BIAGIO MANIERI
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ADVANCEMENTS in multi-asset investing

As the world and capital markets get more complex, with political uncertainty and risk becoming constant factors that institutional asset owners have to consider, a multi-asset strategy can play a critical role in asset allocation.

Manager selection, active or passive strategies and the use of alternative investments are three key issues when considering a multi-asset allocation. In this Q&A, Biagio Manieri, a managing director at PFM Asset Management LLC, talks about the firm's approach to these three areas. In short, he said active can play a role, as can alternatives, but investment philosophy and process are paramount.

Pensions & Investments: Can you describe your investment strategy and process?

BIAGIO MANIERI: Research shows that the primary contributor to investment performance is asset allocation, with manager and security selection playing a secondary role. For us, asset allocation includes not only strategic or long-term thinking, but also tactical, based on economic and market fundamentals. Once we make the tactical asset allocation decision, we consider what exposures can be best achieved via passive low-cost index funds and where to use active management. This results in more efficient and lower-cost portfolios with the objective of outperformance relative to a comparable benchmark over time. Many investors rely on active managers to try to outperform with little tactical asset allocation. We also emphasize downside protection, and always keep in mind the golden rule of investing: Don't lose money. We claim compliance with the Global Investment Performance Standards (GIPS®) and prepare reports in compliance with the GIPS standards, as we believe investors should seek an investment adviser with performance reporting that is transparent and accountable.

P&I: When selecting active managers, what do you look for?

MANIERI: Most active managers underperform over time, partially due to behavioral traits and organizational characteristics. We prefer firms owned by investment professionals; this better aligns our interests with theirs. We study the culture of the firm and the personalities of the investment professionals. We look for those who are passionate about investing and have deep expertise. We do not seek managers who hug the benchmark. We combine the qualitative analysis of the people and culture of the firm with the quantitative analysis of the manager's past performance and portfolio characteristics, to understand the manager's factor exposure; we seek managers whose performance is coming from security selection.

P&I: What role can alternatives play in institutional portfolios?

MANIERI: We bring a different perspective on how to incorporate alternatives in portfolios. Many investors became fascinated with the endowment model and alternatives. Data from NACUBO show that portfolios heavy in alternatives, including those of many elite universities, have underperformed a portfolio of index funds over different periods of time and during the financial crisis. Many investors believe that alternatives outperform in all economic and market environments and have predetermined target allocations. This does not adequately differentiate between various alternative strategies or managers. Not enough attention is paid to: where we are in the economic and market cycle, and how different strategies perform during different parts of the cycle. We let the opportunity set guide us as to how much to allocate to alternatives, and to which alternative strategies. At PFM, rigorous analysis of economic and market fundamentals informs the alternative strategies that complement an overall portfolio. We believe there is an inverse relationship between prospective investment returns and supply of capital, and so we focus on specialty managers who are pursuing strategies that have not attracted a significant amount of money, and where there is less competition for the assets they are pursuing. ■

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