THE PRACTICAL GUIDE TO INVESTMENT MANAGEMENT BUSINESS PLANNING – PART I

"Engaging the Stakeholders to Grow the Firm and Create Economic Value"

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Executive Summary

1. **Review Current Capabilities** – What has been successful, what more could be done, what does internal staff want to do, what will clients accept
2. **Set Goals – Both Financial and Non-Financial** – Create economic value & additional goals that consider influential stakeholder views
3. **Develop a Preliminary List of Strategic Initiatives** – Solicit ideas from internal staff
4. **Consider Innovation** – The next stage of growth or game changers
5. **Research & Rank Initiatives** - Based on contribution to meeting goals
6. **Allocate Resources** – Align spending to support initiatives selected
7. **Quick Wins** – Example: kick-start sales
8. **Considerations for Growing via Acquisition**

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Introduction to Part I

- Are you thinking about how to get to the next stage of growth of your firm?
- Is the goal to build a large firm?
- Do you want to strengthen the firm's brand and reputation?
- Are you looking for a game - changing opportunity?

This guide can help you to prepare, and deliver, the results that you are seeking. Part I of this two - part guide is focused on these objectives:

- Achieving success in the eyes of stakeholders
- Realizing profitable growth
- Creating a sustainable firm for the long - run
- Building a substantial firm

We can achieve these objectives by:

- Having a structured approach to business planning
- Ensuring that stakeholders are engaged with the process
- Creating a plan that meets stakeholder needs

I have led 5 investment management firms in my career. Some of these firms retained very large and prestigious management consultants to assist with strategic planning. Business planning doesn't have to be expensive or complicated in order to deliver results.

Part I of this guide is for those leaders and firms who wish to craft a comprehensive plan to pursue growth opportunities in investment management – related businesses. Part II focuses on building on existing capabilities and growing opportunistically.

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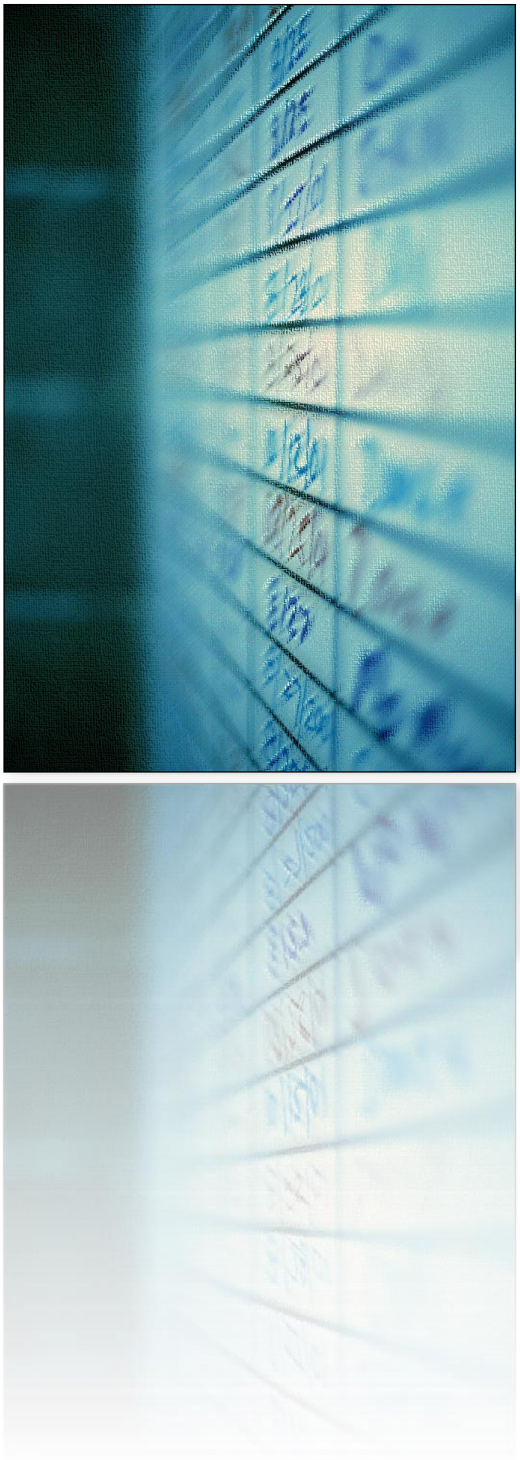

"Better Advice, Better Leadership"

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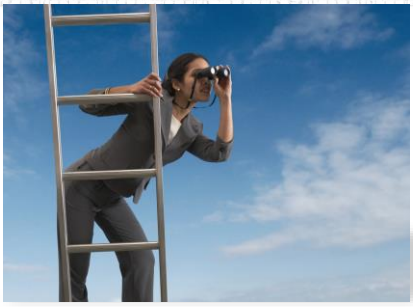

1. Approaches to Strategic Planning

There are only a few approaches to strategic planning that are widely used, and that have stood the test of time. Here is a quick summary of some of the most popular approaches used by investment management firms, along with some important cautions;

- *Industry trend analysis and forecasts*. But trends may be interrupted by major events (e.g. 2008's Great Recession), and competition for market share in trendy products is often the toughest.
- *Porter 5 Forces model* (buyers, suppliers, substitutes, competitors, new entrants). But industry boundaries are not static for long. For example, traditional long-only firms struggle for market share against hedge funds & passive managers.
- *SWOT* (strengths, weaknesses, opportunities, threats) analyses are easy to do. But, the analysis is often superficial.
- *Culture and team*. Culturally - based approaches to strategy emphasize team cohesion. However, highly talented individuals may be resistant to sharig power or managing others. Also, focusing on culture may embed resistance to changes needed to support the firm's survival.
- *Shareholder value*. An excessive focus on value creation may interfere with obligations to the profession, regulators and clients.
- *Innovation*. It is difficult to pursue innovation in parallel with an existing business. Innovation is risky, takes time to succeed and demands resources.
- *Market responsive* strategies look for ways to align the firm's current capabilities with current market opportunities. This is popular with many traditional investment management firms, and is the subject of Part II of this guide.

Each of these approaches contributes to business planning. In this guide, we also recognize the vulnerabilities of each of these approaches. The objective is to create a custom plan that all stakeholders can support and that can be implemented effectively.

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2. Time for Reflection

The strategic planning process should begin with a review of the current strategy: what we're doing now, what we're willing to consider, what we realistically could do, and what offers our clients might accept from our firm.

1. What is our strategy now?
   - List the main assumptions underlying the current strategy. How confident are we that these assumptions will remain true?
   - Is our spending on people and other resources supporting our current strategy?
2. What do we want to do?
   - What decisions need to be made?
   - What will we choose not to consider at this time?
   - What is not doing as well as we'd like?
   - What could our firm be doing better?
   - What are our firm's aspirations?
   - How do we want to influence the world around us?
   - What are our competitors doing that is appealing?
   - What are our short-term goals?
   - What do we want to do; what are we willing to commit to?
   - What will we need to do to be successful in the future?

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3. What could we do?

- What has our firm done before that was effective, but that we stopped doing, for some reason? Should we consider doing it again?
- What trends are affecting our clients, our firm and third parties?
- What client needs are changing that we are well – suited to address?
- What do we not know enough about right now, but will try to find out?
- Can we keep our focus on addressing the most likely opportunities?

4. What will others accept from us

- Why do clients buy our products?
- What are their key buying factors?
- Which prospective clients recognize that they need products like ours?
- Who else might consider our products if they were aware of them?
- What trends affect clients and prospects?

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3. Setting Goals

After reviewing the current situation, the next step is to set goals for the firm. Stakeholders should influence the selection of these goals, and so we need to consider which of these stakeholders is most important to our firm.

Power & Influence Holders	Publically-traded firms	Privately – owned firms	Comments
Employees	+	++	Employees are arguably slightly more powerful in a private firm.
External shareholders/Directors	++	=	Typically more non – employee shareholders and outside directors in a public firm.
Creditors	+	+	
Investors/Owners	+	++	Often also employees
Customers/Intermediaries	++	++	
Suppliers	+	=	
Government regulatory agencies	++	++	
Government legislative bodies	++	+	Legislators are generally more influential with public companies.
Industry trade groups	+	=	
Professional associations	=	=	
NGOs and other advocacy groups	+	=	
Prospective employees	+	=	
Prospective customers	+	+	
Local communities	+	=	
Global community	++	=	The general public can more often be incited to wield their power against public companies.
Competitors	+	=	
Stock Analysts and Media	++	=	Public companies are under more scrutiny from both sources.
Alumni (Ex-employees)	+	=	

In a publically-traded company, external shareholders, board of directors, customers, intermediaries, government, public opinion, stock analysts and the media heavily influence the selection of goals. For a private company, the set of key or influential stakeholders is often very different. Identify and consider the needs of the stakeholders who are most relevant to your firm in developing financial and non-financial goals.

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Financial Goals

It is important for every firm to strive to create economic value. Without growth in economic value, support from employees, clients, prospects and many others may not be sustainable.

Other financial goals may also be considered. Growth in assets, revenues and profit margins are typical goals.

Financial goals can be set in relation to other firms of a similar size and growth rate. Then select a reasonable time - frame for the realization of these goals. Here is a rule of thumb; any financial goal should be realizable over the medium-term, say 2 to 3 years to give enough time to demonstrate results from the plan.

Next, stakeholders should feel that the chances of actually achieving the goal are 50/50. Any financial goal has to be a stretching one; not a goal that is easy to achieve. 50/50 makes for a challenging, but not impossible goal.

Non – Financial Goals

Non - financial goals are often important to firms as well. The most important non – financial goals are most likely to be achieved if they are explicitly identified. It is also helpful if the non – financial goals are *"SMART"* (Specific, Measureable, Attainable, Realistic, Time Bound). Over time, these goals can be Evaluated and Revised. This makes the goals *"SMARTER"*.

Ranking Goals

Ranking all of these financial and non – financial goals helps all stakeholders to understand the trade – offs that may be required. Trade – offs may include for example, short – term versus long – term considerations.

The number of goals is ideally no more than 3 – 5. More goals may better reflect the desires and attitudes of stakeholders but fewer goals make it easier to focus everyday behavior.

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4. Developing Initiatives

Once the goals are established, the next step is to create a preliminary list of strategic initiatives. These initiatives may include expanding your firm's products and services, expanding the geographies in which you manufacture and distribute, seeking new types of clients, or seeking new opportunities to improve efficiency.

Senior managers of the firm have a specific role to play in developing these initiatives.

The role of senior management

Senior leaders are uniquely able to:

- Set the stage by presenting the framework for planning discussions with staff
- Identify and consider every reasonable opportunity. It is easy to overlook ideas from groups or individuals that are more introverted.
- Address sensitive stakeholder needs, such as staffing, acquisitions or divestitures.
- Ensure that each initiative is well-researched.

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Developing the Initiatives

Since the implementation will be done by people in the trenches, it makes sense for them to identify and investigate initiatives through research, experience and insight. If the key people who are responsible for implementing the initiatives feel some pride of ownership of the initiative, it will help to carry them through the inevitable emotional ups and downs of implementing something new.

This bottom – up approach to developing strategy is consistent with participatory leadership, and ensures that people feel that their voices are heard. That's not to say that their ideas will not be shot down by peers, or perhaps even by senior leaders. But the fact that they've had an opportunity to participate is very positive from a morale standpoint. Most importantly, this ensures that they will be active, engaged participants throughout the planning process and beyond. Once the final decisions have been made and execution begins, you can't afford to have people disengage because they feel that they have had no influence on the process.

This bottom-up approach to developing individual initiatives is particularly well suited to the asset management business. We have very smart people in this business who have rarely worked together on business strategy before, so there is a lot of untapped potential.

Identifying Teams

Each initiative should be assigned to a team. Each team ideally includes representatives of different functional areas of the firm – sales, portfolio management, compliance, operations and so on. Each team is then responsible for conducting further research into the viability of each initiative.

A business case for each initiative should be prepared by a team and it should include all of the elements that are important to understanding the opportunity as well as the risks. The case for each initiative can then be challenged by all of the other teams, as well as senior leadership.

Finally, each initiative is ranked against all of the others in terms of its likely contribution to achieving the firm's goals.

While the process is fairly structured, the outcome is a custom one which responds to both the present and future capabilities of the organization and its environment.

The next section offers examples of the types of initiatives that may be considered.

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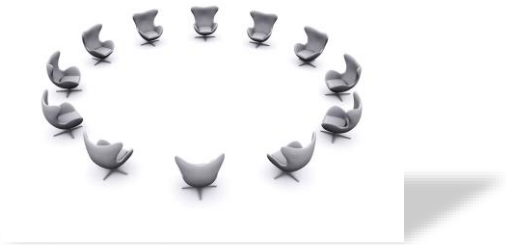

5. Examples of Initiatives

Investment

- Possible product line extensions using existing capabilities
- Enhancements to existing investment processes
- Address under –performance, if needed
- Upgrades to risk management
- Improve process for connecting with sales, service and clients

Marketing

- Improve the duration of client relationships
- Maximize current profitability from each client
- Capture market share from direct competitors
- Capture clients who currently use substitutes or related products
- Invest in resources to support popular products
- Consider product line extensions
- Improve communication between sales and portfolio managers
- Improve understanding of real reasons for client losses
- Review capacity limits
- Product innovation
- Understand reasons for being rejected by prospects
- Improve positioning with consultants/intermediaries
- Improve penetration of consultants/intermediaries
- Consider new geographic regions
- Consider new distribution channels
- Improve brand recognition
- Improve client service
- Review fee schedule and discounts

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Legal

- Review best practices
- Review regulatory trends and recommendations
- Build client trust
- Enhance compliance culture
- Improve monitoring of compliance culture of partners, intermediaries

Execution

- Unify operating platforms
- Enhance business risk management
- Review management of outsourced services

Staff

- Improve talent sourcing
- Skills development – technical/sales/leadership
- Corporate culture – consider how it contributes to success, get right people on the bus
- Reduce rate of turnover
- Improve effectiveness of virtual teams

Planning

- Implementation - Sequencing of initiatives – match resources to demands
- Implementation - Change management - activity, objective, timing, preparation, follow-up, status - Going from…to…
- Consider acquisition strategy

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6. Introduction to Innovation

Some of the initiatives identified by the teams may be innovative. Innovation may be game – changing or it may build on existing capabilities. We'll examine three different approaches to innovation here which are very different, and also offer varying levels of aggressiveness.

The first and most aggressive approach is called, "Disruptive Change". It suggests a dedication and focus on innovation almost to the exclusion of the existing business. The second approach is less aggressive, and is called, "Blue Oceans". It deeply analyzes fundamental client needs in order to identify opportunities. The final approach is called, "Beliefs and Trends", and it is a very practical approach to innovation, which suggests looking beyond current industry beliefs and trends by considering how these beliefs and trends might evolve over time.

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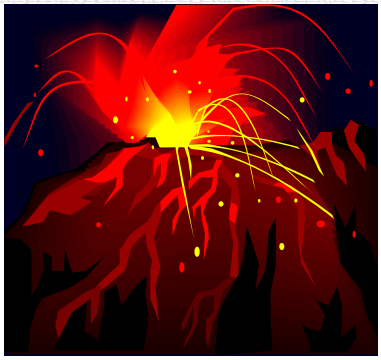

7. Innovation Approach #1 – Disruptive Change

The Innovators Dilemma: When New Technologies Cause Great Firms to Fail, by Clayton Christensen, is a classic book on the topic of marketing innovation. It offers a useful framework to understand the rise and fall of successful investment management firms in recent decades, and also helps us to understand how the industry is likely to evolve. The next wave of product innovation in our industry is underway, and it is likely to disrupt currently successful firms, while opening up opportunities for others who are willing to overturn their existing businesses.

During the late 20th century, many of the most successful firms were long-only investment boutiques. Customers wanted to beat the index, they wanted alpha. Managers were encouraged by clients to offer additional products that were closely related to the manager's investment competencies.

Hedge funds and index funds then disrupted this industry. It took some time for these products to gain widespread acceptance, but in the last decade or so, both hedge fund and passive investing have been widely adopted by investors.

Traditional investment firms were slow to respond to these unexpected changes in client demand. Their product pricing and investment processes were very different from their new competitors.

Long - only managers had created a pricing umbrella that allowed cheaper passive products to gain market share. Customers paid high fees for active management and profit margins were stunning. I once led a money management firm that had profit margins in excess of 75%. This super-rewarding profitability encouraged long only managers to stick with what they knew, and what made them money in the short - run.

Hedge funds offered a different proposition. Instead of undercutting long - only managers with lower fees, hedge funds utilized core investment skills familiar to long only managers, but applied them more widely and deeply, and coupled these skills with the use of leverage to re-shape returns. The promise of better performance and diversification appealed to clients, and hedge funds realized superior fees.

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Many traditional managers largely ignored the threats posed by hedge funds and passive products. Passive investing appeared to offer lower margins, and there was limited demand for hedge fund capabilities. Because index funds and hedge funds initially generated less total profit in the early years of their adoption, the best people in most investment boutiques were unwilling to be associated with them.

But opportunity may be knocking once more for long - only managers. They have a second chance to move beyond their investment niche by utilizing their capabilities in newly emerging products. Liquid alternatives and active ETFs are part of this next wave of disruptive innovation.

Now it is hedge funds who are responding slowly to disruptive market changes. Hedge fund firms are only tentatively moving into liquid alts. Liquid alternatives are less attractive to them because the profits are lower, the investment process is truncated and the client segment is different. The largest firms have prospered without liquid alts, and they have captured the majority of asset flows. Their success may blind them to the risk of being disintermediated by lower cost versions of their capabilities.

Whether a traditional investment firm or a hedge fund, responding to change will require a willingness to discard what appears to be working today. This demands an approach to innovation that may be too aggressive for many firms.

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8. Innovation Approach #2 - Blue Oceans

In 2005, W. Chan Kim and Renee Mauborgne released a book called *Blue Ocean Strategy: How To Create Uncontested Market Space And Make The Competition Irrelevant*. This book spurred a revolution in thinking about strategy and innovation.

There are numerous examples of *Blue Ocean Strategy* in the investment management business. In the past, *Blue Oceans* in our industry would have included index funds, ETFs, hedge funds, risk parity, the Yale model, and CIO Outsourcing. At a minimum, leaders should be aware of how their competitors are using *Blue Ocean* thinking.

Not all of the ideas suggested in *Blue Ocean Strategy* are fully applicable to the investment management business. We are in a professional service industry that is highly competitive, and this creates some differences in applying the techniques in comparison to many other businesses. But there are still plenty of insights available to leaders from considering the *Blue Ocean Strategy* approach.

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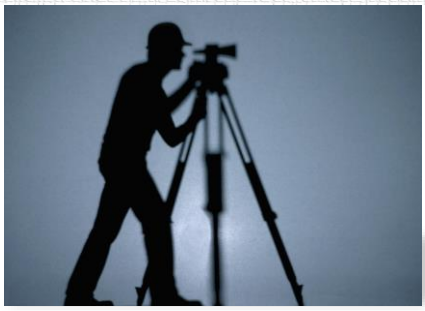

Surveys, Benchmarking & Trends

Surveying customers to elicit new breakthrough ideas doesn't work according to the *Blue Ocean* authors. If you'd asked customers of horse-drawn wagons in the 19th century what they wanted, they would have likely said, "better horses and wagons". Don't ask customers and others what they want. A better way to innovate is to observe what customers do, and craft your product offer around their real needs, not wants.

Benchmarking is also ineffective in the view of the authors. Benchmarking is not only a moving target, but firms have different business models and accounting conventions, which makes accurate benchmarking practically impossible. Even if benchmarks can be established, beating a benchmark only makes you above average - which isn't good enough to win clients. You have to be one of the best at what you do in this highly competitive industry.

Lastly, most management consulting firms openly promote trend-following. Instead of just finding and following obvious trends, we should choose instead to consider how the trend will play out, and anticipate the end game. Thinking about the disappearance of DB plans is an example. What if LDI, and annuitizing pension plans, become less popular with clients? What comes next?

Competitive Factors

In order to discover opportunities, *Blue Ocean Strategy* suggests first identifying the key factors that are most important to customers. These factors can then be either emphasized, de-emphasized, or even entirely added or eliminated. The result can be a new product with a superior combination of features, benefits and price.

Factors which appear to be driving investment product selection these days include:

- Liquidity
- Leverage
- Income
- Fees

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- Exposure to equity beta
- Branding, size of firm

These factors will change over time. For example, the demand for equity beta was much higher prior to the Great Recession. Federal Reserve policy is also likely to change client needs. A new wave of academic research, or even a shift in regulation (e.g. money market fund regulations) may also prompt new opportunities.

Solutions to Pain

Sources of pain are also identified in *Blue Ocean Strategy* as a fruitful source of new ideas. Volatility, excessive fees, and underperformance are common pain points for clients. One way to address these pain points is by offering broader solutions. Target date funds, LDI and financial planning are all examples of total solutions that eliminate some types of pain for clients.

Looking Across Boundaries

Blue Ocean Strategy further suggests that there are six boundaries of competition that can be crossed to open up ideas for new opportunities. These include looking for opportunities across:

- **Alternative industries** – An example might be developing a bank CD product that converts to an annuity under certain conditions.
- **Strategic groups** – There are groups of firms in our industry which share characteristics. Some newer strategic groups are hedge funds, or even CIO outsourcers. There are examples of members of these strategic groups partnering with members of other groups in the development of innovative products. But what about partnering with firms in other industries to create new kinds of investment products? For example, could investment firms partner with consumer product companies to target mass affluent customers?
- **Buyer groups** – What is common to all clients in their selection process when they choose passive or active, public or private, domestic or international investments? How can we use this knowledge to craft product offerings that appeal to the broadest possible audience of potential clients? Examples include creating products that reduce the risk of underperformance (e.g. low tracking error), offer liquidity at times when it is generally unavailable (e.g. guarantees), or perhaps offer a low degree of

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correlation with other asset classes - especially during bear markets (e.g. linked to Treasuries, gold). Some products that meet client needs in other countries may present opportunities for clients domestically as well. We should also consider the many participants that are involved in product purchases. Our industry has consultants, gatekeepers, boards, trustees, managers of managers and so on. Do their needs differ from end clients? For example, do consultants prefer different product characteristics for their CIO outsourcing programs, and could these preferences drive product preferences and new product design for other client segments as well?

- **Complementary product and service offerings** – A product example could be a private equity fund that places un-invested cash in small cap public companies.
- **Functional - emotional orientation of an industry** - Offering an actively managed fund-of-index-funds, or ETFs using a highly regarded asset allocator, could invigorate demand further for these functionally - oriented indexed products, by adding an emotional element (active management), and also increasing fee revenues.
- **Time** – an example of this could be a liquid private equity fund where liquidity is guaranteed.

Non – Customers

Blue Ocean Strategy suggests that noncustomers of the industry may be the best sources of insight into innovation. Mass affluent customers who buy bank certificates, younger investors who have been shocked by the volatility of the stock market, or institutional investors who have exited their pension obligations are examples of noncustomers of investment managers.

There are also many noncustomers of hedge funds because of concerns about liquidity, high fees, or manager risk. Positioning a long-only product as an alternative to a long-short/hedge fund product may be a successful strategy to appeal to these noncustomers. Liquid alts are another possibility that may address the needs of non – customers of hedge funds.

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9. Innovation Approach #3 – Beliefs and Trends

There is often industry consensus about likely future trends which are usually a straight-line projection of today's trends. Your firm, and many other firms, may be preparing to benefit from, or defend against, these trends.

But it's usually when there is a backlash against existing trends, or a reversal of current trends, that the best opportunities appear. Let's begin with some examples of trends which many in the industry believe will persist indefinitely:

Investing Beliefs

- The superiority of teams.
- Long only investing is dead.
- Passive, alternative and international investing are superior to domestic long only investing in terms of risk and return.
- CIO outsourcing will lead to better investment outcomes for clients.

Marketing Beliefs

- Clients will remain focused on reducing equity risk.
- Investment management firms must distribute globally.
- ETF's will overtake mutual funds in popularity.

Strategy Beliefs

- Independent firms will continue to be more successful than diversified financial services firms.
- There are inherent conflicts between the management of firms, and the profession of investment management.

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1. Do you agree with all of these current widely held beliefs?
2. Do any of them influence your firm directly or indirectly?
3. Does your firm need to take some action to either defend against or benefit from these beliefs?
4. How long will these industry beliefs persist?
5. Should you ride the current wave, or start thinking about what comes next?
6. Could these current beliefs be reversed, and should you consider preparing your firm for the counter-trend?

Here are some suggestions of what might disrupt these beliefs.

- Rather than teams, perhaps the focus will move back towards developing and rewarding individual talent, which is both idiosyncratic and alpha-generating.
- Unleveraged long only equity investing still remains one of the best ways to generate inflation-adjusted real returns over time. Clients need return, not just risk mitigation strategies. Long only active investing may re-gain market share.
- If correlations between asset classes stay high, this may erode most of the benefits of diversification.
- Clients may be disappointed by the investment performance results of CIO outsourcing and seek other management alternatives.
- The cost of international distribution may not always be worthwhile.
- Some firms are better at balancing both the business and profession of investing more effectively than competitors.
- ETFs may come to be seen as more risky than mutual funds because of tracking error, counter-party risk or for other reasons and clients may turn back towards mutual fund products.
- If diversified financial services firms learn to effectively cross-sell, they may become more successful in mass-marketing investment products.

If any of these counter-trends become true, will your firm be in a position to respond effectively and profitably? Should you be investing some of your firm's resources in building or acquiring a larger presence in anticipation of a reversal of current industry consensus views?

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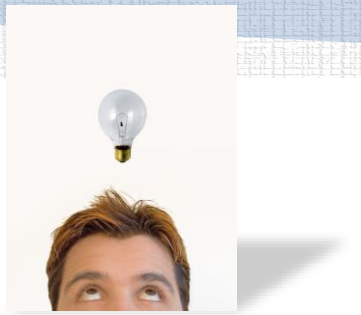

10. New Product Risks

The output from innovation efforts is often the identifying of client demand for new products. While new product innovation offers growth opportunities, the risks, and especially the risk to a firm's reputation is much less often considered.

1. There must be *an adequate supply of investable assets* for not only the firm's new product as it grows, but also to accommodate other copycat products from other firms. There may be limits to available capacity. A secondary market in mortgage loans grew because of the enormous size of the home loan market. A robust secondary market may not always be available for every new product.
2. There should be *the possibility of many highly differentiated competitors*. In the most successful product categories, there are a wide range of investment styles, which allows for more vendors, and higher fees. Commodity products, such as index funds and passive ETFs, favor only the largest firms as they require economies of scale as marginal costs and fees drift towards zero.
3. Investors want *liquidity*. For example, in the early years of institutional real estate investment, it was very difficult to liquidate large holdings in commercial buildings. An asset class may be attractive, but if everyone heads for the exits at the same time, or there is a credit crunch, the inability to liquidate will cause investors to think twice about investing in the asset class in the future, and one round of illiquidity may also negatively affect the reputation of the firm.
4. Ideally, *a new product should create its own demand*. ETF popularity for example, is in part lifted by investors using these vehicles to supplement their traditional portfolio strategies e.g. portfolio completion, asset allocation.
5. *Expected results should be broadly consistent with the actual realized results*. For example, portfolio insurance was widely adopted in the mid to late 1980s in the throes of a bull market. It was a product that made sense theoretically, but the product helped to accelerate a market downturn. Changes in regulation, such as the introduction of market circuit breakers to arrest the market downturn, also meant that portfolio insurance was unable to meet its promise of preserving portfolio values.

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6. What if the product promises a fabulous return to the direct beneficiary, but the *source of value is from nonparticipants or secondary beneficiaries*? For example, fixed life annuities or reverse home mortgages could cause a backlash if they are more widely adopted. You cannot just meet current direct customer needs, as you have to think of how the dramatic expansion of the product will affect other investors and the public.
7. Clients buy based on expectations of not only return, but also on *the expected pattern of performance*. What if the pattern diverges from expectations? For example, what if low volatility strategies or high dividend strategies persistently underperform for an extended period?
8. What if *risk estimates* are flawed? No one worried about fat tails in equity returns until the last decade. In other less liquid markets, risk may not follow normal return patterns and customers may suffer unpleasant surprises, which may negatively affect a firm's brand.
9. Sometimes the elimination of old risks gives life to *new risks*. As an example, insurance companies protect against catastrophic loss. However, what if the insurance company fails, or the guarantor of a structured product doesn't meet their obligations?
10. Finally consider what *changes in regulation or client preference* could render new products obsolete or unpopular.

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11. Allocating Resources

The ranking of initiatives leads to the selection of a small number of high potential initiatives which can contribute to achieving the firm's goals. The selected list of initiatives usually need to have resources allocated to support them.

The firm will likely have to make 3 main trade-offs in allocating resources;

- Prioritizing goals
- Between supporting the current business, and supporting the future direction.
- Between products, distribution channels, client segments and geographic areas.

To prepare to make these decisions it is helpful to:

1. Calculate current/normalized profitability by product, client segment, distribution channels, and geographic region. The contribution of each element to achieving other desired goals should also be considered.
2. Forecast sustainable profitability (profit margin, contribution to total income) and other contributions to the goals by product, client segment, distribution channels, and geographic region.
3. Consider any dependencies or interconnections between products, client segments, distribution channels, geographic regions.
4. Calculate the present value, including real option value, of current or potential investments in new products, new client segments, new distribution channels, new geographic regions. Real option value is similar to the value of a call option.
5. Rank order products, client segments, distribution channels, geographic regions in terms of each of their contributions to creating economic value and meeting other goals.
6. Communicate the results to key staff.
7. Challenge the owners of those parts of the business that are at the bottom of the ranking to improve their contribution.
8. Focus the firm's spending on resources to those elements that are most likely to contribute to meeting the firm's goals.

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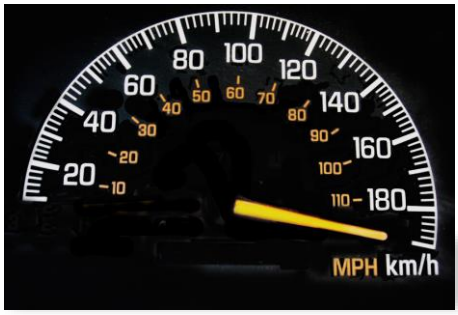

12. Accelerating Results

It is important for the implementation phase of any strategic plan to show early results in order to sustain interest and momentum. A typical initiative is sales growth. Here are ten steps to boost sales of your investment products in the short run.

1. Make it clear to everyone in the firm that the current sales slump is unacceptable. Facing reality may be uncomfortable, but making people a little anxious inspires productivity and creativity.
2. Set a short term sales goal that has a 50/50 chance of being achieved. This strikes the right balance between a goal being neither too easy nor too ambitious.
3. Your employees will do what they want to do. What they want to do in the short – run will be based on avoiding pain and gaining pleasure. Make it easier for them to support the goals by adjusting or replacing the sources of their pain and pleasure.
4. The skeptics in your firm will doubt that your goals can be achieved. Offer evidence based on precedents or comparable situations to demonstrate that it can be done.
5. What capabilities (investment, marketing) do you have, or can you acquire easily, 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 what made them successful previously.
7. What are prospective clients asking you to do? Have you been ignoring or rationalizing away their requests?
8. Allocate most of your firm's resources to support the strongest capabilities and the best opportunities.
9. What behaviors have to change (even if attitudes don't)? You don't need to change who people are - just what they do.
10. Celebrate small wins to build momentum.

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13. Growing Through Acquisition

Strategic plans often focus on organic growth efforts, but acquisitions may also be considered. There is an abundance of expertise available to identify prospects and close transactions. Our focus here will be on some of the less appreciated aspects of making acquisitions.

How beautiful are you?

What makes an acquirer attractive to firms who may be for sale?

- How attractive will your culture be to the staff of an acquired firm?
- Will you assist with financing their succession plans for the next generation?
- Will you support their investment process?
- Will you permit and encourage needed operational autonomy?
- To what degree will you interfere with their business?
- Do you bring access to distribution to the table?
- Will you invest additional capital in the acquired firm for growth, acquisitions?

Asset management acquisitions can be exceptionally tricky to execute successfully. The seller often has the upper hand because of their knowledge of their business. When a money manager sells all or part of their firm, they are implicitly confident that their timing is good. And they are investment pros.

Here are some of the soft cultural questions that acquirers should ask themselves before considering a particular acquisition:

- How can we realistically continue to build value in the acquired firm? What is the back-up plan if the original premise for the acquisition falls short?
- How will we make any needed changes without contributing to further erosion in the value of the acquired firm?
- What is our plan to keep senior staff motivated and engaged as long as possible post-acquisition?

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- How will we maintain the goodwill purchased, and earn and maintain the respect of the acquired staff?
- Will we be able to afford to pay sufficient base and incentive compensation for all remaining professional staff in the future?

Risk

Acquisitions may be either opportunistic or a result of a firm with a checklist of characteristics that they are seeking. Whether opportunistic or checklist driven however, no acquisition is a perfect fit. As a result, buyers often negotiate legal protections and build in contingencies, or they negotiate a lower price to reflect the absence of perfection.

These efforts to alleviate the risk of a transaction help somewhat. But there are always surprises, only some of which may be caught with thorough due diligence. Some issues only arise post transaction, and some are a direct result of the transaction!

Firms could prepare better for acquisitions by anticipating post - closing risks. Analyzing the most likely responses by the acquiring firm's own stakeholders to an acquisition announcement is the first step. Stakeholders to be considered could include employees, intermediaries and distributors, regulators, partners and clients.

For example, if a long only domestic equity manager announces an agreement to buy a small firm that does long/short hedge fund type investing, this could raise red flags for clients, regulators, and intermediaries. Issues such as compensation, conflicts of interest, and ethical guidelines will trigger knee - jerk reactions by these stakeholders.

Firms could better prepare for reactions to their proposed acquisitions by including possible reactions by stakeholders in their acquisition checklist. They can then test possible reactions through early discussions with stakeholders, prepare plans to respond to expected reactions and even consider how to respond to concerns about specific potential transactions.

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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.

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