

AEPG Wealth Strategies

Lessons learned from the '08 market meltdown led AEPG to thoroughly revamp their approach to managing client investments

EXECUTIVE SUMMARY

AEPG had already begun a yearlong strategic assessment of their practice-management operational platform when the Great Recession struck. They responded by expanding the scope of their review to include a thorough reevaluation of their investment management methodology. As a result of their prescience — and a wise outsourcing decision — AEPG was able to bounce back from the economic downturn with new investment strategies and products, providing substantial value-added to the firm and their clients. And AEPG's investment management professionals now have 30% to 40% more time to spend on research and client-facing activities.

PROBLEM: Barriers to Growth

AEPG began by taking an objective look at current business practices in light of the economic environment and investor sentiment. Management identified three key areas that were limiting client satisfaction, asset growth and firm profitability:

1. Investment management approach

AEPG's modified buy-and-hold approach reduced their ability to react nimbly to volatile markets. In addition, client assets were largely held in a legacy set of pooled investment vehicles and mutual funds, which created issues with liquidity, transparency and cost efficiency.

2. Operational inefficiencies

As assets under management grew, so did operational complexity and internal staff requirements. Tasks such as rebalancing client accounts, and creating quarterly reports and tax packages were placing a heavy burden on internal operations staff. And management was still relying on manually created — and less than timely — spreadsheets to monitor the health of the business. These inefficiencies were constraining AEPG's profitability.

3. Client reporting and communication

Clients were starting to complain about the timeliness of their report packages. They were also dissatisfied with AEPG's online capabilities, and wanted more access to better information via a client-centered portal.

BOTTOM LINE BENEFITS

- All rebalancing, trading, reporting, back office, and manager-contracting activities are outsourced to Adhesion.
- A new, market responsive "Core/Satellite" investment model gives AEPG's clients access to leading managers and products.
- Investment vehicles with increased liquidity, transparency and tax efficiency at lower cost.
- An improved client experience via an online AEPG-branded portal that provides access to reports and portfolio details in rich color.
- 30% to 40% more time for AEPG's investment management professionals to spend on investment research and client interaction.
- AEPG advisors have access to online inquiry tools for monitoring and analyzing the activity, holdings and performance of their clients' accounts. No more Excel spreadsheets.
- AEPG executives have better business-management tools through Adhesion's proprietary dashboard.
- AEPG can now efficiently support far greater numbers of clients.

THE SOLUTION: Focus on core services by outsourcing utility functions

After identifying their key business challenges, AEPG took a full year to research and analyze possible solutions. They created an operational roadmap for the future of their business. Fundamental to this roadmap was distinguishing between the core, value-added services that their clients were paying them for and utility functions that could be opportunities for outsourcing. Here's how AEPG Executive Vice President Peter Needham, CFP®, explains it:

“Our investment management expertise is a key part of our value proposition. Our priority was to free our investment team to focus on that aspect of the business, conducting investment research, designing strategies, vetting managers and constructing model portfolios. Similarly, we wanted to make sure our advisors were laser-focused on what they do best — business development and client relationship management, comprehensive financial planning and insurance and risk management.”

AEPG then identified those utility functions that would likely be performed better-cheaper-faster by outsourcing to a skilled provider:

- Portfolio rebalancing, trade execution and tax harvesting
- Client performance reporting, portfolio accounting, business continuity
- Practice management reporting and client billing

With these outsourcing targets identified, AEPG wrote a detailed RFP and sent it to a dozen outsourcing providers.

With a clear view of requirements and priorities from their operational roadmap, AEPG quickly whittled down their original list of 12 candidates to four real contenders. They conducted a detailed review of the each before making a final selection.

“Adhesion proved to be the clear choice based upon flexibility, ease of conversion, cost and their focus on the RIA marketplace,” says Needham.

THE RESULTS: Enhanced investment services. Happy clients. Lower cost.

UMA platform adds flexibility at lower cost

Teaming up with Adhesion, AEPG's first order of business was to convert its client data and hand off direct responsibility of the functions they had decided to outsource. Then they began the task of changing their entire operating platform and creating new investment models. As Needham explains it:

“We wanted to maintain control over investment management, but solve the issues we had around lack of transparency, expensive investment costs and lack of flexibility to respond to evolving market patterns,” Needham says.

Adhesion's Unified Managed Account platform proved to be the ideal delivery vehicle for AEPG to implement their proprietary Core/Satellite investing strategies. Accessing the managers via model portfolios gave AEPG the added flexibility they wanted — and at a significantly lower cost compared to engaging the manager directly via pooled client assets, separately managed accounts or even their mutual funds.

Portfolio monitoring and rebalancing: A weeklong job now takes 2 hours

One of the most time-intensive aspects of investment management is the ongoing monitoring and tactical adjustments that must be made to client portfolios. AEPG took advantage of Adhesion's Overlay Portfolio Management services, and now it's Adhesion that monitors AEPG's client accounts, keeping them aligned to their target allocations, while implementing manager model changes and AEPG's tactical adjustments. AEPG advisors no longer have to allocate valuable time to these ongoing implementation tasks — an area where they lacked the expertise and technology to perform efficiently. Account rebalancing, which previously took AEPG at least a week with in-house resources is now accomplished in under two hours.

No more “taxing” problems with AEPG’s new Core/Satellite strategies

Adhesion's sophisticated UMA platform gave AEPG a framework for enhanced tax management services for their clients. At the most basic level, Adhesion's OPM service tries to minimize negative tax consequences that drag down after-tax returns. With AEPG's new Core/ Satellite strategies, even greater tax efficiency was possible.

The Core component consists of several ETFs that track the MSCI ACWI Index. Adhesion routinely harvests losses from the Core to offset against gains from the Satellite components. For larger clients who are more tax-sensitive, the Core is implemented with an optimized model of individual stocks that track the S&P 500 portion of the global index. The individual stocks provide greater opportunities to harvest tax losses.

The Satellite portion of the portfolio represents AEPG's best investment ideas. AEPG designed 23 strategies to facilitate a broad range of client risk, including parameters for drift tolerance, cash levels and minimum trade sizes. On top of these standardized strategies, Adhesion's platform accommodates client-specific restrictions and tax mandates. The result is a highly flexible investment solution for clients and a high degree of efficiency for AEPG compared to the firm's prior investment management structure.

An unexpected benefit: A new revenue stream

AEPG got more than they expected when they decided to revamp the way they manage their practice. They uncovered an entirely new revenue stream.

Historically, AEPG grew assets under management by hiring experienced financial planners. Now, because the firm has achieved economies of scale via outsourcing, Needham observes:

“We can partner with individual planners, other RIAs, breakaway brokers, CPA firms and community banks in ways that were not imaginable before. AEPG now offers Web-based client performance reporting, portfolio accounting, client billing, practice management reporting and business continuity to other firms, under the client-firm’s own brand. We even provide back-office custodial support in the form of new account openings, ACATs, journals and automated deposit and withdrawal schedules. Most exciting is our ability to offer our own private label investment models coupled with back-office support as a fully disclosed sub advisor.”

Not only did AEPG's partnership with Adhesion help improve client service and cut costs, but AEPG has now founded a new line of business based on the firm's crown jewels – their successful investment strategies. ■

The background is a vibrant green with a series of thin, curved lines that create a sense of depth and movement. In the upper right corner, there are several 3D cubes of varying shades of green, arranged in a diagonal line that recedes into the distance.

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