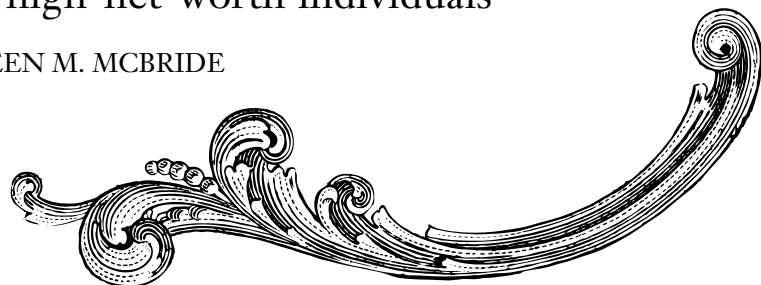




At the Summit

The **Thornburg Value Equity** team exemplifies the traits common to the winners of the **2008 Separately Managed Accounts Awards**: efficiently and effectively delivering targeted, institutional-quality money management to high-net-worth individuals

BY KATHLEEN M. MCBRIDE



GIVEN THE UNCERTAINTY across the investment and economic universe over the past year, it is no small feat for separately managed account (SMA) portfolio managers to continue delivering the alpha, great client service, and firm stability on which the best managers have built their reputations.

As the winners of the 2008 Separately Managed Accounts Awards show, not only can this feat be achieved, but as four of this year's SMA repeat winners demonstrate—including the four-time winners at Thornburg Value Equity—it is possible to do so consistently as well.

While separately managed accounts (SMAs) remain popular among institutions and the very wealthy, one industry trend noted last year that continues is the “steady drumbeat of adoption of models-based multi-manager programs,” according to Denver-based Prima Capital Holding President J. Gibson Watson III. In these programs, SMA managers “submit their portfolio holdings or portfolio models to a sponsor or an overlay portfolio manager,” so operational and administrative tasks are lifted from the portfolio manager's shoulders and borne by the sponsor or overlay manager. In this subadvisory role, money managers license their “intellectual property” to the sponsor, Watson explains, receiving a lower fee than

if they were directly managing the accounts, but leveraging their alpha-generating prowess to many more investors. According to Boston-based research firm Cerulli Associates, as of the second quarter of 2007 (the latest data available), the average subadvisory account size was \$355,231, up from \$334,427 in 2006; the average separate account relationship size rose to \$1,101,216, from \$1,003,282; and clients in subadvised accounts had a slightly higher average number of managers, too: 3.1, up from 3.0.

In the subadvised world, investors benefit from institutional-type money management, often at a much lower minimum account size, and as unified managed accounts (UMAs) grow in popularity, clients can see their entire portfolio on one statement. A UMA's overlay manager can act as quarterback, coordinating holdings among account, asset, and security types, so there's lower probability of overexposure to a company, or asset class, if, for instance, two separate account subadvisors or fund managers include the same holding in their models. For advisors with affluent but not ultra-high-net-worth clients, subadvisory programs can open the door to SMAs because account minimums are often lower for models-based programs. What's “very interesting,” Watson reveals, is that “this whole migration to this unified managed account is really applying a product name to a service that has been provided by the independent RIA [registered investment advisor] for years.”



From left to right: Connor Browne, William Fries, and Edward Maran

Investment Advisor has teamed up with Prima Capital for the fourth year to select the most distinguished separate accounts and their managers, and acknowledge them with the 2008 Separately Managed Accounts Awards. Prima Capital's Director of Research Nathan Behan headed the team of analysts who did the heavy lifting, sifting quantitatively and qualitatively through thousands of separate accounts in Prima Capital's PrimaGuide database, (available at www.primacapital.com), to arrive at a group of finalists for the awards. Each nominee was required to have: \$200 million or more in assets; wide availability; lead manager tenure of three years or more; and above average performance in tax efficiency, performance, resources, and firm

structure. With input from Prima's analysts, a committee including Prima Capital Holding President Watson, *IA* Editorial Director James J. Green, and *IA* Senior Editor Kate McBride selected the winners.

This year there are six awards. For the Large Cap category, there are two awards: for the fourth consecutive year, Thornburg Investment Management was selected; and for the first time, so was Congress Asset Management; for the third year in a row Appleton Partners takes top Fixed Income honors; for the second straight year Geneva Capital Management gets the Mid-Cap award; the International award goes to two-time winner Eagle Global Advisors; and first-time honoree C. S. McKee takes the Small-Cap Award.

2008 LARGE-CAP SMA AWARD WINNERS

THORNBURG INVESTMENT MANAGEMENT

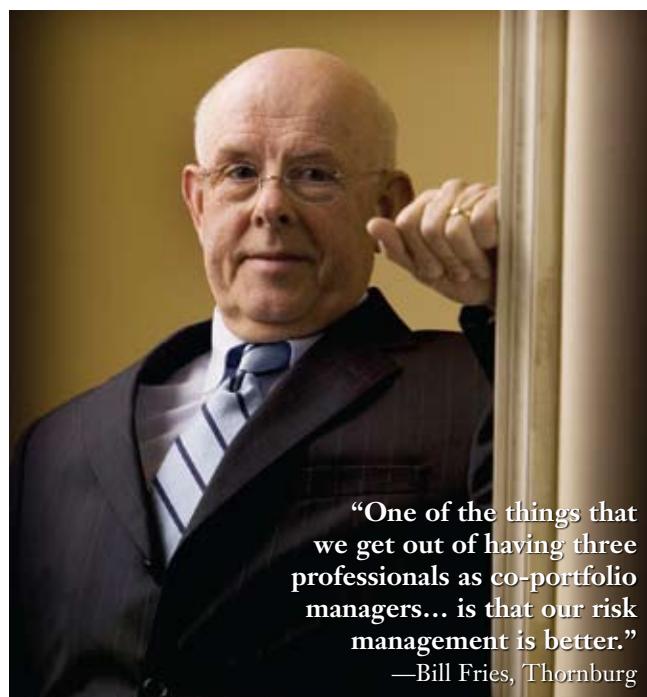
AS THE ONLY separate account management team to win Large Cap honors in each of the four years since the SMA awards were inaugurated, Thornburg's Large Value Equity portfolio's managers, based in Santa Fe, New Mexico, continue their excellent track record of performance, client service, customization, and availability.

Keeping the number of companies in the portfolio at fewer than 50 allows the three co-portfolio managers of the \$11.2 billion Thornburg Value Equity portfolio to focus their "bottom-up, fundamental" analysis on the "growth and value" companies that they believe are the most promising within the universe of U.S. domestic companies, according to Edward Maran, who is co-portfolio manager and managing director, as are Connor Browne and legendary investor William Fries, the founding portfolio manager for the separate account and the Thornburg Value Fund which is the model for the separate accounts. The managers use, Maran continues, "three baskets...basic value, consistent earners, and emerging franchises, and that gives our portfolio diversification which reduces risk, and allows us the opportunity to participate in any market."

"Doing good work on the names—on the individual companies that we're investing in—and only investing in a few of our very favorites is the best way to outperform over the long term," says Browne. The portfolio has performed quite well. For the 10 years ended December 31, the portfolio's total return was an annualized average of 10.93% versus 5.91% for the S&P 500, according to PrimaGuide.

"This is an ideal environment for fundamental, bottom-up analysis," Maran explains, "share prices seem to be being driven by people that are either investing on large macro themes or some sort of quant models, and it's creating some very severe distortions in prices that we're able to identify because we do have a bottom-up, fundamental approach and we know our companies pretty well."

Since January 2006, Fries, Browne, and Maran have been co-portfolio managers and all three have to agree on whatever they do with the portfolio. "We usually measure success in this business by total returns...but really risk-adjusted performance is more important, and one of the things that we get out of having three



THORNBURG INVESTMENT MANAGEMENT DOMESTIC VALUE EQUITY

Phone	800-847-0200
Web Site	www.thornburg.com
Minimum investment	\$25 million
Inception	October 1995
Manager tenure	22 years
Asset	\$11.2 billion
Benchmark	S&P 500
One-year return vs benchmark	7.28% vs 5.49%
Five-year return vs benchmark	16.35% vs 12.83%

professionals as co-portfolio managers, especially the way we operate where we all have to agree before we take action, is that our risk management is better," Fries notes.—**Kathleen M. McBride**

CONGRESS ASSET MANAGEMENT

SINCE 1985, BOSTON-based Congress Asset Management has been investing in large-cap companies that can consistently grow their earnings above average for a three- to five-year period.

CONGRESS ASSET MANAGEMENT LARGE CAP GROWTH

Phone	617-737-1566
Web Site	www.congressasset.com
Min. investment	\$500,000
Inception	January 1985
Manager tenure	11 years
Asset	\$3.5 billion
Benchmark	Russell 1000 Growth
1-year return vs benchmark	12.19% vs. 11.81%
5-year return vs benchmark	12.17% vs. 12.11%

“We’re not bothered about the next one or two quarters,” says Dan Lagan, chief investment officer for Congress, which has about \$3.5 billion of its total \$6 billion of assets under management in separate accounts. “We want to be comfortable with our holdings in the intermediate term, so we don’t worry about a stock having a bad quarter or two if we think it will do well in the long-term.”

In trying to build a portfolio that’s diversified (no more than 25% in any one sector, no more than 15% in any one industry, and no more than 5% in any one security) yet focused on best performance, the Congress team looks for companies with underlying fundamentals that set them apart from others. This requires thorough bottom-up analysis, but also some deep digging to unearth attributes that others might not have found, which could play out positively in the long-run. Lagan cites the example of chemical and agricultural products company Monsanto, one of Congress’s best large-cap performers last year. A company that “many believed to be nothing more than an old chemical name,” Monsanto was in fact extremely focused on extracting efficiency from its business model, Lagan says, which resulted in new product generation and great cash flow.



“Being such a large team forces us to be consistent in our investment philosophy, regardless of the economic cycle.”

—Dan Lagan, Congress Asset Management

Congress is an independent, privately owned firm, “which allows us some flexibility in setting our goals and work environment as it relates to investing in our firm and people,” says Liz Sadwick, senior VP at the company. The company’s profit-sharing plan is invested in its balanced strategy, which uses the large-cap growth portfolio for its equity allocation, thereby aligning its employees’ objectives with those of its clients.

Congress’s approach is team-based, Lagan says, with the 15-member group meeting every week. “Being such a large team forces us to be consistent in our investment philosophy, regardless of the economic cycle,” he says.—**Savita Iyer-Ahrestani**

How the Winners Were Chosen

Prima Capital Director of Research Nathan Behan and his team of analysts—Pat Flynn and Rush Harvey, Large Cap; Matt Zimmer, Mid Cap and Fixed Income; and Clark Whitten, Small Cap and International—use PrimaGuide data on the separately managed account universe, along with their quantitative and qualitative assessments, to select a short list of SMAs that are candidates for the annual awards.

As a first pass, the SMAs need to have \$200 million or more in assets; the lead manager must have three years or more in that post; the product should be widely available; and it needs an above average score in four of the following five PrimaGuide criteria—

Performance: long-term, consistent outperformance against

benchmarks and on a risk-adjusted basis;

Tax efficiency: attention to turnover, holding period, year-end tax harvesting;

Client service: access to investment professionals, communication with clients, account customizations and restrictions;

People and process: the investment process as well as the experience, track record, and number of professionals working on the strategy;

Firm: ownership structure including employee or professional ownership of firm equity, product distribution base, and overall assets under management.

The short list of candidates is then presented to the SMA awards committee which makes the final selection.

2008 MID-CAP SMA AWARD WINNER

GENEVA CAPITAL MANAGEMENT

BEAR, BULL, OR sideways—whatever the market environment, Milwaukee-based Geneva Capital Management LLC is one firm that, according to Michelle Picard, vice president, “sticks to its knitting.”

“We use the same investment discipline in any market,” Picard says. “In the mid-cap arena, we’re looking for companies that have a proven track record of growth, and have a leadership position and management that is looking at the long term, such that their companies can navigate these rather challenging economic times.”

Geneva Capital is largely a bottom-up investor, but the firm also incorporates some top-down fundamental analysis that focuses on more macroeconomic factors, to “shade” the portfolio, says Amy Croen, co-president of Geneva Capital.

“We have always liked mid-cap companies because even if they are in the riskier, more entrepreneurial phase, they still have growth to go,” Croen says. “We have always looked at companies with strong financials and low leverage—the kinds of companies that have not really been popular until recently. We also want these companies to have some kind of sustainable advantage to be ahead of their peers.”

The portfolio management team at Geneva Capital—Croen, Picard, co-president William Priebe, and investment analyst Scott Priebe—work very closely together. While other firms might boast of a “star” portfolio manager, the modus operandi at Geneva Capital is more egalitarian, with all four members of the management team getting an equal share of the portfolio to focus on.

“Each of us brings in three to four unique, high-quality names for approval every year. We all go to different conferences and have opportunities to see different sectors, so we cover far more ground,” Picard says. “We are on the ground a lot, too, spending time with company managements and doing a lot of due diligence work.”

Geneva Capital’s mid-cap portfolio typically features between 50 and 60 companies and management tries not to

From left to right:
Michelle Picard
and Amy Croen



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—Amy Croen, Geneva Capital

GENEVA CAPITAL MANAGEMENT MID CAP EQUITY

Phone	720-279-2503
Web Site	www.gcmltd.com
Minimum investment	\$1 million
Inception	January 1988
Manager tenure	18 years
Asset	\$1.3 billion
Benchmark	Russell Mid Cap Growth
One-year return vs benchmark	17.00% vs. 11.43%
Five-year return vs benchmark	17.00% vs. 17.90%

get caught up in the day-to-day machinations of their stocks. “We buy with a long-term horizon as we believe this gives us an advantage,” Croen says. “The key is finding companies that can weather the economic storm, so they need to have more financial flexibility and be in a better position to take on market share.”

Seventy-five percent of Geneva Capital’s \$1.6 billion in assets under management is in separately managed accounts.—**Savita Iyer-Ahrestani**

Photography: Tim Evans

