AIMSE 24th Annual Conference, May 6-9, 2001

Charnley & Røstvold, Inc.

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Acquaintance or Colleague? How to Move Clients from Small Talk to Big Partnerships?

Moderator: John Seiter, *Capital Guardian Trust Company*
Presenters: John Brown, *Putnam Investments*; Mark Gibello, *TCW Group*; Michael Forrester, *Fidelity Management Trust Company*

***Putnam*, John Brown**

- Organizational Business Profile:
  - $65+ billion in institutional assets under management
  - 550 clients
  - 30+ products
  - 140+ people
  - Profit center

<table>
<tr><td colspan="5">John Brown
Head of Institutional Management</td><td>Head of Investments</td></tr>
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- Goal of firm should be to develop strong partnerships where your clients will not want to let you go
- Putnam is trying to reinvent themselves – increasing their emphasis on existing clients versus new sales
- Account Managers are the epicenter of Putnam's Core Service Model, which was implemented two years ago, and are the primary contact for clients and prospects
  - Relationship Managers are the primary contact for non-Account Manager clients and support Account Managers (including handling overflow)
  - Institutional Portfolio Managers are key contact for portfolio-specific issues
  - Client Service Associates are the key contact for administrative/operational needs
- Putnam's Strategic Relationship Service Model was developed to expand business into the largest pension funds

- Strategic Relationship Team includes:
  - Account Executives who are client's primary contact
    - 30 clients/prospects each
    - Provide priority access to Putnam resources
    - Manage Senior Executive contact program
  - Investment Strategy and Research team provide sophisticated and customized investment strategy and research
    - 250+ projects per year including white papers, product analysis and client specific research
- Partnership Building
  - Strategic Relationship Team Investment Strategy and Research projects include:
    - Client-specific projects: Manager fit optimization suggests to clients ways to enhance their allocation; may not always be with a Putnam product
    - General: benchmark comparisons, capital markets analysis and risk management best practices
  - Putnam Institute
    - Conferences/seminars, onsite meetings – training new Board members, 15-day road show a year to meet with clients
  - Technology
    - Web site covers public, consultant and client-specific sections
    - 350 of 500 clients use Putnam's site
    - Belief is that technology augments relationships rather than replaces it
- In 2000, Putnam had 150 wins; 51 were cross-sells
- Putnam is revisiting their Account Manager/Product Manager structure

***TCW Group,* Mark Gibello**

- Organizational Profile:
  - $80 B in assets under management; $60 B in institutional (75% of total assets)
  - 75 people; 30 professionals
  - Firm's fixed income products are strong in mortgage-backed securities
- TCW is currently focusing on cross-selling
  - Number one charge is to take care of existing clients, but you need new business to grow
- Consistency is the theme in TCW's Client Service program
  - Developing and maintaining relationships is key
  - 8 professionals average 16 years each at firm
  - Mark learned a few years ago that 15 clients generated 85% of his compensation; therefore, something needed to change. The change involved redistributing the client load, which wasn't easy since change is difficult. The result was enhanced productivity.
  - Marketing Reps are responsible for:
    - Marketing – New Business
    - Relationship Management – Client Service

    - Distinct territory
    - Selling all products to all clients in territory
- TCW is moving to a three-tiered approach to Client Service
    - Do not separate by plan type
    - Concentrating on $500 M to $5 B plans (middle market)
    - Team Approach to Marketing and Client Relations territories includes:
        - Senior Marketing Representative
            - Relationship Manager for largest clients and works with Product Specialist (new role at TCW) as needed
        - Junior Marketing Representative
            - Primary focus on middle-market/smaller clients in same territory and is back-up to Senior Marketing Representative
        - Marketing Associate
            - Coordinates marketing and client service effort and supports Relationship Manager and Junior Marketing Rep
    - There is always someone who can get back in touch with the client that day
- Consultant Relations group began five years ago and currently has three senior professionals with two support professionals
    - Charge is to ensure ongoing open and timely communication to consultant community
    - Focus on introducing appropriate managers to most strategic consultants
    - TCW learned a lesson: do not limit Consultant Relations group to being the only ones who communicate with Consultants; you can lose the relationship
    - TCW tiers Consultants
- TCW org chart keeps the Client at the top; they are what the end result is all about and you need to keep them
- Succession plan is defined by org chart

	Client	
Product Group	Marketing Organization	Product Group
Product Specialist	Relationship Manager (Sr. and Jr. Reps)	Product Specialist
	Marketing Associates	
	Marketing Support Staff	

- Relationship Building Process is key: TCW wants to make it as tough as possible for clients to get rid of them
    - Customer Relationship Database allows tracking of all aspects of client relationships
    - Annual Client Review meetings provide opportunity to sit, listen and learn. Taking this time helps with the long-term approach.
    - Regular and frequent communication with clients keeps them informed of significant activities

- Video and teleconferencing meetings with Portfolio Managers reinforce the Manager-Client Partnership concept

***Fidelity Management Trust Company,* Michael Forrester**

- Organizational Profile:
  - Over $167 B in institutional assets under management
  - 166 clients (corporates, publics, endowments and foundations)
  - Multi-product shop – 35 products
  - Part of a large financial services organization
- Recently, Fidelity implemented client service changes because their sales engine had stalled
- Fidelity used to have a segmented approach to sales:

Sales & Marketing						
Sales & Relationship Management				Marketing & Product Management		
Sales	Relationship Managers	Account Executives	Consultant Relations	Investment Directors (Product Managers)	Marketing Support	Strategic Services

- Background and History
  - Learned a few years ago that the senior sales professionals, who both sold and serviced, had 35-40 clients each and 250-300 prospects each
  - Client service was not given the proper attention and focus
  - Restructured client service effort and created Client Service Relations and created a "Strategic Solutions" team
  - Focused on new value-added services
- Current Organizational Chart includes:

		Head of Client Service					
Relationship Manager		Relationship Manager		Relationship Manager		Relationship Manager	
Account Executive	Account Executive	Account Executive	Account Executive	Account Executive	Account Executive	Account Executive	Account Executive

  - Four Relationship Managers: 25-30 clients and no new business responsibility; accountable for developing/maintaining relationships and cross-sells
    - Client's point of contact
  - Eight Account Executives: 25-30 clients each
- Created a Strategic Solutions Team
  - "Solution" selling is to complement the product sales
    - Exploit Fidelity's intellectual capital
    - Focus on business at risk
    - Increase cross-sell opportunities
    - Client education via white papers and seminars

        - Teams write a "business plan" for each client annually and include "expanding relationship" ideas
- Fidelity determined they needed to broaden relationships
    - Relationships were one-inch wide and one-mile deep; not desirable
    - To expand relationships, they introduce Senior Management at Fidelity to the Senior Management at the client's firms
- Lessons learned
    - Take a total approach and think about people, compensation structure, process and have a total commitment from the organization

***Capital Guardian Trust Company,* John Seiter**

- Key to Successful Client Relations: Discovery Meetings. A Discovery Meeting document is a working document vs. Avenue or Saratoga.
- Questions/areas to cover during Discovery Meeting:
    - Who are contacts?
        - What is organizational set-up?
        - Who reports to whom?
        - Who does the boss report to?
        - What is the make up of the relationship?
    - What are drivers/goals of the group?
        - Is their bonus dependent on investment results?
        - How do you measure it? (some measure once a year and this is important to know)
    - What are various asset pools?
        - Asset allocation?
        - What's your role within each pool?
    - What is my annual strategy in working with this client?
        - How satisfied are they?
        - What are servicing requirements?
    - Where are new business opportunities?
- Hold Discovery Meetings annually
- To set up meeting, let client know you want to review the "Discovery Memo" and review/update
    - Two hours (not over a meal)
    - Hold one meeting for every relationship (this applies to clients with multiple products)
    - Listen, take good notes and provide client feedback after meeting

Compensation

Putnam

- Use a deferred compensation = equity

- Use the "You've arrived" approach that your current role is the place to be vs. "career path." This is to promote dedication to current position instead of striving to always get to the next role.

TCW
- Base salary and commission; subjectivity is a problem
  - Professionals set targets, but remember you don't always win the money from where you thought you would

Fidelity
- Sales: Base, bonus, commissions; 80% variable, 20% fixed
- Client Service: Base, bonus and equity participation to reward long-term dedication
- Consultant Relations: Base, bonus and equity participation
  - 50% of bonus is tied to executing set business plan; 25% teamwork; evaluate each other in June and December; 25% from training Junior professionals
- Account Relations: Base, bonus and equity participation
- All directly tied to firm's "net sales"

Capital Guardian
- Sales/Client Service role combined
- Base salary plus bonus
  - Bonus is 50/50 proposition (very subjective)
  - Use a checklist including portfolio manager's evaluation
  - 25%-30% of evaluation comes from peer group; teamwork matters
  - Career path
  - Equity
  - Ask professional to set targets, but they equal weight to get on client's radar screen

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Client Service: Specialist or Jack of All Trades

Moderator: Andrea Boliyky, *Clay Finlay* (covers global consultants)
Panelists: Jeffrey French, *Duke Energy* (previously with Duke Endowment); Safa Muhtaseb, *Virginia State Retirement System*; Jeff Nipp, *Watson Wyatt*

Four Models of Client Service

1. Client Service specialist
2. Dual Role of Sales/Client Service – the person who makes the sale services the client
3. Product specialist
4. Portfolio manager has sole responsibility for client service

Duke Energy,* Jeff French – *Pros and Cons of Each Model

Client Service specialist – this model works well

- Sees this becoming an increasingly common model with the larger firms
- Client service requires a different set of skills
- Wants to know who the client service professional will be before making the manager hiring decision

Dual Role Sales/Client Service

- Pro: continuity
- Con: marketer is more focused on sales than client service. Compensation structure needs to incent focus on client service not just new business.

Product Specialist

- Pros: can represent the portfolio; knows as much as the portfolio manager; keeps the portfolio manager in the office focused on the portfolio and performance

Portfolio Manager has sole responsibility – not the ideal approach

- Dilutes portfolio manager's time; can have a negative impact on performance
- Determinants of appropriate model for an investment management firm are size, and depth and breadth of product. The most effective model is where the marketer brings in the business, then turns the account over to a client service specialist who does cross-selling. The client service specialist is best equipped to cross sell because they know more about the plan needs from working with the client. The relationship manager is more macro.

***Watson Wyatt,* Jeff Nipp**

- One of the best ways to market is to provide good client service
- Compensation should be tied to client retention
- Clients are interested in knowledge of what other sponsors in the same area are doing, so public fund or Taft-Hartley specialists who can speak the language can be helpful.

- Re the consultant specialist role, Jeff likes having one person he can call. Anything that makes the consultant's life simpler is preferred.
- Consultant specialists who have no direct client contact, however, are at a disadvantage.
- Smoothing transitions from sales to client service professional, or when client service specialist contact changes – get client/consultant buy-in over time. If possible, have both individuals come to meetings together a couple of times.
- Watson Wyatt's manager databases are local.
- It is important for an investment firm to have separation between the brokerage and/or investment banking and investment management (buy and sell) sides of their firm. If the investment banking side of the house contacts a CFO regarding an investment product, it doesn't go over well because it's clear they're trying to leverage the relationship, and a waste of time because usually the investment banking contact doesn't know anything about the product.

***Duke Energy,* Jeff French**

- Duke Endowment (his previous company) has 15% in absolute return strategies. The Endowment has a higher tolerance for risk and tracking error. You also see more concentrated portfolios. At Duke Endowment, his compensation was based on 3-year value added. In his corporate role at Duke Energy, his compensation is based on 12-months value added.

Question: How do you view strategic relationships where one manager manages all or most of a plan's assets?

- Response: It is unlikely one manager will be good (best of class) at everything.
- Consultants provide fund sponsors fiduciary insurance – if something goes wrong, they can blame the consultant.

***Virginia State Retirement System,* Safa Muhtaseb**

- It is important for each prospect to know their client; you must know your audience, and understand the decision-making process (hierarchy). For example, ask first if it is okay to contact the trustees to cross-sell.

Question: Frequency, type and format of information preferred?

- Response: Email is becoming most effective, and much faster than snail mail. Safa likes to receive a performance update with a few bullets on what hurt/what helped shortly after the end of the month.
- Jeffrey receives updates from three or four of his managers within 3-4 business days after month-end. It's nice to have someone to call to answer any questions, however. He's not fond of web sites yet. It's hard to keep track of 30-40 user IDs, so he prefers email to web access. At Duke, they still file things in paper form, however.

- Safa Muhtaseb likes electronic mail with attachments; views it as good as paper files. Their file server gets backed up every night, so he has a permanent record he can read any time. For that reason, he prefers email. In the case of urgent news, he prefers a phone call followed by an email. All of his managers provide performance by the morning after the month-end. His fund also requests a more detailed quarterly performance attribution report, with contribution of the top 10 holdings and bottom 10 holdings, portfolio changes and outlook. They allow their managers 10 business days to provide this report. His fund generates monthly internal attribution.

Question: Preferred Frequency of Visits?

- **Jeff Nipp** – when you have something to talk about. It is important to qualify individual consultant preferences. Sending attribution via regular mail is fine for him because it saves him having to print out emails and attachments. That may not be the case for other consultants at Watson Wyatt.
- **Jeffrey French** – Find video conferences no more helpful than telephone. Likes conference calls on research/markets. He is required to meet with each of his managers at least once a year.
- **Safa Muhtaseb** – even though they have taken on more technology to communicate, some firms are better at communicating via teleconference. He believes developing that skill will be more important going forward. It's a more efficient use of the sponsor's time. There is no substitute for face-to-face meetings, however, as it is a people business.
- **Jeff Nipp** – he's starting to see pop-up videos of portfolio managers in databases. That appeals to him, but it still won't replace the need for face-to-face meetings.

Question: Value of Client Conferences?

- **Jeff Nipp** – finds some helpful. They're best if done every two-to-three years; you get better quality speakers and it becomes a bigger deal because it you miss it, you know you won't have another chance for two-to-three years. He does not want to hear a lot of marketing pitches. Conferences are good because they enable clients and consultants to meet more of a firm's investment professionals and talk to each other as well.

Delivering Bad News

- **Jeffrey French** does not like surprises. He advised client service specialists to think of themselves as an advocate for their client within their firm.
- **Jeff Nipp** – when delivering bad news (e.g., someone important leaves), it's okay to say you don't have a plan in place yet. It's better to relay the news right away rather than let your client or consultant read about it, and say you'll keep them posted as you develop your plan.

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Pressure Points: An Insider's Guide to Global Investment Opportunities and Risks

Moderator: Phil Swan, *Capital Guardian Trust Company*
Panelists: Chris Nowakowski, *InterSec Research*; Jeanette Schreiber, *William M. Mercer Investment Consulting Inc*., *Eager Division*; Rodger Smith, *Greenwich Associates*

***InterSec Research,* Chris Nowakowski**

- In today's marketplace, there are between 40 to 50 investment managers undertaking a global management approach; the numbers are much lower for consultants
- InterSec's data shows the following as the World's Pension Assets in 2000 (US $12.2 T):
  - North America, $7,622 B
  - Europe, $2,569 B
  - Pacific Basin, $1,773 B
  - Latin American, $153 B
  - Africa, Middle East & Asia, $95 B
    - There is a 6-to-1 disparity between the US and Europe
- From 1995 to 2000, the World's Pension Assets went from $7.7 T to $12.2 T; a 10% growth rate.
- InterSec predicts from 2000 to 2005, assets will go from $12.2 T to $18.2 T; an 8% growth rate, which is a 20% drop in growth rate

Growth per annum:	**Past 5 Years**	**Next 5 Years**
U.S.	14%	9%
Total	10%	8%

- Money managers' profit margins are an endangered species
  - Smarter and tougher pension fund clients will ask you "why should the management fee go up when the index is up 10%, and my pension fund portfolio is only up 5%?"
  - Corporate headquarters is increasingly converting the pension process into a profit center
  - The pension fund outsourcing industry is capturing the attention of cost-conscious CEOs and CFOs worldwide. Manager of Managers (MOMs) will capture significant pension market share.
  - Money managers will begin to reassert their rightful place over pension consultants and pension officers as the source of strategic and tactical asset allocation
  - Global fee battle between the 40-50 managers currently vying to become one of the top 15-20 leaders in the money management world in ten years or so
    - This will lead to unbundling and lowering of fees
  - Slow shift to passive management and advent of so called "preferred providers" for multinational corporations
  - Capped fees will not help, and new entrants, such as low-cost, web-enabled products will persist

  - Cost pressures will continue: technology upgrades; staffing
  - To survive, pension managers will need to have both a successful global investment strategy and an incisive global business strategy
- New pension legislation will not enable/force massive global tax advantaged savings, particularly not in Europe, particularly not in defined contribution
  - Pension funding in Europe will not explode. There are numerous reasons not to fund the pension provisions; the system is "pay as you go with it paying 90% of current retirement checks."
  - To date, there is not an effective "pan-European pension movement"; the pension process is politically driven on a nation-state basis
  - From 1995 to 1999, Continental European DC and DB assets grew at the same rate – 10%-12% per annum
  - The DC model in Europe will not follow the U.S. DC model. The DC model in the U.S. of participant mutual fund choice, and instant reallocation, will not prevail in the UK nor the Continent, given that employees, unions and governments are all against U.S.-style participant choice.
  - New pension legislation in the U.S. will create a relatively level playing field, for all stakeholders, among cash balance, DB and DC.
  - There will be limited participant choice but lots of marketing opportunity worldwide.
- Country vs. Sector approach
  - The country approach vs. the global sector approach battle is joined worldwide
  - Pension managers are still faced with an absence of pro-sector value-added evidence

***Greenwich Associates,* Rodger Smith**

- Institutional assets outside the U.S. are substantial, with market dynamics that put a large proportion up for competition
  - Greenwich research reports $10 T assets worldwide
  - In the UK, the market is rapidly changing from balanced managers to more variety of managers
- Asset mix differs significantly, with international investments expanding in most markets and fixed income losing share
- DC plans are rising in importance globally
- The expanding share of total assets in DC plans is an important growth driver globally
  - If you are "best of breed" in the DB market, you are open to other markets easier, such as DC

DC Plans (Actual and Estimated Growth)

Country	2000 Actual	2003 Estimate	2010 Estimate
United States	43%	58%	65%
Canada	35%	40%	51%

Country	2000 Actual	2003 Estimate	2010 Estimate
United Kingdom	8%	16%	28%
Continental Europe	38%	45%	54%
Germany	43%	44%	44%
The Netherlands	8%	13%	19%
Japan	0%	7%	24%

- Hiring of new managers is brisk globally which creates a multitude of opportunities for managers to expand their institutional business
- Plan sponsors are using more managers to implement specialized investment approaches that foster diversification
  - At the same time, terminations are also up
- Specialty management dominates in the U.S. and is increasingly popular globally
- Indexation is a growing and viable alternative to active management
  - Indexation raises the bar: active managers need to deliver alpha
  - Continental Europe went from having 8% of funds indexing domestic equities in 1999 to 11% in 2000; numbers are low because managers have not sold index products much in Continental Europe
- Fees differ globally but are expected to rise as American managers bring an emphasis on value added – not price
  - U.S. managers tend to have higher fees than the UK
    - Justify it since higher fees give them the ability to provide better client service (with technology, etc.)
- U.S. funds have a relatively small team of professionals employed to select and supervise external investment managers and provide administrative services
- Consultants are influential in the core markets, but not in all markets

% of Funds Who Use Consultants for Advice

Country	1999	2000
United States	70%	72%
Canada	66%	72%
United Kingdom	89%	88%
Continental Europe	36%	32%
Germany	9%	21%
Belgium	NA	67%
France	NA	7%
Japan	NA	52%
Australia	82%	NA

Trends
- Technology promises to revolutionize the business as use of the Internet becomes more complete
- There is a lot of opportunity globally
- UK consultants have embraced U.S. managers. Why? Because U.S. managers are clearer on their processes and philosophies.

***Mercer Manager Advisory Services,* Jeanette Schreiber**
- Currently seeing reactive business management in the market
- A recent survey shows 36% of investment managers are implementing cost reductions

Findings from Mercer's Annual Benchmark Program
- 2000 program included 35 firms with over $1 T in AUM
- Programs in U.S., UK/Europe and Japan
- Data gathered as of year-end 1999
- Ultimate measure of success: sustainable margins
  - Report showed that from 1994 to 1999, historical profit margin medians fell during one of the strongest bull markets:
    - Larger firms went from 53% profit margin in 1994 to 40% in 1999
    - Smaller firms went from 36% in 1994 to 28.5% in 1999
- Goal is revenue consistency, including:
  - Market behavior
  - Organic growth – clients, prospects, consultants
  - Client retention
- Expense control including
  - Components of expense – organization can proactively control
  - 60%+ compensation-related – significant component of organization
- Operative efficiency – staffing
  - Leverage professional staff
  - Measure productivity
    - Review new account assets and revenue per sales professional
- Three components that contribute to success are: manufacturing; marketing; and client retention/cross sales
  - Manufacturing diversification
    - Investment product concentration
    - New product development and product line extension
      - Much of this is done in a reactive mode vs. proactive mode (using market research)
    - Potential and timeline for product profitability
    - Senior portfolio manager retention is a hot topic; most firms are trying to retain the same staff longer (can leverage performance consistency)

- Marketing strategy
  - Significant payback from investment in marketing and sales
  - Payback ratio in 2000
    - U.S. - $1.30 to every $1.00 invested
    - UK – .85 pds to 1 pd
    - Japan – 1.86 yen to 1 yen
  - Flat investment as percentage of revenue over last five years; therefore, how do you evaluate and measure payoff in other markets?
- Marketing implementation
  - Vastly different growth patterns
  - Analysis of cost/benefit tradeoff
- Consultant adoption
  - At the median, consultants are involved in roughly 50+% overall of the placements in U.S. target markets
  - In Europe and the UK, consultants are involved in 45% of searches
  - In Japan, only 17% of placements involve a consultant
- Retaining your clients
  - There is a strong relationship between highly satisfied clients and understanding of investment approach
    - Communication is key

- Cross-selling your services
  - Historical mean levels of new allocations as a percent of total assets from existing clients in dollar weighted averages:

1995	3.5
1996	4.7
1997	4.1
1998	4.9
1999	3.2
2000	5.0

- Increasing importance in cross-selling current clients
- Multi-product firms have a significant opportunity to take advantage of "friendly" audience

Operating Elements of a Consistently Successful Firm

- Diverse Product Mix
- Investment Performance Consistency (relative to the benchmark)
- Professional Commitment and Longevity
- Varied Target Market Mix
- Broad Consultant Relationships

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- Strong Client Relationships
- Cross-sale Success
- Highly Productive Professionals
- Expense Structure Sensitive to Changes in Revenues

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The Consultant Roundtables

Consultants: Todd Davis, *The Marco Consulting Group*; David Katz, *BARRA RogersCasey*

***The Marco Consulting Group,* Todd Davis**

- The Marco Consulting Group consults to Union/Taft-Hartley pension plans
  - Over 130 client relationships
  - Plan assets range from $10 M to $7 B
  - Total plan assets exceed $80 B
  - Avoids conflicts of interest/does not do business with the investment management community
- Investment policy development and review
  - Maintain a clear and concise investment program and cover
    - Plan objectives
    - Asset allocation
    - Investment manager structure
    - Investment manager guidelines and performance expectations
- Manager selection process includes:
  - Define type of manager needed
  - Complete due diligence process performed
  - Investment manager candidates profiled and presented to the Trustees for interviews
- Custodial monitoring
  - Market value discrepancies
  - Dividend and interest payment differences
  - Brokerage commissions
  - Failed equity trades
  - Daily uninvested cash balances
- Special projects
  - Research reports
  - Annual fee study
  - Other projects requested by Trustees
  - Annual client conference
- Meetings with Marco
  - Before arranging a meeting, remember Marco's clients are – Taft-Hartleys; consider your product fit first
  - Make your process as transparent as possible
  - Marco believes in an open-door policy; managers should balance how much communication/information they provide to Marco
  - During a 30 minute meeting, discuss your points that you haven't already provided in a report; Todd doesn't want to hear anything that he can read
    - Spend your time cautiously vs. opportunistically

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- Manager selection process
  - Imperative that your questionnaires are complete
  - It is your responsibility to ensure the information provided is accurate and complete; not the consultant's
  - Marco uses their proprietary database
    - Working to bring their questionnaire on-line
    - Will also use Nelson's and Morningstar in some cases
  - Searches
    - 1999 = 175
    - 2000 = 273
    - 2001 = 175 so far, anticipate close to last year's numbers
- Suggestions/Nuances
  - Managers should accept the smaller searches. You can build good relationships by accepting a small mandate such as $1.5 M; it may be tough but just do it.
  - Consider negotiating fees because it will help get you in with the consultant; it is a favor
  - Not a fan of concentrated portfolios; for example, a large cap portfolio with 25 holdings concerns him
  - Small cap: currently recommending 5%-10% allocation to small cap, active growth and value
    - For one allocation, will place in a small cap core product; if it is a $20 M allocation, for example, will place half in growth and half in value
    - Use the Russell 2000 as benchmark
    - Median is important (especially in 1999)
  - Pooled funds make better sense at smaller levels
  - Proxy voting is very important to Marco's clients
  - Not a fan of mid cap products because if you have active large cap and active small cap products in your portfolio, the lowest holdings from large cap and the highest holdings from small cap would give you an overconcentration in mid cap.
  - Q: Have you ever had to overcome your youthful appearance, and if so, how do you advise younger portfolio managers to do so?
    - Yes, know your material; be confident, polished and positive. Do not make your age/appearance an issue.
      - Can also share war stories like the veterans do even though you are younger

***BARRA RogersCasey,* David Katz**

- Organization:
  - 100 clients
  - Primarily large Corporate pension plans: average plan = $2 B
  - Ideal client is $1 B DB or DC plan
  - BARRA was acquired by RogersCasey in 1996; it has been a happy marriage
  - John Casey consults to money managers

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- Consulting group is headed by Robin Pellish
  - Management Committee consists of 6 professionals
  - 8 consulting teams
  - All are generalists – DB, DC, Risk Management, etc.
  - All of their time is spent calling on clients
    - Do not do research or call on managers
    - Also, do not make a decision on a manager without working with the Manager Research Group
- Research Group is headed up by Vinita Olson
  - Capital Markets Group; asset class specialists
  - Manager Research Group
    - 14 of the 19 members cover manager research
  - Research is done on an ongoing basis
  - Group prefers having one point of contact at an investment management firm; Consultant Relations groups are an added value
  - BARRA is happy to debrief with managers following a final to provide feedback; surprisingly, many managers do not call and ask for this
  - BARRA's short list starts at 5 to 10 managers; it changes regularly
- BARRA sees interest in International Small Cap and believes there is a place for it in DB and DC plans

AIMSE 24th Annual Conference, May 6-9, 2001

Charnley & Røstvold, Inc.

The Keys to Success

Presenter: Joan Payden, *Payden & Rygel*

- Message: Stop, Look, Listen
  - In every meeting or day-to-day operations, think about the culture and environment
  - Be alert to your surroundings
  - Tune into business issues including the environment and context; other's point of view
  - Apply this approach to employees
    - Most people will go as far as they want to go and not always where you want them to go; therefore, communication is key! Remember to connect and look at each other.
  - Priorities
    - People – look at the whole person and do not ignore your intuition
    - Environment – can you thrive in it?
      - Remember, people do respond to hard work, challenges and test of will
  - Usually the things you worry about do not happen and the things you don't worry about do happen; pay attention to keeping good people motivated
    - Passion, Integrity and Enthusiasm are key
- Future
  - Will be multicultural
  - Global environment
  - Foreign meetings will require a new set of communication skills
  - Will need cross-cultural abilities and an openness to new ideas
- Advice
  - Be conscious of the governance of an organization
  - Internal people are most important

Surviving and Winning in a New Era: Tips from Veterans and The Next Generation

Moderator: Susan Leader, *TCW Group*
Panelists: Churchill Franklin, *Acadian Asset Management*; Marlis Fritz, *AXA Rosenberg Group*; Lora Goldwater, *John A. Levin & Co., Inc.*; Robert Hopson, III, *Fayez Sarofim & Co.*

Decreasing access to Plan Sponsors: Direct marketing problems

- Position yourself as being someone who has what the plan sponsor needs
- Be confident, persistent and creative
- Use "I'm calling you to ascertain your interest in meeting with me to learn about XYZ…"
- Focus territory approach: learn as much about the plan and the client as possible to be well prepared for a meeting; it may be your only opportunity there
  - Gather information and don't give up
- Think about the person on the other side of the phone
  - Their time is valuable
  - What do you have to offer them?
  - Be a resource

Focus on Consultants

- Remember you can help consultants with their businesses as well
  - Learn the consultants' needs to know what to provide them
    - Share research, white papers, etc.
  - Remember not to underestimate who has the power in the decision-making process; treat all at the consulting firm with respect
- Challenge is getting "in" with the manager research group; need to get on their lists
  - Determine who to focus on – smaller consulting firms can be a good place to begin
- Following a final, always call the consultant and ask for feedback; be sure to implement the feedback you received, if possible

Work with Portfolio Managers

- Establish a culture where you review/debrief after all meetings
  - One approach is to use self-deprecating behavior first, then mention how they did and can improve
- Remind portfolio managers that the plan sponsor's time is as important as their time
  - Also, in order to present within the given time frame, tell your portfolio manager you have 10 fewer minutes than you do
- Time on the road is a tough situation; rotate who attends the meetings; explain this to the Board members – will help them understand the importance of keeping portfolio managers focused on portfolio
  - Prepare the portfolio managers before meetings so they are ready and understand the Board/plan
- Contradictions and disagreements

- When a fellow presenter makes an incorrect comment or a statement with which you do not agree, let it go if you can; otherwise, try, "Let me clarify…"

- Practice as a Team