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Emerging Brokers Find Opportunities Difficult To Come By

While the emerging manager space has grown considerably for asset management firms, emerging brokers, despite the efforts of several pension plans, continues to struggle as a whole to gain traction in the industry.

Increases in technology, encouraged use of emerging brokers from pension plans and the idealistic view of emerging managers freely utilizing emerging brokers appear to provide all the ingredients for success. But according to brokers, plan sponsors and managers, that has not been the case.

USE BY EMERGING MANAGERS

Laura Bley, founder of **Bley Investment Group** said her firm and others in the emerging broker space have proven that they are able to offer competitive rates. She says there is "absolutely no reason" why asset management firms should not be utilizing emerging brokers for at least a portion of their trades. "I can only imagine that their reluctance to use emerging brokers may have something to do with their already established trading relationships.

"Either they aren't informed to our capabilities or maybe they think they are getting more from the larger brokerage firms," she said, adding that emerging

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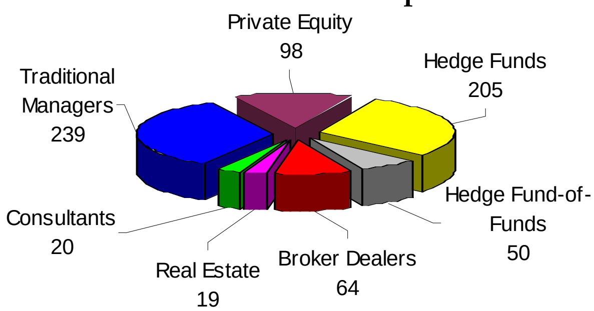
Emerging Database Set To Be Released

The first comprehensive list of emerging managers is expected to be made available to institutional investors and participating firms next week, according to **Monika Mantilla Garcia**, founder of **Altura Capital**, which led the database project for the **California State Teachers** and **Public Employees Retirement Systems**.

Breakdown of Participants



The database had 721 participating firms, 79% of which completed the information entirely, 10% which completed the information partially and 11% which registered but left the information blank.

"We now have a meaningful sample of the emerging manager space," she said.

Already, the database has generated significant interest from plan sponsors around the world. Mantilla Garcia said she has already received 140 requests from institutional investors that would like to receive the database, which will be available as an eBook that can be downloaded by users.

Contributing firms were asked to complete a questionnaire of 90-120 questions that provide a base for investors looking to access firms in the emerging manager space. The database is designed to map out the universe of emerging financial service firms, develop a better understanding of characteristics, trends, capabilities and the untapped potential of emerging firms.

The database was open to firms with $6 billion or less in assets under management and at least 45% employee ownership, though any woman- or minority-owned firm was welcome to participate, regardless of size.

The information will be available on the Web sites of Altura (www.alturacap.com), CalPERS (www.calpers.ca.gov) and CalSTRS (www.calstrs.com).

Equity Partnership Space Gaining Steam

Small, boutique asset management firms are generating interest not only from institutional investors, but also from firms looking to capitalize on the limitations that come with being a new manager. The equity partners are looking to provide capital, infrastructure, marketing and other functions to boutique firms looking to gain traction in the industry or receive that extra boost necessary to reach the next level.

Recently, the options available to asset managers has increased, as several firms from different backgrounds have either entered the space or are looking to expand their current business, including business development firm **Frontier Partners**, **State Street Global Alliance**, a strategic partnership between **State Street Global Advisors** and behemoth Dutch pension fund **Stichting Pensioenfonds ABP**.

Frontier Partners, which announced in December that it will expand its business to include taking equity stakes in asset management firms. The Northbrook, Ill.-based

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EQUITY: Firms Try To Differentiate Themselves In Partnership Space

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firm, which has raised over $25 billion for clients since opening in 1993, will provide marketing and back office support to the firms. **Bill Forsyth**, partner & co-founder of Frontier Partners, said he is searching for either small, niche firms or investment teams in larger firms that do not compete with the firm's current client roster. He said the three main areas he sees possible business opportunities in are small-cap growth, large-cap growth and large-cap value.

For State Street Global Alliance, its December announcement was an expansion of a current relationship that was founded in 2001. State Street Global Advisors and ABP are committing $100 million in acquisition capital and $1 billion in seed capital for the partnership, which seeks to invest in early stage asset management firms in an effort to generate private equity-like returns.

"ABP, together with SSgA, recognized very early that the smaller, niche firms offering non-traditional strategies are often where the greatest opportunities lie for value creation," said **Paul Spijkers**, cio of alternative investments of ABP. "Global Alliance offers its member companies an attractive partnership structure with strong incentives and an established platform for growth."

Other firms like **Proctor Investment Managers** and **M.D. Sass-Macquarie Financial Services** are also active in the space. Proctor just recently took a 10% equity stake in **Aletheia Research and Management**, a large-cap growth and value manager. Under the agreement, Aletheia will use Proctor's institutional sales and marketing platform. Over the summer, Proctor added small-cap growth firm **Atlantic Capital Management** to its lineup of managers, which also includes **Avatar Associates** and value equity firm **Boyar Asset Management**.

> "...We are offering an avenue by which investment managers can grow their business."
>
> **Bill Forsyth**
> *Partner & Co-Founder*
> *Frontier Partners*

M.D. Sass-Macquarie Financial Strategies was formed in August with the goal of investing in 10 or more investment management teams over the next three years. The fund already invests in four firms: **Ascent Real Estate Advisors**, a U.S. equity real estate firm; **Waterfall Asset Management**, a high-yield asset-backed securities firm; energy futures firm **Energy Arbitrage Management**; and **Denahi Global Investments**, an Asian equities firm.

Fisher Investments has also entered the mix and is looking to acquire mid-sized institutional and high-net-worth asset management firms to its current portfolio lineup. Fisher is a traditional asset management firm with approximately $30 billion in assets under management. CEO and Founder **Ken Fisher** told *EMM* in November that he is looking for firms whose teams want to manage money but doesn't want to be involved in the marketing and sales of the firm. "There are a lot of people in the industry that came from somewhere and had been in some form of a large organization and don't understand the nature of being a small independent business and what that means and what you have to do," he said.

Frontier's Forsyth admits there has been increased interest and publicity in the space, but says his firm's background in growing assets under management provides a key function that other equity partners may lack. "I think the difference is we have the ability to convert a strong investment process and investment team into assets under management," he said.

The firm has eight marketing and business development professionals and spent 2006 building up its back office functions. "I think a lot of people think, is this service like everyone else…I think the primary differentiator is we are not just offering capital and we are not just offering systems, we are offering an avenue by which investment managers can grow their business," he said.

Jared Chase, chairman of State Street Global Alliance, says his firm is able to provide asset management firms with capital, infrastructure and distribution, noting that infrastructure has increasingly become an important part of the attraction to working with Global Alliance.

"I think the real sweet spot is a new or early stage manager that has a very unique strategy, a solid investment team or individual with a unique idea that is having trouble getting traction because of the uniqueness of the investment strategy itself," he said.

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Inside *this* Issue

Simons *Says*

Throughout the year, ***Tim Simons****, managing director at* ***Ashland Compliance Group****, will throughout the year be providing answers to your compliance questions*

Question: *What are the requirements for the different Section 13 filings?*

Answer: 13D filing - Requires an adviser who beneficially owns more than 5 percent of a class of publicly traded equity securities to file disclosure reports within ten days (of the acquisition that puts him over 5 percent) identifying, among other things, the source and amount of funds used for the acquisition and the purpose of the acquisition;

13G filing - Provides an alternative beneficial ownership reporting scheme for acquisitions by certain advisers and other institutional or passive investors who acquire securities in the ordinary course of their business and not for the purpose of changing or influencing control of the issuer;

13F filing - Requires any adviser with investment discretion over $100 million or more of certain equity securities to file quarterly reports disclosing these holdings. The SEC maintains a list of the equity securities that qualify, which are most exchange listed securities.

Q: *If a client has an incentive fee in addition to a set management fee, must they incorporate the incentive fee in their calculation to show an example of the compounding effect of fees?*

A: No. The example of the compounding effect of fees was intended to be exactly that, an example. There is no requirement that it be an actual fee paid by clients. It is not necessary, in the example, to disclose your actual fees, although that may be required elsewhere. You may construct your example using an incentive fee, if you choose to do so, but it is not required. Some advisers show an example with the incentive fee and one without.

Q: *When does the ADV, Part I and II need to be adjusted to reflect the fact that a firm now participates in solicitation agreements, upon payment to the solicitor, upon entering into an agreement with the solicitor, or at the time the first client signs a management agreement with our firm? Finally, is there a grace period?*

A: That the solicitor is receiving compensation for referring the client must be disclosed to the client before the contract is signed with a solicited client. The solicitor and the adviser should have a written agreement in place prior to the solicitation, but the agreement must be in place before the solicitor is compensated for the referral. The solicitor should not be paid until all of the documentation is completed, including the acknowledgement from the client that he has received the adviser's disclosure document as well as the solicitor's disclosure document. The ADV should be updated as soon as possible.

Submit your questions to
simonssays@emergingmanagermonthly.com

EQUITY: 'A Natural Progression'

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Chase said the firm anticipates 5-10 acquisitions and 2-3 seed capital transactions from the new funding.

ABP is not the only pension plan to get involved in the equity partner business. The **California Public Employees Retirement System** is currently in the middle of its second Manager Development Program, in which the plan provides capital to managers in return for an equity stake in the firm. The program has been successful to this point, including the recent graduation of **Golden Capital Management** into the plan's general portfolio.

While firms like M.D. Sass typically make investments with the expectation of exiting down the line, both State Street Global Alliance's Chase and Frontier's Forsyth say their firms are in it for the long haul.

"What differentiates us from private equity kind of activity is we don't have an exit strategy. We are long-term investors," Chase said.

Forsyth said the firm is not seeking firms to build up and sell off.

"If we exit, it wouldn't be for many years. We are not looking to exit. For us it is more about finding the right fit," said Forsyth, who is searching for either small, niche firms or investment teams in larger firms that do not compete with the firm's current client roster.

He said the three main areas he sees possible business opportunities in are small-cap growth, large-cap growth and large-cap value. The firm currently works with **Reams Asset Management**, **New Star Institutional**, **IronBridge Capital Management** and **Netols Asset Management**.

"For us, it was a natural progression," he said.

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BROKER: Trading Needs of Managers Play Into Broker Selection

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brokers should at least be given a shot. For managers, the specific needs of their portfolios can make it difficult to find the right emerging broker.

"Our first and foremost responsibility is to get the best possible execution," said **Janna Sampson**, director of portfolio management at **OakBrook Investments**, which used five emerging brokers in 2006. "If we can do that with a minority broker, then that is great. Given the electronic capabilities, we have less choices than if we were a traditional manager."

"We need to find those somewhat more sophisticated minority brokers," she said. "It can be difficult to identify emerging brokers that have all the capabilities that a high volume trader like OakBrook needs. That is not to say that I think every manager has those difficulties, it depends on how often you turn over an account."

Bob Snigaroff, president of **Denali Advisors**, said his firm requires guaranteed VWOP trades in which a broker must guarantee the average price of a stock for the given day that a firm trades. "It means that they really have to be set up to be competitive and they have to be willing to commit some capital," Snigaroff said.

Large-cap growth manager **Hanseatic Group** does a minimum of one-third of its trades through an emerging broker. The quantitative firm, which does not utilize any research, looks purely for the best execution. "What we didn't have before…was an emerging broker that did equal or better quality execution from the majority or electronic platform brokers that we worked with in the past," said **Brian Stangel**, v.p. and portfolio manager. "We don't just blindly look at an emerging broker and say we will use you because you are a minority or emerging broker."

Steven Rothmeirer, chairman and ceo of **Great Northern Capital**, said 19% of the firm's total trading volume is done with minority brokers and 3% with women-owned firms. "One client that we've had requires us to spread a fixed allocation among a number of minority brokers, which meant that no one broker would get 3 or 4 percentage points of the total commission," he said. "We've had a lot of experience and the experiences have all been good," he said. "We have not had any major problems at all."

Great Northern, OakBrook and **Affinity Investment Advisors** are among the nine firms that are a part of the **Los Angeles Fire & Police Pension Fund**'s emerging manager program. A report issued from the first six months of 2006 showed that only two emerging managers had done any percentage of commissions through women- and minority-owned brokers. Each of the firms say the report was only a snapshot of the year and just happened to come at the wrong time. The other firms on the list—**Apex Capital**, **Delancey Capital**, **Mastrapasqua Asset Management** and **Moody Aldrich**—either declined to comment on their use of emerging brokers or did not return calls seeking comment.

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> It is important that we demonstrate diversity in our own business practices.
>
> **Bob Snigaroff**
> *President*
> *Denali Advisors*
> "

One of the firm's that the report showed did utilize emerging brokers was Denali Advisors.

Snigaroff said overall, 20% of his firm's brokerage commissions go to emerging and minority brokers. "We do take that very serious," Snigaroff said. "We really like to emphasize diversity in our own service providers."

"It is important that we demonstrate diversity in our own business practices and we wouldn't want to be remiss in inclusion in our own," Snigaroff said.

For emerging brokers, however, the report, whether fully accurate or not, is a reminder of a serious problem in the emerging manager space: emerging managers just don't seem to be using emerging brokers.

> "
> Any emerging or minority manager who is not practicing what they are preaching raises cause for concern.
>
> **Pat Winans**
> *Chairwoman & CEO*
> *Magna Securities*
> "

"Any emerging or minority manager who is not practicing what they are preaching (asking for minority business but not willing to give minorities business) raises cause for concern because refusal to reciprocate makes it a never-ending battle for all parties. As has been demonstrated, emerging and minority-owned broker/dealers can't really force the issue of making emerging or minority manager do business; going directly to the manager's clients or political leaders, has not yielded optimal results," said **Pat Winans**, chairwoman and ceo of **Magna Securities**. "In my opinion, it is the actual emerging and minority broker/dealers that are going to have to make these relationships happen."

"I think one of the main challenges is just having an openness" to using new brokers, said **Martin Cabrera**, founder of **Cabrera Capital Markets**. "Sometimes those [existing] relationships are 15 years old."

TWO WAY STREET

Several managers said that the issue is as simple as emerging brokers picking up the phone.

"I think there is some fault on both sides…number one, I couldn't give you a list of five emerging brokers, I can give you a list of all the majority brokers, they all have a huge sales force, and they all call," Stangel said. "We don't get the calls

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BROKER: Business Should Come Down To Best Performance

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because I don’t think people have the sales force, the infrastructure, to do it.”

Linda Shesto at **Divine Capital** said understanding a firm and being able to provide added-value is a key to emerging brokers getting their foot in the door.

“I don’t believe necessarily in just hard work, I also believe in strategy. You have to find ways to be value-added to your customer,” Shesto said. “ I cannot just go out and say, ‘here are my algorithms’ and ‘here is my competitive advantage’, you really have to tailor to that client. Their business, in essence, has to become your own.”

> “The brokers who have gotten business from us are the ones that come in and understand what we do...”
>
> **Brian Stangel**
> *V.P & Portfolio Manager*
> *Hanseatic Group*

That is what won her business with Hanseatic.

“The brokers that have gotten business from us are the ones that come in and understand what we do, how we do it, and that we are purely looking for someone that will give us the least amount of implementation shortfall,” Stangel said.

“We are willing to pay a somewhat higher rate, industry standard wise, but not three times the rate,” he said. “We face the same margin space as everyone else does…I can’t go out and tell someone we are going to charge them three times as much because we are an emerging asset manager, that doesn’t fly. You have to do it as well, and for equal or less dollars, if you are looking to get a foothold.”

Other brokers are looking at ways to strengthen their voice by joining together.

“I have met or spoken with other emerging brokers, I believe the most effective way to create opportunities for us is to work together,” Bley said.

Barry Levin, an institutional trader with **Man Financial**, said he is interested in speaking with emerging brokers to help expand their offerings and ability to attract business. “I would love to partner up in some way, shape or form with a minority-owned broker and be able to offer the global services that a company like Man can offer for the emerging broker’s customer,” he said.

Levin said that being able to satisfy the needs of clients in areas where they do not have expertise can be the difference between getting the business and not getting the business.

“If a minority emerging broker firm has clientele that require a specific need outside the realm of what they do, rather than say, ‘no we can’t do it,’ they should go out and find a way,” he said.

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> **Barry Levin**
> *Institutional Trader*
> *Man Financial*

Winans said her firm is preparing to do a white paper on emerging and minority broker dealers that will examine the growth of revenue for these firms. "We are looking to see if minority firms are actually growing and in what area they are growing," she said. The white paper is expected to be put out in the middle of 2007.

“You just hope that the playing field remains level and that the people are really taking the opportunity to make a difference in the business,” said **George Dychton** of Cabrera Capital. “People are creatures of habit, and habit is hard to change.”

“It’s pretty simple. If we don’t do a good job, they aren’t going to use us. It’s about giving us an opportunity,” Cabrera said. “Everything is based on performance. They are measured on it and so are we.”

LEVEL PLAYING FIELD?

“Really, technology has leveled the playing field for the smaller firms. We have all the bells and whistles that all the major firms have,” said Cabrera.

At **BT Trading Systems**, a trading systems provider, **Pete Skoglund**, director of product management and systems engineering, does a walk-through of his firm’s offerings, making it clear to anyone that the playing field, technology wise, has been leveled. “It’s the smaller firms that are taking advantage of the technology,” Skogland said. “Little things give the little guy an advantage.”

Bley said that the brokerage space has become much more competitive, which has driven down commissions, while costs for compliance, technology and other areas have continued to rise.

“We wonder, frankly, how brokers can be profitable in today’s environment given the level of commissions, how they have compressed,” Snigaroff said. “The ones that have tended to have staying power, it seems like they have some diversified business, not just brokerage.”

“I think that IT can provide the smaller emerging broker dealers, in addition to the large ones, a huge advantage,” Shesto said. “We have to start thinking like some of the bigger investment banks, and I don’t think that we are.”

While some firms do succeed through other avenues, such as soft dollars, others utilize the one area that can give them a leg up on larger brokers’ client service.

"I think the benefit is that we can pay a lot more attention to their account, which can result in better quality execution," Winans said. "Meaning an emerging or minority manager may

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BROKER: Pensions Hold Key To Embracing Of Emerging Brokers

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not command as much attention from a larger brokerage firm as would a $20 billion asset manager that obliviously has more volume."

"One of the things our clients tell us is that we pay a great deal of 'attention-to-detail' on their accounts." Winans said. "I think there are certain efficiencies that a smaller brokerage firm can offer a manager because we don't have as many accounts and there isn't an endless maze that a manager has to go through to get a response to a question or concern on any given day."

POWER OF THE PENSION PLAN

Most emerging brokers recognize that it is up to the investors to force managers to take a long, hard look at their trading practices.

"It has to be plan sponsor or trustee driven. They are the ones with the power," Shesto said.

"And if they are really for the minority and emerging initiatives, they should be for the emerging brokers too."

Bley said she works with some of the Los Angeles, New York and Illinois pension plans that encourage the use of emerging brokers by asset management firms.

"Some public funds see the promotion of diversity through the use of emerging brokers as good business. It is our hope that clients will continue to educate their investment managers to the advantages of working with emerging brokers."

Dr. **Louis Moret**, commissioner of the **Los Angeles Fire & Police Pension Fund** that released the broker usage report said the plan set a target goal of 10% commissions through emerging brokers back in the early '90s but had never asked for any reports on how managers were performing in the area until a few years ago.

"They weren't doing very good," he said.

Moret said the plan's board has discussed making the utilization of emerging brokers as one of the criteria in selecting managers.

"I would hope that once it is brought to their attention, that they on their own will have a good faith effort to meet our goals," he said.

"If we see that there is a persistent problem, then we are going to act," Moret said. "If you are an emerging broker and you are approved, now it is your job to knock on the door of our managers," he said.

"I don't think anybody in the asset management equities world would say that 10% trades with emerging brokers is a cause for concern," Moret said. "If somebody would say that and show me, then we ought to consider that, but I don't think they can."

"I think you see that at a lot of plan sponsors, and they are starting to pay attention to who they are selecting as managers and who their existing managers are," Cabrera said. "Sometimes it has to be instilled in them by the plan sponsors that they have to meet the same goals as their non-emerging managers."

Dan Allen, cio of the **Illinois State Universities Retirement System**, said that while there have been some managers that have fallen below the expected levels of use of emerging brokers, "for the most part, we are pleased."

The plan modified its minority- and female-owned brokerage usage policy at the start of 2006 that required domestic equity managers to direct 25% of the total commission dollars to minority- and female-owned firms while requiring fixed-income managers to direct 10%.

The **Teachers Retirement System of the State of Illinois** holds an annual Opportunity Forum that brings together minority- and women-owned broker dealers with the plan's external asset managers. Last year's forum, held in July, was attended by a total of 225 people.

During the fiscal year 2006, 45 minority- and woman-owned brokerage firms were used by the plan's investment managers. The plan also recently adjusted its goals for fiscal year 2007 to 15% in domestic equity, 7.5% in international and 10% for fixed-income.

"TRS recognizes the need to be as inclusive as possible and also believes employing a diverse set of investment firms is beneficial to the system," said **Eva Goltermann**, spokeswoman for the plan.

Greg Lai, chief investment officer at Affinity said he believes the measures taken by pension funds to encourage the use of emerging brokers is a good start.

"I think it's a very good thing, but that has to be coupled with accountability," he said. "To the extent that plans can and will have some metrics to monitor the brokers on that list, then that makes sense."

"There really is no real shortcut, because people want to take the path of least resistance," Lai said. "To the extent that it is an easier decision to go with the major, that is just natural. I think what everyone needs to do, is almost the shared sacrifice concept."

"If you are an emerging broker and you are approved, now it is your job to knock on the door of our managers."

Dr. Louis Moret
Commissioner
Los Angeles Fire & Police Pension Fund

"There really is no real shortcut, because people want to take the path of least resistance...I think what everyone needs to do, is almost the shared sacrifice concept."

Greg Lai
Chief Investment Officer
Affinity Investment Advisors

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STREETSavvy Marketer[sm]

By: Bill Blase

Many business people view journalists through a prism of distrust. They believe, wrongly, that the relationship is necessarily an adversarial one. In my experience, the best media-source relationship is typically arm's length, but it is also amiable and based on mutual regard and respect. Remember that reporters have a job to do. My best advice? Help them do it. When you treat a reporter professionally, I have found that most of the time, the relationship will yield reasonably good results and a balancing of their interests with yours.

Among other things, it is important that you understand the rules of the road. The difference between "off the record," "not for attribution" and "on background," as examples. Among the other do's and don't's: Don't respond with a "no comment." (It's like chumming for barracuda). Don't ask to review an article before it's published. (It ain't gonna happen). Don't make any special requests at the conclusion of an interview. And if you want to have a reporter read your quotes back to you before an article goes to press, by all means ask – but remember to set the ground-rules before the interview begins.

What do reporters really want? The answers are many and not all that complicated. For most, though, it's an interesting story with pithy quotes from an industry source who can share something of value.

A one-day workshop with a media trainer can go a long way toward helping you position yourself as that source – someone who can identify nascent trends, offer a fresh perspective, serve as an expert on issues of importance to both you and clients, and, critically important, tackle tough questions.

It's essential to choose a media trainer who has worked in a newsroom. There are a lot of presentation trainers who claim to do media training, but unless they have news experience, you're not getting the real deal. Simply put, they won't know how to prep you for news interviews. Media training isn't about cosmetics – the color of your tie, your shirt or your gestures – it's about your message and how you deliver it.

The heart of the media training process involves participation in a series of simulated role-play print and broadcast news interviews. The trainer, after researching you and your firm, will pose questions designed to elicit not only the most important information, but help you sharpen your marketing messages. The questions are likely to be insightful, often provocative and some may even involve subjects you'd least like to talk about. As the saying goes, nobody cares about the ship that gets to port safely, it's the one that doesn't. Remember, anything is fair game. Be prepared.

Some of the media training interviews are face-to-face while others are conducted over the phone. All are videotaped. The results can be quite revealing. What does your body language actually say about you? Maybe you drop your left shoulder when you get a question you're uncomfortable with or have a verbal tic and don't realize it.

I trained one chief investment officer who accentuated every comment by hooking his index finger. When he was particularly excited about a point, the finger took on a life of its own. The point is, he may have been enthusiastic, but his finger became a distraction. During TV interviews, in particular, body language is key – how you use your eyes, how you smile, how you sit in you chair or shift your weight and even fold your hands. (I suggest layering one hand over the other to avoid what we in the trade call the "dance of the thumbs.")

The cost of a one-day workshop typically runs about $2,500 per person. The better workshops occur when there is a mix of marketing people and investment professionals. It's kind of a spontaneous team-building exercise that helps what may be two very different sides of the business come together to build a unified message.

We've all seen folks on TV who weren't media trained: no message, no body language, no appeal. Or maybe they were selected purely for entertainment value. I've often said, 'send me a man with wirey hair, a bow tie askew, wearing suspenders who bounces around in his chair, and I can get him on TV once, maybe twice.' That's entertainment. Show me a guy who is thoughtful, credible and trustworthy – and I can get him on again, again, and again. That's the guy who's been media-trained. And that's the guy your clients will want to do business with.

[Up next: The skinny on Web sites]

Bill Blase is the president of New York City-based W.T. Blase & Associates, one of the nation's leading corporate and market positioning firms, and StreetSpeak,® Inc., an executive presentation and media training firm for financial service executives. If you have a comment or a topic you'd like to see covered here, please send it to Bill at billblase@wtblase.com.

Illinois SURS Hires Investment Officer For Emerging Mgr. Program

The $15.2 billion **Illinois State Universities Retirement System** has hired **Tony Lee** to help oversee the plan's manager development program, which invests in minority- and women-owned investment management firms.

Lee, previously an investment associate in institutional sales for **Citigroup Global Markets**, will report to **Doug Wesley**, deputy cio.

He will also be responsible for overseeing the utilization of minority-owned broker dealers by the plan's asset managers, said **Dan Allen**, cio of the plan.

"He is very knowledgeable," Allen said. "I expect him to learn real fast. He doesn't come from the plan sponsor side of things, but he is a very bright young man."

The plan saw considerable growth in its manager development program in 2006, including investments in fixed-income and international equity managers.

Last year, the firm invested $25 million each in fixed-income firms **Taplin, Canida & Habacht**, **Pugh Capital Management** and **Smith, Graham & Co.** (*EMM*, 4/6) and followed those hires by investing $15 million in international equity firm **Atlanta Life Investment Management** in June (*EMM*, 7/5).

Getting On The RADAR SCREEN

By Daniel Bott, Sr.

Many people confuse a suspect with a prospect. A prospect is someone suited for your product or service and they have been pre-qualified as a potential buyer or user. A prospect is someone you had a conversation with about your service or product and they acknowledged there may be a fit. A suspect is everyone else.

The odd thing about this distinction is many suppliers of a product or service don't properly differentiate the two when it comes to rationing time and resources. Just because someone will politely talk with you doesn't mean they are a prospect. It is important to listen carefully to the words a suspect is using to determine if they can be qualified as a prospect now or later.

Envision prospecting in its early stage as a process of dispatching suspects into different categories or, as I like to characterize them, pipelines. Suppose you have three pipelines: hot, medium and cold prospects. Hot prospects generally come from referrals, warm prospects come from networking and cold prospects come from cold solicitation.

Existing clients, centers of influence such as attorneys and CPAs, are potential sources of referrals. These prospect referrals fall into the "hot" pipeline along with investment management consultants themselves.

There are two types of consultants, those that do searches for every manager engagement for a client and those that work from a short-list of managers that are part of the preferred list. I personally work from my preferred list, so I am always interested in either expanding the list with new styles or I may want to add or replace a manager style that isn't working.

My suggestion for any manager wishing to work with a preferred list consultant would be to find out what is working, not working and what may be missing from the consultants "A" list of managers.

If a conversation with the consultant leads to the phrase "everything looks good <u>but</u> …," you should jump all over the "but" objection. Find out if that objection can be resolved with a win-win commitment by asking for the business if the objection can be overcome. The consultants' response will tell you if the consultant is truly interested in your firm and you also might learn what may have been a roadblock with others consultants or clients.

Spend the majority of your time on the hot pipeline, but don't let the warm pipeline get cold and don't confuse a suspect for a prospect.

Daniel R Bott Sr., is co-founder of the Investment Management Consultants Association. He has authored numerous publications on the subject and just completed his most recent book, "The Art & Science of Investment Management Consulting". His practice, Bott & Associates of Wachovia Securities LLC, is based in Scottsdale, Arizona. He can be reached at Dan.Bott@Wachoviasec.com the opinions expressed may not necessarily reflect those of Wachovia Securities or its affiliates.

Not many names portray stability like the longest living organisms on earth. So when **Jean-Luc Nouzille** was trying to decide on a name for his value investment firm, Bristlecone stood out.

"I think what we are trying to achieve here as a firm is we are trying to convey a sense of very long term, which is conveyed by the trees," he said.

Nouzille had spent much of his time attempting to identify a name that conveyed the sense of longevity and stability from trees, however names such as "Oak" and "Sequoia" were already taken.

Ultimately, it was his wife, a native Californian, who came up with the name 'Bristlecone' while the couple was visiting friends in Bishop, Calif., which is home to the famous white mountains adorned with Bristlecone trees.

The trees, which Nouzille said are 4,800 years old, are also able to survive harsh climates, which also was an attractive trait to Nouzille. "We want to be able to do well in bear markets," he said.

He said most of the interest from investors are "typically people who are very much into ecology, that are environmentally-oriented."

The firm's logo and Web site were designed by Nouzille's wife, a designer for a natural history museum.

Have an interesting story behind the name of your firm? E-mail Matthew McCue at mmccue@fin-news.com.

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InFocus

This month, EMM spoke with Michael Shone, president of Peirce Park Group, to discuss his firm's views on manager performance, track records, investment trends and how to contact his firm.

Peirce Park Looks For Consistency Over Quick Hits From Managers

Most institutional investors want a chance at huge returns but **Michael Shone** of consulting firm **Peirce Park Group** says he prefers consistency.

"I prefer the singles and doubles hitters over the home run guys," said Shone, referring managers to baseball hitters. "Most home run hitters tend to have high strikeouts, that's not what I want to bring to my clients."

The firm, located in West Chester, Pa., has a regional presence, with most of its 18 clients located in the greater Pennsylvania area. The firm's client list includes the **Cambria County Employees Retirement System**, the **City of Allentown**, the **Lancaster County Employees Retirement Fund**, the **Northampton County Employees Retirement Fund**, and the **City of Wilmington** (Del.).

Shone said he mainly targets public pension plans and Taft-Hartley plans in the $100-$500 million range.

The firm is also gearing up to launch a new, interactive Web site that will allow managers, both big and small, to pitch their products directly to the firm.

> "I prefer singles and doubles hitters over the home run guys. Most home run hitters tend to have high strikeouts, that's not what I want to bring my clients."
>
> **Michael Shone**
> *President*
> *Peirce Park Group*

On Manager Research

The new Web site (www.peircepark.com) in March.

Lee Martin, director of research at the firm, said "we want managers to submit their product information sheet to us and have them on file electronically so we can refer to it in the future."

"Right now, we don't have the infrastructure to sort through the 500 or so in our database," Shone said.

For separate accounts, the firm uses the **PSN/Mobius** database and **Morningstar** for mutual funds. Shone said every search the firmconducts starts with those databases.

The firm also uses its internal database of about 500 firms along with the PSN database to finalize a shortlist of about 8-12 or so firms and then send them RFPs.

Shone said his clients, while predominately located in Pennsylvania, generally prefer firms on the East Coast.

Shone said managers can also contact Martin directly at leemartin@peircepark.com in the meantime.

On Emerging Managers and Track Records

Shone said his clients generally tend to lean towards consistent firms, referring back to the baseball metaphor.

"We generally tend to lean towards more comfort. We lean towards firms that don't go for the home runs—with home runs, you also get a lot of strikeouts," he said.

Shone said he typically would want a firm with at least a 5 year track record and $500 million in assets under management.

On The Firm's Growth

"I like to use the term 'controlled growth,'" said Shone, "we are always open to new opportunities."

The firm currently has 18 institutional clients and he says he averages about 2-3 new clients a year. Shone said he is not looking for a national presence and is happy with his current focus on the greater Pennsylvania county retirement plans. The firm also has an office in Wilmington, Del., and is looking to hire an analyst in the second quarter.

"With the hire of an analyst, Martin will start to do more and more consulting work," said Shone. Martin, who joined the firm about 6 years ago, is currently the head of manager research.

The firm is currently in the hunt for eight consultant contracts. Although Shone declined to name the proposals, he did say it is a very good time to go after Florida pension plans and did not rule out opening an office in the state in the near future.

On Trends and Hedge Funds

Shone says he sees a trend in the use of all-cap, global and core managers for his clients. He said this is due to the trends he sees in the pension industry.

"In the '80s, the managers did what they wanted, there was no definable style. This is because pension plans were pretty much fully-funded, they made little or no contributions," Shone explained.

He went on to explain that in the 1990s, pension plans had to pay increased benefits and as the stock market went down, they couldn't take that promise back. Now pension plans are looking at ways to minimize contributions and some would use the all-cap, global and core approach to help maximize alpha.

He said since most of his clients, being that they are mostly mid-sized, are still reluctant to move into hedge funds.

"My clients would have to take on too much risk relative to their size." Shone also said the recent negative press on hedge funds haven't helped either.

Personal Notes

Shone, married for 20 years to his wife **Sharon**, lives in West Chester with their two kids. His daughter **Rachel** is in her first year at **Georgetown University** and son **Mikey** is a junior in high school. At 51, Shone is an avid soccer fan and roots for the **English Premier League** soccer team **Manchester United**. He also was in attendance in Europe for the 1996 Word Cup.

Global Capital To Launch Micro-Cap Fund To Outside Investors

Global Capital Management plans to begin marketing its micro-cap strategy to institutional investors this month. The firm currently offers small- to mid-cap, mid-cap and all-cap core strategies and has been incubating its micro-cap strategy over the past two years. During that time, the firm has grown from $100 million to $1 billion in assets under management.

Marc Dent, director of marketing, said the Conshohocken, Pa.-based firm would like to manage $100-200 million in the micro-cap portfolio. He said the portfolio fits well in the firm's current structure because it comes across companies that may not fit into its 'smid'-cap strategy but would fall into the micro-cap portfolio, adding that the timing is right for marketing a micro-cap portfolio because of liquidity constraints in the small-cap arena.

Each of the portfolios utilize the same investment philosophy and strategy. The firm's philosophy is centered on investing in high-quality stocks that are undervalued and have high value prospects. The firm utilizes a quantitative system that isolates certain stocks, with generally about 40 companies ending up in each portfolio.

"We feel that's really the sweet spot for generating alpha while still being able to diversify risk," said **Philip Mendelsohn**, senior portfolio manager.

Mendelsohn said Global Capital buys companies that are high quality to mitigate risk, noting that when comparing the top decile of high quality stocks versus the top decile of low quality stocks, both return approximately the same to investors, however high quality stocks provide the returns at one-third of the risk. The firm defines quality as low debt-to-equity, high profit margins and low earnings variability.

"We spend a lot of time going through 10-Ks and 10-Qs, focusing on the quality of the balance sheet and the quality of the earnings," he said.

The firm also uses **BIRR Portfolio Analysis** to analyze each portfolio's risk. "That will tell us which stock, when added to the portfolio, will reduce the overall risk of the portfolio," he said. The portfolios generate more alpha in declining markets and are more market-like in upside markets. "We try to win by not losing," he said.

The portfolios' annual turnover is historically in the 70% range and the quantitative models are run every weekend so that each Monday the portfolio managers can look for new investment opportunities. The firm also generally own 7-8 of the 10 broad sectors.

Once the firm's screen produces possible investment opportunities, the firm's three portfolio managers, **John Hammerschmidt**, President **Anthony Soslow** and Mendelsohn conduct qualitative research into companies based on their sector specialities and each returns with 2-3 companies to discuss before narrowing the names to 4-6 companies that are then plugged into the risk analysis program that identifies which stock would lower the overall portfolio risk.

The firm generally takes a 2% starting position in a company that can increase to up to 8%, though Dent said that has never happened. Dent said the 2% initial investment allows the firm to monitor a company and allow for earnings announcements and other factors before increasing or decreasing its stake.

The firm's all-cap portfolio has 1-, 3- and 5-year returns of 10.05%, 18.81% and 17.16%, respectively, ending Sept. 30, while its benchmark, the **Russell** 3000 Index returned 10.22%, 13.00% and 8.08% over the same time periods, respectively.

The 'smid'-cap portfolio has underperformed its Russell 2500 Index the past four trailing years ending Sept. 30. However, the portfolio has returned 18.76% since inception in January 1999, compared to 10.33% by the benchmark.

The mid-cap portfolio was only launched in April of 2005 and has returned 15.10% since inception, compared to 13.49% by its benchmark, the Russell 2000 Index.

"The key to our success has been our investment process…that process has generated top decile performance in our all-cap product and our smid-cap product consistently over 5, 6, 7 year periods," Dent said. "We expect that same performance" in the micro-cap product.

IndexIQ Offers Fundamental Indexes To Investment Managers

IndexIQ, a firm that develops "next-generation" indexes, has begun to market its products to asset management firms looking to expand their portfolio lineup without significantly increasing its infrastructure. "I am very confident that this is where the marketplace is going, specifically because these actively managed funds are underperforming," said **Adam Patti**, ceo of the firm.

Patti said that traditional indexing is beginning to give way to more diverse investment opportunities that can provide higher returns with limited risk. Through fundamental indexing, the firm is able to provide managers, and ultimately investors, with risk-adjusted performance characteristics typical of an active manager while adhering to the general rules of indexing, such as low turnover, high liquidity, low portfolio management costs and diversification.

"We bridge the gap between the two strategies," Patti said.

Firms like **Research Affiliates** and **WisdomTree** have shown the increased interest in fundamental indexes. WisdomTree, which opened in May, reached $1 billion in assets under management in November and Research Affiliates, founded in 2002, manages approximately $16 billion in assets.

IndexIQ currently has 20 distinct methodologies across all capitalizations and style boxes. The firm also provides global, regional, country, international and sector specific indexes.

The firm looks at performance measures such as alpha, Sharpe Ratio, R-Squared, beta and volatility, dividend yield and annual turnover to construct its institutional portfolios.

Patti said that for an active manager with $400-500 million

See INDEXIQ, Next Page

IndexIQ: Firm Hires Strategist To Oversee Methodologies

Continued from Page 12

in assets under management and a solid client base that is looking to expand its business without having to hire another active portfolio manager is a good fit for a fundamental index, which allows the manager to provide a model to fill the remaining needs of clients.

The firm has also hired **Robert Whitelaw** as its chief investment strategist.

Whitelaw, the **Edward C. Johnson** 3rd Professor of Entrepreneurial Finance at **NYU's** Stern School of Business, will also serve on the firm's advisory board.

He will be responsible for assisting the firm in maintaining the highest level of data integrity and ensuring that the firm's methodologies incorporate the best available construction processes.

"Traditional indexing strategies have served investors well, but the research increasingly confirms that there is value to be added with a fundamental approach," said Whitelaw.

"The key is to understand and capture those factors that are undervalued by the market, and to put in place a rigorous process of testing to validate the investment methodology."

Broadview Hires Consultant As Director of Marketing, Client Service

Small-cap firm **Broadview Advisors** has hired **Jim Wenzler** as its first director of marketing and client service. Wenzler, previously a senior consultant at **Alpha Investment Consulting Group**, will focus on reaching out to the consultant community.

The firm, founded in 2001, currently has just over $1 billion in assets under management, including $50 million in separate accounts, after launching in May 2001 with $330 million through a mutual fund it sub advises for **Fiduciary Management, Inc.**

The FMI Focus Fund is managed by **Rick Lane** and **Glenn Primack**, who previously managed the fund since its inception in 1996 while at FMI and reached an agreement with the firm to open Broadview and continue managing the fund as sub advisors.

"The separate account business is a natural fit that allows us to manage money the same way," said **Owen Hill**, marketing v.p., adding that the firm has the infrastructure in place to grow to $2 billion without having to add significant personnel.

The mutual fund has returned 12.07% for the year ending Nov. 30, and has 1- and 3-year returns of 13.42% and 9.28%, respectively. The fund has annualized returns since inception in December 1996 of 20.98%. The success of the mutual fund provides the firm with an outlet into the institutional world.

"We are going to aggressively grow the separate accounts business," said Hill.

> "I think that watching and seeing the groups that have come into my former employer's office and doing hundreds of meetings, you learn what people are expecting."
>
> **Jim Wenzler**
> *Director of Marketing & Client Service*
> *Broadview Advisors*

Wenzler said his primary focus will likely be the firm's small-cap growth portfolio because of the interest in the area currently. "I think the focus is going to be through the consulting community, because they command and control a large amount of that business," he said.

"In the consulting world, we don't have a natural place where we all get together and discuss industry related topics…I think that watching and seeing the groups that have come into my former employer's office and doing hundreds of meetings, you learn what people are expecting," he said.

Hill said Wenzler's consulting contacts make it a natural place for him to begin marketing the firm's portfolios. "He can talk the language a lot better than we can," Hill said, adding that Wenzler will also have an advantage in filling out RFPs.

Wenzler is currently in the process of creating marketing pieces for the firm and populating databases. He said the firm is also putting together a Web site "as we speak."

[Events Calendar]

In our efforts to provide readers with more information, here is a calendar of events we feel readers may be interested in.

CONFERENCE	DATE	LOCATION	COMPANY	MORE INFO
Public Funds Summit	1/10-1/12	Scottsdale, AZ	Opal Financial	www.opalgroup.net
Made In America (Taft-Hartley)	1/28-1/31	Las Vegas, NV	Financial Research Associates	www.frallc.com
Crafting Winning Responses to RFP's	1/22-1/23	New York, NY	Financial Research Associates	www.frallc.com
Performance Focused Emerging Managers	1/18-1/19	New York, NY	World Research Group	www.worldrg.com
HF 101 & 102	1/22-1/23	New York, NY	Financial Research Associates	www.frallc.com
6th Annual Blue Ribbon Hedge Fund Symposium	1/28-1/31	Scottsdale, AZ	Strategic Research Institute	www.srinstitute.com
Investment Management Forum for Endowments & Foundations	1/28-1/31	Scottsdale, AZ	NMS Management	www.nmsmanagement.com
US Pensions & Investments Summit	2/12-2/14	Amelia Island, FL	Marcus Evans	www.uspensionsinvestmentsummit.com

Angels In The Investment: Unique VC Fund Markets To Institutions

> (Angel investors) are certainly going to make sure the deal works. They are going to put a lot of effort into supporting that venture and making sure it works.
>
> **Kelly Perdew**
> *Managing Director*
> *Angel Venture Partners*

A new early-stage venture capital firm is hoping the combination of angels and an Apprentice draws deep pockets.

Angel Venture Partners, formed earlier this year by **Luis Villalobos** and **The Apprentice 2** winner **Kelly Perdew**, boasts an angel investor network of approximately 720 members that provide a gateway to potential investment opportunities.

"Our pipeline, if you will, is phenomenal," Perdew said.

"It's as if we had access to a couple hundred VC funds and their deals," Villalobos said, adding that the members of an angel group are generally as experienced as the general partners in a venture fund.

The Orange County, Calif.-based firm is marketing to small institutional investors and high-net-worth individuals that are looking to invest approximately $25 million in a venture capital fund.

"We are going direct," Villalobos said. "Interestingly enough, there doesn't appear to be any placement agents that help funds with $100 million or less."

Villalobos said Angel Venture Partners' ability to find early-stage investment options for investors fills a niche in the market that many venture capital funds have begun to ignore.

Luis Villalobos

"The statistics are all there. If you look at the percent of dollars from venture capital firms that go into early stage…10 years ago it was a little over 40% of the dollars, last year it was under 20%," Villalobos said.

"While the returns are much better in early stage for investors in those funds, the general partners do a lot better in the later stage."

Villalobos' background in angel investing is the key to the firm's ability to access potential deals. He has been a direct investor in 59 early-stage ventures, founded the **Tech Coast Angels**, whose 111 portfolio companies have received $782 million in capital, and is the founding board member of the **Angel Capital Association**, an organization of over 100 member angel groups.

Perdew, who escaped **Donald Trump** without hearing the dreaded words, "You're Fired," and has built up several companies of his own over the years, said he and Villalobos' backgrounds, as well as venture partner **Frank Martinez**, should attract institutional investors.

"I think very few first time funds have a track record they can point to…what Luis and Frank and I have combined, if you look at that, it is the perfect proxy for what we are proposing to do with the venture capital fund," Perdew said.

By being a first investor in a company, Angel Venture Partners is also able to move into the middle stage venture capital funding without any extra due diligence.

"That is a way that we are guaranteed to get into those deals," Luis said.

"It is not just being able to do expansion stage investing, it's being able to do it with essentially some of the top VC firms that there would be no way for an emerging manager fund to get into."

"All of those grass roots companies coming up across the country, we have access to that as one small fund," Perdew said, adding that the ability to increase positions in well-performing companies "is very powerful."

The firm is also providing geographic diversification through its bi-coastal angel group network that most venture capital funds are not able to provide, Kelly said.

The fund would likely do up to 30 investments with $40 million in capital, with the number of investments growing as the fund size grows, though the two are not linear, Villalobos said.

The firm expects to provide top quartile to top decile returns to investors. Having angels investing alongside the fund only helps.

"They are certainly going to make sure the deal works," Perdew said. "They are going to put a lot of effort into supporting that venture and making sure it works."

PARTNER GROUP	Started	Members	$ Total *
Active Angel	2003	48	2.9
Atlanta Technology	1999	45	20
Band of Angels	1994	102	85
Common Angels	1998	67	25
New York Angels	1997	65	25
Pasadena Angels	2000	95	8
Sierra Angels	1998	48	15
Tech Coast Angels	1997	270	68
TOTALS		**720**	**248.9**

*Dollar figures in millions

Indiana Teachers Issues RFI For Small-Cap Managers

The $8 billion **Indiana State Teachers Retirement Fund** has issued an RFI for up to eight small-cap firms in all styles to manage up to $700 million.

According to the RFI, the plan is encouraging emerging, minority- and women-owned firms, as well as Indiana-based firms, to apply. The RFI is also open to firms with small- to mid-cap value portfolios.

The RFI also states that if an interested firm is not currently in consultant **Callan Associates**' database, the firm must complete and return Callan's Investment Manager Questionnaire.

The questionnaire is available by contacting **Christine Chao** of Callan at 415-974-5060 or chao@callan.com and must be requested by Jan. 8 and completed by Jan. 19.

The RFI is available at TRF's Web site (www.in.gov/trf). Semi-finalists will be sent an RFP on Feb. 14 and proposals are due Feb. 23. Selections are expected on March 28.

Golden Capital Graduates From CalPERS Development Program

The **California Public Employees Retirement System** has moved **Golden Capital Management** from its manager development program to its general U.S. enhanced equity portfolio.

The firm, which manages $241 million in enhanced index domestic large-cap equities for the plan, was initially funded by the plan's MDP I program in December 2000, when CalPERS allocated $200 million among three of the firm's products—enhanced large-cap core, enhanced small-cap core and large-cap value—in exchange for 50% equity in the firm.

The firm was initially allocated $141 million to both its enhanced large-cap core portfolio and its small-cap core portfolio, however the small-cap investment was reallocated to the enhanced large-cap portfolio on Nov. 1.

The firm's enhanced index large-cap portfolio has retuned 13.50% year-to-date ending Oct. 31 and has 3- and 5-year annualized returns of 13.20% and 9.16%, respectively, compared to returns of 12.06%, 11.44% and 7.26% by its benchmark, the **Standard & Poor's** 500 Index.

The firm manages $3.5 billion for 73 clients.

New York City Hires Managers-of-Managers, Mum On Names

The $85 billion **New York City Retirement Systems** has selected several emerging managers-of-managers to oversee its emerging manager program, according to several industry sources; however the names of the firms hired could not be confirmed by press time.

The plan is expected to place $800 million overall with the managers-of-managers.

According to sources, it appears the plan has hired at least three firms. The firms were notified of the decision in late December. **Laura Rivera**, spokeswoman for the city, declined to comment.

The search, which has been ongoing for over a year, has been slowed by the departure of CIO **Deborah Gallegos** in February and the set-up of the plan, which requires firms to interview with the boards and consultants for each of the five plans that make up the retirement system.

The plans are the employees retirement system, the police retirement system, the fire retirement system, the teachers retirement system and the board of education retirement system.

Among the firms that were interviewed were **Capital Prospects**, **FIS Group**, **Northern Trust Global Advisors**, **Progress Investment Management**, **Bivium Capital** and **Attucks Asset Management**, according to sources.

Illinois State Universities Plan Retains Ariel Capital...For Now

The $15.2 billion **Illinois State Universities Retirement System** will review **Ariel Capital Management** at is annual review in April after deciding to retain the firm despite performance concerns.

Dan Allen, cio of the plan, said the firm, which manages $42 million in defined benefit money for the plan in a mid-cap value strategy, presented to the board in December and the board "felt comfortable to give them more time."

According to *eVestment Alliance*, the firm has underperformed its **Russell** 2000 Value Index for the past eight years. The firm has managed money for SURS for the past five years, Allen said. The firm's five-year return is 11.72%, which is 4.91% below its benchmark.

Search Roundup

The following directory includes search and hire activity for the last month, as well as previously reported ongoing searches. The chart also includes emerging managers hired for direct investments. All amounts are in $ millions unless otherwise stated. To report manager hires and new searches, please call Gar Chung at 646-810-1073 or e-mail him at gchung@fin-news.com.

For further information on FINdaily's daily search leads and mandates awarded and lost, please visit findaily.com or contact Robert Cavallito at 646-810-1072 or rcavallito@fin-news.com

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FUND NAME	FUND SIZE (M)	INVESTMENT TYPE	SIZE (M)	COMMENTS
NEW LEADS				
Indiana State Teachers Retirement Fund	8,000	Small-Cap	700	Fund has issued an RFI for up to eight small-cap firms. Search is open to firms with small- to mid-cap value portfolios and encourages emerging, minority- and women-owned firms, as well as Indiana-based firms. RFI available at TRF's Web site (www.in.gov/trf).
UPDATES				
California Public Employees' Retirement Systems	220,000	Emerging Manager	142	Fund has graduated Golden Capital Management from its manager development program. Golden manages $142 million in domestic enhanced indexed large-cap equities.
State Universities Retirement System of Illinois	14,300	Mid-Cap Value	42	Plan decided to retain Ariel Capital Management as mid-cap value manager. Firm handles $42 million for defined benefit plan. Plan was concerned with firm's performance. Ariel will be reviewed again during April annual domestic equity manager review.
Denver Employees Retirement Fund	1,800	Small-Cap Growth	N/A	Fund has selected Essex Investments, Copper Rock Capital and NorthPoint Capital as finalists for a domestic small-cap growth search. May select winner after its Jan. 19 meeting.
FIRMS HIRED				
Abilene Firemens Relief & Retirement Fund	32	Small- to-Mid-Cap	30	Plan hired Luther King Capital Management to replace Lotsoff Capital Management as small- to mid-cap manager.
New Hampshire Retirement System	4,700	Small-Cap Value	50	Hired Netols Asset Management to handle $50 million in small-cap value equity.
Teachers' Retirement System of Illinois	36,800	Small- to-Mid-Cap	50	Fund hired Copper Rock Capital Partners to manage $50 million in small- to mid-cap growth domestic equities as part of $500 million emerging managers program.
San Diego City Employees Retirement System	4,300	International Small-Cap	48	Plan hired GlobeFlex as international small-cap equity manager. Funding is part of diversification of portfolio and will come from international managers GMO and Nicholas Applegate.
FIRMS ON WATCH				
Austin Police Retirement Fund	450	All-Cap	15	Fund placed Snow Capital on watch for underperformance on its all-cap portfolio. Firm will be on watch for at least one year.
FIRMS ON TERMINATED				
Illinois State Board of Investment	11,500	Small-Cap Value	170	Plan terminated Ariel Capital Management from a $170 million small-cap value portfolio for performance reasons. Money was moved to a Russell 2000 Value Index run by Rhumbline Advisors.
Fulton County Employees Pension Fund	1,018	Large-Cap Value	140	Fund has terminated Wellington Capital Management for performance reasons and hired NWQ Investment Management Company.
City of Allentown	125	Fixed-Income	24	Fund terminated fixed-income manager Eagle Asset Management. Assets were distributed amongst its equity managers.

Merrill Lynch Consultant Departs

Jeff Swanson, a consultant at **Merrill Lynch Investment Consulting Services**, has left the firm. According to several pension plans, Swanson notified them of his departure in early December. Swanson, who was based in the firm's Jacksonville, Fla. office, confirmed to *EMM* sister publication **FIN***daily* that he was leaving the firm at year-end but declined to comment further.

Joe Dykers, pension administrator for **Cape Coral** (Fla.) **Municipal Pension Trust**, said Swanson announced that he is leaving the firm at a special board meeting on Dec. 4. Meanwhile, **Troy Brown** will take over as the lead consultant for Swanson at the **Coral Gables** (Fla.) **Retirement System**.

Swanson is also the lead consultant at the **Gainesville** (Ga.) **Employees Retirement System** and the **Chatham County** (Ga.) **Employees Retirement System**. **Linda Cramer**, finance director at Chatham County, said **Alan Kirchner** is now the lead contact at Merrill Lynch. Calls to **Melody Marlowe**, finance director at Gainesville were not returned.

Merrill Lynch did not return calls.

More Personnel Woes At PCG

David Scopelliti and **Tom Keck**, managing directors at **Pacific Corporate Group**, are no longer with the firm. The staff changes come after President **Monte Brem** and managing directors **Tara Blackburn**, **Stephen Moseley** and **Michael Russell** resigned in September and business development head **Michael Underhill** resigned in November.

A spokesman for PCG confirmed the pair left yesterday and said "their departure is not expected to have any meaningful impact on the firm's activities."

According to several sources, Scopelliti and Keck, who were part of a four-member management committee put in place after the September departures, were asked to leave over concerns they voiced at the firm. Keck had joined the firm in June 2005 and Scopelliti joined in July 2006 after serving as head of private equity for the **State of Connecticut**.

Stamford Goes With FIA

The $474 million **City of Stamford** (Conn.) has selected **Fiduciary Investment Advisors** as its full-time consultant for its classified employees, police and fire retirement funds, said **Mary Beth Troy**, purchasing agent at the city.

The plan had issued an RFP in August because a temporary contract with FIA was expiring. The plan had used **UBS Prime Asset Consulting Group** but went with FIA after **Mark Wetzel**, the plan's lead consultant at UBS, left and formed FIA in May.

Troy said other finalists were UBS, **Merrill Lynch Investment Consulting** and **Segal Advisors**.

She said the board decided to go with FIA because the firm offers the lowest fees and has more experience with municipality pensions than the other firms.

Ark. Plan Makes Exec. Dir. Offer

Paul Doane, senior v.p. for public fund sales at **Oppenheimer Capital**, has been offered the executive director position at the **Arkansas Teachers Retirement System**.

Previous Executive Director **David Malone**, who retired on Dec. 31, said Doane has obligations to Oppenheimer and the plan is hoping to iron out the details for Doane to start in March or April.

Julie Cabe, deputy executive director, will serve as the interim executive director until the contract with Doane is finalized.

Prior to Oppenheimer, Doane served as executive director of the **Massachusetts Pension Reserve Investment Management Board**, according to his bio on Oppenheimer's Web site. Doane did not return a call seeking comment.

Crimson Tide Taps Hammond

The $800 million **University of Alabama System** has selected **Hammond Associates** as its new consultant, pending contract approval, said University Spokeswoman **Kellee Reinhart**.

The plan had issued an RFP in October after incumbent **Hewitt & Associates** resigned over key personnel departures. Reinhart said in October that "the firm told the University it would not be able to handle the account because of depleted resources.”

The other finalists in the search were **Cambridge Associates**, **Clark Strategic Advisors** and **Fund Evaluation Group**. **Tom Gale**, investment officer for the Tuscaloosa-based school, said the board decided to go with Hammond because "firm founder **Dennis Hammond** is going to be our lead consultant, and he obviously made the best impression."

LCG Hires Two Consultants

Katie Buckler and **Eric Huff** have been hired as consultants at **LCG Associates**, the firm announced.

Buckler, previously a senior client management consultant with **CAPTRUST Financial Advisors**, and Huff, previously a senior investment analyst with **Hewitt Investment Group**, will be responsible for investment strategy, manager due diligence and research, special research projects and advice. Both will be based in Atlanta.

Mercer Hires Mgr. Research Head

Jeff Gabrione has been named the head of U.S. investment manager research at **Mercer Investment Consulting**, the firm announced.

Gabrione, previously a senior research consultant within the manager research division of Mercer Investment Consulting, had been responsible for research on alternative investment strategies, including hedge funds, which played an important role in his hire as head of U.S. manager research, the firm said in a news release.

Gabrione, who will be based in Chicago, replaces **John Frede**, who left the firm in September to join **Mesirow Financial**.

Delaware Sales Chief Departs

Kevin Lucey, chief of sales, client services and marketing at **Delaware Investments**, has left the firm. His departure was confirmed by **Laurel O'Brien**, spokeswoman for the firm.

O'Brien said Lucey's role will be split between **Theodore Smith**, head of the firm's wealth management group, who will oversee the retail aspects of the position, and **John C.E. Campbell**, president of global institutional services, who will handle Lucey's institutional responsibilities. It is not known where Lucey is going, as he could not be reached for comment.

U.S. Global Hires Inst'l Director

Michael Dunn has been named director of institutional services at **U.S. Global Investors**, the firm announced.

Dunn, most recently an alternative investment consultant, will lead the firm's sales team and will focus on growing the firm's assets from foundations and endowments, RIAs and other institutions. He will be based in Boston.

"We are making a strong push into the institutional market, which we see as a key component of our strategy of growing our assets under management," says **Susan McGee**, U.S. Global's president.

Proctor Acquires Stake In Aletheia

Proctor Investment Managers has acquired a 10% equity interest in **Aletheia Research and Management**, the firms announced.

Under the agreement, Aletheia, a large-cap growth and value manager, will use Proctor's institutional sales and marketing platform.

"Proctor and its team have proven success in institutional client and consultant coverage, and we expect this partnership to aid our ability to expand our unique investment message into the marketplace," said **Peter Eichler, Jr.**, Aletheia's chairman and cio, in a statement. "Proctor's deep understanding of the institutional/pension markets will allow us to leverage our significant investment capabilities."

Aletheia currently manages more than $3.25 billion in assets. The firm also has a market-neutral hedge fund.

Nomura Takes Stake In Fortress

Tokyo-based **Nomura Holdings** announced it will acquire a 15% stake in global alternative asset management firm **Fortress Investment Group**.

The transaction, which is expected to facilitate the expansion of Fortress' business in Asia, is expected to close in January. Under the agreement, Nomura will own Class A shares representing 15% of New York-based Fortress, with the proceeds of the acquisition going to Fortress' principals. Fortress has approximately $26 billion in assets under management.

Hawaii ERS CIO To Join Robeco

Timothy Kimokeo "Kimo" **Blaisdell**, cio of the $10.7 billion **Employees Retirement System of the State of Hawaii**, will join **Robeco Investment Management** in early 2007, the firm announced.

Blaisdell, who will be based in the firm's Honolulu office, will be responsible for sales and marketing to the plan's Hawaii client base, which includes public and Taft-Hartley pension plans.

The firm has approximately $350 million in assets under management from Hawaii-based investors.

Eaton Vance Hires 2 For Client Service, Business Development

Eaton Vance has hired **Daniel McCarthy** and **Katharine Kasper** to bolster its institutional sales and marketing team, the firm announced.

McCarthy, previously v.p. and senior member of the institutional team at **State Street Global Markets**, has been named v.p. of institutional business development and will be responsible for institutional sales in the Midwest.

Kasper, previously a senior associate director of client relationship management at **Cambridge Associates**, will be responsible for all aspects of institutional client relationships at Eaton Vance in her role as v.p. and senior relationship manager.

McCarthy will report to **Lisa Jones**, head of the institutional group, and Kasper will report to **Susan Brengle**, director of product management and client service.

American Realty Makes Hires

Richelle Hayes has been named senior manager for marketing and client service at **American Realty Advisors**, the firm announced.

Hayes, most recently v.p. for client services at **ICC Capital Management**, will be responsible for developing and expanding client and consultant relationships for the firm's commingled fund clients.

She will be based in Orlando, Fla.

Ivy Names Inv. Mgmt. Head

Stuart Davies has been promoted to global head of investment management at **Ivy Asset Management**, according to a letter the firm sent out to clients.

Davies, previously head of investments for Europe and Asia, will be responsible for manager selection and research and will over see the firm's portfolio management group, which is headed by **Alan Chuang**.

As part of the hire, Davies will move to the firm's Jericho, Long Island office from London.