



# The 2009 Managed Asset Program Tune-Up

## 10 Questions For Wealth Management Executives

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### Overview

The Year 2008 was an emotionally trying and painful experience for Investors, Advisors and Wealth Management Executives. Additionally, the speed and severity of financial asset declines, together with the underlying structural issues in the global credit markets, have caused many Investors to reconsider their true tolerance for risk and rapidly shift their portfolios to only the safest of investments. Clearly in the current economic environment, 'safety trumps growth' but we believe that Investors who have true long-term needs will eventually need to decide upon prudent portfolio structures that best suite their unique investment objectives and risk tolerances.

In doing so, we expect that Investors will be seeking asset management solutions from Advisors that have a disciplined set of investment processes and a well-articulated ability to help them meet their real financial needs. For this reason, we believe that well-structured Managed Asset Programs will continue to be a core solution set of increasing demand.

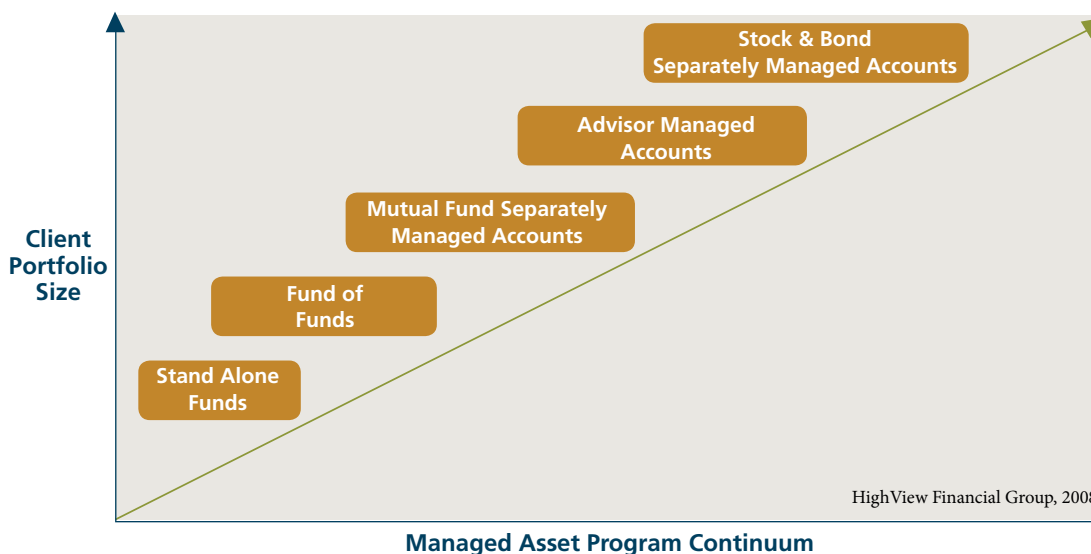
As 2009 has begun, we believe that now is the time for Wealth Management Executives to be objectively evaluating their Managed Asset Programs to ensure that they are appropriately designed, positioned and supported in order to meet what will be a growing client demand for structure, process and discipline in the asset management solutions that they employ.

As a result, the purpose of this article is to provide Wealth Management Executives with a "10 Question Check List" that can quickly help them assess the quality of their Managed Asset Programs and whether or not a "tune-up" of their managed asset offerings is required.



## Managed Asset Programs

HighView Financial Group views the range of Managed Asset Programs as being situated along a “continuum” of solutions for Advisors, which are generally aligned against varying levels of client investment size. The illustration below depicts such a continuum, which although not perfect for all client situations, is useful as a framework for Advisors to consider when structuring portfolio solutions for their clients.



### 1. Investment Funds

Investment Funds, whether in a mutual fund (ie: prospectus based) or offering memoranda (ie: non-prospectus based) format, have been a staple of the wealth management industry for many decades. The original intent of funds providing a vehicle to enable the “pooling” of investable assets for investors who didn’t have a sufficiently sized portfolio to allow for the creation of a tailored segregated securities portfolio, still stands today. We view two types of fund groups: Stand Alone Funds and Fund Of Funds.

### 2. Separately Managed Accounts (SMAs)

When SMA programs were first conceived for the brokerage industry more than 15 years ago, the intent was to bring institutional money managers to individual clients in a ‘segregated security’ form that provided for ownership of individual securities and full transparency of all security holdings and transactions. There are currently two forms of such SMA programs in the wealth management industry, both of which involve accessing professional money management:

- a. Mutual Fund SMAs → Comprised of institutionally priced mutual fund units
- b. Stock & Bond SMAs → Comprised of individual equity and/or fixed income securities



### 3. Advisor Managed Accounts (AMAs)

During the past decade, many Advisors have grown and evolved their businesses from the traditional transaction based model, where compensation was derived from commissions, to a portfolio based model where clients are assessed an advisory fee. For many Advisors who have transitioned to this portfolio oriented approach, the next phase in their professional evolution is to manage client portfolios through a Managed Account in which the Investment Advisor is not required to seek approval from clients for each and every trade but instead “manages” client accounts according to the unique investment objectives, risk tolerances, preferences and constraints of each client. (To provide such a service, specialized approval to become a Portfolio Manager or an Associate Portfolio Manager from both the investment firm and IIROC<sup>1</sup> is required.)

## Tune-Up Questions

The following “10 Question Check List” can quickly help Wealth Management Executives assess the quality of their Managed Asset Programs. Please complete your score for each question by following the Answer Guide for each question below.

### 1. Are your clients positioned in the right type of managed solutions?

As reviewed above, the Managed Asset Program Continuum would indicate that the lower the investable net worth profile of a firm’s client base (ie: mass affluent), the more likely Investment Funds (Stand Alone & Fund Of Funds) and Mutual Fund SMAs will be successful. In contrast, the higher the investable net worth profile of a firm’s client base (ie: affluent & high net worth), the more likely segregated securities programs such as Stock & Bond SMAs and Advisor Managed Accounts will be well-received. These statements are a generalization but it’s a strategic framework that has served us well when designing Managed Asset Programs as a mismatch between solution and client can lead to client dissatisfaction, client attrition and eventually poor program economics. For example, of a high net worth client with a \$1MM portfolio invested in retail mutual funds is likely not in the appropriate managed solution.

No	Somewhat	Yes	Our Score
0	1	2	

<sup>1</sup> Investment Industry Regulatory Organization of Canada.



## 2. Does each of our investment products have a valid portfolio reason for existing?

The investment products that comprise Managed Asset Programs are best viewed as “*building blocks*” that are available for Advisors to use, as required, in constructing tailored portfolio solutions for their clients. For this approach to be successful, it’s important that each investment product have a “*portfolio purpose*” for being included in the offering that not only addresses its stand alone purpose but also how it will impact the risk and return characteristics of the other components of the client portfolios.

Advisory Firms should consider the following framework for inclusion of investment products:

- **Asset Class**

What asset classes will be included in the portfolios (ie: equity, fixed income, real estate, cash, etc.)?

- **Geography**

From what geographic regions will the ultimate securities be accessed (ie: Canada, US, International, etc.)?

- **Investment Markets**

What investment markets will be accessed (ie: public, private)?

- **Investment Strategies**

What investment strategies will be used in the portfolio (ie: long only, long-short strategies, active, passive, etc.)?

- **Overlay Strategies**

Will any strategies need to be employed that overlay the portfolio (ie: currency hedges, tax mitigation, etc.)?

- **Investment Managers**

What investment managers (including the Advisor where applicable) will be employed to satisfy the investment mandates?

No	Somewhat	Yes	Our Score
0	1	2	



### 3. Are we completely comfortable with each investment manager in our managed programs?

Once an investment manager has been properly engaged and is managing client assets, it is critical that Advisory firms have a set of ongoing oversight practices and processes for each manager. Ideally, such processes should be aligned with the due diligence criteria developed initially. The purpose of these oversight practices is to ensure that the investment objectives of each mandate are diligently being pursued and that all applicable portfolio constraints are being respected. This should involve the oversight of 1) all trades, 2) both relative and absolute performance of the mandate and a commitment by Advisory firms to periodically reassess the qualitative attributes (ie. people, practices, processes) of each investment manager.

If an Advisory firm is not completely comfortable with all of the investment managers that comprise their managed offerings, it's imperative that those managers be removed as quickly and prudently as possible in order to maintain the objectivity and quality of the managed asset offering.

No	Somewhat	Yes	Our Score
0	1	2	

### 4. How well do we effectively govern our managed asset programs?

Given the position of trust from which the wealth management industry operates, there is a growing level of operational scrutiny and awareness in the marketplace, demanded by both clients and regulators. As a result, effective organization of a firm's governance and compliance structures are critical to success, especially for firms that provide managed solutions to their clients. It sets a 'tone at the top' from which a firm's business culture is established and flows.

In establishing this "tone", many firms confuse 'Governance' with 'Compliance'. We believe that Wealth Management Firms need both Governance and Compliance, but they are not the same. While Compliance is a set of "rules" that everyone must live by (ie: IIROC, MFDA, Provincial Securities' Commissions), Governance is how you "play the game" within those parameters. Another way to compare these two important functions is that Compliance is "doing things right" while Governance is "doing the right thing".



In establishing such governance practices, it's important to:

### Define The Governance Mandate

Given the breadth of governing bodies within many Advisory firms, such as boards, investment committees and compliance committees, we believe that careful consideration should be given first to the development of a solid Governance Mandate in order that the purpose of each governing body is clearly understood by all governance participants. Additionally, many organizations will also incorporate a set of governance philosophies and principles into their mandates that address concepts such as objectivity, transparency and accountability.

### Design Governing Structure, Roles & Participation

With a Mandate clearly defined, firms should then look to establish a structure that addresses the “roles” required as well as the most appropriate “participants” that can fulfill those roles. The roles for each governing body will vary depending upon the purpose of each governing body. For instance, roles required on the board of a foundation will be different from the roles required of an investment committee at an investment counselling firm. A common mistake of many organizations is the initial appointment of people to governing bodies followed by the definition of their roles. Successful Investment Stewards always define the roles first and then select the appropriate people. In other words, the people should fit the role, not the reverse!

No	Somewhat	Yes	Our Score
0	1	2	

### 5. Do we truly understand our clients' needs?

A client-centric experience begins with the investor profiling process. This must go beyond the typical KYC type program which permeates the market and instead speak to the three dimensions of the client:

- The economic requirement for return
- The capacity to assume varying degrees of risk
- The “desire to outperform” or “expectations for return”



Within this Investor Profiling framework, we believe that to gain a solid understanding of the “purpose” of the client’s investable assets, Advisors also need to help clients articulate their goals in four areas<sup>2</sup>:

**Lifestyle Needs**

Maintain investor’s lifestyle during working years

**Retirement Needs**

Maintain investor’s lifestyle during retirement years

**Capital Needs**

Fund capital requirements such as university education or vacation properties

**Legacy Needs**

Fund family wealth transfer and philanthropic needs

These needs should be defined in terms of dollars and time horizon. For example: “Based upon the current cost of university education, together with reasonable forecasts for inflation, I’ll need to have \$50,000 in 10 years.”

An Investor Profiling allows for deeper, more meaningful conversations with clients resulting in a closer more trusted relationship. It is about a consistent client experience and managing the risks at the client level.

To properly communicate the benefits and risks of a recommended program, an Advisor should be able to illustrate the behavioural attributes of the each Managed Asset offering both in percentage and absolute dollar terms. This process addresses the management of client expectations.

The combination of Investor Profiling and Financial Illustration are used in framing the client relationship within an eventually agreed upon mandate or (Investment B&I Policy) Investment Policy. This overview of the client needs and expectations provides the framework for the working relationship between the client and the advisor. It also becomes an important vehicle in developing a robust, client centric, compliance and risk management program.

No	Somewhat	Yes	Our Score
0	1	2	

<sup>2</sup> Adapted from the white paper, “Investor Profiling: The Foundation For Building A Dominant Wealth Advisory Business”, by Kirk Loury and Gary Brent, 2007.



## 6. What is the quality of our Investment Policy Statements?

Once a client’s needs have been properly profiled, the next step is to complete than Investment Policy Statement.

In our experience, many of the investment policy statement tools in the marketplace today are marketing tools instead of professional documents designed to capture a client’s stated set of investment objectives, risk tolerances and portfolio constraints.

In order to build a successful portfolio advisory business, especially for affluent and high net worth clients, a key differentiator for an Investment Advisor is the ability to craft true Investment Policy Statements which can showcase both their understanding of their clients’ needs and their professionalism.

Although the content of Investment Policy Statements (IPS) can vary, we have always viewed the core elements required in order to design a portfolio solution to be<sup>3</sup>:

### Investment Objectives

The purpose of the portfolio in order to meet a financial goal.

### Risk Tolerances

Ability to tolerate risk in terms of both capital and income loss

### Constraints:

#### Liquidity

The definition of any short-term need for liquid funds

#### Taxation

Any tax issues that must be addressed in the management of the portfolio

#### Legal

Any legal or regulatory issues that must be addressed in the management of the portfolio (ie: trust restrictions)

#### Unique Preferences

Any unique client preferences that must be addressed in the management of the portfolio (ie: exclusion of specific securities/sectors)

Poor	Average	Good	Our Score
0	1	2	

<sup>3</sup> Adapted from “Managing Investment Portfolios: A Dynamic Process”, John Maginn & Donald Tuttle.



## 7. How well do we effectively oversee our clients’ managed portfolios?

Once implemented, Advisors have an obligation to ensure that client’s investment objectives are being pursued. This requires a strict adherence to each client’s Investment Policy Statement.

At HighView Financial Group, we believe that in order to make a prudent assessment of how a client portfolio is being managed, it should be regularly reviewed against its portfolio construction metrics such as asset allocation, security quality, diversification of holdings by individual securities and/or industry allocation, as well as an overall assessment as to historical portfolio returns against the account objectives.

Once a series of Client Portfolio Reviews have been completed, it’s inevitable that various portfolio violations — asset mix, security quality, diversification — will be identified. As a result, we believe that every investment firm should give careful consideration as to their “follow-up” procedures in order to ensure that the client portfolio violations are rectified within a reasonable, and prudent, period of time. Alternatively, if an Advisor believes that such portfolio violations are in the best interest of the client, an updated, and signed, Investment Policy Statement must be obtained from the client.

Well	Not Well	Very Well	Our Score
0	1	2	

## 8. What is the quality of the portfolio reporting we provide to our clients?

Regular Portfolio Reporting is a core requirement of the overall portfolio management process. Such reporting should go well-beyond the traditional “position & transaction” reporting and provide clients with an indication of how their investment portfolio is performing against their unique set of investment objectives. Although this reporting could certainly include “relative performance” metrics, it should speak to the quantifiable investment goals of each client. Charles Ellis, in his book entitled “Investment Policy: How To Win The Loser’s Game” states, “Performance measurement services do not report results. They report statistics.” In other words, portfolio results can only be measured against the success (or failure) of meeting clients’ investment goals.

Poor	Average	Good	Our Score
0	1	2	



## 9. What is the quality of the Managed Asset support we provide to our Advisors?

There are two broad areas of Managed Asset support for Advisors that are critical to the economic success of any program:

### a. Financial Advisor Support

While having a professionally designed Managed Assets offering is a tremendous solutions enhancement for many firms, it is only effective if Advisors are knowledgeable of the best ways to communicate its attributes and benefits to their clients. As a result, the following support elements of a Managed Program are critical to its future growth and success:

- Training on the details of the Program and how best to sell its benefits to clients
- Support with Investment Policy Statement preparation
- Acting as a resource to answer Advisor questions about the Program on an ongoing basis
- Professional asset management support for complex client situations.
- Client & Prospect Marketing Seminar and Educational Events.

### b. Practice Management

Managed Asset Programs are fundamentally different from the traditional transaction based investment account offerings. These differences extend across the entire program and include areas such as business support tools, portfolio support tools, marketing, compliance and governance. As a result, Advisory Firms that have implemented successful Managed Asset offerings provide “practice management” support services to their Advisors.

The intent of these practice management services is to provide a very focused suite of consulting services to Advisors with a goal of helping them create a superior asset management business in terms of portfolio construction, client service and business profitability. As a result, these practice management services can be grouped in three core areas:

#### Goals-Based Planning

Enables an Advisor to truly gain a deep understanding of a client’s life journey and tailor an investment program that aligns with their goals and which is expressed in terms of needs, expectations, requirements and time-horizons.



### Portfolio Planning

Develop a deep understanding of their clients’ true financial needs and risk tolerances and then craft a set of tailored portfolio solutions that match those needs.

### Fiduciary Excellence

Advisors spend significant amounts of training time developing their sales, product and market knowledge. Equally important though, is the need to develop an understanding of how to comply with their Fiduciary Standard of Care given that many wealth management professionals operate from a position of trust.

Poor	Average	Good	Our Score
0	1	2	

### 10. Can we measure the success of our managed asset programs?

Managed Asset Programs are “businesses within businesses”. In other words, MAP offerings have their own set of revenues, expenses and profits. As a result, we strongly encourage each firm to ensure that they have appropriately qualified professional and experienced people leading these programs within their firm.

Such individuals should also be responsible for measuring, on an ongoing basis, the financial economics of each MAP offering according to the following five key measurements:

- i. **Assets Under Management (AUM)**
- ii. **Investment Performance of Client Assets**
- iii. **Fee Realization (Basis Points)**
- iv. **Revenue Growth**
- v. **Cash Flow Margins**

No	Somewhat	Yes	Our Score
0	1	2	



## How Did You Do?

By using the scoring grid below, please assess your total score from above.

Our Firm's Managed Asset Program Assessment			
Score	Grade	Offering Quality	Tune-Up Rating
20	A	Very Strong	None
15 – 19	B	Strong	Minor Tune-Up
10 – 14	C	Average	Major Tune-Up
5 – 9	D	Weak	Overhaul
< 8	E	Poor	Complete Restoration

Our Firm's Total Score

**If your Managed Asset Programs scored an A or B,** your firm is very well-positioned to attract and retain both clients and advisors and have a great opportunity to continue growing your managed asset business.

**If your Managed Asset Programs scored C or less,** your firm is at a significant competitive disadvantage and if you do not address the weaknesses of your managed offerings, you will be challenged to attract and retain both clients and advisors. You may also have issues relating to firm risk management and/or program profitability that need to be addressed.

## How Can HighView Help?

Managed Asset Programs can provide many client and firm benefits but the design, implementation and ongoing management of these offerings can be challenging, as there are numerous interdependent functions such as asset management, governance, technology, operations, compliance, and practice management that need to be tightly integrated into an overall client solution that is materially different from traditional transaction based investment services.

HighView Financial Group has extensive experience in the design, implementation and ongoing management of many types of successful Managed Account Programs. As a result, we can help your firm design and implement a Managed Asset offering that is tailored to the unique needs of your clients, Advisors and your firm. We can also work with your firm on an ongoing basis to provide a customized suite of outsourced Managed Asset Services that will not only provide your firm with access to specialized professional services but also enable you to more efficiently manage the costs of operating these investment offerings.

# Contact

HighView is based in Bronte Harbour in Oakville, Ontario. The Town of Oakville is a beautiful community situated on Lake Ontario, just 30 minutes from Downtown Toronto.

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*Facilitating Excellence in the Management of Wealth™*

HighView Financial Group is comprised of the following businesses:

HighView Business Advisory Services Inc.  
HighView Asset Management Inc.  
Concord Canada Wealth Solutions Inc.



# A Way of Life

It is our sole purpose to help facilitate excellence in the management of wealth.

This will be accomplished by harnessing our industry experience and expertise to ensure that we gain a thorough understanding of our clients' circumstances, purpose and issues to enable us to design and implement the most appropriate strategies and solutions to meet their needs.

Our belief system is grounded on the principles of delivering the highest quality, client centric, offerings in a professional and objective manner. We will always strive to be the thought leaders in our professional practice areas in order to ensure that the solutions we take to our clients are current and relevant.

We are passionately committed to a service-based culture where values such as understanding, honesty and openness are not only encouraged but are, in fact, our way of life.

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