

THE IMPORTANCE OF A MANAGER EVALUATION FRAMEWORK

What are the primary principles one should incorporate into an investment manager evaluation framework?

Trust, integrity, alignment, and success. While these principles set a high bar for investment managers/firms under consideration, they are flexible enough to be applied across the spectrum of investment strategies available, ensuring compelling investment opportunities for our clients.

Can you expand on the importance of trust and integrity specifically?

Since we actively partner with investment managers/firms to assume investment risk on behalf of our clients, trust and integrity are essential. These characteristics are assessed through multiple meetings and conversations with an investment manager(s), their investment and operations teams, and through reference calls with preexisting personal, professional, and client relationships. Additionally, investment managers/firms must be transparent about their business, investment, and research processes. It is essential that they provide straightforward explanations of challenging investment periods and related decisions identified through our analysis. Investment managers/firms must also clearly demonstrate a commitment to candor and fairness in their interactions with clients, employees, and other stakeholders.

Why is alignment an important element in evaluating investment managers/firms?

An investment manager's/firm's interest should be fully aligned with the interests of all of its stakeholders, but especially with the interests of their clients. Not only should a manager's/firm's investment approach and portfolio construction processes be consistent with strategy expectations, but its resources and infrastructure should be sufficiently aligned to serve the firm's stated investment capabilities and client servicing needs. Lastly, and perhaps most importantly, key decision-makers must have significant personal capital invested alongside client capital to ensure alignment.

How do you determine if an investment manager/firm is successful or not?

What characterizes success is the quality of a manager's/firm's results given the investment strategy and applicable market conditions. Generally, returns should be attributable more to security selection rather than to market beta or a manager's/firm's willingness to assume undue risk through leverage, illiquidity, or excessive concentration. We must understand if returns have benefited from a "rising tide" in a manager's/firm's preferred sector(s), a few disproportionately large investment wins, or from taking excessive risk. Organizationally, growth in assets and personnel can be clear indicators of success, but only if such growth has not, and will not, negatively impact investment returns.

What would you emphasize as the value of a well-structured manager evaluation framework?

Different investment strategies seek to achieve different levels of absolute and relative returns and investors should be well compensated for taking that risk. These results should be commensurate with the amount and nature of the risk within each specific strategy and evaluated accordingly. While manager analysis and research encompass performance analysis, they also consider a myriad of other relevant characteristics including, but not limited to, portfolio construction; liquidity; investment team composition; personnel turnover; asset growth; key-person provisions; and business risk. As a result, implementation of an effective framework requires a dedicated team of investment professionals. A successful - and repeatable - manager evaluation process requires rigorous investment research, analysis, and in-depth due diligence. Once we have decided to invest with a manager/firm, our research and due diligence continues with even greater intensity as we continually underwrite each manager's/firm's integrity, alignment, and success.



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John is a Portfolio Manager in the Institutional Advisory Practice team. John is responsible for international and equity alternatives investments and co-leads private equity and venture capital investments for the firm. He is a co-Portfolio Manager of The Colony Group Private Equity 2022 access fund and The Colony Group International Opportunities Fund. John's research efforts additionally focus on opportunities in transformative innovation across sectors.



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As an investment professional, Andrew serves as President of Colony's Institutional Advisory Practice. Andrew and his team provide a full spectrum of OCIO solutions on a discretionary and non-discretionary basis to institutional for-profit and nonprofit clients and large family offices. In addition to working with clients to create, amend, and improve their governance structure, investment policies and strategic asset allocation, Andrew's team takes responsibility for manager selection and research across all asset classes. Andrew is also a member of Colony's Executive Committee and Investment Committee.

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