

DETERMINED TO OUT-JOE-DURAN DURAN'S UNITED CAPITAL, DAVE WELLING MOVES HIS \$12 BN ROLL-UP'S HQ TO DENVER

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In his first major move as CEO of a multibillion-dollar RIA roll-up, David Welling is moving Mercer Advisors Inc. from the tony duchy of Santa Barbara, Calif. to Denver, the better to keep the firm on its fast-track trajectory as it takes on a competitor with almost double its managed assets.

The charms of the Mile High city are manifest: it boasts the country's largest airport, 300 days of sunshine a year, thriving sports and cultural scenes -- not to mention the world's largest brewery.

But Welling was also attracted to its fertile poaching grounds provided by Nuveen, Charles Schwab Corp., Fidelity Investments, Personal Capital, Janus, Trust Company of America and Invesco, all of which have headquarters or outposts in the city. Schwab alone has about 4,000 employees stationed there; Fidelity, 2,000.

The former head of SS&C Advent's Black Diamond software unit promises at least 40 employees will clock in daily at Mercer's new downtown digs by the end of March, to be joined by dozens of new employees in the coming months and years.

Changing profile

The new headquarters jibes with Mercer's efforts to change its identity as a Dimensional Fund Advisors shop. Mercer has reduced its assets with Austin, Texas-based DFA by about 33%, down to about \$4 billion.

Welling also plans to scale down Mercer's use of Orion Advisor Services LLC's systems in favor of Investnet Inc.'s (specifically they the Chicago-based firm's unified managed accounts platform -- not Tamarac.)

Not if Orion has anything to say about it, says its CEO Eric Clarke.

"Mercer is using Investnet for a portion of their business that is using their UMA offering, and we are hopeful that we can retain the portion of their business that does not move in this direction," he writes in an email. "It's been a battle that has been going on for a few years now, and was in large part the genesis of our ASTRO offering. Eric Clarke makes seven big Orion hires that reflect the big check it wrote to Bain & Co. -- including a 'poach' from his brother, Todd

More change: Mercer has always been associated with TD Ameritrade and its referrals. It has now expanded relationships with Schwab Advisor Services and Fidelity Clearing & Custody Solutions.

Welling says these changes add up to one big takeaway: "This is us saying: What does it look like when we're two times or four times this size?"

Winning streak

Denver also makes for a convenient destination for personnel in Mercer's 26 remote offices, not to mention a better spot from which to attract talent from around the country. Welling has visited each of those 26 offices in the last 60 days -- "I was all over the place" -- and says that David Barton, Mercer's founder and vice chairman,

is on a similarly hectic travel schedule. It's also cheaper by far to live in Denver -- a city that has rejuvenated itself over the last decade -- than in California.

The move comes just nine months after Welling took the reins from Barton, 51, who is staying in Santa Barbara with a skeleton crew of about 20 and who now pours his energies into making acquisitions.

All these changes are meant to keep Mercer on its souped-up growth trajectory. Its assets now stand at \$12 billion, up from \$6 billion just three years ago. The company has made 10 acquisitions in the last two years, most recently the announced purchase GFS Private Wealth LLC of Clearwater, Fla., which manages approximately \$364 million (\$314 million according to its latest ADV filing last March.)

Acquisitions account for 40% of Mercer's new assets with organic growth contributing 40% and market appreciation adding about 20%, Welling says.

Welling vs. Duran

The fact that Mercer has grown as much in the last three years as it did in its first 30 comes down to an ability to provide a soft landing pad for firms, according to multiple sources, including Charles Goldman, president and CEO of AssetMark Inc. He's also CEO of Genstar Capital and advised Mercer when Genstar acquired a majority interest of the firm in 2015.

"The acquisition capability is truly differentiated," he says. "It's even more integrated than United Capital."

Indeed, United Capital Financial Advisers, founded by Joe Duran and managing \$21.5 billion of assets, has set itself apart from the other two or three top roll-ups in the field by bringing its acquisitions under one brand, one ADV and, largely, one system of doing business.

Welling seconds the motion that Mercer has a more sophisticated business model than that of Newport Beach, Calif.-based United Capital even if it does have only half the AUM.

"Joe does a reasonable job but we're further out on the spectrum of integration," he says.

How integrated?

Duran picks up that gauntlet, saying he moved UC's center of operations from Newport Beach to Dallas four years ago and that the firm added nearly \$3.5 billion of AUM in the past year, growing from \$17 billion to \$21.5 billion. (United Capital's last ADV, filed last August, shows \$17.5 billion of managed assets.)

"I'm just happy we're the measuring stick of integration," Duran says. "I think we were the original strategic integrator."

Welling counters that Mercer has done more to centralize its investing process by having one chief investment officer and one investing strategy, while United Capital still has many of its offices operating autonomously.

In response, Duran points to United Capital's handful of \$1-billion-plus practices that possess exceptional investing capabilities -- capabilities he leverages on behalf of the entire firm. For example, UC has firms in both Chicago and Bethesda, Md. with expertise in building high-net-worth portfolios that keep remnants of the legacy portfolios that arrive from other advisors. And in North Carolina, he has an office expert in managing consolidated positions.

Hustle and grow

The niceties of integrations aside, **Dan Seivert, CEO of ECHELON Partners**, an Investment Bank in Manhattan Beach, Calif., credits Mercer's growth surge to shoe leather and airports.

"My sense is that they're just out there hustling and making the deal structure a lot more simplistic," he says. "For example, Focus Financial is more of a black box [for advisors analyzing trying to evaluate future returns on common shares]. There's a confining structure and a credibility question mark."

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One thing obscuring New York-based Focus Financial Partners LLC's innards is lack of a single ADV, with the result that its AUM gets clocked at numbers ranging from \$30 billion to \$80 billion.

And yet, Seivert says, until Mercer has several more years of exceptional growth it will be mired on the rung of "next tier" roll-ups -- a spot from which few such companies escape. "That next tier has never had much staying power," he says.

Keep culture alive

Mercer won't stagnate if Welling has anything to say about it. He points out that he oversaw the growth of Advent/Black Diamond from 20 employees to near 400 during his tenure.

"I think I bring a growth mindset," he says. "it's about keeping a culture alive as you are adding people."

Welling adds that the firm's culture should actually become stronger and more energized in a fast-growth company because career opportunities expand with size.

To assure growth doesn't collapse onto itself, Welling is making hires in all areas of accounting, finance, operations and marketing with specific attention to key trouble spots like client onboarding. One part of simplifying that process is recreating models using the pieces Investnet provides and reconstituting them as portfolios -- a process that also minimizes tax ramifications of moving, Welling adds.

Clarke reminds that Orion isn't going down without a fight.

"We are hopeful that ASTRO will be able to help Orion retain firms [like Mercer] that are looking for these types of solutions in the future. We pride ourselves in being quick learners, and when Mercer made a move in this direction it certainly grabbed our attention."
