

Turnover at Multi-Managers Stays Low in 2008

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By **Jay Cooper**

The severe market downturn has yet to lead to many opportunities for managers looking to join multi-manager platforms. Officials who lead such platforms say poor performance alone is rarely a cause for termination, and that organizational changes or inconsistent investment processes are far more likely to trigger a manager getting kicked off a platform.

Many managers struggled to keep their performance afloat last year. Still, Northern Trust Global Advisors and Wilshire Funds Management report normal rates of turnover on their multi-manager platforms in 2008. And while SEI Investments does report a higher rate of turning over managers than normal, that rate was still fairly low.

Northern Trust Global Advisors executives say their turnover rate for managers in 2008 was 12%, and has been 6% for 2009 so far. In a typical year, turnover on their manager roster ranges from 10% to 20%. SEI, meanwhile, experienced more turnover in 2008, but it was still only 10%. Figures for SEI's turnover rate in 2009 were not available.

"Turnover has really been in line with what we've seen historically," says Christopher Vella, global director of research for NTGA.

He says that even in a market like 2008, turnover at NTGA is rarely driven by performance. "The things that drive manager turnover will be a process change, a personnel change or an organizational change," Vella says. "It's rare that we'll terminate a manager strictly over performance."

Generally, multi-managers and consultants are not quick to terminate managers over a single period of underperformance. And the data for 2008 shows multi-managers stuck to that philosophy even in one of the most difficult environments in recent decades.

The turnover rate on SEI's multi-manager platforms usually runs around 5% per year, says Jim Smigiel, managing director, head of fixed income and chairman of SEI's investment strategy committee. In 2007, SEI's turnover rate dipped to just 2%, then rose to 10% in 2008.

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The main reason that SEI had more turnover in 2008 than previous years was because some managers in the same asset classes were more highly correlated to each other than expected. “That requires you to take some action,” Smigiel says. In replacing those terminated managers, new managers “have to bring a level of diversification to the table,” he adds.

Northern Trust’s Vella also notes higher-than-normal correlation between managers in the same asset class last year. Toward the end of 2008, “there was no place to hide,” Vella says. He says there has been less correlation between managers in 2009.

Within individual asset classes, Smigiel says turnover was highest for international equity managers. Vella says NTGA’s turnover was highest for small-cap managers, and that those managers typically have the highest turnover rate.

SEI and Northern Trust were not the only multi-managers who did not see a spike in turnover in 2008. Wilshire Funds Management did not have a higher than normal turnover rate last year, according to Larry Davanzo, president of Wilshire Associates. Davanzo oversees Wilshire Funds Management.

He was reached at deadline and did not have figures available for the firm’s turnover rates, but notes that the rate was not higher than other years. He says the regular turnover rate among multi-managers was not surprising because the market downturn forced multi-managers to look more at broader sector issues such as asset allocation rather than at individual managers.

NTGA, the multi-manager arm of Northern Trust, has \$26 billion in assets under management. SEI has \$123 billion.