

Survivor Asset Management

The Future of Business

Presented By:

John R. Reinsberg

*Asset Management —
There Have Been Issues*

1995 Thesis of Goldman Sachs Report

- Too many management companies relative to the flow of new assets
- Companies must improve products, distribution and client service
- Globalization will be most important trend
- Capital will be required for scale

In five years 20-25 companies with \$150+ billion AUM will dominate the market. Niche companies with less than \$6 billion AUM will manufacture specialty products or serve special needs.

Current State of Asset Management Industry

- Increased competition in all segments
- Continued polarization – mega firms vs. boutiques
- Significant drop in assets/profits over past 3 years
- Investor confidence crisis
- Institutionalization of hedge funds
- Unwinding of ill-conceived mergers/buyouts
- Increased litigation/compliance risk

Traditional Business Structures/Models/Strategies are vulnerable!

Forces in Investment Management — Challenges

- Fading client loyalty
- Mega players offer “one-stop shopping” at attractive fees
- Information becomes a commodity
- Open architecture is challenging core competence
- Time horizons have shortened
- Performance attribution has improved
 - ◆ Your flows are easier to identify
 - ◆ Clients pay for expertise, not mere capability

It's a Game of Survival

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THE VERDICT IS IN: VECEPIA TOWERY IS THE SOLE SURVIVOR

Leben Sie von Central Park in New York City, wurden die sieben Jury Stimmen aufgedeckt, und Vecepia Towery, der 36-year-old Bürovorsteher von Portland, Oregon, stand dem alleinigen Überlebenden und dem Sieger des ÜBERLEBENDEN: MARQUESAS. Während einer emotionalen abschließenden Stammes-Ratrückseite auf der Insel, verschob sich die Stimmrechtsvollmacht die abschließenden zwei Überlebenden-Vecepia und Neleh Dennis..... [mehr](#)

SURVIVOR VIDEO
RETROSPECTIVE

COMING THIS FALL TO CBS

| | |
|----------|---------|
| GABRIEL | PETER |
| GINA | ROB |
| HUNTER | ROBERT |
| JOHN | SARAH |
| KATHY | SEAN |
| NELEH | TAMMY |
| PASCHAL | VECEPIA |
| PATRICIA | ZOE |

CHALLENGE TRACKER

SEE THE MOMENT OF THE WEEK

THE ZIMA SURVIVOR CHALLENGE
OVER \$1,000,000 IN CASH AND PRIZES
[CLICK HERE](#)

Abschließende Wörter
Finden Sie wie Filz Paschal und Kathy über weg von der Insel getreten werden heraus.

Klicken Sie hier für Paschals abschließende Wörter

Klicken Sie hier für Kathys abschließende Wörter

Überleben das späte Erscheinen
[Sehen Sie, was es nimmt](#)

Interessanter Notfall
Nur 9,14% von Netzwählern wählten Vecepia aus, um das alleinige Überlebende zu sein. Die meisten von Ihnen wählten Paschal aus. [Sehen Sie alle Resultate](#) .

ÜberlebendcSchwätzchencArchiv
Lesen Sie die Schwätzchenabschriften aller Überlebenden. [Klicken Sie hier](#)

ÜberlebendcSpeicher
Lassen Sie Ihre Markierung -- erhalten Sie Ihren gestempelschnittenen Überlebenden: Strandsandals Marquesas jetzt am ÜberlebendcSpeicher!
[Klicken Sie hier](#)

WHO DO YOU THINK PLAYED THE GAME BEST?
VOTE NOW!

Das Marquesas
Erlernen Sie mehr über Nuku Hiva -- nehmen Sie eine Tour des Paradieses!

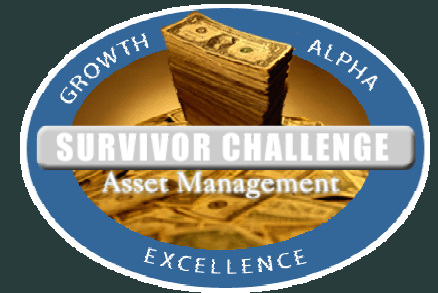
Survivor Asset Management

Let's Play the Game

The Survivor Challenge will include:

- Manufacturing excellence
- Management expertise/Organizational stability
- Growth
- Service quality
- Innovation
- Cultural obstacles
- Globalization
- “Talent War”
- Increased Regulation/Compliance/Governance

#1: The Management Challenge



- Sound investment premise
- Know and leverage competitive edge
- Integration matters – Horizontal/Vertical, Manufacturing/Distribution
- Synchronize investment and business strategies
- Define “success”
- Unencumbered management structure
- Technology spend must clear the minimum hurdle
- Create a unique “winning culture”
- Focus – define and execute the vision

Avoid complacency → innovate and anticipate the competition

The Reality is...

The good managers keep getting better; the bad managers keep getting worse.

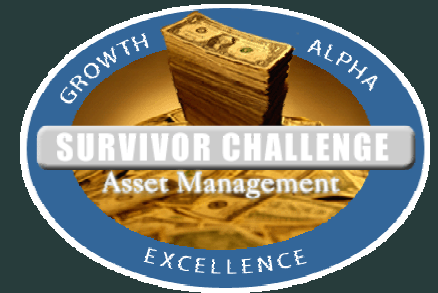
#2: The Quality Challenge



Investment quality is the manager's ability to consistently meet stated objectives.

The Quality Challenge

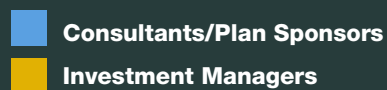
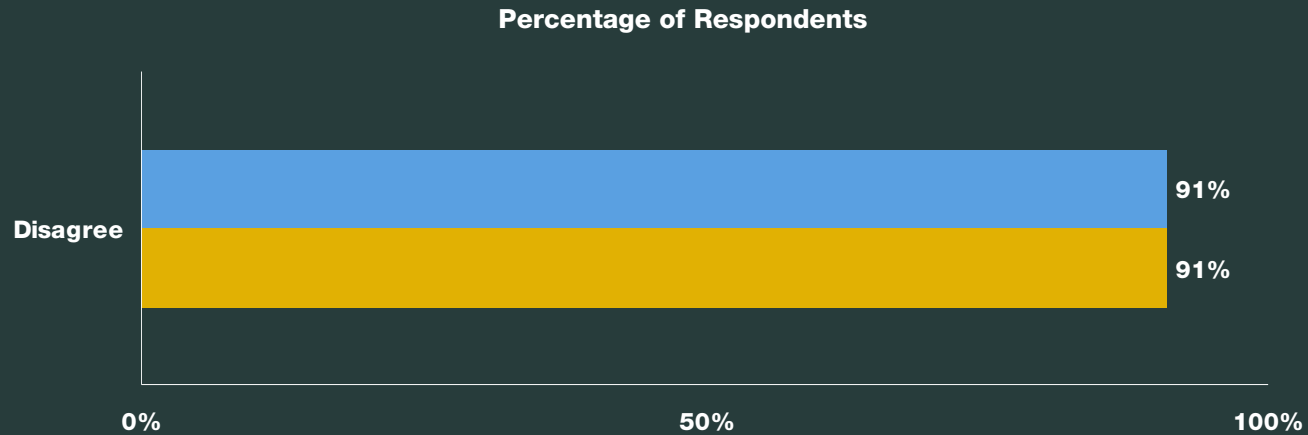
- Manufacturing quality reigns!
- Investment process matters
- Organizational stability
- Understand the sources of alpha
- “Skill based” managers will determine alpha success
- Well-defined decision-making responsibility
- Thought leadership
- Compensation alignment



It's not about size, but about Consistent Excess Return!

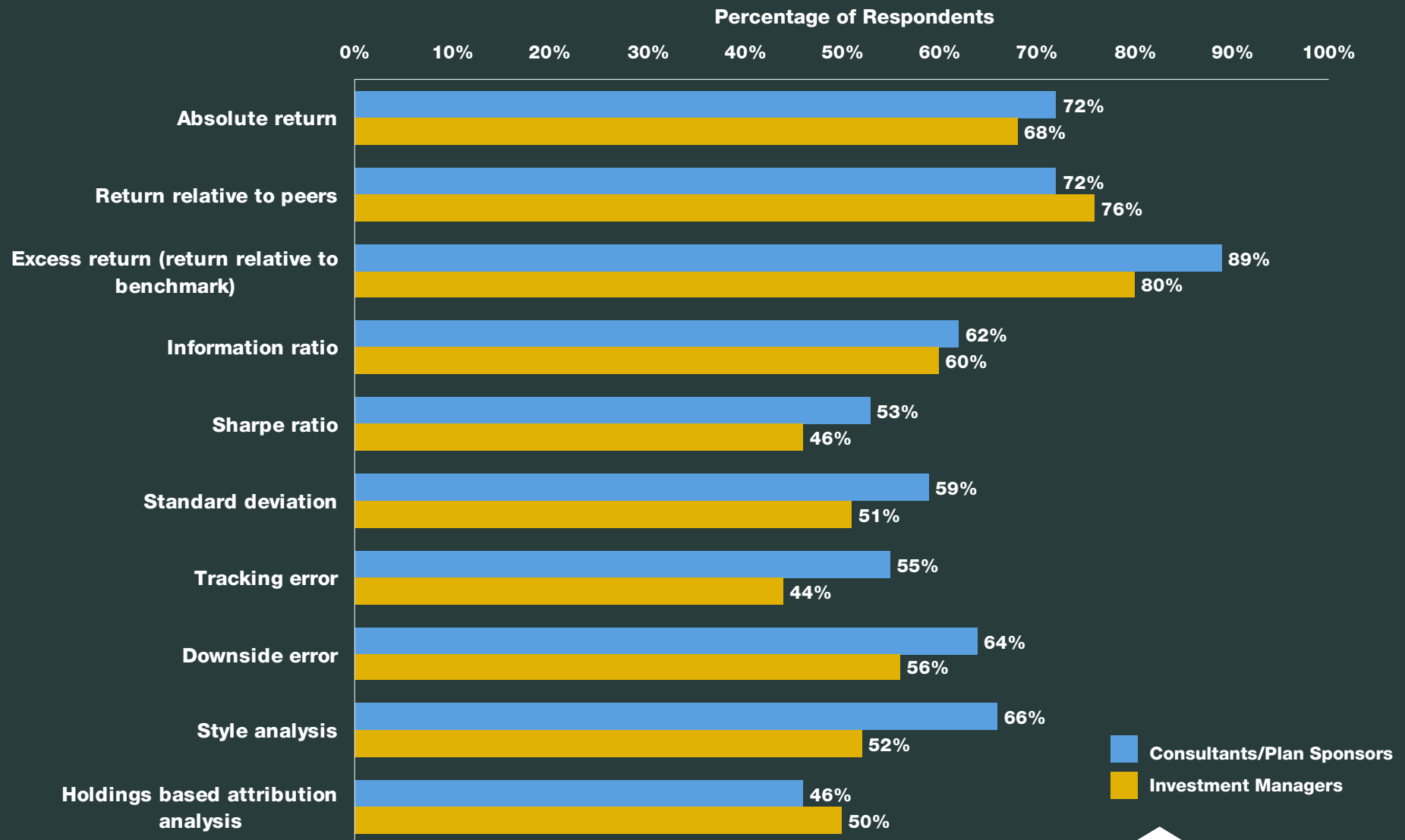
Current State of the Asset Management Industry: Is Investment Quality About Performance?

Investment Quality is really only about performance (Do you agree or disagree?)



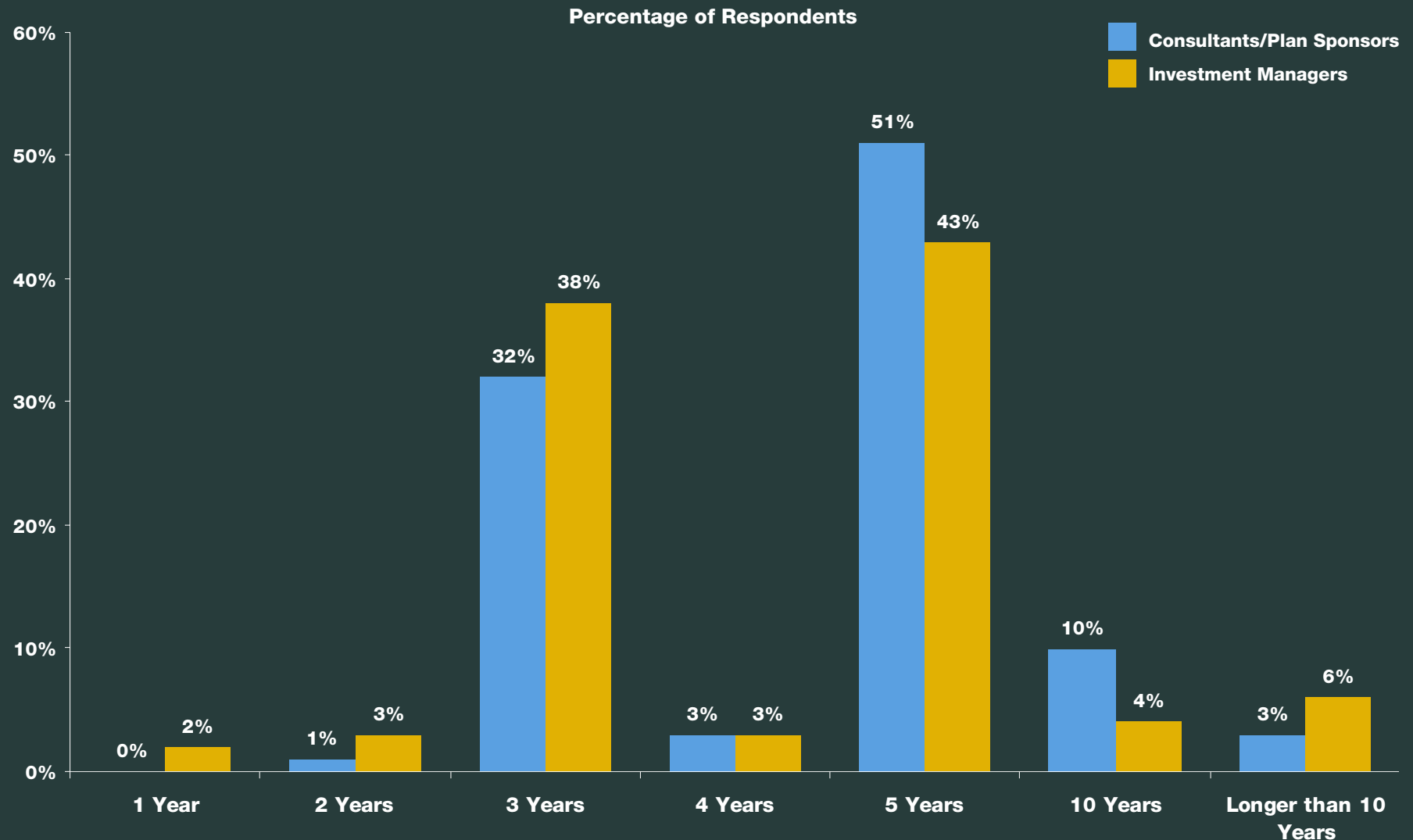
Current State of the Asset Management Industry: Finding Quality

In developing confidence in a manager's future performance, rank the importance of the following type of analyses. (Categorize each as critical, important, helpful, marginal or not important)



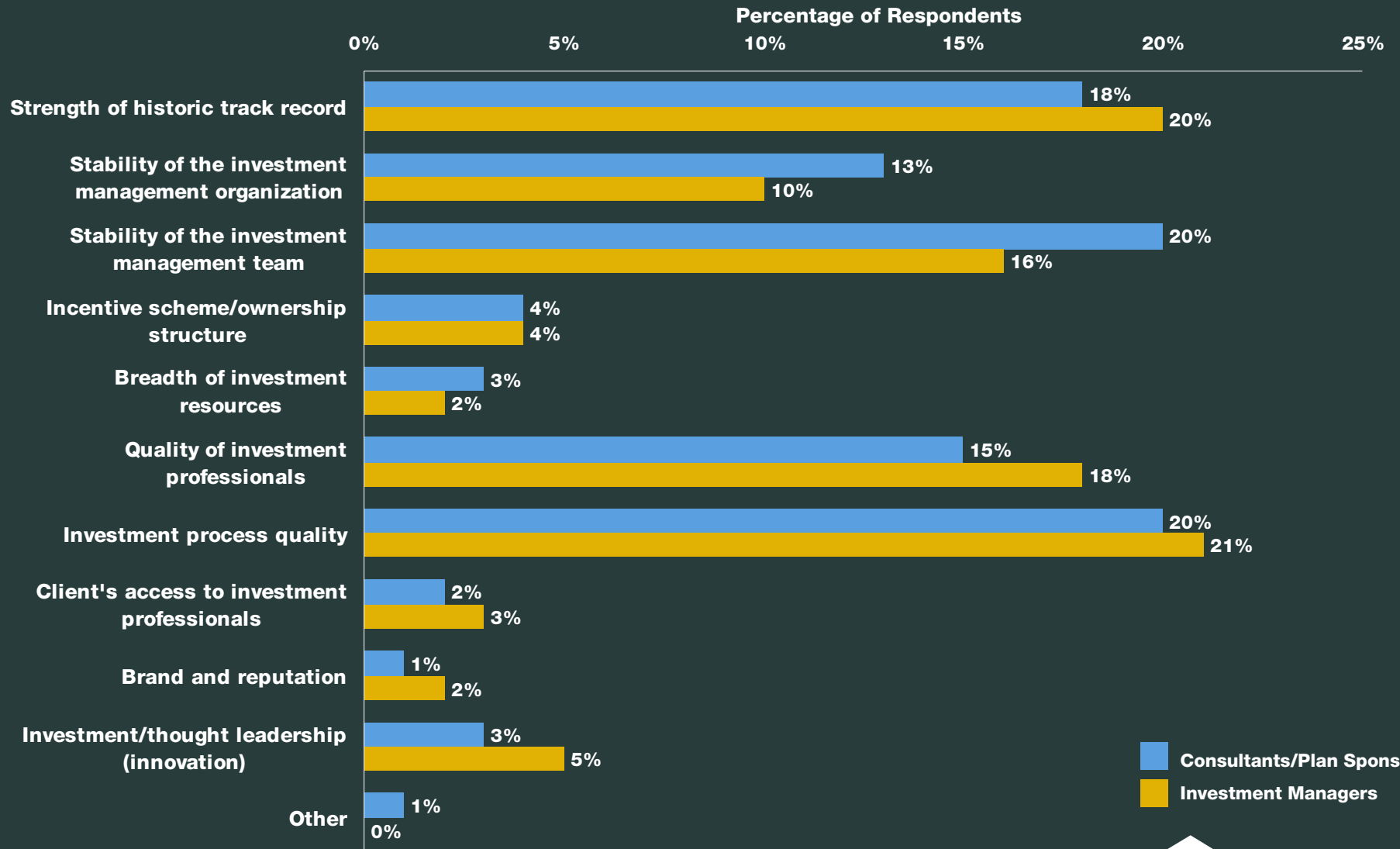
Current State of the Asset Management Industry: Finding Quality

Which timeframe is most important in evaluating historic track records?



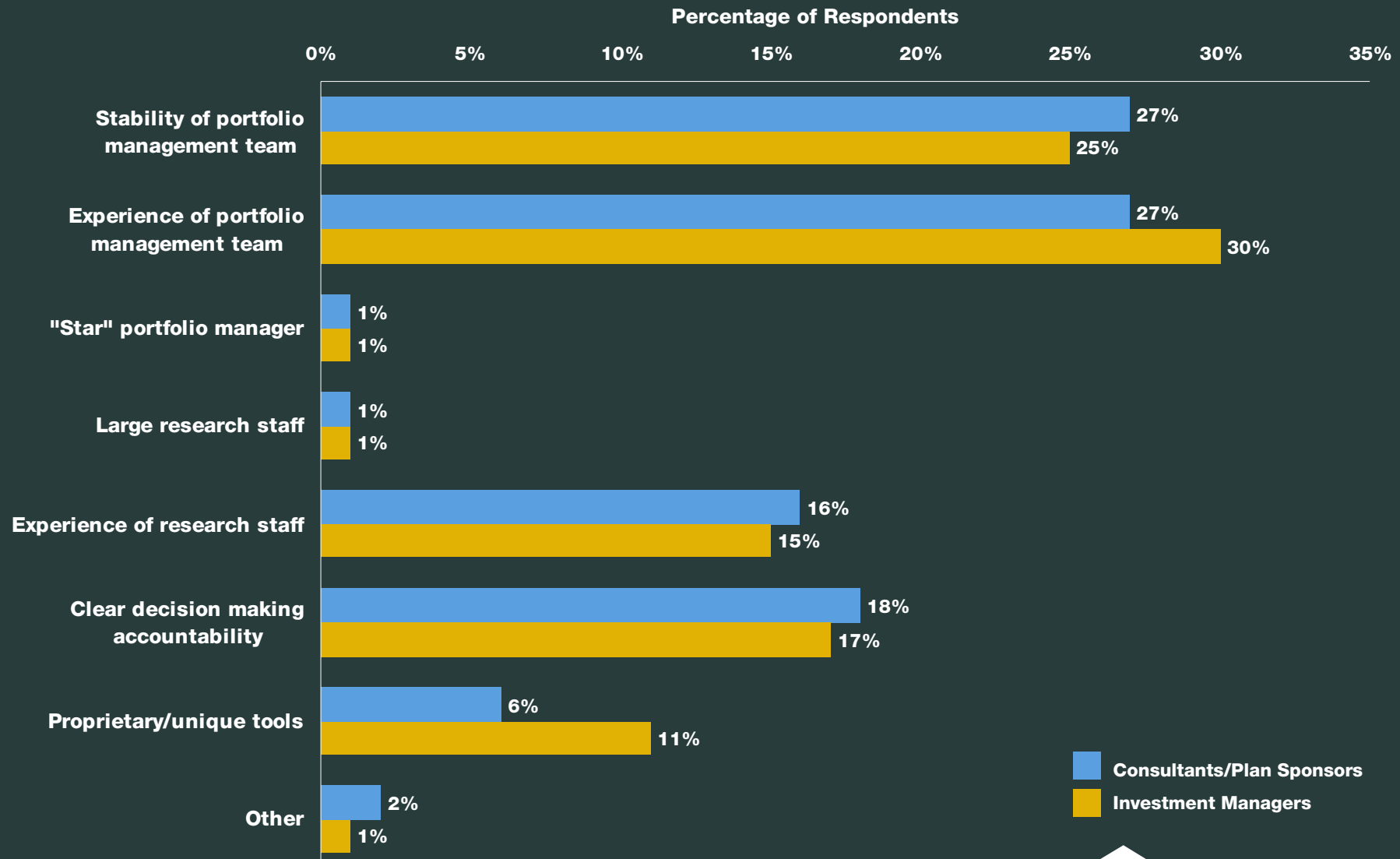
Current State of the Asset Management Industry: Contributors to Investment Quality?

Which of the following are the most important broad contributors to developing your view of Investment Quality? (Select up to four)



Current State of the Asset Management Industry: Contributors to Investment Quality?

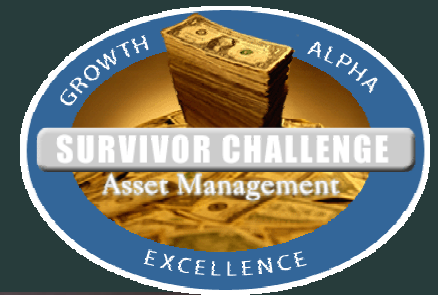
Which of the following resource characteristics are the most important contributors to Investment Quality (Select up to three)



#3: The Asset Allocation Challenge



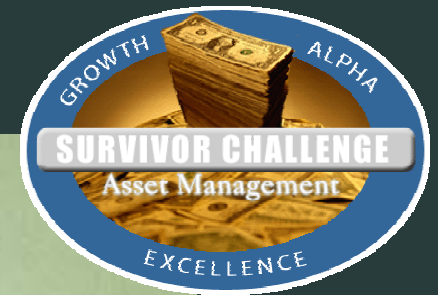
Challenge: Alpha



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Source: Index Stock Imagery, Inc.

Challenge: Beta

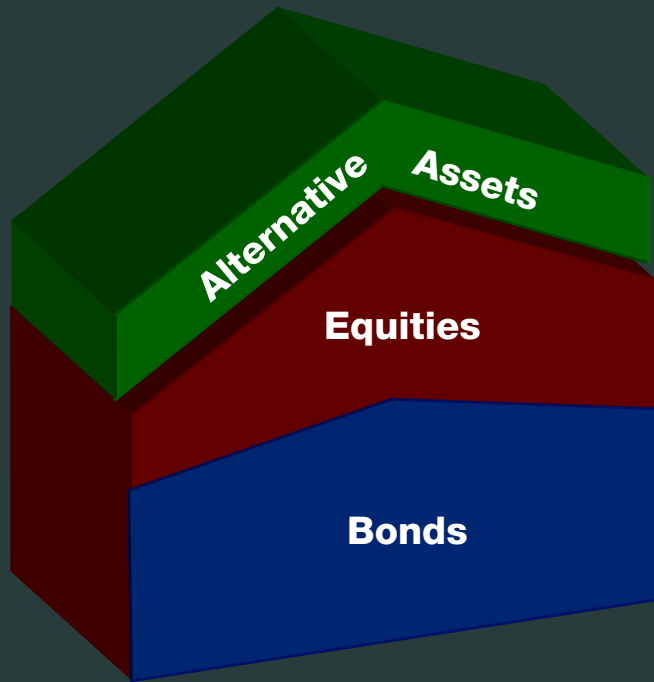


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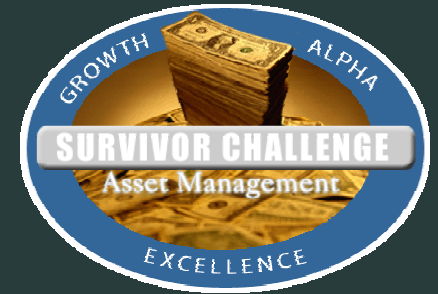
Source: Sony Inc.

Challenge: Changing View of Asset Classes

Can a new categorization of asset classes solve the problem?



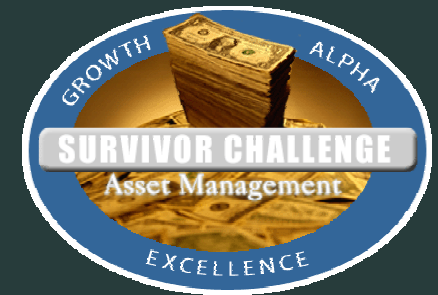
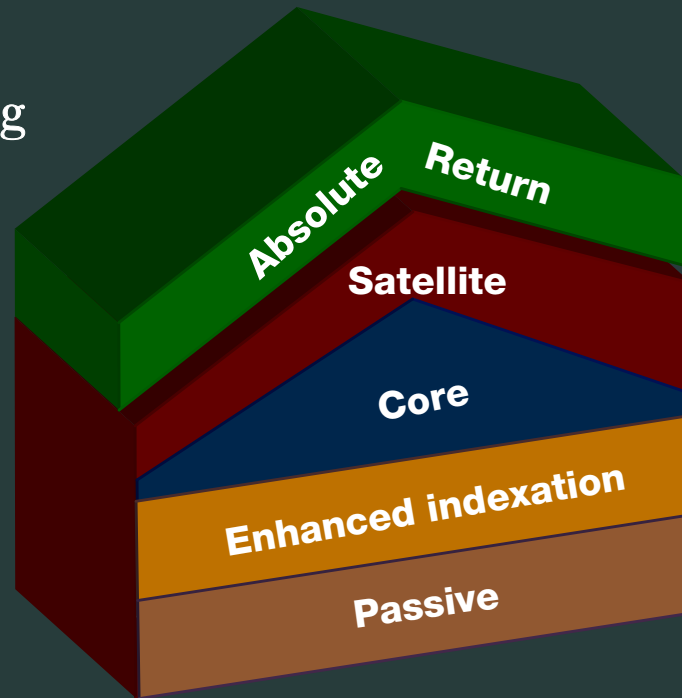
- Split asset classes into two camps
 - ◆ Risk-minimizing assets: “safe assets”
 - ◆ Return-maximizing assets: “growth assets”
- Growth assets outperforming liabilities
 - ◆ Equities and certain bonds
 - ◆ Alternative assets: real estate, private equity, hedge funds, commodities
- Safe assets matching liabilities
 - ◆ Bonds
 - ◆ Money markets



Challenge: Changing View of Portfolios and Mandates

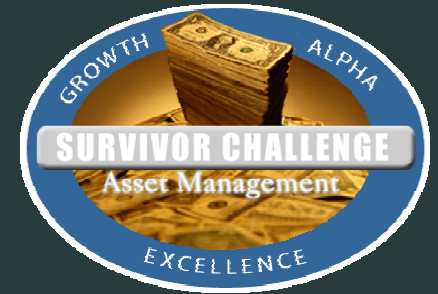
Risk control of asset classes?

- Active mandates moving up the Structured Alpha scale
 - Lower risk mandates emphasizing more risk control
- Risk budgeting provides framework, but is a new concept, at least for some investors



Challenge: Investors' Expectations

One major task after the burst of the equity bubble:
Bring expectations back to normal.



- Expectation vs. Satisfaction
 - ◆ Mismatch of investors' expectations and realistic forecasts might lead to dissatisfactions
 - ◆ Bond returns will not satisfy expectations

- Challenge
 - ◆ Reduce investors' expectations
 - ◆ Reduce volatility by diversification
 - ◆ Generate alpha
 - ◆ Shift into (new) asset classes

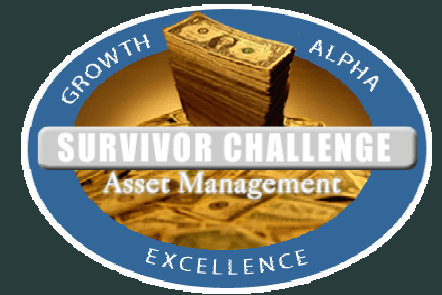
#4: The Growth Challenge

- Top investment performance
- Distribution efficiency
- Sales/Service/Support excellence
- Positive brand identity
- Complete product range vs. innovative niche strategy
- Organic/M&A/Lift-Out/Strategic alliance

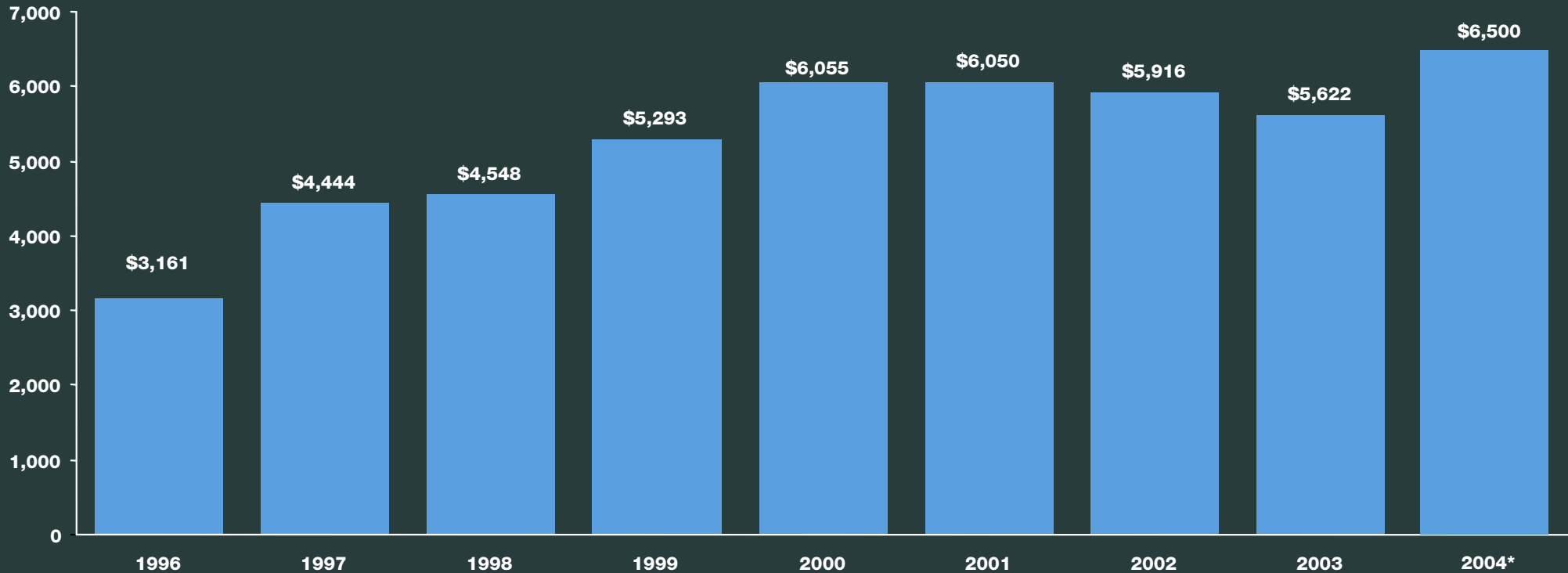


Bigger ≠ Better

The Growth Challenge



Growth in Tax-exempt Assets Managed by the Top 100 Managers



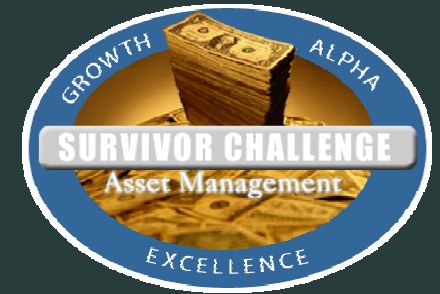
* Estimate

Source: Pensions & Investments, 2003 Money Managers Directory, May 23, 2003.

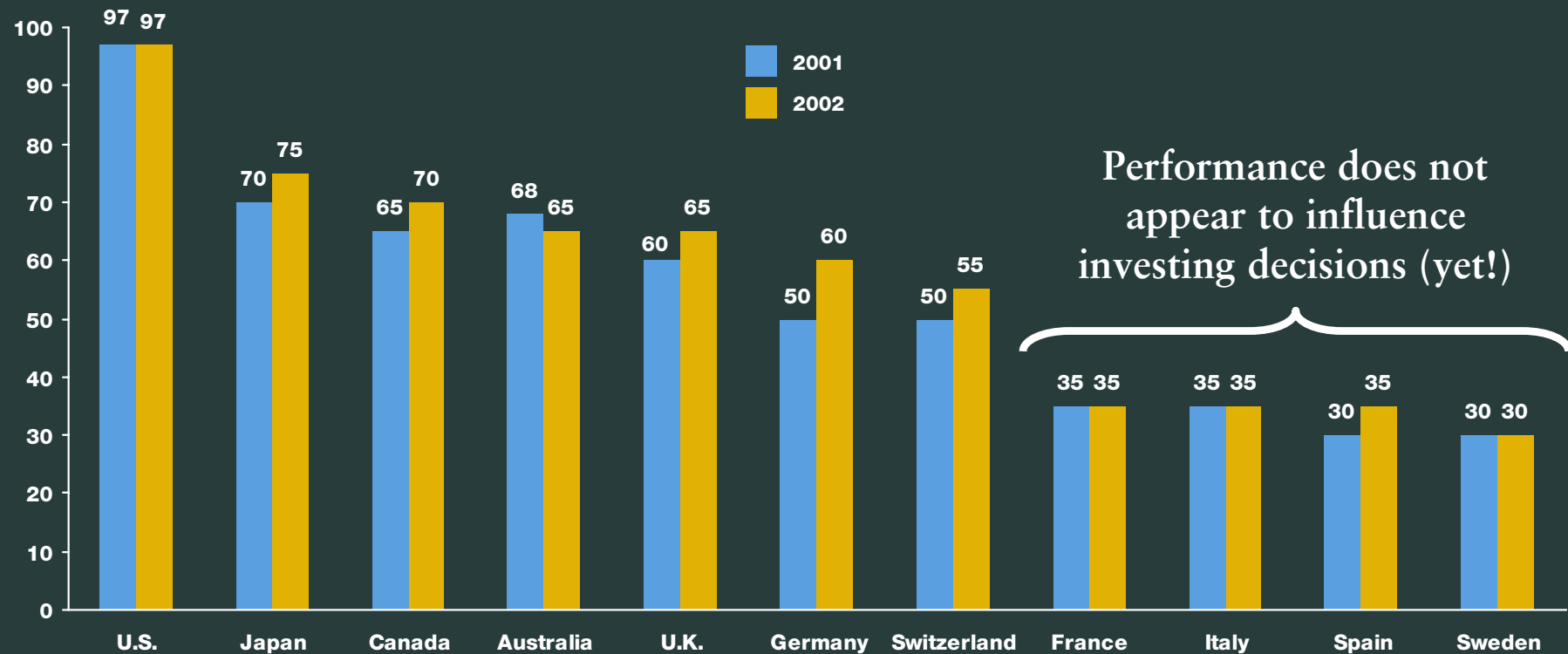
U.S. Institutional, tax-exempt assets managed internally, in millions, as of January 1, 2003.

The Growth Challenge

Top investment performance



Concentration of Fund Flows, % of Net Inflows Earmarked for Funds Ranked in Top Third of Peer Group by Performance



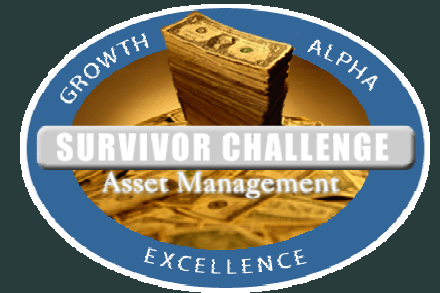
Asset Management Transactions

“The Urge to Merge”

- Allianz/Pimco/Nicholas-Applegate/Dresdner RCM
- JPMorgan/Chase/Fleming/American Century
- Credit Suisse/First Boston/BEA/Warburg Pincus
- UBS/Brinson/Paine Webber/Swiss Bank/Phillips + Drew
- Axa/Alliance/Bernstein
- Invesco/AIM/Perpetual/Trimark/National Asset
- Deutsche Bank/Alex Brown/BT/Scudder/Morgan Grenfell
- Merrill Lynch/Hotchis & Wiley/Mercury

#5: The Global Challenge

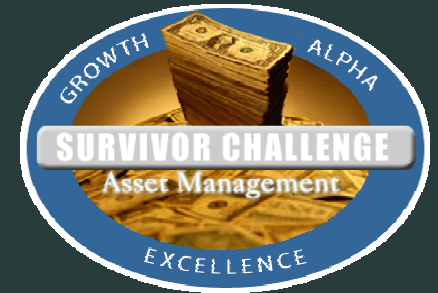
- “Think global, act local” or “Think local, act global”
- Global product offerings vs. local customization
- Global fees?
- Global compensation plans?
- Language barriers
- Integration is expensive/time consuming



Combat Tribal Warfare in the Global Village!

#6: The Cultural Challenge- Creating the Firm Culture

- Establish a borderless organization
- “Ownership” at all levels
- “Pay for Performance” reward system
- Create proper balance between manufacturing & distribution
- Talent upgrades – Strength builds strength
- Compliance sensitivity is a cultural issue, not just a business issue



#7: The Governance Challenge- Asset Management Governance

“Case Studies”



LAZARD