EvestNet Grabs Managed Account Platform

Originally Published By Thomas Coyle, Fund Fire

In its second merger this year, third-party managed account platform provider EnvestNet Asset Management has agreed to acquire rival Oberon Financial Technology. Chicago-based EnvestNet says the merger supports a policy of extending its service offerings through acquisition — in this case, with a view to refining its multi-discipline account capabilities.

Parties to the agreement decline to put a price-tag on it. The deal went ahead without help from investment bankers. Oberon adds another $1.5 billion in assets under management to EnvestNet's latest tally of about $13 billion.

"The decision to combine the operations of EnvestNet and Oberon signifies a continued strategy of delivering superior technology, investment management capabilities and advisory services on a unified platform," EnvestNet's founder and CEO Judson Bergman says in a press release.

Chicago-based EnvestNet has a history of acquiring other firms. It came to prominence in the managed account world in 2001, when it merged with Portfolio Management Consultants to form Envestnet PMC. It came by the capital N in its name a few months ago when it merged with Los Angeles-based Net Asset Management.

Bill Crager, EnvestNet's head of marketing, says Oberon's technology deepens his firm's ability to deliver "model management that we'll be able to utilize with [multi-discipline accounts] and with our mutual fund portfolios." Sunnyvale, Calif.-based Oberon's platform is flexible enough to provide a full-service investment platform to advisory firms looking for broad support and selective "enabling services" — account reconciliation and reporting — to firms merely in need of an overlay manager, he says.

Viggy Mokkarala, Oberon's head of marketing and product management, is quick to agree that his firm's technology could help EnvestNet become a force among third-party providers in delivering multi-discipline accounts. "We have developed a portfolio accounting software that allows the advisor to play the role of an overlay manager," he says. In the context of multi-discipline accounts, overlay management is the process of reconciling redundant holdings across sub-accounts, aligning trading activity, managing cash flow and enhancing the overall tax efficiency of portfolios.

Mokkarala says another point that attracted EnvestNet to Oberon was the smaller company's ability to process accounts efficiently. Right now, he says, Oberon administers "over 10,000" investor accounts "with essentially one operations employee." And he adds that Oberon's processing technology is scalable enough to permit even greater efficiencies. EnvestNet had about 55,000 retail and institutional accounts at last count. The deal marks EnvestNet's second acquisition this year and the fourth such merger industry-wide. "That puts 2004 on par with the high water mark [for mergers among third-party managed account platform providers] set in 2002," says Dan Seivert of Los Angeles-based merger-and-acquisition advisory and consulting firm 3C Financial Partners.

Besides EnvestNet's deals to acquire Net Asset Management and Oberon, the other two acquisitions involved Sugar Land, Texas-based U.S. Fiduciary's acquisition of West Hills Institutional of Chicago and Vista Analytics, also based in Sugar Land.

"Mergers between [managed account platform providers] underscore the difficultly of achieving scale on one's own and the importance of reaching that scale to survive and generate the capital it takes to stay competitive," says Seivert.

The Oberon deal gives EnvestNet the critical mass it needs to compete with industry leaders and keep its antennae out for new acquisition opportunities. EnvestNet's Crager says his firm will continue to assess other platform providers with a view to enhancing EnvestNet's service offering. 3C's Seivert says there are no fewer than 25 of them in business.

In fact, observers say that EnvestNet's prior acquisition of Net Asset Management, which upped its assets under management by $4.5 billion to around $11 billion, was vital to helping independent EnvestNet compete for new clients with third-party players with deep-pocketed corporate parents like the Bank of New York's Lockwood and PNC 's Advisorport.

Meanwhile though, EnvestNet is keen to maintain its own autonomy. "We will remain independent for the foreseeable future," says Crager. "Because of our independence, we can be a very flexible distribution partner. Clients care about that because they worry about bias in the cases of some of the more captive platforms."

EnvestNet's Crager and Oberon's Mokkarala don't see any layoffs as a result of the merger. "There's really no overlap," says Mokkarala.

About ECHELON Partners

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

Daniel Seivert

Managing Director

dseivert@echelon-group.com