RIA PERSPECTIVES

Client Spotlight:

Maryland Capital Management

Maryland Capital Management (MCM) is a boutique asset manager/high net worth (HNW) RIA on a nice growth trajectory. With ~$1 billion in assets, the firm—like some of its peers—is contemplating the challenges (and opportunities) their next phase of growth will bring. Hollie Fagan sat down with Jeff Caples, SVP and Portfolio Manager, to discuss a few of the strategies MCM is employing that other RIAs can learn from—and potentially leverage.

Will the next $1 billion be harder to achieve than the first?

Hollie: **Tell us a bit about MCM's philosophy and how you manage your models.**

Jeff: Our philosophy is grounded in a more traditional, research-oriented process. Our bread and butter has always been in portfolio construction and our belief is that we should be using all the tools at our disposal to put the odds in our favor, whether market, risk or otherwise. To that end, we employ both fundamental and technical analysis—to play the piano with both hands, so to speak.

It was actually our technical analysis, combined with the use of ETFs in 2006, that led to some of the model management we do today. We used ETFs to backtest trading patterns in different market sectors and realized we could capture value for our clients with relative strength asset allocation. We then used ETFs to test our macro views. The combination of our findings and analyses were the beginning of MCM Apto—an all-ETF strategy that actively adapts to changing market conditions and capitalizes on global market trends.

Hollie: **What strategies have helped you grow to date? Did you have an "ah-ha" moment, and how are you looking to grow in the next one to three years?**

Jeff: $500 million in assets was a big milestone for us, when we felt consultants and platforms would start to listen to our message. We realized we could attempt to grow our business in areas outside our traditional HNW clientele.

Three big things that have helped our growth are referrals, product proliferation on platforms and working with consultants. Being part of the referral program through our custodian, we found that HNW investors want to talk to the people making the investment decisions, especially following big market moves, and because our PMs also meet with clients and prospects, we've won more referral business there. We had good success using that approach for MCM Strategic Income—our balanced, multi-asset, yield-oriented strategy—following the financial crisis. Beyond referrals, we've also worked with our custodian for platform placement, as well as targeted other model marketplaces for distribution opportunities where we've gotten approved. Winning this availability has mostly taken the form of traditional due diligence meetings, but we've really focused on knowing what each firm [platform] is looking for and spending ample time educating them. Where firms have their own models, we've talked about subadvising portions of their alternatives sleeve. We've had success with our flagship MCM Concentrated Growth Equity strategy and are looking to do the same with MCM Apto, ESG and a Small Cap equity strategy we incubated last year.

Hollie: Tell me more about your success with consultants and the pension community in particular. You've found an interesting niche there.

Jeff: Working with consultants is a longer sales cycle than, say, referrals. We found out early that you don't want to spread yourself thin; pick 8-12 consultants to develop relationships with and get "on their list." For MCM Apto, which is a GTAA strategy that can go anywhere, it was important for us to go through the discovery process quickly to learn which consultants cared about our alpha generation and flexibility. We then made sure to spend additional time with them, and not lose focus with consultants that didn't fit that profile.

In the pension plan community, we found a small group of consultants focusing on emerging managers that fit certain criteria: minority-run, women-owned, veterans, or size—less than $2.5 billion in assets. We fit in the size category, so understanding the criteria and opportunity set has allowed us to position ourselves with these consultants to pension funds. About a third of the consultants we work with are in this area.

Hollie: Positioning your firm is critical, especially in today's competitive landscape. What emphasis have you placed on MCM's brand over the past 10 years, and how has M&A impacted you?

Jeff: We often talk about what we want to be when we grow up, and what the next $1 billion will look like. We could be a $10 billion firm, but how can we grow and keep the same culture, quality of people, and empowering work environment? Culture is very important to us, and it's too easy to erode. So we really focus on the right fit; in the people we hire, the products we create, the clients we choose to work with. It's a grassroots way to talk about brand, but we feel it's really helped us consistently deliver the MCM name, and our clients have come to know and trust that

So we've been slow to grow our personnel, only when we've really needed it to support the growth of our firm. And we don't really view ourselves as a buyer of other firms simply to get bigger. On the other side, we've been approached by acquirers for liftouts a few times in our history, but we value being independent and in control, and believe our clients value it as well. In those cases, we've seen if we can partner as an investment strategist, which fits our overall brand and value proposition.

Hollie: BlackRock has the same view about culture and fit. Pivoting the conversation a bit, what kind of demand are you seeing for all-ETF accounts, and how are you tackling this space?

Jeff: The use of ETFs and the growth of all-ETF accounts is undeniable. It's a clear, well-known trend—ETFs are now a $3 trillion industry in the U.S. We are having some good discussions with interested parties about MCM Apto, which uses the ETF vehicle in a very active, rules-based process. To your question about brand, we've been incubating the strategy for 10 years and are only now just starting to market it. We believe the target market is mid-to-smaller retail investors looking for global tactical asset allocation, but could also work well for outsourced CIOs looking for a different strategy. We're also seeing interest in GTAA and liquid investment options from the insurance market. We are one of only a handful of managers with a 10-year GIPS-verified performance history in the GTAA ETF Strategist space, which can help advisors feel confident in our philosophy and process.

Based on the success of some similar managers, we feel that the retail distribution space via SMAs or model delivery may be the best opportunity for us today. Currently, MCM Apto is approved on Envestnet, SmartX platforms and through Schwab Managed Account Marketplace.

The beauty of utilizing ETFs is that they make it easy for us to execute a systematic process and access the most attractive sectors and asset classes around the globe. We can partner with brands such as iShares to get the most cost-efficient, purest exposure to areas of the market we are seeking. This partnership is built on trust in the ETF vehicle, top notch assistance with execution from an experienced capital markets team, as well as thought leadership on issues affecting the economy, financial markets and investment strategy.

Hollie: Where do you think the models market will be five years from now? As more advisors adopt a models-based approach, and ETF usage continues to grow, how can they prepare?

Jeff: I think it will be increasingly important for advisors to identify their core skillsets and lean in there. For many, that isn't investment management. And as we continue to see compliance and regulations become less flexible, it will be harder for advisors to operate as generalists and even more will turn to models for decision making and to lessen their operational burden. MCM would welcome the opportunity to be seen as an outsourced solution for RIAs, part of their overall solution or a partner to their portfolio construction needs.

As the models market grows, I see fees continuing to come down, but scale should increase as well. Advisors are going to want to work with someone who knows the evolving trends of the models market and has best practices in constructing portfolios. It all comes back to brand. Those firms known for both discipline and performance will have the best prospects for long-term growth.

For more information on Maryland Capital Management or MCM Apto, visit: www.mdcapital.com or www.mcmapto.com.

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