

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Managed Accounts 201: Key Steps to Success with Managed Accounts

Peter F. Muratore

Editor's Note: Peter Muratore's unedited opening comments to the Money Management Institute (MMI) on April 9, 2002 provide an excellent assessment of how the managed account industry is evolving within the larger financial services industry's evolution. The historical context provides an invaluable reference point in understanding what is to come.

Welcome to the Conference. I know it will offer an encompassing précis of the rapidly growing managed account marketplace. This is without question an industry that is changing on a daily basis. It is growing only as fast as the evolving technology is being developed – it is reminiscent of how the mutual fund industry was impacted by new technologies in the early 80's, which enabled the massive growth of that industry in the 80's and 90's. Correspondingly the equity markets had their technological breakthroughs in the late 60's and the early 70's. Making it possible for the NYSE to go, from a struggle with 15 and 20 million share days, to the levels of volume that we have seen during the past decade.

The managed accounts marketplace is currently constricted only by the limited interfaces between the money managers, sponsors and investors. The expansion of that relationship technology is now becoming available in many different configurations.

Service providers of separately managed accounts for individuals who have been involved since the initial offerings in the early 70's, are being challenged by newcomers and in a classic marketing scenario, it is these new-entrants that are driving the technology breakthroughs, forcing evolving services, expanding the opportunities and eventually dictating the pricing.

The Money Management Institute Board understands the cost and impact of these expanding interfaces and has taken upon itself to engage a major consulting firm to study the evolving facets of these services along with the impact of the costs of delivery to the money managers, sponsors and the investors.

Operations are a far more important part of the managed account business than in any other financial service or offering. Operations are not only responsible for the buy/sell reporting and statement functions but

also are a determinant part of the continuing relationship with the investor.

Distribution that is still narrowly concentrated among only five leading firms will be the greatest beneficiary of the technology that is rapidly expanding the accessibility of consultants to money managers who were formerly only available to the large distribution outlets. Administration of programs and operational capabilities are no longer entrance barriers to regional firms or to independent practitioners.

Investors will no longer be held captive by the abilities of a handful of companies to deliver a broad band of performance measurement and reporting systems. On-line services are now within the offering abilities of all consultants and aggregation, tax-sensitive and multiple manager programs are no longer only on the drawing board but are available here and now.

All of this leads to the key question: How do you make the choices that are essential if you are to be successful? Not only do you need to discreetly manage your capabilities and have a keen sense of the needs

of your clients, but also equally important, is having the knowledge of what your competitors and the marketplace is offering.

Unlike a mature industry that offers limited innovation and static rather than a dynamic environment, the entrance of money managers into this business is more like a waiting line outside the latest Broadway hit, only a limited number of seats are available to the two or three potential occupants for each seat. Money managers will be told performance is not the deciding factor but no need to apply if you don't have it.

Consultants who previously have been prevented, because of system limitations now have the ability to pick and choose among the entire galaxy of money managers. Sponsors worry over the decision of how much to build or to buy. What is the proper mix? What is my critical mass? How many managers? How many portfolio disciplines? The training of consultants is again a decision of: Do I do it in-house, or can it be left to outside organizations. What are the right decisions for managing sales representatives to maximize their productivity? Is it the tried-and-true hands-on

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approach, or is it the emerging field of "net delivered – sales support?"

Client fees have been trending down. Sponsor costs are soaring with the constant expansion of services, and managers are finding themselves between the proverbial rock and a hard place. The sponsors demand more services from managers and want to pay them less. Cost efficiency of product delivery is not merely desirable – it is becoming essential. No longer can a manager afford to travel to a consultant without a clear opportunity to get in front of a viable prospect. Nor can a consultant be unprepared to clearly articulate why the proper asset allocation among a number of managers will enhance over all performance. No longer can you afford to ask the client for information previously given or deliver portfolio information that is stale. This industry will soon receive much more careful oversight by reporters and regulators, rapid growth always engenders additional scrutiny. Our clients are becoming more sophisticated and knowledgeable. We are no longer competing in a self-made vacuum. We have come out of the closet. Close scrutiny will become a way of life for all of us. The media is demanding hard

numbers regarding assets under management in all its iterations. They are asking for performance comparisons, which many in our industry feel are impossible and will only lead to more confusion.

Very soon the Money Management Institute will begin to issue the first industry-wide study of assets under management in separately managed accounts. On a quarterly basis, the 50 largest managers in the industry will be surveyed on asset flows, by style, by manager and by distribution channel. The report will also feature portfolio-by-portfolio results. It will be the first time such an all-inclusive report will be issued and these reports will yield valuable insight into AUM flows.

Many decisions need to be made and many of them will be a determinant of our success in this business. Some answers to your questions will be found during this conference, some will need continued investigating, and still other answers are yet to be developed.

But if you are to prosper in this most exciting venue, it is essential that you accept change and be willing to push the envelope.

I wish you all a successful conference and many AUM's. ■

Notes

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