

fund marketing alert

Critical intelligence for the fund sales community

SMA Player of the Year

March 11, 2005

Len Reinhart, president of Lockwood



In 2003, Len Reinhart brought Lockwood Financial under the wing of Bank of New York and later merged it into correspondent clearing giant Pershing, now also owned by the bank. The deal between BNY and Lockwood has brought Lockwood from \$8 billion to \$14 billion in 2004. Lockwood now has 37 broker/dealers signed on to two new platforms and last year brought in \$3 billion. What's more, Reinhart's firm has potential access to 1,100 broker/dealers and 100,000 reps and will bring sophisticated money management to the independent market. Reinhart brought to independent advisors what was once only available from the wirehouses. Reinhart founded Lockwood in the Fall of 1996, going after independent RIAs and amassing \$8 billion in assets by 2002 with the bull market at its back. By the end of the bull market, Lockwood started seeing SEI Investments and Charles Schwab & Co. competing full throttle. Everyone at this point was interested in the separately managed accounts business and Lockwood felt it needed a partner to compete. Schwab even inquired about buying Lockwood, but Reinhart nixed the idea, and the discount broker built its own SMA capabilities. Reinhart hired Putnam Lovell to look at the market and help it find a partner. He bet on BNY, which was getting into the clearing business and had an outsourcing service for institutional managers. Shortly after getting in with BNY, the bank said it would acquire clearing giant Pershing, a boon for Reinhart.

A senior executive close to Reinhart added that, "they [the sponsors] all have a feeling for how the consultative relationship between the advisor and client will evolve. They all know that the process as opposed to the product push will win out; but Reinhart sees it more brightly and clearly than others." He added that the TAMPs [Turnkey Asset Management Programs] that can figure out how to take advantage of Len's expertise will win. "Frankly, it's an enormous opportunity for Pershing," he added.

In 2004, Reinhart proved his case for the benefits of the marriage with BNY. "We were always marketing advisor to advisor," but Pershing had 1,100 correspondent clearing broker/dealers and 100,000 brokers. Lockwood created Managed Account Advisor and Managed Account Command. Under the Command model, Lockwood would provide the technology and infrastructure and the institution would provide the research. Managed Account Advisor was the private label version. The firm launched these platforms at the beginning of 2004 and now has 37 B/Ds signed on. Sixty percent of the business is on Managed Account Advisor, while the other 40% is in Command.

On the technology front, Lockwood has taken advantage of the bank's deep pockets by directing BNY to buy Osprey, a technology and recordkeeping firm founded by Jay Whipple that Lockwood had been using almost since its founding. Once Osprey said it wanted to open its work up to other clients, Lockwood went to BNY to convince it to buy the firm and keep Osprey's work proprietary. Lockwood is now customizing Osprey software so it can deliver tailored programs to Pershing B/D partners. In addition, Osprey is creating the backbone of a new platform for the retiree market, which Reinhart says will create defined benefit-like plans for individuals.

The acquisition of Lockwood by BNY has had a huge impact on the so-called TAMP market, according to industry consultants. Players such as ADVISORport have already been acquired by PFPC. "It's harder for TAMPs to survive on their own," said Reinhart. These players have to compete with the SEIs and Lockwoods with their technology arms and deep coffers. "Now we can offer product from the biggest

custodian in the world," he added. Lockwood's Next Big Thing will be a platform for retirees, a market coveted by financial services firms. But few product offerings exist despite the rhetoric and demographic projections for growth. The retiree financial services space is one that will likely be filled by separate accounts, and Lockwood is again using Osprey to help develop a unified managed account that will include hedge funds, private equity, SMAs, exchange-traded funds, mutual funds, and commodities. "Every asset we can mix in there," said Reinhart. In describing the new platform, which will be released this year, Reinhart says his career has come full circle. "My close to 30 years in the business has been about wealth creation," he said. Now Baby Boomers are approaching the drawdown stage, "We taught people about performance and choosing managers, and now they're wondering about how to make their dollars last for another 35 years." He said pension funds have managed liability by adding asset classes to smooth out volatility and create predictability. That's Reinhart's mission now: to convince individuals and advisors that hedge funds and other asset classes don't add volatility, they instead add predictability. The discretionary UMA will at some point include guaranteed payments. Referring to his own father, who retired after a long career with AT&T and had a pension to live on, Reinhart said Baby Boomers don't have these safety nets. Now he says he's in the business not of helping institutions create nest eggs for their retiring employees but of helping individuals build defined benefit plans for themselves.

Reinhart's career which began in the late 1970s as one of a handful of people in the institutional pension consulting group at E.F. Hutton, At the time, institutions were going through some of the same changes that later contributed to the rise of the mutual fund industry. Institutions were taking money that was parked in fixed-income investments at banks and handing this money over to independent money managers. Reinhart was the first research analyst the consulting group hired to take a rigorous approach to choosing money managers. The group, run by Jim Lockwood (later to be the namesake for Reinhart's independent business venture), then forged ahead and took its sophisticated research operation and performance reporting and started offering similar services to smaller pension funds. From there it evolved to serve high-net-worth investors. E.F. Hutton started training brokers to consult to small pensions, convincing money managers to take on these smaller mandates by promising to free them from operations, recordkeeping and performance reporting. That paved the way for the separately managed accounts business today, and in 1987, Hutton created the Select Managers Program, which provided automated back office services and portfolio recordkeeping in return for the managers reducing their fees and accepting minimums as low as \$100,000. Chris Davis, director of the Money Management Institute, a trade group for separately managed accounts, said, "Len is one of the best regarded visionaries in the industry. What he built at Smith Barney Consulting Group, and then Lockwood will be tremendously leveraged with the Pershing/Bank of New York merger."