Leadership Pathway Looks Back on the 2016 Sales & Marketing Leadership Summit

MMI's newest frontiersmen – participants in its inaugural Leadership Pathway class – traveled to West Palm Beach on February 17-18 to explore "*New Frontiers in Investment Advisory Solutions: Challenges Redefined,*" the theme of the sold-out 2016 Sales & Marketing Leadership Summit.

To recap, the Leadership Pathway class is composed of up-and-coming leaders from MMI's member firms including diverse representation from asset managers, sponsor firms, and solutions providers. The program, which is designed to recognize talented and motivated individuals in the next generation and engage them in MMI activities, runs for two years with a new class beginning each October. The program's goal is to help the participants develop the leadership and collaboration skills that will equip them to assume increasing levels of responsibility and actively contribute to addressing critical industry issues and opportunities.

To help bring a different perspective to the key topics addressed at the Summit, MMI asked the Leadership Pathway participants attending the conference to recap the event from their personal point of view. The resulting report is incredibly rich in content – full of fresh views and insight on the industry's most pressing challenges.

Ron Insana: 2016 – A Year of Living Dangerously
In 1987, Ron Insana, a fledgling segment reporter for the Financial News Network, was in the right place at the right time. A chance visit to the Chicago Board of Trade (CBOT) on October 19th allowed him to provide live coverage of the Black Monday crash from the floor of the CBOT. It was a pivotal point for the U.S. economy, free market central banking policy, and his career. With Mr. Insana's 30 plus years of experience covering the investment markets through various media outlets, he provided powerful insight on the global markets in both the short term (this year) and the long term (the next 3-5 years). Although Mr. Insana is bullish on the U.S. economy in the long term, he is more bearish or cautiously optimistic in the short term, specifically in 2016.

For the long term, Mr. Insana provided a list of advantages that will lead to the U.S. economy outperforming the European and Asian economies. Technology – the United States is in the forefront, enabling its largest generation group – Millennials – to have access to bigger and better tools to manage their finances. Manufacturing – industries are moving manufacturing and production back to the states. Energy – the U.S. is gaining energy independence due to domestic natural gas and oil production. Lastly, defense – the United States spends more in one year ($650 billion) than the next 10 biggest countries combined. The short term looks far less promising for a number of reasons. Global Recession – Japan, Europe, China, Russia, and Brazil are all showing signs of a recessionary environment. Rate increases – if the Fed hikes interest rates again, it could put a strain on global markets and currencies. And the cyclical bear market – technically, the U.S. equity markets are already 20-25% off their highs, placing us in cyclical bear territory.

Client Panel: What Do Investors Really Want?
Sterling Shea, Associate Publisher and Head of Advisory and Wealth Management Programs at *Barron's*, led a panel of investors that looked at the advisory relationship from the investor's perspective. The panelists

provided reasons why they chose their financial advisors, their opinions on the DOL fiduciary rule and other regulatory matters, their perception of fees, and other topics being discussed across the industry.

By chance, both participants had similar stories about choosing their financial advisors. Both had used the same advisor as their parents or in-laws. In both cases, those advisors did not pay enough attention to them, so they sought out their own advisors. Both decided to move their money to local advisors that they knew personally. Given these similar stories, Mr. Shea noted that a lot of next generation assets will be set in motion and lost unless advisors are proactive in trying to retain them.

It was also emphasized during this session that trust and communication are the most important characteristics of the client and advisor relationship. Both investors value accessibility, service, and responsiveness when communicating with their advisors. When receiving information and/or statements from their advisor, simplicity is key – the clients agreed that they want facts instead of graphs.

The panelists also weighed in on three controversial issues impacting the industry. Both agreed that large financial institutions already have enough regulatory procedures in place, so the DOL's proposal does not raise new concerns about their advisor or the safety of their assets. Both are aware of their advisors' fees and feel that upfront fees are reasonable. They also believe advisors deserve to collect performance fees if they increase their wealth. Lastly, the panel agreed that there is a place in this market for robo advisors, however not for high-net-worth clients.

Advisor Panel: Delivering What Investors Really Want
Following the client panel, John Moninger, Managing Director of Retail Sales at Eaton Vance, led a panel of financial advisors from various distribution channels to address the investors' earlier comments. The panelists addressed topics that are impacting the industry today, such as serving millennials, succession planning, impact investing, technology, and active vs. passive management. Although the advisors had different perspectives on the various topics, they all shared similar experiences about working with their clients' goals and objectives.

The first panelist's practice focuses on mainly women and is a fee-based practice with a client service focus. His core principles in operating his business are to review details so that the client has a full and complete understanding of the investment plan and to execute on every facet of it. The second panelist is a second generation advisor and a solo practitioner, who manages wealth for 200 households, focusing on family and generational planning. Her value-add to clients is to sit down and review their tax returns and focus on harvesting losses and qualified dividends. In family and generational planning, she looks to the children of baby boomers as her core clientele, and can then work back up to their parents and eventually serve the clients' children. The third panelist is on a five-person, multi-generational team that manages $1.2 billion for families and their related entities. The fourth panelist focuses on business owners and retirees. He likes to have knowledge of how his clients use the web and when they access their account information. He feels knowing what clients are looking for is a key to providing optimal service. He believes clients prefer advisors associated with large firms as they respect the power of large institutions.

The panel also highlighted various ways for wholesalers to be effective: know your advisor; respect the advisor's time; understand the value an advisor is trying to communicate; give true information and accurately benchmark; understand how the advisor likes to be serviced; and understand the urgency of providing timely information.

Looking Ahead: New Trends in Portfolio Construction
Robert Stark, Head of Global Strategic Relationship at J.P. Morgan Asset Management, led a panel that discussed the emerging trends driving change in portfolio construction. Historically, Rep as Portfolio Manager programs have lagged behind Separately Managed Account programs, but have experienced growth in recent years. Building a portfolio, an advisor spends on average 60% of his or her time client facing and another 18% doing administrative work. So, only 22% of an advisor's time is left for investment management decisions. With the pending implications of the DOL fiduciary rule, advisors may be more likely to cede portfolio construction to home office models and other outside sources.

The debate over active vs. passive management was also discussed in this session, and the panel agreed that both types of management are needed. The key is knowing when to use each type. Fees are an important determining factor in the active vs. passive decision – as fee-based relationships typically involve an active management component that justifies the fee.

Getting Marketing and Sales Alignment Right: Best Practices for Partnership and Growth
Steven Miyao, President, kasina, a DST Company and his panel opened the discussion covering four major shifts happening in the industry:

1. Fewer advisors are focused on serving fewer big clients,
2. Advisors are becoming fluent in digital communications,
3. Asset managers have been very slow to embrace technology, and
4. The ability to derive insight from data will be a key to success over the next five years.

The number of advisors that meet quarterly with wholesalers decreased sharply over the past five years from 34% to 15%. The number of wholesaler meetings per week decreased from 22 to 19 meetings over the same period. So, understanding the advisor decision process is very important for marketing teams. The panelists from Eaton Vance, Goldman Sachs, and Franklin Templeton shared different ways that their firms disseminate daily content from their firms' distribution channels to their advisors to keep them engaged. Marketing teams need to think like an advisor *and* a wholesaler. Marketing materials should be provided before and after meetings with advisors. For marketing teams being reactive is not enough – they need to be proactive with the sales teams and must be engaged throughout the entire sales process.

Phillip Fulmer: Lessons on Leadership from the Gridiron
Phillip Fulmer, Founding Partner of BPV Capital Management, has a unique perspective on leadership from his time on the football field as the former Head Football Coach at the University of Tennessee. His entertaining keynote presentation was the perfect way to kick off the second day of the conference – he brought the excitement of winning from the gridiron to the business world.

Coach Fulmer's advice for achieving success, whether on the football field or in the business world, is to know and maximize your strengths, surround yourself with the right people in the right environment, adapt to the changes in technology, and be transparent. It is key for employees to be in sync with the organization's leadership and strive for the same goals. Leadership takes the selfishness out of the organization. When recruiting new employees, look for individuals with integrity and character, and individuals who are team players and work hard. Lastly, always be polite to others, even when times are tough – do not let emotions get the best of you.

CEO Leadership Perspectives on the Future of Our Industry
MMI President & CEO Craig Pfeiffer, led a panel of three industry thought leaders – the heads of SIFMA, FSI and ICI – to explore six broad themes that will play a major role in the future of our industry.
Topics included: regulatory reform; competitive landscape; next generation investors, advisors, sales and distribution teams, and leaders; technology; investor and industry relationships; and priorities for the future.

With all the regulatory costs hitting our industry, middle-tier firms will probably be the most challenged. The larger firms and the niche firms should persevere. Although compliance costs associated with new regulations will be daunting, technology can alleviate some of the costs. The DOL fiduciary proposal, although, in the panel's view, ill-conceived by regulators and presented without any empirical evidence to justify their impending decision, will be passed. The next step is for the industry to accept it and adapt to it.

Advisors face the challenge of this era's new investors – the next generation – making impulsive and emotional investment decisions. This is where human advice is needed – not a robo advisor. Robo advisors are not a threat to human advice – only an extension or complementary tool. Plus, millennials are owning mutual funds earlier than past generations through their retirement plans, yet retirement plan documents are still not allowed to be delivered electronically thus creating the need for more services than a robo advisor can provide. Lastly, the panel noted that the industry needs to make financial literacy and workforce readiness a priority as the next generation takes over the scene. It was also noted, however, that it is hard to displace current formal curriculums in schools.

The "X" Factor = Culture: Leveraging Diversity to Optimize Business Success
Kathy Freeman, Founder & CEO, Kathy Freeman Company, led a diverse panel of industry executives – Noreen Beaman, CEO, Brinker Capital; Jeffrey T. Becker, CEO, Voya Investment Management; Cathy Saunders, Head of Registered Investment Advisory Business, Putnam Investments; and Shundrawn Thomas, Head of Funds and Managed Accounts, Northern Trust Asset Management – that discussed the impact of diversity in the financial services industry and how diversifying a firm's workforce can lead to better business performance.

Incorporating opinions from different backgrounds – including race and gender differences – avoids the common misconceptions resulting from "group think" and allows a firm to make better business decisions. Although slow moving, the industry is making strides toward improving workplace diversity through programs like MMI's *Gateway to Leadership*, *the Toigo Foundation*, and *INROADS Internships*. Additionally, advances in technology that enable employees to work efficiently from home have allowed parents – especially women – the opportunity to work while also raising a family. This has positively affected the gender dynamics in the workforce as more women are deciding to continue their careers, even after having children, and they are taking on leadership roles.

The DOL Fiduciary Rule: Rethinking Fiduciary Responsibility
Originally proposed in April 2015, the DOL fiduciary rule received thousands of comment letters from concerned individuals and firms in the investing world. Frank Gregory, Chief Distribution Officer at BPV Capital Management, led a panel to discuss one of the most widely debated regulations in the industry's history. Two main concerns addressed in comment letters dealt with the time and costs associated with the implementation of the new rule. The initial rule draft allowed eight months for implementation, though many of

the comment letters said firms need much longer, some stating a need for two years or more. Additionally, the DOL, panelists said, is grossly underestimating the costs associated with implementation. The current SEC regulation focuses on disclosures and conduct whereas the DOL rule adds a stricter fiduciary standard and includes many prohibited transactions.

The proposed changes include types of products that can be used in retirement plans as well as the ways advisors can be compensated for work done with retirement plans. Insurance broker-dealers are said to be the ones most at risk because the rule as drafted would disqualify annuities as an acceptable retirement vehicle. A suggested worksheet was reviewed that outlined how an advisor should determine his or her "assets at risk" based on the proposed rule. The quickest and easiest way for an advisor to minimize impact is to transition accounts to fee-based (advisory) accounts, as the rule does not apply to these accounts. The biggest issue is brokerage accounts with retirement assets (i.e., A-share or C-share mutual funds in an IRA). Fee transparency takes center stage as advisors are required to show past fees as well as projected fees for the next five and 10 years.

By way of contrast, there are also two possible outcomes that could positively impact the industry – greater clarity around the advisory function and the method in which advisors help investors could achieve better outcomes and higher fees. In the U.K., advisory fees actually rose after a similar rule was adopted because it changed the perception of the advisory value proposition. Now, the industry waits and watches for the release of the final rule, when it will see if the comment letters had any effect on the original proposal.

MMI would like to thank the Leadership Pathway participants for providing an informative and insightful recap of the conference. The MMI community values fresh views of the industry's challenges and opportunities and looks forward to seeing the participants again at the 2016 Annual Convention taking place April 20-21 in Washington, DC at the Marriot Marquis. To learn more about the Leadership Pathway program, please visit http://www.mminst.org/about-leadership-pathway.