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## **Get Past Typical Approaches When Seeking Active Managers, Says Federal Street**

In order to get the most out of active managers, institutions need to go beyond the checklist approach to identifying quality firms, according to a new report from investment consultant Federal Street Advisors.

Andrew Shepard, a research analyst with Boston-based Federal Street and author of the report, said that he decided to approach the topic as a means to shed some light on the firm's process in identifying active managers, but to also address why the best firms can't be found through only performance and database screening.

"The first step is to understand what you're looking at in the first place, since there are many types of managers in different strategies, and understanding how that manager might fit in the overall portfolio," he said.

Shepard said that in more traditional asset classes, it is often times easier for fiduciaries to screen for managers based on past performance, database rankings and a "checklist" approach. But what those screens don't identify are the likelihood that strong performance will persist and that high database rankings usually follow with a large inflow of assets, which might not allow that manager to perform as exceptionally as they did in the past.

"I think performance is important, and it is one starting point, but we want to have a manager that has been successful and that is an element that needs to be put in context with their strategy and drivers of market performance," Shepard said. "Perhaps as important or perhaps more importantly, is taking time day-to-day to meet managers face-to-face. A lot of times you'll find, and this is sometimes the case with smaller managers, [firms] that don't market actively or are in databases."

Shepard said that by taking a "detective's approach to investing," fiduciaries will find that managers aren't always what they seem, for better or worse.

"At the end of the day, we're people investing in people," he said. "It's that fruitful discussion that can give signs to potential issues, good or bad," he said, adding that how a team interacts, how it is compensated and motivated and how those dynamics translate into the day-to-day process of the firm play key roles in whether that firm is recommended by Federal Street.

The complete report can be found on Federal Street's Web site (<http://www.federalstreet.com>).