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Company Profile: Evercore Proves Its Worth Since Launching In Great Recession

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New York
30 March 2012

Even in the best of times, carving out a niche in the high end of the wealth management business isn't for the faint of heart. The competition is brutal, clients are skeptical and profits can be elusive.

Jeff Maurer, the former chief executive of US Trust, teamed up with investment bankers Evercore Partners to form Evercore Wealth Management in the worst of times - December 2008, the depths of the Great Recession.

Maurer got off to a fast start – the firm pulled in $1.5 billion in assets within a year in an awful market, relying heavily on its US Trust pedigree. About 90 per cent of the firm's assets came from US Trust clients via the 16 former US Trust executives who became Evercore Wealth Management partners.

While impressive, industry observers wondered how New York-based Evercore would fare after the low hanging fruit was picked. Could it continue to grow rapidly? Shed its dependence on the US Trust pipeline? Fully leverage its relationship with Evercore Partners? And, perhaps most critically, could the firm continue to employ its highly praised but cost intensive US Trust-style high-touch service model and still turn a profit?

"Quality player"

A little more than three years after its launch, Evercore, led by CEO Maurer, has proven it isn't a flash in the pan. While flying "a bit under the radar," it has nonetheless established itself as "a quality player in the marketplace," according to investment banker Liz Nesvold, managing partner at New York-based Silver Lane Advisors.

The firm's assets now total $3.2 billion, and Maurer said it was on track to add $1 billion more this year. In addition to its New York and San Francisco offices, Evercore established a presence in the Midwest last year via a major – and costly – lift-out, bringing on five wealth managers from Wells Fargo's elite Lowry Hill private asset management boutique in Minneapolis as partners.

Evercore has also been aggressive in its hires. Last year it hired prominent ultra-high-net-worth rainmaker Randy Allison Hustvedt from Federal Street Advisors in Boston, where she founded and led the firm's family office. And this month, Family Wealth Report learned, Evercore snatched up-and-coming talent Paulo Coelho from Convergent Wealth Advisors to join its business development team.

Evercore appears to be weaning itself from relying on former US Trust clients, who still make up about two-thirds of its 370 clients, according to Maurer. Last year only 20 per cent of new clients came from US Trust, he said, a number he expects to keep declining.

By contrast, Maurer expects to pick up more business from Evercore Partners, which owns 51 per cent of the firm. Connections with the investment bank accounted for about $250 million in assets since the firm launched, a number he believes will increase significantly.

"We wanted to make sure we had a three-year track record in our proprietary products in place before we really moved ahead with Evercore Partner referrals, " Maurer said. "We're going to have a series of meetings in the second quarter with their partners about prospects. We haven't scratched the surface yet as far as what Evercore Partners can do for us."

Tough competition

Evercore may well need all the help it can get in securing new clients in an extremely competitive space.

True, the firm's US Trust lineage and its highly personalized service give it a big "cultural advantage" in the market, according to prominent industry consultant Jamie McLaughlin. "They are very much in front of client demand and will be rewarded," McLaughlin said.

But Evercore and boutique to mid-size wealth management firms like it also face a daunting problem, McLaughlin said.

"Branding and visibility in the wealth business is very hard with the three remaining large brokerages competing for the same clients and crowding out the emerging registered independent advisors and multi-family offices," he said. "As much as they try to frame the case for an alignment of interests, clients are unprepared and unaware of the difference in firm models and often don't know what questions to ask of firms."

Maurer brushed this line of reasoning aside, noting that even US Trust was relatively small compared to the industry giants. "I think it's become apparent to educated consumers that size isn't correlated with investment performance or client service," he countered. "Our size allows us to be nimble, and we can impress centers of influence who are less motivated by advertising. And we can still grow exponentially by referrals. To grow by 25 per cent, we would have to add about $800 million. A large brokerage firm would need much more than that to grow by 25 per cent!"

Evercore also faces tough competition from like-minded high end, high touch firms like Goldman Sachs, Bessemer and Northern Trust, Maurer admitted. But he was less concerned about the high-profile corner office wirehouse teams that are signing up with rising industry stars like HighTower and Dynasty.

"We don't run into them very much," Maurer said. "The distinguishing factor is that they're not building a firm. Instead, it's a bunch of teams who have their own clients and are reluctant to bring in other members of the firm to help serve the client. Our clients are served by the entire firm."

Nor is Maurer shying away from critics of the firm's proprietary investment products, which account for about 70 per cent of its offerings.

Firms who only offer open-architecture investments usually charge a one per cent fee for assets under management and an additional 20 to 40 basis points for an outside manager, Maurer said. Evercore's in-house products are bundled into the firm's fee, he continued, and if clients are unhappy with performance, Evercore shifts them into an outside fund.

"It's a very easy sell," Maurer said. "I'm perfectly willing to go toe-to-toe with an open architecture firm and compare results net of fees."

Clearly the biggest move Evercore has made since its launch is the Lowry Hill lift-out, which brought in five senior executives, including Martha Pomerantz, portfolio manager and co-manager of Evercore's new Minneapolis office. Financial terms were undisclosed, but Maurer did say the investment was big enough to prevent Evercore from making a profit last year.

Pomerantz said she fielded numerous offers, but chose Evercore because of its service culture, in addition to its investment team. "There aren't many other firms that would assign a second senior person to a team," Pomerantz said. "What appealed to me was a higher level of strategic wealth planning that was very unusual, and which combined with their investment management capabilities, made for sticky relationships."

Evercore put up the money to establish the new office and its operating platform, made the ex-Lowry Hill executives partners, and pays them a salary. But the new partners also wanted to be entrepreneurs, Maurer said, and are paid a lower salary in exchange for "equity in what they build".

Matthew Andrulot, east coast regional director for Fortigent, the wealth management outsourcing firm recently acquired by LPL Financial, called the Lowry Hill lift out "a great acquisition that expands Evercore's footprint and gives them a nice base in the Midwest".

But one competing wealth management executive who did not want to be identified noted that "every firm lift-out brings cultural issues, especially when it's in an entirely different city. There's a temptation to be your own little fiefdom. Even though Evercore likes to talk about being such a tightly integrated firm, when you take on such a big lift-out so far away, you're putting that at risk".

Maurer said he wasn't concerned and noted the "courtship" period between Evercore and Pomerantz and her team only took six months. "We spoke the same language," he said. "We were able to finish each other's sentences."

He said he expected the Minneapolis office to "fill its book" and add partners in the next two to three years. "There are good people in the area and they have a good ultra-high-net-worth prospect list," Maurer said.

Growth plans…and challenges

Maurer said the firm is targeting clients who have $5 million and above in investable assets, and the average client size is $10 million. Future expansion will be "opportunistic," he said, and most likely center on Los Angeles, Boston, Washington DC and Florida.

After absorbing the Minneapolis lift-out last year, the firm finally turned a profit in the first quarter of 2012, Maurer said. Asked how he would grade the firm after three-years, Maurer gave high marks to asset allocation, proprietary products and client service, noting that the firm expects to keep the number of client relationships per relationship manager to under 40.

Maurer said the firm could "always do better on new business," and expressed "a little disappointment in tech," adding that the firm was looking for more cutting edge technology. "One reason growth is so important is that you can spend more on tech and in-house infrastructure and new innovations," he said.

Rapid growth and improving infrastructure can be a delicate balancing act, said Fortigent's Andrulot, an investment manager outsource provider for Evercore. "Excessive growth brings positive revenue but you also have to build out service and infrastructure to service the ultra-high-net-worth client," he said. "Sometimes it's difficult to keep pace."

Growth momentum will be a challenge, and will require "continued organic development and possibly some acquisitions," said Nesvold, who added that she was impressed by the "potential for new business development coming out of the investment banking side."

Looking ahead, she said, "My money's on Evercore."