Goldman Wins Three Acct Mandates

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With three new mandates to its credit Goldman Sachs Asset Management is making strides toward becoming a top-10 managed account provider. The New York-based asset manager's recent wins are backed by a keen affinity to industry best practices and working to boost adoption across a small roster of big-name sponsors, experts say.

Over the summer Merrill Lynch, Morgan Stanley and, for the first time, Wachovia awarded Goldman mandates. For Goldman it means winning new spots on, respectively, the first, third and fifth biggest managed account platforms, according to a second-quarter 2004 report by Cerulli Associates, a Boston-based research consultancy. As a result, Goldman now has a mid-cap growth strategy with Merrill, and mid-cap value strategies with Morgan Stanley and Wachovia.

That Goldman — best known as large-cap growth manager in the managed account world — is able to use of mid-cap strategies to unlock new business is evidence of its shrewdness, according to Chip Roame, a managing principal of San Francisco-based Tiburon Strategic Advisors. "Most [managed account] programs are overloaded with large-cap managers," he says. "Mid-cap is a more unique offering that's not widely used in many managed accounts."

Becoming a top-10 third-party manager is a goal that Goldman openly aspires to, says Scott Coleman, director of Goldman's retail managed account group. "We haven't set a firm time-line, but we want to get there as quickly as we can."

For now Goldman has about $3 billion in retail managed account assets, with $1.3 billion distributed through its own private-wealth platform, and the remaining $1.7 billion channeled through 13 unaffiliated sponsors.

But Goldman will have to increase that $1.7 billion nearly fivefold to draw level with Merrill Lynch Investment Managers, the tenth biggest third-party managed account provider, according to Cerulli. And that's assuming Merrill and the other managers sit still while Goldman catches up. If the industry keeps growing at an annual rate of 24%, as it did in the years 1996 through 2003, Goldman will have to increase third-party assets to nearly $12 billion if it wants to be anywhere near the top ten by 2006, according to *FundFire*'s calculations.

Goldman has made enormous strides since its debut about two years ago on Schwab's managed account platform, says Roame. Dan Seivert, managing principal of Los Angeles-based investment bank and strategic consultancy 3C Financial Partners, agrees. "Goldman is one of the fastest growing retail [managed account] managers," he says. "Because they've been able to gain powerful adoption inside a relatively small number of sponsors" — something Seivert considers a "magic formula" to success in the managed account business. "They're taking a calculated approach to adding new ones, which is also a best practice," he says.

Burt White, director of research for Wachovia's Consulting Services group, supports that view. "We added [Goldman's mid-cap value] because it filled a space where we didn't have a lot of names." Mid-cap is generally seen as a luxury play in a space where clients are more likely to populate equity allocations with large-cap, small-cap and international strategies before they look to mid-cap.

White and Goldman's Coleman, however, contend that managed account investors are beginning to turn to mid-cap strategies to get exposure to emerging companies without incurring the risk attached to small-cap plays.

Though several sources cite the Goldman brand's cachet among high-net-worth investors as an incentive to sponsors, White says it had no effect on his team's decision to add its strategy to its managed account platform. "We view a name or a brand as bad or neutral because of associations people may make," he says. "So it could have been 'Goldman Sachs' or 'Goldsan Machs'; the result would have been the same."

Goldman supports sponsors with an education program intended to help advisors become more proficient consultants. That's a measure Roame endorses. "Education is one of the keys to growth in the [managed account] business," he says. The program in question provides credits for CIMA designees, says Vicky Hayes, a Goldman v.p. who helped develop it.

As for operations, Goldman is "looking at ways to become more efficient" — but it isn't looking too hard at outsourcing its back office, Coleman says. "Our [operations] are in-house, and we're happy with the way that's going so far," he says.

Merrill and Morgan Stanley didn't respond to requests for interviews.

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