



Profiles

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Profile: John LaPann & Jen Murtie, Federal Street Advisors

It's not often an investment consultant can say it was far ahead of its peers in either taking on a new idea or being part of an innovative trend, but **Federal Street Advisors** makes a strong case for both.

President and CIO **John LaPann** said the concept of keeping a close watch of investment manager portfolio risk and back office functions has always been a priority for the firm, allowing them to reduce portfolio changes and more comfortably weather financial storms than some of its peers. "Bulking up" those functions at Federal Street, as other firms have claimed to have done in recent months, hasn't been necessary since they have been in place from the start, he said.

"It's been fun for us to watch something we've done all along become popular," LaPann said. "Transparency, operational due diligence—everything we've built our business around—has been moved to the forefront."

The advisor's notable presence in the socially-responsible and mission-related investment space is directly related to its original mandate to dedicate resources to the space when the firm began in 1991, well before the term "mission investment" was even coined by the financial sector. **Jen Murtie**, director of foundation services, said that the socially-responsible and mission-related work Federal Street has done for years paid off lately, as the sector has grown and foundations increasingly discuss ways to align investment portfolios with their organization's mission.

More recently, Federal Street has hosted two mission-related investment conferences for foundations that have focused on climate change, which grew from 100 attendees two years ago to 450 attendees last year, indicative of the growth of interest in the sector and the nearing of implementation rather than only discussion, Murtie said.

"We want to run these forums to spread the word that there are viable options out there and reasonable people were pursuing them," LaPann said.

LaPann attributes the advisor's growing nonprofit business to its fundamental philosophy of tailoring portfolios to specific client needs, whether it is in the implementation of a socially-responsible portfolio or a diversified asset allocation strategy.

"The nice thing about us being a boutique size is that we are successful at avoiding the herd mentality," LaPann said of the firm, which advises to over \$3.5 billion in client assets. "All of our clients and their individual objectives have come first, and that's been the culture of the firm. We have a lot of depth and senior people, all that have left big institutions because they want to work with clients."

Thoughts On Assessing Managers

To maintain its collaborative thought process among its research staff and consultants, the firm keeps a



John LaPann



Jen Murtie

consolidated list of approved, institutional-quality investment managers as opposed to a broader list of firms in an effort to maintain consistency across the board when making recommendations. Those managers are scrutinized consistently by both the advisor's investment committee and staff, which have final say over manager approval.

"We know that our clients can meet objectives using index funds, but we believe we can find active managers that are going to add value on a consistent basis over time," LaPann said. "...Whether or not they can do something significantly special, if they're going to add return and reduce risk, that's a fundamental for us in manager searches."

And since many of Federal Street's clients are taxpayers, the firm's manager research process focuses on active managers that can outperform the index by a large enough spread to cover taxes and fees that the typical taxable investor would experience annually. And for nonprofits or other institutions that are tax-exempt, those are extra dollars they can put in the bank.

When evaluating managers on the quantitative side, Federal Street looks to screen the universe in each asset class for managers who have sizable performance in excess of the index over time without taking additional risk. Because that tends to narrow the field down significantly, LaPann said, it becomes a good transition into the firm's additional analysis of ensuring returns are consistent and determining that a firm has added value in both management and philosophy as opposed to fortunate market timing.

"Anyone can go online and look at manager histories, so our added value is in our judgment on whether that will persist," he said. "We need a long enough history to sort out luck from skill."

Once those fields are narrowed down, LaPann said it is extremely important to make on-site visits. "It is absolutely critical for us to see the managers and where she or he works," he said. "You step in the office and get a feel about the type of organization it is and it gives you a sense of their style."

LaPann said that one of the critical factors for Federal Street is talking to the different senior members of a firm and making sure they are all on the same page, but more importantly, getting behind the scripted or "canned" response.

"We won't be the first consultant they've talked to or the last, so we need to get beyond the canned spiel and get a real sense of how they think, how their office works and who's making decisions, which will tell us where potential risks may be," he said.

For Federal Street, a significant amount of due diligence is put toward understanding the decision makers and being confident in a firm's leadership structure, avoiding "one-man show" firms and any risks associated with having too little or too many assets and how those assets are spread among clients.

"We have passed on managers who cannot articulate decision-making methods because we can't tell if they're intuitive geniuses or just lucky," he said.

Murtie said vetting socially-responsible and mission-related managers is no different for Federal Street, which also convenes with managers annually in the Boston area to provide firms with education on moving closer to implementation in institutional portfolios while also having the opportunity to share their own ideas and concerns in the sector.

Federal Street evaluates environmental, social and governance investing processes and capabilities, including the source, depth, and independence of manager ESG data, and the value they are able to add beyond standard stock screening, for example through shareholder advocacy or direct community involvement. Murtie noted that while recommendations reflect industry-standard ESG criteria, Federal Street also monitors issue-specific products that focus in areas such as community investing, education, health, climate change and animal rights.

On Client Education

Because fiduciary responsibility is a substantial part of Federal Street's client investment process, LaPann said it is in the firm's best interests to make sure organizations have a clear understanding of the process

of reaching certain goals in a clear, concise manner—one that is devoid of phrases such as "correlation coefficient," he joked.

LaPann said that many clients have come to Federal Street as its first consultant or after coming from a relationship where they wanted to know more from their advisor and couldn't. Murtie said part of educating organizations is guiding board members, administrators and families through an "Investments 101" course to help them comprehend the basics of a portfolio, while being able to ask the questions they might not feel comfortable posing during a board meeting.

The firm's Web site supplements its internal education with online tools and white papers that address timely topics, with the most recent postings taking on the subject of consultant-client relationships and the subject of hedge fund investing. For the more literary client, a reading list from Federal Street staff and other clients is also available.

More recently, Federal Street has spent time working with the new generation of nonprofit investors within its family foundation clients, assisting them in understanding assets and how to maintain a long-term outlook in managing them.

"What's curious about that though is a push for intergenerational education is going other way too," LaPann said. "Nonprofit members in their twenties and early thirties are encouraging their older compatriots to learn more about social investing and fold it into the fabric of what they're doing."

<p>Organization: Federal Street Advisors Location: Boston, Mass. Established: 1991 AUA: Over \$3.5 billion in assets Web site: www.federalstreet.com Firms: Should e-mail info@federalstreet.com or go Federal Street's Web site for additional information about its manager research process.</p>
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