



ECHELON

PARTNERS

Visionary Advice. Execution Excellence.

NEWS RELEASE

FIRMS FIGHT TO DOMINATE MANAGED ACCOUNT PROCESSING

Manulife Pulls Back From Managed Accts

October 12, 2004

Originally Published by Thomas Coyle, Fund Fire

The U.S. arm of Canadian insurance giant Manulife Financial has slammed the brakes on its third-party managed account business. The Toronto, Ontario-based company won't say why it shut the door to new managed account sales, but observers say Manulife might be reassessing the relative attractiveness of its multi-discipline offering as a result of its recent merger with John Hancock.

In a statement dated October 5, 2004, Manulife says it has "decided to significantly scale back initiatives in its managed account product line, *Manulife Private Account*, and discontinue new sales." The company adds that it "will review the business and make determinations about its future in 2005." For now Manulife's existing managed account clients "will continue to have the same features and benefits with access to the same investment management, overlay portfolio manager, tax harvesting and other benefits as well as the same service and support."

Manulife's scaling back looks like a salutary reassessment of business priorities to Dan Seivert, managing director of the Los Angeles-based merger-and-acquisition advisory and strategic consulting firm 3C Financial Partners. "Market, channel, and product-level rationalizations are extremely common in the months following a merger or acquisition," he says. "If that's the case, it's a positive sign because it shows that management is exercising great care in evaluating the new lineup of businesses and organizing them to maximize financial and marketing success."

Freezing Manulife's managed account program won't mean layoffs, according to a company spokesman. "Everyone will be re-deployed within the company," he says. But he declines to say how many employees are affected by the changes. Nor is he able to say how much *Private Account* has in assets under management. The platform is headed by Marc Costantini. James Brockelman is in charge of its sales and marketing effort.

It's unusual for a sponsor to pull back from the managed account business. Some third-party platforms have been acquired only to fizzle out entirely, as EAInvest did after BenefitStreet acquired it in 2002. But if Manulife's recent decision to scale back *Private Account* is a prelude to its dissolution, then it would be the first third-party platform owned by a big-name parent to disappear since Privateaccounts.com met that fate at the hands of acquirer E-Trade in 2002. Managers have pulled out of the business as well; most notably State Street Research & Management and Independence Investments. Independence is affiliated with John Hancock, now a part of Manulife.

Manulife barreled into the managed account space about two years ago with six multi-discipline offerings that blended six styles from five outside managers. Franklin Templeton ran large-cap value, Deutsche Asset Management managed mid-cap growth, OFI Private Investments handled international duties, Radnor Capital Management tackled mid-cap value and Salomon Brothers Asset Management ran large-cap growth and fixed income. Salomon Brothers affiliate Citigroup Asset Management provided overlay management, a function that attempts to rationalize holdings across a blended portfolio while enhancing its overall tax efficiency. About a year after the program first saw daylight Manulife added three new portfolios based on blends that featured AIM's multi-cap growth style and PIMCO subsidiary NFJ Investments' multi-cap value style.

Managers who were contacted declined to comment on Manulife's suspension of new business.

3C's Seivert characterizes Manulife's debut as a multi-discipline account distributor as visionary. "Most investment product distributors start with mutual fund wrap, separately managed accounts and fee-based brokerage and *then* they layer on multi-discipline accounts, exchange-traded funds, unified managed accounts and alternatives such as hedge funds and private equity," he says. "Bringing multi-discipline accounts closer to the front of the product evolution is something that was not possible in the past, and it underscores Manulife's belief in the new product category."

Manulife partnered with product pioneers Citigroup to develop its multi-discipline account program, notes Seivert. "By private-labeling or renting Citigroup's product, Manulife passed over the unattractive upfront costs and time associated with building or buying their way into this important product category." But when Manulife penned this deal the success of the multi-discipline account was largely confined to the Citigroup distribution system, he adds. "This announcement will leave industry executives curious to know if Manulife was ahead of its time given the product's continued evolution over the past two and half years," says Seivert.

Other sources, who asked not to be named, say that Manulife may simply have encountered trouble as a result of targeting advisors with more experience selling life insurance policies and variable annuity contracts — products that yield quick and comparatively attractive one-off commissions as opposed to the steadier but lower fees associated with managed accounts. Those sources also say Manulife's *Private Account* is distributed through insurance-heavy firms AIG, Signator and Jefferson Pilot.

As recently as July of this year, Manulife announced enhancements to its *Private Account* platform with a view to "making it easier for financial consultants to build their separately managed account business," according to a company press release. Last year Los Angeles-based consulting firm Marketing Matrix International praised Manulife's managed account marketing literature as unusually thorough, clear and accessible to investors and advisors alike.

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

Tyler Resh
Principal
tresh@echelon-group.com