
The SmartNest Back-Story

By Editor Test *Wed, Oct 24, 2012*

SmartNest, the software behind DFA's new managed account program, was valued at \$1.1 million when Trinsum Group, its previous owner, failed in 2009. Last summer, DFA insider Michael Lane, 45, (above) replaced David Deming as the venture's CEO.

Last March, David H. Deming, a convivial former JPMorgan managing director, gave a slide presentation about Managed DC, Dimensional Fund Advisor's new managed account program for defined contribution plans, during the Retirement Income Industry Association's spring meeting at Morningstar headquarters in Chicago.

Managed DC appeared ready-to-launch. Deming, then the CEO of Dimensional Retirement, passed out business cards and invited a journalist to call him for a detailed interview about the program, which is based on software called SmartNest that was developed about six years ago by Nobel Prize-winning economist Robert C. Merton. (See today's RIJ cover story.)

But subsequent phone calls and e-mails to Deming later that spring went unreturned, and by September it emerged that Deming had been ousted from DFA, for unknown reasons. He had left Austin, Texas, where DFA is based, and moved to Oyster Bay, New York, where according to the networking website LinkedIn, he now has a financial advisory firm, D. H. Deming & Co.

Over the summer, DFA chairman David Booth had replaced Deming with Michael Lane, 45, a DFA vice-president. Unlike Deming, who arrived at DFA in 2009 when it bought the patented SmartNest software, Lane has long had a close working relationship with Booth.

Lane's most recent title, according to LinkedIn, was "vice president, Office of the Chairman," where his job description was "work[ing] with the chairman on strategic global initiatives."

"I've been around DFA for 18 years, and I've been an employee for eight years," Lane told RIJ a few weeks ago. "I've been working on long-term strategic initiatives, including how to provide a better, more integrated lifetime experience for plan participants. David Booth asked me two months ago if I would take over as head of Dimensional SmartNest, and take it from an interesting solution to getting it out into the market."

A 1989 political science graduate of the State University of New York at Binghamton, Lane started in the financial services business as a registered rep at Equitable Life. He spent seven years at AEGON Financial, rising to president of Advisor Resources, then served as vice-president of advisor distribution at TIAA-CREF.

Asked if Deming's non-homegrown status at DFA was linked to his sudden departure, Lane told RIJ: "I would couch it... I've been around the firm for a long time—almost 20 years. There is some value in knowing all the people in the firm, in having worked outside and inside the firm, and in knowing how to get things done here."

The story of how DFA came to own SmartNest is an interesting one, though the details remain elusive.

SmartNest was originally the property of Integrated Financial Limited, a hedge fund firm that Merton—a co-founder of the Long-Term Capital Management hedge fund whose spectacular crash and bailout in 1998 was chronicled in Roger Lowenstein's best-selling book, *When Genius Failed*—started in 2002 with a team from JPMorgan. The team included Deming, a former JPMorgan managing director, as well as Robert Mendoza, a former vice-chairman of JPMorgan, and Peter Hancock, a former CFO of JPMorgan. Merton himself had been a senior advisor to and managing director of JPMorgan Chase from 1999 to 2001, according to Reuters.

In January 2007, Integrated Financial merged with another financial advisory firm, Marakon Associates, which was co-founded in 1978 by Jim McTaggart, to form a new company called Trinsum Group. Merton became chief science officer and McTaggart became CEO. In a press release, Trinsum described itself as a firm that creates “breakthrough solutions by combining the science of finance, the discipline of management and the art of advice.” It boasted of offices in seven cities, from Singapore to New York to Zurich.

“Trinsum Group, will integrate advisory services previously accessible only through the use of multiple providers,” a company press release said. “By offering an integrated approach, Trinsum Group will fill the gap between management consulting and investment banking for objective, real-world advice steeped in financial science.”

The release continued, “The new company will serve top management of large corporations on issues relating to strategy, execution, organic growth, M&A, productivity and organization. The firm also plans to add a strategic risk management practice in early 2007. In addition, Trinsum Group will offer sophisticated investors a range of investment vehicles, and will continue to develop next-generation financial products such as SmartNest, a pension management solution that addresses deficiencies associated with traditional defined-benefit and defined-contribution plans.”

But, like a lot of other financial firms during the 2008-2009 period, Trinsum failed, or the Integrated Financial-Marakon merger failed, for reasons that aren't immediately clear. According to *Crain's New York Business*, Trinsum Group's creditors filed for liquidation in July 2008, and Trinsum filed for Chapter 11 bankruptcy in 2009.

In its filing, Trinsum reported liabilities of \$15.8 million and assets of \$1.2 million—“\$1.1 million of which is listed as the value of a patent for an investment management software program called SmartNest.”

So DFA appears to have plucked SmartNest from a burning ship; the collapse of Trinsum led to two years of lawsuits and appeals that appear to have been dismissed or denied. Deming accompanied SmartNest to DFA, stayed on as CEO of Dimensional Retirement/SmartNest for three years or so, and then left suddenly last summer. The ball is now in Lane's hands.