

*The Beach Boys!*



# ***Changing Relationships With Internal Partners***

***How Slowing Growth is Affecting Asset Managers***

## Executive Summary

Slowing growth is affecting how leaders of asset management firms manage their businesses. Leaders still want it all - both lower costs and faster growth. But these objectives look increasingly incompatible given market conditions and client demands.

The responses of leaders to sluggish revenue growth are heightening inter – personal tensions within firms. Leaders have to manage the internal struggle for resources, mediate the relationships between the tribes and nurture staff.

Here is a summary of my suggestions.

1. Don't ignore external pressures
2. Anticipate internal reactions
3. Prepare for growth

*Russell Campbell*

## Revenues, Profits and Growth Incompatibility

We have had a pretty good run in this industry in recent years. Revenue growth has been strong, profits have grown even faster than revenues, and operating margins are close to previous highs.

But the times they are a changin'. Flows from clients have slowed and capital market returns have fallen. Further expansion in operating margins also seems unlikely as many experts forecast that expenses will continue to rise.

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*Cutting costs and supporting growth is everyone's new dual mandate*

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This pressure on growth and profitability is accelerating competition for resources between tribal groups within firms. And despite these pressures, everyone is expected to continue to play nicely in the sand box. Keeping everyone happy is a challenge.

## How Serious Are These External Pressures?

Leaders of publically traded asset management firms have openly expressed their concerns about growth and profitability in recent months.

One CEO said that they have “taken steps to reduce costs to ensure that we have the capital needed to weather the volatility.”

Another CEO was less apocalyptic, and said, “there is project spend in our budget that we can pull back if we need to.”

Other CEO’s were more specific. One CEO said, “we are moving all of our server – based infrastructure to the cloud”. Another CEO said, “97% of our technology costs are in high – cost locations.”

Operations is the most frequently cited target for re – thinking costs. The two latter CEO’s see greater efficiency as the way to sustain margins in the face of slower growth.

So the pressures on revenues are serious enough to have the CEO’s attention. The C – suite is preparing to respond.

## So What Are Leaders Doing?

This isn't the first rodeo for most leaders. They have had to deal with slowing revenues before.

We can look back at how firms responded to the major downturn in revenues during the "Great Recession". Here is how leaders responded last time:

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*There were four different responses by leaders during the last downturn.*

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1. **Muddled through.** During the "Great Recession", some leaders ignored the downturn in revenues and hoped that it would reverse quickly. It took longer to get back on track than most of these leaders expected. And even when growth resumed, their lack of preparation meant that some were not ready to meet new client demands.

2. **Absorbed declines in revenues and profits.** Some firms chose to reallocate the spoils that were available. For example, senior partners or owners of firms took less of a financial share in order to cushion the blow for valued talent. Non – equity employees saw less reduction in their compensation.

3. **Aggressively restructured.** Many firms cut expenses when revenues plummeted. But some leaders were more surgical in their approach and cut fledgling initiatives that were clearly never going to pay off in an effort to re - allocate resources to more promising initiatives.

4. **Stood pat and saw growth acceleration anyway.** By good fortune, or by being in the right place at the right time, some firms saw their revenues accelerate dramatically as markets started to pick up again. Hedge funds grew quickly in recent years. But other firms across the industry also benefited.

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*Who else accelerated out of the last downturn? And why?*

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## So Who Won?

I recently reviewed more than 30 mid-sized mutual fund families. 10 of those fund families have grown their assets under management more than 100% over the last five years. The average increase in AUM for the entire list of 30 fund families was less than 30%. So the top 10 growers really stand head and shoulders above the rest.

What characterizes these fast-growing firms? There were four aspects of these winning fund families that stood out based on my analysis.

1. A history of generating alpha each year for the last five years.
2. A focused set of available mutual funds. Typically less than 20.
3. A well-rounded organization. Whether you look at the stability of the investment teams or the credibility of the investment process, these are enviable fund families.
4. And finally, employee satisfaction. If employees are happy to be there, these firms have tended to do very well.

Asset management firms want to grow no matter how dire conditions may appear.

## **Damn the Torpedoes, Full Speed Ahead!**

Every time I speak to a CEO these days, the conversation is about developing their business via new products, new vehicles, new client segments, new distribution channels and new geographic regions.

One CEO reported that their firm is planning to increase their expenditures on technology by 20%.

So there are mixed messages coming from the C suite. Cut costs and hunker down, but grow as well!

This dual objective places a lot of strain on relationships between internal partners.

## Organizational Design

There is always stress on relationships within firms. And slowing growth is making things worse.

The structure of organizations may exacerbate these tensions.

Critical business functions are often centrally controlled in large, complex investment management firms. Human resources, technology, capital and finance functions are often controlled by the parent organizations of many asset managers. This centralized control enhances internal tensions.

Here's an example of how the finance function may be tightening the reins from a capital perspective.



## Give Me Back My Seed Capital

Leaders are reconsidering investments in seed capital. But restricting seed capital will spur complaints from both the sales and investment tribes. This is not good for maintaining internal harmony.

Seed capital is used to introduce or expand the distribution of investment products. Here are 7 reasons why it may be more difficult to justify investments in seed capital now.

1. Declining demand overall for actively managed products.
2. Poor success rate for new products historically.
3. The equity bull market and declining rates have supplemented returns on invested capital. These returns are likely to be lower.
4. Fee pressures are undermining prospects for new products.
5. Most firms are encountering rising expenses that get allocated to new products as well.

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*It's funny how estimates of allocated central costs seem so reasonable at the inception of a new product but then rise at an accelerating rate as new products become more successful!*

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6. The cost of capital has been modest given low interest rates and high equity prices. This too is likely to change.
7. CEOs and owners are considering alternative uses for capital that have a greater certainty of payoff.

## External Pressures on Top of Shifting Roles

Many of the pressures described thus far have been triggered by external factors. But I believe that there are internal changes that are also making internal partnerships more difficult.

Some of these internal changes are welcome because they are breaking down barriers between tribes within firms.

For example, last year I asked COOs of asset management firms how members of other tribes such as the investment and sales groups felt about them. Here were the most popular responses from COOs about their relations with other internal partners.

1. COOs are seen as the bad cop.
2. They need to be appealing to everyone to get anything done.
3. They have to solve problems no matter how contentious they may be.
4. COOs often have to act as voice of reason.
5. They have to keep costs at a minimum.

So thankfully, COO, and other C – suite roles are evolving. This evolution should help to build bridges between the tribes.

## C – Suite Roles Are Changing

Managing organizations has grown more complex. So we now see more C – suite execs, sometimes with newer titles such as Chief Administrative Officer.

The specific functions associated with C – suite roles are also changing.

1. Client service may be the responsibility of either sales or operations.
2. Investment risk oversight may be in the hands of the investment group or operations.

And the level of co – operation needed is crossing old boundaries between tribes.

1. Compliance risk remains important, but enterprise risk requires a broader perspective.
2. Operations may be responsible for investment risk oversight and client service support.
3. Anecdotal reports from the sales force are being supplemented with big data analysis by operations.
4. Marketing efforts require social media support - and control.
5. Cybersecurity is not just a technology department responsibility.
6. The number of CEO direct reports has expanded.

## Getting Along in the C - Suite

The C – Suite has to set an example for others. Here is a short list of suggestions of how to get along. These were suggested in my recent survey of asset management leaders.

1. First priority is to protect the firm
2. Be as honest as possible with others
3. Be respectful towards one another
4. Keep clear agreements with internal partners
5. Set expectations
6. Over – deliver internally
7. Give support freely

## Staff Relations

Most firms monitor levels of employee satisfaction, engagement and so on. But the data is not easily compared across organizations. Glassdoor.com offers an interesting complement to internal reviews.

The service allows employees to make voluntary, confidential and anonymous comments about the firms in which they work. As in almost every aspect of life, the vast majority of asset management firms rank somewhere in the middle on a scale of 1 to 5. Roughly 2/3 of the firms reviewed by me, score between a three and a four. The remaining third score either below three or above four.

For those firms that rate 4 or more, there is a real payoff. This level of employee engagement isn't just a nice thing to have. This strength in the ties that bind the culture pays off in terms of growth in assets under management, revenues and profits over time as I've discovered in numerous surveys and research that I've conducted.

## **Introducing: The CEO Adviser Program by Russell Campbell**

The CEO Adviser Program is a 1-on-1 program for top leaders of asset management firms to spur business growth. We give you the strategies and tactics that you need to achieve your goals. This program is for CEOs only.

You meet with Russell Campbell by phone for regularly scheduled sessions to review progress, eliminate old obstacles and move forward on new opportunities including looking beyond current trends.

Additional support is available via unlimited calls, emails, or other means between regularly scheduled sessions.

### **Results My Clients Receive**

- Reach beyond your ambitious growth plans - discover what more you can do
- Choose between equally attractive opportunities and allocate resources effectively
- Anticipate how your culture might change as the firm grows and preserve the essential elements
- Consider how other firms structure their top leadership teams
- Enhance your firm's attractiveness to potential acquisition targets
- Spend money to develop your firm's brand only in ways that show results
- Re - discover what once worked for your firm that you can repeat again
- Craft structural solutions to people problems - without the risks and uncertain results of coaching
- Hold onto your top sales and investment talent
- Understand if investment performance weakness is temporary or a symptom of a bigger problem

## Russell Campbell Mini – Bio

Russell has been directly responsible for leading 5 investment businesses in his career. He has been a Chief Investment Officer twice. He has also led investment product sales efforts for multiple client segments several times.

Russell has been an institutional client of investment firms, and 3x he has been in an intermediary role as an investment consultant, or manager of managers. These experiences have enhanced his 360 - degree perspective.

### What People Say About Russell

- *"Addresses our most difficult questions frankly and directly"*
- *"Provocative"*
- *"An iconoclast; offers opinions that you haven't heard before"*
- *"Asks questions that go deeper"*
- *"Honest, no BS insights"*
- *"Intelligent common sense"*
- *"An authority"*
- *"Impressive listening skills"*
- *"Experienced facilitator with hands - on leadership experience in investments"*

**Call me at 702-816-8430 for more information.**

Russell Campbell is the CEO of Your Second Opinion, LLC, a management consulting firm focused on investment firm growth.

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, in institutional equity sales and as 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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