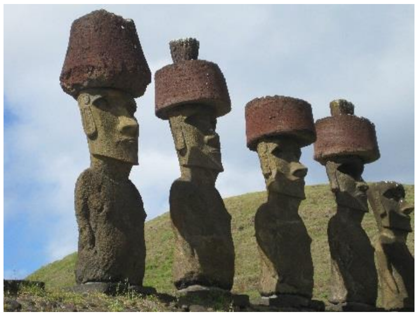

Don’t Let Them Walk Away With The Assets!

“Beyond HR, retaining your investment talent”

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CEO Highlights

1. ***The Stakeholder Perspective – Consider the important stakeholders of the firm and especially the reaction of clients.***
2. ***The Competitor Perspective – Counteract the perceived advantages of competitors and new start-ups.***
3. ***The Challenge of Portfolio Managers – Get the HR policies right and align your leadership and culture to support the talent.***
4. ***What Are Portfolio Managers Looking For? – Understand their wants and needs.***
5. ***Why Do They Move? – Consider their specific requests.***
6. ***Warning Signs – Know the critical triggers.***
7. ***Putting it all Together – Respect your talent, follow best practices, anticipate potential departures.***

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Introduction

Lift-outs occur after a series of missteps and the warning signs are usually very clear. Investment managers rarely make these decisions rashly.

While staff turnover can occur at any time in any business, investment management firms are particularly vulnerable to large economic losses from team lift-outs.

Portfolio management teams may leave to go to another firm, or they may be start-up a new venture. For those choosing to align themselves with another firm, they may be supported by an experienced executive recruiter. But there are many more lift-outs which occur without the assistance of a third party.

Portfolio managers leave firms for a variety of different reasons and they are often seeking opportunities that do not exist at the current firm. The reasons and the opportunities must have obvious appeal to more than one person when a team lift-out occurs.

The acquirers of these teams have their own set of reasons to welcome them. Most firms have perceived product gaps. Their choices boil down to making a full acquisition of another firm to fill the gaps, hiring individual stars or lifting out entire teams from competitors.

Firms are rarely for sale in the hot product areas, and if they are, there is considerable demand from an assortment of financial and strategic buyers. Hiring individual stars is an alternative, but performance is difficult to transport, especially if a team was responsible for the historical record. Further, the performance may not be able to be repeated by an individual performer without the supporting cast.

The firm that loses a talented team is usually angry and shocked. This workbook is addressed to those firms at risk of losing talented teams of portfolio managers to help anticipate, eradicate if possible, mitigate at least, and survive the lift-out experience. It is difficult for leaders to have a good perspective on this issue since lift-outs happen only rarely. But there is always a vulnerability in any firm.

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1. The Stakeholder Perspective

A. Stakeholders

Who are the stakeholders who might care about a lift-out of one of your teams? Whether your firm is publically-held or privately owned may affect the relative importance of each stakeholder group as well.

= Moderate interest
+ Some interest
++ Significant interest

Power Holders	Publically-traded investment manager	Privately – owned investment manager	Which stakeholders are most important?
Employees	+	++	
External shareholders/Independent directors	++	+	
Passive owners	+	++	
Creditors	+	+	
Customers	++	++	
Intermediaries	++	++	
Suppliers	+	=	
Government regulatory agencies	+	+	
Self-regulatory groups	++	+	
Industry trade groups	+	=	
Professional associations	=	=	
Prospective employees	+	=	
Prospective customers	++	++	
Local communities	+	=	
National communities	+	=	
Public at Large (Global Community)	+	=	
Competitors	++	++	
Schools	+	=	
Future generations	+	=	
Stock Analysts and Media	++	=	
Alumni (Ex-employees)	+	=	

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B. Clients

Clients are one of the major stakeholders of your firm and present one of the immediate risks following a lift-out. Clients may leave to either follow the departing team, or to find another firm. It is worthwhile to review your client base by segment in order to better understand where the risk is most acute.

To whose loyalty lies clients, prospects, intermediaries? Is it safe to assume that clients won’t leave and will remain loyal to your firm?

Perceptions about the stability of the organization may have a viral effect on any other capabilities that you offer, whether related to the departing team or not. What spillover is likely if your best team leaves, for example?

In any case, the investment performance clock is reset to zero. If investment performance is viewed as starting over, how easily can your organization restore or rebuild the capability and gain new assets and revenues? Is the capability irretrievable?

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If legal action is pursued by your firm, there is an additional calculus required. Lift-outs are hardly ever straightforward. They are almost always contentious and sometimes downright nasty. Pursuing legal action may involve or influence your clients, future prospective clients and the views of intermediaries. Intermediaries have long memories, and the impact on reputation will be uncertain if you choose to pursue legal action against the departing team.

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2. The Competitor Perspective

A. Lift-out to a Competitor

Don’t assume that no one else - either other firms, or intermediaries - is talking to your team. What are your competitors looking for?

Other firms may do anything for your talent – what could they offer that would be perceived as superior to your current offer to your team?

Other firms may promise, or actually offer superior synergy (e.g distribution) or support (e.g. technology). What advantages might others have to offer?

Could other firms value your team more highly and offer a higher share of the rewards to your team?

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Lift-out to Start-up

We usually think of competitors as being established firms already in the business, but of course another competitor is a brand-new start up created by the team lifting itself out. The challenges for a new team of course include:

- Absence of an independent investment performance track record
- No seed capital to fund the business as well as assets to manage
- No certainty of clients typically
- Uncertain outlook for job security
- Underdeveloped management skills
- Limited analytical support
- Limited marketing resources
- Limited operational and risk management support system

What other concerns might a new start-up have? How might these concerns help your firm to create a more supportive work environment for your portfolio management team?

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Are your marketing efforts well-funded and successful?

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Do you provide seed capital for new investment ideas developed by your portfolio managers?

Do you support your team adequately in their view, with analytical and technological resources?

Are there ways to replicate the feelings of control and autonomy and reward commonly associated with a startup?

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3. The Challenge of the Portfolio Manager

A. Competencies and Traits

How well do you know your portfolio managers? You need to understand them in order to preserve their technical contribution to the value of the firm.

What does it take to be a great portfolio manager? Here is one example of a list of competencies of great portfolio managers. Try ranking the firm's top portfolio managers on each of these competencies on a scale of 1-5 (5=best)

Portfolio manager competencies

Competency	Your PM	Your PM	Your PM	Your PM	Your PM	Your PM	…
Incessantly curious							
Concerned with both detail and big picture							
Analytically flexible yet decisive							
Future-oriented							
Objective							
Independent thinker							
Business risk-taker							
Asks great questions							
Wants to win							

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Here is a list of traits that are sometimes associated with portfolio managers. How many of these are applicable to the firm's portfolio managers? Again rank each of the top portfolio managers on a scale of 1-5, if applicable.

Portfolio Manager Traits	Your PM	Your PM	Your PM	Your PM	Your PM	Your PM	…
Communicates poorly in group settings							
Uncomfortable or anxious about impromptu meetings							
Interrupts others							
Difficulty in listening							
Refrains from making eye contact							
Have difficulty in interpreting body language							
Loses sight of other important tasks other than own priorities							
Difficulty staying organized							
Difficulty prioritizing							
Aversion to formal reporting							
Complains about environmental conditions – lighting, sound, air quality							
Forgetful							

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B. The Leaders Challenge

There is a shortage of alpha generating talent in the world. In spite of the increasing numbers of, or perhaps because of the increased numbers of professional and amateur investors active worldwide, the ability to add value has been sharply eroded. So assuming that it can be identified in your firm, retaining talent must be the first priority.

On a personal level, leaders need to do everything in their power to ensure that they are not contributing to a toxic environment for the portfolio manager. This takes maturity and emotional intelligence to understand that portfolio managers are not a threat to the leaders position, but instead represent highly technically competent individuals who serve as the engines for the car that the leaders are driving.

There are a number of ways that the leader can ensure that HR policies and practices are supportive of the talent. These include:

a) Retention strategy - Leaders also need to play defense. They should pay more attention to succession planning which generally refers to the retirement of key staff. But most leaders struggle to find the time to worry about the long run. Perhaps a better way to describe this effort is replacement planning. This requires identifying who might have the potential based on the competencies that could be required immediately and/or in the future. What developmental experiences might these potential replacements require? What retention plans are there?
b) Review of work responsibilities apart from portfolio management – how can you minimize these responsibilities?
c) Fair base salaries – internal equity, external equity, perceived fairness
d) Fair incentive rewards - internal equity, external equity, perceived fairness
e) Participation in equity ownership
f) Contribution to organizational development and strategy -Leaders need to talk to senior portfolio managers about prospects for the firm even if the portfolio manager is seen as less than constructive or perhaps even disruptive in this regard. These are very smart people who will be offended if alienated from the firm. Their input should be sought on a wide range of topics including market opportunities, business goals, business strategies, client profile and so on. It isn’t necessary to accept all of their suggestions but giving them an opportunity to at least express their views is important.

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How diligent has your firm been in instituting comprehensive HR strategies that are perceived as fair?

Portfolio managers who are exceptionally talented are the ones that we can least afford to lose yet sometimes they have difficulty personalities. There is the risk that leaders may try to either alter their personalities through passive aggressive approaches such as 360 reviews, meetings with psychologists or coaches. Or they may choose to isolate the portfolio manager from the rest of the firm.

What are you doing to help them in the ways that they desire to be helped to the ultimate benefit of your firm and what are you doing to turn them away from you? Do you offer your encouragement, appreciation and support frequently? Make an honest assessment of what your role, and the rest of your firm's role is in potentially pushing an investment team out the door and fleeing to a friendlier environment.

C. Change yourself

What are your competencies in relation to the competencies of great portfolio managers that we reviewed earlier on page 11. Rate one of the firm’s key portfolio managers and yourself on a scale of 1- 5 (5=best).

Competency	Top PM	You, as leader
Incessantly curious		
Concerned with both detail and big picture		
Flexible as analyst yet decisive		
Future-oriented		
Objective		
Independent thinker		
Business risk-taker		
Asks great questions		
Wants to win		

How similar and different are your competencies from the most talented portfolio managers in the firm? What clues or ideas do these similarities and differences give you for improving your rapport with the portfolio manager?

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B. Change your organization

While some industry observers argue for creating win-win teams, a better approach might be to treasure your talent and do everything in your power to mold the organization around them. Portfolio managers like everyone else, don't want to be taken for granted and want to know that the firm supports them wholeheartedly. The difference is that top performing portfolio managers have extraordinary abilities and deserve special attention. You must work to discourage the rest of the firm from being jealous or in conflict with your talent. If the portfolio managers don't trust or respect or like people that work for them serious consideration should be given to replacing the people that support the talent or changing their role, or the way in which they contribute.

Do you believe that talent deserves special treatment?

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How effectively does your organization support talent?

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- Is an “us and them” mentality discouraged?
- Is everyone discouraged from expressing jealousy about the talent?
- Is everyone encouraged to find better ways to work with portfolio manager talent?
- Is everyone taught conflict resolution techniques?
- Are conflicts between portfolio managers and the rest of the firm squashed?

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4. What Are Portfolio Managers Looking For?

Portfolio management teams that are lifted-out are not just running away from unsatisfactory circumstances. They are also often running towards a better perceived opportunity. What characterizes these opportunities, and what can we learn about the offers that teams could be open to consider that might help us to retain teams? Are there clues in terms of what competitors are offering that can point the way to adjusting our approach in order to retain these valuable teams?

Any investment team open to a lift-out is looking for better rewards and at least as much autonomy as the team has now. You, on the other hand, are seeking to maximize the team's financial contributions to your business and to minimize the investment, operational and cultural risks it presents. That disparity generates a lot of intricate and difficult horse-trading over such issues such as:

- the work environment
- access to senior management
- influence on the strategic direction of the firm
- middle and back office support
- marketing support
- size and composition of its operating budget
- sharing management fees
- base, bonus and deferred compensation/equity terms
- control over hiring and firing decisions.

Can these "demands" be reconciled with your responsibilities as the leader of the organization?

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5. Why Do They Move?

The problem with thinking about lift-outs from firms is that, in spite of their frequency in the industry, they are rare events in the lifespan of any one firm. Most firms just don't encounter these very often. So it makes it difficult to pay attention to external and internal factors that may seem like they are simply a part of the business. What maybe influencing your team to consider leaving? What are our portfolio managers looking for if they are considering moving?

Make a list of what your portfolio managers say they want. You have to at least hear their demands.

- Do the leaders of the firm respect the team members?
- Are the team leader's ideas for the larger firm solicited and respected (even if not always adopted)?
- Is there uncertainty about the future of the organization?
- Is there a solid set of reasons to stay from the perspective of the team members?
- Are they treated as owners of the business not employees irrespective of their actual equity ownership?
- Do they have a feeling of influence and ownership of the firm?
- Are their needs being met?
- Is there competition for status within the organization?
- Is there product overlap between teams that may be causing friction?
- Are there philosophical differences in investment style between teams?
- What are the team's own goals, which may range from an eagerness to gain assets, to focusing almost exclusively on investment performance.
- Are they asked about their needs, wants, hopes and desires? Even if not always granted, just soliciting their input is very much appreciated.
- How well do others in the firm know them personally?
- Is the team given special attention?
- Is the team protected from challenges to its mandate or resources?
- Do the leaders of the firm maintain regular, frequent contact with the leader and the team.?

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- Is base pay for your best team set below industry norms in order to maintain pay alignment with others in the firm.
- Is a significant part of incentive pay based on factors outside of the control of the team, e.g. overall firm performance?
- Is incentive pay in direct relationship to the performance of the team.
- Do rewards get distributed disproportionately to your best team?
- Do you 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.
- Are general hiring freezes in the firm also applied to a successful team?
- Are requests for additional marketing or support resources generally accepted and funded? e.g. analysts, technology
- Are resources dedicated to marketing efforts that currently exist to support the team sufficient and successful?

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6. Warning signs

Do any of your teams have an exceptional track record?

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What are the currently popular asset classes? Monitor flows, intermediary expectations, public pronouncements by competitors.

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Are any of your portfolio management leaders concerned or dissatisfied with changes in the firm’s strategic direction, or feel that the firm is not meeting their needs? eg poor marketing results, compensation

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Does your firm attempt to “improve” or change portfolio managers in order to have them get along with others better?

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Are there product overlaps between internal groups and internal disagreements?

Does your firm have long established, closely knit teams?

Are any of the teams very autonomous?

What is the team’s view of the fairness of how they are respected and treated by the firm and its leadership?

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7. Putting it all Together

Team Dynamics

- Pay attention to the team’s own goals, which may range from an eagerness to gain assets, to focusing almost exclusively on investment performance
- Try to minimize the team’s administrative responsibilities
- Solicit the team leader’s ideas for the larger firm
- Check in with the team regularly. They need to feel loved
- Protect the team from challenges to its mandate or resources
- What the team thinks today, may change tomorrow
- A team cannot be replaced - although you can start over with a new team

Best practice

- Treasure your talent
- Align your support resources around your talent
- Replacement planning for all key positions
- Greener pastures may not be, but once they take a peek they may choose to leave the firm
- Retention in a positive way

Pre departure calculus

- Plan in advance for an abrupt departure
- Create a contingency plan
- Let them go if the capability doesn’t fit with your business portfolio or if the talent can be easily replaced
- Protect the firm in ways that may disrupt a lift-out. For example, have policies on confidential proprietary information, non-compete, non-solicit, and anti-poaching clauses, employment contracts with key staff

Post departure calculus

- Consider a counter offer
- Negotiate release of records
- Preserve e-mails and voicemails, interview employees including those departing, communicate with clients and be ready to appoint successors
- Consider a business continuity plan for this very real risk. Who to notify, messaging, managing media, clients etc

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Conclusion

Many firms have had growth challenges in recent years. Acquisitions are both too complex and costly, while adding talented individuals is a slow road to growth. But lifting out a team offers the promise of a book of business immediately, an established culture and a routine that can be readily assimilated.

Defending a firm against potential lift-outs, whether to other firms or even to a new start-up, is challenging but the economic value of the firm that is at risk is often worth every effort. This workbook helps leaders to address this unusual and consequential challenge.

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Authors Bio

Russell Campbell is the CEO of Your Second Opinion, LLC, a management consulting firm offering expert advice to leaders of investment management firms. He writes a weekly subscription newsletter for leaders, and also works one-on-one and with leadership 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.. 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 worked as a pension investment consultant, in institutional equity sales and managed a portfolio of precious metals.

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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