AIMSE – Even After 35 Years, Still a Perfect Place to Learn and Network

A wealth of information and clear evidence of where the industry has changed and where it has not – that's what I came away with from AIMSE's 35th Annual Marketing & Sales Conference. For me, having attended a majority of the 35 conferences, I sometimes walk in with a "know it all" attitude. Invariably, my comeuppance is prompt.

Jim Angle, Chief Washington Correspondent with Fox News Channel, launched the conference content with insights on being a political road warrior and what the odds are for Romney versus the other Republican candidates (a billion to one), and then shared pros/cons of the Romney/Obama battle likely to ensue. It appears as though the battle will be bloody no matter who the candidates will be.

David Harmston, Partner and Global head of the Client Group, followed by opening the door to Albourne Partners. Albourne is a consultant, advising hedge fund, private equity and real assets investors for a fixed fee per month. The advice includes:

- Due Diligence
- Manager Selection
- Strategy Timing
- Portfolio Construction
- Risk Management

Albourne works for many of the world's most prestigious hedge fund and private equity investors. The firm has no discretionary money and treats all clients equally. David reported that 87% of public funds and 63% of endowments use alternative consultants. That explains how a firm established in London in 1994 has grown to over 221 people, 131 analysts and 60 partners. Today, Albourne advises more than $300 billion in client assets spread over 2,000 funds. That is impressive. And he reminded the audience, Albourne only evaluates the underlying funds – they do not assess Fund of Funds. David invited anyone interested to visit their website, www.albourne.com. They have open protocol there to gather data on managers.

The Plan Sponsor Roundtable was outstanding with one very clear message – each plan has distinct needs. One of the plans was moving from 100% passive equity to predominantly active equity, reducing fixed income by 50%, driving down total plan volatility and working with multiple consultants. Another, which was fully funded, was de-risking and moving almost exclusively to fixed income. "We sold all our equities and hedged the plan 100%. The company took an earnings hit, but also had a $1 billion advantage." Most of the plan sponsors use multiple consultants, and one uses none.

Where they agreed, however, was on how much help they need from managers.

- "I have to give a version of your presentation to my group. We don't have the resources to do decks. Help me."
- "We're strapped. We see you as partners to help on all fronts."
- "Switch from selling me something, to a consultative sell."
- "We treat all money managers as partners…needing help with technology, research, regulation, risk, non-specific mandates."
- "Help me avoid looking foolish."
- "I hate headline risk. If you have a problem, call me."
- "Give me support on the tough questions I face. How do I understand risk in my portfolios?"
- "I've learned communication has been key. The client service professional who is in touch with what I need…versus an investment professional who doesn't always understand."
- "Don't send us everything, but be responsive…thoughtful."

Bob Danhauser, Head of Standards of Practice and Outreach from the CFA Institute challenged everyone at the Conference to elevate their firms' standards of ethics by committing to the Asset Manager Code of Professional Conduct. Bob cited some disappointing statistics on how poorly the investment management business is viewed by the general public. He asserted that investment professionals and firms that undertake and perform their responsibilities with honesty and integrity are critical to achieving investors' trust and confidence. The mission of the CFA Institute is to lead the investment profession globally by setting high standards of ethics, education, and professional excellence. To foster a culture of ethics and professionalism, the CFA Institute offers a purely voluntary code of conduct. The Asset Manager Code of Professional Conduct outlines the ethical and professional responsibilities of firms that manage assets on behalf of clients. The CFA Institute is promoting the code be adopted within the industry worldwide as a template and guidepost for investors seeking managers who adhere to a sound ethical practice. His session was a good reminder to all of us of our duty to serve in our industry with absolute integrity.

One of the most interesting break-out sessions was "How to Win the Biggest Battle Yet – 'Convergence."' John Akkermann, Senior Managing Director at AllianceBernstein, moderated. Anurag Bhardwaj, Director of Strategic Consulting at Barclays Capital; Brian Collett, Chief Investment Officer from Missouri Government Employees Retirement System (LAGERS); and Chris Hannon, Head of US Institutional Sales at Lombard Odier Asset Management, participated.

A clear trend is traditional managers seeking to gain a share of the alternatives market and alternative managers looking to expand into traditional mandates. The group talked about convergence at the asset management level, with one third of plan sponsors making allocations to hedge funds from their long-only segments. Convergence was also evident in the offering of alternative long-only products. And finally, convergence is happening at the manager level. They added that on the retail side, the 40 Act lends itself to convergence.

Brian said that when there was a lack of excess alpha at his plan, convergence started. First, they introduced 130/30 to decrease correlation and increase return. Then portable alpha was added, then a partial allocation to hedge funds and then a full allocation to hedge funds. This progressive exposure is common for plan sponsors.

Chris Hannon commented that hedge funds competing for 10% of the bucket, looked around and said convergence would permit them to go after 100% of the bucket. The result was to rethink their marketing and offer customized strategies. At the same time, the long-only managers, on the defensive, could customize as well, and at more competitive fees. Fees were definitely an issue. "I don't want to pay hedge fund fees for beta." Particular attention was paid to whether a manager could successfully short.

Listening to the discussion, it seems as though convergence has something to benefit everyone. Thus, it is a trend likely to persist.

One last highlight (although there were many other notable sessions) – the Consultant Roundtables, led by Lori McEvoy, Director of Consultant Relations at Fred Alger Management, Inc. Presenters included:

- Brian Hooper, Vice President, *Fund Evaluation Group*
- Thomas H. Dodd, CFA, CAIA, FSA, President, *Stratford Advisory Group, Inc.*
- Peter D. Gerlings, CFA, CAIA Managing Director, Investment Solutions, *Rogerscasey*
- Anthony M. Daniel, Jr., CFA, Senior Vice President/Principal, *LCG Associates*
- John R. Krimmel, CPA, CFA, Partner, *NEPC LLC*
- Darren Spencer, Director, Alternative Investment Consulting – Americas Institutional, *Russell Investments*
- Millie Viqueira, Senior Vice President, *Callan Associates*

A lot like speed dating, conference attendees sit at tables of about ten or so, while the individual consultants move from table to table about every ten minutes. At the roundtables, you definitely gain a sense of whether there is appetite for your strategies. Unlike the plan sponsors, the consultants had much more stringent criteria in terms of

what kind of products they were looking for, size and tenure of assets under management, continuity of investment team. Attendees eagerly asked questions, and all the consultants were forthcoming. Like the plan sponsors, the consultants had some major differences. Fund Evaluation Group will look at frontier markets managers, while others will not. Callan currently looks only at fund of funds, whereas most of the other firms research direct alternatives investments. Some outsourced, and others prided themselves on freedom from conflicts. All responded immediately yes or no to questions on specific strategy interest.

When I boarded the plane to fly home from Miami to Los Angeles, I was motivated, educated and happy to have reconnected with so many people and friends. AIMSE never fails to deliver!

Jacqueline L. Charnley
Charnley & Røstvold Inc.
31401 Rancho Viejo Rd.
Suite 102
949-487-3500
cr@candr.us
www.charnleyrostvold.com