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The CornerCap of the Future

In the investment management business, the one thing that is most frightening to a client base is ***change***. It spells danger, and rightly so. A firm changes its investment process exactly at the wrong time. How many firms did we see behave in that manner during the tech bubble, which proved devastating to many of their clients? Or, a key person leaves the firm. What would happen to Berkshire Hathaway if Warren Buffett left? The rule to follow in the investment business is: If you plan to make a change, make it appear soft, quiet, and, as much as possible, as no change at all.

> ...we seriously intend to be the best investment advisory firm that there is. To accomplish this, we must continue to own ourselves.

At CornerCap, we are creating change. We have been working on these changes for the last several years. We have put a plan in place to accelerate these changes over the coming decade. We are truly excited about the evolving changes as we march forward, primarily because we know that the biggest beneficiaries of the changes will be our clients.

> Our primary goal is that our clients not just survive, but thrive.

Why change? We have grown significantly over the last 18 years, and we have a wonderful client base. We consider our clients as friends who are in partnership with us. The firm has continued to realize the good performance that our founders started 27 years ago when they served as the in-house advisors to RJR Nabisco's $4 billion pension fund. We still love what we do. My goodness, John Templeton is in his nineties, and Warren Buffett is in his late seventies, and they are still going strong with their investments. Why the need to change?

Portfolio Managers (left to right): Richard Bean, Doug Dougherty, Anno Hardage, and Jeff Moeller

The senior personnel at CornerCap are all in their sixties. By age, eldest to youngest, they are Gene Hoots, Jim Carr, and Tom Quinn, CFA. Tom still manages the firm and oversees the investments, and Jim and Gene develop and serve our client bases in Georgia and North Carolina, respectively. They very much continue to enjoy investments and serving clients, and they have no plans to retire. However, they know that it takes time to build something of significant quality. They also know that nature will eventually force change upon all of us. As Charles Darwin wrote, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." Our primary goal is that our clients not just survive, but thrive. We must be responsive to the changes that will be inevitable, and we intend to be forthright with our plans.

Transitioning—the Winners and Losers

CornerCap has about $650 million under management. We have clients around the world, but most are in Georgia and North Carolina. We have both high-net-worth and institutional (pensions, foundations, endowments, etc.) clients. We also have a no-load mutual fund company that we manage. With the addition of our new hires pictured in this newsletter, we have 19 outstanding employees.

When investment firms reach our size, they typically hit a plateau and become attractive targets for the banks or larger investment firms. We know

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this because of the inquiries that we have received from the investment banking community and because of what we have seen with other firms. Excluding the firms that appear to be transitioning to the children in the family, the majority of the Atlanta based mid-sized firms have been acquired by those banks and larger investment firms. To mention a few over recent years: Balentine sold to Wilmington Trust; Arden Group sold to Mellon Financial; Legacy South sold to Northern Trust; Globalt sold to Synovus Bank; City Capital sold to Mellon Financial; Atlanta Capital sold to Eaton Vance.

In Atlanta, we really have only a few investment firms with over $500 million under management. Why do so many sell and mostly to these large banks? From the buyer's perspective, the banks are eager to expand their footprint in the Southeast, and Atlanta is the prime location. The banks also have lots of liquidity, are acquisitive by nature, and traditionally overpay for their acquisitions. From the seller's perspective, the investment firm owners are lacking liquidity, getting older, and receptive to cash offers for higher than what they know their firms are worth. And by selling their business, they can now find the time to spend the extra cash.

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When a sale like this takes place, it is important to know who the winners and losers are. We believe that the biggest losers are the clients. When a client selects a firm for a long-term relationship to manage his assets, he is buying trust in certain individuals, their investment performance, and their philosophy and processes. Post sale, the strong mantra will be that the firm now has greater resources available to serve the client and that there will be "no change" in matters such as people, philosophy, investments, etc. So, let us get this straight. Do you think the large bank is going to overpay for the much smaller entity and then just sit back and do nothing? The clients will have three to five years, at best.

Of course, the other big losers are typically the employees of the acquired investment firm. And the big winners, actually the only winners, are the owners of the selling firm. The world is about money and time, and the owners are the only ones who have more of both.

> And the big winners, actually the only winners, are the owners of the selling firm. The world is about money and time, and the owners are the only ones who have more of both.

We believe that you have to be an owner in order to perform like an owner. All around the world, there are excellent workers who are not owners. We know this. But, we seriously intend to be the best investment advisory firm that there is. To accomplish this, we must continue to own ourselves. We cannot become the division or piece of a larger entity. We cannot become a publicly traded company with absentee ownership. We believe that the acquired firms mentioned have probably foregone any chance of being truly superior firms and, worse, in the three to five years referred to above, will cease to exist.

Our People—Old and New

So, here we go. We are adding to the next generation of the firm's investment advisors. Our clients already know our two vice presidents, Richard Bean, CFA, and Doug Dougherty, CFA. They are responsible for most of our qualitative stock-selection process and over the years have added great depth to the firm. Complementing these two are Jeff Moeller, CFA, our youngest investment advisor but clearly pulling his own weight, Anno Hardage, and Phillip Mitchell, CFA. Anno, in addition to her duties as one of our portfolio managers, is responsible for client service, and Phillip is our trader and fixed-income analyst.

Our new hires who will assume a leadership role within this next generation of CornerCap are Cannon Carr and Kevin McGonigle. Both will join us in June as executive vice presidents. Cannon will work primarily with our investment staff, and Kevin will focus on business development, client service, and human resources. Richard and Doug played an important role in recruiting these new guys.

Cannon is homegrown in Atlanta, graduated from The Westminster Schools and Princeton University, and received an MBA from Columbia University. He has worked on Wall Street for the last 10 years, most recently as a senior equity analyst at CIBC World Markets. For the last 2 years, Cannon has been rated by Zacks Investment Research as a five-star equity analyst. Also, for 2 years in a row, StarMine ranked Cannon first and second nationally for accuracy of earnings estimates in the wireless industry. He has appeared on CNBC, CNN, Lou Dobbs Moneyline, and Bloomberg and has been quoted in *The New York Times*, *The Wall Street Journal*, *Financial Times*, and *Fortune*, among other publications. Of interest to us was Cannon's recognition by the

Cannon Carr

United Way for establishing a GED program at a Chicago homeless shelter where he taught over ten of its residents and recruited two teachers for the program. Cannon married Kathleen Cosgriff from Woodbury, Connecticut, and they will be moving to Atlanta with their three children.

A native of Pittsburgh, Kevin received his undergraduate degree from Williams College and his MBA from Dartmouth College. For the past 18 years, Kevin has overseen the business development, client service, and operational management activities of major professional service firms such as A.T. Kearney and Russell Reynolds Associates. Prior to joining CornerCap, Kevin co-led a global management consultancy, Executive Intelligence Group, serving clients across Asia, Australia, continental Europe, the United Kingdom, and North America. He is recognized as one of the foremost experts in leadership assessment and consulting and has evaluated the senior most executives of Global 1000 and mid-sized companies around the world. He has authored articles and been quoted in *The Wall Street Journal*, *Chief Executive Officer* magazine, *Atlanta Journal-Constitution*, and several European newspapers. Kevin has also served on the board of civic organizations including Young Audiences, Prevent Blindness Georgia, Center for Puppetry Arts, Summer Economic Institute and has chaired the 500 Committee of the Woodruff Arts Center. Kevin married Susan Bratton, an Atlanta native, and they have three children.

Kevin McGonigle

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> We have structured our best shot for transitioning to the CornerCap of the Future and for doing what will best benefit our client base.

In the investment business, senior professionals may be hired into firms for many good reasons. But normally, the overriding reason is that they bring new assets with them to their new home. Cannon and Kevin bring no assets to the firm other than what we believe to be their exceptional talents, impeccable resume, and strong personal character. We believe that they will make significant contributions to the Firm of the Future, and we look forward to your meeting them.

Since our start in 1989, CornerCap has grown from a basement operation into a significant institution. As Emerson wrote, "An institution is the lengthened shadow of one man," so it is our duty to attract the men and women to CornerCap who will best extend our shadow. We are a people business, and we are assembling the best.

"Nothing Will Change"

As noted at the start of this article, those are the comforting words that are used when investment firms are being bought out. Actually, with any investment firm that is doing well, "nothing will change" has always been the message of choice. If someone preaches something often enough (e.g., "no change"), he will eventually embrace it. Change will be forced upon us, so our efforts at CornerCap will be to embrace it, manage it, and be responsive to it.

We have done all we can to hire younger professionals who are smarter, faster, and harder working than the older professionals. It is essential that the younger professionals' investment philosophies and core values be consistent with the foundations of the firm and that they have a passion for investments and people. But they will have new ideas, creative thoughts about equity research, new ways for communicating with others, more efficient trading, etc. We look forward to helping these younger professionals to develop those ideas as we transition through the coming decades.

Once again, we are presenting a contrarian message. We will be changing over the coming years. While offering no guarantees (which is traditional in the investment trade), we believe that we have structured our best shot for transitioning to the CornerCap of the Future and for doing what will best benefit our client base.

Are there truly no guarantees about the future? Is there anything that we can guarantee? If what we have done in the past is any indication of the future, we believe that we can guarantee that we will do what we say we will do. This is how we define integrity, and this is our promise to you.

CornerCap Highlights

CornerCap's Ties With Shakespeare

CornerCap is now in its eighth year as a sponsor of Georgia Shakespeare. This year, CornerCap is sponsoring the summer festival, including Shakespeare's *Pericles*, Godoni's *The Servant of Two Masters*, and Joe Orton's *Loot*.

Here (from the left) are Richard Garner, Anno Hardage, and John Hackney cutting up in the balcony of Conant Performing Arts Center located at Oglethorpe University. Anno is our portfolio manager in charge of client service, and John is our chief compliance officer and operations manager. Richard is the producing artistic director of Georgia Shakespeare, which he co-founded in 1985. He has done more for the theater than The Bard himself!

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