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Opening The Door For Veterans

Many remember the overwhelming show of support for the U.S. Armed Forces following the terrorist attacks on Sept. 11, 2001, especially as the war developed and progressed; there were American flags almost everywhere and yellow ribbon magnets on the backs of cars.

That support is not often sustained, even as nearly 200,000 men and women leave U.S. military service and return to civilian life each year.

While the concept of supporting veterans is nothing new, its pervasiveness within the institutional investment space and the recognition of veteran-owned firms within the emerging manager community remains to be seen and begs the question: when making decisions on allocating capital in the emerging manager space, is there a voice in the boardroom and a place in institutional portfolios for veteran-owned funds?

Is There a Voice For Veteran Firms In the Investment Space?

For a cause or a movement to gain momentum, it is imperative that there is not only backing and encouragement from those that can do so, but also vocal support that leads toward more actionable change.

When it comes to veteran-owned firms, having that vocal support has been “incredibly spotty,” according to Derrick McGavic, former officer in the United States Marine Corps and managing principal at boutique real estate firm Newport Capital Partners.

McGavic argued that investment consultants should be a voice for veterans in the boardroom.

“Consultants really are the key liaison and gatekeeper between the managers and the LPs, and the challenge is that LPs do not have the staff and bandwidth to truly dig into the managers, and that’s why they rely on consultants, and that’s all positive and exactly what consultants should be doing,” he said.

The consultants that truly support the concept of emerging managers are those that “dig into” the firms.

“They dig into what makes the organization tick, what drives the values of the organization, how is that organization providing value to the LPs, and therefore the consultants’ clients. So, what you have is very much a bifurcated world where a small handful of consultants … are very, very proactively engaged in the emerging manager world,” McGavic said.

However, there are also consultants that do not necessarily ‘walk the talk’ when it comes to supporting emerging managers, and further, veteran-owned firms, according to McGavic.

“Then there are, unfortunately, even more consultants that it’s much more lip service than meaning and so as a result, there’s a trickle-down effect, and it doesn’t matter if it’s a woman-owned emerging manager or an African American-owned, veteran-owned … to make penetration within the consultant world, [it] still remains extraordinarily difficult,” he added.

Joe Sroka, former infantry officer in the U.S. Army and co-founder and cio of equity manager NovaPoint Capital, sees attention and support of the veteran-owned space improving.

“I think the environment for recognizing the value of veteran investment managers and veteran-owned investment management firms, I think it’s continually gaining traction,” he said.

“It’s probably been an education process for a lot of folks on the allocation side. I think it’s a long sell cycle; certainly institutional management’s a longer sell cycle than private client wealth management type things, so I think as we’ve lived through that sell cycle with some of the institutions … being able to provide that level of education of what we bring to the table’s been helpful,” he added.

Domestic fixed-income manager Semper Capital Management CEO Greg Parsons, a former captain and infantry officer in the Marines, finds that the answer to the question of whether there is voice for veterans in the boardroom is both yes and no.

“I think certainly, or at least our experience has been, there are certainly allocators where it feels like there’s a backdrop of emotional support or recognition of the veteran community as one that needs support, from an allocation perspective,” he said.

However, those conversations have not transitioned to “tangible programs or tangible dollars,” according to Parsons, who noted that for the few programs that do attempt to acknowledge or allocate to the veteran community, it is traditionally service-disabled veterans.

“Our experience has been, we’re very involved in the veteran community, we’re quite prolific in articulating ourselves as a veteran-owned firm,” Parsons said. “From an allocation perspective, I don’t think the conversation has graduated to the point where, versus minority-owned or female-owned, where there are distinct allocation programs or models that you can evidence. I don’t believe we’ve gotten that far yet.”

Patrick Cleary, former Marine captain and now a managing member and coo and chief compliance officer at public equity manager Alpha Architect, echoed Parsons’ sentiment that the space is not quite there yet.

“Honestly, we don’t really see it. I think fees have been compressed to such an extent and people are chasing yield so aggressively that there really is very little wiggle room for an institution to say ‘oh, we’re going to take a risk here.’ I just think the macroeconomic market that we’re in right now made it also possible to have a policy like that,” Cleary said.

While there does not appear to be a specific shift or change in direct outreach to veteran-owned businesses, there is a global shift in conversations due to the close of the U.S. War in Afghanistan that may expand to veterans specifically, according to James Russo, founder of Altrius Capital Management and former naval aviator for the Marines.

Similarly, Ryan Brown, founder and managing partner of private equity firm Patriot Investment Partners and former firefighter in the U.S. Air Force, finds that veterans are not often at the forefront of discussions around emerging managers and diversity, equity and inclusion.

“We need to advocate more, we need to have more resources for veterans, and I just don’t think we have that right now,” Brown said. “Amongst the many conversations that I’ve been having … largely they’ve all said, ‘yeah we need to do more for our veterans, but I don’t know how.’ Just do it, just put it out there. If you put it out there and say, ‘hey I want to help veterans,’ I guarantee you that you will have a flock of veterans that will see that [and] they’ll come knocking on your door. But you can’t have this internal [struggle] like I really want to help but you just keep it inside your own mind and not letting anyone else know about it.”

Increasing Awareness Of Veteran-Owned Managers

While the visibility and awareness of veteran-owned managers has not progressed to the point of meaningful allocations, some veterans are seeing development.

Parsons envisions a spectrum where on one end a 10 is “a lot of momentum, excitement, growing programs, growing recognition and this is truly emerging as an asset allocation class that’s going to be supported,” and at the other end a one is “a bunch of lip service and no real activity or action.” He finds that the space is currently in the “four to five range.”

“There certainly are some programs that acknowledge and incorporate that. I’ve had conversations with consultants where if you look at the average consultant checklist or due diligence questionnaire that you have to fill out, they’re capturing the information,” Parsons said. “Step one is you have to know.”

Russo pointed out that manager database Informa PSN recently added a feature that allows firms to identify as veteran-owned.

“I don’t want to say that’s a stride forward, but maybe … if people are looking for veteran-owned [managers], they have a way to do it now using the databases,” Russo said. “Obviously the other larger databases – Morningstar, Cambridge [Associates], eVestment – they don’t have that button yet, but maybe with PSN Informa having it, others will come along and follow, especially with the news over the past year.”

“It feels like it’s not at a standstill this year and I don’t know if that’s just my hope, but it feels like we may have some movement towards actually allocating towards diverse managers,” he added.

Lori Hoch, coo and chief compliance officer at Altrius, said that as the women- and minority-owned manager space gets more recognition and mandates, the same may happen for veteran-owned managers.

“Years ago, you had the women- and minority-owned pool money, and that was set aside, and not that there’s parity between those groups and everybody else, but it seems like the asset allocators are allocating more to that, which means obviously that there’s enough of them that you can continue to add more mandates,” Hoch said. “I’m hoping that once that gets stable and they feel comfortable with a group of managers to pick from, the managers know where to look, maybe now they can focus on the veteran side. Maybe that’s wishful thinking.”

On the flip side of the conversation, Cleary sees the opposite happening in terms of strides being made to increase veteran manager awareness.

“I think since we [first] spoke five years ago, interest rates have plummeted, there’s been a huge shift to more riskier assets, CalPERS fired all of their emerging managers and went into private equity,” he explained. “So, I think that policies and advocacy is helpful, but at the end of the day it’s meaningless unless it converts into actual allocations, and I think the current macroeconomic markets is such where it’s just very tough to make an allocation to an emerging veteran manager when the room for error is so much thinner than it used to be five years ago.”

Leaders In Support Of Veteran-Owned Firms

The struggle to bring more awareness to the veteran-owned manager community requires other leaders in the investment space – be it consultants or plan sponsors – to lend a hand.

Newport’s McGavic highlighted several investment staff at plan sponsors that have been outspoken on the emerging manager topic, as well as investment consulting firm Callan.

“When you go into the individual people, I will tell you at the top of the list across the country is Angela Miller-May,” he said of the Illinois Municipal Retirement Fund cio. “She truly, truly believes in the value of emerging managers. Another group and a person I would call out very specifically is Danita Johnson, who is now head of real assets at the [Maryland State Retirement & Pension System], who is an absolute supporter of emerging managers and trying to work through a process of being supportive of those emerging managers.”

McGavic also referenced Raynald Leveque, deputy cio at the State of Connecticut Retirement Plans & Trust Funds, as well as the plan’s CIO Ted Wright.

“They do believe that emerging managers, especially emerging managers in a niche, provide alpha for their funds and those guys are willing to dig in above and beyond to help support that case,” he said.

McGavic highlighted Callan as one of the consultants actually “walking the talk.”

“I have watched them in action over the last few years, not just with our firm but with others, and they really, truly believe what they’re saying in terms of wanting to not just advocate, but find, support and encourage emerging managers,” he said. “As a result, by really digging into it, I think they do a great job on behalf of their clients.”

Having those leaders in the investment space that are willing to lend vocal support for emerging managers as well as veteran-owned firms can have a positive impact in terms of creating a trickle-down effect, according to McGavic.

“When you have a cio or you have a primary investment officer who is willing to really put themselves out, saying this type of manager will create value for us, it has the benefit of the LP is now directing their consultants, and it helps the consultant dig in and get on board, which if you’re successful at one place, if you earn a mandate from one group, one LP, and the consultants cover multiple different LPs, now you’re underwritten and the consultant has a buy in to the manager and that helps make the next step easier,” he explained.

“Whether it’s a board member or a couple of board members, or a cio or the head of the group, it then trickles down to the investment officers for the specific asset class, and then that trickles to the consultants because the consultants are dealing with the investment officers hand in glove, and then it provides an opportunity for an emerging manager who through grit, skill, determination … still has to perform,” he continued.

By seeing the success of one manager, that can then create a snowball effect in terms of more firms being established in their wake.

“The ability to get some success and then for others to see a successful emerging manager, then to be able to grow the next generation of emerging managers, I think that’s hugely valuable – and it becomes a positive, self-fulfilling prophecy,” McGavic said.

NovaPoint’s Sroka noted that he is seeing support from consultants and plans show up in their surveys and RFPs for management services.

“We have not ever seen a search that is exclusively for a veteran-owned firm, but we’re seeing it more often on the RFPs than we have before, so that tells me there’s some level of communication going on, on the allocator side, that it’s something at least to be knowledgeable about with the managers that are answering the RFPs,” he said.

Parsons noted that the veteran-owned aspect is very integral to Semper’s pitches, which in turn leads to consultants highlighting that for their clients.

“We’re very proactive in talking about our veteran ownership and our culture, and I think more importantly, we’re very engaged in talking about how we think that adds to the DNA of what you’re buying,” he said. “If you were to listen to the Semper pitch, there would be a number of themes we talk about at the business level that we try to tie directly back to our veteran ethos. So certainly, the consultants that know us, have clients with us, they've heard it many times and certainly they are appreciative of it and engaged in it and I think when they then represent us to their clients, it's something they will bring up."

Greg Kammerer, executive v.p. at Altrius, finds that one of the issues with veteran-owned firms being implemented in institutional portfolios is the fact that consultants tend to be more reactive.

"So, if [a] pension is saying 'hey we want to actively look at veteran-owned investment managers' that may cause the consultant who is hungry for a new revenue stream to actually start to do the work a little bit more," he said. "The more allocators that are trying to get those types of mandates will probably be what drives that type ambition, unfortunately, because if you can't make money off of it, because there's not an identified need, it makes it more difficult for people to say let's put in these agonizing hours of research and meetings just to have data."

"The consultants I've spoken with, more like I'd call the mid-level type of consultants, when I ask them if they know of any other groups out there that are looking for it, they're kind of like 'no, but there should be,'" Kammerer added. "Or they're thinking whimsically like 'why aren't there?' So, you don't really have a definitive answer."

Altrius' Hoch hopes to see Wilshire as the next consultant to start taking the lead on the veteran-owned firm initiative after observing the work they have done in the women and minority-owned manager space.

"I think Wilshire's one of the consultants that really have taken the lead on the women- and minority-owned [managers], and really focus a piece of their business on that, which obviously helps them because they can go to all of the asset allocators that are asking for these different mandates and say 'here, we can give you this database of people and we've been interviewing these managers,'" Hoch said.

"I don't think that they've really gone that far with the veteran-owned, but I would hope that Wilshire would do that next because they really are, out of most of the consultants, the ones that have that big of a stable and have done the research on those managers, it's not just a list," she continued. "Wilshire, from a consultant standpoint, I think would be the logical one to maybe start taking the lead on it."

Investment consultants NEPC and Wilshire did not provide further comment while Meketa Investment Group declined to comment and Cambridge Associates and Marquette Associates did not respond to requests for comment.

A spokeswoman for Verus noted that the firm does not have a “distinct category” for veteran-owned firms.

“That said, we employ a broad definition of diversity and we will note firms that self-identify as veteran owned,” the spokeswoman said. “eVestment, which we use for much of our screening, does not separately distinguish veteran status.”

Additionally, a spokeswoman for Callan said that the firm continues to explore the topic, however, they “have not started gathering the data,” she said.

Looking For More Support

In the battle for more recognition of veteran-owned firms, managers weighed in on where they would like or expect to see support show up.

Sroka thinks it should come from the consultants.

“I definitely think if there’s going to be a spokesperson, it’s going to be in the consultant community,” he said. “I think from the consultants’ perspective, the consultants are always providing more than cursory data to the allocator. Certainly, the consultant is providing more than just that surface level data, so I think if you’re a veteran manager and you’ve struck a chord with the consultant, where they know that highlighting your veteran status is an essential part of the firm’s story or the compelling reason why to be hired for a mandate, then I think the allocators are going to sit up and listen a little more.”

For Altrius’ Russo, he sees state pension-driven support as having the greatest impact.

“There’s just a proliferation of passive management, so the big companies have gotten bigger, almost 25% of the S&P 500 now is made up of a handful of companies and the same thing happened back in 2000 before the bubble blew up and as the states have this massive amount that they’re just chucking into indexes, maybe they start to look to other places to invest. I think that’s where it would come from first – probably the best result,” he said.

Similarly, Cleary finds that changes must come from institutional oversight.

“It’s not going to be a priority unless boards of directors say that – and this applies to all groups,” he said. “You’re not going to have minority managers unless institutions are mandated to allocate to minority managers. You’re not going to allocate to veteran asset managers unless boards mandate that their institutions have to allocate. Because institutions are going to try and seek to maximize returns at the end of the day and the other considerations are a secondary priority.”

Once that happens, Cleary expects that other institutions will follow the same path.

“You’re seeing that at some institutions, you’re seeing some say ‘hey, you have to allocate X to minority managers. We don’t care that they’re emerging, we don’t care that the track record’s less … do it,’” he said. “So that’s where I think the advocacy is going to come from, and then everyone else will follow suit.”

The $38 billion Pennsylvania State Employees’ Retirement System recently discussed the consideration of adding language to the investment policy that will incorporate veteran-owned managers at a Sept. 29 board meeting, however, the plan did not respond to a request for further comment.

For Parsons, he welcomes change regardless of who galvanizes it.

“Whether it’s plan sponsor driven, because at the end of the day they’re the ones really driving conversation through allocation of dollars, or if it’s consultant driven, because certainly they still hold their role as the gatekeepers, it would be a welcome change, it would be a welcome addition to the ecosystem if either one or both of those constituents put some time and effort and thinking around how to go drive dollars,” he said.

“If you back up five to 10 years ago, around the minority asset managers there was a very much a ‘oh we’ve got the desire, but we can’t find managers that fit the profile.’ So, it’s a lack of knowledge, a lack of information,” he continued. “It feels like the veteran channel is kind of at that same level where [the] first step is just gathering the information so that when someone says, ‘I want to support this particular community,’ they’ve got the information in the database to be able to make fiduciarily appropriate decisions [and] they’re not stuck in this ‘I want to help but I don’t know how.’”

Regarding consultants, McGavic acknowledged that it is much more difficult for a consultant to underwrite a smaller manager versus a larger manager.

“I think that probably the biggest challenge that I see is … let’s say an RFP or a due diligence questionnaire is issued and the same due diligence questionnaire is issued to an investment manager that has $100 billion in AUM as it is to the investment manager that has less than $1 billion in AUM, that’s really hard for the smaller manager to fill out,” he added. “The larger manager, they have hundreds of support staff to do it. The smaller manager tends to be leaner, so that’s one issue which I think that more consultants should slim down, for lack of a better word, the due diligence questionnaire, to be more appropriate for emerging managers. One size does not fit everything.”

Further, due to that difficulty in underwriting smaller managers, McGavic finds that “there is much more talk about supporting emerging managers than there is in actual support of emerging managers.”

“Less than 1% of the population of the United States has served in the Armed Forces, and if you look at the geographic concentration of where consultant firms are based, that percentage is probably even less than 1%,” he said. “It’s not particularly surprising that the value that some people like me perceive from being a veteran-owned firm isn’t necessarily returned by the consultant, because they don’t have the experience. And that’s not a criticism as much as it is just an observation.”

When it comes to legislative mandates, McGavic does not think it would have any long-term benefits for either the veteran-owned firms or the LPs.

“I think the thought of ‘we believe that the characteristics and the attitudes and the culture of veteran-owned firms ends up creating more value for the investors,’ that is where I personally see the long-term benefit to veteran-owned firms and to LPs,” he said.

Veterans Supporting Veterans

While veteran-owned firms may feel a dearth of support in the investment space, they are able to find it in one another, whether that be through mentorship, hiring practices or just being open to connections and conversations.

“As I think back over the course of my career, without a doubt [at] every critical juncture, there was a veteran who reached a hand back to help me navigate the next step; when I think back to my significant job transitions, at every critical juncture, there was a veteran pulling me along,” Parsons said.

When Parsons got out of the Marines, a veteran helped him get an interview at McKinsey & Company.

“When I interviewed at McKinsey, I went through a round of interviews and I didn’t do very well, and that same veteran said ‘you know what, we’re going to give you a re-do’ and the next time I interviewed, my four interview partners were all veterans,” he said. “While they didn’t do anything explicit to help me out, they were able to interpret my skillset, interpret my history and better navigate.”

“When you’re looking for help, tap into that veteran community, and equally important, make sure that once you’re established, whatever that means, you’re reaching back and giving back to those who are coming behind you,” he added.

For Sroka, early on in his career he found a mentor in the director of research while he was a sell side analyst in New York.

“The director of research at the firm I was at was also a veteran and I felt that I had a little better mentor/mentee relationship with him than maybe I had at other points in my career. I always found that valuable and I feel like that helped me in my career early on,” he said.

Sroka is hopeful as he sees potential opportunity in veteran-owned firms networking with each other.

“Where I’m really hopeful and what we’re starting to see is veteran investment firms networking with each other, so we’re not necessarily in competition with each other because we’re managing different strategies,” he said. “It’s a big industry with a lot of capital that needs to be managed. I’m not a part of any formal working group, but I have at least a half dozen other veteran investment firms or veteran managers at firms that I am regularly in touch with, where we bounce ideas off one another.”

“I think as we continue to network amongst ourselves, and maybe that’s really where the help comes – we are networking amongst ourselves, because there’s a high trust factor there, we will all become better and more competitive,” he continued. “It’s a big industry. We are allies, not direct competitors, and I think that’s a great attitude and I think that’s what is going to help people be successful.”

Alpha Architect’s Cleary noted that his firm often helps those coming out of the service find jobs or set up introductions.

“Although there may not be a veteran-owned firm getting institutional mandates, there’s veterans all over the place at all these firms,” he said. “I don’t think the mentality of ‘oh, we’ve got to help out veterans by carving out allocations for them’ … I think it’s just happening organically. Just hire more veterans at these larger firms.”

Similarly, Russo finds the proximity of Altrius’ North Carolina office to Cherry Point in Camp Lejeune leads to veterans reaching out for advice and guidance.

“I always take probably two to three calls a year where I’ll hear about a veteran who’s interested in career guidance [like] what types of MBA programs they should be looking at or getting the CFA,” he said.

Patriot’s Brown gained a mentor in a former Marine when he first got out of the military.

“He basically took me under his wing when I was thinking about getting out and looking into business and I wanted to buy franchises,” he said. “So, he took me under his wing and showed me the ropes of franchising and introduced me to some people who were looking for operating partners, so that’s how I got my first operating partner role, working with a family office/private equity structure.”

McGavic’s firm has shifted its hiring practices to now specifically look for junior people who are former military officers.

“That also has the benefit of expanding our pool to grow within the DEI space,” he said, noting that “something like 40% of junior military officers are minorities and 50% are women.”

For veterans just making the transition to their first or second job out of the military, especially in the investment management space, “it feels like everything is moving so slow in terms of their personal progression,” McGavic said.

“They’re used to an environment where you’re a 2nd lieutenant, two years later you’re automatically a 1st lieutenant, as long as you don’t screw up, two to three years later you’re a captain,” he continued. “You are thrown with ever more complex challenges, literally, almost on a monthly basis, and so the transition from military to civilian world, it doesn’t seem to happen with the same pace.”

As a result, that first or second year can be “rocky,” however, there comes a time when “it’s like a lightbulb switches on and the young veteran who is now new in the business community all of a sudden they get that glimpse of ‘holy mackerel, I’ve learned a lot in the past year, and not only have I learned a lot in the last year, it’s totally different than anything I’ve ever been exposed to in my life and now I start getting the sense of what can happen in the future,’” McGavic said.

“Getting through that transition is hard, and it’s hard for everybody – the manager, it’s hard for the veteran, it’s hard for the team – but once you get through that point and you start getting to that lightbulb switch flipping on, I will tell you from the senior management of our organization, it’s one of the most rewarding things to watch occur,” he added.

The Path Forward

It may seem as though the conversation around veteran-owned firms has remained stagnant over the five years that EMM has had a dedicated feature on the space, but that does not stop veteran-owned firms from moving forward.

To help with that, the veteran community needs sustainable solutions.

“There’s an ebb and flow to ‘how do we help the veteran community?’ The narrative over time needs to change to something that is much more permanent and sustainable,” Parsons said. “I truly believe that the veteran community is one of the largest untapped resources in the country, whether it’s asset management, whether it’s the business ecosystem at large. If we can change the narrative, there is a great resource, a great tool in this large swath of the population. You can support that community and there’s very tangible benefits.”

Further, as the investment industry finds itself having to operate in unexpected conditions, such as the COVID-19 pandemic, veteran-owned firms will be the most prepared, according to McGavic.

“Because you do learn characteristics in the military that stick with you for life. Integrity, perseverance, drive, ability to adapt, hoping for the best but planning for the worst – they sound like basic concepts, but the reality is if you look at the asset management industry, even with COVID, for the last 12 years people have gone to bed at night and woken up the next morning and made money,” McGavic said.

“And a veteran-owned firm can do that just as well as a non-veteran-owned firm, but I think that there will come a time when just getting up in the morning is not going to be enough to make money for LPs, they actually have to work the individual investments, and you’ve got to be creative, you’ve got to be reactive, and you’ve got to be planning one or two steps ahead,” he continued. “Under that scenario is where I think veteran-owned firms will have the ability to truly showcase their talents compared to larger managers.”

And while institutions may not be making their support of veteran-owned managers a current priority, it will not stop those firms from succeeding with the support and help of each other, Sroka said.

“The fact that this is not a big top-down institutional effort really has not stopped many of us from growing our firms,” he said. “We’ve grown them more from a grassroots standpoint where we’ve networked with each other and made inroads into different institutions. Some of us have been recognized for our performance … as more of that recognition comes forward, at the end of the day, that’s what you need.”

“You don’t need veteran investment firms; you need successful veteran investment firms. That’s going to continue to come,” he added.