

THE CHICAGO OUTSOURCER HAS IPO CASH AND POTENTIAL

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Investnet Inc. has completed its purchase of FundQuest Inc. from BNP Paribas but the company's attention may already be turning to deals it'll be reporting in next year.

The big Chicago-based outsourcer now owns the Boston-based manager of \$15 billion in assets (as of June 30, 2011). See: Why exactly Investnet bought an investment manager that already sat on its platform.

FundQuest builds portfolios of mutual funds and ETFs for financial advisors. The purchase price was \$24 million, though the deal also erased an \$18 million liability from Investnet's balance sheet that it took on when the firm previously made a de facto acquisition of FundQuest's distribution arm.

In 2010, Investnet and FundQuest entered into a platform services agreement — which has been fully implemented — under which Investnet provided its manager platform to FundQuest clients. This acquisition will enable the combined firm to build upon this platform and offer more efficient and integrated wealth management solutions.

The whole pie

Investnet did a nice job with this deal — recognizing the opportunity first and then easing into the purchase, according to **Dan Seivert**, CEO of **ECHELON Partners**, the Manhattan Beach, Calif. based investment bank.

"The FundQuest deal was savvy in my mind because: 1) Investnet saw the opportunity to help BNP Paribas divest itself from a subsidiary whose thesis did not play out...at a time when BNP needed cash, and 2) Investnet wisely did the back-office technology part of the deal up front— and then said: "oh by the way...we'll take the whole thing off your hands as well". Whether or not this was the M&A strategy, it now appears to have strong merit as an approach for acquiring tech-heavy financial services companies; deals that can often take over a year to fully integrate."

The deal may also clear the decks for Investnet to ramp up its growth by acquisitions, according to Jud Bergman, chairman and founder of the company.

“One of the reasons we went public was so we could be intentional about transactions. We can accelerate the transformation of our company and our industry,” he says.

Bergman declined to say what purchases his company is eyeing.

The knack of the deal

Seivert notes that “[Turnkey asset management programs] traditionally look to acquire other TAMPs for a couple of key reasons: 1) to add assets to their existing platform (the “economies of scale” argument) and/or, 2) to fill an opening in the technology or product lineup (the “comprehensive service offering” argument). With Envestnet having much of the product and technology front covered, the acquisitions it makes going forward are likely to be about volume. I think it is more probable that they pursue deals outside of the TAMP space, targeting ETF managers, smaller custodians, and/or retirement service providers as vertical or horizontal integration plays.”

When I asked Bergman over the summer about Envestnet’s plans to spend IPO cash on M&A, he downplayed his company’s ambitions and framed its appetite for deals as being more opportunistic.

Now Bergman allows that there are deals brewing that could close in the relatively near future.

“We’ve been working on bringing opportunities to the fore for some time and over time we expect to do a number of transactions.”

Gaining traction

Envestnet has history of pulling together deals at important times, Seivert says. He points to its earlier purchases of PMC in Denver, Oberon in Silicon Valley and Net Asset Management (NAM) in Santa Monica — companies and management teams he knew well as a venture capitalist covering the space.

“Like many of the companies in the fast growing TAMP space of the late 90s, these three targets faced challenges with technology development, customer service, and growth capital,” he says. “Perhaps the integration challenges Envestnet faced with these earlier deals motivated it to execute

As part of the acquisition, Envestnet has announced that Timothy Cliff, formerly chief investment officer and chairman of the investment committee at FundQuest, will join Envestnet | PMC as chief investment strategist, responsible for the development of investment strategies for client portfolios as well as the development of manager and fund strategist selection methods.

Cliff joined FundQuest in 1994, maintaining overall responsibility for the firm’s investment management programs for separately managed accounts, mutual funds, alternative investments, exchange-traded funds and annuities.

Investnet is headquartered in Chicago with offices in Boston; Denver; New York; Sunnyvale, Calif.; and Trivandrum, India. The firm has more than \$127 billion in total assets served and more than 909,000 investor accounts.

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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