

BLACKROCK SUDDENLY A MANAGED ACCOUNT GIANT

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The merger with Merrill Lynch Investment Managers thrusts BlackRock to the forefront of the separately managed account (SMA) industry, where before it had an insignificant presence. Industry experts and the firm itself expect sales of SMAs to accelerate with its new distribution clout.

Before the merger, BlackRock had only \$150 million in SMA assets. The firm says it only started focusing on the SMA business in the middle of 2005. BlackRock's fixed income products wound up on Merrill Lynch and Bank of America SMA platforms in November. A BlackRock equity product has been on a Goldman Sachs platform for three years, but the firm has seen little growth in SMA assets.

That is about to change, BlackRock executives say. "Joining forces with MLIM presents a tremendous opportunity for us in terms of expanding our SMA business and selling our products through third-party intermediaries," a BlackRock spokesman says.

After the merger, BlackRock will have \$44 billion in retail separately managed accounts, making them one of the three largest SMA managers. That is still only a fraction of BlackRock's total assets – BlackRock will manage \$992 billion in assets after the merger is completed. But analysts and consultants expect the business to grow significantly. Of MLIM's SMA assets, \$11.6 billion came through third-party distribution as opposed to through Merrill's own advisor network, according to third quarter numbers from Cerulli Associates.

The merger should help sales of SMAs through third-party channels as well as through Merrill. "BlackRock has a more polished brand that lacks conflicts of interest and the competitive disdain that Merrill carried," explains Dan Seivert, managing partner for 3C Financial Partners, an investment bank and strategic consulting firm.

Recently Merrill Lynch announced it would introduce a new brand for its third-party retail products called Princeton Portfolio Research and Management. That would not have cleared Merrill's name from the perception of conflicts of interest as well as the BlackRock merger does, Seivert says. "This makes more sense from a marketing standpoint," he says. "They're not out of the weeds totally but they'll have a clearer path."

Merrill will still profit from the sale of BlackRock SMAs. As part of the merger, Merrill Lynch takes a 49.8% stake in BlackRock. That ownership stake makes it a good bet that BlackRock will get help from Merrill Lynch in distributing BlackRock SMA products, says Frank Campanale, CEO and chairman of Campanale Consulting Group. "Essentially, they maintained the revenue stream and excused themselves from having this conflict of interest," he says.

Earlier this year, Citigroup handed off its asset management business to Legg Mason so Citigroup could avoid conflicts of interest and focus on distribution. The BlackRock/MLIM merger is similar, and Campanale expects other firms to separate their distribution and product manufacturing businesses in the next year. "What Merrill and Citigroup did will add to a better perception on the part of sophisticated clients that their conflicts of interest are eliminated," he says.

BlackRock's SMA business will see other benefits from the deal besides increased distribution through Merrill

Lynch. "It brings additional scale for BlackRock from a management standpoint," says David Haywood, director of SMA research for Financial Research Corporation. "It can make (SMA products) a better deal because the managers are able to lower their cost."

How BlackRock will fuse personnel from its own firm and MLIM remains to be seen. Dan Dart heads MLIM's third-party distribution business. At BlackRock, Sheila Lamb heads private client marketing and John Brett heads all retail sales. Both report to Anne Ackerley, who heads BlackRock's private client group. In 2002, BlackRock also hired Sharon Highland as director of products and operations. She oversees the SMA business at BlackRock, which is a fraction of the private client business.

At least one person from BlackRock is familiar with Merrill Lynch. Brett worked at Lord Abbett before joining BlackRock, but prior to that he was a broker at Merrill Lynch. "That should facilitate his ability to work with Merrill," says Mark Elzweig, president of the executive search firm Mark Elzweig Company. "He's been on the inside of the corporate culture and he understands his new partner."

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