

A CLASS APART

Extraordinary due diligence and a history of success set
2011's best SMA managers of the year apart from the crowd

BY JOHN SULLIVAN

“All of the firms have a focus on investment quality and their alpha thesis,” says J. Gibson Watson III, president of Prima Capital Holdings. “Post credit-crisis, due diligence is more than just stringing together a set of historical returns; now, it’s all about the culture of the companies and the quality of their management.”

That, according to Watson, is the theme common to the 2011 Separately Managed Account Managers of the Year, and largely responsible for the recognition and award.

This is the seventh year that *Investment Advisor* and Prima Capital, the Denver-based firm that conducts due diligence on SMA managers, have joined together to choose the best SMA managers in multiple categories.

“We started the program as a joint venture with Standard and Poor’s,” Watson explains when asked about the awards’ genesis. “The idea was to develop an SMA ranking and rating platform to be housed in S&P’s Advisor Insight. We felt with the increasing popularity of SMAs as a product, it would be of value.”

The initial criteria for inclusion are at least \$200 million in assets; tenured management (at least three years); superior ratings in five Prima Guide categories (all data in the following profiles come from Prima’s Prima Guide online tool, with data as of Dec. 31, 2010). If an attractive prospect for an award is below average in one category, or has an N/A in one category, the analyst will manually evaluate the merit of the manager in relation to the category in question. Lastly, the product should be widely available through retail SMA programs.

The committee starts with a quant approach, making sure each portfolio scores high marks in firm strength, resources devoted to the particular strategy, tax efficiency and performance, compared to their benchmarks and their peers. The quant analysis goes on for some time, but the discussion on the candidates—chosen by Prima’s analysts—ends with a quality discussion on the manager (or,

usually, team), including their tenure and the ownership of the firm, whether they have skin in their own games, and what makes them unique in their process of stock or bond picking through different business and market cycles. As *Investment Advisor* and AdvisorOne Group Editor in Chief Jamie Green wrote when announcing last year’s winners, “they are not flashes in the pan who’ve been able to scrape together a good year or two: their processes and their human capital allow them to perform well, and consistently, year after year.”

“Our comprehensive historical analysis encompasses a rolling period of time,” says Watson, who blogs for **AdvisorOne.com**. “We can therefore see how the managers perform over different, extended periods of time.”

Which, he says, allows Prima analysts to evaluate not only their alpha thesis, but specifically how they exploit market inefficiencies.

“We have more qualitative questions for managers when performing our due diligence,” he adds. “And this tracks with the industry as a whole. Advisors and investors have a deeper appreciation for due diligence. It is incumbent upon advisors to go beyond historical performance. In a post-Madoff world, they absolutely must verify the independent auditors and the clearing and custodial firms and perform all the necessary operational due diligence.”

Whether it’s a UMA, UMH, traditional or model-based SMA, they should be used as part of a broader, diversified portfolio, one that include ETFs, mutual funds and other effective products.

“We don’t feel it’s appropriate to look at any product of this type in isolation,” Watson says. “What’s relevant is how they work with other products they’re teamed with in the portfolio.”

In the profiles of the top managers that follow, you’ll learn how these SMA Managers of the Year set themselves apart. Look for additional coverage on these managers and their portfolio building strategies on **AdvisorOne.com**.

International Award

Thomas White International

International ADR Strategy

“We really consider ourselves a research firm,” says Tom White, a man who needs little introduction in the separately managed account space, but we’ll do so anyway. The chairman and president of Thomas White International, White has over 40 years of investment experience, beginning in 1966 at Goldman Sachs. Stints as an officer of Lehman Brothers and managing director at Morgan Stanley soon followed, and White founded the firm that bears his name in 1992.

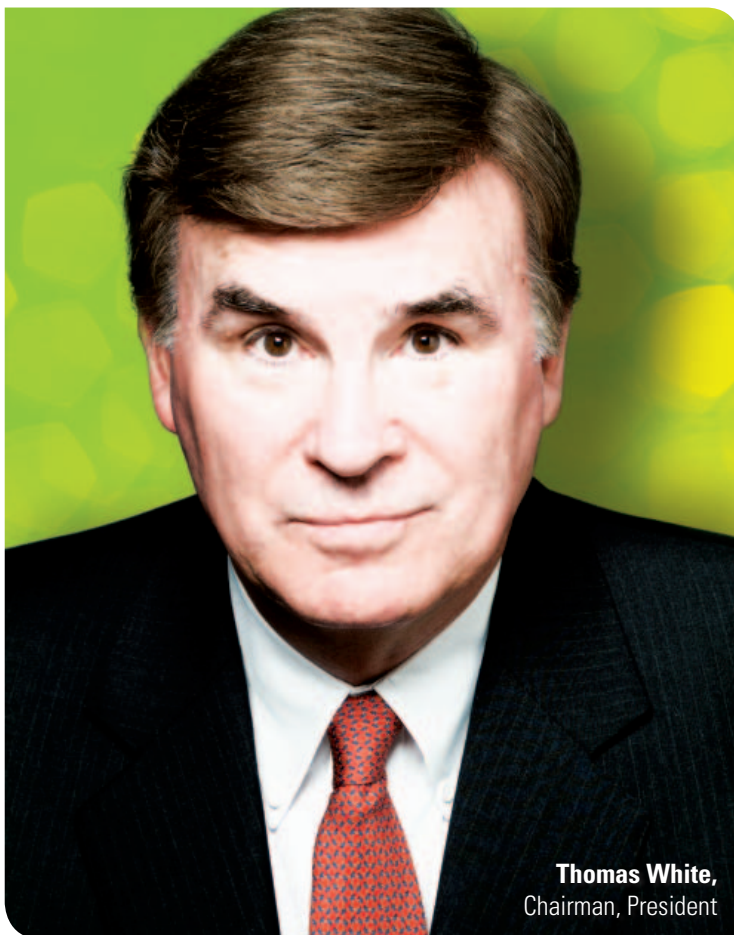
The firm’s international ADR strategy is something that sets it apart, White says. Its research driven approach translates to “people on the ground,” so to speak, most notably with the opening of its office in Bangalore, India.

“We have the capability not only to buy ADRs in many countries, but we often can actually trade securities on their exchanges, which gives our clients a distinct advantage,” White says.

Prima notes that Thomas White was their primary candidate for the 2011 International SMA Award from the beginning, as the firm has the highest aggregate ranking (i.e. sum of the four category scores) of the five finalists. Additionally, the organization has been very stable over the years, has gradually built out retail SMA relationships and continues to execute their well-designed investment process. This was especially the case in 2010, when the portfolio was underweight emerging markets and overweight Japan (i.e. this was non-consensus positioning) and yet still managed to outperform the Index.

“The international ADR strategy is a derivative of the firm’s ordinary share strategy; however, no apologies are necessary as it has performed equally well,” Prima writes. “Our overall opinion of the firm is quite high, particularly in regard to the investment process, the pedigree of the investment team, and the consistency of performance.”

Thomas White International employs a consistent, repeat-



Thomas White,
Chairman, President

able process that relies heavily on a quantitative system to rank stocks in deciles among over 100 valuation groups that are based on industries, sectors, regions, countries and combinations thereof, according to Prima. There are qualitative aspects to the process whereby team members analyze each company in terms of its management team, products and accounting quality, thus making the process more balanced than a purely quantitative approach.

Thomas White International is an employee-owned firm, a business model Prima favors in its deliberations, and repeatedly White took pains to point to the expertise and performance of the entire team during our interview. The team consists of the investment committee headed by Thomas White, along with Wei Li, Ph.D.; JinWen Zhang, Ph.D.; Douglas Jackman, and John Wu, Ph.D. David Sullivan II is a senior research officer and Marc Ma, Ph.D, serves as the Director of Research Technology.

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Issued by Prima Capital and Investment Advisor magazine, the Thomas White International ADR Strategy received the 2011 Separately Managed Account (SMA) Award for the International category. The award is based on a qualitative analysis of SMAs. Nominees are required to have a minimum of \$200 million in assets under management, manager tenure of at least three years, wide availability through retail programs, and superior ratings in five Prima Guide categories – Firm Quality, Resources, Level of Client Service, Tax Efficiency, and Performance. This award is based on past performance, is not indicative of Thomas White International’s future performance and is not representative of any one client’s experience.