



Emerging Manager Focus

SMALL IS BEAUTIFUL

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Progress Head Changes Face of Emerging Managers

By Stephen Dalton



- Thurman White -

The emerging managers as we know them today have come a long way since the early origins of the term. The evolution of this blossoming investment manager has not been mapped more meticulously than by Thurman White, President and CEO of Progress Investment Management Company LLC.

Progress is a San Francisco-based manager of managers. The firm is best known for its industry-leading comprehensive database of emerging managers. In addition, Progress organizes an annual conference exclusively for emerging managers, clients, and well known industry speakers. Progress also produces freely distributed print materials detailing the advantages of emerging managers.

It is for White's dedication and commitment to advancing the emerging manager space that he has earned selection as Emerging Manager Focus' person to know

Progress Investment, founded by Marx Cazenave and Edwin C. Callan in 1990, began with a commitment of \$100 million from a couple of anchor clients. The firm now holds \$6.2 billion in assets under management.

Current President and CEO, Thurman White's background extends from an undergrad degree in public policy from Princeton University to a graduate degree in communication from Stanford and then onto a law degree from UC Berkeley. Later White worked as legal counsel to a California state legislative committee in the early 80s before joining Pacific Telesis Group and Pacific Bell in strategic planning and regulatory assignments, and then later in an operating role. White says that his position in the state legislature helped him become attuned to how governmental agencies work. He draws on this knowledge to understand better what public pension plans are looking for and uses this experience in his advocacy for emerging managers.

White says that Progress sympathizes with and understands the role of the emerging manager. At one time Progress itself was a small firm vying for a share in the market place. The firm has gone through different leadership and ownership models which, White contends, give them a richer and more complex history as a startup and growing firm similar to what emerging managers face today.

Initially, Progress was founded with an exclusive focus on women and minority owned firms. However, in recent years with growth it has expanded to include all emerging managers. Many of the firm's clients are interested in diversity for a variety of policy reasons, and so this has been a hallmark of Progress.

Progress' emerging manager database, one of the first of its kind, came from the fact that in the beginning there was no systematic way of knowing what talent was available in the market place, recalls White. "So the firm created a proprietary database and for years it has been maintained and enhanced. It now has upwards of 1,000 firms and almost 1800 investment strategies represented."

Progress, as a manager of managers, employs and funds 57 emerging managers. White notes the firm's Investment team led by Alex Hsiao, CIO uses the database as a fundamental tool that drives Progress' manager search process, but admits they do augment their searches with other available commercial database subscriptions such as Nelson's and eVestment Alliance.

Emerging managers seeking to be included in Progress' database are generally defined as independently-owned investment firms having less than \$2 billion in assets under management. Additionally, all women or minority owned firms, regardless of size, are also included within the firm's definition of emerging managers. Although, White adds, "This \$2B in AUM size limit should be considered a dynamic definitional criteria because as the industry evolves, the largest firms are becoming larger. You have many firms now with over \$1 trillion in assets. A firm at \$2 billion can still have some barriers to entry with respect to consultants including them in mainstream searches."

"That's really the idea that gave rise to Progress, that we don't want to have our opportunities limited by size or status. There's no real research to suggest that those two criteria have any correlation with the ability to produce alpha or investment excellence. Emerging firms are just promising firms or strategies that are traditionally overlooked because of the screens that consultants use."

White's goal is to increase the market share of emerging managers in the investment arena. He feels that Progress' strategies work to level the playing field, provide competitive investment performance and create more opportunities for more managers to manage institutional assets. This will then create more healthy competition within the industry. This will lend itself to more competitive pricing and a more robust field of potential managers among which plan sponsors can choose. White says, "all of these things are benefits to the beneficiaries of the pension plans."

According to White, there are three things emerging managers represent that will make them sought by institutional investors:

1. Alpha- institutional plan investors are constantly looking for new and differentiated sources of alpha. Emerging managers can and do outperform market indices.

2. Diversification- emerging managers represent a diversification from many of the large firms that garner a disproportionate share of assets in the industry.
3. Diversity- a growing number of plan sponsors are looking for diversity and new ideas as well as affording opportunities to minority, women-owned and other smaller newer managers who are driven to succeed.

There are a few misconceptions standing in the way of emerging managers though. White believes these perceptions are unfounded, saying “There is this belief that there is more safety and security in the large firms. If you think about the recent hedge fund examples in the month of August (Bear Stearns and Goldman Sachs), you can see those funds were large funds severely at risk. The point remains that there isn’t more safety in large hedge funds or large investment firms. In fact the real issue is that people may not even know the extent of the risk they have in large firms. There is probably a lot of undisclosed or unintended risk at large firms that investors are not aware of. This idea that smaller firms are more risky is a myth.”

White remains very bullish on the future of emerging manager firms, saying, “I think they have demonstrated an ability to add value for institutional investors and that ability warrants additional assets in the future. These firms are going to be around for the long haul.”

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