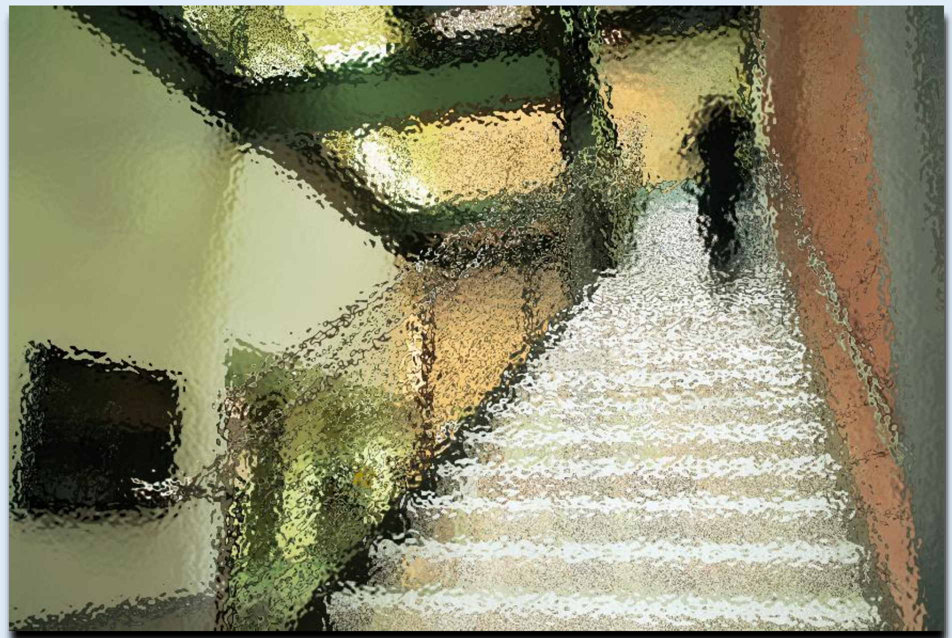
I Want To Be a Leader in My Firm



Russell Campbell

MBA CFA© CFP©

Introduction

This executive report is for those who want to be a leader of an asset management organization.

The topics covered include:

1. Balancing the investment profession with the business
2. Keeping investment talent
3. Keeping sales talent
4. Allocating resources effectively to achieve the firm's goals
5. How to think for yourself
6. Building trust with clients
7. How to spur sales
8. What clients want to hear
9. The 5 ways to increase long –term revenues
10. The challenges of growth
11. 100 tips for new leaders
12. Dealing with stress

Many people who work in asset management firms would like to be in charge. But not everyone is willing to accept both the opportunities, and the responsibilities, of leadership. To be a leader means giving up some things, avoiding certain traps and learning new things.

There is a need in the asset management industry for those who want to lead and manage. The asset management industry is becoming more complex, and the growth remains strong.

Many of us have gathered insights into management from either our education or experiences in business. But many of the lessons from other businesses just don't work in asset management.

Benchmarking for example, is widely used in most industries. But in this business, benchmarking against the averages isn't good enough. Average investment performance doesn't gather new clients.

Pay attention to what people are shouting at you (that you have been ignoring) and take the time to think about the lessons that you learn.

I write a subscription – based weekly report offering "second opinions" to leaders of investment management firms. I have written well over 100 weeklies so far, with many more topics on the horizon. These reports complement the advice that I offer in my consulting practice to leaders of asset management firms.

To subscribe to my weekly report, www.YourSecondOpinionLLC.com

Russell Campbell
CEO – Your Second Opinion, LLC

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Topics

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Professional Money Managers, or Money Makers 13.38 P

By any measure, Warren Buffett is one of the best investors of the last century. According to the 2012 Berkshire Hathaway annual report, the book value of this company's shares increased by nearly 20% per year, over 48 years. Warren Buffett shows us how to balance the profession of investing, with the management of a sustainable investment-related business.

But Warren is first and foremost, an investment professional. And all great investors have a story to tell about the one that got away. In 2010 on CNBC for example, Warren Buffett said that buying out Berkshire Hathaway, instead of investing directly in insurance businesses, was the biggest investment mistake he has ever made. He estimated that it had cost him compounded investment returns of about $200 billion over the past 45 years.

An investment business usually begins with idiosyncratic talent, but talent is not a fixed quantity. Talent may expand, shrink or change over time.

There is no doubt that Berkshire Hathaway would not have been as successful a company without Warren's ownership. But even the skills of an extraordinary investor like Warren have evolved.

His great results and evolution as an investor are a direct challenge to conventional industry thinking that an investment style is more likely to contribute to better investment performance if the style remains stable. He once focused on investing in smaller companies, had a rigorous pricing discipline and practiced a more traditional value-oriented approach. Warren's investment strategy has evolved over time due to changing market conditions, hard won experience, and because of the need to invest increasingly large pools of capital.

But investment wins and losses are not the whole story. Warren Buffett is not just a portfolio manager, and Berkshire Hathaway is not just an investment portfolio. It is a public company with broader issues that radiate from its origins as an investment vehicle.

His investment performance has led to his becoming one of the most influential people in the world in 2012, according to Time magazine. His reputation, in turn, has helped to build Berkshire Hathaway into one of the most admired companies according to Fortune magazine.

Strong investment performance has propelled Berkshire Hathaway, but considerable attention has been paid to creating a sustainable organization.

Warren Buffett offers lessons for all investment-related firms:

- Staffing – hire and most importantly, retain talent
- Investment process – continuously review and evolve in small steps
- Marketing – leverage your brand from your core investment strengths
- Planning - pay attention to what you spend money on
- Compliance means more than just meeting regulatory requirements
- Execution – focus first on building economic value

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How to Ensure that Your Best Investment Team Disappears 12-67 S

To be clear, I really don't want your best investment team to be lifted out! But, there is an epidemic of lift-outs of investment teams in this industry. While the firms that are gaining teams may be pleased with their access to proven talent, firms losing talent are likely less pleased.

Usually I try to offer prescriptions and actions. Instead, I thought that I'd offer a recipe for ensuring that your best team leaves, in the hope that it will provide some cautionary notes for leaders.

Lift-outs are the end of a long process of missteps, and the warning signs are usually clear. Investment managers rarely in my experience, come to these decisions rashly.

So here are more than 25 ways to help encourage money management teams to leave your firm!

Rewards

- Base pay for your best team should be set below industry norms if necessary to maintain pay alignment with others in the firm.
- Incentive pay should be largely based on factors outside of the control of the team, e.g. overall firm performance.
- Incentive pay should bear little relationship to the performance of the team.
- Do not share rewards fairly between the firm and your best team, and increase this disparity as the team's success grows.
- Assume that team members are risk averse, live pay check to pay check and are unable to personally afford to leave the firm.
- Assume that immediate monetary rewards are all that matter to them.
- Assume that the carrots, e.g. deferred awards, and sticks, e.g. non competes and non solicits, are ironclad and impossible to walk away from.

Expenses

- General hiring freezes in the firm should also apply to a successful team.
- Ignore requests for additional marketing or support resources.
- Starve for resources any extraordinary marketing efforts that currently exist to support the team.
- General drives for efficiency should be equally applicable to successful teams.

Relations with Colleagues

- Don't discourage the rest of the firm from feeling jealous, and ignore any resulting conflict.
- Don't discourage an "us and them" mentality internally.

Relations with Leadership of Firm

- Create teams that are standalone so that they are easy to lift out.
- Don't pay attention to the team's own goals, which may range from an eagerness to gain assets, to focusing almost exclusively on investment performance.
- Insist that the team accept numerous small custom mandates.

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- The team should not be given any special attention because it might go to their heads - so no special rewards or favors.
- Ignore the team leader’s ideas for the larger firm.
- Don't protect the team from challenges to its mandate or resources.
- Ignore the team. Why would they need your attention?
- Assume that what the team thinks today, won't change tomorrow.
- Be confident knowing that, after all, anyone, and any team, can be replaced.

Clients

- Assume that they can't take clients with them.
- Clients are loyal to the firm, not teams or individuals after all.

Competitors

- Assume that independence is the team’s only option, and that your firm’s infrastructure is crucial to their current success.
- Assume that no one else - either other firms, or intermediaries - is talking to them.
- No other firm could value the team differently than you do, and no other firm can offer superior synergy or support.
- Take comfort in knowing that no other firm will care more to help the team to achieve its goals.

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How to Ensure that Your Best Sales Talent Leaves 14-13 S

To be clear, I really don't want your salespeople to leave! But, the fact is that sales talent moves regularly in this business, and the average tenure with any one firm is about 3 years. While the firms that are gaining this talent may be pleased with their easy access to proven talent, firms losing talent are less pleased. And hiring talent doesn't mean that they will stick with you for long anyway.

Several years ago, I wrote a tongue-in-cheek report about how to ensure that your best investment team is lifted out. Salesperson turnover is far more frequent in this industry than investment team lift-outs, and it deserves attention as well.

I offer a witch's brew recipe for ensuring that your best sales people leaves, in the hope that these cautions will alert leaders to take steps to slow the revolving door of sales talent.

So here are more than 25 ways to help encourage salespeople to leave your firm!

Rewards

- Base pay for your best sales people should be set below industry norms if necessary to maintain pay alignment with others in the firm.
- Incentive pay should be largely based on factors outside of the control of the team, e.g. overall firm performance.
- Incentive pay should bear little relationship to the performance of the team.
- Do not share rewards fairly between the firm and your best sales people, and increase this disparity as the team's success grows.
- Incentive pay should be entirely at the discretion of management during both good times and bad.
- It's even better to have discretionary pay that is unfair, varys widely from time period to time period and conveys no obvious pattern in the underlying approach.
- Limit upside for incentives, regardless of success.
- Consider paying on net sales only. Make sales people responsible for client losses even if they have no continuing contact with clients.
- Assume that sales people are risk averse, live pay check to pay check and are unable to personally afford to leave the firm, or are unwaveringly loyal.
- Assume that immediate monetary rewards are all that matter to them.
- Assume that the carrots, e.g. deferred awards, and sticks, e.g. non competes and non solicits, are ironclad and impossible to walk away from.

Expenses

- Ignore requests for additional marketing or supporting resources.
- Starve for resources any marketing efforts that currently exist to support the sales team.

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- General drives for efficiency should be equally applicable to successful teams. Cutting travel expenses while simultaneously ratcheting up sales expectations is a good example.

Relations with Colleagues

- Don't discourage the rest of the firm from feeling jealous, and ignore any resulting conflict.
- Don't discourage an "us and them" mentality internally.
- Encourage the belief that salespeople have it easy and seem to be on vacation a lot.
- Management and investment staff should rank higher than sales in the hierarchy of the firm.

Relations with Leadership of Firm

- The sales team should not be given any special attention because it might go to their heads - so no special rewards or favors.
- Ignore the sales team's ideas for the larger firm.
- Don't protect the team from challenges to its mandate or resources.
- Ignore the team. Why would they need your attention? They should be out there selling all the time.
- Assume that what the salespeople think today, won't change tomorrow.
- Be confident knowing that, after all, anyone, and certainly any salesperson, can be replaced.

Clients

- Assume that they can't take clients with them.
- Clients are loyal to the firm and the investment process and results, not teams or individuals after all.

Competitors

- Assume that that your firm's infrastructure, investment process/performance and brand is crucial to their current sales success.
- Assume that no one else - either other firms, or intermediaries and recruiters - is talking to them.
- No other firm could value your sales force differently than you do, and no other firm can offer superior synergy or support.
- Take comfort in knowing that no other firm will care more to help the sales team to achieve its goals. Your products are the best.

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Big Plans, Limited Resources – How to Choose 13.1 P

Do you expect that the products and services that you will deliver in the future will be different from today? You may be considering how to allocate resources to prepare for the future. But balancing today's needs and tomorrow's opportunities challenges the allocation of resources.

We'll look at a resource allocation process for products here, as an example. A similar approach can be used to allocate resources to the best combination of distribution channels, client segments or even geographic areas. It is helpful to look at a firm's resource allocation from a variety of perspectives.

The allocation process has four key inputs. These include current product profitability, long term expected product profitability, the direct linkages between products, and finally, the potential contribution of new products in the future.

First, list your products from highest to lowest normalized current profitability. Then estimate what the long-term sustainable profitability will be for these same products. Current and long-term profitability expectations could be the end of this discussion. After all, shouldn't your resources be given to the best opportunities identified by this profitability analysis?

There are two other inputs that can add value to the discussion, however. The first is the connection between products. For example, let's say that you have both a global and domestic fixed income capability. If your domestic business is currently unprofitable, you might have be considering closing down the domestic capability. But, if closing the domestic unit's capabilities causes the global group to suffer, you might not want to close the domestic capability. Even if domestic fixed income is a money loser for your firm, you might choose to retain the domestic capability anyway, if global fixed income is, or will be, a significantly profitable product. I'll come back to what you can do about strategically important, but financially troubled segments like domestic fixed income in this example, in a few moments.

The fourth input is whether a product is a gateway to future success. On the surface, a particular product might not be profitable now, and its future potential may be highly uncertain. But perhaps having this product is a necessary interim step that needs to be taken in order to be more competitive in the future.

For an example of this concept from another industry, a manufacturer can only expand a plant after they've built a manufacturing plant in the first place!

Here is an example from our own industry. An investment firm sometimes needs to make investments without the surety of a payoff. An example might be adding short-selling skills to a long – only capability. The additional staff will raise costs, and hiring them may be hard to justify from a financial perspective. But if the firm doesn't take the step of acquiring these skills and long – short strategies continue to crowd out long-only in the future, the firm may become uncompetitive.

In summary, using these four inputs – short and long-term profitability, analyzing the connection between products, and weighing the contribution of products and capabilities to the future, leaders of investment firms can prioritize

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where they expend the firm's resources. How each of these four inputs are calculated and weighted, will vary between firms.

So what do you do with the products that end up at the bottom of the list? Sure you could close them down, merge, or sell them off, if they are standalone. But sometimes these products are strategically important in some way. My suggestion is to challenge the manager responsible to either enhance profitability, increase the connection to other successful products or prove that the capability will become essential in the future. This challenge often leads to break - throughs. The challenge of finding new ways to deliver products more profitably in the face of the imminent demise of a line of business often inspires fresh thinking, and this creates value for not only the product line, but for the firm as a whole.

Thinking about how you spend every unit of currency, and considering each expense as an investment, can make a material difference in the development of your firm's economic value over time.

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Champions Who Are Stuck in the Middle 14.36P

Large management consulting firms advise many of the largest investment management firms. I can't understand how an investment management firm can win by following advice that is available to numerous competitors.

The recommendations of many business consultants tend to center on benchmarking, and trend – following. When these efforts fail to give a firm an advantage, business advisers often encourage their clients to acquire other firms.

If you can't compete in an ocean by doing the same thing as everyone else, the suggestion is to buy access to another ocean!

Here's what's wrong with the recommendations of many business advisers.

1. *Their recommendations are usually built on enhancing profitability, which is difficult to compare across firms.*

What does a comparison of investment management firm profitability across firms really tell us – the answer is often very little. Profitability measures, in both public and private investment management firms, are often distorted. For example, some firms pay high salaries, while other firms pay lower salaries, and give distributions below the line to owners. There are many other elements that make comparisons difficult e.g. seed capital.

2. *I have never encountered an investment management firm that was solely driven by profitability. Most business advisers on the other hand, are obsessed with improving short – term profit.*

Most investment management firms view profit as a very pleasant outcome that arises from a focused pursuit of craft. Other goals are often present.

3. *The suggestion to diversify and acquire, is often misguided, and poorly applied.*

You don't see accountants opening up clinical medical practices, or lawyers offering dental advice in an effort to avoid being stuck in the middle. And yet, management consultants encourage firms to follow industry trends, which often overlooks a firm's capabilities and preferences.

Anticipating the end of current trends, and the beginning of new trends is a better way to enhance a firm's competitive position. A firm's capabilities and preferences can address client needs in innovative ways.

Here is how to take advantage of competitors who have *outsourced their strategic thinking to large management consultants*.

- Ignore benchmarking – there is too much noise in the data. Plus, you need to *be one of the best, not just above average*.
- Spend less time worrying about the current operating profit of the firm in relation to competitors, and *spend more time growing revenues and maintaining product margins*.
- *Stay true to your capabilities and preferences*.
- *Prepare for the game – changing opportunities* that occur when trends peter out. This is when an investment in innovation can pay off.

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Restoring Trust and Making Money 13.36 L

Numerous articles and surveys in recent years have suggested that clients and the wider public have lost trust in the financial services industry, including asset managers. The CFA Institute has contributed to the conversation in a variety of ways, not only presenting the industry in a more favorable light, but also encouraging efforts by the money management community to act and present themselves better to help restore trust. Last year for example, the CFA Institute produced a list of 50 ways to restore trust in the investment industry.

This noble effort covers a lot of issues, but some might find it a lot to swallow - and to make actionable. While all of the 50 ideas have merit, it is hard to accomplish everything at once. Since leaders are busy, I thought that it might be helpful to isolate a few of the suggestions on the list of 50 ways to restore trust, and show how they directly link to business risks in the short to medium term in order to gain the attention of leaders. By picking a few of the recommendations which represent ways to avoid major risks to the business, we can help to get the ball rolling. Short-term successes in mitigating risks may inspire a more comprehensive effort by each organization to participate in a dialogue and more importantly, actions, that will make a difference for the entire industry. These short term wins to enhance trust and defend the business should help to build a sustainable business, and support the call for resources (time, money) needed to pursue further efforts to embed trustworthy behaviors.

Without clients who trust us, our business dries up and blows away. Here are a few of the CFA Institute's 50 ways to restore trust:

Strive for a conflict free business model – This is not possible in my view. Every business model is rife with conflicts of interest – they are practically inescapable. BUT, what you can do is seek out and name conflicts, examine them, ring-fence them, disclose them and so on. If you don't do this now, either the regulators will discover the conflicts for you and shut you down, or your firm will remain vulnerable to a reputation-eating scandal.

Refuse to associate with anyone who takes advantage of clients. How well do you know your suppliers, and those who distribute your products? Their involvement with your business in a very real sense, affects your reputation, and potentially carries compliance and legal implications.

Use social media to comment about the values you uphold. Social media is easy to access and can spread messages quickly. What better way is there to communicate directly with the public and position your firm as one of the good guys?

Elevate the importance of integrity in the hiring process. A person's integrity is unlikely to change after you hire them. The rogue that has the potential to destroy your firm has to be identified early.

Maintain regular contact with clients/ Listen to clients' concerns and fears. Outreach and dialogue with clients benefit the firm in a variety of ways.

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No More Excuses – 10 Steps to Kick-Start Sales Efforts Now M 13.26

Other firms are winning mandates and growing their assets under management in your areas of investment expertise. Is your firm winning its share of mandates also? I don't care how many times you've tried to kick start sales before, it's a great time to try again. Here are ten steps to boost sales of your investment products in the short run.

1. Tell everyone in your firm that the current sales slump is unacceptable. Making people a little anxious inspires productivity and creativity according to research.

2. Set a sales goal that has a 50/50 chance of being achieved. This strikes the right balance between a goal being too easy and too ambitious.

3. Your employees will do what they want to do. What they want to do will depend on avoiding pain and gaining pleasure. Make it easier for them to get on-board with your goals by adjusting or replacing the sources of pain and pleasure.

4. The skeptics in your firm will doubt that your goals can be achieved. Offer evidence that it can be done to turn the mood from pessimism towards optimism.

5. What capabilities (investment, marketing) do you have, or can you easily acquire, that will resonate with prospective clients? Identify your next most likely client.

6. What did you used to do that was successful in driving sales in the past? Many firms have forgotten good lessons from the past. Consider reviving what you stopped doing, and try it again.

7. What are outsiders telling you, or yelling at you to do? Have you been ignoring or rationalizing away their requests? Pay attention and consider giving them what they want.

8. Allocate most of your firm's resources to the best opportunities.

9. What behaviors have to change (even if attitudes don't)? Wield the carrots and sticks to elicit the behaviors from your people to achieve your firm's ambitious goal. You don't need to change who they are - just what they do.

10. Celebrate small wins to build momentum.

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What Clients and Prospects Want to Hear 14.40M

Like many of you, I read a lot about branding – what it is, how it helps, what to do. But the concept of branding in our business still seems a little vague. Some firms seem to have a great brand. The big guys, and the firms that are focused have the most identifiable brands. But how does a firm get from here to there? Get bigger or smaller seems obvious. And spending money on enhancing the general perception of a firm's brand seems wasteful. Here is my practical approach to enhancing the brand of an investment management firm.

First, there are 5 different stages where clients and prospects interact with your brand. There are distinctive ways at each of the 5 stages to reinforce their experience with your brand. For each stage, we should be asking three questions;

- what is in the client, or prospect, thinking now?
- what would we like them to be thinking, instead of whatever it is they are thinking?
- how can we best change their thinking?

Now that we have the questions, what are the 5 stages?

1. *The prospective client has never heard of you*. They don't think about your firm at all. So you have to get known. An expensive route to becoming known is advertising. Cheaper and more compelling alternatives are thought leadership and social media. Your messages have to stand out.
2. *The prospective client has heard of you, and they may be wondering if your product or service is any good, and if the price is reasonable*. Investment performance is probably the most compelling reason for a client to contact you, so marketing efforts are pretty straight forward at this stage. Make sure that every channel is aware of your investment performance.
3. *You have captured the prospect's attention, and they want more information*. This is where evidence of your thought leadership and efforts to display it need to increase. Databases, training of intermediaries and many other avenues need to be pursued. Marketing expenses are generally the highest at this stage, and these efforts have to be powerful and often customized.
4. *The prospect or client develops a powerful emotional attachment to you*. Branding efforts make the impersonal, personal. You are his or her investment adviser.
5. *The client willingly refers you to others*. This competes the circle back to step 1. You provide clients with the branding messages, which together with the passion for you that they developed in stage 4, leads to more business.

This all seems pretty obvious doesn't it? And yet, I know of firms who spend oodles of money at the wrong stage. General thought leadership pieces aren't going to impress your most passionate clients. Or specific evidence of your thought leadership will be wasted if people have never heard of your firm.

At which stage is there the most leverage to build your business and your brand? Focus your resources on the messages that will be most effective in building your firm.

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Increasing Firm Revenues Five Ways 12-87 P

In recent months, I've described the 5 main avenues that firms can pursue to sustain and increase revenues. If only 1 or 2 of these avenues for growth are pursued, the risk of failure increases and opportunities are missed.

In previous letters, I suggested a number of specific ways to pursue growth. To make the concepts even more concrete, I thought that I would highlight current examples of how other firms address each avenue of opportunity. To recap, here are the 5 main avenues to increase investment management firm revenues:

1. Extend the duration, and the current profitability of each client relationship;
2. Respond to popular trends;
3. Capture market share from current competitors and close product substitutes;
4. Extend product lines, and access more distribution channels;
5. Seed brand new opportunities.

1. Extend the duration, and the current profitability of each client relationship

Where additional product capabilities are available, cross-selling can be helpful in extending the duration of relationships. Northern Trust and State Street are examples of firms that actively cross-sell.

There are other ways to prolong client relationships. Blackrock has been aggressively restructuring investment teams and processes in recent years, with fixed income a noticeable beneficiary of improved performance and interest from prospects.

Fixed income processes seem to be easier to recast than equity for example. Blackrock has restructured some of their equity products, as have other firms, such as Janus. Investment process redesign may be more effective in fixed income in restoring both performance and gathering clients than in other asset classes in the short run.

Ameriprise had a key manager departure that led to client outflows, which should be a cautionary reminder for those firms that overlook portfolio manager satisfaction with the firm. Being overly dependent on a few large clients is another lesson.

While clients are with your firm however, it is important to earn a fair profit. State Street and Northern Trust are increasing the profitability of existing client relationships by re-pricing relationships (usually upwards), and ensuring that a target profit margin is achieved for each client.

But what about firms who feel they cannot increase fees?

Fee revenue can still be increased by bringing clients on legacy fee schedules up to the current fee schedule.

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Also, most firms have clients who are loss-leaders. Blackrock recently lost a large piece of fixed income business, but it was so underpriced that the revenue loss was almost immaterial.

2. Respond to popular trends

Clearly there have been significant flows towards passive investments, alternatives, fixed income and international investing in recent years. Some firms abhor jumping on the bandwagon and they stick to their knitting, lacking interest in pursuing these opportunities, in spite of persistent client demand. While it is easy to imagine that the current wave of interest in some of these asset classes or styles will wilt, if a firm has or can readily acquire an in-demand investment capability, why not pursue the opportunity?

Passive index providers such as Northern Trust and State Street have discovered that clients increasingly want custom benchmarks, and they have been responsive to these requests. Not all new products have to be carefully planned or entirely new to the market. Sometimes just responding to client demand, when existing or easily acquired capabilities are available is just as good strategically.

And it is not only passive index providers that are finding this to be true. Alternatives providers such as Blackrock and KKR have expanded well beyond illiquid investments into liquid markets, and other currently popular alternative asset classes, and both firms are gaining assets.

With access to lift-outs of experienced teams, many firms of all sizes are offering a welcoming home to new, in-demand capabilities. This is true in both the alternative and traditional asset classes.

3. Capture market share from current competitors and close product substitutes

Smaller firms such as Wisdom Tree are benefiting from the battles between Blackrock and Vanguard, which is both expanding investor awareness of ETFs, as well as allowing Wisdom Tree to position their offerings against their larger competitors. These precise opportunities aren't available to every firm, but it points out the importance of monitoring the direct competitive environment. No firm has a monopoly, and opportunities arise regularly to make inroads.

But there is a new wrinkle in the fight for market share. Increasingly, clients are looking beyond asset classes and style boxes for other ways to address their goals. For example, alternative firms such as Blackstone and KKR are eroding the share of traditional managers by winning client assets.

But this is not a one-way street. I have seen traditional products such as small cap and "go-anywhere" liquid funds from firms like AQR and Blackrock used as replacements for private equity allocations in recent months. Clients are willing to look at these substitutes because of the difficulty in either getting into a preferred private equity fund, or because clients observe a build-up of un-

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invested cash within the private equity fund due to a shortage of investable opportunities.

4. Extend product lines, and access more distribution channels

Earlier I mentioned pursuing currently popular mandates, some of which admittedly turn out to be fads (Remember technology, media, telecom funds?). But all firms should be looking forward at least 5-10 years to build sustainable firms based on existing and projected capabilities including investment capabilities, and all of the other capabilities that a firm can build and sustain.

Alliance Bernstein is currently addressing the retail market for alternatives, and Franklin Templeton has recently acquired a hedge fund-of-funds firm. For those firms with access to capital, this seems to be a unique opportunity to make acquisitions and acquire capabilities.

Distribution is another big initiative of many firms. Current investment capabilities are being offered more broadly as institutional and retail investors share needs and wants, and new distribution channels open domestically. Wisdom Tree has been successful with the fast growing RIA channel, while Federated has recently focused on, and found success with, the broker-dealer channel.

Even within specific distribution channels and product categories, firms are seeking ways to further segment the market. Blackrock for example has carved out a series of ETFs to address the specific needs of buy-and-hold investors.

While domestic channels continue to present opportunities to firms, it seems as if every firm is pursuing international distribution. U.S. firms are already well- represented amongst the largest European fund managers, courtesy of their well-known brand names, and they benefit from competing in the tough U.S. environment, which has now enabled them to crush international competition in their own home markets.

Opportunities remain in mature markets in Europe, and in Japan and Australia, and we have seen firms such as Janus, Federated and others open offices to further penetrate these markets.

Larger firms, who have a presence worldwide already though, such as Franklin Templeton, see even greater growth potential in what are currently secondary markets. Clearly, economic growth, market development, and demographic changes favor growth opportunities in the emerging markets which in the next 30 years will be emerged, and become part of the developed world.

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5. Seed brand new opportunities

Quietly, most large firms have seed capital allocated to incubate new funds which gives them a head start in launching new products. New products generally offer higher margins, and so this innovation strategy works to sustain profit margins over time.

But even smaller firms should consider seed capital and pursue innovation. Wisdom Tree has been able to source seed capital from third parties in the past, while Janus has sourced capital more recently to support existing, but smaller funds.

If third party capital is unavailable, partners of the firm should be willing to fund innovation that will create a sustainable business for the long run. While the short run cost may seem high, without this forward looking effort, the value of the business may suffer and affect the realizable value of the firm when the current owners want to retire. The private market value of many traditional investment management firms has declined in recent years, as potential purchasers are concerned about the future prospects of these firms.

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Growing to 5 Times Your Current Size 14.23P

Many leaders of investment management firms are currently looking for help in developing a strategy that will increase assets under management substantially. I have often heard that the goal is to increase assets 5X!

Why is 5X being mentioned so often? Either some guru has convinced everyone that this is the right target, or perhaps, leaders are trying to push everyone in their organizations to really think about the long term.

A bull market brings out optimism in investment managers. They are ignoring the gloomy industry prognosis described by most management consulting firms. Most management consultants argue that revenues are unlikely to grow, profitability will never return to prior levels and that there will be only a few winners. I remember these same kinds of dismal predictions for the industry back in the late 1980's. Then, the conversation focused on index funds, fee pressure and the end of pensions.

I think that there are good reasons to believe that organic net revenue growth will be better than most experts expect, profitability will continue to rise, existing firms will continue to garner the vast majority of assets available, and turnover of managers by clients will remain high which will offer opportunities.

But 5X is still an aggressive target. What most firms don't quite recognize, is that 5X means a qualitative leap, not just a quantitative leap. This means not just more assets, revenues, profit and people, but also products, distribution channels, client segments and often different kinds of people. Not every firm is willing to undertake the kinds of changes required to grow and succeed as a much larger firm.

To start with, the goals and values of the key people in an investment management firm have to be supportive of the process and consequences of growth. Secondly, what enabled your firm to succeed to date is not enough.

There is still some opportunity within your existing product, distribution channels and client segments, so you can continue to invest in these areas. But for any company that's been around for a while, it seems unlikely that there is explosive growth remaining - with perhaps one exception. I have seen firms that were able to benefit from an existing distribution relationship that suddenly benefited from considerable unexpected growth. But I've also seen firms of a significant size that fell into decline. Luck is always a factor.

I think that there are steps that firms can take so that good luck is a bonus, rather than the driving force of their business.

- Will your key talent support the changes needed to achieve an ambitious goal like growing 5X?
- Are you preparing to preserve your culture through structural reforms, as products, markets, distribution channels, client segments, offices and people multiply.
- What do firms 5X your current size really look like?
- What is the path to grow to 5X for your firm?

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100 Tips for Investment Management Leaders

Your Leadership

1. Leadership is more important than your technical skills
2. Strive to build a sustainable organization
3. Lead by aligning staffing, investment process and products, marketing, business planning, legal and compliance, and execution
4. Since no two organizations are alike, each requires a custom application of leadership tools
5. Focus on the strengths that you have that are most applicable to your current situation
6. Leading must be balanced with the profession of investing and serving clients

Staffing

7. Know what it is that makes your organization a great place to work
8. Consider what is implicitly encouraged/tolerated in your culture
9. If you want to change a culture, you'll have to replace people
10. Eliminate aspects of the culture that detract from creating value
11. Set standards
12. People will only do what they believe is important
13. People will only do what they want to do
14. People will only do what they can do
15. If clients aren't happy, your staff probably isn't happy. Work on staff first
16. Protect the size of the incentive compensation pool
17. Incent merit directly
18. The compensation program should sustain and grow long-term value
19. Your staff must look, act and communicate like top professionals
20. Identify the most outstanding and important competencies of your key staff
21. Use behavioral interviewing to better identify the competencies of new hires
22. Decide whether you want to create great teams or support talented individuals
23. Staff should complement one another
24. Learn from both hiring mistakes and successes
25. Talk openly, explicitly and frequently about what it takes to be successful in your organization
26. Talk to high potential staff about future opportunities
27. Restructure job requirements, expectations and rewards to reduce unwanted staff turnover
28. Delegate authority
29. Offer opportunities to your best staff to develop further
30. Ensure that there is a balance of technical, sales and leadership development
31. If there are staff in different locations, develop and sustain trust, ensure focus, share best practices and offer similar rewards
32. Encourage cooperation
33. Communicate frequently in multiple ways.
34. Be prepared for the eventual departure of every single key employee.

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Investment Process
35. Love the quality of your investment process, or fix it
36. Know what your competitive advantage is in investing
37. Look for ways to use your existing investment capabilities in new ways
38. Look for additional investment capabilities that can be easily acquired
39. Decide when and how you should you respond to investment underperformance and /or client outflows

Marketing
40. The goal must be to be amongst the very best
41. Understand why clients stay
42. Understand why detractors dislike your organization
43. Know who likes and recommends your firm, and why
44. Monitor your sales and service staff motivation and capability
45. Do not discount fees to clients unless doing so clearly increases the long-term value of your firm
46. Consider charging a premium fee versus competitors
47. Identify the outstanding characteristics of your firm's best client service staff
48. Give client service staff all of the information and resources they need
49. Promptly and thoroughly resolve client problems
50. Make sure that bigger problems get escalated to top leadership quickly
51. Comprehensively review client relationships regularly
52. Ask clients to recommend your organization to others
53. Increase contact with clients during difficult periods
54. Consider copying suitable products of successful competitors
55. Modify your product, provide assistance and maintain strong personal relationships with distributors and intermediaries
56. Help the consultants and other intermediaries that have been the most supportive of your firm to be more successful
57. Reconcile the disagreements between the views of portfolio managers and marketing staff
58. Build and measure your brand
59. Identify which business partners of your firm have strong brands that can be leveraged to support your brand

Planning
60. Build an enduring organization
61. Have specific goals
62. Balance growth with current profit/compensation
63. Review expenses to understand the current priorities/strategy
64. What your staff thinks, believes and wants to do drives results
65. Build business strategies from the bottom up so that the people responsible for implementing the strategy and also play the key role in developing the plans
66. Your staff must be willing to forgo, give up or trade-off to achieve the firm's goals

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67. If people aren’t flexible, be prepared to either alter your strategy, or replace them
68. Prepare for growth
69. Align the organization to support efforts to achieve goals
70. Sequence efforts, and make sure that you have the needed resources for each step
71. Don't give up on people or existing efforts too soon - challenge them to think creatively
72. Find small parts of your business that have long term potential if given enough resources and support
73. Identify the external business partners who can help you to succeed right now
74. Recognize that internal changes have implications for third parties
75. Meet the expectations of those who care about your firm
76. Meet the expectations of those who have power over you
77. This is a highly competitive business – be prepared to begin again if difficulties occur
78. Before you purchase a business or a team, ask yourself why they are selling
79. Don’t underestimate the cultural challenges involved in acquiring a new team or business
80. Learn from experience through thoughtful reflection

Legal and Compliance
81. Compliance starts with you
82. More than adequately fund compliance, audit and risk management
83. Proactively seek problems and remediate them, without hiding them
84. Look for conflicts of interest in your firm
85. Identify and fire the rogues that challenge the reputation and longevity of your business
86. Pay attention to best practice recommendations from regulators
87. Guard against business obligations that may be impossible to meet

Execution
88. You can't control outcomes – focus on processes instead.
89. Meeting benchmarks isn't good enough to be successful.
90. Every organization has different needs
91. Closely manage the important projects
92. Challenge those who are responsible for financial results to deliver
93. Slash administrative tasks from salespeople and portfolio managers
94. Set expectations for everyone
95. Everyone must do what they agreed to do
96. Don't be intimidated by technical expertise
97. Identify, test and monitor operational risks
98. Risk doesn't disappear when you outsource
99. Pay attention
100. What are you missing?

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You Are Most Important 14-27 S

The recovery of the capital markets since the Great Recession should have lowered everyone's stress levels, but that doesn't seem to be true. While the level of stress isn't any lower, it is quite a bit different from a few years ago. Are you doing OK?

A few years ago, assets, revenues, profits and compensation were down a lot. Firms either chopped expenses or battened down the hatches, and survived the storm. So it seems logical to think that now that the storm has passed, the stressors have too. But many of the firms that I talk to seem to have either irrational fears, or grandiose dreams. Neither fears nor ambition are bad, but they seem to be contributing to sleepless nights.

First of all, a little paranoia and a little stress is a good thing for a leader, in our competitive business. But we should be able to balance positive stress in our life, with the negative stress. Here are some suggestions of how to do that.

- Work life balance is often impossible to achieve, but ring-fencing times for work can be a more successful strategy.
- Emphasize what you like, and are good at in your role. Be willing to delegate to others who can contribute in their own complementary ways.
- Try to like other people first, before trying to influence them.
- Make your encounters with everyone more enjoyable for you by being helpful. *It's better to give a lot and get back even just a little, than to not give at all.*
- Pay attention to the needs that others have that they are shouting at you, but that you fail to hear or accept.
- Complete relaxation is overrated. It can go hand in band with excessive alcohol consumption, poor eating habits, fitful sleep and lack of exercise.

The experiences that you have, and your ability to roll with the punches is what creates resilience in your spirit. This resilience enables you to achieve what you want without debilitating stress.

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Authors Bio

Russell Campbell is the CEO of Your Second Opinion, LLC, a management consulting firm offering advice that makes a difference to leaders of investment management firms. He writes a weekly subscription newsletter for leaders, and also works one-on-one with leaders and teams on critical issues.

Russell has led 5 investment groups in his career. Prior to establishing his own firm, Russell was the CEO of The Marco Consulting Group, one of the largest institutional investment consulting firms, with a significant CIO outsourcing business. Previously, he was the EVP of AMCORE Bank, and led the Wealth Management Group which was one of the 60 largest bank wealth managers in the U.S. Earlier, Russell was the President and CEO of ABN AMRO Asset Management Holdings, Inc., which managed $75 billion in assets, and was the U.S. investment management affiliate of ABN AMRO Bank. Russell was promoted to this position after having been the CEO of ABN AMRO Asset Management Canada, Inc. He was previously a Vice – President and Partner of Beutel Goodman, Inc., one of Canada's largest investment counseling firms. His first leadership position was as Vice – President, Bank of Nova Scotia, where he led the investment management of the Bank's own pension fund, and a family office portfolio.

Earlier in his career, he held positions as an institutional investment consultant, an institutional equity sales and a precious metals portfolio manager.

Russell has an MBA in Investment Finance and Marketing from York University, and he has a BA in Industrial Relations from McGill University. He also attended the Advanced Management Program at INSEAD in France.

He has earned the Chartered Financial Analyst designation, and has attended both the Financial Analyst's Seminar and the Investment Management Workshop. Russell has also acquired the Certified Financial Planner ™ certification. He previously held Series 7 and 24.

Russell has been a director of several for-profit and not for profit boards, and he is a member of numerous non-profit, civic and industry organizations.

He is quoted frequently in the media, and has been a speaker at many industry conferences.

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Russell Campbell
CEO – Your Second Opinion, LLC

Campbell@YourSecondOpinionLLC.com
www.YourSecondOpinionLLC.com
702-816-8430
@your2ndopinion

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