SUB-ADVISORY HALL OF FAME

CELEBRATING OUR INDUSTRY PIONEERS

As sub-advisory begins to take off in Europe, PWM heralds five individuals who have been instrumental in pushing the business to the wider market from the outset and highlights the challenges they face. Yuri Bender reports

A customer-led movement to open architecture solutions, a rise in the popularity of specialist asset classes and the re-assessment of what is a profitable model for a financial services house have all led to a surge in Europe's sub-advisory business.

There is a growing realisation that a successful asset manager cannot be an expert in every area. Pumping in resources to improve performance in a peripheral asset class can often be a waste. It may make more sense to build up the group's key area of expertise, and to delegate satellite asset classes to the specialists.

French groups such as BNP Paribas and Société Générale began to realise this during the 1990s, and started to slowly, and without too much fuss, contract out the management of some selected assets to third-party sub-advisers.

UK-based insurance companies such as Lincoln and GE Life began to get the message at around the same time. The Italians have taken slightly longer. But just as with any new Italian fashion, everyone now wants to be part of it.

But contracting out non-core assets to sub-advisers is not yet accepted wisdom right across Europe. It is not as widespread and developed here as in the US. Some fund houses, banks and insurance companies feel they lose control of a fund if they delegate its management to an external party. And, more importantly, they are reluctant to share management fees, especially with a potential competitor.

It is against this background that distributors who wish to contract out management of retail and private client assets, and manufacturers who want to grab a share of the delegated funds, must both work. One of the first hurdles many practitioners face is convincing their stakeholders that this is the way forward.

This is why the sub-advisory business requires dedicated, single-minded individuals prepared to preach the gospel. But they must also be able to put their dreams into practice, to enter partnerships where necessary, and often to keep potential suitors at arm's length.

The business has now developed sufficiently for a handful of these leaders to emerge. These are all people who have done significant sub-advisory deals, from either the distributor's or manufacturer's standpoint. To commemorate their achievements in this sector, we have inducted five individuals into PWM's 'Sub-advisory Hall of Fame' for 2005, with another five inductions expected next year.

While we want to celebrate these individuals' achievements, we are also identifying the challenges they must face in order to expand their respective market shares.

ENNIO DORIS, CEO, MEDIOLANUM, MILAN

The 65-year-old former insurance salesman and founder of Mediolanum, Ennio Doris, is a legendary figure in the Italian financial services industry. Back in 1981, he had a cup of coffee with an up and coming businessman, Silvio Berlusconi. By the time the two left the café in Portofino, Mr Doris had secured a €250,000 investment from Italy's future leader in a new venture, based on direct sales of investment products.

Mediolanum, a multi-channel bank/insurance company, works on classic sub-advisory principles. Although Mediolanum uses a lot of structured products, an increasing share of the €20bn in assets collected from 'Senor Rossi,' Italy's Mr Average, is invested in products managed by the likes of State Street Global Advisors, SEI and Northern Trust Global Investments. The latter group was recently given a new €1.2bn mandate to run international equities.

Mr Doris decided to sub-contract asset management back in 1998. His staff now save their strength for asset allocation. Their leader aspires to a 50/50 domestic/foreign split of assets before the close of the decade. In 2003, 90 per cent of funds were still invested in Italy.

The charismatic Mr Doris, a villager from Italy's Veneto region, who made it big through his business acumen after working in a local bank and running an engineering company while still in his 20s, even has his own television channel through which he addresses his 5,000 strong army of brokers.

Speak to any manufacturer in Italy, and they all want to sub-advise his assets, as fund flows are virtually guaranteed. But Mr Doris is not keen on managers getting too close to his prized customer base. He picks external fund houses for their asset management expertise alone, not their ability to deal with retail clients. "It is dangerous for people to do things of which they have no experience," Mr Doris once told PWM. "For this reason, we have partners in managing assets, but don't like to have partners in distribution. Liaison with customers has to be 100 per cent ours."

While the vast majority of Italian manufacturers and distributors are re-shaping fund ranges to take advantage of Europe's Ucits III legislation, to boost sales in a stagnant market, Mr Doris will simply stick with his existing model. His sales formula has worked in the toughest markets. Whether he can succeed in planned expansions, using the same model in Spain, Germany and Poland, is another matter.

In Italy, the group has succeeded, in part due to Mr Doris's charisma and hold over his tied brokers. "He invited us to a sales reception, out of season, at an Italian seaside resort," recalls the head of an asset management company who has worked closely with Mediolanum. "There were 3,000 salesmen there, with their families outside the convention centre sharing a huge Italian meal. Doris stood up and walked up and down the platform for at least an hour, working them into an increasing frenzy. It was an extraordinary performance."

JAMES BEVAN, CIO, ABBEY, LONDON

Retail clients' assets held by UK high street bank Abbey and its life insurance subsidiaries were outsourced by chief investment officer James Bevan at the beginning of 2004. With support from Abbey's board, he opened up the entire £30bn (€44.1bn) client portfolio to outside managers, although it was decided to keep structured products and cash in-house.

Outsourcing such a big chunk of customers' assets, previously internally managed, was a hugely controversial decision, not least because a string of redundancies followed in the front office of Abbey's Glasgow-based investment operation. Mr Bevan managed to convince internal sceptics of the wisdom of his ways, and so far performance of Abbey's range of externally delegated multi-manager funds have backed up his decision.

Because the size of this sub-advisory deal was unprecedented, the correct choice of transition manager – in this case State Street Bank Europe– was crucial. Investment banks were furious at having been frozen out. A high ranking Goldman Sachs official apparently visited both State Street and Abbey to tell both that such a huge deal could not go ahead without the buy-in of Goldman's investment bankers. Although Goldman got the brush-off, Mr Bevan was still happy to give mandates to Goldman's asset management division, GSAM, which provides just the kind of high alpha, quantitative management he admires.

While he appears to be a slightly eccentric, old-fashioned boffin, with a love of all anachronistic English ways, Mr Bevan is in reality an efficient, unsentimental money manager, who never forgets that he runs funds for the man in the street, and not purely as some kind of entertaining intellectual exercise.

Abbey went through tough times, and appeared to have lost its way before last year's take-over by Spanish group Santander Central Hispano. But Mr Bevan is spending increasing amounts of time in Madrid with his new Spanish bosses. He is expected now to cut costs and to design more mass-market products. This may be a difficult task for a man of Mr Bevan's undoubted integrity.

ALEX FLETCHER, HEAD OF THIRD PARTY DISTRIBUTION, GSAM, LONDON

Alex Fletcher, who runs his own unit within Goldman Sachs Asset Management (GSAM), responsible for both distributor sales and sub-advisory business, inspires fierce loyalty in his relationship managers spread across London, Paris, Madrid and Milan. He speaks fluent French, picked up at night classes at The Sorbonne, while working days as a teller in a Paris bank, acquiring valuable knowledge about retail finance.

Mr Fletcher has won around $25bn (€21bn) in sub-advisory mandates since joining GSAM in 1999. He is well-known in Europe, visiting clients and prospects in several key European cities each week. Most large distribution houses in Paris know Mr Fletcher personally.

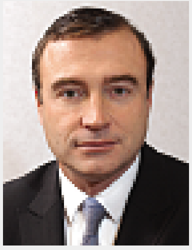
As a client service manager, he is probably the best in the business. One-to-one, rather than in front of large groups, it is difficult to find a better presenter who can explain complex institutional strategies, and how they can be adapted for an eventual retail client.

Heads of distribution at rival houses in Paris are convinced that GSAM recruited Mr Fletcher from JP Morgan because he had such a strong relationship with Banque Populaire, one of France's most prominent retail banking networks. But he had also helped JPMorgan win mandates from Deka Bank in Germany, and GSAM now works closely with Deka as a '"co-operation partner".

Mr Fletcher was almost single-handedly promoting the sub-advisory concept in the days when rivals were unconvinced. His theory was that by expanding the size of the cake, GSAM can afford to have several rivals, and could even encourage competition. This would give more prominence to the whole sub-advisory sector.

Colleagues say Mr Fletcher's key strengths lie in managing and motivating his teams, and in viewing every relationship from the client's perspective rather than the supplier's. However, most of GSAM's successes have been in the UK. Mr Fletcher has penetrated some European markets, but the relationships need to get deeper if they are to become profitable.

One major European distributor said it can be difficult to work with GSAM, as Mr Fletcher's team claimed to already have all the best products. "Even though these guys are certainly great, it's difficult to find the right level of co-operation," said the distributor. "Goldman perceives itself as the best all round the world. They can do everything, everywhere. So how can you co-operate with them?"



THIERRY CALLAULT, CEO, OFIVALMO, PARIS

At Banque du Louvre, a superb French multi-management and private banking franchise of the 1980s and 1990s, part-owned by the Taittinger family, Thierry Callault was the right-hand man of the bank's head Guillaume Dard.

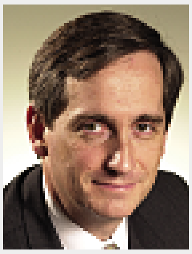
But when HSBC bought up the vast majority of shares in 2003, Mr Callault believed they would destroy his maverick way of operating. He jumped ship for Ofivalmo, a fledgling multi-management fund house owned by France's mutual insurers. And he took his team with him.

Mr Callault may appear to be a flair player, an inspired individual who gets results from intuitively choosing the right sub-advisers, but in reality he thrives on a highly structured, team approach and always travels mob-handed. He is never slow to give credit to colleagues for the fund-selection and quantitative screening techniques they have developed. His deputy, Jean-Marie Mercedal and a six person investment team all stayed loyal to Mr Callault, and left HSBC to join him at Ofivalmo.

His casual outward manner is belied by an obsession with risk levels and alpha generation. Mr Callault does not suffer fools gladly. He does not believe in using French sub-advisers, unless they offer something really unique, such as Credit Agricole's bond capacity.

Mr Callault's definition of multi-management lies in using boutique houses, particularly those in the US, to deliver specialist funds to the European market. He favours sub-advisers such as Third Avenue, whose 80-year-old founder Marty Whitman he terms the "deep value master". Mr Callault uses Turner Investment Partners for large-cap growth and Driehaus Capital for mid-cap growth. Ironically, the new operation has been so successful – currently running €8bn – that it has already overtaken the assets he once oversaw at Louvre.

While most external sub-advisers love to work with Mr Callault, he is the classic ideas man, with big targets for new areas such as sub-advised hedge funds. In a small organisation, without the resources of a banking giant, there may be flexibility, but there is also a limit on how many ideas can be translated into action. One answer may be closer co-operation with Ofivalmo's insurance company stakeholders.



JAMIE BRODERICK, HEAD OF EUROPE, JP MORGAN ASSET MANAGEMENT

Jamie Broderick is the only American on our list yet he speaks fluent French, German and Arabic.

Mr Broderick joined JP Morgan from Wellington in 1993. He was head of individual investor business in Europe before JP Morgan Asset Management merged with Fleming in 1999. After the merger, he was put in charge of UK business for the combined entity, before being rewarded with the prized role of overall head of European business.

Mr Broderick was Alex Fletcher's boss at JPMorgan when the group did deals to sub-advise Deka's healthcare, global equity and emerging market bond funds and the balanced, Japanese and US equity options of Banque Populaire's range.

Colleagues describe him as a fantastic boss, with an unrivalled capacity to assimilate information. "It's almost impossible to get in to work before him," says one former employee. "Sure he is obsessive, but in the nicest possible way. He is American, but very European in attitude."

Mr Broderick has amassed $7bn in sub-advisory mandates from 25 European clients since joining JP Morgan. In that time, he has seen a huge transition. He says sub-advisory used to be a low-key way of filling gaps in investment expertise, but has now become something seen as a virtue by distributors, who can enjoy marketing mileage from delegating to experts.