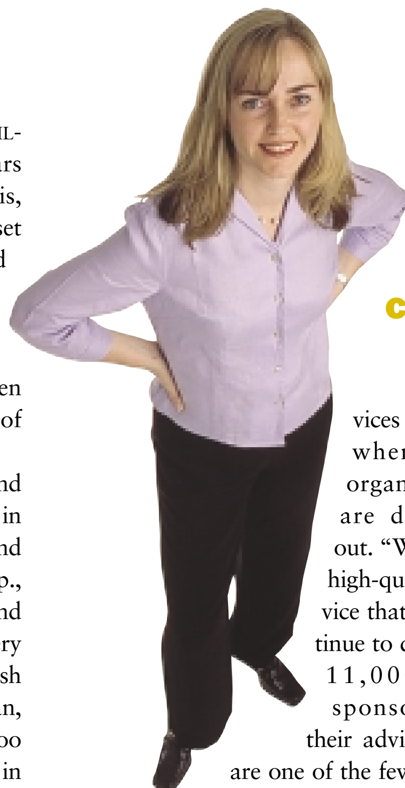
By Melanie Waddell

# A Revival At Delaware



## Ranked not long ago as one of America's worst fund groups, Delaware is charging back with a new CEO and a revamped strategy

THE FIRST TWO YEARS OF THE NEW MILlennium were far from banner years for Delaware Investments. Fact is, the 72-year-old Philadelphia-based asset management company had been plagued with poor investment performance and negative client cash flow for several years prior to 2000, and the company knew it was in dire need of change when *SmartMoney* ranked Delaware as one of the 10 worst fund families.

Change came when a new president and CEO, Charles E. Haldeman, came aboard in early 2000. Haldeman, also president and CEO of Lincoln National Investment Corp., injected Delaware with a new vision, and began adding research analysts across every asset class, including fixed income. The fresh focus helped the company coin the slogan, "Powered by Research," and it wasn't too long before Delaware's funds were back in the black. Indeed, in December 2001, 19 of Delaware's top 25 funds in assets, or 76%, beat their Lipper averages.

Thanks to Haldeman's foresight and ingenuity, Delaware has a great story to tell about its funds in 2002. And Haldeman's goal doesn't stop with research. He's also hiring top-notch executives throughout Delaware, with one of the most recent being Rene Campis, who joined the team last February as executive vice president heading the retirement services business. A 25-year veteran of Merrill Lynch, Campis served for more than 14 years as senior director of Merrill's Group Employees Services business.

Although it had suffered a temporary lapse in investment performance, Delaware's retirement services business has been a mainstay for the company. Delaware's administration and record-keeping prowess has helped it keep pace in the retirement services business when other organizations are dropping out. "We have a high-quality service that we continue to deliver to 11,000 plan sponsors and their advisors. We are one of the few organizations that have managed to generate profitability in delivering this service," Campis says.

Delaware has also won a Dalbar award three years in a row for delivering the highest quality service to brokers and advisors. "So we've got all the key ingredients that are necessary to be a success in this intermediary market in delivering retirement services."

The numbers speak for themselves: Retirement plans sold at Delaware increased by 50% in 2001 over 2000, Campis says. His goal for 2002 is "to broaden our distribution wherever we can." That initiative started last October, when Delaware expanded its relationship with Legg Mason by launching a multi-fund retirement program called Legg Mason/Delaware SelectSolutions Advantage. "We've been doing business with Legg Mason for a number of years, and they approached us to see whether we might be interested in setting up an arrangement whereby we provide our administration, record-keeping, and our investments, and they provide distribution." The retirement plan includes Legg Mason and Delaware funds as well as funds from other families. "We've gotten a great reception so far from the Legg Mason folks. We've had over 100 proposals come in through that particular channel and we've actually booked some business through there that has been converted." Campis says he expects similar alliances with other companies to take shape in 2002.

Another center of attraction for Delaware in 2002 is 529 college savings plans, Campis says. Last month, Delaware was chosen by Pennsylvania's state treasurer to manage a new 529 plan for the state. The plan will be available in the spring through broker/dealers and advisors. "I think the 529 market is back where the defined contribution marketplace was in the mid 1980s; it's about ready to explode."

I sat down recently with Campis to talk about how advisors can best compete for retirement dollars and other timely topics.

**All sorts of financial services companies are vying for investment/retirement dollars. How can independent advisors compete effectively?** The best way for an advisor to compete is on value-added service. That's why advisors tend to generate long-term relationships with their clients, through the value add they provide and the continuing customer service that they provide to their clients. I think people are willing to pay a premium for that particular service.

After having spent a number of years in other organizations, the most important requirement [for an advisor] is to make sure that whatever organization they do business with, that customer service is the organization's guiding principle because investments have become somewhat of a commodity. Most clients get upset over the inability to get information or to get questions answered in an accurate fashion, so my advice is to seek out those organizations that are known for customer service.

Do you think that the large mutual fund companies have a leg up over independent advisors in the retirement services area? One might say that the pendulum has swung to such an extent that if you're [an advisor] with a major wirehouse that's distributing its own proprietary funds, you may be perceived as having a conflict of interest and not acting in the client's best interest, versus [an advisor] who's independent.


Rene Campis

What do you think is the biggest issue right now in the retirement services area? From my perspective, it's providing effective and appropriate education and communication services, not only at launch but ongoing. We as an industry, and the plan sponsor community as a whole, need to do a better job of educating and communicating the various risks and opportunities involved in these [retirement] programs.

Do you see any particular trends in retirement services now? We are seeing a proliferation of multi-manager offerings. I think what has happened at the top end of the market with respect to open architecture is starting to filter down to the smaller and middle ends of the market, and we've got a product and service we can offer our existing clients and their advisors in that area. Another very important development is what's going on with the college savings plan market, 529s. We think that's going to be a very important product and service for our investment advisors to distribute for us. These are absolutely terrific programs. They provide a number of benefits to the individual account holder from the beneficiary and I think they are going to generate substantial assets in the future. These are terrific programs to save on a tax-deferred and tax-free basis for what I think are laudable goals for higher education. And now with the changes that recently went into effect in January, these monies can now be withdrawn tax free as long as they are used for qualified education expenses.

**Campis is shaking up Delaware's retirement services arm, introducing new fund products and zeroing in on 529 college plans**

A lot of companies are exiting the retirement planning business. Why? Most are exiting the retirement planning business because they can't figure out a way to make money. The cost of operating this business, and the cost of continuing investments in technology, preclude many organizations from generating sufficient returns. We have a strategic advantage in that regard in that we build robust systems and we have a significant cost advantage that allows us to provide profitable, high-quality services to our clients in a cost-efficient manner. We have our own proprietary system that we've built from the ground up that we've linked and leveraged to all our other Delaware systems. So we're able to provide cost-efficient services and generate reasonable levels of profitability for our shareholders.

What lessons can advisors take away from the Enron collapse? Clearly the No. 1 lesson there is diversification and understanding [a client's] risk tolerance, and that's where I think the advisors can play a key role. Again, it's not to denigrate company stock as an investment, but I think therein is some of the value-added services that advisors can provide their clients: understanding the complexity of the risk associated with equity investments, in a single equity, *per se*. Enron is the latest to hit the paper, but there are others out there like Lucent, AT&T, and some other companies [that have large company stock positions] that will come to fruition as well. But clearly diversification is one of the key areas that advisors can play a significant role in.

How do you think volatile market performance will affect retirement planning going forward? I think it will affect communication, education, and planning. Not many people have been through a market that we've experienced in the last three years. I think this might be a healthy wake-up call to understand that everything doesn't have a straight line up. I think it will cause more inquiry and more people to listen to the advice given to them by financial advisors. Maybe people will have a more prudent asset allocation and understand their level of risk and their tolerance for risk. Every dark cloud may have a silver lining.

What are Delaware's strategic plans? The 529 plans will be a major strategic focus for us, in addition to continuing to broaden our distribution through alliances. We will selectively consider acquisitions where the opportunity presents itself. We will grow both organically and through acquisitions.

For the retirement business I have also established an investment advisory council of investment advisors. We had our first meeting back in October, but I'll bring them in three times a year to see what products and services they are pleased with, what they would like us to work on, and what areas they are not pleased with. So there's an active dialogue with advisors to make sure we are meeting their needs. IA

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