility from investment decision-making away from the participant and toward employer selected investment and advice programs

The case for wanting to offer SMA strategies inside a 401(k)

Vanguard defined contribution plans

Participants with termination dates in 2016

	20s	30s	40s	50s	60s	70s	All ages
Percentage of participants choosing							
Remain in plan	51%	52%	50%	51%	46%	24%	50%
Rollover	13	15	17	23	34	32	19
Installment payments	0	0	0	0	1	18	0
Participants preserving assets	64%	67%	67%	74%	81%	74%	69%
Percentage of assets available for distribution							
Cash lump sum	36%	32%	32%	24%	18%	24%	30%
Rollover and cash	0	1	1	2	1	2	1
Percentage of assets available for distribution							
Remain in plan	66%	67%	64%	62%	51%	34%	59%
Rollover	19	22	26	32	46	59	35
Installment payments	0	0	0	0	0	1	0
Assets preserved for retirement	85%	89%	90%	94%	97%	94%	94%
Percentage of assets available for distribution							
Cash lump sum	14%	10%	8%	4%	2%	4%	5%
Rollover and cash	1	1	2	2	1	2	1

Source: Vanguard, 2017.

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Thank you for joining us today!

For further information, please contact
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