After years of working to stand on its own two feet, Placemark staggers into the arms of Envestnet

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Brooke's Note: The ability of Placemark to disrupt (to use every would-be innovator's favorite word du jour) the way financial advisors invest could not have looked more promising in 1999. Selling the meat of a separate account minus the marshmallow-y, pricey bun had private-equity firms salivating and investing. But now, it seems one reason that the whole 15-year effort is being punted for $66 million is that the innovator hitched its distribution wagon to the anti-innovators — full-service brokers. Meanwhile, Placemark's buyer, Envestnet, built a franchise with a lower-technology product but with a far more innovative distribution network — independent advisors that increasingly include RIAs. It's a parable that no doubt will be roundly ignored until Wall Street and its full-service regional brethren breathe their last.

On April 10, 2006, Smith Barney Consulting Group entered into a giant outsourcing deal for a single Wellesley, Mass.- and Dallas-based firm to serve as the active overlay manager for its SELECT Portfolios — a multiple-strategy wrap program for its 13,000 stockbrokers and their clients.

The company that won that prestigious account was none other than Placemark Investments, which Envestnet announced its purchase of for $66 million on Tuesday.

By landing the wirehouse and industry leader in investment consulting in 2006, the future for co-founders Lee Chertavian and Randy Bullard and their private-equity backers looked very bright. Chertavian did not respond to a request for comment but he will join Envestnet as group president of Envestnet | Placemark.

"Having access to Envestnet's broad wealth management platform solutions should accelerate many of our strategic initiatives, addressing our customers' existing and emerging wealth management needs," he said in a press release.

But what CitiGroup gives it can taketh away and bring in-house and indeed Placemark lost the big account and then had to replace it piecemeal. The overlay manager has had mixed success in achieving that rebound with some regional broker-dealers including BMO Nesbitt Burns Inc.'s Architect Program, based in Toronto; D.A. Davidson Companies in Great Falls, Mont.; J.J.B. Hilliard, W.L. Lyons LLC based in Louisville, Ky.; Philadelphia-based Janney Montgomery Scott LLC; New York-based J.P. Morgan Securities and Oppenheimer Asset Management Inc.; Minneapolis-based RBC Capital Markets Corp.; San Diego-based RJL Wealth Management LLC; and United Capital Financial Advisers LLC based in Newport Beach, Calif.

Attractive, accretive

Bullard departed in 2012 and helped found ETF Solutions for New York-based Cantor Fitzgerald LP. Then, in 2013 or 2014, Chertavian apparently put the company on the block leading to a deal for purchase by the gorilla of the separately managed account world — Chicago-based Envestnet Inc.

The decision to buy Placemark, which manages $13.2 billion of assets, was a "pretty straightforward" one for Envestnet, according to Charles "Chip" Roame, managing principal of Tiburon (Calif.) Strategic Advisors and an Envestnet board member.

"I think if deals are accretive, you must consider them," he says.

Placemark does not disclose its revenues but typical fees for providing overlay portfolio management services range from 10 to 35 basis points.

Entrée to UMAs

Besides adding to net earnings, the deal helps Envestnet improve in an area in which Placemark holds an edge — unified managed accounts at full-service brokers. UMAs are, in effect, a way of taking the separateness out of separately managed accounts so they can be blended in portfolios efficiently. In other words, it's a way for stockbrokers to more effectively mimic the way RIAs manage portfolios. Placemark's account level minimums range from $250,000 to $1,000,000 per account or per client with more than one account, according to SEC documents.

This access to high-net-worth investors at regional brokers is a double win for Envestnet.

"We are able to expand our presence in the full-service, broker-dealer channel while also empowering Placemark's clients with access to our wealth-management platform solutions," says Bill Crager, president of Envestnet in an e-mail. "More and more fee-based advisors are turning to UMAs as a core offering for their clients. Placemark's UMA focus and overlay solutions further our efforts to empower advisors with the tools and resources they need to deliver personalized service for their clients."

The kicker for Envestnet is that it can operate with lower overhead using Placemark's existing staff and software. The firm has 80 employees including 30 advisors, according to its ADV. Envestnet also wins some big accounts in the B-D world that it can likely cross-sell.

And the $66 million price is modest, according to **Dan Seivert**, chief executive and investment banker for **ECHELON Partners** in Manhattan Beach, Calif.

Much ventured

"Due to its broad platform and large experienced operations staff, Envestnet may be one of the few legitimate buyers if/when the TAMP market consolidates."

Seivert adds that Placemark, founded in 1999, has been around long enough that its private-equity backers were likely hungry for an exit. RBC Technology Ventures, Ascent Venture Partners and North Hill Ventures were among the investors in a follow-on round in 2005.

But according to the company's ADV2, Placemark is now mostly owned by venture capital firms IDG Ventures Atlantic I LP, IDG Ventures Atlantic II LP and Ascent Venture Partners IV-A LP — each of which owns 25% or more of a class of voting securities of Placemark. The Trustees of Princeton University and a limited partnership, IVA II Holdings LP, own more than 25% of the capital of IDG Ventures Atlantic II LP.

Running Start

"The company had a decorated list of VCs in the beginning and raised some good start-up capital," **Seivert** says. "Over the years it struggled with business model selection, time to market, getting traction, competitive greatness."

Envestnet will continue to press its scale advantage in making these kinds of deals, Crager says.

"As advisors' practices continue to evolve, we will leverage our core competency of converting large books of business, and expect to accelerate our strong organic growth with the acquisition of Placemark. We'll continue to evaluate consolidating opportunities to further leverage our scale and deepen our capabilities."

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