

Emerging Manager *Monthly*

The Trusted Source for Emerging Managers

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CalPERS Guts Public Equity Emerging Manager Program

The \$384 billion California Public Employees' Retirement System cut roughly \$2.9 billion from its public equity emerging manager program and terminated four of its five emerging managers-of-managers on Oct. 21, the plan confirmed.

The changes are part of a review of the plan's external active equity managers that has focused on risk and making investments that can hit a 7% assumed rate of return, resulting in the global equity portfolio moving to 95% internally managed from 80%, with 78% of the plan's total assets now internally

managed, a plan spokeswoman said, in an e-mail.

In the public equity emerging manager program, Legato Capital Management will remain as the sole manager-of-managers, handling approximately \$500 million, which is a nearly \$400 million reduction from the roughly \$888 million it oversaw as of June 30.

The managers-of-managers who were let go are FIS Group, Leading Edge Invest-

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REITs Top Third Quarter Performance

REITs had their day in the sun during the third quarter, as the top three performing strategies came from the strategy, according to the latest EMM quarterly performance rankings.

The strength of the quarter left Adelante Capital Management's ACM New-CORE strategy as the top performing manager, not only for the period ending Sept. 30, but also for the one-year period. The strategy returned 9.37% for the quarter and stands at 32.52% for the one-year period.

Granahan Investment Management's Small Cap Focused Growth strategy had the top three-year returns at 29.95%.

Overall, 1,008 products from 354 firms were included in the report, with large-cap core remaining the most popular strategy with 91 products.

Managers were required to enter firm asset and product asset data for the period ending Sept. 30 as well as performance figures for the quarter to be included.

Firms included in the report have less than \$2 billion in overall assets under management and portfolios with greater than \$10 million under management.

The report also includes all women- or minority-owned firms regardless of firm asset totals while maintaining the minimum product requirements.

All products are screened gross of fees.

Please see the full disclaimer in the full report for details on how the data was collected from the Infoma PSN database.



While EMM's first two annual features on the veteran-owned investment management universe focused on the number of firms in the space and the obstacles that stand in their way to accessing capital, it felt important to focus this year's issue on assessing the pipeline problem in terms of the stream of veterans coming into the investment space overall.

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VETERANS: Lack of Awareness, Interest A Challenge For Vets

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In order to fully evaluate the issue of a lack of veteran-owned firms, it is imperative to take a step back and look at the number of veterans actually entering or interested in entering the space, and what may be potentially disrupting that—be it a lack of interest or awareness of the opportunities in the space or the inability to complete the requirements necessary for being hired in the investment industry.

Managers agreed that there is a pipeline problem when it comes to getting veterans interested and aware of opportunities that may exist for them and their particular skill sets in the investment industry.

Derrick McGavic, managing principal at Newport Capital Partners and a former officer in the Marine Corps, said that the pipeline problem is sequential.

“The mission of the military is not financial services, so for someone who served and then left, unless they went to either a grad school program with investment services or somehow was specifically recruited into an investment services business, there’s not a natural path. And I think that is a challenge,” he said.



Derrick McGavic

Greg Parsons, ceo of Semper Capital Management and a former captain and infantry officer in the Marines, finds that the pipeline breaks in two dimensions, with the first being a lack of infrastructure available on the path to finance.

“This becomes even more problematic given only a small percentage of veterans transition out of the military into school, whether that’s college or business school. So, there’s a resulting lack of info and access and acknowledgment of the opportunities in finance,” Parsons said.

“On the flip side, I think that the financial services industry is not built with the right tentacles into the military in terms of recruiting to capture one of the strongest embedded resources in the country,” he added as the second dimension.

James Russo, founder and chief investment strategist for Altrius Capital Management and former naval aviator in the Marines, finds that one of the problems with the pipeline is that “the financial services industry tends to pull from the more traditional routes, the larger business schools,” he said.

“When you’re an infantryman or pilot coming from a non-traditional route, you really aren’t looking into that type of space, so unless the military members are willing to come out of the military after service and go back to school and use their GI Bill, and

oftentimes they’re married and have kids and can’t do that, unless the businesses are willing to hire them with a very different type of background, they’re reluctant to do that,” Russo said.

“There’s a lot of discussion about trying to hire veterans, but I think the pipeline for working on Wall Street is very small and those coming out of the military don’t have the background,” he surmised.

Lack Of Awareness, Interest A Challenge For Vets

There are approximately 230,000 to 245,000 enlisted service members and officers leaving the military each year, according to a 2017 study from Brown University’s Watson Institute for International and Public Affairs.

Further, between 2014 and 2016, 65% to 80% of veterans left the military without a job as they were “expecting to find meaningful employment quickly,” the study found.

Veterans looking for work after departing the military may remain unprepared due to a variety of reasons that include “unrealistic expectations of how their skills will transfer to the civilian job market,” according to the study, which notes that skills veterans bring with them such as persistence, reliability, conscientiousness and attention to detail can actually be barriers to entry as those attributes are found to be undervalued in civilian workplaces.

The study notes that veterans are also in need of greater access to education and when coupled with the other aforementioned issues, makes it clear that the path to success in the finance and investment spaces, let alone the general workforce as a whole, is not so simple.

Various challenges stand in the way of attracting more veterans to the space, not the least of which is many veterans’ lack of awareness regarding opportunities for them within the industry.

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I think the challenge is they don’t know it’s there. I remember sitting through the weeks of transition classes when leaving the military...but there are very few financial institutions that are in there.

member sitting through the weeks of transition classes when leaving the military and they’ll tell you your skill sets will transition,” said Dan Boyle, director of institutional accounts at Alpha Architect and another former Marine, noting that representatives from various industries attend the classes.

“But there are very few financial institutions that are in there,”

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VETERANS: Investment Management Offers Unique Opportunities For Vets

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he continued. “In most cases they don’t know and we’re probably not doing a good enough job of letting them know we’re out there.”

McGavic brought up a similar issue, pointing to a lack of exposure. “How can a veteran be interested in an industry that they’ve never been exposed to?” he said, noting that it is up to the industry to fix that.

“The more exposure, the more veterans will enter the investment world, and the more veterans that enter the investment world, eventually there’s more veteran leaders, and they’re going to recognize the values of a veteran skill set,” McGavic continued.

Brody Howatt, cio of Bellator Asset Management and former captain in the United States Army, said that an issue that may arise for veterans that are looking to enter the finance and investment space is that “it’s not very team oriented.”

“I think a lot of vets are just frustrated with the lack of possible teamwork, even though the portfolio teams I’ve seen that are the most successful are the ones that work as a team,” Howatt said.

Additionally, he said there’s a belief that veterans don’t have the aptitude to succeed in the industry.

“It’s unbelievable to me when you have people that come from one of the [military] academies, which are some of the top engineering schools in the country,” he said. “I think it’s a big mistake and I think a lot of people in these business development teams do not understand a lot of the qualities that are needed to be a successful portfolio manager—leisure capabilities and being able to perform under pressure.”

Parsons noted that one of the biggest problems in the veteran space is a lack of education about the broader financial services industry and the available support programs.

“How do you build the communication bridge for folks so that they know what’s available to them?” Parsons said.

Tony Breault, senior real estate investment officer for the Oregon Public Employees Retirement Fund and former officer in the United States Navy, finds a specific problem in that financial firms “do not court or seek people coming out of the military because the breeding ground seems to be people that have an MBA,” he said.

“Coming out of the military, if you don’t have the college degree, that eliminates you from going into the investment space,” he added.

However, Breault noted that veterans have gained leadership skills that cannot be attained through the civilian workforce.

“I think the one thing that the military brings that is not seen in spades is leadership,” he said. “In order to survive in the military, you have to learn to empower and provide a motivational aspect that works with you and for you. It’s just not a trait people are taught in the first 10 to 15 years of a normal person’s career.”



Brody Howatt

How To Attract More Vets To The Investment Space

In order to grow and expand the veteran-owned investment manager universe, it is imperative to grow the number of veterans interested in entering the pipeline.

McGavic noted that one reason for a veteran to look into the investment space is their decision-making ability will “over the long haul generate much higher rewards than going into another type of industry,” he said.

NovaPoint Capital CIO Joseph Sroka, a former infantry officer in the Army, mentioned that the analogy he always tries to explain between military and the investment world is risk management.

“Investing is not always about being very aggressive, or having an alpha personality,” Sroka said. “It’s really about being thoughtful and having the perspective to say, ‘How am I going to get the greatest returns at the least amount of risk?’ Veterans are more naturally risk managers than they are all-out risk takers.”

Sroka also explained that the investment space is interesting for veterans because “it doesn’t really parallel what they did directly in the military, so it looks like a refreshing change of career.”

McGavic highlighted the various skills provided by the military that relate directly to investing.

“My argument would be that the ability to make decisions effectively, efficiently and be able to adjust, those skills are absolutely straight on pertinent to the investment climate and those are skills that the military teaches in abundance,” he said.

Boyle finds that there are multiple connections between military experience and the investment space.

“In the Marine Corps, you’re not doing the same thing every day. Whatever you think your day is going to look like going in to work is often not the case, and that’s one of the great challenges I enjoyed in the Marine Corps and the same in the investment space,” he said.

“You still have to accomplish missions, which is not dissimilar in this space. You need that same understanding of mission accomplishment and how to be successful. That’s what I was drawn to,” Boyle said.

Alpha Architect COO Pat Cleary, who served in the Marines as a captain, added that veterans have seen “to varying degrees what either violating integrity does or being sloppy in the Marine Corps or being complacent does to you,” he said.

“You get a degree of loyalty and transparency you’re not going to get with other firms,” Cleary continued.

Kirk Sims, who heads the emerging manager program for the Teacher Retirement System of Texas, emphasized the diversity of ex-



Joseph Sroka

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VETERANS: Programs Helping To Garner Interest, Ease Transition

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perience in a veteran background.

“Most of the time, [veterans] experiences are incredibly diverse compared to the general population,” Sims said. “Their ability to process data, to react to situations, are much different than what a civilian has seen. I think that there’s a distinct skill set there.”

Vet-Focused Programs Help Garner Interest, Ease Transition

There are resources available at many large financial institutions to help integrate veterans into the investment and broader financial space, help ease the transition to the civilian workforce and also make veterans aware of potential opportunities.

Some of the popular programs include:

- Goldman Sachs’ Veterans Integration Program launched in 2012 and recruits troops transitioning from the military to the civilian workforce, helping them to develop their professional skills as well as strengthen their understanding of financial services and potential careers in the industry.

- BlackRock’s Veteran Network works internally and externally with transitioning veterans that want to work in finance. The firm also launched a new initiative this year called Vests-ForVets “to recognize the significant transition veterans undertake while leaving the military and moving on to their next career chapter,” according to the firm. On Nov. 11, participants will wear vests purchased through the program and a portion of the proceeds will go toward American Corporate Partners, which is a mentorship program for veterans and active duty spouses.

- J.P. Morgan offers an internship program for undergraduate students who are active in the military or veterans to gain experience through the different career opportunities available at the firm.

- Blackstone Group launched its Veterans Initiative in 2013 in partnership with President Barack Obama, First Lady Michelle Obama, V.P. Joe Biden and Dr. Jill Biden and includes all portfolio companies in its goal to have 100,000 veteran hires by 2022.

- UBS employs a Veterans Associate Program that offers a 20-week customized post-military program.

- KKR launched its Vets @ Work program in 2011 aimed at recruiting, hiring and retaining veterans across its U.S.-based private equity portfolio companies.

Programs that assist veterans in integrating into the financial and investment world are “critically important,” McGavie said.

“Looking at it with the perspective of someone leaving the military, there’s almost no perspective of the investment management world,” he noted. “That any organization has any type of outreach to veterans is extraordinarily commendable and I think it’s vital.”

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“The large firm transition programs offer a lot of value because they can expose veterans to the industry and as they find opportunities to move up within that organization or potentially with other firms, that initial opportunity is what gave them their foothold in the industry,” Sroka said.

Parsons said that while things are changing for the better in terms of veteran engagement, there remains a “real lack of support or knowledge on how to best empower vets to handle the transition,” adding that the answer to that issue is for individual companies to build programs that address the situation.

“It is going to take individually sponsored company programs to really drive change,” Parsons said. “And so I think the more that the J.P. Morgans, BlackRocks, Sempers of the world focus on the community and the culture element of how to support veterans, not just in how to recruit but also in how to train and retain folks, that will be a critical next step for the space.”

Cleary finds that while the programs and resources do a good job of pooling the available talent out there, they might not be finding other, less obvious but available talent.

“[The programs] are well run and do a good job of getting talent in there and growing the talent. My only push back is that there’s a lot of talent out there, and they benefit from being able to pick from the officers that typically have grad degrees from major MBA programs. The challenge is finding the other pockets of veteran talent that exist out there that’s less transparent,” Cleary said.

“There are tons of [non-commissioned officers] and enlisted Marines that know how to program, code and taught themselves a lot of the skills that traditional asset managers don’t even have,” he added.

Boyle echoed his thoughts, saying, “An interesting insight into how the asset management space is changing is there’s less of a reliance on traditional fundamental stock picking. Now tech is driving so much and you don’t need to be a Wharton MBA to be able to do that. A lot of these guys grew up playing video games, they’re very savvy when it comes to tech and writing these algo-



Greg Parsons

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VETERANS: Real Discussion On How To Fix Pipeline Problem Needed

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rhythms these asset managers are relying on.”

Parsons also agreed that the veteran programs must seek out the less obvious candidates in need of assistance.

“It’s very easy to build a program to go after the veteran community graduating from Harvard business school, but those aren’t the ones challenged with lack of opportunity,” Parsons said. “How do you capture the 27-year-old coming out of the military but not taking the educational detour that sets their career trajectory?”

While Parsons was an officer in the Marines and had a degree, he did not go to graduate school.

“I got off of deployment on a Friday and by Monday I was banging on doors, doing traditional networking, but not really having a very educated view on what I was looking for and how to best approach the space,” he said, reflecting on his own experiences of making the transition.

“What was universal was folks interviewing me in financial services had no idea what to do with me,” he continued. “There wasn’t any type of thoughtful approach to, ‘Let’s take a step back—this person spent four years in the military, here’s what their strengths are going to be and professional weaknesses, how can we build a program to take advantage of those attributes and strengths and weaknesses?’”

Working To Fix The Pipeline

Pointing out and talking about the problems is easy, but finding ways to correct them present true obstacles and promote real discussion on how to fix the pipeline problem.

Parsons finds that it is the responsibility of individual financial companies and corporations to “set the tone, tenor and pace to plug into the community.”

“It’s incumbent upon individual companies to define their own program, ensure they’re thinking about it holistically—recruiting, training, retention and satisfaction. And if you don’t think about those four parts equally, you spend all your time on recruiting, but then there’s a massive culture of dissatisfaction and it’s not going to work,” he said.

Russo said that it is difficult to have an impact on the hiring process at larger financial institutions and encouraging them to hire more veterans when the pool of existing veteran-owned firms is so small, pointing to the larger problem of those in positions of power hiring “people like them.”

“I think it’s the same thing with anything, hiring people you’re familiar with and that you know and maybe it’s going to take a few of us to break through and make it to a ceo position to break down those barriers, but until that happens it’s a tough crossover,” he said.

While Sroka finds it is “very hard” for veterans to come straight from the military and start a firm, he does think they’re capable of starting in the industry “at some level,” he said.

“I think probably the best thing veteran emerging managers can do is reach out to their peers and ask for advice; have us learn from each other,” Sroka said. “I see that in every industry—being a veteran, veterans as a whole are often seen as extremely close-knit, and I think we should take advantage of that.”

West Point Grads Team Up To Run GreyArc Global Investors

Richard Swift and Chip Krotee, co-founders of global investment firm GreyArc Global Investors, began their journey 30 years ago while attending the United States Military Academy at West Point.

The duo played soccer together at the academy and then went on to serve together in the 1st Armored Division in Europe in the United States Army, where Swift was an artillery officer and Krotee an infantry officer, after graduating from West Point in the early 1990s.

Their time spent at West Point influenced the GreyArc name.

“The name GreyArc is a bit of a ‘mashable’ – grey is a color that you see if you ever go up to West Point, it’s the predominant color up at West Point, and that’s where the relationship began and certainly the military connection begins,” Krotee explained. “And then ‘Arc’ is, there’s a lot of arches and arcs and then there’s the arc of the story of how we got together.”

Following their time in the Army, the pair both entered the hedge fund world, where Swift started as an analyst focusing on short selling at Red Coat Capital Management and Krotee launched a healthcare fund focused on biotechnology.

Swift and Krotee’s paths would later converge again when Swift moved to GreyArc’s parent company Axonic Capital in 2015, where he joined fellow West Point alumnus and Axonic CEO Clay DeGiacinto, who asked for Swift’s assistance in growing the firm.

Swift began to shift his focus to equities, incubating a long-only fund in 2016 that “worked really well,” while Krotee joined him in 2018 from Perella Weinberg Partners to help grow the effort and establish GreyArc.

The GreyArc team is further bolstered by Director of Research John Fleming, Senior Analyst Debbie O’Malley, Analyst Brendan Donohue, Marketing Director Kelli Cook, Investor Relations Head Hannah Holliday and Junior Analysts Reiko Johnson and Nathan Li.

The firm currently employs a long-only and long/short strategy which utilizes nonprofit organization JUST Capital’s data on publicly traded companies and how they “perform on the issues Americans prioritize” to inform their investment process and portfolio construction.

“This concept of ESG or impact has been something that the marketplace has struggled with for a little bit of time and a lot of that has to do with data. In our investment process—and specifically we have a multi-factor model that we use for screening names—we’re always looking for new factors or new sources of data that can enhance that model,” Krotee said.

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