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Reflecting On The Battle: How Veteran-Owned Managers Have Fared

When Emerging Manager Monthly first began covering the veteran-owned investment management space with our maiden feature in 2017, the amount of information available on the space was limited.

Over the last three years of running this feature, we've discussed at length with the managers themselves as well as consultants and other allocators on the reasons for that – coming to conclusions that include a lack of visibility and a narrow pipeline of talent coming into the space.

With emerging and diverse managers seeming to have garnered more attention in 2020 than in years past, it's important to look back on those issues to see if progress, if any, has been made and whether words are transforming into action.

Has The Space Experienced Growth?
Why isn't the veteran-owned investment management space bigger?

That question was the main crux of our 2017 story alongside discussion on many of the qualities and characteristics of veterans that translate directly to asset management.

Derrick McGavic, former officer in the United States Marine Corps and managing principal at boutique real estate firm Newport Capital Partners, feels "a little bit more" optimistic now than he did three years ago.

"I think over the course of three years, from a variety of sources, there has been a slightly enhanced perspective on the behalf of larger managers relative to the value of veterans," McGavic said. "I know, for example, that BlackRock has spent a lot of time, energy, money and thought to increase their exposure to veterans. And I think generally speaking, across the board, that there has been improvement."

The space still has a long way to go, but McGavic feels better about veterans, specifically those recently coming out of service, "being approached and there being an awareness of opportunities in the financial sector," he said.

Joe Sroka, former infantry officer in the U.S. Army and co-founder and cio of equity manager NovaPoint Capital, sees the pipeline coming into the industry becoming "more robust."

"I see more and more about whether its undergraduate business programs or MBA programs or the CFA program – all are trying to attract veterans," Sroka said.
While veterans won't be owning their own investment management firm from day one, Sroka finds that his own firm has "both lengthened and widened the pipeline."

"I do a lot of career transition counseling for veterans as well as several people on my team, and we talk to lots of veterans that are like, 'Okay, what's the path for me to get into investment management?' And the first start is what's your skill set and schooling situation – do you need academic, do you need professional designation, do you need an entry-level position, do you need a mid-level position in the industry?" he said.

Overall, Sroka believes that the industry is attracting more veterans, though whether that has developed yet into more veteran-owned firms coming to market has yet to be seen.

Domestic fixed-income manager Semper Capital Management CEO Greg Parsons, a former captain and infantry officer in the Marines, thinks about the veteran-owned investment manager ecosystem from two different angles when evaluating progress in the space.

"Are there more internally, are we making traction with respect to how veterans become involved with finding jobs and/or building firms? Is there more capacity, are there more folks coming into the space?" Parsons asked.

"And then there's the, from a peer group perspective, when we look around, are there more veteran-owned platforms emerging?" he added.

Parsons finds that there are more programs in place driving increased veteran participation from an individual perspective, especially as he maneuvers within the space himself.

"As I navigate when I'm looking to hire or talking to clients about veterans, the quality of them — it feels like the old answer of 'it's a narrow funnel, I can't find what I'm looking for in that space,' isn't sufficient because it certainly feels like there's been traction in terms of the number of veterans I'm running into navigating the landscape," he said.

Additionally, on the asset management and broker-dealer side, Parsons noted that "it certainly feels like there is some bubbling of continued entrepreneurship and that there are more peers of mine in asset management and broker-dealers that are capturing some business traction to the veteran-owned platform."
From a pipeline perspective, however, "I don't think we're there yet," he stated.

James Russo, founder of Altrius Capital Management and former naval aviator for the Marines, said that he has not seen many more veteran-owned firms crop up over the years.

“I haven’t seen any new firm trying to pop up – I often wonder, in this environment, how hard it is to come out,” he said, adding that he doesn’t feel he has a perspective on the number of new firms – if any – due to the lack of in-person industry conferences.

“We’ve all been sheltering in, so I don’t really feel like I have a perspective of whether or not there are more or less firms that are out there, but I would imagine just from looking around, that there aren’t too many more,” Russo said.

Further, Russo mentioned his own experience in looking to hire a veteran at his firm, which was ultimately unsuccessful.

“For me, it was very hard, when I looked at the Naval Academy career site looking to hire somebody who is likeminded thinking or somebody I could trust, and there’s just none that have a CFA. And it seems like a lot of them aren’t interested in finance,” Russo said.

“It’s really thin picking if I did absolutely want to hire a veteran,” he continued. “When I look at the resumes that are out there, they don’t have the background or the degrees, or designations we’re generally looking for.”

Patrick Cleary, former Marine captain and currently a managing member as well as coo and chief compliance officer at public equity manager Alpha Architect, has seen no notable changes in the growth of the space.

“I think there’s larger macro factors at play here, but you have very low rates forcing investors to chase yield, and I think all institutional players are running to private equity and other vehicles,” Cleary said. “So, for us as a public equity manager, if you’re not offering private equity, something that sizzles and is a little cool … there’s zero growth.”

“It’s not even worth putting our hat in the ring because there’s no allocations being made in this space generally, let alone for veterans,” he added.

In looking at whether the COVID-19 pandemic will have a role in the growth of the space, McGavic does not think so.

“The pandemic creates its own sets of challenges for all of us,” he said. “I think the biggest impact the pandemic is going to have is just hiring in general, and of course that translates to veterans as well.”

There may be a slowing in the educational side of things due to the pandemic, Sroka said.

“I think you see a lot of people opting out of college at this point on a temporary basis, or maybe electing to take some sort of remote or distant learning opportunities which may result in a longer time period than getting a full-time on campus degree,” he said.

Additionally, some larger firms may opt to cut their headcount as a result of the market drop.

“Sometimes through no fault of their own, just because there’s a concern from management, or a drawdown in assets or a drawdown in the economy, the fact that you can’t progress at the firm you’re at and you're back out looking and eventually you get rehired, you don't always get rehired at the same level, so it may just slow down the career progression for some folks," Sroka continued.

And for some of those individuals, they may have been cut from their first job in the investment industry, which may lead them to a different industry.

"From investment banking to financial services to investment management – they may have said, 'You know what, this is too volatile or too cyclical of an industry for me,' and they may not elect to come back to the industry," Sroka explained. "That's going to happen in any recession, whether it's a COVID-related recession or not."

Has The Space Seen Increased Visibility?
For the second iteration of this feature, we addressed that interest in the inclusion of minority- and women-owned investment firms amongst institutional investors was leaving veteran-owned firms out of the conversation.

EMM discussed with managers the main issues that contributed to this, ranging from a lack of available data in widely used manager databases to limitations within institutional investors' investment policies as it pertains to emerging manager definitions.

McGavic noted that there has been more focus from LPs to reach out and be accessible to emerging managers, specifically mentioning the Public School Teachers' Pension & Retirement Fund of Chicago, which approved a follow-on real estate commitment to Newport in August after initially investing with the firm in 2014, as reported by EMM sister publication fin|daily.

"It is a firm commitment of that organization from their board, through their cio, through the executive director, through staff, to reach out to and be accessible to emerging managers … they're doing it because they truly believe that at the margins, the emerging manager focus will deliver outsized performance," McGavic said.
"From that point of view, I would say yes, I've seen a definite and noticeable uptick in interest and more importantly accessibility toward the emerging manager space," he continued.

Sroka pointed out that any attempts to focus or inform an allocation is beneficial, however, there may be an issue in consistency across state and municipal-run pensions and other types of allocators that have specific requirements for emerging managers, he said.

"Maybe there's just not consistency when it comes to understanding veterans as an emerging manager class," he added.

That being said, Sroka also noted that "I don't see where being a veteran emerging manager has gotten more attractive to institutions or gotten more access to institutions."

Where NovaPoint has found success in its veteran status is sub-advising for other investment firms, Sroka said.

"The reason that makes sense to me is that's not something you're going to compete on because you're an emerging manager, because you're a veteran, or some other identified class, but really what we're selling is our attributes," Sroka said. "We're selling investment performance, we're selling discipline, we're selling reliability, we're selling integrity – which is always what I thought you would want to see in a veteran-owned business."

Veteran status does not mean that "you're someone that needs help" but rather it signifies that "you have some special attributes or talents about you that promptly make it a good decision to want to do business with you," Sroka continued.

"I'm not saying it's wrong what state pensions or other types of allocators that specifically look to allocate to emerging managers, I don't think that's a bad thing, but maybe in that mix of managers, veterans aren't [seen] as needing as much help so they get lost in the shuffle," he concluded.

Russo acknowledged that while both the #MeToo and Black Lives Matter movements have been good for other emerging managers, it's difficult for veteran-owned firms to achieve similar visibility.

"For veterans, now with no wars going on that people see, and those movements coming so much to the fore of our psyche, and thrown in there with the election and everything else, I think it feels like veterans have just been pushed to the bottom now," Russo said. "I think we're kind of an afterthought at this point – or at least that's what it feels like."

In 2018, Russo pointed out that popular databases such as those offered by eVestment, Morningstar and Informa PSN, did not have a box to check for veteran ownership.

eVestment Spokesman Mark Scott said the company "doesn't collect the data" and Morningstar Spokeswoman Sarah Wirth said they do not track "whether or not managers or firms are veteran-owned." Informa PSN allows firms to identify as disabled veteran-owned but not veteran-owned.

The Consultant Perspective

The 2018 feature included discussion on how investment consultants often hold the reins in the identification of investment managers for pension plans and other institutional investors to invest with and how veteran-owned firms may not even be on their research teams' radars.

"Over the last three years I have definitely noticed an increase when filling out a due diligence questionnaire, that there is a specific 'are you a veteran-owned firm,' which is baby steps, but it's huge from where it was three years ago," McGavic observed.

A sure sign of progress on the consultant side is Callan, which told EMM in 2018 that they do not track veteran-owned firms as a category within its Callan Connects program.

Later this year, Callan will begin capturing managers' veteran leadership, both executive and investment team, through their traditional manager data collection process, the firm told EMM.

"The way we're looking at it now is beyond just ownership and capturing employee-wide stats," said Amy Jones, a senior v.p. and co-manager for Callan's global manager research group. "So, C-suite executives, portfolio managers, investment team analysts, non-investment employees and then total employees in board level – trying to get a really good cross section of the firm, and what are the total veteran stats across each of those different categories."

Jones believes that while ownership-level data is telling, it's important to consider what diversity looks like when you get inside the organization.

"This is our way of trying to uncover that across many different areas. So gender, race and ethnicity, disabled, veterans – those are some of the areas that we're trying to capture once you're inside the organization," she said. "Ownership tells part of the story, but at the team level, at the employee level, that's a whole different story."

Marquette Associates President and CEO Brian Wrubel said that "we do follow them" when asked if the firm tracks veteran-owned firms.

"We have an open-door policy with all investment managers," he said. "We do track veteran-owned firms in our database, however, generally there are not many in the universe."

When initially speaking with Meredith Jones, partner and head of emerging manager research with consultant Aon Investments USA, in 2018, she found that research into the veteran-owned manager space was sparse because the pool of managers was so small – which she finds to still be mostly true.

"There have been some launches, but it hasn't been exponential growth," she said. "But when you think about it, I don't know that there's been exponential growth in any type of emerging or diverse manager [space] because when you think about how people are allocating, up until this year for sure a lot of folks were primarily allocating to passive strategies because it's very difficult for active strategies to outperform the market. So, launching a new fund into that environment I don't think was particularly attractive for a lot of people no matter who they were."

Jones does find improvement in one-on-one interactions with firms at emerging manager conferences or similar events where "managers that are veteran-owned are being much more up front about their status in terms of how they introduce themselves and leading with that in direct e-mail conversations," she said.

"Whereas I would say a couple of years ago that it was less common for that to be one of the leading aspects of the conversations," she added.

Much of that has to do with the overall traction that emerging and diverse manager programs have seen, and which has accelerated even more in 2020 given the social climate.

"Though a lot of that has been predominantly focused around diverse factors such as gender or ethnic minority status," she said. "So, I think that it entered the mainstream a little bit more in the intervening two years, but I also feel like right now the attention is so squarely on visible types of diversity that there could be some danger of veteran-owned firms fading back from the forefront again."

Despite the lack of visible diversity for veteran-owned managers, Jones finds that there may soon be a pivot toward veterans.

"Obviously this year there's also been a fair amount of discourse around military service as well and so, while I think the number one priority is far and away the visible manifestations of diversity, it wouldn't surprise me if there is some follow-on effect given that there has definitely been a focus on military service and that as a differentiator as well," she said.

Jones said she tries to stress to clients that there are "multiple metrics of diversity."

"There are a lot of different ways to slice diversity and so one of the points we always try to bring up is there are a lot of different things that contribute to diversity, and obviously women and minorities have visual aspects of diversity, but the best portfolios are going to have multiple measures of diversity in them," she explained. "And of course, that includes diversity of background, which is why veterans are often included in that group."

Not all consultants that EMM reached out to were willing or able to speak on the topic.

NEPC and Verus both said they do not currently track veteran-owned managers and Meketa Investment Group declined to comment on the veteran-owned angle "for the time being," while Rocaton Investment Advisors and Wilshire Associates did not provide comment.

What Should Come Next?

Emerging managers, and veteran-owned managers specifically, know better than anyone that change is gradual and progress may be difficult to measure, though they did share thoughts on what they would like to see next that would represent actual change and progress in the industry.

Russo would like to see change come from the side of consultants and manager databases.

"I believe the most concrete change that could be made would be consultants and databases making a distinction so that veteran owned businesses may be recognized as such (i.e. a box for minority- or female-owned, but not for veteran-owned) and more importantly for institutions who are looking for diversity of thought to begin to seek out retaining veteran-owned firms," he said.

Cleary wants to see more active recruitments for veterans across the board as well as in regulatory positions, he said.

"I think direct 'handouts' in terms of awarding business to veterans simply because of their status is unrealistic and/or not necessarily appropriate," he said. "More importantly, I feel like making a concerted effort to diversify hiring (veterans, minorities, etc.) is always a win."

Increased allocations and support for veteran-owned businesses would represent change for Parsons, he said.

"Veterans were trained to respond to uncertain and difficult situations and carry these skills over to their businesses," he said. "Increased allocations and support to veteran-owned businesses would represent change and progress during these times of uncertainties."

Sroka said simply that he wants "allocators making a proactive change to seek out veteran-owned managers to include on their rosters." But he has hope for veteran presence in the financial and investment industry as well as others.

"I do think veteran business and veteran entrepreneurship continues to grow across the country," he said. "Whether it's tech or healthcare or financial services, it's all going to continue to grow together because we're coming up on the 20th anniversary of 9/11, and certainly there's been a large amount of veterans that have served over the last 20 years and that have gone on to explore opportunities in the economy after that, and that pipeline of veterans … my view is they'll continue to be leaders in the economy for several decades to come."