Deutsche Bank Pulling In Support For US PWM Group

Originally Published By Thomas Coyle, Fund Fire

Manager revenues from separately managed accounts could triple by the end of the decade — even with sponsor fees coming down. That's a central finding of a new report by 3C Financial Partners, a Los Angeles-based investment bank and strategic consultancy.

Though a projection of threefold sales growth is encouraging, it shouldn't breed complacency, says Dan Seivert, 3C's founder and managing principal. His firm's 220-page report, *Driving Profits: An Executive's Roadmap to Financial Success in Separate Account Management*, is meant to help managers make the most of growth in an era of declining fees and increasing competition by sharpening their understanding of the business. Seivert and other industry participants say the managers likeliest to profit from the growth in store are those prepared to support new channels and products while improving operating efficiencies.

"You can't dabble in managed accounts," says an asset manager who asked not to be named. "You have to commit to operating at scale or you'd better get out."

That message isn't lost on Seivert. He notes that an annual growth rate of 24% for managed account assets for the eight years through 2003 — including several years of better than 40% in the late 1990s — wasn't enough to pull most managers firmly out of the red. "There are 215 firms managing separate accounts," says Seivert. "And 155 of them are at or below break-even."

Managed account assets closed out 2003 at $507 billion, according to the Money Management Institute (MMI). 3C multiplied that by 42 basis points — the average management fee from sponsors last year, says Seivert — to arrive at $2.1 billion in manager sales for 2003. By 2010, 3C sees annual revenue of $5.9 billion. That's based on a forecast of 18% annual growth for the balance of the decade resulting in assets of $1.6 trillion, multiplied by 36 basis points — the investment bank's estimate of average sponsor fees to managers through the next six years.

The anonymous manager considers 3C's projection a plausible assessment of coming market conditions — especially its prediction of 18% annual asset growth. He sees that as a more moderate take than the MMI's forecast for the industry's recent historical average annual asset growth rate of 24% continuing unabated through 2010. "If the market grows at 7% or 8% through the period, another 10% to 11% of real growth is doable."

More important than growth itself, however, is preparedness for growth, say asset managers. Ted Smith, a v.p. with asset manager Delaware Investments, says managers have to be ready to meet three important challenges if they want to cash in on growth.

First, managers have to lessen the dominance of the wirehouses. Big-name brokerages distribute products widely, but pay less in management fees than rival channels such as banks and independent broker networks. The best way to make better payers distributors of choice rather than exception is to team "people that know managed accounts intimately" with such neophyte sponsors, says Smith. "That's where combinations like the Bank of New York control of clearing house Pershing and [the third-party managed account platform]

Lockwood come into their own," he says. He mentions PFPCand Advisorport, its third-party provider, in the same breath.

In addition to broadening the scope of managed account distribution, Smith says managers have to deepen their offerings if they hope to capture more sales. That's best viewed as a two pronged attack. On one hand, managers should develop their multi-sleeve offerings — multiple-style and unified managed accounts — in order to attract the mass affluent. At the same time, they should push into the higher end of the market as bank trust departments abandon in-house asset management for a best-of-breed approach.

The third challenge managers confront is on the operations front. To protect profits in an era of declining fees, Smith says it's important for managers to take steps to improve operating functions. That's a matter of fostering technologies to improve the speed and accuracy of communications with sponsors as well as increasing reliance on third parties for cheaper and more efficient middle- and back-office operations. Although the long-predicted flood of managers opting for outsourcing has yet to appear, Smith believes managers will go that route. "It's just a matter of time," he says.

The manager who requested anonymity says that well run offices are a key to making a profitable go of the managed account business, whether or not management sales triple in the next six or seven years. "Unless you have a product that sells itself — some kind of killer small-cap play — you need strong operations," he says. "It might be [every manager's] greatest wish to get tons of new accounts, but a lot of managers wouldn't be able to handle it if it happened."

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