



BNY MELLON

The

Separately Managed

Account Opportunity

for ADR Issuers

“Lazard Asset Management invests several billions of dollars on behalf of its clients in global equity portfolios made up exclusively of ADRs. The firm invests in DRs for a number of reasons; specifically they are a very efficient way for retail investors to have an SMA.”



— James Donald
 Head of Emerging Markets
 Lazard Asset Management
 \$211.5B Total AUM²
 \$181.4B Equity AUM²
 \$20.3B DR AUM²

Executive Summary

While flows into Exchange-Traded Funds (ETFs) and mutual funds tend to get headlines, an area demonstrating consistent growth is the Managed Account Industry. This industry now represents almost \$2 trillion in assets under management (AUM) in the United States, a 280% increase over the past 10 years.¹

The structure of Separately Managed Accounts (SMAs) allows American Depositary Receipts (ADRs) to play a key role for SMA investors seeking global diversification. Consequently, the increase in popularity of SMAs represents a growing opportunity for issuers with ADR programs.

For over 15 years, BNY Mellon Depositary Receipts has raised awareness and understanding of the ADR product through ongoing communication and support of SMA managers as these investment managers have developed, launched and administered their managed account portfolio offerings. Through our efforts to support and inform the SMA community, we are able to support our DR issuer clients with insights into how SMAs utilize ADRs, who is managing these products, and the opportunities SMAs can present for additional diversification of issuers' U.S. shareholders.

Access for ADR issuers to an expanding segment of U.S. investment

Separately Managed Accounts

An SMA is a portfolio of securities owned directly by an investor and managed according to a specific discipline and/or style by a professional investment manager. An SMA can offer investors access to investment managers who may otherwise only manage assets for institutional clients. The SMA account owner has the flexibility to customize a professionally managed portfolio by excluding certain securities or industries or by employing tax-advantaged strategies.

Like mutual funds, for example, SMAs offer professional portfolio management, but they also provide a number of features distinct from mutual funds, such as:

Portfolio Customization: SMAs are more flexible than mutual funds, with stock selection parameters customizable for each account. For example, it is possible to exclude certain securities or sectors due to individual, social, political or environmental concerns.

Tax Trading: The account owner's financial advisor can help manage the portfolio to help reduce tax liabilities. Account owners pay taxes only on the capital gains that are realized. In contrast, mutual funds must distribute at least 98% of capital gains earned by the fund before the end of each year to avoid excise taxes. These distributions can be taxable even for the mutual fund shareholder who does not sell shares.

Transparent and Simplified Costs: While mutual fund charges for different services are presented as a single expense ratio and may also be subject to sales charges and/or distribution and servicing fees, SMAs typically have one single investment advisor fee or "wrap fee."³

The Evolution of Managed Accounts

In 1975, Jim Lockwood developed the first wrap account while working for brokerage firm E.F. Hutton, launching the managed investment segment that has become an important feature of the investment landscape today. Founded in 1996, BNY Mellon's affiliate Lockwood Advisors, Inc.,⁴ designed its separate accounts platform to meet the growing needs of independent financial advisors and their investors. By 1999, Lockwood became the number one provider of separate account services to independent financial advisors, according to the research firm Cerulli. In 2002, the Bank of New York acquired Lockwood, which helped Lockwood offer a wider array of products and resources to independent financial advisors. Today Lockwood currently supports approximately 330 asset managers representing more than 1,600 investment strategies through various Lockwood and firm-sponsored managed account programs.

When managed accounts were introduced in 1997, account minimums were typically \$5 million. Since then, in part due to the improved cost efficiency of consolidating smaller accounts, the typical minimum initial investment has fallen to \$100,000 – \$250,000. This has attracted a far wider client base.⁵

“When Jim Lockwood came up with the concept of wrap accounts, he saw a way to give smaller investors access to the highest level of institutional investment management strategies. Lockwood built on his ideas to become one of the pioneering platforms for managed accounts.”

— Joel Hempel
Director and Chief Operating Officer
Lockwood

SMA's were developed to meet a need for
individualized money management
for financial advisors and their clients

“Newton has made its International and Global Equity capabilities available to the US market in SMA format since 2006. The ability to tailor an individual portfolio to a client’s needs, for example by excluding a stock or sector, as well as the tax flexibility, make SMAs an attractive proposition. Furthermore, access to individual stocks through the wrap structure for a relatively low minimum investment has, as we had anticipated, proven popular with US domestic investors.

The ADR market has been, and will continue to be, critical in opening up the world of stocks listed outside the US to this retail and ‘masstige’ investment base without the necessity for local-currency custodial arrangements.”

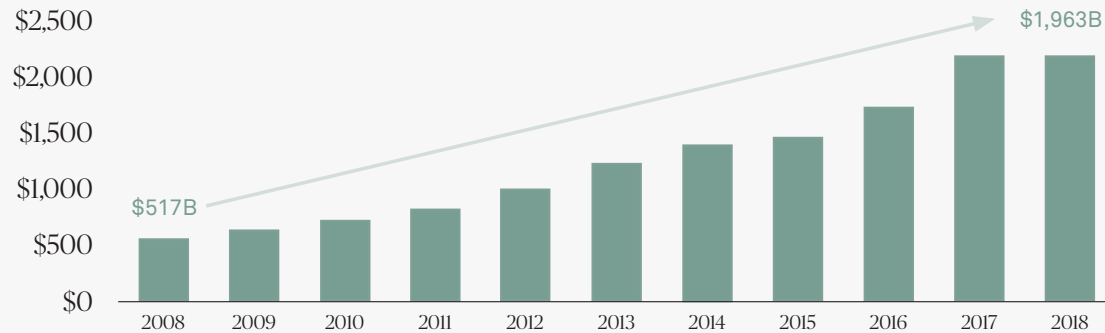


— Paul Markham
 Lead Portfolio Manager,
 International Equities
 Newton Investment Management
 \$61.7B Total AUM⁸
 \$38.1B Equity AUM⁹
 \$1.3B DR AUM⁹

Investment Advisory Solutions⁶ assets reached \$6.1 trillion AUM at the end of 2018, a 371% increase since 2008 according to the Money Management Institute (MMI), an organization for global financial services companies that provide financial advice and professionally managed investment advisory solutions to individual and institutional investors.⁷ The Managed Account segment of Investment Advisory Solutions is now almost \$2 trillion of this industry, growing 280% since 2008.¹ The appeal of Managed Accounts to advisors and their investor clients is clearly demonstrated by the growth of assets illustrated here.

U.S. asset managers have taken up the SMA structure to diversify their product offerings and asset managers headquartered outside the U.S. are increasingly offering SMAs to investors.

Managed Account AUM¹ (Billions)



280% increase 
 since 2008

Managed Account Providers

Managed account products are made available to investors on the investment offering platforms of wealth management and investment advisory firms. The firms with these platforms are termed Sponsor Firms. The products on the platforms are therefore available to the Sponsor Firms' advisors and their advisory networks, who in turn can use the products with their clients.

TOP 10 SPONSOR FIRMS OFFERING INVESTMENT ADVISORY SOLUTIONS¹

As of December 31, 2018

Sponsor Firm	Investment Advisory Solutions AUM (\$B)
Morgan Stanley Wealth Management	1046.2
Bank of America/Merrill Lynch	839.7
Wells Fargo Advisors	499.2
UBS	434.1
Fidelity Investments	402.9
Edward Jones	329.1
LPL Financial	282.0
Charles Schwab	277.4
Raymond James	277.2
Ameriprise Financial	251.4

TOP 15 ASSET MANAGERS OFFERING MANAGED ACCOUNTS¹

As of December 31, 2018

Asset Manager	Managed Account AUM (\$B)
Eaton Vance	113.4
BlackRock	93.9
Legg Mason	75.3
Wells Fargo	56.1
Nuveen Investments	53.7
Fidelity Investments	24.2
GW&K Investment Managers	24.1
NGAM Advisors*	23.7
Kayne Anderson Rudnick Investment Management	22.8
Federated Investors	21.9
UBS Asset Management	21.9
Lazard Asset Management	21.8
JPMorgan Asset Management	17.3
Macquarie Investment Management	15.3
Raymond James**	15.2

* NGAM Advisors assets includes assets of Loomis, Sayles & Company, McDonnell Investment Management, and remaining asset managers.

** Raymond James is the parent company of Eagle Asset Management.

The individual investor is the registered owner

“The foreign company that has an active ADR program becomes much more attractive as a potential target for investment, as it can be applied not only within the strategy for mutual funds but also within managed account solutions.”



— Douglas Jackman
President & Portfolio Manager
Thomas White International
\$1.0B Total AUA¹¹
\$1.0B Equity AUA¹¹
\$650MM DR AUA¹¹

The Role of ADRs for SMAs

Features of the ADR product make it well suited to meet investment managers' goals of providing investors with global diversification.

Two factors have resulted in the ADR emerging as a solution for investment managers offering international equity investment via managed accounts:

SIMPLICITY

It is worth highlighting how managed accounts differ from mutual funds and ETFs. An important difference is the “ownership” of the securities contained within the account. In a mutual fund or ETF, an investor purchases shares of a bundle of securities. One feature of managed accounts is that the individual investor is registered as the owner of the individual securities in an SMA,¹⁰ with the ADR product simplifying the holdings of non-U.S. companies in U.S.-based accounts.

COST EFFICIENCY

Since managed account fees are tied to AUM, not commissions, investment managers are incentivized to minimize operating costs. As a result, investment managers seeking global diversification may look to invest via ADRs rather than investing directly in foreign shares, which could require the establishment of foreign brokerage accounts in multiple countries for relatively small holdings of ordinary shares. This would be an additional cost, and in some cases would not even be possible. ADRs are efficient for this purpose; they are priced in USD and are DTC-eligible.¹²

Investment managers frequently have both individual managed accounts and institutional clients subscribing to the same investment strategy, with the institutional clients often holding the foreign shares underlying the ADRs. Given that the investment strategy is the same, the investment manager strives to reduce the tracking error between the two portfolios, with the breadth of the ADR market helping them achieve this.

Priced in USD and are DTC-eligible

“ADRs typically offer River Road a convenient way to access international markets with lower transaction costs, simplified tax reporting, and better operational efficiencies. We believe this a practical way for small separate accounts to access foreign securities.”



— William Young
 Vice President, Portfolio Manager
 River Road Asset Management
 \$7.3B Total AUM¹³
 \$7.3B Equity AUM¹³
 \$9MM DR AUM¹³

A Tale of Two Managed Account Providers

- Same Portfolio Managers for both products
- Similar strategy and portfolio holdings for both the mutual fund and the SMA
- The SMA is structured to minimize the tracking error between the two products

BNY MELLON INTERNATIONAL EQUITY FUND⁸

As of March 31, 2019

Top 10 Holdings	% of Total Assets
TechnoPro Holdings Inc	3.57
Royal Dutch Shell PLC	3.48
AIA Group Ltd	3.32
Wolters Kluwer NV	3.08
Unilever	3.08
Roche Holdings AG	3.01
GlaxoSmithKline PLC	3.01
Pan Pacific Intl Holdings Corp	2.76
Novartis AG	2.56
Sony Corp	2.27

BNY MELLON NEWTON INTERNATIONAL EQUITY SMA⁸

As of March 31, 2019

Top 10 Holdings	% of Total Assets
TechnoPro Holdings Inc	4.76
Royal Dutch Shell PLC	3.43
Wolters Kluwer NV	3.10
AIA Group Ltd	3.09
Unilever	3.08
GlaxoSmithKline PLC	2.97
Roche Holdings AG	2.96
Pan Pacific Intl Holdings Corp	2.78
Novartis AG	2.54
Sony Corp	2.30

“Today’s extensive ADR universe has enabled Cambiar to purchase a wide range of high-quality foreign companies for clients who are best suited to invest through a separately managed account vehicle.

Over the last twelve years ADRs have proliferated to cover a broad range of international stocks across all sectors and major geographies. As the ADR pool broadened to encompass more companies, we have been able to increase the overlap between our ADR and ORD portfolios to nearly 100%.

The ability to invest in ADRs has not only contributed to the growth of our high-net-worth retail channel, but also to our strong distribution in the institutional community where it is not uncommon for clients to opt for an ADR portfolio.

While ordinary shares are preferable in select cases, many clients feel more comfortable with dollar-denominated ADRs that trade during U.S. market hours and offer streamlined recordkeeping.”



— Jennifer Dunne
International
Portfolio Manager
Cambiar Investors
\$16.2B Total AUS¹⁴
\$16.2B Equity AUS¹⁴
\$10.8B DR AUS¹⁴

CAMBIAR INTERNATIONAL EQUITY FUND¹⁴

As of March 31, 2019

Top 10 Holdings	% of Total Assets
SAP	3.3
AerCap	3.0
Roche	3.0
Repsol	3.0
Carlsberg	2.6
Smith & Nephew	2.5
Royal DSM	2.5
E.On	2.5
AIA Group	2.4
Lloyds Banking	2.4

CAMBIAR INTERNATIONAL EQUITY ADR SMA¹⁴

As of March 31, 2019

Top 10 Holdings	% of Total Assets
SAP	3.1
Roche	3.0
AerCap	2.8
Repsol	2.8
E.On	2.8
Carlsberg	2.6
Royal DSM	2.5
Lloyds Banking	2.3
AIA Group	2.3
Royal Dutch Shell	2.2

BNY Mellon DR Investor Solutions works with the managed accounts industry to support ADR awareness

“Over the last eight years BNY Mellon Depository Receipts has provided support for the successful development of both our global and international equity managed account products. Utilization of depository receipts is a key element within these products, so having a direct relationship with the leading provider and leveraging their market expertise has been invaluable.”

— Asset Manager
\$1,859.2B Total AUM¹⁵
\$1,526.1B Equity AUM¹⁵
\$34.1B DR AUM¹⁵

For more than 15 years BNY Mellon Depository Receipts has been building relationships with investment managers through ongoing dialogue around the use of ADRs. Our buy-side focused team, DR Investor Solutions, helps investment managers launch international ADR SMA products by helping new entrants to the space understand the dynamics of SMAs and the opportunities that ADRs offer for AUM growth.

The team also engages with the traders, operations, portfolio managers, the product development, risk & compliance and distribution teams of both new and current SMA managers to provide them with information on the DR product, trading dynamics of DRs and corporate actions associated with DRs. If an investment manager expresses interest in investing in a company outside the U.S. currently without an ADR program, we explore whether or how an ADR program can be established. Over the years, we have worked with firms such as The Capital Group, Invesco, BlackRock, Lazard Asset Management, Legg Mason, Neuberger Berman, TIAA, Macquarie, and MFS as they have launched and grown their international ADR SMA strategies.

BNY Mellon DR Solutions

DR INVESTOR SOLUTIONS

Our DR Investor Solutions team interacts with global asset managers and asset owners on strategic and tactical levels to maintain awareness of DRs as a desirable international investing solution and brings insights gathered from the buy side directly to our DR issuers.

We engage with investors on trends in global investing, specific investment products and the ways in which DRs can be utilized, as well as the expansion of the DR universe, global regulatory changes, and the technical details and benefits of DRs.

GLOBAL INVESTOR RELATIONS ADVISORY

Our Global Investor Relations Advisory (GIRA) team seeks to enhance our issuer clients' connectivity to investors, focusing on four key areas: Investor Relations advisory, Market Connect (corporate access), Capital Markets advisory and Environmental, Social and Governance (ESG) advisory.

We look at the equity capital markets from a unique perspective, independent of the influence of investment banking, trading and equity research functions. This allows us to connect our issuer clients with the full range of potential investors.

Our team looks at issuer needs on a global basis, delivering cross-regional expertise to educate and implement best practices, arrange market access, and provide investor targeting, benchmarking and analyses of DR program dynamics.

Our independence
allows us to connect
clients with the full
range of investor
opportunities

Helping Our DR Issuer Clients Access the SMA Opportunity

The GIRA team helps our DR issuer clients develop and maintain contacts across a wide range of investors. This includes engagement with investment managers running managed accounts, which can be an important part of a comprehensive strategy for diversifying an issuer's shareholder base. Understanding that an investment manager is investing across multiple products can give an issuer insight into total potential purchasing power. This allows the issuer to prioritize targets more effectively. Connecting our DR issuer clients to the full range of appropriate investors helps them use their ADR programs to realize their goals.

Identifying investment managers running Managed Account strategies

Through long-standing relationships in the managed account industry and our targeting expertise, BNY Mellon Depository Receipts can identify potential new investment managers with managed account strategies for DR issuer clients.

Making the connection

We introduce our DR issuer clients to investment managers with appropriate managed account strategies through our Market Connect services.

Informing issuers on how to highlight ADRs to investors

We encourage our ADR issuer clients to actively inform investors of their ADR programs. This can be as simple as including the ADR ticker symbol in investor materials. If you are an issuer that does not have an ADR program, establishing one will give you access to this growing segment of U.S. investment.

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End Notes

- 1 Money Management Institute & Cerulli Associates, MMI Advisory Solutions Quarterly – 4Q 2018, <http://www.mminst.org/> (membership firewall) (accessed June 4, 2019).
- 2 Lazard Asset Management, Assets Under Management (AUM), used with express written permission, AUM as of March 31, 2019.
- 3 BNY Mellon Investment Management, A Guide to Separately Managed Account Investment Opportunities, pp. 1-2, 4, January 2018, <https://im.bnymellon.com/us/en/individual/resources/investment-tools-services/dmap.jsp> (accessed June 4, 2019).
- 4 Lockwood Advisors, Inc. (Lockwood) is an investment adviser registered in the United States under the Investment Advisers Act of 1940, an affiliate of Pershing LLC and a subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). Pershing LLC, member FINRA, NYSE, SIPC.
- 5 Lockwood Advisors, used with express written permission, as of March 31, 2019.
- 6 Investment Advisory Solutions include the following financial products: SMAs, Unified Managed Accounts (UMAs), Representative as Portfolio Manager accounts, Representative as Advisor accounts, Mutual Fund Advisory, ETF Advisory.
- 7 Money Management Institute, About MMI, <https://www.mminst.org/who-we-are> (accessed June 4, 2019).
- 8 Newton Investment Management, used with express written permission; Total AUM, as of March 31, 2019; DR AUM, approximate as of March 31, 2019 and June 30, 2019.
- 9 Ipreo, as of July 3, 2019.
- 10 U.S. SEC Rule 3a-4 of the Investment Company Act of 1940, <https://www.sec.gov/rules/final/ic-22579.txt> (accessed June 4, 2019).
- 11 Thomas White International, used with express written permission, Assets Under Advisement (AUA), as of March 31, 2019.
- 12 The Depository Trust Company, Operational Arrangements, <http://dtcc.com/~media/Files/Downloads/Settlement-Asset-Services/Underwriting/operational-arrangements.pdf> (accessed June 20, 2019).
- 13 River Road Asset Management, used with express written permission, AUM as of March 31, 2019.
- 14 Cambiar Investors, used with express written permission, Assets Under Supervision (AUS), as of March 31, 2019.
- 15 Anonymous Asset Manager, used with express written permission, AUM, as of March 31, 2019.

BNY Mellon is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries. As of June 30, 2019, BNY Mellon had \$35.5 trillion in assets under custody and/or administration, and \$1.8 trillion in assets under management. BNY Mellon can act as a single point of contact for clients looking to create, trade, hold, manage, service, distribute or restructure investments. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation (NYSE: BK). Additional information is available on www.bnymellon.com. Follow us on Twitter @BNYMellon or visit our newsroom at HYPERLINK "<http://www.bnymellon.com/newsroom>" www.bnymellon.com/newsroom for the latest company news.

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