



**ECHELON**  
PARTNERS  
Visionary Advice. Execution Excellence.

## NEWS RELEASE

### SCHWAB EXPANDS MANAGED ACCOUNT MENU

March 27, 2008

Originally Published by Tom Stabile, Fund Fire

Charles Schwab is broadly expanding its managed account offerings in a move that should increase access for separately managed account managers to the independent advisor marketplace. The rollout includes a wider set of turnkey asset management platforms, the addition in the past year of more than 50 SMA strategies to Schwab's in-house platform, and six new multiple-style portfolios.

The new turnkey platform lineup from the Schwab Institutional division now includes a bigger relationship with Investnet Asset Management of Chicago and the addition of Boston-based FundQuest and Chicago's Morningstar Investment Services. The move includes bringing on unified managed account (UMA) platforms from FundQuest and Investnet.

The new relationships have given Schwab a broader turnkey platform lineup, even though it already had 16 platforms available to its registered investment advisor (RIA) clients beforehand, says Barnaby Grist, managing director of strategic business development for Schwab Institutional. The reason is that a lot of the \$20 billion in assets on those platforms was divided up among turnkey providers that served particular market niches, such as Fortigent of Rockville, Md., which caters to a higher-end clientele, or BAM Advisor Services of St. Louis, which focuses on investment options for accounting practices. The newer sign-ups are broad-based, full-service platforms that offer a variety of portfolio construction and account administration services, he adds.

"We're being heavily driven by advisors here," Grist says. "We're really responding to the desire of RIAs for more outsourcing options."

The new turnkey options join the rapid expansion of Schwab's own SMA platform, which added nearly two dozen managers in the past year, and now has 75 managers with more than 200 SMA strategies. Still, Grist says the new announcements together are only a step in a larger expansion that will continue as demand rises.

Part of that will come from existing RIA clients at Schwab, because only about a fifth of the current base is tapping into the managed account options, says Jeff Carlin, vice president of managed accounts for Schwab.

Other growth will come from wirehouse financial advisors breaking away to build their own independent RIA shops, Grist says. Those advisors tend to be comfortable with managed accounts and want to make sure they have them available if they take their practices independent.

The RIA client base at Schwab is still largely a mutual fund audience, Carlin says. But he says the fastest-growing shops are the ones using SMAs, and adds that it's likely SMA exposure will only grow with the addition of more brokers breaking away from wirehouses and the introduction of the UMAs from FundQuest and Investnet. UMAs are products that consolidate different investment vehicles, such as SMAs and mutual funds, into a single custodial account.

The Schwab moves are good news generally for the SMA business because it will increase exposure to new advisors and help SMA managers penetrate the RIA market, says **Daniel Seivert**, CEO and managing partner at [Echelon Partners](http://www.echelon-group.com), an investment banking and financial services consultant in Manhattan Beach, Calif.

“The managed account industry will sell more if deals like this are done, because it opens up avenues for managers and [turnkey] sponsors to the end advisor,” he adds. “It’s really an education-driven process. [RIAs] have to embrace it and understand it, and it’s usually done on the backs of wholesalers at sponsors and at managers.”

Schwab’s upgraded relationship with Investnet is expanding the existing SMA and mutual fund menu while also adding the UMA, an exchange-traded fund (ETF) platform, and multi-manager accounts. Meanwhile, the FundQuest platform will also offer UMAs, multi-style products, a lineup of diversified retirement-planning funds from Russell Investments, and menus of SMA, mutual fund, and ETF products. The Morningstar platform will have mutual fund, ETF, and stock portfolios. Advisors are free to use one or more of the platforms, and most of them use a single Schwab-negotiated asset-based fee, Grist says.

Seivert says Morningstar’s addition is a big win for a relatively new investment product business for the company, which has made its name primarily in the data gathering and analytics arena. Seivert says while Morningstar’s current products are in the ETF and mutual fund worlds, it is likely to leverage its research on alternative products and SMA managers to develop similar product options for the high-net-worth space.

The new managers on Schwab’s in-house SMA platform adhere to the existing minimums of \$100,000 for equity products and \$250,000 for fixed income. The offerings split between 55 managers with about 75 strategies on the “Select” platform, which is compiled by a Schwab due diligence team, and another 20 managers with more than 150 strategies on the “Access” platform that are treated the same way administratively but are included on the platform by virtue of specific requests from advisors. Schwab also has a dual contract platform with 865 managers and 2,440 products. Schwab advisors and investors have \$36.7 billion in SMA assets overall.

The products added to the Select and Access platforms in the last year include offerings from AIM Investments, BlackRock, ClearBridge Advisors, Glenmede, ING Investments, Janus Capital Group, MFS Investment Management, Neuberger Berman, TCW, and Zacks.

The last element of Schwab’s product overhaul is the new multiple-style portfolios, which consist of three new asset allocation models run on separate tracks by two money manager complexes that are providing SMA strategies and overlay management. One set of the portfolios is overseen by Eaton Vance, with its Parametric Portfolio Associates arm providing overlay services, while the other is coming from Nuveen Investments.

The three options, dubbed “Diversified Portfolios,” include a moderate track tilted more toward fixed income than equities, a more aggressive option favoring equities over bonds, and an all-equities portfolio. Schwab created all three asset allocation models, and in areas where Eaton Vance or Nuveen affiliates did not have suitable products, it went outside those firms to include other third-party investments.

Echelon’s Seivert says he generally views multi-style portfolios that concentrate on a single manager complex’s products dimly because it does not take advantage of the “best manager available” approach. “It’s not considered open architecture,” he says. “It’s just considered a proprietary solution for the most part.”

Schwab’s institutional division provides investment and back-office services to more than 5,500 RIAs.

## 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