

Independent firms can excel in asset management industry

Firms should focus on one or two areas of strength, says CC&L chief

■ BY MEGAN HARMAN

DESPITE RAPID CONSOLIDATION of the asset management industry in recent years, independent firms have an opportunity to succeed in the rapidly growing industry, according to Warren Stoddart, co-CEO and managing partner of Connor, Clark & Lunn Financial Group.

“People can win as independent Canadian asset managers,” said Stoddart, speaking at a Toronto CFA Society event in Toronto on Monday. He pointed out that available assets under management have expanded in recent years, and that the industry remains highly fragmented. “There ought to be a tremendous opportunity for those of us operating in this business.”

But the environment con-

tinues to be challenging for small independent asset managers, Stoddart warned.

He pointed out that the composition of the Canadian asset management industry has changed drastically in the past 15 years. Canadian independently owned firms, which used to comprise between two-thirds and three-quarters of the industry, now make up just 10-15% of the industry.

“It’s tough out there,” he said. “As a small independent, you’re putting tremendous pressure on being able to differentiate yourselves from a manufacturing perspective, because you know that there’s going to be a disadvantage in terms of distribution and business management, because the scale just isn’t there.”

Distribution networks have proven to be highly important success factor for asset management firms in recent years, according to Stoddart. He noted that firms with a captive retail distribution network have been rewarded.

But by differentiating themselves through their investment management capabilities, Stoddart said independent firms can excel in the industry.

He said it’s important for firms to have strong, shared beliefs around investment strategies and philosophies. “If that shared perspective on how investment decisions get made isn’t there, then they’re unlikely to have the degree of cohesion that’s necessary for success over time.”

Furthermore, Stoddart says firms should focus on one or two areas of strength rather than trying to excel in all aspects of the business.

“You don’t have to do everything,” he said, adding that this applies even though independent firms may be competing in the same industry as major, multifaceted corporations.

“Not many folks are successful trying to imitate others,” he said. “If you’re going to be successful, you’ve got to be yourself.”

This rule of focusing on one’s strengths should also apply to the individuals within a firm, according to Stoddart.

For example, he pointed out that portfolio managers at Connor, Clark & Lunn showed a notice-

able improvement in performance when their responsibilities were limited to investment management exclusively, as compared to when they were engaging in other activities as well.

Drawing on the strengths of employees, and retaining this talent, should be a key area of focus for asset management firms, Stoddart said.

“Execution is a function of the quality of people that you have within your organization,” he said. “Performance is most likely achieved by those individuals of the highest quality, placed in a circumstance where they can perform.”