Wealth Firms Hand $200B to Managers Annually

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Wealth advisory firms in the U.S. hand out mandates worth about $200 billion to external managers every year, a new Cerulli Associates study shows. Investment managers can take several steps to improve their chances of grabbing a piece of those assets, the report notes.

Private wealth advisors in the U.S. hold about $5.4 trillion in assets, the report notes. Of that, about $2 trillion is in the hands of non-proprietary managers who are not connected to the advisory firm. Roughly 10% of that market turns over annually. Managers surveyed in the report, *Private Wealth Groups*, name multiple methods for obtaining a slice of that roughly $200 billion that's up for grabs every 12 months. Successful techniques are as simple as following industry events closely with the hope of identifying business opportunities to as complex as developing niche investment products.

The report also highlights a growing divergence between wealth advisors who embrace open architecture, the use of external managers, and those who provide only proprietary products. Private banks and trusts are the most resistant to the best of breed model, the study shows.

The top way for an asset manager to pick up new private client business is through random phone calls from advisors looking to replace their current manager, says Ben Poor, a senior analyst at Boston-based Cerulli Associates and the report's lead author.

"The number one reason for success is that private wealth groups contacted them," he says, adding that 23% of participants cited the method. "It can come down to luck."

Approximately 22% of managers named strong networking skills as their formula for success while another 22% said they followed industry events closely, reading numerous publications that follow the high-net-worth space. Three other distinct strategies - offering a niche product, having an institutional sales approach, and being patient with the sales cycle – each had 11% shares in the manager survey.

The report was based on interviews with 20 asset managers and 25 wealth management and advisory firms. Participants' assets under management ranged from $150 million to $150 billion. The study took roughly five months to implement and complete. According to Cerulli, the $5.4 trillion private wealth market represents assets under management at the wirehouses, multi-family offices and traditional private client groups such as private banks and trusts.

Wealth advisors, for their part, are hardly unified when it comes to embracing open architecture, although the pendulum is clearly shifting toward the non-proprietary approach.

Approximately 29% of surveyed advisors had zero to 25% of their assets run by outside managers. Those firms were mainly comprised of private banks and trusts. Meanwhile, 41% of participants had 76% to 100% of assets managed by third-parties. That segment primarily consisted of independent advisors and multi-family offices.

Poor says private banks and trusts that turn their backs on open architecture often have well-performing proprietary products or clients with long-standing relationships with the firms. "It seems to be that banks and trust companies resonate more strongly with what is called old wealth," he says. "As long as the face-to-face relationship is strong, they are going to be happy and not beat the drum for outside managers."

But some managers could be doing more to get their foot in the door of traditional wealth management offices. About 75% of asset management firms surveyed had no sales force dedicated to private banks or trusts while 25% did.

Daniel Seivert, managing partner of strategic consulting firm and investment bank 3C Financial Partners of Manhattan Beach, Calif., believes private banks that partner with outside managers will significantly benefit from such relationships.

Seivert's firm issued a study this year recommending that private banks and trusts take more aggressive approaches toward developing open architecture-orientated platforms. 3C Financial Partners estimates that a firm with $100 billion in assets can increase enterprise value by $236 million and margins by over 11% by implementing a 65% proprietary and 35% third-party investment approach.

"The overarching point is that they can actually make more money. It is not just more money either," Seivert says. "Those revenues create higher profits. Those profits create larger enterprise value.

"Third party platforms, which usher in open or hybrid architecture, can be done at 50% higher profit margins on average compared to proprietary-only platforms. They are also a great insurance policy for misfires in proprietary asset management or flight of high-quality portfolio managers," he adds.

Lee Chertavian, CEO of overlay manager Placemark Investments, remembers when open architecture was mainly an added feature that advisors would provide their clients. Now it's all but mandatory, he adds.

"My sense is that it is becoming increasingly difficult for advisors who offer only proprietary products to be credible with their clients," Chertavian says. "Clients have enough advisors to go to that offer independent products. It is becoming difficult for those who only sell house products. I think, however, that certain firms will continue to fight the trend."

Scott Welch, managing director of Lydian Wealth Management, agrees with Chertavian's assertion and is comforted knowing that his multi-family office has fully embraced the best of breed prototype."There are a lot of advisors who believe that offering open architecture is a differentiation," Welch says. "I don't think it is a differentiation any more. It is something that you need to do."That is not in itself going to win you your business," he adds. "There are people who still disagree with it. But if you look at the wider spectrum of advisors, the vast majority of them are moving in the direction of open architecture.

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