

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

eFrontiers Puts Möbius, Manager Search and RFP Process On-Line for Free



Steve Winks

Steve Winks is co-founder of The Society of Senior Consultants and publisher of Senior Consultant. He ran the third largest institutional and retail consulting initiative on Wall Street. He managed most of the major product areas at Wheat First Securities, building many from scratch which accounted for over a third of the firm's revenues. As president of FSC Advisory, he worked with its founder, John Bell Keeble, the father of Financial Planning, who coined the phrase "financial service." In 1992, Steve, along with Tom Roginski of Portfolio Construction Technologies, pioneered the first internet-based, comprehensive investment process technology tied to a virtual real-time balance sheet and income statement. Steve may be reached at 804-795-1642.

Like the siren song of Greek mythology, the alluring call of the internet has become faster, better and cheaper, yet its promise has always been access. The internet is the vehicle that will take the thesis of investment management consulting into the financial services mainstream. It has been 40 years since modern portfolio theory was formulated, and it still has not been embraced by the financial services mainstream.

Most investors do not understand it is not possible to add value in a commission brokerage account through a series of disjointed, unrelated transactions with no accountability for performance. Half of all institutional accounts do not have a statement of investment policy, and not so coincidentally, half of all institutional accounts have not engaged the professional investment and administrative counsel of an investment management consultant. Ninety-nine percent of all investors have not had an asset study that establishes how all their assets look as a portfolio, delineating its risks, returns, tax efficiency, liquidity and cost structure relative to goals and objectives. Most investors are not even aware the investment discipline of investment management consulting exists or that there is a process through which high level professional investment and administrative counsel is provided.

The key to this thesis of adding value being embraced by the financial services mainstream is to provide free access to its process, technology and methodology via the internet. Only with access will Nobel Prize-winning investment theory that drives investment management consulting begin to come alive for all financial advisors and all investors. eFrontiers.com is literally beginning to move the financial services marketplace toward advice by providing free access to the Möbius separate account database and a powerful investment manager search and selection

process which includes a template to create customized on-line requests for proposals that streamline the RFP process for investors, managers and consultants.

With eFrontiers' manager search and selection process and the RFP process on-line for institutional investors, managers and consultants, we are at the very beginning of what will become the Renaissance of investment management consulting, as to many investors a whole new investment world is evolving. By gaining access to the tools of high level advice, every investor will begin to understand their own limitations, their exposure to

fiduciary liability and the value of engaging professional investment and administrative counsel. Every manager who has to struggle with the arbitrary complexities of the request for proposal process will revel in the streamlining and standardization of 80% of

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their replies. For consultants who do not have access to sophisticated data or who do not yet have sufficient scale in their practices to justify a technical analyst fully dedicated to search and selection, eFrontiers provides access and efficiencies in search and selection which otherwise would not be possible. Even for consultants who have scale, the on-line management of information facilitated by eFrontiers eliminates hundreds of hours of creating spreadsheets, comparing intricate manager selection criteria for institutional and high net worth clients. This frees up invaluable human resources. In fact, through eFrontiers, the consultant gains an invaluable tool to communicate otherwise unwieldy information with clients. eFrontiers is an important catalyst in taking investment management consulting into the financial services mainstream and for investment management consulting to become the financial product and service delivery methodology of the 21st century. In building awareness for high level advice and in providing access, the demand for eFrontiers' services and investment management

consulting will grow exponentially. Of the 650,000 financial services professionals, there are only 5,000 senior investment management consultants capable of providing high level advice implied by the six financial services (asset study, investment policy, strategic asset allocation, manager search and selection/form of ownership choice and selection/portfolio construction, performance monitor, tactical asset allocation) that comprise the investment process required by ERISA. It is through this investment process that the consultant adds value in terms specifically meaningful to each client. eFrontiers' delivery platform is the investment industry's first business-to-business, on-line marketplace for institutional investors offering a highly attractive platform to facilitate high level advice. Tom Sjoberg, investment manager for Levi Strauss & Co., said, "I am anxious to use it. This service is like Schwab for institutions. It is a most useful and innovative product for research and selection."

eFrontiers' suite of services initially includes four services designed for manager search, an on-line customized request for proposal process, an on-line RFP evaluation process between consultant and investor, and a high level news service exclusively tied to *Institutional Investor* which will pull from a wide range of newsletters and professional journals.

- eSearch is a manager search engine powered by the Möbius Group unit of Check-Free Investment Services, which tracks over 1,300 firms and 5,000 institutional investment products in its database. There is a no-pay-to-play requirement of managers which would bias the search process by eliminating managers from consideration. To assure the neutrality and independence necessary in an objective search outcome, eFrontiers does not accept advertising from investment managers. eFrontiers earns a modest uniform fee from managers of 5% of management fees in the first year, 2% in the second year and 1% in the third year, only if they are successfully matched in a search with an investor. Thus, eFrontiers offers an extremely low-cost distribution for investment managers and does not contribute any additional cost to the consultant or the investor, making it essentially free. The patent-pending

eFrontiers web site stresses its neutrality and independence in manager selection.

- eRFP customizes and streamlines the process for constructing, distributing and responding to requests for proposals and questionnaires used by investors and consultants by putting it on-line. Using 35 variables to include literally anything the investor may wish, eFrontiers makes it far less demanding for consultants and investors to create RFPs, far easier for managers to respond and far less complex for consultants to review, manage and evaluate information with their clients. A faster, better, cheaper comprehensive search results.
- eMatch is an on-line service that enables investors and consultants to compare and evaluate manager responses to eRFPs, notify finalists, and award assets on-line, if desired.
- eFrontiers features Desktop, a portal sponsored by *Institutional Investor*. The eFrontiers editor screens and delivers

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very high-end news and articles to the investment marketplace that would not otherwise be widely disseminated, drawing from *Institutional Investor* and hundreds of other journals, magazines and newsletters.

In this new, on-line business-to-business model connecting consultants, institutional and high net worth investors, and money managers, all participants find a faster, better and cheaper way of doing business. Every money manager in the business is attracted to its streamlined RFP process, its expanded distribution and its success-based cost structure. eFrontiers levels the playing field for all consultants, whether they have a small practice or a large one. For small practices, it provides access; for larger practices it provides highly desired operating efficiencies. For the millions of institutional and

high net worth investors, they gain access and awareness to the investment management consulting discipline through which the highest level of professional investment and administrative counsel can be achieved. This will only whet their appetite for the full range of high level service or make them aware of their own limitations. Jeff van Orden, a principal of institutional consultant Milliman & Robertson and president of the Investment Management Consultants Association (IMCA), said, "It appears that someone has finally gotten it right. eFrontiers may very well make life simpler and more effective for the entire investment community. As they add even more services, this could continue to change the way business is done."

With institutional and high net worth investors gaining access through eFrontiers to high level manager search and selection, their expectations for high level service is greatly elevated in the commission brokerage-driven world of financial services. For

many institutional investors and family offices that would use eFrontiers directly without a consultant, they have had difficulty in finding high level advice and have had to resort to building their own advisory service function in-house. Yet, by having to make a substantial capital commitment in people and resources to facilitate high level advice and service in-house, their costs are far out of line with the comparable services provided by capable senior investment management consultants. Thus, by creating an on-line collaborative environment that is geared to high level advice, many higher end institutional and family office investors who do not engage consultants may find a more attractive environment to engage that high level advice and the services of an accomplished investment management consultant. eFrontiers offers an environment where the consultant's services are more clearly delineated from institutional commission brokerage which offers disappointing service that adds little or no value.

Charlotte Beyer, founder and CEO of the Institute for Private Investors, observed, "eFrontiers is the manifestation of a long-term shift in power from the provider to the consumer. When the consumer is empowered, they will find it neither timely, wise or cost effective to be their own investment

management consultants. Thus, by creating an on-line collaborative environment that is geared to high level advice, many higher end institutional and family office investors who do not engage consultants may find a more attractive environment to engage that high level advice and the services of an accomplished investment management consultant. eFrontiers offers an environment where the consultant's services are more clearly delineated from institutional commission brokerage which offers disappointing service that adds little or no value.

and administrative counsel. What the investor values most is wisdom, not just investment recommendations." Wisdom only comes from conducting an asset study and getting to know and understand the client's assets better than the client and how they function as a portfolio. Wisdom only comes when you understand the client, their financial needs and circumstances in great detail and are able to translate those needs into an investment strategy and formalize it with a written statement of investment policy. Wisdom only comes after years of quarterly quantitative reviews, explaining what is going on in the capital markets, how it affects the client's portfolio and monitoring the investor's response to evolve investment policy and investment strategy. Wisdom is the consultant knowing more about the client and their assets than the client could possibly know by virtue of their objective vantage point. Fortunately, wisdom is in far greater demand than there are accomplished consultants in supply. eFrontiers' Brian Fitzgibbon who heads sales is absolutely right when he says, "eFrontiers really is going to revolutionize the institutional investment marketplace." The marketplace for high level advice will greatly expand, investors will go far deeper in the investment process, and the services of the accomplished senior investment management consultant will be in greater demand than ever before.

Having only just been introduced for a week, early adopters of eFrontiers marketplace include the massive New York State Teachers Retirement System, Harvard University, Georgia-Pacific Corporation, investment consultant Milliman & Robertson and the Zambetti Family Office. Dozens of other investors representing nearly \$1 trillion in assets have already indicated they will be utilizing eFrontiers. "This really is the start of a new era in institutional investing. eFrontiers will streamline the manager selection process and level the playing field for institutional investors and consultants alike," said Arpan Patel, eFrontiers' co-founder and CEO. A very large number of investment managers are also signing up to participate. President and co-founder, Steven Cohen, said, "By providing direct process access to investors and consultants conducting searches, eFrontiers expands distribution for all investment managers in a cost-effective manner."

The most subtle but most important contribution to eFrontiers is that it also marks the beginning of a shift from product management to process management. It recog-

nizes financial products do not add value; it is the process or what you do with the products that add value. eFrontiers is process management rather than product distribution and trade execution.

As eFrontiers expands its suite of services, it is not inconceivable that it would eventually offer the full comprehensive range of services that would include asset study, investment policy, strategic asset allocation, performance reporting and tactical asset allocation to complement its on-line management search and selection services. No major financial services firm in the U.S. is currently offering this level of service which would address and manage the investment values of risk, return, tax efficiency, liquidity and cost structure necessary in order for investors to achieve their long-term goals and objectives. Thus, eFrontiers may well become the purveyor of a comprehensive investment process technology tied to a virtual real-time balance sheet and income statement which includes all the client's assets and liabilities that has been so difficult for the product-focused commission brokerage mainstream to phantom. By definition, the consulting industry cannot rely on the financial services mainstream to create fully integrated, comprehensive investment process technology because that would mean they would have to accept it, embrace it and understand it before they create it, which is not likely, given their commission brokerage focus, culture, structure and technology. Thus, eFrontiers may be the institution that capitalizes on the trend toward high level advice by filling the investment advice and investment technology vacuum. Whether it is eFrontiers, The Investment Source Company (see front page story of *Senior Consultant*, March 2000) or some unknown technology firm that ultimately fills the investment advice vacuum, the investment management consultant has an important strategic ally in eFrontiers in advancing the thesis of investment management consulting and in addressing and managing the investment values most important to each investor in terms they understand. eFrontiers makes the investor more aware of high level advice and by providing free access to process on-line, eFrontiers provides a vehicle that greatly accelerates the acceptance and emergence of investment management consulting by the financial services mainstream as the financial product and service delivery platform of the 21st century. ■

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