Do Your Homework, Consultant Tells Managers

By Paul O'Dowd

Chicago – Asset managers, large and small, must do their homework prior to meeting with investment consultants, especially since time is a valuable commodity at most consulting shops. Specifically, consultants want managers to tell them how exactly their product fits in with their interests, and vice-versa.

These sentiments were expressed by Rogerscasey CEO Tim Barron at Opal Financial Group's Emerging Managers Summit, held here earlier this week. More than 400 managers, consultants, analysts and pension officials and trustees attended the three-day conference.

"You need to figure out how each consulting firm fits with you," he said in a speech. "It's your job to figure it out, not [that of the consultants]." He urged managers to look at consultants' Web sites and to gain a full understanding of what strategies individual consultants are looking to expand on.

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For example, Rogerscasey doesn't bucket strategies into specific asset classes, such as equities or fixed income, but follows an equity-like or fixed income-like platform, because the firm knows many managers have strategies that don't necessarily fit perfectly into specific asset classes. Barron told managers to come prepared and to explain why their strategy fits into a specific bucket and how it differentiates from the crowd.

Coming prepared to a meeting is a good start to making a good first impression for emerging managers, Barron said, but that alone will not guarantee a positive recommendation. There are many other items managers must be keenly aware of, such as bringing the proper people to the meeting and keeping to the assigned time limits. "Don't warp time," Barron said. "If you say 30 minutes, make sure it's 30 minutes."

In addition, managers must have it in the back of their minds to only speak on the assigned topic, and not to stray to other investment strategies. If you're there to speak on a specific topic, Barron urged, stick to it; don't "bait and switch."

One of the most important things a manager can do when meeting with a consultant or a pension is to distinguish their firm from other managers and products. For example, Barron said there are roughly 2,800 domestic equity products in the market; Rogerscasey follows about 1,600 of them. The firm defines strategies as "qualified" or "buys," with buys being products that are in the top quartile. It is important for managers to make themselves noticed, because if they don't, they are in danger of falling in with the masses, he says.

Another topic that was frequently discussed at the Opal conference was how to attract institutional assets. For many emerging managers, winning institutional mandates can often mean the difference between staying an emerging manager and reaching the "established manager" moniker. However, graduating to that level is difficult.

Unfortunately for emerging managers, many institutional investors choose to invest with larger firms, because they are already established, said Vic Hymes, chairman of the investment committee at Oberlin College. He said decision-makers think they can't really get into trouble if they choose a firm like a Goldman Sachs, so it is imperative to be on the radar of institutional investors if you want a chance.

"Emerging managers have to push and keep on pushing," Hymes said. "There are people out there who want to be the first investor in, and from there things will build [for the manager.]"

Virginia Dawson, CEO of emerging manager Claremont Investment Partners, agreed that there is a bias towards large money managers, even if returns aren't great. To turn the tables, she said, it is important for emerging managers to use their size to their advantage. "As a small manager, we can work with [investors] on what they are looking for," she said.

None of this matters, however, if a manager can't portray a strategy in the correct way, said Stewart Dier, managing director of public markets at New York City's Comptroller's Office, which oversee the city's pension funds. If you have a great track record, he said, investors want to know how you were able to get the returns. "You need to be able to explain [how you arrived at those numbers] and investors want to know if you can sustain it."

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