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Profiles

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Profile: Jody Fink & Steve Nelson, Cambridge Associates

While more than $1.5 trillion in total aggregate client assets under advisement is difficult to ignore when speaking with **Cambridge Associates**, it is not a number that **Jody Fink** and **Steven Nelson**, co-heads of consulting at the advisory firm, have to boast about in making their case for the firm's abilities in working with institutional investors.

Steven Nelson

Fortunately for Cambridge, clients have spoken for the advisor themselves. In the firm's most recent annual survey of clients, 90% said they would recommend Cambridge to others, which the co-heads of consulting felt is indicative of their longstanding work with institutions since the firm was originally formed in 1973 to provide investment research and consulting services to a group of major university endowments in the U.S.

"Our philosophy has not changed in a significant manner or to a significant degree. We're really proud of our clients and our growth has come from satisfied clients," Fink said. "…Our philosophy clearly is working and has been effective. We think the diversified endowment model is important and, over the long run, will produce superior results with lower volatility. We haven't altered that."

Jody Fink

Nelson said that over the past 18 to 24 months, Cambridge has delved deep into researching the economy, seeking to understand various market exposures and how they will drive results under varying conditions.

A result of that analysis has been a reclassification of asset classes for many of its clients with a greater focus on the strategic roles of managers in a given portfolio.

"We're thinking about portfolio construction and how we should adjust our thinking for a complex set of opportunities," Fink said. "Part of that (process) is to focus on strategic roles in the portfolio as opposed to manager philosophy," she added, which includes separating firms that will be growth engines from those that will provide diversification and volatility reduction.

Assessing Managers

It's no secret among asset management firms that getting on Cambridge's platform is a substantial boost for business, particularly those who desire to work with the nonprofit space, which is approximately 72% of the advisor's client base.

"There's no substitute for having real scale in coverage," Nelson said. "The size of the firm and its research engine makes an enormous difference for clients…we're meeting with managers every day on site, with well over 1,500 meetings and calls we conduct every year."

Cambridge's 338 consulting professionals, 156 research professionals and 187 performance measurement and evaluation professionals all have a hand in the manager research process, the co-heads of consulting said, but that doesn't make the process any less rigorous. Since consultant and research staffs span the globe, the pair said the best way for new firms to get in touch with Cambridge is through its Web site. A questionnaire is available for both marketable products (traditional marketable securities, hedge funds, distressed securities, and arbitrage strategies) and private illiquid partnerships (buyouts, venture capital, special situations, subordinated debt, mezzanine capital, real assets, and secondaries).

When advising to over a trillion in aggregate assets, the size of a manager can play a significant role in moving from the sidelines and into the game, however Nelson and Fink both said that the firm measures managers on a client-by-client basis.

"We definitely want some sort of proven track record we can dig into," Fink said. "The length may vary based on the strategy, but we're always on the lookout for new up-and-coming managers as they become longer established."

Nelson said that digging deeper into firms and getting to know employees from the bottom up pays dividends down the line when new firms are created by those professionals.

"We pride ourselves on knowing the full investment team and our ability to evaluate folks that are spinning off," Nelson said. "We already have a good feel of who they are and what they do."

"We go through all the data you'd expect, but it is also getting to know the people beyond the portfolio manager," he added. "Getting to know the analysts, getting to know the day-to-day of the firm, how they are compensated. That qualitative piece of work is time-intensive when it comes to getting to know folks over an extended period of time, but we see no way to shortcut the process."

To Cambridge, the advantages and disadvantages to working with newer managers are clear. While on the one hand, the idea of a boutique, highly-incentivized, hungry manager is attractive, there must be boundaries set from a business risk standpoint.

"We want to ensure that the strategy they are pursing isn't overwhelmed by assets they hope to attract," Nelson said. "We want to know who their investors are, what type of investors they have attracted and that if that manager starts going through a rough patch, if those assets will drop by 50%."

The alternative investment space takes on a completely new set of standards for the firm, particularly in the private equity and venture capital areas, where the dispersion of returns between top quartile and lower-tiered managers can exceed a thousand basis points. This, among many other factors, has led to a movement toward more specialized, alternative investment consultant services separate from general consulting among nonprofits.

"Despite a challenging environment in alternative strategies, our clients remain committed to the space," Nelson said. "That's been an area of focus of ours, an area our clients turn to us for a competitive advantage."

While each snapshot of the overall picture is significant to the research process, Cambridge has ramped up its back office and qualitative due diligence as part of its increased focus on how firms manage risk, with the last 18 months serving as a strong wake-up call to their clients about the importance of risk management.

"We've always been concerned with (risk), which is why we started as a research firm," Fink said. "Everything we do comes out of the research our colleagues do—we dedicate a number of resources to manager evaluation and steer clear of higher risk managers by looking at back office operations."

Nelson said that on the hedge fund front, Cambridge wants to understand the external environment and how it will affect certain managers, but that the key is the level of transparency they can provide.

"Our goal with all the managers we're actively covering is to have a very clear picture of what's going on," he said.

The Role of Governance In Managing Portfolios

With portfolio outsourcing for institutional investors building momentum over recent years, Cambridge dedicates a great deal of time to planning out a governance framework that creates a clear-cut understanding of the decision-making process and the specific risk appetites those institutions can withstand.

"We maintain an active dialogue with our clients," Nelson said. "…We try to enhance our ability to identify and measure risk, chief among those is the idea of having sufficient liquidity, which is a dynamic measure and not something that remains static."

After Cambridge is hired, governance is among the top areas it addresses with clients as a means to ensure that there is an effective decision-making process to carry out the strategy the advisor and client develops.

"Governance work is part and parcel of investment planning process," Nelson added. "It is impossible to separate that out. Really where we have some unique insight, given the scale of our work, is through the hundreds of institutions and our history with them…which not only gives us our current practice to draw on, but how structures have evolved over time in response to different situations."

Fink and Nelson stress the term "partnership", which is evidenced not only through Cambridge's various advisory structures with clients, but its ongoing firm-wide movement to adapt to the changing investment atmosphere.

Over recent years, Cambridge has created a dedicated Mission-Related Investing Group, which was created with the support of its larger nonprofit clients that desired a committed research platform for managers that incorporate community-based and socially responsible investments and require an additional layer of due diligence. In November, London-based F&C Investments was selected by institutional investors working in collaboration with Cambridge to create an emerging markets equity strategy that will incorporate environmental, social and governance screens.

"If a client has an interest, our job is to help them fulfill that interest," Nelson said. "If that option doesn't exist, we want to help them create it, either through our own research where we see opportunities or where clients are pushing us. We proactively go to managers when we think we have an interesting idea, and we have been fortunate to have some managers willing to have those conversations and create a product."