

FUNDfire

New Firm Could Shake Up Emerging Manager Field

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By Chris Larson

The manager of emerging managers firm Leading Edge Investment Advisors has only been in existence a week, and it has no clients as of yet. But the firm's birth has the potential to affect the fortunes of the two dominant players in the field, something smaller rivals are hoping to capitalize on.

Clayton Jue launched his new San Francisco-based shop a week ago, as previously reported in FUNDfire. Jue opened shop a few days after leaving Northern Trust Global Advisors, where he oversaw that firm's manager of emerging managers program. He took four NTGA employees – the bulk of his team there – with him to his new firm. Jue also recruited three investment staffers from Progress Investment Management, where he worked until 2002. Progress, with about \$4.5 billion in assets under management, is the largest manager of emerging managers, with NTGA's \$4 billion a close second, according to industry experts.

Lester Hollis, CEO and president at manager-of-managers Bivium Capital Partners, says the departures to Jue's new firm can't help but affect NTGA and Progress, perhaps to the benefit of other firms. "Progress is the largest, and was a pioneer of the emerging manager industry," Hollis says. "Anything that disrupts that entity is meaningful."

The personnel changes at the two largest players in the space could mean plan sponsors – who are showing ever-greater interest in emerging managers – may take a look at the mandates that those two firms currently hold. "I would imagine every client of Northern Trust, especially those that were won under Clayton's leadership, will be evaluating whether to leave their assets at Northern, or to reallocate them to someone else," Hollis says.

Jue says his new firm received numerous calls from potential clients during its first week of existence. "There's been a lot of inquiry from everybody out there," he says. "Some former clients are certainly interested in what we're doing."

The departures of Jue's new employees, and the recent CIO departures at both NTGA and Progress, leave holes in each firm's investment teams. Jue says his emerging manager product at NTGA had an eight-member investment committee; five of those committee members have left the firm recently. Jue and two others are now at LEIA; CIO Margaret Towle left in March, and senior investment analyst Jeffrey Sutton left in June. Robert Furnari, whom NTGA has tapped as the interim head of the emerging manager of manager product, sits on the investment committee, as do two others who remain at the firm.

An NTGA spokeswoman says the firm has hired the recruiting firm Heidrick and Struggles to find replacements for Jue and his team members who left with him. She could not be reached for comment on the composition of the investment committee.

According to Jue, Progress' investment team had about 10 members until four recent departures: the resignation this month of CIO Donna Gilding, who took a job at a wealth management law firm in St. Louis, and the three departed employees who are now at LEIA. Mona Williams, Progress' senior v.p. for marketing and

client service, said early last week that the firm “continues to have an exceptional, experienced team of investment professionals.” She was traveling Friday and could not be reached for further comment.

A spokeswoman for the California State Teachers’ Retirement System, an NTGA client, declined comment when Jue’s departure was announced earlier this month, other than to say the system keeps a close eye on managers who undergo significant personnel changes. Similar words come from the California Public Employees’ Retirement System, whose emerging manager program is run in part by Progress. Progress is also one of five firms that were recently named to a pool of managers-of-managers whom CalPERS may use to manage allocations to a new emerging manager program. That program has not yet been funded, a spokesman says.

The Illinois State Universities Retirement System has been a client of NTGA’s manager of emerging managers program since 1997, and now has about \$150 million with the firm, says Executive Director James Hacking. The product has been performing well, Hacking says, with a one-year return net of fees of 10.2%, compared to a benchmark of 9.1%.

Hacking says it’s far too soon to say if the system may consider any changes to the mandate, but adds, “Any time there’s a major change within an organization, especially the portfolio management team, it’s a cause for concern, and we’ll take a very close look at it.”

He also notes that a pension fund like Illinois SURS is “not structured to make snap decisions,” pointing out that any potential changes would have to be reviewed by staff and consultants before being approved by trustees. Such procedures, which other large institutional investors also have, could give NTGA and Progress time to install new portfolio managers and analysts and retain their existing clients, and their top spots within the field.