

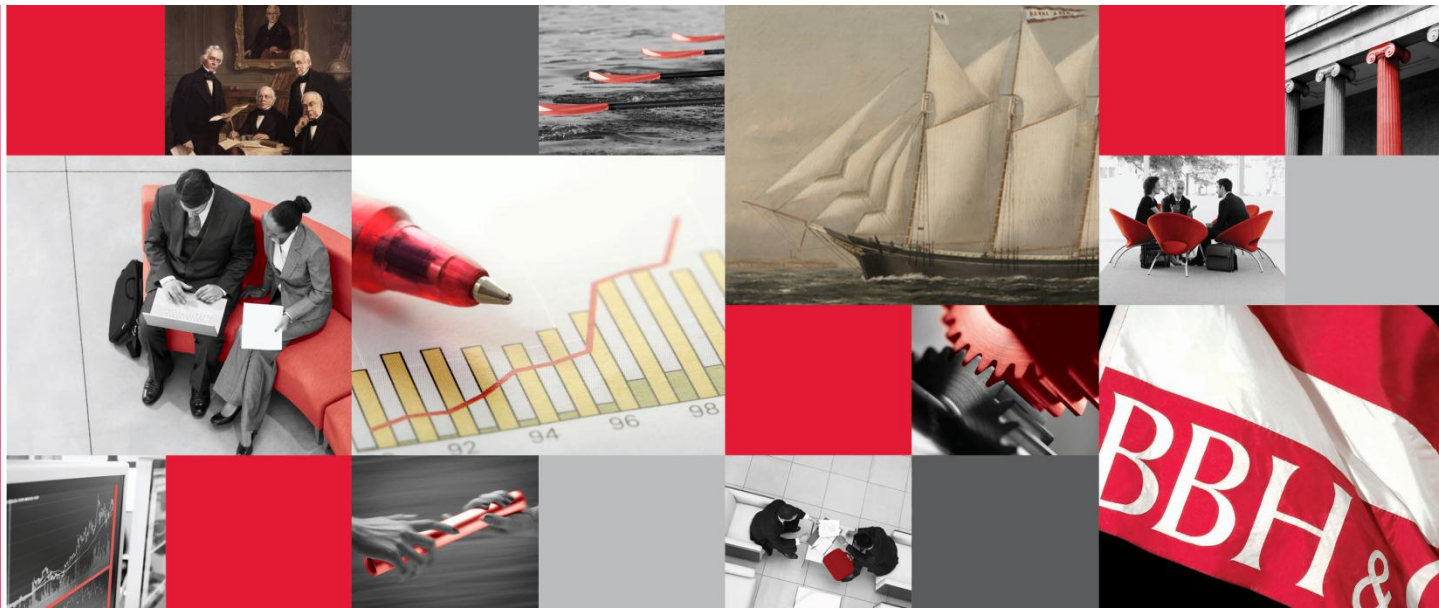
BROWN BROTHERS HARRIMAN

INNOVATION

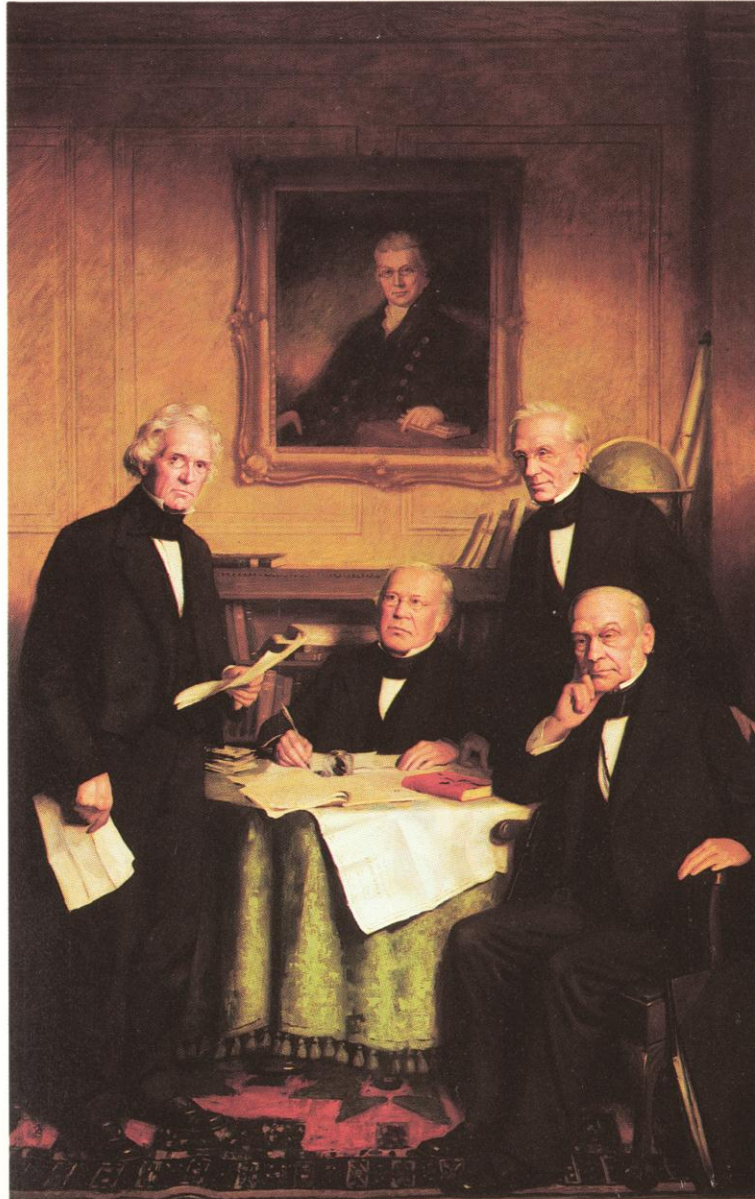
A Chance to Make History

Briefing on BBH's Innovation Team

June 2014



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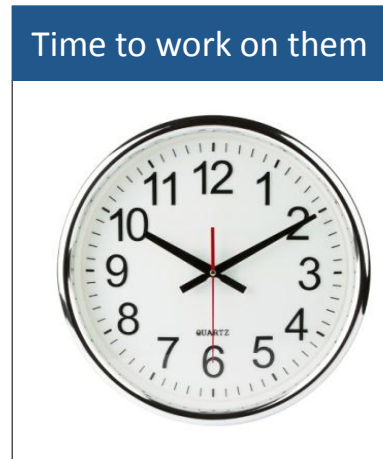


Mission Statement: **We rapidly take big swings at things that matter to BBH**

Two long-term goals:

- 1. Generate meaningful revenue from new businesses**
- 2. Build a stronger culture of innovation**

Since our founding in 2010, the three critical elements for a successful innovation program have always been present:



Strategy is what you do, and what you do not do.

An innovation team is trying to do something different than the core business.

The same mindset and processes of the core business will not lead to different outcomes.

So....what to do differently?

- 1. ROI analysis**
- 2. Create detailed business cases**
- 3. Allocate our costs to other business units**
- 4. Require business units to fund the cost of pursuing new products, beyond the investment of time from subject matter experts**
- 5. Attend boring corporate meetings**
- 6. Permit others to staff us – we own how we invest our time**
- 7. Have our performance evaluated on quantitative process metrics**
- 8. Agree to deadlines for client deliverables**
- 9. Work on products that absolutely must succeed**

- **Four years ago, I was hired to build and lead a corporate innovation team inside a custody bank.....**
- **At the time, I had zero experience in corporate innovation**
- **And zero experience in the custody banking industry**
- **I've since hired two more people with zero experience in corporate innovation and zero experience anywhere in the financial services industry**
- **We believe that when companies create innovation teams, they are solving for a lack of entrepreneurship and innovation, not for a lack of industry expertise**

Alignment across four populations is critical

- 1. The Innovation team is very excited about a potential new product**
- 2. The business unit management team makes it a priority**
- 3. The IT department supporting the business unit is supportive and makes it a priority, or we work with external vendors**
- 4. One of the firm's 38 owners is directly involved in the creative process and makes the new product their personal priority**

BBH has an institutional focus – our main clients are the world's largest banks and asset managers.

Our best ideas come from the combination of deep industry experts who lead our businesses, plus the very different expert perspectives of the innovation team.

We are building four new enterprise technology products that are scheduled to launch in 2014.

The innovation team collectively has zero days of previous experience working in the four businesses for which we are building new products.

Two critical elements are required for innovation success:

1. Identifying high impact ideas
2. Executing well: operating in a structure that enables high impact ideas to be pursued successfully

1. Identifying High Impact Ideas: Criteria & Current Pipeline

Ideas are classified in 4 priority levels according to 5 criteria:

1. Does it solve a meaningful problem?
2. Does it leverage BBH's expertise and core competencies?
3. Is it feasible from a regulatory, legal and compliance perspective?
4. Is it scalable and does it have an asymmetric potential return profile relative to the needed investment?
5. How does it compare to the target clients' current situation?

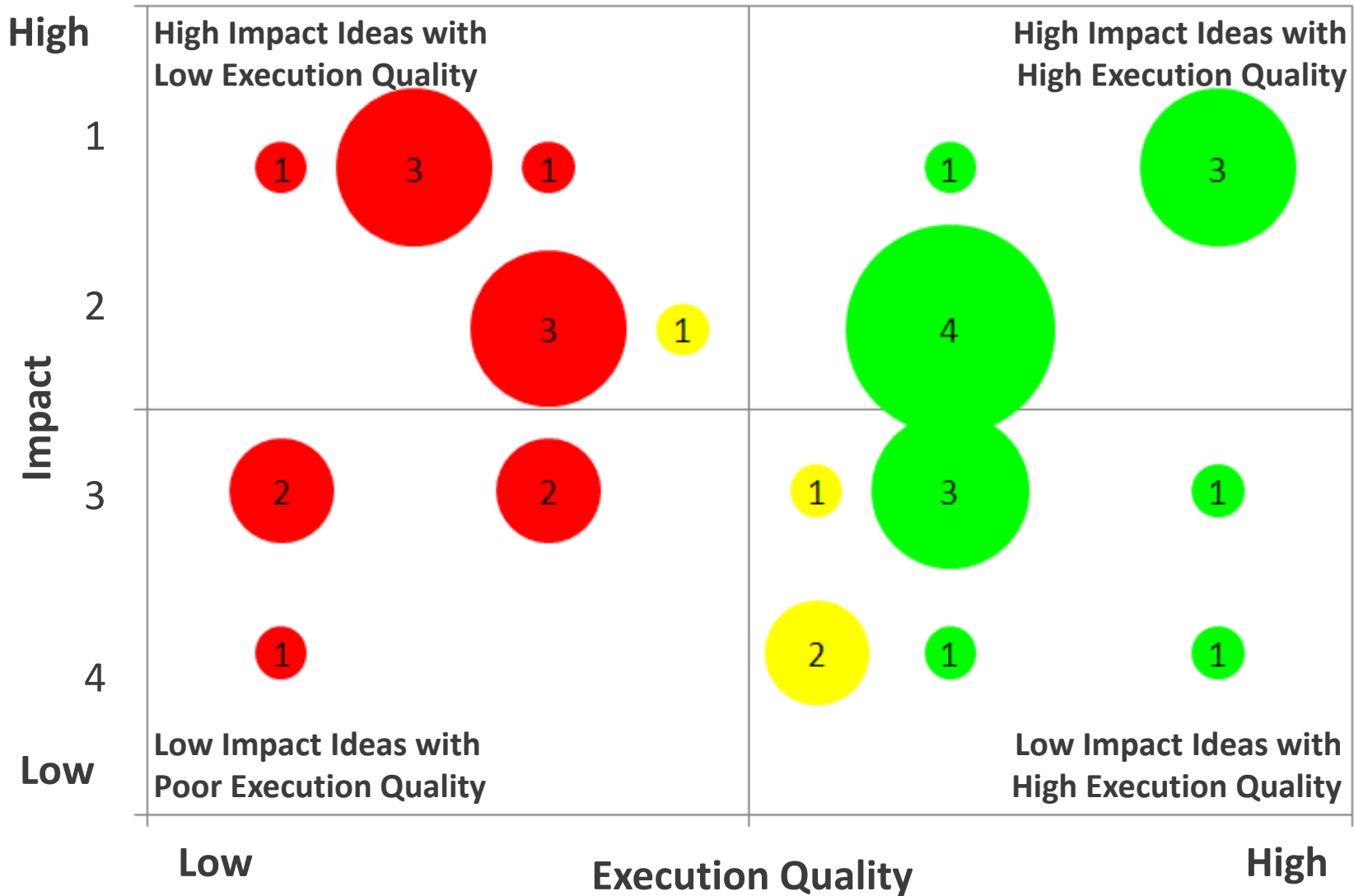
Priority	Current Idea Count	Criteria
1	5	Confident on all criteria
2	5	TBD on 0-1 criteria
3	13	TBD on 1-2 criteria
4	8	TBD on 2+ criteria
Total	31	

2. Predicting High Quality Innovation Execution

The dimensions with the highest correlation to low quality execution are a high dependence on the core for success and a high magnitude of cultural change

	Magnitude of Cultural Change	Innovation's Degree of Process Control	Reliance on New Technology, Skills, Tools, and Processes	Dependence on the Core for Success	Current Structure Enables High Quality Execution	Idea Priority (1=High)
Idea 1	Low	High	Low	High	Yes	1
Idea 2	Low	High	Low	Low	Yes	3
Idea 3	Med	Low	High	High	No	1
Idea 4	High	Med	High	Med	No	2

Combining 1 and 2: Analyzing the Current Pipeline



SOLUTION BUILDING

1. Pursue ideas directly:

Use team and Firm resources for direct idea advancement

2. Internal VC: Fund the commercial ideas of others

3. External Wisdom:

Advice from external experts, idea discovery, client engagement



INFRASTRUCTURE BUILDING

4. Innovation Catalyst:

Drive collaboration and innovation across the Firm

5. Innovation HR:

Build a stronger culture of innovation

6. Metrics & Advocacy:

Measure engagement, influence core business priorities

Top Performing Management Teams Answer all Questions Well

1. What **commercial projects** is your team working on, where outcomes or payoffs are uncertain?
2. What **small-scale experiments or pilot programs** is your team running?
3. How are you **building innovation into the lives of your team members**?
4. For each member of the management team:
 - a. How are you **participating directly in the creative process**?
 - b. In the past month, **how many clients have you spoken with**, excluding sales situations and service problems?
5. Who has made the **most significant positive impact** on your innovation efforts?
6. What is the **most significant impediment** to your innovation efforts?

What's Innovative: Measurement Methodology – High Score is Better

1. **Who else currently offers this product or service?**
 - a. Our core competitors and other firms (0 points)
 - b. Only our core competitors (1 point)
 - c. Only other firms (2 points)
 - d. No one (3 points)
2. **Who is asking for the new product or service?**
 - a. "Top 20" / Mainstream client (1 point)
 - b. Fringe client (2 points)
 - c. No one (3 points)
3. **If this effort is successful, what is the near-term potential financial impact?**
 - a. High (1 point)
 - b. Medium (2 points)
 - c. Low (3 points)
4. **If this effort is successful, what is the outcome?**
 - a. Client retention (1 point)
 - b. Cost savings / productivity gain (1 point)
 - c. Dramatic improvement to the economics of the core (2 points)
 - d. Revenue from a new market (3 points)
5. **Is there a clear and current internal business line owner?**
 - a. Yes, one business line (1 point)
 - b. Yes, multiple business lines (2 points)
 - c. No (3 points)
6. **How does the new value proposition to the client compare to the current one?**
 - a. More complex than the current one (0 points)
 - b. About the same (1 point)
 - c. Simpler than the current one (3 points)
7. **What is the degree of reliance on high cost technology or infrastructure?**
 - a. High (0 points)
 - b. Medium (1 point)
 - c. Low (3 points)

4

8

12

16

21

Creating a successful framework for innovation necessitates adding a light set of criteria to the investment decision process

1. Emerging business opportunity with commercial potential
2. Scores in the top two quartiles of the innovation scale
3. Team requesting funding is passionate about the opportunity and committed to its success (“skin in the game”)
4. Opportunity has a medium to long-term and/or uncertain payoff
5. Clear goals and objectives have been established for the investment, with corresponding accountability

“The results suggest that the most important factors for success are the extent to which innovation is **integrated in corporate strategy** and to which **company leaders support and engage with innovation efforts.**”

“Respondents cite the **same perennial challenges**: namely, **competition with short-term priorities** and integration of the [innovation] functions’ strategic objectives with the rest of the business.”

“Not surprisingly, the [innovation] executives whose functions have **more responsibility for their value chains** say their functions are **more effective** at meeting objectives...functions responsible for ideas, proof of concept, launch *and* scaling report more in-market successes.”

Source: “Making Innovation Structures Work”, McKinsey & Company 2012, Authors: Marla Capozzi, Ari Kellen, Rebecca Somers.

- **Time**
 - Dedicated central resources that can help in your research and development efforts
 - We present to and engage with the firm's clients about innovation
- **Funding**
 - Significant dedicated capital budget to invest in new business ideas
- **Feedback and idea refinement**
 - Informally
 - More formally with the Innovation Think Tank, a group of top management from across all major businesses of the firm
- **A firmwide hub for innovative ideas, people and projects**
 - Connections to relevant internal experts
 - Introductions to external resources

“Building a company isn’t about business models and inflection points; it’s about doing something larger than yourself. It’s about working for each other. It’s about being part of a team trying to make possible the impossible. It’s about doing it in a way that no matter the outcome, everyone was glad they were there.”

-Ben Horowitz, Venture Capitalist

Phil Swisher

Senior Vice President & Global Head of Innovation

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Phil Swisher is BBH's Head of Innovation. In this capacity, he is focused on building new products and services that will generate meaningful long-term revenue for the firm. Phil is also one of eleven innovation experts appointed by the Governor of Massachusetts to advise him on his innovation agenda.

Prior to joining Brown Brothers Harriman, Phil worked for FHB Formation, a start-up that acquired control of Northeast Bancorp, a bank in Maine. He also previously led a start-up, financed by the Kraft Group, that is focused on commodities trading and risk management. Phil was also previously an investment banker at Goldman Sachs in New York, where he advised financial institutions and invested in power plants.

Phil has a B.A. in Economics from Williams College and an M.B.A. from the Harvard Business School.

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