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ALL AMERICANS

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2014
SMA
MANAGERS
of the YEAR

10TH ANNUAL

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The 10th annual SMA Managers of the Year differ in size, process and ZIP code, but they're all at the top of their investment game

By James J. Green and Savita Iyer-Ahrestani

This year's SMA Managers of the Year are a diverse lot, with portfolios focused on different sectors and cap sizes and built by investment management teams scattered across the country.

However, they're very similar in their consistency, especially in their outperformance over many years and through various business and market cycles. They hew to their own sustainable and repeatable investment processes. They're also clearly members of a team.

While the lead managers of these strategies are undeniably brilliant, those managers are also cognizant that they don't stand alone, and shouldn't, in forming and monitoring portfolios for the ongoing benefit of advisors' end clients.

For the 10th straight year, *Investment Advisor* has partnered with Envestnet | PMC to research, identify and honor those managers in the separately managed account space who we deem to be outstanding and worthy of advisors' consideration.

What are we looking for? Performance above their peers over time, significant assets devoted to the strategy, well-tenured management, great customer service, tax efficiency and wide availability to advisors (the complete process and criteria can be found at ThinkAdvisor.com).

Tim Clift, chief investment strategist at Envestnet | PMC and a member of the judging committee, said that when considering finalists for these awards, "it generally boils down to trying to evaluate an alpha thesis: What differentiates them from other managers in the universe? What's unique and sustainable? What's their edge over other managers? What can they replicate going forward?" And finally, "Where are the returns coming from?"

Gib Watson, vice chairman of Envestnet and a member of the committee for all 10 years, put it this way: "It's much more than historical performance reviews, and more than just holdings-based analytics on the managers."

According to Watson, the overall SMA marketplace continues to grow. He cited Cerulli research that found as of the end of Q1 2014, "the SMA market went past \$900 billion in AUM, in both traditional SMAs and model-based SMAs." While SMAs were traditionally more of a "wirehouse type of prod-

uct line, now we're seeing a lot of growth in the independent BD space, among RIAs, regional broker-dealers, and bank and trust channels," he said. Why? "Much of it has to do with an SMA's features: The individual investor owns the cost basis of the securities in the portfolio, so advisors can engineer better tax-efficient strategies, more restrictions and can build globally diversified SMA accounts," Watson said.

Clift argued that renewed demand for SMAs "has come from higher tax rates" but also SMAs' customization, since specific equities (or bonds) can be excluded at the owner's request. "We'll see more asset managers come up with more specialized strategies to meet the needs of the markets," Watson said of the future of SMAs, while Clift pointed out that values-based investing is "becoming more and more important; the main way to do that is through an SMA—you can say 'I don't want any tobacco or firearms'" in your account.

That's why next year we'll be adding another category to the SMA Managers of the Year—an "impact" award honoring a particular portfolio that considers environmental, social, corporate governance or faith-based criteria in its investment process, reflecting Envestnet's partnership with Veris Wealth Partners in building an Impact Investing Solutions program.

But this year, we honor those outstanding managers in our traditional categories in the pages that follow, highlighted by the intermediate fixed income strategy offered by Oklahoma City-based Tom Johnson Investment Management, this year's overall SMA Manager of the Year.

Watson said the intermediate fixed income strategy team at TJIM, led by Richard Parry, CIO, and portfolio manager Doug Haws, "was really impressive in that they were able to preserve capital and generate positive returns" in an otherwise dreary 2013 for fixed income. Clift pointed out that the team at TJIM, which is 100% employee-owned, "proved their worth" last year, with a portfolio featuring "a conservative investment process, very liquid" with a "flexible mandate, being able to adjust to market conditions."

Read on to learn more about this year's SMA Managers of the Year. You can find extended profiles and video interviews on ThinkAdvisor.com.



INTERNATIONAL OR GLOBAL EQUITY

CAMBIAR INVESTORS' INTERNATIONAL ADR STRATEGY



Brian Barish photo by Tom McKenzie; Jennifer Dunne by John Johnston

When it comes to the global financial markets, Jennifer Dunne, portfolio manager and senior investment analyst for Denver-based Cambiar Investors' International ADR strategy, believes that the only true constant is change. That's why the name "Cambiar," which in Spanish means "to change," is a perfect fit for a firm that since the 1970s has been investing successfully in the international markets and continues to deliver consistent and superior returns to its clients over different market cycles. It does so by strictly adhering to a single investment discipline that's centered on looking worldwide for high-quality companies that offer relative value.

"We're looking for compressed valuations—for companies that are trading in the lower quartile of their long-term historical range—but we're also looking for high-quality companies," Dunne said.

That means Cambiar seeks out companies with strong management teams, low debt levels and strong balance sheets; that are well-capitalized, with strong business

models that can consistently get them through different market cycles.

Cambiar divides the globe up among the members of its investment team by sector rather than geography. "This approach lets us do a deep dive and makes us truly aware of companies' competitive advantages regardless of their geographic domicile or capitalization," Dunne said.

This approach also best utilizes the experience and skills of each member on the team, including President and CIO Brian Barish, and leverages Cambiar's collective intellectual property to its fullest. It's also the most effective way, Dunne said, to find companies across the globe that fit that high-quality/relative-value equation and to get a sense of their potential in the long term.

The firm is benchmark-agnostic and because it runs such concentrated portfolios, has a 50% upside target for its holdings. Individual positions are weighted at 2%; they're sold when a stock reaches its price target, although an analyst can introduce a new holding at a 3% weighting.

However, when it comes to the downside, Cambiar holds its staff to extremely strict standards.

Any portfolio holding that falls below Cambiar's 20% downside target will be the subject of an intense, detailed discussion on whether or not it should remain in the portfolio. During that discussion, if an analyst can make a strong enough case to keep the holding despite its poor performance, the firm may well keep it.

But "you only get one chance to bring an underperformer back to portfolio weight," Dunne said.

Cambiar is a 100% employee-owned firm, and almost everyone is a partner in the company. "We [the partners] all pay to buy equity in the firm, and this aligns our interests directly with those of our clients," Dunne said.

—Savita Iyer-Ahrestani

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