

SPECIAL REPORT: Manager of Managers

GROWING IN POPULARITY

U.S. institutional investors predominate in programs

By Dave Kovaleski

BOSTON — U.S. institutional investors are the biggest users of manager of managers programs, accounting for 75% of the \$414.4 billion in worldwide manager of managers assets.

Of the \$312.2 billion in U.S. institutional, tax-exempt assets, 84% is invested with the five largest firms — General Motors Asset Management Corp., New York; SEI Investments, Oaks, Pa.; Frank Russell Co., Tacoma, Wash.; Commonfund Group, Wilton, Conn.; and The Vanguard Group, Valley Forge, Pa.

The manager of managers approach, which involves hiring different money managers to manage different portions of a portfolio, has grown in popularity in recent years. Since the beginning of 1998, worldwide assets in manager of managers portfolios has doubled, according to Cerulli Associates, Boston.

This year was no exception. Many of the top firms enjoyed record years despite the U.S. stock market's downward slide.

John Tobey, chief investment officer of ICMA Retirement Corp., Washington, said this year's trendless market has been the "acid test" for the manager-of-managers approach. With styles and sectors seeing, Mr. Tobey said the environment has been conducive to the diversified multimanager ap-

proach.

This is the first year that Pensions & Investments has surveyed manager of managers. Twenty-one managers met P&I's criteria of hiring a blend of investment advisers to manage different styles within a single account. The survey is an attempt to find out just how big a



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path these firms are cutting in the U.S. institutional, tax-exempt market, and how they're operating. P&I found:

- Forty-one percent of the \$312.2 billion in manager of managers portfolios from U.S. institutional tax-exempt clients is in defined benefit plans. Twenty six percent

is in defined contribution plans.

- The average number of manager of managers funds per firm is 16. Frank Russell has the most portfolios, with 125; four firms — Chapman Capital Management, Baltimore; Harbor Capital Advisors, Toledo, Ohio; Robert Harrell Inc., Austin, Texas; and Sector Capital Management, Memphis — have one each.

- Northern Trust Global Advisors, Chicago, uses the most managers, 142; Harbor Capital and American United Life Insurance Co., Indianapolis, use the least with two each.

- The firms surveyed had an average of 722 U.S. institutional manager of managers clients. ICMA Retirement Corp. has the most, 5,500, while Robert Harrell has only one.

Specialized focuses

While the firms surveyed all fall under the banner of manager of managers, they tend to specialize in different areas. Some are strictly investment management-oriented, while others provide full-service outsourcing, and others outsource some services and create partnerships with other firms. Some, like Commonfund or ICMA, focus on a particular market. Many firms offer a range of portfolios, while others focus on particular types of investments.

General Motors Asset Management takes the top spot on the in-

Who's got the money?

Firms ranked by total manager-of-managers assets, in millions, as of Sept. 30.

Firm	Worldwide total	U.S. tax-exempt	U.S. taxable
General Motors Asset	\$133,700	\$128,700	\$5,000
SEI Investments	\$76,700	\$53,800	\$22,900
Frank Russell	\$62,000	\$29,833	\$5,970
Vanguard Group	\$52,198	\$18,938	\$33,260
Commonfund	\$26,200	\$26,200	\$0
Northern Trust Global	\$15,836	\$10,469	\$615
AMR Investment	\$12,342	\$11,693	\$649
ICMA Retirement	\$10,100	\$10,100	\$0
Strategic Investment	\$7,298	\$6,388	\$219
Diversified Investment	\$5,404	\$5,404	\$0
Progress Investment	\$4,099	\$4,099	\$0
Christian Brothers	\$2,008	\$2,008	\$0
Glenwood (Man Group)	\$1,940	\$158	\$0
Sierra Investment	\$1,584	\$1,584	\$0
Sector Capital	\$1,197	\$1,127	\$70
MetLife	\$725	\$725	\$0
State Street Global	\$500	\$500	\$0
Chapman Capital	\$331	\$331	\$0
Harbor Capital Advisors	\$148	\$119	\$29
Robert Harrell	\$100	\$100	\$0
American United Life	\$25	\$9	\$16
Total	\$414,435	\$312,285	\$68,728

augural list with \$133.7 billion in worldwide manager of managers assets, including \$128.7 billion in U.S. institutional tax-exempt assets. The bulk of the tax-exempt assets, \$89.5 billion, are in defined benefit plans.

General Motors offers 14 manager of managers funds, most of which invest in international, emerging markets, real estate and private equity markets. GM doesn't have any domestic equity funds.

GMAM uses 46 different managers in all, including Barclays

Global Investors, San Francisco, J.P. Morgan, New York, and Capital Guardian, Los Angeles; and it employs about five managers per portfolio.

While General Motors has the most assets, it has among the fewest clients — two.

Second on the list is SEI Investments with \$76.7 billion in total assets, of which \$53.8 billion comes from U.S. institutional tax-exempt clients.

About 85% of SEI's business. See Managers on page 26

range of three to 10 managers per portfolio.

The Vanguard Group ranks fourth overall in the survey with \$52.1 billion in worldwide manager of managers assets, but fifth in terms of U.S. tax-exempt assets, at \$18.9 billion, mostly from defined contribution plans.

Vanguard has a total of 2,912 institutional manager of managers clients, which is second to ICMA Retirement's 5,500 clients. Vanguard's five manager of managers funds, which have an average of three managers per portfolio, appear in 1,455 defined contribution plans.

The firm uses 12 subadvisers, including Wellington Management, Boston, which has \$15.5 billion in subadvised assets from Vanguard. Barrow Hanley Mewhinney & Strauss Inc., Dallas, has the next highest total with \$14.4 billion in subadvised assets from Vanguard, followed by Equinox Capital Management LLC, New York, and Sanford C. Bernstein & Co., New York, with \$3.7 billion in assets each.

In terms of total manager of managers assets, Commonfund is fifth on the list with \$26.2 billion in assets. But because all of those assets are from U.S. tax-exempt institutional clients, Commonfund places fourth in that ranking.

With all its assets coming from the endowment and foundation market, Commonfund clearly has staked out a stronghold in this area. Of the \$31.7 billion in manager of managers assets reported in the *PEI* survey, the endowment and foundations market, Commonfund has 83%.

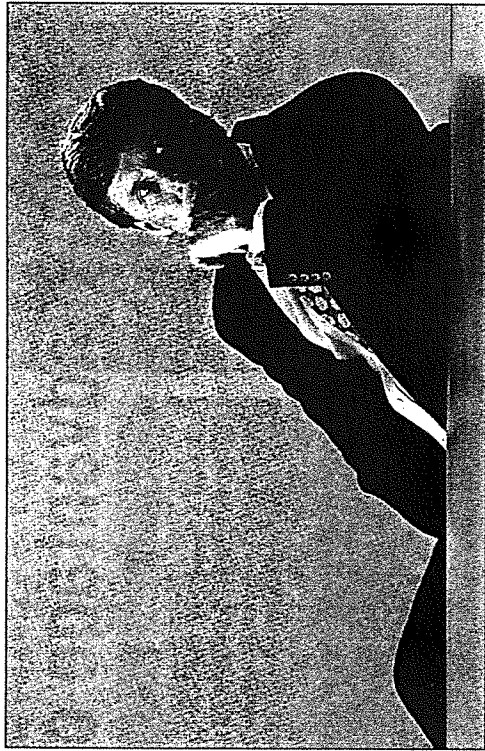
Best year ever

With \$2 billion in net new assets for the year ended June 30, Commonfund is coming off its

best year ever, said Todd Petzel, chief investment officer at Commonfund. Mr. Petzel said the big boost in assets may have had a lot to do with its investment mantra of "not putting all your eggs in one basket," which, he observed, "turns out to be true every once in awhile."

That hadn't been the case in recent years — last year, investors flocked to technology-heavy growth investments; and before that, they favored the low-risk, double-digit annual returns of Standard & Poor's 500 index funds. "It takes a market like we've seen in the last 18 months to show the benefits of risk-adjusted portfolios," said Mr. Petzel.

Commonfund has 1,400 U.S. institutional clients, most of which are endowments. For some clients,



Edward Loughlin of SEI said many small pension plans find a manager-of-managers approach to be a good way to get diversification.

Commonfund provides investment management, asset allocation ad-

vice and portfolios. For others, it may provide just portfolios.

Commonfund offers 50 manager of managers portfolios and employs 120 managers, with an average of five per fund. Mr. Petzel said the firm selects managers for a particular portfolio based on the objective of the fund. "We hire managers to play very specific roles," he said, opting for managers who follow a certain style and don't drift. "It's a little like having the center on your basketball team going beyond the three-point line and taking a lot of shots. We don't need those guys," said Mr. Petzel.

Commonfund's most-used managers are Brown Brothers Harriman & Co., New York, and Western Asset Management Co., Pasadena, Calif., with \$2 billion in subadvised assets each. ■