

FTfm

Execution key to chief of a multi-manager specialist

Face to face

SEI founder Al West tells Pauline Skypala about its global wealth platform

SEI is a business unlike any other, according to its founder and chief executive Al West.

"There is no direct competitor," he says, describing SEI as process and technology oriented. It is known in Europe as a multi-manager specialist but that is just one aspect of the company. Investing is mostly about information anyway, says Mr West, so an investment manager has to be good at technology.

He lists SEI's three areas of expertise as investment, technology and operational processing. "Put them all together and you get SEI and the pretty broad solutions we can provide for clients."

No one else, he says, is spending the sort of money SEI is spending – about \$300m (£183m, €213m) – on developing a platform designed to "help our clients, both businesses and individuals, succeed".

This is the global wealth platform, built around the needs of HSBC Private Bank, its first client in the UK. It is about to take on a second.

The platform stands out on a number of fronts, says Mr West. First, it is global – trading on 129 exchanges in 41 countries. It is also relationship-centric rather than accounts-centric, with the ability to allocate assets

over multiple accounts. It does straight-through processing, and has an integrated client portfolio management system built around models that allows accounts to be run in a similar way, providing a consistent experience.

This is all highly relevant as the advice model shifts from being commission-based to fee-based – a move that is well underway in the US but in its infancy in Europe, although Mr West believes it will be accelerated by the aftermath of the financial

crisis. Indeed, in the UK it will be forced through by planned changes to regulations that will effectively ban commission payments.

The experience of the past two years has made the financial services providers appreciate that they should be "spending their time less on selling products and more on finding out the needs of their clients, providing broader solutions", he says. Charging upfront fees and commissions is not good for investors, he adds.



SEI

Established: 1968

Employees: 2,260

Assets under management as of 03.31.09: SEI administers \$354bn (£216bn, €252bn) in mutual fund and pooled assets and manages \$123bn in assets

Headquarters: Oaks, Pennsylvania, USA

Offices in Europe, Canada, the Middle East, South Africa and Asia

The industry works that way because there are a lot of "small operators" that need the commission revenue from selling

'We have a strong balance sheet, a strong cash flow, and we continue to be profitable'

products. Moving away from that will force consolidation in the IFA sector. There is a need for scale and consistency, says Mr West. Advisers must work in a disciplined business way rather than being a "cottage industry".

SEI has coined the term IWA (independent wealth adviser) for the new breed of adviser that will be spawned by the changes. Its global wealth platform "will help them transform their business from product orientation to advice

orientation and from commission to fee”, he says. The platform “allows them to get the scale they need to go to a fee basis”.

The platform “will be the basis for us to provide all of our services” across five divisions, says Mr West, adding that SEI continues to spend heavily on it. The company serves two broad markets, he says: the holders of wealth, both institutions and individuals, and the wealth managers; and the manufacturers and distributors of financial services and products.

It also claims to be the biggest fiduciary manager in the world, and is introducing the service to the UK. This takes care of day-to-day decision-making for pension funds and implements those decisions. It is a key business for SEI, which is “earning a lot” from it, says Mr West.

SEI is primarily a US company, but has been operating in Europe for 10 years on the institutional front and generates 12 per cent of revenue outside the US. Asia is not yet a big focus, says Mr West. “We have operations there but have been focusing more on Europe. The Asian market will open with technology more than anything else.”

So how has SEI come through the financial crisis?

The downturn in markets “took a lot of revenue away”, says Mr West, because revenue is tied to assets under management. It is a good model, he says, because when clients do well the fees go up, and when business is poor for clients, the fees go down. “We like that, but it does add a lot of volatility.”

Assets under management fell 32 per cent in 2008 to \$134.3bn at year end and revenues were down over the year by 9 per cent to \$1.2bn. The decline continued in the first quarter of 2009.

“But we have a very strong balance sheet, a real strong cash flow, and we continue to be profitable,” says Mr West.

One particular problem area was money market funds. Like other US operators of such funds, SEI

was caught out by its holdings of commercial paper in certain structured investment vehicles (SIVs). “We had more than \$300m,” says Mr West.

“We put around \$190m on our balance sheet and we’re just going to slowly sell them off. The rest of it, when they get restructured, we’ll probably put them all on our balance sheet and just take care of all the funds.”

The experience has changed SEI’s approach, he says. “It is a little silly that the safest investment turned out to be the one that hurt us the most. All the fees we have made on money funds over the years don’t come close to what we will end up losing.”

Mr West rules out making any acquisitions to boost assets under management. “We made two or three

acquisitions really early in our life and our take was: it would have been easier to start the businesses from scratch. Putting two cultures together is a very difficult job that no one does really well.”

SEI culture, he says, is very open, transparent, collaborative, creative and innovative. Collaborative is the hardest, he adds, “because business is not a zero sum game, but the way some people play it, it is”. Most employees are SEI-raised, hired straight from school.

When asked about the challenges ahead and what keeps him awake at night, Mr West is stumped. One or two years ago the global wealth platform would have been top of the list as it was a huge investment, he says, “but now it’s operating, it’s scalable” so he is sanguine about its future.

Mostly, the issue is execution, he decides. SEI has good strategies, but others have some of the same ones. “Ideas are relatively cheap but the execution is critical.” There is “tons to do” on that front over the coming years, he says.

Curriculum Vitae

Al West

Born: 1942

Education:

1964: BS in Aerospace Engineering from the Georgia Institute of Technology.

1966: MBA from The Wharton School of the University of Pennsylvania

1966-1968: Teaching fellow at the University of Pennsylvania.

1968: Founded SEI. He remains the company’s chairman and chief executive officer.