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NEWS RELEASE

LYDIAN BREAKS OFF FORTIGENT INTO TURNKEY ASSET MANAGEMENT PLATFORM

Lydian Spins Off Third-Party Platform

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Rockville, Md.-based Lydian, best known as a wealth manager for the ultra-wealthy, is spinning off a unit which offers investment outsourcing to advisory firms. The firm intends to build up the unit, known as Fortigent, into a leading turnkey asset management platform. The reorganization should help Fortigent gain ground in a competitive market, say industry experts.

Fortigent's goal is to have 100 clients by 2008, a 400% increase from the roughly 25 relationships it has now. Lydian has tapped Andrew Putterman, most recently president of Lydian Wealth Management, to serve as head of Fortigent.

The TAMP has its eyes set on three main markets: community and regional banks, registered investment advisors (RIAs), and top-producing advisors who have left large brokerages to form their own independent firms. TAMPs typically offer a range of outsourcing services to advisors, including a menu of investment managers, performance reporting and other capabilities.

"We are advising our clients on how to grow and position their businesses. We are upgrading their products and reducing their costs significantly," Putterman says. Fortigent's debut as a stand-alone company under the Lydian umbrella comes at a time of further consolidation in the TAMP market.

Last week, Genworth Financial's third-party platform unit announced the purchase of rival AssetMark for \$230 million, including additional performance-based payments of \$110 million over a five-year-period. Last summer, BNP Paribas acquired FundQuest for an undisclosed sum. Industry insiders consider the Genworth-AssetMark deal's price tag to be evidence of the space's viability.

Fortigent intends to add 25 employees to its staff of 85 to help kickstart its growth plan. The firm will also ramp up sales and marketing efforts. The new employees will specialize in research, technology and client service positions and will have an average of five to 10 years of industry experience, Putterman says.

Fortigent offers wealth management advisors neutral open architecture platforms, performance reporting capabilities, due diligence for manager selection, back and middle-office support, and access to numerous alternative investment strategies, including hedge fund of funds. Putterman says Fortigent tries to differentiate itself by providing clients with comprehensive advice on improving their existing business strategies, attracting end-clients with between \$1 million to \$10 million in assets, and avoiding unsuccessful practices.

Charles "Chip" Roame, managing director of research and consulting firm Tiburon Strategic Advisors, called the Fortigent spin-out a "big deal." Lydian's track record with the ultra high-net-worth market should help Fortigent gain ground with top-tier wealth advisors, he says.

"I am very impressed with Fortigent's capabilities, their manager selection capabilities, their performance reporting capabilities, but also their use of alternative investments, their understanding of concentrated stock position strategies," Roame says.

Roame expects Lydian should have no trouble achieving its growth targets. “The stand-alone Lydian Wealth Management company is quite successful as a multi-family office and upscale advisory,” he says. “Fortigent on its own has the potential to be a leading player in the TAMP market and the outsourcing market more broadly.”

While Fortigent seeks relationships with advisory firms servicing end-clients with between \$1 million to \$10 million in assets, it will also forge relationships with start-up practices that have little in private client assets but sound future prospects. But Putterman notes that such firms must be well-positioned to grow fairly rapidly once they partner with Fortigent.

“The wealth management industry is increasingly competitive,” Putterman remarks. “We believe one key to success is segmenting the market, identifying the unique needs of those segments, and then developing solutions designed to address those needs. Lydian Wealth Management and Fortigent now have the flexibility to service and support their specific market segments and establish their own brands within those segments.”

Fortigent’s existing clients include about nine community and regional banks, approximately five break-away advisors and several RIAs. The existing clients oversee \$3 billion in investment assets. The firm prefers to describe itself as an outsourcing wealth management solutions provider, and not as a TAMP.

Lydian Wealth Management CEO Steve Lockshin says the reorganization allows his firm to focus solely on providing services to families with \$10 million or more in investable assets.

“The boutique nature of our service culture has been a key to our success, and this segmentation strategy builds on that,” he notes in a statement. “We now have six offices around the country and a typical client size of \$25 million to \$40 million, with clients ranging from \$10 million to \$1 billion in investable assets. Our goal is for Lydian Wealth Management to be the go-to brand for families with \$10 million to \$100 million who are seeking an objective and comprehensive wealth management solution.” Lydian Wealth Management advises more than 230 families with approximately \$7 billion in assets.

Daniel Seivert, managing partner of investment bank and consultancy 3C Financial Partners in Manhattan Beach, Calif., says the value of Lydian’s TAMP operation should increase now that the unit is independent from Lydian Wealth Management. Overall, financial services firms are gaining a better realization of the TAMP market’s value.

“Their interest peaked when they observed the valuation multiples and millions in enterprise value attained by TAMPs selling in the last three years,” Seivert says. “These include Lockwood, Advisorport, Envestnet, and most recently AssetMark. Spinning off the TAMP asset could allow the firm to realize a higher valuation multiple that has been enjoyed by other TAMPs. Locked inside the larger organization, the asset may be pulled down and forced to take on the lower valuation multiples of broker-dealers.”

In aggressively growing Fortigent, Lydian faces the prospect of aiding firms that could be deemed potential competitors to Lydian Wealth Management. Industry experts, however, note that the wealth management space is so large – comprising 5,100 broker-dealers and 20,000 RIAs – that it’s unlikely Fortigent’s growth strategy will affect Lydian Wealth Management’s market share.

Putterman agrees that the fragmented disposition of the wealth management industry, combined with the fact that many Fortigent clients are in the early stages of building practices, make it unlikely that the firm will help competitors. For example, several clients are active in Lydian’s home market of the Washington, D.C. region and peacefully co-exist with Lydian Wealth Management.

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Daniel Seivert
Managing Director
dseivert@echelon-group.com

Tyler Resh
Principal
tresh@echelon-group.com