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$5B Asset Manager Shuts Doors After 30 Years

By Lisa Fu February 18, 2020

Progress Investment Management, a manager-of-managers with $5.3 billion in assets under management as of Dec. 31, is closing down.

The San Francisco-based asset manager announced that its last day will be May 31, 2020, according to a January ADV filing. The filing also noted that **Beverly Pasley**, the chief compliance officer, retired on Dec. 20. The firm, which was founded in 1990 by **Marx Cazenave** and **Edwin C.** Callan offered customized multi-manager strategies in public market asset classes. The firm was known for investing in emerging managers, women-led managers, minority-led managers and veteran-led managers.

It has served several institutional investors, including the California Public Employees' Retirement System (CalPERS), New York State Common Retirement Fund and the State Universities Retirement System of Illinois (SURS). The manager has been a part of the New York State Common Fund's emerging manager program since 1994, receiving an allocation of $49 million.

Progress had recently lost its CalPERS mandate, as the pension shifted equity assets away from emerging managers in favor of in-house management, as previously reported. In December 2019, CalPERS cut down the program, shifting more of its equity assets in-house and leaving **Legato Capital Management** as its only equity emerging manager.

Progress Investment Management has also faced difficulties with performance, according to 2016 meeting minutes from SURS. Investment consultant NEPC noted that the manager had underperformed over the long-term in comparison to its benchmark and recommended eliminating the Progress U.S. equity portfolio and reallocating the capital to other managers. Similarly, the Los Angeles City Employees' Retirement System (LACERS) terminated its contract with Progress in 2015, citing the firm's inability to meet its performance objectives. In the proposed resolution, LACERS also noted that Progress had been "on watch" status for performance since June 2009.

In 2018, a former employee of the company filed a complaint and requested a trial in San Francisco's Superior Court. The former employee, **Jason Miles**, alleged that he had been wrongfully terminated, according to a filing. In July 2019, the case was dismissed with prejudice.

Across the industry, small and mid-sized managers have struggled to stay relevant in an increasingly competitive market. Over the last 10 years, 80% of all flows into investment funds have gone to the largest three managers, BlackRock, Vanguard **Group** and State Street Global Advisors, according to a 2019 study published on the *Harvard Law School Forum on Corporate Governance.* Institutional investors are reducing the number of managers they work with and placing multiple mandates with one firm to get more fee negotiation power, Chestnut Advisory Group **CEO Amanda Tepper** observes.

CIOs of institutional investors are also turning over, forcing small managers to re-forge relationships with existing clients, according to Tepper.

“They didn’t do anything wrong, but now the new person has to be resold,” Tepper says. “That’s where the small managers can be vulnerable.”

If a new CIO decides that the product that the small manager is offering is no longer attractive, a small manager may not have other products and services to offer, she explains. If the institution had not appointed a new CIO, that small manager could have easily kept the client for 20 years, she adds.

Executives at asset managers are also advancing in age, and many of them may be looking to retire. These older executives at larger firms can usually find someone to buy out their stake in the company, but smaller firms cannot always find that liquidity, according to Tepper. Succession, especially at privately owned asset management firms, has become an issue.

The market environment today is particularly challenging for smaller-scale managers because of the high levels of uncertainty, says **Marcia Selz**, president and chief research director at Marketing Matrix. In an uncertain environment exasperated by the upcoming U.S. elections and geopolitical conflicts, institutional investors may feel more comfortable with a larger sized firm that has more opportunities. The larger a manager is, the better off they are, she observes.

“For a manager to really perform on the big stage, they have to have critical mass in assets under management,” she says. “And the smaller managers tend to be niche players.”

Sometimes smaller managers can successfully fill a niche need in the industry, but if the niche loses favor, they struggle, she adds. Larger managers that offer a wide array of products can fall back on other strategies when a niche goes out of style.

“I’ve also seen that when push comes to shove and an institutional investor has to slim down the number of investment managers they have, they tend to cut the small ones first,” Selz says.

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