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TRADITIONAL ACTIVE OUTFLOWS, DEMAND FOR NEW ACTIVE AND BETA SOLUTIONS WILL SPUR INVESTMENT MANAGEMENT PRODUCT DEVELOPMENT, M&A, RECRUITMENT: CASEY QUIRK

DARIEN, Conn., July 23, 2015 – Confronting a new reality of over US\$2 trillion of outflows from traditional active strategies over the next five years along with shifts of US\$4 trillion into new active and US\$1 trillion in passive strategies globally, investment management firms will increasingly look externally at acquisitions, partnerships, and hiring to obtain critical product development skills, according to a new white paper from Casey, Quirk & Associates LLC, a leading management consultant to the global asset management industry.

Introducing new strategies is a priority to investment management executives, yet few are satisfied with their track record of success and innovation in this area, according to the Casey Quirk white paper, *"New Arrows for the Quiver: Product Development for a New Active and Beta World."* Over the next five years, Casey Quirk expects asset managers to upgrade their corporate development teams to find those skills and help them grow.

While traditional active is under pressure, new active strategies – including multi-asset class solutions, liquid alternatives strategies and unconstrained fixed income – are attracting a much greater percentage of new flows. In addition, acceptance of new products with less than three-year track records has risen dramatically, making product development increasingly significant. But according to Casey Quirk's research, investment management firms have a poor record of developing products that achieve meaningful scale, with less than 25% of products launched since 2000 having gathered more than US\$1 billion in assets within 10 years.

"With their mediocre product development track record, and strong headwinds in their legacy business, investment managers will need to significantly step up their search for new skills," said Justin White, a co-author of the paper and a partner at Casey Quirk. "Our research shows that those firms investing substantially in product development already are growing 60% faster than peers who spend the average."

Indeed, executives surveyed by Casey Quirk said relying on internal resources to source new investment capabilities will decline to 54% over the next five years, compared with 74% in the previous five years. Meanwhile, 18% of new capabilities will be sourced by recruiting new senior portfolio managers – against 10% in the previous five years. Pursuing acquisitions and forming

partnerships to obtain the needed expertise will also rise, as will the search for team liftouts, according to the white paper.

Casey Quirk has determined three viable “entry point” strategies for managers, each of which will leverage different skills and fulfill different objectives, to more effectively develop new products: **First Movers**, which typically have a culture of investments innovation, and strong research and development; **Smart Followers**, which can determine categories with scarce quality supply or differentiated products and move quickly on sourcing investment capabilities and bringing products to market; and **Strategic**, who can identify established products or categories with near-term return potential, determine strategic gaps in their current product suite, and incorporate inorganic investment capabilities.

According to the white paper, all three approaches, properly executed, share six best practices:

- A disciplined, detail-oriented process
- Strong governance with clear accountability and metrics
- An appropriate balance of creativity and control for execution
- Cross-functional collaboration to incorporate relevant views across the firm
- Adequate investment of resources and management time
- A “no sacred cows” policy that challenges long-held beliefs

Even in new asset categories, being the first mover is rarely a requirement for success, according to Casey Quirk. But winning managers will need to prioritize which entry point to pursue, reshape their product development process around it, strengthen their corporate development function, by considering M&A and other ways to enhance it, and set parameters for achieving their goals using best industry practices.

To obtain the full Casey Quirk white paper, please visit the firm’s website, www.caseyquirk.com.

About Casey, Quirk & Associates LLC

Casey Quirk is a management consultant that focuses solely on advising investment management firms. Casey Quirk’s work with senior leadership teams includes broad business strategy reviews, investment positioning and strategy, market opportunity evaluations, organizational design, ownership and incentive structuring, and transaction due diligence. From its offices around the world, Casey Quirk has advised a majority of the 50 largest investment management organizations worldwide over the past five years. For more information please visit www.caseyquirk.com.

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