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Hilliard Rolls Out New Unified Acct Platform

Article published on July 18, 2008
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Hilliard Lyons[1] is the latest regional broker-dealer to construct a new unified managed account platform for its financial advisors and wealth management clients, continuing a stream of moves by such firms to add fee-based managed account platforms and shift their business models away from the commission mold.

And the broker-dealer based in Louisville, Ky., is taking the route that many smaller players in the managed accounts world have used by tapping outsourcers to help build the new platform. It signed on Placemark Investments[2] of Wellesley, Mass., as its overlay manager and Denver-based Prima Capital[3] as its analytics and data tools provider. It also asked DiMeo Schneider & Associates[4] of Chicago, its longtime consultant for due diligence and manager selection for its separately managed account (SMA) and mutual fund wrap platforms, to take on a similar role for the new venture.

The firm – formally known as J.J.B. Hilliard, W.L. Lyons – is launching its new UMA only months after the closing of a deal in which PNC Financial Services Group[5] of Pittsburgh sold it to a joint partnership of the Hilliard employees and Houchens Industries of Bowling Green, Ky., a diversified company with its roots in supermarket chains. Hilliard has 420 advisors who oversee $30 billion in client assets, with nearly $3 billion of that total in its fee-based managed account platforms.

Hilliard had begun developing the new UMA prior to the sale last year, and refocused on the launch after the deal closed March 31, says **John Shetterly**, senior v.p. and manager of consulting services at the brokerage. The UMA has been largely a home-office driven initiative, anticipating demand from Hilliard's advisors as they shift to a fee-based world.

"We knew where the business was going," Shetterly says. "We wanted to offer it to them before they had to demand it." Shetterly himself came on board from Baltimore-based Legg Mason[6] several years ago, and his team is charged with helping to build out fee-based platforms for Hilliard.

UMAs consolidate different investment vehicles into a single custodial account for clients, and the programs usually have an overlay component through which a manager applies customized tax management and other client investment preferences to each account. The Hilliard UMA is set to roll out next month with 40 SMAs, 70 mutual funds, and 22 exchange-traded funds, says **Liz Wisdom**, v.p. and manager of SMA programs for the brokerage. All of the SMA managers will provide their investment models to the overlay manager so that it can execute trades within the context of each client's preferences. Wisdom says Hilliard is happy with its current lineup, though it will add managers and strategies as demand grows.

Hilliard is probably introducing its UMA at about the middle of the adoption curve for the regional broker-dealer market, says **John Shields**, principal at MainStay Consulting Group[7] in Portsmouth, N.H.

"They have been going from mutual fund wrap platforms to SMAs and now to UMAs, and we'll be seeing the unified managed households more often," he adds. "It's an evolutionary process. A lot of the broker-dealers are seeing the need for bigger and better fee-based programs. This isn't just a fad."

Part of the impetus for the adoption of UMAs is that brokerages are trying to stay ahead of the demands of their largest advisors, who generally gravitate toward the annuitized revenue model of the fee-based world. "You provide those services so the representatives can stay right where they are," Shields says. "You have the capabilities they would [seek] if they wanted to go be an independent [registered investment advisor]."

Another driver is that the annuitized revenue of a fee-based model is also better for the broker-dealer's bottom line, Shields says.

Tapping outsourcers for help is also a clear path for firms that don't yet have big asset flows into fee-based programs, allowing them to "rent" the technology and expertise, Shields says. Building a UMA in house is typically the choice for the wirehouses or larger independent broker-dealers, such as LPL Financial[8] of Boston, he adds. "If you do it yourself, it gives a little more control over the economics – a better chance of making more money and being able to adjust the pricing and pass along [savings] to clients."

In Hilliard's case, it has assembled a UMA with the latest "bells and whistles and features," says **Randy Bullard**, executive v.p. for business development at Placemark. That includes the option for advisors to select preset allocations tailored for specific client risk profiles but also be able to partially customize each client's account to meet individual preferences. That is an improvement over earlier UMA editions that only gave advisors a preset bucket of investments with no ability to tweak offerings.

In Hilliard's case, that flexibility is limited somewhat by upper and lower limits on the firm's asset allocation guidelines for specific client risk profiles, says SMA director Wisdom.

"The advisor can adjust the allocation to different asset classes, and within an asset class can choose between styles, such as growth or value," she adds.

Prima's role is focused on offering analytics, data collection, and other research tools, particularly in assembling return, composite, and portfolio holdings data from the money managers in the new UMA. It uses those to create reports and historical performance simulation evaluations, says **J. Gibson "Gib" Watson**, Prima's president.

"We've integrated the historical simulation tool here with Placemark, so that the Hilliard due diligence analysts and financial advisors can have a pretty powerful application to use for their clients, all working out of the same set of data," Watson says. Prima and Placemark have partnered similarly in the past, he adds.

Links

1. http://www.hilliard.com/
2. http://www.placemark.com/
3. http://www.primacapital.com/
4. http://www.dimeoschneider.com/
5. http://www.pnc.com/
6. http://www.leggmason.com/
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