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Investor Series

Interviews with Larry Robbins of Glenview Capital, Pierre Lavallée at CPPIB, and Cambridge Associates

INVESTMENT INSIGHTS FROM CAMBRIDGE ASSOCIATES

Sona Menon, Head of North America Pensions and Outsourced Chief Investment Officer
George Hasiotis, Managing Director and Hedge Fund Specialist

Recent increases in market volatility and a more challenged return environment have prompted many investors to question their investment strategies, particularly the role of alternative assets in portfolios. In this roundtable discussion, two of Cambridge Associates' investment leaders share their insights on portfolio strategy, alternatives investing and what's on their clients' minds.

Sona Menon, Cambridge Associates

George Hasiotis, Cambridge Associates

CAPITALIZE FOR KIDS: Who is Cambridge Associates and how do you approach investing for your clients?

SONA: Cambridge Associates is a global, independent investment firm with more than 1,000 clients and a presence across four continents including the United States and Canada. We help both our institutional and private investors achieve their objectives through proactive, unbiased investment advice and management that is grounded in intensive, objective research.

We do this in a highly customized fashion. We meet our clients where they need us – whether it is advising on a portion of the portfolio (e.g., alternative assets) or overseeing their total portfolio under a variety of service models including non-discretionary and fully discretionary.

CAPITALIZE FOR KIDS: How is the current market environment affecting Cambridge Associates' investment recommendations and decisions?

SONA: As investors navigate the current environment, they should recognize that the market, or beta, simply may not be enough to get them to where they need to be. Of course, each organization has its own unique circumstances that should drive governance, investment policy, and asset allocation decisions, but strategies must be adaptive to market realities, too. Whether clients' goals are related to closing a pension funding gap, supporting an endowment's enterprise into perpetuity, or fulfilling a family's personal or philanthropic goals, Cambridge Associates works to source incremental alpha to realize objectives. Our job is to look across asset classes and opportunities to identify the best pockets of value and incremental return. Also, it's critical to take into account the entire portfolio as we do so to ensure that each element is working together to the best effect possible.

CAPITALIZE FOR KIDS: Where do you see these incremental opportunities today?

SONA: Valuations in many asset classes are stretched. The double-digit returns from US equities over the last 5+ years, combined with persistently low global interest rates, lead us to look for growth and downside protection through different means.

Empirical evidence shows that entry valuations into an asset class have been an important driver of future returns. Valuations in emerging markets and natural resource equities have improved considerably. But as these markets also exhibit higher risk, we prefer to identify strong active managers who can add alpha through their skill and experience. Given the dislocation in the energy markets, we believe there to be many compelling opportunities in private energy, for example.

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Private investing broadly (including venture and private equity as well as private energy and real estate) has also generated outsized returns over public markets.

GEORGE: Hedge funds may play a critical portfolio role by offering the potential of downside protection, which is meaningful in this low rate environment, and by allowing the portfolio to participate in growth opportunities. Recently, there has been a global disruption in energy markets, with changing industry dynamics leading to an environment in which managers may be able to better identify long-term winners and losers. Such an environment typically results in increased forced selling and the development of interesting distressed opportunities. We expect over the next year to spend more time examining distressed funds, including evergreen funds with energy expertise, and also opportunistic vehicles launched to take advantage of discrete trading opportunities. Finally, the worst performing strategy of recent past, event-driven, may actually now look relatively attractive on a forward-looking basis.

CAPITALIZE FOR KIDS: Have fund costs and recent performance trends altered your perspective on hedge funds?

SONA: Our opinion hasn't changed but recent events have served to highlight the reasons for our point of view. The potential opportunity for alpha is highest, and sufficiently high to warrant the incremental costs, among alternatives – private equity, private credit, and venture capital as well as hedge funds. But this is also a highly complex area of investing. In our opinion, alternatives are simply not worth the expense and time required if they are not executed correctly. However, some of these specialized investments have generated significant alpha for portfolios, after fees.

Deep research, rigorous inspection and strong relationships have always been keys to effective alternatives implementation. Our research team, for instance, scours the globe for best-in-class ideas from alternative asset managers. We have built our expertise and relationships for more than 40 years and, since we were early entrants to the space, we often are the first call for fund managers raising capital. The strong relationships we have built over time often afford exceptional access to top-performing manager opportunities.

GEORGE: Recent market volatility has also brought out more return dispersion, which reinforces the point that choosing the right managers and proper execution is key. At the same time, in many ways, the potential offered by alternatives is better than ever.

For instance, manager access is better than it has been in a while. Certain high-quality managers that have been closed to new capital are now reopening, either due to portfolio-level drawdowns or to prepare for what they see as a more broad and compelling investment landscape. Rotating capital to these high-quality managers with strong track records is a way that a portfolio may enhance its returns over the long term.

We also have found that many managers are willing to work with our investors to land on fees and terms that are acceptable for all parties involved in the investment. We believe that this willingness, particularly in the current market environment, can be important to optimizing the net value of portfolio investments.

CAPITALIZE FOR KIDS: What are the key characteristics that you look for in your due diligence process?

GEORGE: When we examine what makes certain asset managers more successful than peers, three core characteristics stand out, regardless of the strategy pursued. First, a firm must show ability to consistently source interesting investment ideas. Spectacular one-time market calls may generate headlines, but they are not typically an indicator of long-term success. Second, a manager must have portfolio management skills that balance an appropriate return for the level of risk taken. Third, a manager must demonstrate skill in running a business, which incorporates both handling responsibilities internal to the organization as well as interactions with investors and other counterparties. Oftentimes it is this last skill – or lack thereof – that trips up individuals who otherwise have strong investment pedigrees.

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