

PROFESSIONAL BUYER

# CITYWIRE

MAR  
12

2018

ISSUE  
35

CITYWIREUSA.COM

FOR PROFESSIONAL BUYERS

KATHY BLAKE  
CAREY AND THE  
BAIRD TEAM  
SEARCH FOR  
PMs WITH A  
STORY TO TELL

# STOP... COLLABORATE & LISTEN



# TEAM TALK

Baird's Kathy Blake Carey, Maggie Savage and Aaron Benson want to know what makes manager teams tick. That means it's time to start talking

## ALEX STEGER

**K**

athy Blake Carey first got into money management when she was asked to join a college investment club that was short on women.

Today, she is director of private wealth management research at Baird, overseeing a team of 21 portfolio managers and analysts covering mutual funds, ETFs, and direct equities and bonds. Their research is used by 860 advisors, with a total of \$116 billion in assets under management.

It's safe to say she's not just making up the numbers any more.

'Frankly they were looking for more gender diversity when they were starting that club,' she says. 'So that was my first experience with investment and I found it pretty intriguing.'

While gender diversity in manager research has not kept pace with Blake Carey's progress, she says that it's not a profession that discriminates on the basis of gender. Instead, she says, it rewards results.

'From my standpoint, I personally haven't had any challenges working in this industry,' she says.

'I find it a great place where you can be judged on your merit. If you are picking good stocks or managers, that will come out in the numbers.'

Her colleague Maggie Savage, a portfolio analyst who specializes in small- and mid-cap managers as well as real assets, agrees.

'I've never come across any challenges being one of the few women in the room,' she says. 'I think it is refreshing and can offer some different perspectives in team dynamics, trying to come at things at a different angle.'

'I agree with Kathy that it is a very objective industry. I was lucky enough to be part of a program in college that actively invested some of the school's endowment and that's how I got interested. There were a handful of very capable women in that program. Even though the industry might not be 50/50, it is definitely open. There could be more women, but it is not

something you can really force. It's a competitive industry, it's a grind. People definitely have to want to do it.'

Even though Savage and Blake Carey both got bitten by the investment bug at college, it is there that the lack of diversity in finance really begins, Blake Carey suggests.

'I would like to see more women involved in the industry,' she says. 'I feel like it goes back to education. I still feel like in a lot of universities you just don't have lot of diversity within the finance majors and I'm not sure why people don't gravitate to that more.'

She adds: 'I want to give Baird credit for being focused on wanting to improve inclusion and diversity. There are a number of



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**KATHY BLAKE CAREY**

## AARON BENSON

**2018 – present**

Baird, associate portfolio manager

**2011 – present**

Baird, senior portfolio analyst

**2007 – 2011**

Baird, senior performance analyst

**2006 – 2007**

Northwestern Mutual, investment representative

## KATHY BLAKE CAREY

**2018 – present**

Baird, director of private wealth management research

**2015 – 2018**

Baird, director of asset manager research

**2003 – 2015**

Northwestern Mutual, director, senior research analyst

**1999 – 2003**

Baird, equity research analyst, senior associate

## MAGGIE SAVAGE

**2015 – present**

Baird, portfolio analyst

**2009 – 2015**

Baird, equity research analyst



programs they are going through and lots of discussions around that, on the question of how we make this a more diverse workforce, which makes it a place I enjoy working.'

#### INTERESTS ALIGN

Blake Carey and the team are responsible for putting together a recommended list of around 100 mutual funds and 75 separately managed accounts used by the Baird advisors. Managers in whom the team has the most conviction are then included in Align, the firm's range of discretionary model portfolios.

The Align range is made up of five basic risk-based models, with equity exposure increasing in increments of 20%. There are then a number of variations and additional sleeves available, such as diversified yield and absolute return, taking the total number of models to more than 25. Between the Align portfolio and the recommended list, the team oversees just short of \$17 billion.

It's not easy for a manager to earn a piece of this. Blake Carey and her analysts place a strong emphasis on teamwork – both their own and at the asset managers they pick.

'This is a really collaborative group,' says Blake Carey, who insisted that this interview was not just with her, but also with two members of her team: Savage and Aaron Benson, an associate portfolio manager who also specializes in large-cap managers and equity diversification.

It's clear from talking to the three of them that they hold themselves to particularly high standards, and they expect managers to meet this too. The Baird team believes in having a clear and detailed process, and managers need to have something similar to show. They are passionate, and managers need to match this. And finally,

**\$116 BILLION**  
ASSETS UNDER MANAGEMENT

**25+** MODEL  
PORTFOLIOS

**100** MUTUAL  
FUNDS

**\$17 BILLION**  
IN RECOMMENDED  
LISTS AND MODELS

**10** MEMBERS OF  
MANAGER  
RESEARCH

**75** SMAs

they are big on collaboration and expect their PMs and analyst teams to share this belief.

'One thing we really look for is team dynamics – how the PM and the analysts work together,' Savage says. 'We have had meetings where the PM would talk over the analysts and not let the analysts contribute, or dismiss what they are saying. There are different tactics we take to assess that and get a sense of the whole team's contribution and their satisfaction level, as personnel risk is a big thing we try to assess.'

However, Benson adds that this focus does not lead them to favor any one kind of shop. 'There are some teams we recommend who are boutiques, who are great and very differentiated in how they do things. There are others who are very deep, with huge analyst teams and multiple PMs. We are not really stuck on having one versus the other, but it has to be something we are comfortable with over the long run,' he says.

#### ON ALERT

The team carries out more than 300 conference calls, 100 in-person manager interviews and more than 50 onsite visits in an average year. But before managers get to this stage, they must pass Baird's in-house quantitative screen, called the Algorithmic Evaluation Research Tool, or Alert for short.

This categorizes around 20,000 strategies into specific asset classes and then evaluates them on a variety of metrics, such as alpha, information ratio, Sortino Ratio, standard deviation, capture ratio and batting average.

It assesses managers over rolling three-year time periods over 10 years in a bid to avoid recency bias and to get a sense of the bigger picture.

The team then also screens for other, more qualitative factors such as manager tenure, assets in a given strategy and at firm level, turnover, expenses and whether a fund is what they call a top or bottom tick.

Benson explains that this is where a fund comes top or bottom in a peer group based on recent performance. Neither is necessarily a positive or negative sign, but it does highlight the need for further discussion.

'If recent performance looks exceptional, we have a thorough vetting process and you are going to get a question [about that] from somebody in the team. Like, explain why? How sustainable is that going forward?' he says.

'The bottom tick is just the opposite. It tells you recent performance is well below the norm. It could be that that is concerning because of changes, but it could be because that style is out of favor. Either way, it draws it to our attention. But it's important to emphasize that Alert is really just that first step in the process. It is not making the decision for us.'

After Alert, the team goes through a further four steps before a fund finds its way onto the recommended list or in a portfolio. This begins with detailed portfolio analysis, followed by onsite due diligence, a written investment thesis and finally committee approval.

Managers who make it onto the list are then subject to ongoing due diligence. Whether being looked at for the first time or as part of a regular check, the Baird team evaluates portfolios based on the organization, the people, the philosophy and the process, the management style and performance.

'We always ask ourselves whether a manager has a unique edge that we feel puts them in a position to produce positive excess returns going forward over a reasonable timeframe,' Benson says. 'That can be a lot of different things. It can

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– HOW THE PM AND  
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WORK TOGETHER

**MAGGIE SAVAGE**



be having a key person who is just a great investor, it can be an exceptionally deep analyst team, it can be a great process, or it can be a strong feedback loop that allows people to learn from mistakes.'

**HOLDING FIRE**

Managers are sometimes dropped from the list, but it is not a decision that the team takes lightly.

'We want to stick with a manager for a long period of time,' Benson says. 'We will be patient with underperformance if we understand the rationale for it. We have found that even the best managers will go through periods of underperformance. Sometimes it can be for a period of three years or more and we can be patient with that to an extent, but when there is material change that coincides with underperformance, we will address that.'

'If we know a manager and can set expectations for performance, then that allows us to stick with it when they are out of favor or when active management is struggling.'

Where there are changes at an asset manager or within a team, a strategy may be placed under review. This triggers further due diligence, including compliance questionnaires, attribution analysis and performance reviews. If the changes are then deemed to be material or if Baird's concerns deepen, a manager may then be placed on watch, which means that at least one factor of the due diligence team's thesis for investment is no longer valid. If these concerns are not addressed, a manager will be terminated from the high-conviction list.

When issues arise, the Baird team wants to see managers and analysts who can explain them and stand by the decisions they have made.

'The best managers are really passionate about what they are doing,' Benson says. 'They would rather talk to you about stocks and individual investment decisions than performance and attribution. It helps to break away from the pitch book and get a sense of what people are really excited about.'

'On the other hand, we have talked to managers and you go in with really specific questions about investment decisions they have made... but then you try and get in the weeds and some managers get defensive. We like to see analysts and PMs standing by their decisions and taking accountability if things didn't go right, not just giving the marketing pitch.'

**THE TEAM**



Savage agrees. 'The best onsite's I have had are where you can really see the team's passion and get a sense of their process and the research arc – how a new idea is going to work through the process from the idea to the research to how they are buying it and monitoring it,' she says.

'You can tell when teams do that thorough research they are very proud of it and happy to share it.'

It's a line that could equally be used to describe the manager research team at Baird. ■



WE ALWAYS ASK OURSELVES WHETHER A MANAGER HAS A UNIQUE EDGE THAT PUTS THEM IN A POSITION TO PRODUCE POSITIVE EXCESS RETURNS

**AARON BENSON**