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HAT DOES IT TAKE TO MAN-
age money successfully in an economic climate widely considered the worst since America's Great Depression? Consider the winners of the 2009

Separately Managed Accounts Awards, as typified by the team at Geneva Capital Management in Milwaukee, which has won three years in a row for its mid-cap equity portfolio. All the winners have one thing in common, according to J. Gibson Watson III, president of Denver-based Prima Capital Holding: "Investment quality reigns. These firms, regardless of their asset class and their particular management discipline, have a very clear eye on investment quality. That is, they're quality organizations, they have quality people, they have quality sustainable, repeatable processes and they can articulate their philosophy and their process and how they are in the relentless pursuit of generating alpha performance for their clients."

The 2009 Separately Managed Account Awards honor seven managers in six categories. In the large cap equity category, the winners are Eaton Vance's Large Cap Value Equity and Golden Capital Management's Large Cap Core. Advisory Research's Small/Mid Cap Value Equity took the top spot in the small-cap U.S. equity category. Harding Loevner Management's International Equity ADR won in the international equity category. Geneva Capital Management, a familiar face in the SMA of the Year winner's circle, had the best mid-cap U.S. equity portfolio with its Mid Cap Equity portfolio. In a year when cash is king and liquidity rules, there were two winners in the fixed income category. Segall Bryant & Hamill took the honors for its taxable Core Fixed Income, and Breckinridge Capital Advisors won for its Enhanced Tax-Free Income.

ANNUS HORRIBILIS

In 2008, the SMA advisor sector absorbed a heavy blow as global capital markets across the board contracted. In the fourth quarter, the segment experienced outflows of more than \$21 billion and a decline in assets of 21%, according to the Money Management Institute in Washington. SMA advisory

assets were down 38% in 2008. MMI ascribes the precipitous decline to the SMA market's tendency to be heavily weighted in large-cap equities, making it closely correlated to fluctuations in the overall equity market. As well, SMA programs generally don't allow investors to hold cash or cash-like instruments, forcing investors to search for programs that enabled them to meet their cash needs. Finally, the Institute sees SMA programs in transition as more efficient united management account platforms come online, offering multiple investment products within a single account structure.

In this fraught investment environment, due diligence on asset managers has become more important than ever, but emphasizing the quantitative aspects of a fund won't suffice in the year ahead, according to Prima Capital's Watson. "The old watchword, particularly in the brokerage industry, is that performance sells," he says. "And many financial advisors would recommend or sell managers to their clients based on past performance. It's a pretty straightforward returns-based analysis, whether you're looking at a one-year, three-year, five-year, seven-year, or 10-year returns. Now, in the aftermath of 2008 and Q4 2008 in particular, advisors are going to have a really tough time selling managers based solely on performance. If you take that approach with your clients, the odds are they're not going to be invested in equities for the next one-year, three-year, five-year, seven-year, 10-year period, which would be a real disservice to the client."

Watson says that it's now incumbent on the advisor to focus more on the qualitative aspects of due diligence: understanding the manager's philosophy and investment process, assessing the risk controls on the portfolio, and ferreting out how the manager generates performance. In addition, advisors are going to have to look at a different set of quantitative analytics—rolling-period performance—focusing a clear eye on relative risk-adjusted returns over time. Finally, they're going to have to study longer time periods because shorter timeframes will look horrible on a purely quantitative basis.

[Editor's Note: All data in this article is from Prima Capital Holding and is as of December 31, 2008.]

The traits in evidence at Geneva Capital Management's mid-cap team are typical of all the SMA managers of the year: finding alpha by following a repeatable process that values investment quality above all else

BY MICHAEL S. FISCHER

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AMY CROEN AND Michelle Picard, co-portfolio managers for Milwaukee-based investment firm Geneva Capital Management's \$800 million mid-cap equity portfolio, have always looked for companies with defensive characteristics that offer the potential to grow in the long term—companies that have the financial flexibility to access capital, should they need it, or generate sufficient cashflow if it's tough to get capital in the debt or equity marketplaces. Now, when much of corporate America is caught in the throes of a massive credit crunch, the managers say their selections are actually poised to strengthen their positions in their respective industries.

"A lot of the companies we invested in are taking market share now, so even if their stock prices are down, we want to maintain a core position in those holdings," Croen says.

Aside from strict quantitative analysis, a key part of finding companies that have a sufficient competitive advantage and can make it through tough times is to understand and believe in their management teams. Stock prices often go down because there is a lack of trust in the system, Croen says, but getting to know a management team well means being able to trust that they will do the right thing when it's required.

"When we meet company management, we don't ask them 'Are you going to beat the quarter?' Instead, we're asking them questions like 'Five years from now, what do you think your company will look like? Will you be in the same industries you're in now? If the economy gets worse, do you need to cut expenses?'"



The Wisdom of Experience

EARLY ON IN a discussion with William Priebe, the chairman and founder of Geneva Capital Management, you know you'll hear not only straight talk that doesn't follow the herd, but insight into the current economic and market crisis that comes from a solid academic background (MBA University of Chicago) and 41 years of experience running money in good times and bad. First, Priebe proclaims in response to a question about the Obama stimulus plan, "I am not a Keynesian; I'm from Chicago," and suggests that a more effective stimulus plan would have included some infrastructure investing, yes, but even better would eliminate capital gains for those who start in business this year or next and cutting payroll taxes. "We're in a severe recession, not a depression" that we need "time" to get out of, he argues, and that "when we come out of this there will be a change in attitudes" that might well include better guidance on earnings—"the better the company, the more conservative they are in their guidance" already, he notes—and that the market "hasn't been giving clear signals," before reminding the interviewer that "92% of the people are working."

At Geneva, the stocks the Milwaukee-based firm invests in "are very low leverage companies." Priebe's happy to admit that he's 66, and that he "plans to work indefinitely," and lauds the value of having younger people on a team, including co-founder and co-president Amy Croen.

To hear Priebe explore the current state of investing and bring to bear his experience on how to cope, listen to an exclusive podcast at InvestmentAdvisor.com.

GENEVA CAPITAL MANAGEMENT MID CAP EQUITY

Telephone	720-279-2503
Web site	www.gcmltd.com
Minimum investment	\$1 million
Inception	January 1988
Managers' tenure	14 years
Assets	\$791.9 million
Benchmark	Russell Midcap Growth
One-year return vs benchmark	-35.54% vs -44.32%
Five-year return vs benchmark	2.23% vs -2.33%

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Eighty percent of Geneva Capital's investment process is driven by bottom-up analysis, but there is also a top-down layer that helps, particularly in tough times like these, says Michelle Picard, co-portfolio manager with Croen. Every quarter, the portfolio managers spend time with economists to put together a comprehensive 30-page report on the general economic outlook, and this helps draw attention to any changes on the horizon.

"We saw a slowdown in consumer spending, for instance, because of this research, and in response to that we didn't add any new positions in consumer discretionary," Picard says. "Even if we did, those companies would have had something else to pull them along."

Banking is another sector that was heralded as a red flag by the macro research, and as a result, Geneva Capital has had no banks in the mid-cap portfolio for over a year, Croen says.

"We sold off because we saw a slowdown in bank lending such that consumers weren't getting their home equity loans anymore, and [so] the banking industry wasn't much of a growth industry," Croen says. "Now, it's in a crisis."

Although Geneva Capital is, in general, quite sector-agnostic by virtue of looking for individual company opportunities, the firm nevertheless tries to maintain a diversified portfolio. The strength of the team—which has been together for number of years—is also an important part of its success. Croen and Picard work closely with William Priebe, Geneva Capital's founder, and Scott Priebe, vice president and co-portfolio manager. Each member of the team also invests in Geneva's products, so that "our clients know that we are not just making recommendations to them, but also eating our own cooking," Picard says.—**Savita Iyer-Ahrestani**

LARGE-CAP VALUE AWARD

EATON VANCE

AFTER MICHAEL MACH joined Eaton Vance in 1999, he and his colleagues spent much time crafting the Large Cap Value Equity strategy, which now has a hefty \$18 billion under management out of total firm assets of \$122 billion. "To be successful in the investment business, you need two things: a commonsense approach to your style of investing, in this case large-cap value investing, and a committed team of experienced people who believe in that strategy," says Mach. "If you put those two things together, you're going to have a successful outcome."

Eaton Vance's strategy is to build a diversified portfolio of companies with strong business franchises and good growth prospects. Importantly, the investment team is very disciplined in taking positions in companies only when shares are available at discount valuations. At the same time, Eaton Vance does not buy broken companies with the prospect that they'll turn around and do well. "For us, that's a little too risky," says Mach.

"The first step toward building long-term wealth is doing a good job of preserving capital in tough down markets," he says. "When you look at that philosophy, you'll see a number of risk limiters woven through it." Mach says diversification helps limit stock-specific and sector-specific risk. No position in the portfolio is allowed to go over 3%. Similarly, about 80% to 85% of alpha comes from stock selection. The investment team does not make big sector bets, though occasionally it will modestly overweight or underweight a sector versus its primary benchmark, the Russell 1000 Value Index.

Mach and his team want to buy strong franchise companies.

EATON VANCE LARGE CAP VALUE EQUITY	
Telephone	800-262-1122
Web site	www.eatonvance.com
Minimum investment	\$100,000
Inception	January 1991
Manager's tenure	7 years
Assets	\$18 billion
Benchmark	Russell 1000 Value
One-year return vs benchmark	-33.22% vs -36.85%
Five-year return vs benchmark	3.63% vs -0.79%

They then look for companies with good balance sheets, which will help offset financial risk. They also favor companies that are market leaders because these offer greater competitive stability than a new market entrant or a mid-tier company, and that competitive stability serves to limit business risk. Finally, buying stocks at discount valuations helps to limit price risk.

The goal, says Mach, is to get strong returns without the stomach churn that so often comes with equity investing. What about 2008? "We used a lot of Pepto-Bismol last year," jokes Mach. "Sometimes there's no place to hide." But Eaton Vance hasn't had to do a lot of hiding since Mach came on board, as the portfolio has churned out strong risk-adjusted performance. On a three-year rolling basis, the Large Cap Value strategy has had only one losing period in 10 years.—**Michael S. Fischer**

LARGE-CAP CORE AWARD

GOLDEN CAPITAL MANAGEMENT

GOLDEN CAPITAL MANAGEMENT celebrated its 10th anniversary in March 2009. Jeff Moser and Greg Golden started the firm in Charlotte, North Carolina, to offer strategies they had developed as colleagues at Bank of America, where Golden was lead manager for an enhanced index product and Moser was lead manager for a large-cap core product. Their Large Cap Core portfolio now has a 13-year track record.

At the end of January, Golden Capital had \$2.7 billion in assets under management. The flagship Large Cap Core's share of that was \$1.6 billion, according to Moser. The firm has successfully penetrated the retail distribution channel, and it has access to its majority owner Wells Fargo's wholesaling staff.

GOLDEN CAPITAL MANAGEMENT LARGE CAP CORE

Telephone	704-593-1144
Web site	www.gcm1.com
Minimum investment	\$5 million
Inception	December 1995
Managers' tenure	13 years
Assets	\$1.6 billion
Benchmark	S&P 500
One-year return vs benchmark	-33.91% vs -37.00%
Five-year return vs benchmark	-0.21% vs -2.19%

Golden Capital is primarily a quantitative manager, says Moser. Large Cap Core uses models that he and Golden developed more than a decade ago: a multifactor valuation model and then estimate revisions on an earnings surprise model. The partners run a 50-stock model portfolio, which all clients follow, whether they are institutional clients or involved in wrap SMA accounts. Each of the 50 positions has about a 2% weighting, and the stocks are broadly diversified. Because the product is a large-cap core equity portfolio, it doesn't have any significant growth or value tilts. The investment style is bottom-up. "We seek to add value through stock selection as opposed to any sector or top-down themes or bets," says Moser.

Sector weightings are similar to those of the S&P 500. Large Cap Core is "sector near," rather than "sector neutral," says Moser, who argues that "sector neutral would give the impression we're dead-on with sector weightings, but we do allow a band, usually +/- 5% through the S&P weights. In 2008, that has worked out very well for us."

Moser says the process and the overall investment discipline have remained the same from the beginning, albeit with occasional enhancements. "Every two to three years, we'll do a significant back test and factor analysis on the models to look at new factors that might come into play and existing factors that maybe lose their effectiveness and are replaced in either the valuation model or the earnings surprise model."—**Michael S. Fischer**

SMALL-/MID-CAP VALUE AWARD

ADVISORY RESEARCH

CHICAGO-BASED ADVISORY Research has been in the asset management business since 1974. The privately held firm's highly experienced management team has been executing the same investment philosophy and discipline for a quarter century. Founder David Heller was joined by Brien O'Brien in 1996. Jim Langer came on board in 1999, and Eric Miller in 2006. Advisory Research has \$4.5 billion under management, with \$1.4 billion in the Small/Mid Cap Value Equity strategy.

The investment team follows a patient, bottom-up, fundamentally based research methodology, according to O'Brien. "Stock selection starts out with a very precise, very quantitative screening process, looking for companies selling at a discount to book value, appropriate debt-to-equity levels, which vary with given sectors, and profitability." The team takes the quantitative output of that process and develops a working list, which it combs through to identify candidates for further research. This

in turn prompts a preliminary qualitative research process. For stocks that warrant significant further fundamental research, the team generally seeks profitable companies with significant tangible book value, low levels of debt, and credible manage-

ADVISORY RESEARCH SMALL/MID CAP VALUE EQUITY

Telephone	312-565-1414
Web site	www.advisoryresearch.com
Minimum investment	\$1 million
Inception	July 2000
Managers' tenure	27 years
Assets	\$1.4 billion
Benchmark	Russell 2500 Value
One-year return vs benchmark	-25.85% vs -31.99%
Five-year return vs benchmark	6.88% vs -0.15%

ment teams. Finally, a group of stocks emerges that the team wants to buy.

“We also have our Darwinian process,” says O’Brien. “If there’s a name we want to buy that’s more attractive than something we hold in the portfolio, that causes us to force out the name in the portfolio to put the new name in. This is a real benefit to what we do as far as maintaining a maximum on the number of stocks we buy. It forces us to select the best and the brightest, in our opinion.”

Last year, Small/Mid Cap Value Equity significantly outperformed its benchmark, the Russell 2500 Value Index.

O’Brien attributes that in part to stock selection in the financial services sector. “We generally avoided the financial names that experienced the most dramatic price depreciation,” he says, “or sold those companies that appeared to be under increasing financial pressure as the markets appeared to be deteriorating.”

As valuations climbed significantly but became difficult to support by mid-year, the team aggressively sold several energy issues ahead of the dramatic fall in oil and natural gas prices. Even so, the fund did not entirely escape the decline in prices, says O’Brien.—**Michael S. Fischer**

INTERNATIONAL EQUITY AWARD

HARDING LOEVNER

IF IT IS true that the truly fashionable never follow trends, then Somerville, New Jersey-based Harding Loevner is a truly fashionable investment firm, because no matter the fad du jour, it has always stayed true to the same investment style.

“For us, quality has always been about companies with high margins in defensive industries,” says Simon Hallett, chief investment officer and head of international equity investing for the firm. “I think we deserve a lot of credit for sticking with that approach even when it was not in style during the bull market.”

Now, when defensive is the name of the game and just about everyone is looking to invest in good quality companies poised for growth, Harding Loevner—which manages about \$3.3 billion in assets, of which \$1 billion is in the international equity ADR product—stands a cut above the rest for having consistently favored companies across the globe capable of delivering results over time. The firm does not care about quarterly earnings and it doesn’t even care if a company’s earnings go down on an annual basis. “We only care that at the end of a cycle, the earnings be higher than they were at the beginning,” Hallett says.

While Harding Loevner typically sells a stock after about five years, the firm has no fixed investment horizon, and holds onto equities for as long as they generate steady returns and can withstand industry downturns. Hallett gives the example of French industrial gas company Air Liquide, which was one of the greatest contributors to the international portfolio’s results last year. Harding Loevner has owned Air Liquide for nearly 10 years, Hallett says, and “we have always expected it to generate returns of about 8% per year.” Air Liquide falls under the mining sector, where most stocks did brilliantly in the bull market and then tanked. But even if it is down slightly, it is still steady, thereby exemplifying the kind of holding that Harding Loevner favors.

The firm has also owned Wal-mart de Mexico since the mid-1990s. This is a company with a clear competitive edge that has

taken substantial market share in a very tough industry, Hallett argues, and it was a good source of returns last year even when the broader emerging markets universe surrounding it collapsed.

Harding Loevner places the greatest emphasis upon core, bottom-up investment analysis, both quantitative as well as qualitative. The firm doesn’t accord a great deal of importance to macro factors, since its overriding objective is to invest in high-growth companies no matter where they are located, even if this means taking on additional risk. The firm, for example, has a holding in Russia, which by most accounts is a politically unstable country. According to Hallett, though, Russian politics are completely uncorrelated to politics in other markets, so “by investing there, you have the opportunity to take on very high returns with high risks, but with little correlation,” he says.

As much as Harding Loevner is long-term in its approach to the international equity markets, it is equally long-term in its approach to its corporate culture and to its people. “We have very low turnover,” Hallett says. The firm also favors a team approach, whereby collaboration is paramount but is “not allowed to degenerate into consensus.”—**Savita Iyer-Ahrestani**

HARDING LOEVNER INTERNATIONAL EQUITY ADR

Telephone	908-218-7900
Web site	www.hardingloevner.com
Minimum investment	\$250,000
Inception	December 1989
Manager’s tenure	8 years
Assets	\$1 billion
Benchmark	Russell Developed Large Cap
One-year return vs benchmark	-35.18% vs -43.86%
Five-year return vs benchmark	5.26% vs 1.64%

TAXABLE FIXED INCOME AWARD

SEGALL BRYANT & HAMILL

JIM DADURA AND Greg Hosbein, co-portfolio managers of Chicago-based Segall Bryant & Hamill's Core Fixed Income fund, have always believed that the bond market is inefficient. As a result, many high-quality bonds that can perform in any kind of market have been overlooked, and it is Segall Bryant & Hamill's goal to find these.

With more CFAs than any other firm in the Midwest and seasoned investment professionals with an average of 18 years experience, the firm says it is well placed to make the most of bond market opportunities, and scouting for these where many of the larger bond houses, by virtue of their mandates, cannot go.

An emphasis on diversification and a focus on higher quality securities have kept Segall Bryant & Hamill ahead of its peers. The firm typically invests in issues that range from \$400 million to \$1 billion in size and finance the needs of companies that are not heavily reliant upon debt, Hosbein says.

John Deere, Wisconsin Energy, and Union Pacific Railroad are examples of the kind of companies the firm invests in. They are all large, important players in their industries, yet they do not depend so heavily upon debt, he says, which means they can continue to be profitable even in these tough times.

Dadura and Hosbein believe that there many attractive and high-quality investments to be made across the fixed income universe as a result of the market collapse, provided they are selected using a strict bottom-up process. The fixed income fund is overweight agency bonds, for example, which are doing well this year on account of the U.S government backing they

SEGALL BRYANT & HAMILL CORE FIXED INCOME

Telephone	800-836-4265
Web site	www.sbhic.com
Minimum investment	\$1 million
Inception	January 1987
Managers' tenure	9 years
Assets	\$747 million
Benchmark	Barclays Aggregate
One-year return vs benchmark	7.87% vs 5.24%
Five-year return vs benchmark	5.42% vs 4.65%

have received, and its managers also have their eye on the commercial mortgage space.

Their investment approach aside, Dadura and Hosbein believe that their respective professional backgrounds also contribute to Segall Hamill & Bryant's success.

"I worked in sales and trading at ABN AMRO and Jim came from managing a large institutional portfolio for Chicago Title and Trust," Hosbein says. "This is a nice combination and it has helped make the company successful as we have the trading background plus the structured analytical background."

Carolyn Moriarty, who heads up Segall Bryant and Hamill's internal research effort, is also a key player in the investment process, and "we all work well as a team," Hosbein says. —Savita Iyer-Ahrestani

TAX-FREE FIXED INCOME AWARD

BRECKINRIDGE CAPITAL PARTNERS

PETER COFFIN, PRESIDENT of Boston-based Breckinridge Capital Partners, founded his firm in the belief that separately managed accounts are the best vehicles for investing in high-grade municipal bonds.

"When you own bonds directly, you are not at the mercy of what the market will pay you on any given day, as is the case with bond funds," Coffin says. "I believe that people like the transparency and customization of separate accounts."

Today, Breckinridge Capital manages over 2,500 individual portfolios invested in high-grade munis, and at a time when investors are increasingly concerned with transparency, security, and reliability, it looks as though this number is only set to increase.

Coffin credits his firm's success in the world of municipal bonds to three factors: a strict focus on high quality credits, solid connections with an extensive network of dealers, and a top-notch technological framework to optimize portfolio customization.

"We have always been of the view that the municipal bond portfolio we manage should be the safe and reliable part of someone's overall portfolio, so that when markets go through turmoil, this is one part of their investments that they can count on," he says.

BRECKINRIDGE CAPITAL ADVISORS ENHANCED TAX FREE INCOME

Telephone	614-443-0779
Web site	www.bondinvestor.com
Minimum investment	\$1 million
Inception	September 1994
Manager's tenure	10 years
Assets	\$7.2 billion
Benchmark	Barclays 5 Year Municipal
One-year return vs benchmark	4.75% vs 5.78%
Five-year return vs benchmark	3.64% vs 3.57%

Of course, the municipal bond market was not spared by the financial crisis, and it continues to suffer from the downturn. Yet the higher-quality bonds that Coffin and his team invested in held up well through the worst of it and Coffin believes they offer great potential going forward.

Breckinridge Capital favors the general obligation, plain vanilla bonds of towns and cities, Coffin says, as well as the bonds of “monopolistic issuers,” such as municipally owned electric utilities, which have manageable debt burdens.

There are many such issues that come to the municipal bond market, but the market itself is vast and moves at a very past pace, so it is extremely important to be well connected to it, Coffin says, in order to source out the best opportunities. Breckinridge, though, is right on the money. The firm is constantly in touch with over 100 different municipal bond dealers, both large and small, Coffin says, to get exactly what it is looking for.

Breckinridge Capital also invests in

taxable municipal bonds, an area Coffin believes is set to grow, spurred in part by the Obama Administration’s stimulus bill, which subsidizes municipalities’ issuance of such debt.—**Savita Iyer-Ahrestani**

To read about the SMA Award runners up visit the Web extras section of the April issue at InvestmentAdvisor.com.

How We Chose the Winners

THIS IS THE fifth year that *Investment Advisor* and Prima Capital have selected the best separate accounts. Nathan Behan, Prima Capital’s director of research, and his team of analysts conducted quantitative and qualitative assessments of the thousands of separate accounts on their firm’s PrimaGuide database (available at www.primacapital.com) to develop a short list for the awards.

Each nominee was required to have these characteristics: \$200 million or more in assets under management, wide availability, lead manager tenure of three years or more, and above-average performance in resources, firm structure, performance and tax efficiency. A committee comprising J. Gibson Watson III, president of Prima Capital Holding, Behan, *IA*’s Editorial Director James J. Green and *Wealth Manager* Editor-in-Chief Kate McBride selected this year’s winners.

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