

From FAMILY WEALTH REPORT

Smartleaf's overlay makes inroads in banking space

Thomas Coyle - 5 July 2006

Smartleaf is on a tear. In the last 18 months the portfolio-management software maker says it has gone from two clients and about \$50 million in assets under management to nearly 40 clients and over \$6 billion in assets under management.

Smartleaf's bonanza was long in the making, however. "If we were venture-funded, I don't know if they would have had patience with us," says **Sam White**, head of sales for the eight-year-old Cambridge, Mass.-based firm.

Now though, Smartleaf says it's flush enough in the bank space to broaden its focus to include independent brokers and registered investment advisors (RIAs).

"We've gone back and forth on it," says White. "But now we're looking at ways to approach the independents."

SunGard

The immediate reason for Smartleaf's success is its partnership with Wayne, Pa.-based **SunGard Data Systems**. About two years ago, SunGard launched a campaign to bring models-based multiple-discipline accounts (MDAs) and unified managed accounts (UMAs) to regional banks – a market with around \$3 trillion in trust and investment assets – using its own third-party investment platform provider **Advisor Technologies** and overlay options from either Smartleaf or Seattle-based **Parametric Portfolio Associates**. From the start, SunGard aimed its overlay-platform sales efforts at the 700 or so U.S. banks that use SunGard as their core books and records keepers.

MDAs are managed accounts that combine complementary equity investment styles in a single account. UMAs take the process further by including different asset classes in a single registered account.

The main selling points of this multi-sleeve approach are reduced cost, streamlined reporting and cohesion of planning. The minimums for MDAs and UMAs, though above the reach of anything but affluent investors, are lower than that of similarly broad allocations across individual managed accounts. By the same token, the investor gets one report per account, not the flurry that separately registered holdings of the same the assets would entail.

Goals based

The cohesiveness of the planning comes through the overlay function, a process of aligning trades, managing cash flow and attempting to enhance the overall tax efficiency of portfolios as well as responding to market events, changes dictated by the model manager, sponsor due diligence and client specifications.

Although MDAs and UMAs make up for only 7% of retail managed account assets – a \$700-million industry in the U.S. – they accounted for 32% of managed account in-

flows last year, according to **Tiburon Strategic Advisors**, a Tiburon, Calif.-based research firm.

At root – and properly administered – MDAs and UMAs are a way to scale goal-based advisory down to a mass-affluent or low-tier-millionaire client base, says **David Ferry** of SunGard's Minneapolis-based **Wealth Management Services** unit. "That's really where this is going: beyond purely market-benchmarked performance measurement toward the actual realization of the client's goals."

So far, SunGard's Advisor Technologies, \$13-billion-in-assets managed-account platform provider, has signed about 30 banks to its overlay program – with a fat-asset super-regional set to take the plunge. And so far, each of these new clients has selected Smartleaf's overlay technology over Parametric's outsourced version.

"Some of us expected clients to go for the turnkey option," says Ferry. "Instead they prefer the idea of operating the overlay function themselves."

Those in favor

Though Smartleaf owes a chunk of its recent success to SunGard, it's also picking up clients on its own – and one of them isn't reluctant to sing Smartleaf's praises. **Todd Smurl** of **Compass Bank**, a Birmingham, Ala.-based regional, has spent a fair part of the last year pounding pulpits on the managed-account conference circuit with a simple message: do-it-yourself overlay technology is a better option for banks than outsourced versions – which he says are generally better suited to captive brokerage platforms.

Compass came across Smartleaf a few years ago in the course of researching overlay alternatives for its then-new wealth-management platform, the union of its bank-brokerage and trust-investment departments. Smurl says he and his colleagues were immediately struck by the flexibility Smartleaf offered in terms of running outside models to complement in-house management specialties.

Steve Winks, a Richmond, Va.-based wealth-industry consultant agrees that Smartleaf's technology works well in bank-based wealth advisory. "Each day, Smartleaf sends actionable, pre-trade compliant and tax-efficient recommendations with the rationale of each trade to the advisor," says Winks. "These recorded recommendations automatically keep each of thousands of unique client portfolios in compliance with the agreed upon investment policy statement. Because of this automation, banks gain access to best-in-class outside managers while maintaining the historically attractive profit margins associated with proprietary management."

Less conceptual

But **Justin Van Til**, head of business development at Smartleaf, fsays there's a call for hands-on overlay outside bank and trust channels. With that in mind, Smartleaf is out trying to forge alliances – similar to its deal with SunGard – with core accounting-system providers to RIAs and indie brokers.

SunGard meanwhile says its main focus now is on helping the banks that use its overlay platform increase uptake. So far, says Ferry, SunGard has about \$1.5 billion

in assets from about 15 banks, with the other half of its roster yet to get up and running. "The key now is circling back to help [these banks] leverage the platform."

But that doesn't mean SunGard plans to slow its sales efforts – in fact Ferry says the deals are coming in quicker these days, thanks in part to proselytizing by Smurl and other advocates of in-house overlay.

"Two years ago, overlay was largely a conceptual sale," says Ferry. "Now it's more accepted as a new approach to managing a wealth business." –FWR

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