CC&L Financial Group breaks its own trail

Toronto-based asset manager's multi-boutique structure allows it to address different markets

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NEWSMAKER

TORONTO-BASED CONNOR CLARK & Lunn Financial Group likes to think of itself as being slightly ahead of its time. The second-largest independently owned asset manager in Canada, CC&L operates as a multi-boutique investment firm.

That's a business model many consultants endorse, but one that is used by only a handful of companies around the world; other than by CC&L, used by none in Canada.

"The idea of what has become known as a 'multi-boutique model' was completely original in Canada," says Michael Freund, co-CEO and managing partner of CC&L. "We had never seen anything like it, but the foundation of it just made sense to us. It addressed all the levers necessary for success."

And based on the growth of CC&L's assets under management, the model works just fine. In the five years since its creation in 2003 — through the combination of Vancouver-based Connor Clark and Lunn Investment Management (founded in 1982) and several other affiliated-asset management businesses — CC&L's AUM have grown to $37 billion from $14 billion.

The multi-boutique model refers to several investment managers working as independent entities but housed under one roof, sharing a single resource team for back-office functions.

Under the model, the three distinct functions critical to success in the asset-management business — business/operational management, distribution and investment management — are separate to ensure that each money manager operates in a manner best suited to its needs. Each money manager has its own corporate culture, compensation models and business practices.

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Freund and Warren Stoddart, the other co-CEO and managing partner of CC&L, say one of the main benefits of this business model — in addition to cost efficiency — is that it resolves the problem faced by asset-management companies that want to be big in some areas of operation but small in others. Asset managers are often caught in a tug-of-war — to be big in non-investment-management areas, for instance, yet remain small with respect to investment-management activities.

"We want to have as much scale as possible in areas such as distribution and support services," Stoddart says. "Then, on the investment-management side, we want to be able to stay small and tightly focused, with equity ownership at the individual level."

The CC&L multi-boutique model consists of eight investment-management affiliates and four distribution affiliates, which in turn are supported by six shared functional resource teams.

"We partnered with individuals we considered to have intellectual talent in a specific area," says Freund, "in a way that allowed us to build value together."

Each investment-management affiliate has its own investment approach and area of expertise. The group includes, for example:

■ Montreal-based **Baker Gilmore & Associates Inc.**, which specializes in fixed-income;

■ Vancouver-based **Banyan Capital Partners**, which specializes in private equity;

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CC&L's Warren Stoddart (left) and Michael Freund: Model helps the firm promote itself.

■ Toronto-based **Scheer Rowlett & Associates Investment Management Ltd.**, which specializes in Canadian equities;

■ **Connor Clark & Lunn Infrastructure** of Toronto, the most recent addition to the investment-management side, was created by CC&L in 2005 and targets North American infrastructure projects ranging in size from $25 million to $750 million at all stages of development.

CC&L's four distribution channels target specific segments of the investment market: institutional, private wealth management, managed portfolios and structured products.

In the managed-portfolio segment, for example, **CC&L Managed Portfolios** offers six investment portfolios to individual investors with investible assets of $100,000-$1 million. The affiliate provides investment products for clients with risk profiles ranging from conservative to aggressive, as well as the opportunity to access institutional money managers.

"Because of the way our model is set up, you get the highest level of efficiency and expertise, and everyone focuses on what they do best," says Nick Mancini, president and

CEO of CC&L Managed Portfolios. "We feel that, because of our institutional and private-client platform, we really have the scale, the scope and the expertise to work with advisors who want to offer managed portfolio solutions to their clients."

Established in 2006, CC&L Managed Portfolios now distributes through 200 advisors who have either been referred by the private-capital side or already had working relationships with the parent firm, or who were selected because their practices are focused on managed money.

"We want to be selective in that we want to provide advisors with full access to our financial group machinery," says Mancini. "But, at the same time, we want to make sure we are representing the right practices and solutions to the clients with whom we are working."

The multi-boutique model has also been beneficial for Tim Griffin, CEO of **Connor Clark & Lunn Private Capital Ltd.** Having all services provided internally allows Griffin more time to focus on the client side of the business. With 20 investment counsellors, CC&L Private Capital serves more than 1,500 clients across Canada in the high net-worth market — that is, individuals with $1 million or more in investible assets. Although most of the firm's business is in direct relationships between clients and investment counsellors, the advisor channel has become one of the fastest-growing areas of Griffin's business.

"I think advisors realize that as they get larger clients, the products, services and needs shift and they need more than a cookie-cutter approach," Griffin says. "We have arrangements with a number of advisors in which they can bring a client to us and we'll jointly cover them."

The business model not only helps Griffin focus on what he knows best but also helps the firm promote itself. "We are well known in the institutional space," he says, "and now we are becoming increasingly well known among the brokers and dealers because the brand name is such a strong one."

The ability of CC&L's affiliates to hand over a host of services to internal departments is one of the business model's most appealing features. The support teams have expertise in business management, marketing, client administration, information systems, compliance and corporate administration.

"If we had to have all those things in-house at CC&L Private Capital, it would completely change this entire business," says Griffin. "We get those services at a very economical rate and at a high quality level, so it allows us to focus on other things."

Stoddart concurs: "By providing each company access to shared resources, investment managers can concentrate their efforts on what they do best: portfolio management."

When it comes to the branding, Stoddart and Freund agree that the retail and institutional sides of the business require different approaches. With HNW clientele on the retail side, the firm has kept the single CC&L brand; but, at the institutional level, the investment-management affiliates operate under their own names. The executives feel that the clients prefer to maintain a relationship with a name with which they are familiar. Over time, those clients will come to know that their firm is affiliated with CC&L.

"At the institutional level, clients specifically look for the different investment styles and know them by brand name," says Freund. "We would rather have a bit of confusion at first and be known by clients than not be known at all."

In the early days, CC&L's model created some waves, the co-CEOs admit.

"Any time you propose a business model that hasn't been seen in the marketplace before," says Stoddart, "you are going to have lots of opposition at first because any number of people will tell you that this is not the way business is done."

Adds Freund: "Now, it is quite gratifying to get to the point at which it is becoming a recognized business model in the financial services industry." IE