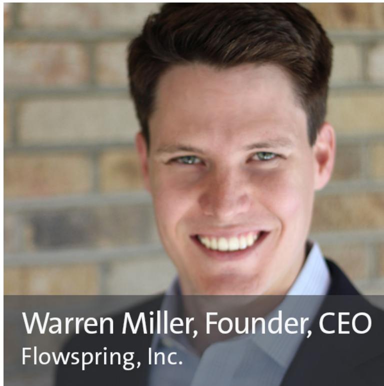
APRIL 29 & 30, 2019 | WASHINGTON DC
SUNSTAR STRATEGIC CONFERENCE FOR BOUTIQUE MUTUAL FUNDS
THRIVING IN AN EVER-CHANGING INDUSTRY

**CONFERENCE TRANSCRIPT**

# Beating the Big Guys – How to Attract Assets as an Active Boutique Manager

Warren Miller, CEO, founder
Flowspring, Inc.




# Warren Miller, CFA

## Founder & CEO

## Flowspring, Inc.

Warren is the Founder and CEO of Flowspring, Inc., a leading provider of advanced competitive intelligence for asset managers. Flowspring aims to give quantitative support to all business decisions faced by asset managers from product launches and rationalization to optimal pricing strategies and M&A activity.

Prior to founding Flowspring, Warren was Head of Asset Management Software and Head of Quantitative Research at Morningstar where he led the development of global multi-asset class risk modeling, quantitative investment signals, and systematic institutional investment strategies.

Warren studied Industrial Engineering and Economics at Northwestern University, earned his MBA from The University of Chicago Booth School of Business, and is a CFA charterholder.

# BEATING THE BIG GUYS

Flowspring

# YOU'RE SCREWED

## Surface level doom and gloom

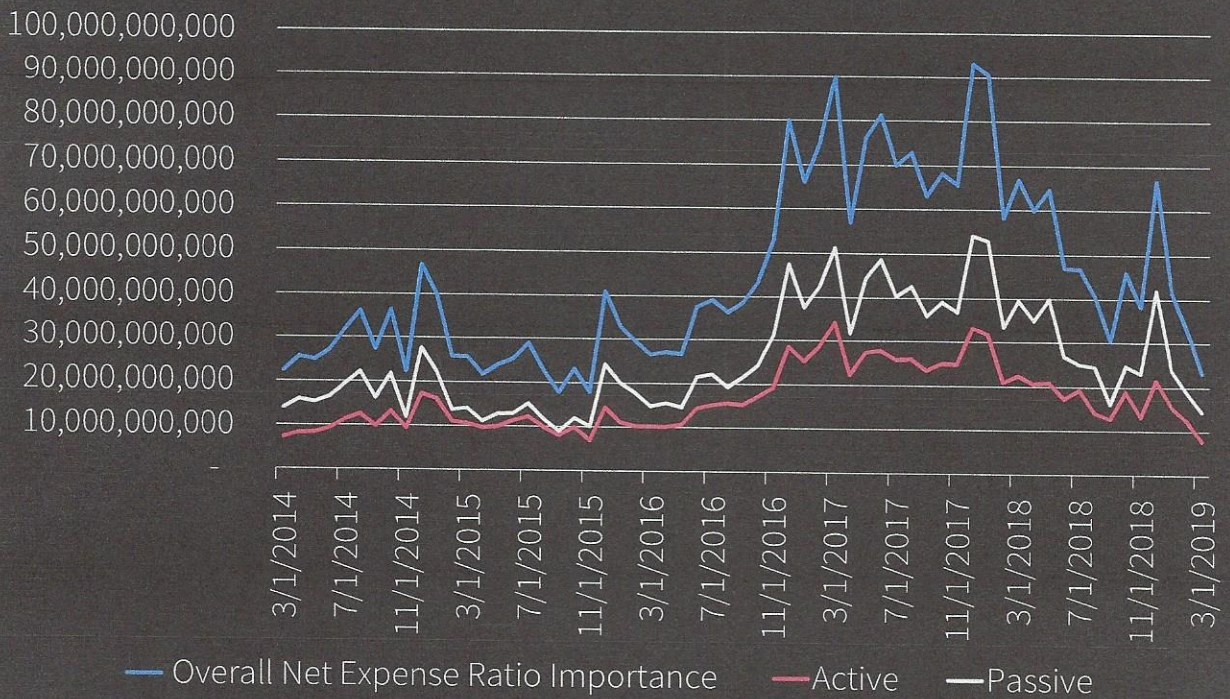
- Scale advantages
- Shrinking shelf space
- More price-conscious investors
- Disenchantment with alpha-based investing

Should an adviser ever recommend an active fund?

*The active management industry must work harder in a number of critical areas to convince investors of its value proposition, according to a new report released by Allianz Global Investors.*

**Are the economics of active management becoming unsustainable?**

Is There Any Reason To Invest In An Active Fund?


Fees become a bigger driver of flows
100,000,000,000
90,000,000,000
80,000,000,000
70,000,000,000
60,000,000,000
50,000,000,000
40,000,000,000
30,000,000,000
20,000,000,000
10,000,000,000
-
3/1/2014
7/1/2014
11/1/2014
3/1/2015
7/1/2015
11/1/2015
3/1/2016
7/1/2016
11/1/2016
3/1/2017
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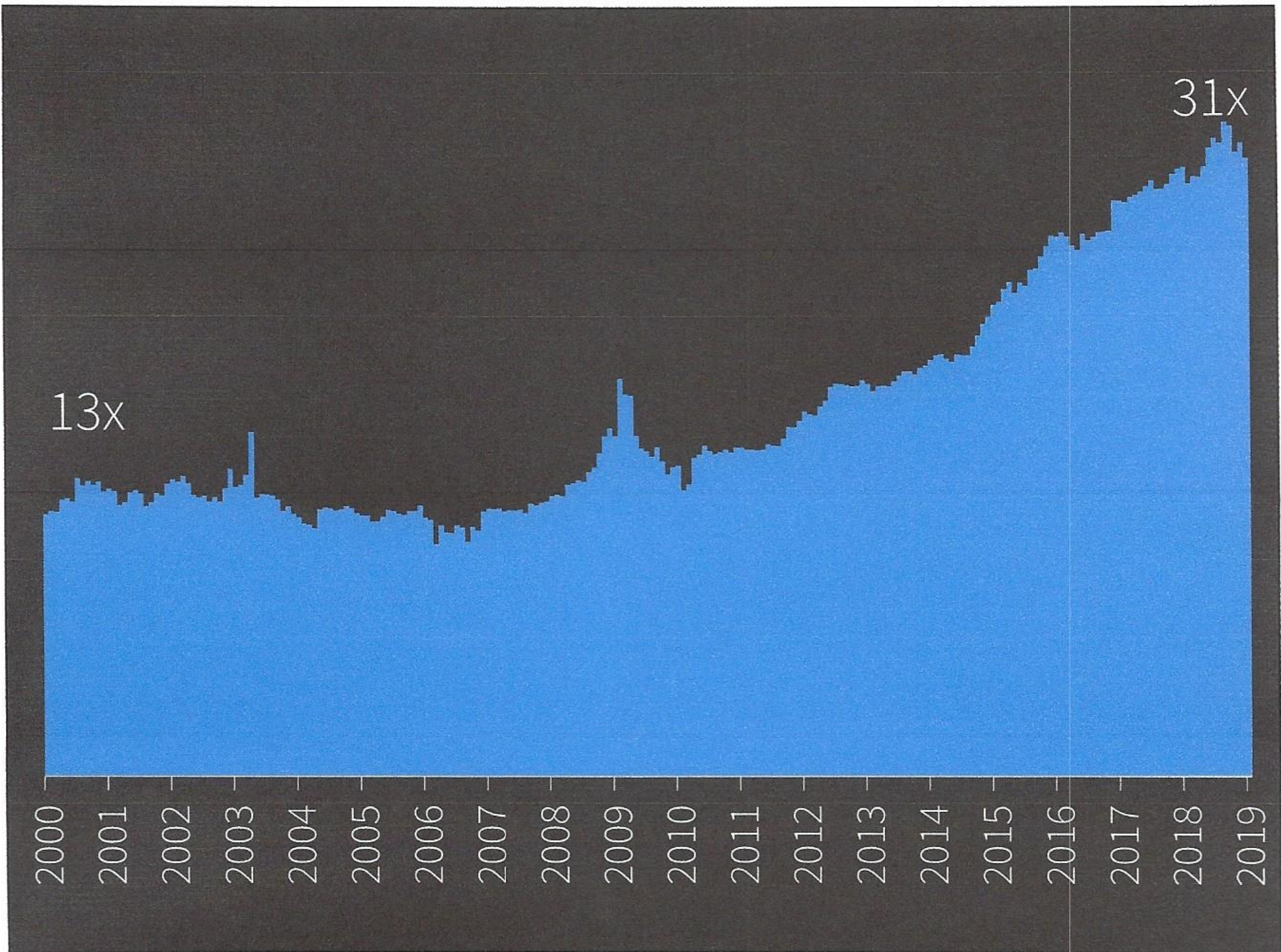
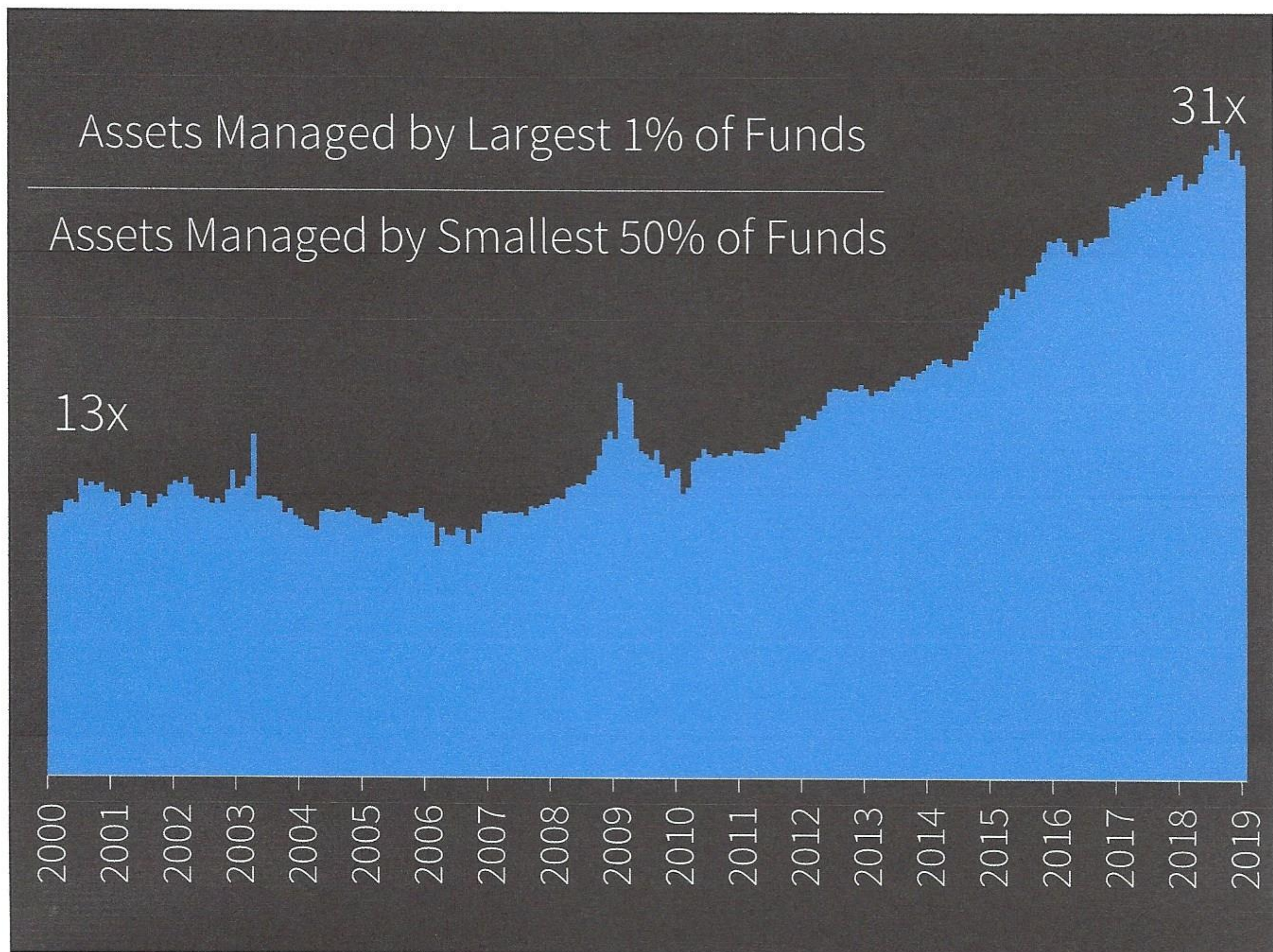
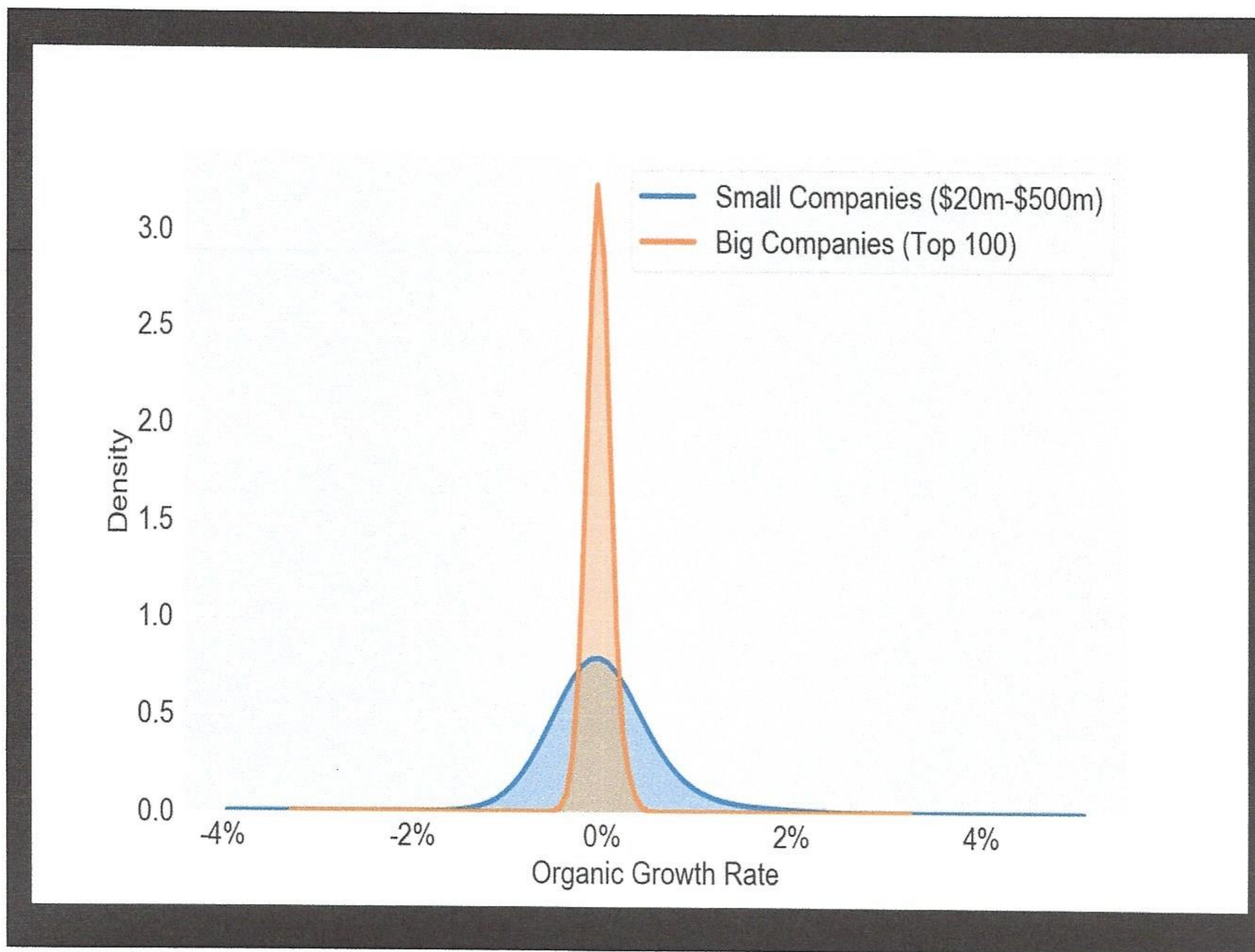
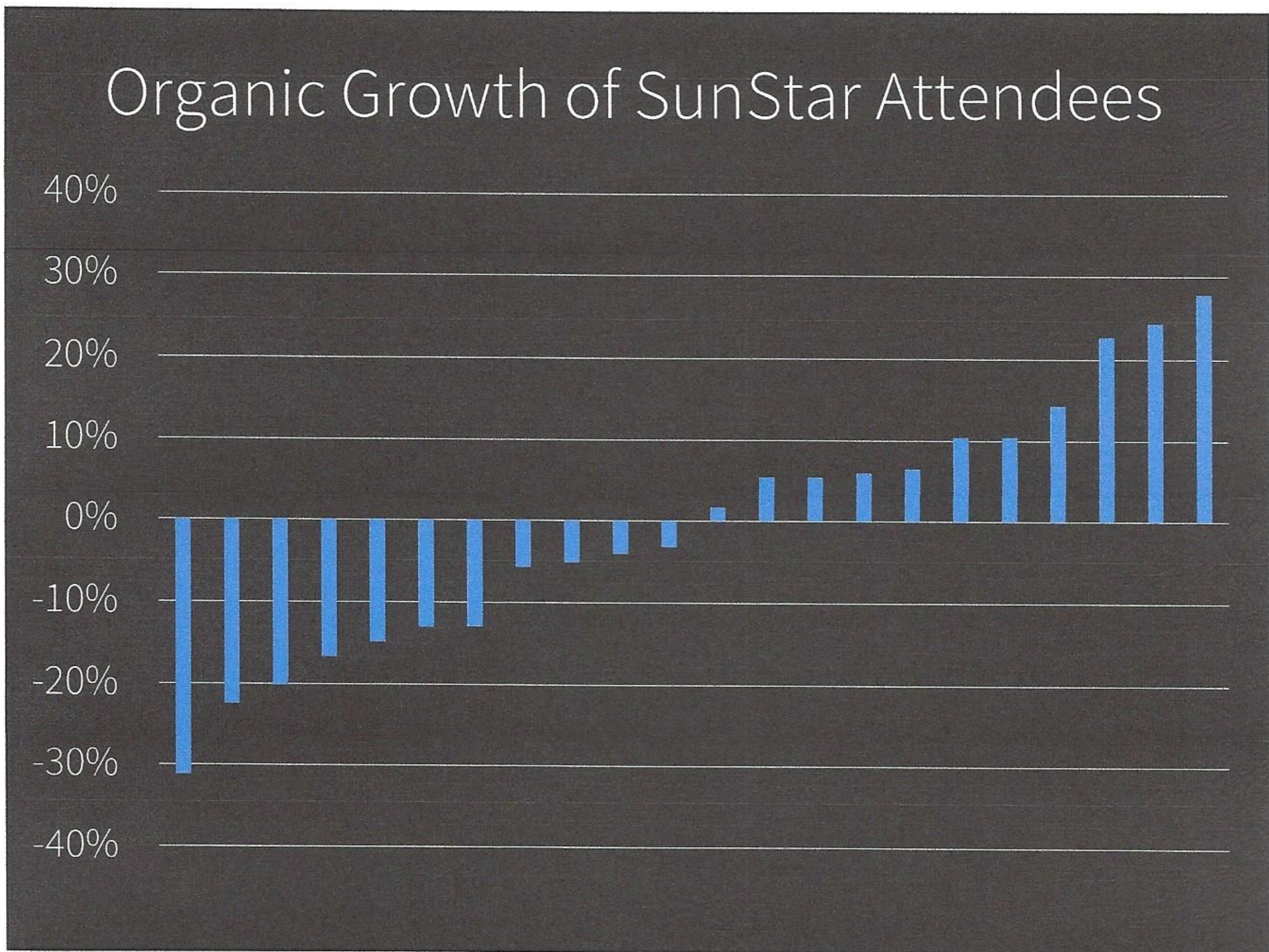
11/1/2018
3/1/2019
Overall Net Expense Ratio Importance
Active
Passive

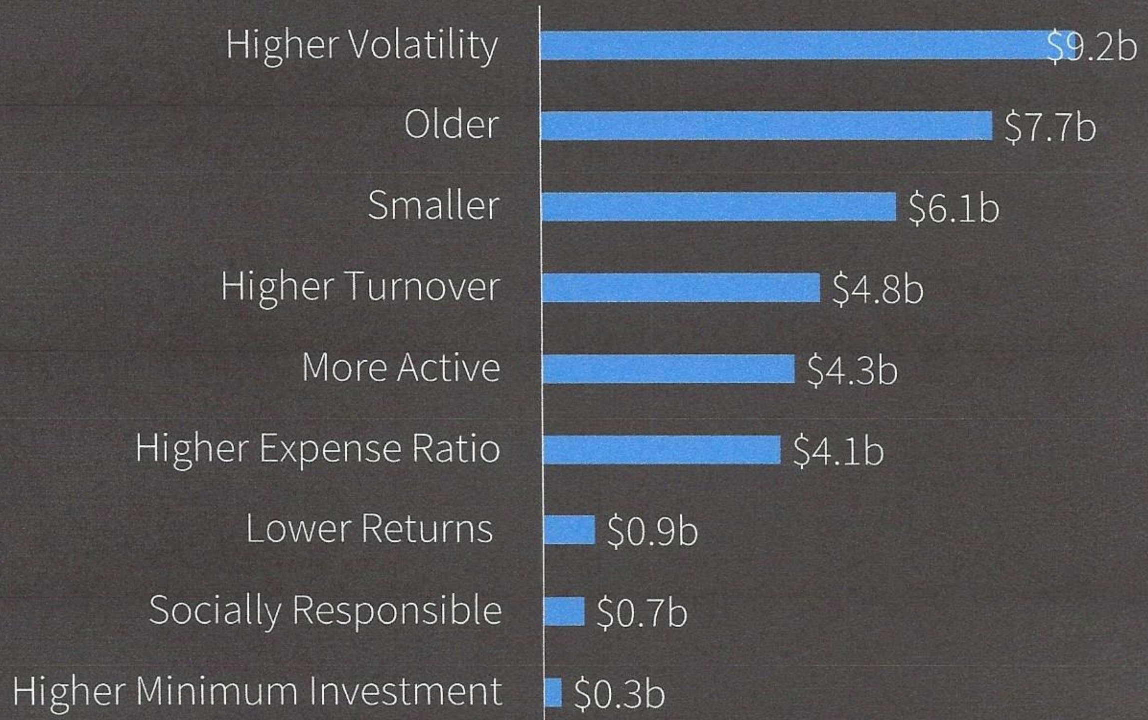

13x
31x
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019


Assets Managed by Largest 1% of Funds
Assets Managed by Smallest 50% of Funds
13x
31x
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019

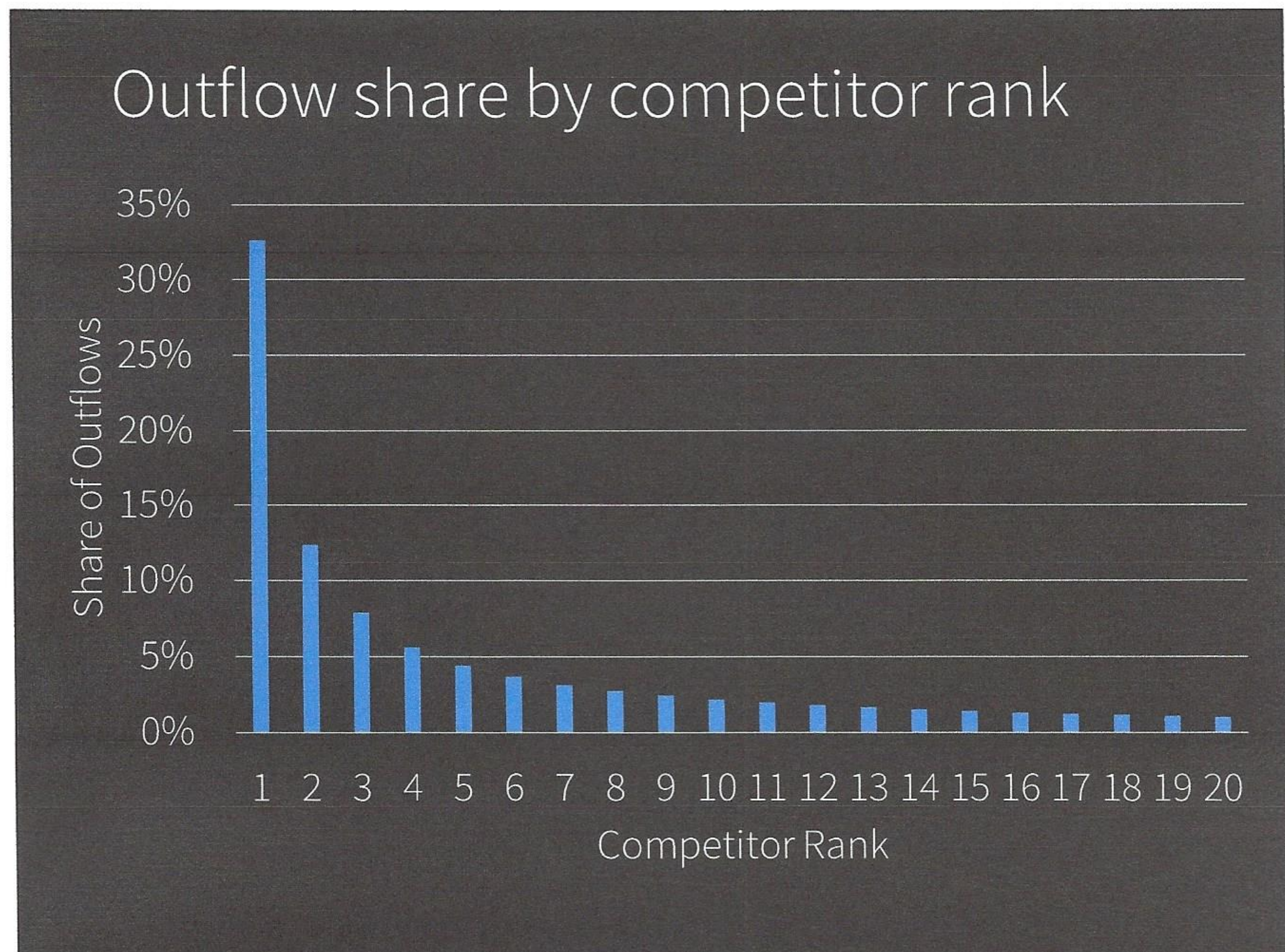
# GOOD NEWS: YOU'RE WRONG


Small Companies ($20m-$500m)
Big Companies (Top 100)
Density
3.0
2.5
2.0
1.5
1.0
0.5
0.0
-4%
-2%
0%
2%
4%
Organic Growth Rate

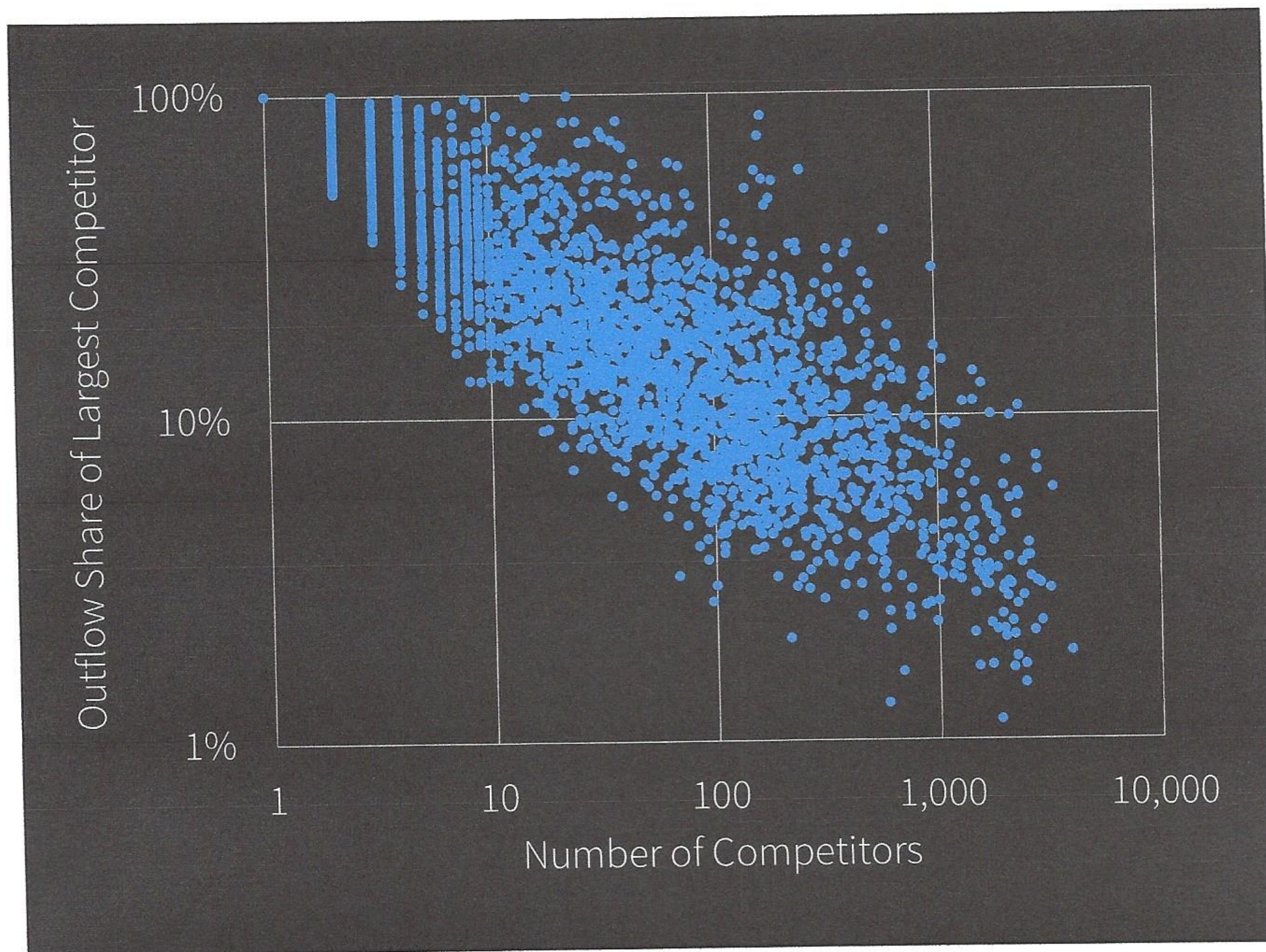

Organic Growth of SunStar Attendees
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%


How are you winning?
Higher Volatility
$9.2b
Older
$7.7b
Smaller
$6.1b
Higher Turnover
$4.8b
More Active
$4.3b
Higher Expense Ratio
$4.1b
Lower Returns
$0.9b
Socially Responsible
$0.7b
Higher Minimum Investment
$0.3b

# DON'T BOIL THE OCEAN


Outflow share by competitor rank
Share of Outflows
35%
30%
25%
20%
15%
10%
5%
0%
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
Competitor Rank

| | Least Focused | | Most Focused |
|---|---|---|---|
| Least Concentrated Competition | -$51.5bil | $101.4bil | $187.8bil |
| | -$46.6bil | $74.0bil | $174.2bil |
| Most Concentrated Competition | -$58.6bil | $17.4bil | $230.2bil |



Outflow Share of Largest Competitor
100%
10%
1%
1
10
100
1,000
10,000
Number of Competitors

# DIFFERENTIATE YOUR DAMN PRODUCTS

## Different is not enough

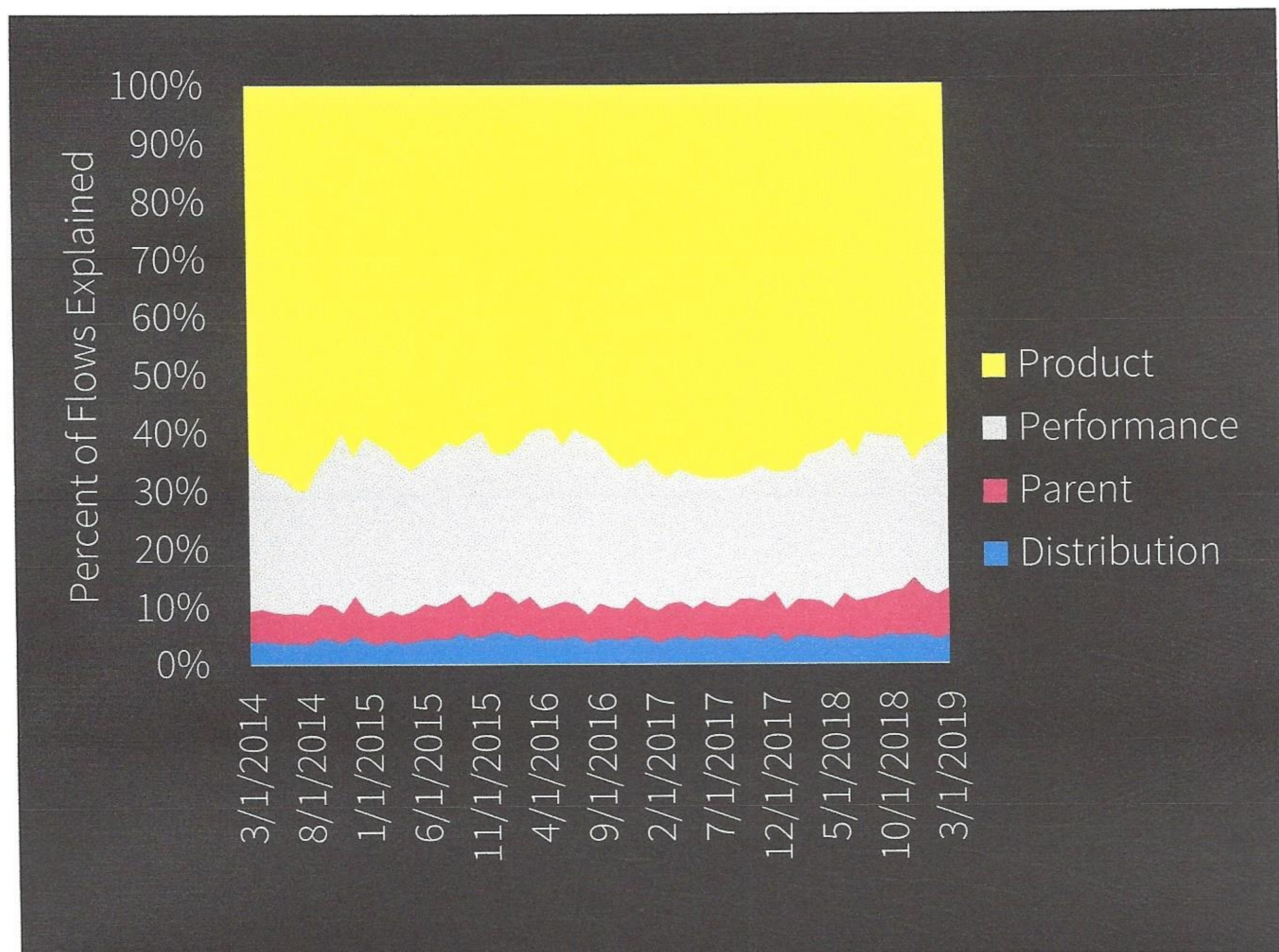
Need it

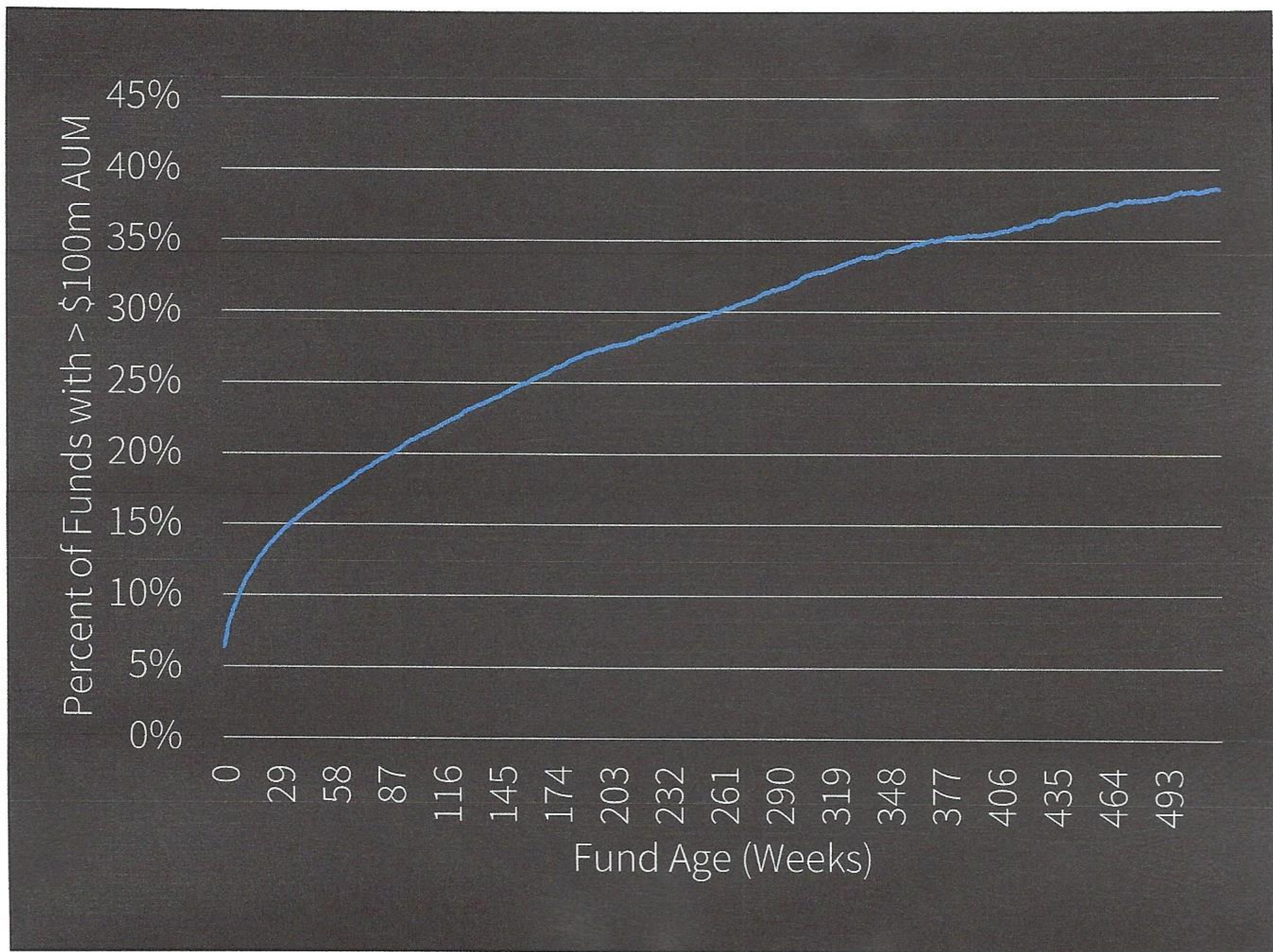
Understand it

Believe it

| | Low Fees | $\alpha$ | Unique $\beta$ | Extras |
|---|---|---|---|---|
| Value Added | Moderate | Very High | High | Low |
| Believability | Very High | Low | High | Very High |
| Appeals to | Everyone | Active Investors | Portfolio Constructors | Institutional |
| Stickiness | Moderate | Low | High | Very High |
| Financially | Hurts Revenue | Helps Revenue | Neutral | Higher Costs |

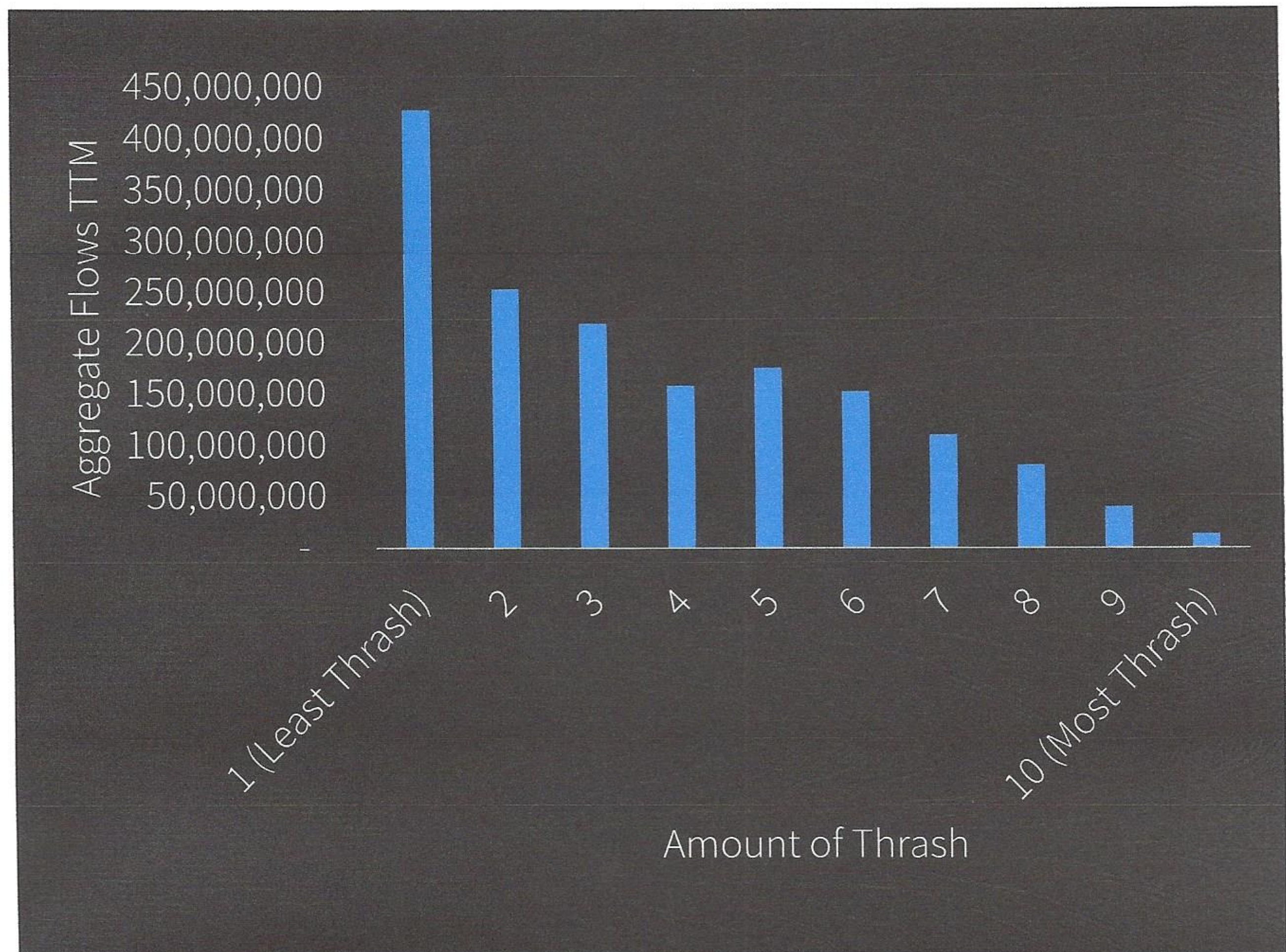
# GOOD PERFORMANCE IS NOT ENOUGH


100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Percent of Flows Explained
3/1/2014
8/1/2014
1/1/2015
6/1/2015
11/1/2015
4/1/2016
9/1/2016
2/1/2017
7/1/2017
12/1/2017
5/1/2018
10/1/2018
3/1/2019
Product
Performance
Parent
Distribution


Percent of Funds with > $100m AUM
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
0 29 58 87 116 145 174 203 232 261 290 319 348 377 406 435 464 493
Fund Age (Weeks)

| | 1<br>Worst<br>Performance | 2 | 3 | 4 | 5<br>Best<br>Performance |
|---|---|---|---|---|---|
| 1<br>Worst<br>Product | -28% | -26% | -21% | -15% | -6% |
| 2 | -24% | -17% | -11% | -5% | 2% |
| 3 | -17% | -8% | 0% | 5% | 10% |
| 4 | 1% | 8% | 16% | 29% | 25% |
| 5<br>Best Product | 34% | 46% | 53% | 59% | 71% |

# DRAG >>> THRUST


450,000,000
400,000,000
350,000,000
300,000,000
250,000,000
200,000,000
150,000,000
100,000,000
50,000,000
-
Aggregate Flows TTM
1 (Least Thrash)
2
3
4
5
6
7
8
9
10 (Most Thrash)
Amount of Thrash

## Who needs to learn to beat whom?

# $185 Million

Assets SunStar Attendees have won away from Vanguard funds in the last 12 months

# Questions

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In the industry today and over the last several years, a great deal of change, fees becoming significantly lower, product lineups getting significantly more rational. And while I don't think anyone wants to go backwards, and we all see the benefits to the end investor, there have been some negative side effects of these trends that we've seen. And the one that particularly concerns me is a great deal of increasing concentration in the industry. We're seeing many more assets concentrated in the hands of fewer asset managers, and I think there's a lot of negatives that come with that.

So, I think it's incumbent on all of us in asset management ecosystem from third parties like myself to regulators, to those of you in the room to really encourage innovation and competition within the industry. And I think we probably, all of us in the room, agree that a lot of that innovation and competition is much more likely to come from smaller, hungrier, newer asset managers than older, complacent, more profitable asset managers.

Again, I'm glad to be here. The way my presentation is going to work today is I'm first going to tell you what many in the world and probably many of you in the room think about yourselves as small boutique active managers. Then I'm going to go ahead and tell you why you're all wrong, and then lastly, we're going to cover a suite of recommendations on how you can get from where you are today to more successful outcomes for your firm.

To kick it off, here's what you and a lot of the world think about yourselves. You're screwed, right? Things look bleak. You go to sleep at night anxiously thinking about the fact that you're in an industry with scale advantages yet you are small. You see shrinking shelf space, and yet you have products that need to get onto various platforms. The world is becoming increasingly price sensitive, yet you have a cost structure that doesn't allow you to go to zero like many other firms.

And lastly, many of our investors have become disenchanted with alpha-based investing and the uncertainty that comes along with it, and yet you as active managers seek to sell alpha. So, after that sleepless night, you wake up the next day and you see headlines like these. Things that question the validity of active management itself. Folks going so far on the extreme as to question whether or not putting a client in an actively managed mutual fund

might even be a breach of fiduciary responsibility because of the certainty of higher fees with the uncertainty of any added performance.

And even more recently, there was a study put out by the University of Washington which basically showed – or their argument was that passive investing and the increase in passive investing would make markets more efficient. I did say that correctly. More efficient, because it would pull low information investors out of various markets into singular products, leaving only high information investors behind to set prices.

So, I think it's safe to say that the media, academia, and even the industry itself have congealed around this narrative that there is a decline in active management, and I think frankly a lot of them have their sights set on many of the assets that are still actively managed.

So, you have that sleepless night. You wake up to those dismal headlines. You go to work and you're bombarded with charts like these, which show that investors are increasingly price conscious. Assets are moving around much more as a result of differences in expense ratios than they were before, and we're not talking about chump change. We're talking about tens or hundreds of billions of dollars per month moving just because prices are different.

Anyone want to take a guess as to what this chart represents? So, we're at 31X today, we were at 13X in 2000. We're about 15X during the financial crisis ten years ago. So, we're seeing a time series that's expanded drastically in the last ten years. Any brave souls? This is the measure of the concentration of assets in our industry. Today, assets managed by the largest one percent of funds is 31 times greater than assets managed by the bottom 50 percent of funds.

That probably seems like a lot, but let me put it into context, and that's going to seem like a whole lot more. We talk a lot in this country, in the United States, about income equality. No matter where you fall in that particular political issue, it gets discussed a lot, and certainly moreso during election cycles. If we were to calculate this exact same ratio for income inequality in the United States, that number is 0.8.

Assets in our industry are concentrated more than 31 times the amount the income in our country is. And you can compare that to how much you maybe heard of this phenomenon vs. how much you've heard of income inequality.

So, where does that leave us? A lot of very bleak trends for small boutique asset managers. Do we throw up our hands and say, I give up, I quit, we're screwed, that's it. The good news is that if you think that, you're wrong. And so is the rest of the world that may think that. Surely, all of the trends that I just mentioned are happening. They are all not great for small active asset managers. Yet we still continue to see small asset managers grow.

In fact, I could have stood up here ten years ago and told you about all those same trends. None of them are particularly new, yet over the last ten years, plenty of small asset managers have grown big, and we continue to expect that to happen. What I did ahead of this conference was I took a lot. I said, "Let's take a look at the differences in growth rates for small asset managers vs. large asset managers." And these are the distribution of the two.

What you first notice is that the middle distribution is the same for both. On average, you are growing at the same rate as large asset managers. So, it is possible to continue to grow. Second of all, the thing you should notice is the distribution for large asset managers is much narrower. So, the range of possible outcomes for small asset manager to no one's surprise, is much larger. You could triple, you could go out of business much more likely than for a large asset manager.

And I was curious whether or not those of you in the room are representative of that small asset manager group. So, these are the asset managers in the room today, plotted with your organic growth rates over the last several years. Clearly, some of you are growing quite well. Kudos. You're doing a great job. Keep it up, maybe you don't even need to listen to me today.

The folks on the left-hand side of this chart may be having a little bit harder time, so hopefully some of the recommendations a little later in the presentation will be helpful. But what I want you to take away from these last few slides is that there is nothing stopping you from performing well, from growing, just because you are a small, active asset manager. People are doing it.

And this is how. Again, this is people in the room. These are the types of funds that you are winning assets from. For example, over the last year, you won $9.2 billion collectively from funds that had higher return volatility than you. You won $7.7 billion from firms that were older than you. So, you work your way down the list, and you see, "I don't see net expense ratio at the top of that list. I don't see total returns at the top of that list."

So, it's not always about just performance and fees. There are other characteristics of what you do that are important. So, now we're going to get into some of the recommendations of

how we can get better. Don't boil the ocean. I'm going to say it again. Don't boil the ocean. There are hundreds of thousands of investment products in the landscape, about 200 for morning star category, and any given morning star category, there's probably 20 to 50 that are in the same distribution channel as the funds that you care about.

If you try and compare yourself, or compete, or position yourself competitively against 20 to 50 different funds at a time, you're going to have a bad time. You're going to have a really bad time, and here's how you're going to do it, because I see it every day. This is what happens. You start taking averages. Say, "What's the average star rating of this group? What's the average total return? What's the average alpha? What's the average net expense ratio? And am I above or below that?"

That's a really boring pitch for any advisor or gatekeeper or end investor to hear. "I'm above average or I'm below average on this." Because one, nobody cares about averages when picking funds to put on their platform or in their portfolio. And two, you're not telling any of these people anything they can't look up in morning star direct or any other free website.

So, what you need to do is consider the alternative. Identify, one, two, or maybe – I'm kinda pushing it here – maybe three funds that you lose the most assets to, and craft a much more nuanced story about how you compare favorably to those funds. And I'm not talking about purely on returns, or purely on net expense ratio. I'm talking about nuance related to your process, your philosophy, your people, things that will relate to your performance in the future being better.

Funds and fund companies that do this perform significantly better than those that don't, and here's the reason why, right on this slide. Competition in our industry is extremely concentrated. You, on average, lose 33 percent of your outflows to your number one competitor. The next competitor, number two, 12 percent of outflows, and competitor number three, 7 percent.

So, with your top three, that's 50 percent of your outflows explained. This is why I'm saying, "Don't go beyond three. Start with the top three, figure out what's causing you to lose them, and fix it." One of the things we did was we looked at this concentration, and we questioned whether or not that's an opportunity for asset managers. We plotted a 3 x 3 grid here with an equal amount of funds in each grid. You don't get to pick which row you're in. That's the amount of concentration among your competitors.

So, if you're a US large cap value fund, you probably have 1,000 competitors. If you are a South African biotech fund –

If that, that's the level of concentration in your competition, and then what we looked at was whether or not funds focused on making a dent in that top competitor. So, if they were very focused, they end up on the left-most column, sorry. If they were not focused, they were in the left-most column. Not focusing very much on denting that top competitor, and if they're extremely focused, really focused on competing with that top person who's taking assets from them, they're in the right-most.

What I want you to take away from this particular chart is the very best place to be is in the bottom right. That's where you had one or two competitors taking away the vast majority of your flows, and you focused on erasing those flows, those outflows. This is the equivalent of having a giant wound in your arm, and applying a tourniquet. You can fix that problem, you can survive that problem.

The worst place to be is the bottom left. That's where you had the giant wound in your arm, and you just ignored it. Those folks saw $60 billion of incremental outflows the year following this study. The folks who applied the tourniquet saw $230 billion worth of incremental in-flows. The other alternative is having not that concentrated competition. That's more like death by 1,000 cuts. You can't fix it by focusing on anything. It's a very difficult, competitive situation to be in.

So, the concentration of your competitors represents a great opportunity, and it should be no surprise, this is the relationship between the number of competitors that you have and the amount of flows they take away from you, or that the top one takes away from you. So, not surprisingly, the more competitors you have, the less likely it is that any one of them takes a big chunk of assets from you.

Typically, we don't see this strong of a relationship anywhere in finance, so I really like this chart. It's got a nice down and to the right kind of feel to it. But the point I want to make here with these slides is that concentration of competition is an opportunity. You want to have concentrated competition because then you can focus, you can apply the tourniquet, you can stem the outflows, and therefore, your net flows and your growth will continue to benefit from that.

Which leads into the next recommendation: differentiate your damn products. The problem I see – I spent ten years at Morning Star, much of that on the research side of the organization, and I can't tell you the number of times folks came in and said, "We buy high quality companies at cheap prices." Just hundreds of people out there doing it. And that's one example, that's in equities.

There's this same phrase in fixed income. There's the same phrase in alternatives. Everybody's got their phrase of their part of the market of what they do. Now, that's fine if that's your investment philosophy. There's nothing wrong with having a Buffet-esque investment philosophy, but when you walk in the door of a gatekeeper, you walk in the door of an advisor, and that's what you start with, you have a problem, because they have no idea how you are different from the hundreds of other firms out there that do the same thing.

So, what you need to focus on is how you are different. And I'm going to immediately contradict myself from the last slide where I just told you it's important to be different. It's also not enough to just be different. Put yourself in the shoes of that gatekeeper, of that end investor, and ask what is going to cause them to pull the trigger on my particular fund?

First, they need to meet it, and by meet it, I do mean, be different, and be different in a good way. You can't be different in a bad way or a neutral way. That's not going to help you out. It's not going to help them out. So, lower fees, higher alpha, unique beta, or some sort of extras like how you package it or whatnot. Those are the ways you can be different in a good way.

So, they need to meet it, that's step one. Step two: they have to understand it, and this is where a lot of people fall flat. They forget this part. You can be different in a way that's so complex, nobody's interested, and we often see this probably the most common recent example of this would be performance-linked fees on products. In the institutional world, that's very normal. Everybody's very used to the performance fee in the institutional world. Hedge funds have been doing it for years.

In the retail world, not as widely adopted. There're products out there with performance fees, but people don't like them as much, and the reason is, that audience has a harder time understanding exactly how much they're going to be paying for the product. So, in theory, this is a better thing. It aligns the portfolio managers' incentives with those of the end investor, but it's not getting adoption, because people don't understand it.

Once they need it, once they understand it, the last thing is they have to believe it. So, if I walk in, and I say, "I'm going to deliver you exposure to the S&P 500 at the absolute cheapest price you've ever seen in your life," that's a pretty believable pitch. I'm telling you how much I'm going to charge. Unless I'm lying, I'm going to send you an invoice that's different than what you think you should be getting. You should probably be believing when I say that.

If I walk in on the other hand, and I say, "I'm a superstar alpha generator, and I'm going to deliver five to ten points of alpha every year for you, because this is an art, not a science, and I'm the artist, and I'm great at this." No one's going to believe that pitch. First of all, you're claiming to deliver alpha, so boom, already, higher hurdle, because there's so many asset managers out there claiming to deliver alpha that never actually do.

Second of all, you've given no indication of any sort of repeatable process whatsoever. You are a superstar manager, it's an art, not a science. These are key words to look for in marketing speak that should immediately turn an end investor off. They need to believe that what you're doing is repeatable process in order to actually believe it. So, again, you need to need it, you need to understand it, and you need to believe your pitch.

And here's how various ways of differentiating yourself line up against that stuff. This is how you should be considering your strategy moving forward, in terms of your differentiation, these are different ways you can differentiate yourself in the columns, where you can offer lower fees, but again, that's not always the right thing to do, certainly not for this crowd.

You can deliver alpha, a unique beta, or extras, so let's walk through an example. Low fees, value-added there is moderate. You're not going to beat other people's fees by 5 percentage points, although these benefits do compound, it's still a reasonably moderate benefit. It's very believable, it appeals to everyone, because everyone believes it, and everybody wants to pay less for their portfolio. It's moderately sticky. You win the people at first when you come in at the lowest fees, but then how long is it going to take for someone to match you or beat you.

Those fee-chasers are going to turn your portfolio if that's your differentiation strategy. And lastly, it hurts the top line. That's just one of those differentiators that very clearly, self-explanatorily, hurts the top line. Alpha, on the other hand, is the polar opposite. It can be very high value add for alpha if you're delivering multiple percentage points here. That compounds very quickly, but it's low believability. People have a high hurdle for believing it, just because there are so many managers out there who do not deliver on their promise for alpha.

It appeals to active investors, and this is kind of important to note, because I think the world recently has become much more polarized in the active-passive camps. There are starting to become more and more zealotry on either side, and so, those people who believe passive investing is the one true religion are not going to come and adopt your active management pitch.

Low stickiness, because people who chase alpha, you're going to deliver it one year, and you're not going to deliver it the next. Hopefully, you deliver it plenty over a 20-year period, but when you don't – we all know this – there's a lot of performance chasing in the industry. And finally, alpha is a big helper of the bottom line, because you're compounding your assets quicker, and presumably, you're able to charge more on your asset base as a result of delivering alpha.
Next point: good performance is not enough. In my role, dealing with a lot of asset management analytics, I spend a good chunk of my day thinking about what's driving asset flows, what's changing in the industry, what are the trends, and I have a lot of conversations with people accordingly. And every now and then, I run into someone who says, "Why would I pay attention to what's driving flows? I know it's just performance, so all I do is pay attention to performance."

And unfortunately, for those people, they are extremely wrong, and it's going to hurt them quite badly. Performance, to be sure, is a very large driver of flows. So, by our calculations, performance drives about 30 percent of the variation in organic growth rates. You take into account your parent company is the brand argument distribution tactics, that's another ten percent of flows explained.

The remaining 60 percent is explained by your product characteristics, and what I mean by that are your category, the fees that you charge, your management team, who they are, what their philosophy is. That explains the remaining 60 percent. So, let's think about the implication of that for just a moment. The vast majority of your success as a product is determined before it even launches, when that product team decides on the characteristics of that fund.

You're not going out and changing your management team on a whim or your fees or your category. Those things stay relatively static, as opposed to investment performance, which may help you with flows in one year, and be gone the next year. So, if you build a product that is well-aligned with investor interests, it's like having an evergreen advantage. It's going to help you year in and year out, unlike some of these other characteristics.

And I certainly wish that we as an industry would focus on this more, because the data tells a different story. After five years of life, five years after inception, only 30 percent –

Of funds that launch reach $100 million in assets. And that number only increases to 38 percent after 10 years. So, about 60 percent of funds that get launched never reach a level that's meaningfully profitable. We can argue about whether $100 million is the right threshold, and for some in this room, maybe that's too high. For others, maybe it's too low.

Regardless, the point is, we're launching a lot of product as an industry that nobody wants, and so, we need to think very hard in the early stages of product development about what they want and what they need in terms of end investors and platforms. Just to drive this point home a little bit further, we did another study, 25 cells on a grid here. Your rows are how much people like your product, so the top row is just terrible, terrible product, bottom row is stuff people love.

And again, that's your category, your fee structure, your management team. Columns, left-most column, terrible performance, just awful, being destroyed by your category kind of performance, right-most, you're killing it, you're knocking it out of the park. And what I want you to see, and hopefully this comes through in the coloring, is the row that you're in is much more important than the column you're in.

Your product is significantly more important than your performance. It's probably even easier to tell if you look at the lower left vs. the top right. The lower left, where you've got the best product in the world, but just terrible performance, those funds still organically grew 34 percent over 3 years. And the opposite, where you had just amazing performance but nobody liked your product, those funds shrunk, six percent organically over three years.

If we take home one message here from these last few slides, it's that your product characteristics are so much more dominant than your performance in any given year. Think hard about them as you are developing new product.

Now, I have three boys at home, ages 6, 5, and 1. The top two, the oldest two, are in swim lessons, and I'm a lifelong swimmer. And one of the concepts in swimming that's probably the most important concept in swimming is that for all the shortest races, drag is so much more important than thrust. We spend countless hours in the pool, working on techniques where they can limit their drag and move through the water more smoothly.

And we saw a pretty pronounced example of this in the Beijing Olympics. Anybody remember the Beijing Olympics where they had the super suits and started setting all the world records, which many of which probably will not be broken for decades, now that those suits are outlawed.

Personally, when I watch my boys in the water, when they first started, they'd thrash around like crazy, splashing water everywhere, not making any progress, just expending a ton of energy to go nowhere. And as they've gotten better technique, they use less energy, they go further, faster. And this concept applies to the asset management industry, as well.

So, we've kinda come up with this metric for asset managers, for individual funds, really, that we call thrash. And it's how much you're essentially thrashing around, and the way it works is this: We look at the magnitude of your gross flows, so the magnitude of your net new investment, and the magnitude of your redemptions, both together, and the ratio of that to the magnitude of your in-flows. The amount you're thrashing around vs. the amount of progress you're making. That's how much you're thrashing.

And we said, "Well, gee, does the analogy still hold throughout if you're thrashing around more, are you going to grow slower?" And what we found was a fantastic relationship between these two things, so the firms that are thrashing around a ton, generating a ton of gross flows, but not very many net flows, frankly, they're not growing. And the folks who have great, let's say, technique, who have small gross flows relative to the size of internet flows do much better.

So, drag matters a lot in asset management, as well. And there's a few ways that folks can tackle the drag issue. You have drag at your organization, it exists. Your job will be to minimize it. Now, one way to tackle that is to immediately we talked about this earlier is tackle it from a competitive standpoint to reduce your redemptions. Look at the top one, two, or three competitors, craft a nuanced story, and start stemming those outflows. That's the competitive perspective.

Then there's the perspective of your actual investors. You have to think about how to keep them where they are, because that expends less energy than trying to bring new ones in. So, keep the ones who are already there. How do you do that? When people leave your funds, they do it because you're not delivering to their expectations that they had when they first came in. And by expectations, again, I don't always mean fees and absolute returns. That could be the amount of volatility you're giving them, it could be the amount of turnover in your portfolio, it could be the amount of turnover in your management team. They have a set of expectations that they come into your fund with, and if you start not matching those expectations, it's more likely that they will leave.

So, you need to think about and understand what are my investors' expectations when they came to me? Lastly, there's organizational drag. This doesn't necessarily directly tie to redemptions or gross ______ or anything like that. Organizational drag is your ability to make good, accurate, quick decisions that need to happen as a small business. Now, there's a paradox here, because your advantage over the big guys is how nimble you can be. You don't have a huge bureaucracy behind you, you don't have a huge, existing investor base

you have to worry about completely disorienting by launching new things, or changing up marketing strategies, or things like that. That's a huge advantage.

But the paradox is that you also don't have the resources of a lot of these firms to take advantage of or even identify opportunities when they appear before you. So, what you need to do is craft a strategy around your decision-making, and specifically, the repeated decisions you make every day. So, thinking about launching a new product, thinking about how your marketing campaign is, thinking about your distribution tactics. Thinking about lowering or raising price on a phone. These are things that you face very frequently, and what you need to do is think about the minimum set of insight you need for each of those questions.

What I mean by that, and this is an important distinction, is that some people, when they're faced with a tough decision, they think, "Gee, if I just had more data this would be such an easy decision. We'd figure it out." The problem is, every study that you can imagine on decision-making and data shows that the more data you have in front of you, the worst decisions you make, the slower decisions you make. You become paralyzed by it.

So, what you need to seek out instead of more data is frankly, less. But higher quietly insight, as opposed to raw data. There's no other industry in the world that's more awash in data than ours, but it's extremely noisy. There's a lot of noise in that, from which you can draw many different conclusions. You need to develop the skill set for drawing insight from that raw data so that you can support those repeatable decisions so that you can act quickly when opportunities arise.

Everything I've said today: differentiate your products, don't boil the ocean, good performance isn't enough, drag's more important than thrust, it all boils down to one real idea, and that's that you are managing a business, not a set of portfolios. A common mindset amongst new or small asset managers is we'll build the portfolios, we'll manage them well, people will come.

And I hope what you take away from this presentation is that that's not going to work. I'll leave you with this fact: the folks in the room over the last 12 months, in aggregate, pulled $185 million of assets away from Vanguard. That makes you their 18th largest competitor as a group. And considering the top 17 above you, many of whom manage trillions of dollars in assets, that's not too bad.

So, the question I'll leave you with is this: who really needs to learn to beat whom? And with that, I think we've probably got a few minutes to take some questions if there are any.

Q&A (questions were not captured)
Absolutely. I think in the presentation, I gloss over that. I say, "Category and fees and management team." Category, that's just your Morning Star category, your Lipper category, pick your category system, it's that. Fees, so every kind of fee that might describe your product, whether it's a 12b1, whether it's your management fee, whether it's a load, what have you. That described product.

Management team, we look at a number of characteristics, from their credentials, CFAs, PhDs, MBAs, we look at gender. So, actually, an interesting find on gender is that only 10 percent of our industry is female managed portfolios, and we find that teams that have both men and women on them actually perform better on flows than those that are one gender only.

We look at their tenure and their experience level, so all of those things contribute to the product characteristics.

Great question. There's a number of questions that small firms deal with on a day to day basis, and it depends on the life cycle of your firm, as well. So, there are some firms who are thinking about, how do I get acquired by a big firm? That's a question that we can help them with, based on understanding how they might attractively fit into the portfolio of a larger fund.

Some small firms are thinking about launching their second or third or fourth product, and they're wondering, "Is that a _____ to our brand, or does it dilute our brand," or those kinds of questions that we have analytics to help with. Small firms still wrestle with the question of how do we appropriately price our products, so are we optimally priced for growth or for profitability or whatnot?

Actually, that question is more important for the small firm where only a few products really determine the entire outcome of the firm than large firms where, as long as they're right on average, they can continue to grow. So, there's a number of questions that we typically help small firms answer, and those are just a few. Hopefully, that's helpful.

Well, thank you very much for listening, and I'm going to turn it back over to Sun Star.