



## **Podcast Transcript**

Episode #43: Lessons Learned from Boutique Asset Manager Collapses

Brad Mook: Welcome to Rosemont Roundtable, where we explore the business of investment management with experts and thought leaders across the industry.

Chris Banholzer: Welcome, everyone. This is Chris Banholzer, director of investments at Rosemont Investment Group, joined today by two of my colleagues, Chas Burkhardt and Brad Mook. I've been very much looking forward to this conversation with you both. So, let's just dive right into it. So, the main topic for today that we wanted to discuss is the state of the boutique asset management landscape.

We've seen a lot of failures and closures over the years, especially in the employee-owned firm industry. We wanted to explore what's driving the lack of sustainability at this point in the industry evolution. So we took a look at the data, and what started as a handful of high profile blowups over the last fifteen or so years, now feels a bit more systemic. So we did some research, and the numbers are sobering. So looking at 30 plus firms, we've seen 50 to 90% AUM declines in some of these businesses.

Boutiques that were once managing 5 to maybe 30,000,000,000 are now sub a billion or gone. You know, some shut down, others were acquired, which has a lot of mixed results on the acquisition front. So the interesting part of all this is that it's not just about performance or underperformance, although that matters a lot because performance can be a major catalyst for some of the other pitfalls or exposing some of the areas of the firm that are weak, but profitable, well regarded firms have been unable to survive the operational business model stresses, while at the same time, others with similar profiles have remained resilient. So what's the difference here? What's going on?

We're going to start with you, Chas. You've studied and advised boutiques for decades. You've made multiple investments in boutiques over the years. So what's really driving this divergence and the fragility in the asset management boutique land?

Chas Burkhardt: Thanks, Chris. Great to be with you and Brad today. And as you said, it's a long overdue discussion, something we've been thinking about and talking about internally for a long time. And certainly, over my career, this has just become more and more apparent that there are dozens and dozens of long only employee owned boutique businesses for the most part that, yes, as you say,

have had periods of prolonged underperformance, which probably underscore all of the demises, but there's a lot more going on. So without going too deep on any one of them because I want patch over to Brad to get his thoughts, I think that issues around the single engine plane or the limited investment offering, when you see significant downward spiraling, you may have this opportunity to come back up again, and a number of firms that we all know have had almost a trampolining trajectory up and down over a period of years.

But what we're really talking about here are folks that haven't recovered or are really dead man walking. So in addition to that prolonged underperformance and limited investment offering, it also has manifested itself in a very concentrated client base or the consultants platform sub advisory and other means by which these firms, have built their business, those have tended to be very concentrated. And when one or two large accounts or relationships have left them, many others have followed quickly. I'd say bigger than that though, Chris, has been management acts of omission or commission. Great management and great leadership have proven over time to be extremely difficult to achieve.

And I think leadership is just a massive swing factor in this subject, which I'll get into some examples later. In addition to that, I think that you've got kind of generational transition and ownership transition, which has not gone well, which is not surprising in many respects. It's very hard to find a sustainable, well run two generation, much less a three plus generation, long only employee owned boutique. When you look at people like Dodge & Cox and Wellington and Capital Group and GMO, those are mostly exceptions. And they're exceptions because in one very large factor, they're not focused nor do they deal in capital value.

No one is creating capital value on the way in or the way out. They make their money while they're there. And that has led to, folks having more similar experience over time, which is not the case, as we all know, for lots of the firms of both that we've worked with and observed where the employee experience over a three, seven, ten, or twelve year period can be very, very different. The performance of that period in time, the inflows or outflows during that time, and what intermediaries, consultants, trustees, and other folks, the effectively, counterparties who work with those firms, they've had very different experiences. So it's not just a tale of two cities.

It could be a tale of three or more cities. How do you fight the downturn to come out the other side? And I think that we've got some thoughts on that, and this is not clearly to just lament what has failed, but also talk about the kinds of things that both some of the firms that we've invested in have done well and also firms that we've observed have done to kind of avoid this, you know, downward spiral from which folks never recover. Brad, why don't you take it from there? You know, do you have different thoughts, some of the same?

Brad Mook: Both. I have lots of thoughts on this topic, as you might imagine, and I'll try to be efficient to keep the conversation moving. I think some are obvious. Right? Performance is the obvious one, and you have to perform in the investment business if you want to retain clients or attract clients.

And so sustained underperformance or the inability to outperform catches up with firms who aren't that good. So start there with the basic premise that you have to be above average and perform well. But the underperformance, which everybody experiences from time to time, does cause stress on the business in ways that show up and manifest a lot of these other issues. Another relatively obvious one is ethical lapses. In the dataset that we reviewed, there were a couple that fell apart because they had ethical lapses.

And, there's one well known quant firm that concealed the model error, and the error was the first order issue. The second order issue, which is the one that really caused the decline in the business, was the concealment of the error. Ethical lapses can be a big problem. Operational issues can be a big problem as well. And there are some high profile firms in the dataset that went through liquidity issues or, you know, rapid redemptions and struggled to facilitate those, and those can be killers right there.

So that's pretty low hanging fruit if you stay away from those. But the ones that crop up that are a little harder to manage are things like single points of failure. And you mentioned concentration, Chas. That can show up in lots and lots of ways. It could be factor concentration in terms of the philosophy of your investment engine.

It can be product segments. It could be a single client. It could be geography. It could be vintage. Right?

If you take on a lot of investors all at once, you know, you're not spreading them out over end periods, which can make a big difference, and it can be somewhat arbitrary. There's a lot of hot dot investing, for example, and people buy performance, and then it rolls over, and they go away. And that that can lead to a cascading effect. Another one is misalignment. When you have misalignment in the business, when everything's going well and the tide is rising, it masks a lot.

I talk a lot about the parallel to sports teams. And when sports teams are winning, everybody's happy and everything's good and culture seems good. But as soon as you get that stress on the business, you can end up with misalignment showing up, and that could be in ownership. That could be in, you know, client horizons relative to the product horizon. It could it can show up in a lot of different ways, and and that's an issue.

And this list goes on. And the takeaway that I would put forth is that people build investment businesses somewhat opportunistically. You're trying to build a business. You're winning business, and maybe it's a gigantic client that comes along and really gives you a a good jump or there's a

certain segment where you can get traction. And sometimes it's intentional, but often people back into the business that they have.

And there's nothing wrong with that because they're winning the business they can, but it can lead to some of these issues where all of a sudden, you're set up a certain way or you have a certain exposure, and you have this big point of risk, and that manifests, unfortunately, sometimes with investment firms. And so the key is how do we you know, we got where we are and we've been successful. How do we make sure that we're mitigating those risks even at a time when we don't feel that we have to?

Chas Burkhart: Well, looking around corners and trying to do things that, you know, when all seems well, we all know this is an incredibly competitive business that's become even more so, especially for the long only active, boutique manager, the number of which have just mushroomed over the last few decades. And at the same time, indexing, smart beta, all form of passive, solutions have also, been amplified. So the stakes are higher. The competition is greater, but I want to go back to something you said for a second, Brad, that I think is really important to kick around among the three of us, and that is the parallel with sports teams and the discussion around culture. I actually think that there's a lot of mediocre and relatively poor culture, in the industry and with this topic because I don't think that to the the point that you've made about the opportunity of how firms built their business and how they came together and why people joined one another, I think it was all based on what was able to be accomplished at the time and what you could get off the dime doing and and off you went.

But unlike the marriage vow of for better or worse, I think that for all of the failures, it pretty much was only for better. It wasn't for worse. And when worse became a two or three year, issue, not unlike a sports team that has kind of chronic, losing records, a lot of problems are unmasked. Things that you wouldn't have thought, were any kind of an issue. There really wasn't, in a lot of the cases of the firms that we've studied, significant glue between the people.

Then there was accelerated turnover caused by this, set of issues. In our specific experience, we've seen things like the CEO of business that started to have both chronic underperformance and significant outflow became paranoid as to who in the firm was either, and especially on the kind of leadership team, kind of who was with him and who was against him. And he started closing his door and limiting who he would email and who he would talk directly with. And everything became incredibly kind of stilted. Conversations were shut down, and that was the beginning of the end.

Another situation that we unfortunately lived through was basically where after several years of chronic underperformance and even some clients and consultants telling this firm and the key people that, look, something's got to change. We're just on a really bad, trajectory here, and what you do isn't working. But, of course, the age old issue in this business is be very careful about changing your stripes. Have you lost conviction? I will judge you further for that.

But, unfortunately, there comes a point when the boat is sinking. And I guess the failure on a lot of these firms to realize that the boat is sinking and that you need to do something much more difficult and to make hard decisions. Not a lot of management teams really want to make hard decisions. And again, there are no hard decisions to be made when things are going well. So, I mean, I have a bunch of other examples, and we've all lived through some of this pain.

And, you know, as partners and as sounding board, investors, we're not running the companies. We make our suggestions. We offer our advice, and we are joined at the hip in the fortunes of these firms. Luckily, it didn't happen to us too much, and most of the firms that we've invested in have been able to find their way past some of these downturns. But I really focus on management, and it's an issue that will forever be near and dear to our hearts because we are investing in people driven businesses often with some significant key man risk driven by a few leaders or a relatively concentrated cap table and ownership group.

And we've always got to be looking forward, thinking about how do we create more runway? How do we create appropriate succession? What's the equity ownership transition going to be? It's a completely fluid topic. It should be as opposed to one that you deal with when, oh god.

I you know, I've lost a little bit of interest. I'm now 78 years old. Things have changed in my life or, you things have happened in the industry which bother me sufficiently enough that I'm going to start to either look for a sale, or pass the baton. And maybe I hadn't even thought about that until then, but another telling thing that I'd come back to Chris to kind of summarize what we've seen is that there's been a huge reduction in M and A activity for the long only active management crowd. Now almost all of the m and a activity for years now has been in wealth management and alternatives management.

It has not been in a kind of more traditional long only boutique firm, and that is telling you something as well. It's not just that prices are lower. It's that there's no bid. There's almost no activity at all.

Brad Mook: I'm going to interrupt for a second if I might. Yeah. So on the m and a front, I think one thing we see is a lot of the m and a activity is happening outside of the legacy asset classes. And when it's being done in the legacy asset classes, it's being done out of weakness, generally. We're having trouble growing.

We need distribution. We need somebody else to kind of, you know, do some of the heavy lifting here because we're really struggling in this environment of added pressure, flows to passive, fee pressure, whatnot. I do want to circle back just for a minute, on something really, really important that you said. You shined a light on the management aspect and the people aspect, and I think that's something that doesn't show up in the data. I mean, you can look at employee turnover and things like that, but the behavioral characteristics of the people really, really matters.

And like you said, everybody gets along when teams are doing well and the performance is good and the assets are coming in. And a lot of people will say, it's not about them. It's about the team and bigger pie. We spend a lot of time upfront on our investments trying to get to know the management teams. And in a landscape where a lot of deals are being done based on numbers, we hold the line in terms of getting to know the people.

And I would say it's not an exact science. We don't necessarily, you know, get to know everybody as well as we would like to or understand how they would perform under pressure when we would like to. But that's really when it shows up and when things go wrong. And we see changes in behavior where when things are going wrong, sometimes people will focus on the size of their piece of the pie and protecting their piece instead of protecting the overall pie. And that type of behavior tends to create paranoia, friction, fighting over economics, people jumping ship.

I mean, there are lots of things that can happen that can exacerbate the spiral. It also can translate into poor communication with each other. Like you mentioned, the situation where the person barricaded their door. It also can translate into poor communication with clients, and that is a huge, huge factor in all this, is maintaining that client communication, when things are poor, partnering with clients, and being transparent around decisions and what you're doing and why. I say, to your point about changing stripes, adjusting to market conditions is not a bad thing.

It's not the wrong thing. Abandoning your philosophy is a problem, and it can be very helpful ex ante to describe to clients, this is what will never change, and this is what might change. If the environment changes, we might be a little more flexible on valuation or position size or or things like that. That communication partnership is absolutely critical. And I'd also mention cost structure.

As you said, people struggle to make hard decisions. That's a behavioral element. If cost structures are built in such a way that you will be forced to make hard decisions if things go poorly, then you need to be prepared to make those hard decisions or your business will potentially go under because the economics will get upside down very, very quickly. So designing a cost structure in a way ex ante, looking ahead to you know, when things are going well and saying, are we prepared that when things go south, we're going to be able to make these tough decisions, and what will those look like? I really think that that advanced planning and thinking ahead when you don't have to makes all the difference, and that requires the

Chris Banholzer: right to it. Hit on many good topics and bullet points on, you know, best practices or just different things that firms should be thinking about. I mean, obviously, the m and a landscape is reduced, but there's they're always searching for something, whether it's distribution or, you know, someone wants to take some chips off the table. You know, there's many reasons for that, but it is definitely, in a reduced state in that traditional asset management world. You know, All the areas

you've touched on so far are obviously very important to be successful as an asset manager, but frankly, any one of them can be your downfall, and I think we've highlighted a bunch.

So client concentration, key man risk, we haven't really hit on that, but that's a huge one. Product concentration, lack of leadership. Chas, you mentioned lack of leadership right up front, and I think there's a lot to talk about on intentionality of kind of the leaders. What steps did they take when things went wrong? What steps did they take when things are going great?

Another one would be not developing your next generation, whether it's functionally, whether it's in terms of equity ownership. And, Brad, you hit this one. Just the strategy underperformance can obviously be the most common killer, but also you cannot sustain that for a very long period of time.

Brad Mook: And it tends to be in tandem. I think Chas referenced before that you can have an intersection of a few factors. I would say it's generally not just the performance. It's the performance and something. Mhmm.

And segment concentration, client concentration, you know, it Absolutely. To show up that way.

Chris Banholzer: Yeah. It's just it's always been difficult to create a business to sustain the business. It's clearly become harder. And so I wanted to take us back to one topic and put a little more meat on the bone for a topic that's near and dear to us at Rosemont is, you know, employee ownership, succession, alignment. Chas, you brought up differing experiences from the founders to the next generation.

You know, what are some of the examples or patterns that you've seen in this category on the good side and the bad side? Where has it fallen down and where what are some just really good ways to think about this, the employee ownership succession?

Chas Burkhardt: Well, I think twenty, thirty plus years ago, there was wide spread buying and selling internally. Internal market was, you know, basically healthy. I'm stereotyping the statement, but there was plenty of it. And there was seemingly a belief among many firms that this was a business that would both have value, grow in value, people would pay for that value, and if you did it internally, you'd have a thoughtful plan and structure that wouldn't put buyers under duress and would treat sellers thoughtfully, not as well as they might be paid in the third party market with an external buyer. But as you pointed out, Chris, and we've all lived through, the agendas and the ultimate outcomes of third party transactions are incredibly mixed and often not well discussed, if at all really discussed at the point of the deal.

Nobody wants to discuss the challenges that may lie ahead, where they may run into problems, what they might do in terms of layoffs or duplicity or folks that are now not deemed to be, quote, performing under the new owner. The new owner's financial targets and expectations. And if you're not meeting

those in a certain period of time, and this applies to financial strategic all manner of deal. Basically, the majority deals have taken, the burden and the opportunity of the risk and the reward, and they've changed it. And they've put it over to basically their way of thinking, and that has proven in some cases to be, very successful and have some long lived partnerships, but in many more cases than I think folks would think has caused firms to begin to unravel.

I mean, one of the great examples is right in our backyard, Miller Anderson and Sherrod and Morgan Stanley. Miller Anderson and Sherrod was an absolutely venerable leading long only boutique firm, arguably in the pantheon of all time such businesses. And within five years of that sale to Morgan Stanley, almost every key person had left the firm and either started their own firm or joined another. And that was thirty ish years ago, roughly. So I I think ownership has really changed greatly.

You know, you, Brad, and I have been talking about this lately. I I don't feel that there's nearly as much interest among the generations to come, those that are likely or at the ready to take the helm and be the future owners of the business. I don't think that there's nearly the widespread appetite for risk or to make investment in such a thing. I think there's a lot more interest in being paid fairly and sharing value thoughtfully than there is in taking risk as equity owners. And I don't think that firms come apart, to be clear, because employees aren't willing to take risk, become the owners of the future.

I think it's different than that. I think it's the fact that either all the problems that we've talked about that could befall a firm and then the fact that employees don't feel that they have good opportunity, current or near term, and that there are better opportunities elsewhere, and there's not enough glue between that employee and that would be owner in that firm. So, no, I I I think we should be more realistic about the fact that there are many, many successful firms where ownership transition to the next generation is not going to happen, and that's perfectly fine. I think value sharing is far more important, and that's also in part why you've seen in the industry broadly, you know, all of the private equity financial institution and other buyers saying, we'll take that risk. We'll make that bet.

These are not bets and risks that, in my experience, the vast majority of employees want to take these days.

Brad Mook: Well, that's right. I think today's environment, most employees want two things. They want to get paid well, and they want optionality so that if, you know, something better comes along, they can make a change. Or if they're not happy, they can make a change. And now they can get paid well.

And if they aren't beholden to an equity structure, they maintain that optionality. So if you start there, you need to offer them something more attractive. I agree with you that we shouldn't presume that the equity has to change hands for a firm to be successful, but we've had numerous points of observation where a lot of the economics of a firm, a boutique firm, have been flowing to non involved parties, and that is a problem. Sometimes if people are getting paid well enough, they don't care. But

often, the producers are looking and saying, I'm driving a lot of the value here, and a lot of the cash flow is leaving the building.

At the end of the day, that's not fair. And so, you know, we need to figure out a way to remedy that. And a lot of that's being done through profit share and other ways of value sharing to your point. Doesn't have to be equity purchases, but that can be an issue that misaligns the employees and the value drivers from the ownership.

Chas Burkhart: Brad, I think you're right on the mark, and I think what we're observing over time is and, I said this a little bit earlier. The work experience for a number of the employees and owners of hundreds of firms that we know well are so different over time. If you worked at blank in the nineties or the o o's or 2010 to 2015, that could have been an entirely different experience than had you worked for such a firm at a period other than that. What you were paid, what value you might have created, did your stock go underwater or your profits interest or your B shares or your synthetic equity vehicle? Is that basically, you know, had great expectations and has completely failed?

Did it run up substantially? Were you able to capitalize on that run up? The experiences are so different, and I think that, unfortunately, back to the glue. It's hard to keep firms glued together, especially when they're otherwise frail. They're generally very limited by product.

They're limited by distribution. They're limited in how they are viewed by the allocator and by the client. You know, that's kind of one of the great ironies, and you can certainly identify with this, Brad, given your prior role at SCI, is that you were looking, I think, much of the time for the outstanding and distinguished specialist, or at least the strategy that was distinguished and distinctive over a period of time in which all of your diligence and all of your spidey senses told you this is a great group. Unfortunately, all those groups that were very specialist, limited, narrowly based companies are living this significant risk every day that things start to go south and outflows and underperformance and employee murmuring, and it all kind of becomes, an ugly situation. We've lived it.

We've seen it. We've certainly been on the other side. But, yeah, it's just it's these tales of multiple cities. And, unfortunately, for, you know, all the people that we're talking about, and just in case people don't have a good sense of that, people like Jackson Square, Turner, Stone Harbor, Manning and Napier, Private Capital Management, INTECH, Iridian, Marvin and Palmer, Trilogy. I mean, we can go on.

It's very deep. And a lot of these people, very smart, very strong investors with great businesses seemingly for long periods of time until they weren't.

Brad Mook: Well, you mentioned my background at SCI, and you're right. So one of the hard parts in this is weighing the factors in a decision, whether it's an allocation decision or a decision to acquire a business. You know, how much do some of these things matter? And you do the best you can to

figure out whether or not your probabilities are good, as an allocator at a CI, I can walk away. I can deallocate pretty quickly if something starts to go wrong.

As an owner of a business, whether it's a minority investor like we are now or the ownership of the majority of the business and the people whose business it is, they can't do that. They can't just walk away. You know? And that's a real challenge, and they need to be thinking long term. And I think one of the things that happens, which you mentioned in terms of the firm today is not what it was twenty years ago, that things have changed, and perspectives are different.

G one often wants to realize the value that they've created, and g two, the would be buyers, don't want to pay through the nose for something that they're also working very hard to create. And often, on equity transition, what falls down is valuation, that big gap in expectations. And both sides, we always say the best deals or the likeliest deals are the ones where everybody's a little bit uncomfortable. You know, you need that agreement that we're all going to make some concessions here for the long term good of the business, which we own. Because without that,

Chris Banholzer: that's dilemma. I mean, you can be really good at a strategy. You then become probably concentrated in that strategy. Then you have potentially client concentration if maybe one investor has come in and gave you a lot of capital to get that strategy going. Once you start underperforming or something goes wrong, then you're just sitting on this enormous amount of risk at all times.

And what do you do then? How do you set the company up for that? Luckily, the operating leverage in these businesses is good. You can sustain some downward motion in terms of AUM, but, it's really a dilemma for these companies. And a lot of times, from what we looked at in the data, in our research, there wasn't a whole lot that they could have done to avoid it.

And a lot of times, it comes down to the default. Like, let's just sell the company into a larger company and just go from there.

Brad Mook: This is a classic issue with Vanguard and some of the allocations that they've made to boutique firms because they alone can make a firm, put them on the map with critical mass and with enough fee revenue, and there's a flip side to that coin. And we've seen a few firms that have had to wrestle with that as Vanguard has pulled an allocation, and they've had to figure out, okay. Where do we go from here?

Chas Burkhart: No. They have made firms, and they have broken them, and we've known those firms well, Brad. Couldn't agree with you more. Look. As we start to head towards wrap up, I want to talk about positives.

There's a number of them. What we've observed both in other firms that we've invested in and folks that we know well have done, you know, we've got firm that we've known and worked with for a long time that I'd say is absolutely outstanding at getting in front of building culture in multiple ways, getting off-site, having multiple different types of outings, doing things with and without spouses, friends, and partners, meeting with different teams, getting them out of the office. Just a lot of time spent intentionally building glue outside of work time. So there are people that do it pretty well. There's one that I have in mind that you both know that I think does it extremely well.

I think another positive example are just firms that have taken this leadership issue and not been, especially in the narrower single engine, one or two arrow in the quiver type of firm, often have a key person at the helm. Firms of that ilk that have realized that that is not hopefully their endgame. They don't want their legacy to be, that basically the firm dies with them and have been forward looking and acting in hiring other key people around them, building great folks in compliance, operations, technology, certainly on the marketing and client service side, in addition to, obviously, the investment team. And it's interesting to note that some of the firms with the highest margins and greatest economics over time, which we can all note and admire, have been firms that are very lean and wouldn't have wanted and didn't take that, view towards expanding functionality and hiring other great people whom that key person or people really respect, and that becomes part of their defense. They defend by building great offense in senior hires as opposed to those key people that basically hire lots of soldiers who are functionally capable but are never going to be able to take the mantle in any of these key areas.

Brad Mook: Well, you can also lean into that. I heard somebody speaking recently, and they said the default is to add a person. But, really, what you can be doing is saying, how could I adopt technology, what are the things that I can do to drive efficiencies in the business so that I don't have to add people to get bandwidth? Because adding people when things are going well and you're growing also means you potentially have to let people go when things roll over, and those are hard decisions. The technology will still be there.

So things like that. I just want to emphasize there's no silver bullet. There's no perfect answer. Right? The key is just to move the probability curve to the right so that, you know, firms can be more resilient.

And that means looking out for the pitfalls and adopting some of the best practices and just trying to steer the probabilities a little more favorable. But even the firms that we look at and we say, they are paragons of best practices, They're vulnerable. Everybody's vulnerable.

Chris Banholzer: I had one more thought and question for you guys just to quickly go through. What does the future look like for boutiques? How does this landscape continue to shift? What are you seeing? What are you thinking about?

Chas Burkhart: I do think that there will be a continued diminishing and just general continuing concentration of those that both are sustained, strong, well run, strong enough performers, and also some new entrants. Because while the startup, these days is probably as hard as it's ever been, and we have counseled many people in the last few years against starting a new firm, the spinout, that group or a bunch of folk that have come from another firm and are functionally complete, have great reputation, largely have subs have substantial client interest following them, That I think will continue to crop up. But in general, Chris, my opinion is that the Morningstar nine box world is history for a lot of allocators. It's not how I even think about decision making. And a number of folks that have started in the last ten or fifteen years that are finding out just how hard it is, they may have opportunity.

They may pivot. I just think that you're going to see more failure might be too strong a word. They might not have the downturns that we've studied in this regard, but I think that their fortunes will be mediocre, and it will be harder to stand out. And that will come both with the multi asset class point of view of an endowment or a wealth management firm, or a public plan that has so many other options for their capital and, you know, where are they going to place risk bets and where are they going to basically index their exposure. I just think that the whole game is tougher for a lot of people.

So, no, I think fewer people stand out, many more people sink towards mediocrity.

Brad Mook: I agree. I think it's just getting harder and more expensive to operate a subscale business and to get off the ground. So I think the table stakes are getting higher. The way firms allocate capital is definitely changing. I think it remains to be seen how much of that is cyclical versus secular.

We've been in a very extended run-in the market for a long time, and I think we'll learn a lot as things roll over. As I heard somebody say at a recent conference, a lot of the products in the market today haven't been crash tested. So we'll see what happens when we have a crash. But tools are getting better. Technology is getting better, and portfolio analysis I mean, when I started at SEI in 2009, some of the stuff we were doing had a competitive edge in terms of portfolio analysis.

And today, everybody has the tools. They're very accessible, and, investors are getting more sophisticated. So fifteen years ago, people were getting paid premium fees to deliver beta, and, you know, they were mediocre in terms of adding alpha. And today, that doesn't fly. And so I think that's stripping a lot of capacity out of the system.

I think that's putting a lot of pressure on firms. It's why one of the reasons distribution's gotten more and more important, and that's going to change the landscape. But so I think you'll see a sharper point on the specialists, but I absolutely believe that there is a market for specialists and that they will generate premium fees and actually be able to resist some of the fee pressure. So we're seeing a lot of changing dynamics within the marketplace, and there is going to be a lot of fallout. But I think there are ways to work in that and do well as a boutique.

Not everybody has to chase massive scale to be successful.

Chas Burkhart: And to be clear, Chris, I agree with Brad. I might just be a little more jaded in terms of thinking there's going to be a smaller group of such overachievers. I think it's going to look more like private equity where the top 10 or 20% of the firms really are the ones that have, you know, delivered on their return expectations and everybody else.

Chris Banholzer: I think there will be a place over the long term for really good specialist firms, but it's just like you both said, it's just going to be harder, and there's going to be fewer, and it's going to come down to delivering that alpha and justifying those fees that you're getting paid. So, Chas, Brad, thank you. Any final comments before we end?

Chas Burkhart: No. Appreciate it, Chris and Brad.

Brad Mook: Yeah. Been great. I would just say we think about this stuff all the time, and we love to talk about it and hear stories. And so always open to people reaching out and picking our brain a little bit.

Chris Banholzer: Great. Thank you, guys.