

Private Wealth

ADVISING THE EXCEPTIONALLY AFFLUENT | SEPTEMBER / OCTOBER 2010

INSIDE

Branding Your
Practice

When Pets Strike
It Rich

Managing Stock
Options


Beyond Satisfied

**FEDERAL STREET ADVISORS MAKES
A HABIT OF HELPING ITS WEALTHY
CLIENTS REACH THEIR INVESTING
AND PHILANTHROPIC GOALS.**

Founder John LaPann

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BEYOND SATISFIED



FEDERAL STREET ADVISORS MAKES A HABIT OF HELPING
ITS WEALTHY CLIENTS REACH THEIR INVESTING AND
PHILANTHROPIC GOALS. BY ERIC L. REINER

The foundation Jennifer Murtie worked at had been using Federal Street Advisors as its investment consultant for quite some time, and she was impressed with the independent Boston shop. So when she decided to move to Boston for B-school, it was only natural that she mentioned it to her contacts at the advisory firm, named for its financial-district address.

A conversation about her background and Federal Street's needs ensued, and faster than you can say W-4, Murtie was brought on board. "Not the normal way to get a job, right?" she says. "I wanted to be someplace where I trusted the people and believed in what they were doing. Having worked with them for four years at the foundation, I did."

Randy Hustvedt first learned of the firm circa 2000. She was in the wealth strategies group at a large Boston bank, pitching to a bank client who had just sold his business for \$65 million. The prospect brought up Federal Street, boasting that the firm was going to work for him the way a lawyer would: without any conflicts. Later, Hustvedt and her colleague Charlie Walsh became two of Federal Street's five principals, in a firm that now staffs 28.

When an organization draws outsiders who have worked with it, that's a pretty good indication there's something special going on inside.

Federal Street is the brainchild of John LaPann, who founded the firm in 1991 after spotting a hole in the wealth advisory marketplace.

"At the time, there were financial planners who were focused on life insurance and funding your individual retirement account, and there were money managers," LaPann recalls. "It became clear to me that missing from the table was an overall financial advisor to wealthy families and private foundations."

LaPann had already developed an astute view of the challenges facing wealthy people, shaped by his ten-plus years at big Boston investment houses. He thought he could bring his experience to bear in a new role—that of financial architect.

"I would see people sell their business," he says. "They've got cash in the bank, and they don't know what to do next. Or the family matriarch dies and funds a \$100 million family foundation. Same issue: What do you do? If you think about it, all of a sudden these people are running an investment company. Who is there to help write, implement and manage the business plan for that investment company? At the time, there wasn't really anybody."

The beginnings were humble. "I started with a couple clients, not many. I got a logo and nice-looking letterhead and wrote all the letters saying, 'We think you should do this or that.' The 'we' was me, myself and I."

But it worked. Today, fourscore wealthy families and founda-

tions, with assets approaching \$4 billion, call Federal Street their private wealth advisor.

THE ROAD TO SUCCESS

Referrals have driven growth. "New clients have always come to us from existing clients or their advisor. We want to make our clients not just satisfied, but so enthusiastic about their relationship with Federal Street that they will tell their friends," LaPann says. Since the firm doesn't prepare taxes or draft documents, accountants and estate attorneys are happy to refer clients who need help with investments and family-office services.

"Probably the closest set of true competitors—our peers—are the individual consultants who work with high-net-worth clients on a fee-only basis and don't sell products. That's a really small number," LaPann says.

According to Murtie, the client-turned-employee, "At the foundation, when we left our previous investment consultant and hired Federal Street, it wasn't just about investment performance. It was really the relationship. That's why I was so impressed with Federal Street and wanted to come work here. As a client, you feel like you are their most important relationship."

Federal Street's approach works in critical ways, starting with how the work is organized.

Each client has a designated firm principal who orchestrates, coordinates and delivers the advice. As LaPann describes it, "The principals work for the clients—they actually take client calls—and everybody else here supports the principals. We've set ourselves up so that we can spend most of our time working on client matters—not traveling, not sitting in internal committee meetings, not writing memos to the boss."

The model has lured seasoned advisors with large-firm experience to the boutique. "If our principals were still at the large institutions they came from, they would be supervising the person delivering the advice, who in turn is often a relationship manager with a great golf game who belongs to the client's country club," LaPann says. "We have attracted top professionals who want to get away from the big firms in order to work directly with clients."

Having the right people doing the right things is one way Federal Street exalts the client. A second is by listening closely. The delicate



JOHN LAPANN, PRESIDENT AND
CHIEF INVESTMENT OFFICER

process of uncovering client needs begins with touchy-feely conversations about childhood experiences and the like. The firm then ponies up resources to satisfy those desires. The idea is to produce satisfied customers happy to do the firm's marketing for it.

Take socially responsible investing (or "mission-related investing" as it is known in the foundation world). It's popular these days, but Federal Street has been at it since the early 1990s, when LaPann recognized that clients wanted to align their investments with their ethical beliefs. Their yen to make their contributions more effective also made Federal Street an early entrant in the now-vogue field of "high-impact philanthropy," where the objective is to assess the results of charitable actions.

As Hustvedt explains, "You're not just giving and then moving on, but also considering whether the gift is going to make a difference and how you will define that success." The idea is to encourage clients to look under the hood before giving. As Hustvedt told one client who wanted to fund micro-finance institutions, "There are some great micro-finance organizations that you can give to, and some not-so-great ones."

TO SERVE FOUNDATIONS

One novel staff position born of client desire is the director of foundation services, created in 2007 when Murtie was promoted into it. "Our foundation client base was growing and consistently asking for services beyond investment advice," she says. "We decided that to really offer those services correctly we needed a full-time person doing things consistently across all the foundation clients," rather than con-

tinue to have each principal handle his or her own clients' requests.

Murtie does much in this capacity. She hunts for articles to share with clients and looks for conferences they might find interesting. She also stages seminars, such as her half-day program on basic investments for foundation boards, staff and family members. "I developed this training program because I knew what it was like to work at a foundation and not understand investing or how it applies to the endowment," she says. "That was one of the first things I did when I started this role."

Another worthy early project, undertaken at a client's request, was to convene a climate-change forum of SRI managers and foundation leaders from around the country. The attendance at this forum surpassed 100. "It was a huge success," says Murtie, "and it all came out of a client saying, 'I want to do more about climate change with my investments, I want to learn from other people who are doing it, I want to educate people who aren't doing it, and together leave the conference with a better way to invest around the climate-change issue.'"

Murtie adds that new clients greet her enthusiastically. "When I'm introduced and I tell them my role, they often say, 'I didn't know investment consulting firms had someone like you.'"

THE POWER OF FEE-ONLY ADVICE

Another key part of Federal Street's approach is its fee-only structure. Clients benefit from this because the investment-research team can look anywhere for ideas. There are no proprietary products to push, no sticky business arrangements to honor. The firm uses



FROM LEFT: JENNIFER S. CHRISTIAN MURTIE, DIRECTOR OF FOUNDATION SERVICES; JOHN LAPANN, PRESIDENT AND CHIEF INVESTMENT OFFICER; RANDY ALLISON HUSTVEDT, PRINCIPAL; KRISTIN FAFARD, DIRECTOR OF RESEARCH; AND CHARLES A. WALSH III, PRINCIPAL.

BEING CHOOSY

In its effort to vet mutual funds, hedge funds and separate account managers, Federal Street Advisors deploys a six-member, CFA-studded research team. Kristin Fafard, the firm's director of research, primed *Private Wealth* on the group's deliberate approach to manager selection.

PW: *Beyond a strong track record, what do you focus on when evaluating money managers?*

Fafard: We want to make sure there is a high probability of that past success persisting into the future. So we ask ourselves, "What would cause them not to be able to deliver the returns they've delivered in the past?" Obvious things are changes to the organization, to the people running the money or to the strategy. Some of these changes can be benign, but some are more meaningful. It's that judgment that my team works on all the time. We debate back and forth whether a particular ownership change or slight strategy change will cause an impact on performance going forward. It's really an art.

And then we blend together managers who

are getting their exceptional performance in different ways, because that can increase your rate of return while reducing volatility.

PW: *Is that where hedge funds come into play?*

Fafard: Hedge funds are an integral part of that. If you are hiring active investment managers, you want to give them a long leash, and hedge fund managers have the greatest number of tools available to them through their ability to short and to take concentrated positions. They are the most active of managers.

PW: *Isn't obtaining information from hedge funds difficult, which in turn could make performing due diligence difficult?*

Fafard: Yes, information can sometimes be hard to come by. However, with all our recommended asset managers we demand access to the chief decision-makers and transparency into the portfolio. These are our key tenets. We do not compromise on them. So we leave a lot of hedge funds on the table.

PW: *Why does Federal Street drop a manager?*

Fafard: If we can no longer get access to the key decision-maker. Recently, a long-only

manager used by a number of our clients all of a sudden just stopped making himself available to us. It was an abrupt change and there were some things in the fund's most recent list of holdings that we had questions about because they were unusual. So not being able to talk to him, we said, "We're out," and the clients started redeeming the next day.

PW: *Social venture capital is part of the firm's socially responsible investing focus. Tell us about this space.*

Fafard: Like venture capital, social venture is early-stage capital. It's simply identifying an industry or a company that is poised to do social good and investing in that. Right now we frequently see it with natural resources—companies just getting going with wind power or solar power. As with any venture, it is the riskiest type of opportunity, so we make sure our clients understand the risks associated with start-ups. Normally, you have to invest \$1 million or \$2 million, but the minimum could be anything because these are often private deals.

outside managers through recommendations to clients, and when a manager disappoints, terminating the recommendation is easy.

"We don't have to jump through hoops," says Kristin Fafard, director of research. "There's nothing political about it. There's nothing financial about it. It's based entirely on the merits of that particular investment manager." (For more on the investing process at Federal Street, see the sidebar.)

The fee model has not only attracted clients, but also employees. It is what ultimately convinced Hustvedt and Walsh to come over as principals in 2009—with four staff members and several clients in tow. "Other firms say they are fee-only, but then you find out they take referral fees or sell insurance on the side," Hustvedt says. "Being able to provide conflict-free investment advice was critical to us."

Things are good at the advisory firm overlooking historic Post Office Square. Murtie earned that MBA she moved to Boston for, and she's enjoying serving her old industry. "The foundation clients have indicated that my role has added tremendous value," she says. "It's been very rewarding to know we were right in reading their needs."

The greatest gratification no doubt belongs to LaPann. It's a long way from when he toiled alone for an abbreviated client roster. "My expectation when I started was that if I listened to the clients and responded with high-quality advice and service, I would be able to grow a business," he says.

"That seems remarkably simple—almost naïve," he says. "If there's been any surprise, it's been the extent to which clients have embraced that. It worked even better than I thought it would." *AW*



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