NONPROFIT NEWS
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Profiles

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Profile: Stewart Massey, Massey, Quick & Co.

For **Massey, Quick & Co.**, it's all about the details when it comes to assessing managers, says Co-Founder and CIO **Stewart Massey**.

But that is nothing new for the firm, which was founded in 2004 by Massey and **Leslie Quick** after seasoned careers on Wall Street with **Morgan Stanley** and **Quick and Reilly**, respectively.


Stewart Massey

Organization: Massey, Quick & Co.
Location: Morristown, N.J.
Established: 2004
AUA: $1.6 billion
Firms: Managers who would like to submit information to the advisor can visit its Web site (http://ef.masseyquick.com/contact/investment-manager-instructions) for further information.

"The genesis of the firm didn't come from our careers on Wall Street as much as our experience sitting on the investment committees for not-for-profits," Massey said.

That experience, Massey said, has led to the firm's focus on the nonprofit space and more importantly, a risk-based approach to portfolio oversight.

"What we're trying to understand as we conduct manager due diligence and construct multi-manager portfolios is how many units of risk we're taking for every unit of return being delivered back to us," he said. "A lot of foundations and endowments have unintended consequences that lie inside their portfolios and as we work with not-for-profit clients, we try to mitigate those consequences."

Massey said that unintended consequences can take on various forms, most notably through high correlation risk among existing managers.

"You may think you have a diversified portfolio, but when you run a cross-correlation analysis of historical returns, it's not as well diversified as you thought it might be," he said. "On a manager level, one of the things we look at is a manager's correlation to the benchmark. It makes no sense to pay for active management if you have a manager with correlations of 0.95 or 0.97 to the underlying benchmark. There are a lot of managers out there that are what I like to call "closet benchmarkers," so if you're going to pay for active management, you should select managers that produce excess returns with lower correlations to [their respective] benchmarks."

Manager Research

Getting down to the details continues in the advisor's quantitative and qualitative processes for evaluating managers, which is part of the advisor's approach to aligning investment policies, asset classes and the managers within those asset classes in a thoughtful way, Massey said.

"The quantitative side is easy because what we do is take net monthly returns—and I stress the word *net*, because we never accept gross returns from managers—and run that through our model," he said. "That produces five or six pages of quantitative measurements, which allows us to understand the characteristics of the returns."

Massey said the longer, and more difficult part, of the research process is assessing the qualitative factors that go into manager research. From there, Massey said the firm focuses on a firm's investment process in terms of how it works, how it is structured, who is responsible for analyzing and proposing ideas and what is the composition of the committee that approves the names within their respective portfolios.

"Understanding the dynamics of the investment team is important, because you can look at a track record that goes back 10 years, but if there's a lot of turnover of people driving or making decisions, it may change the evaluation of managers," he said.

"…We want to talk to portfolio managers and analysts, get into their heads, understand why it's worked," he added. "Through our quantitative modeling we've already identified something we like, but we want to understand them from a qualitative perspective—how were you able to accomplish this? How do you size positions? When do you admit a mistake and take a name out?"

Due diligence continues into operations, a process Massey said has remain unchanged from the firm's establishment.

"Five years ago we were doing things that people are talking about now—checking separation of duties in custody, audit and administration," he said. "…but these are things we've always done, we haven't changed our process at all, it has always been robust and it will continue to remain that way."

Due diligence goes beyond custody and into a manager's specific business operations, Massey said. He goes further to say that operations such as telephone systems, information technology and business continuity play pivotal roles in defining the strengths of a firm, allowing portfolio managers and analysts to be unencumbered by the non-investment functions of the firm.

"We can have a great investment manager, but they have to be surrounded by a good business infrastructure," he said.

Guiding Clients Through Periods of Reconstruction

Massey said that one of the general themes he has seen in the nonprofit space is that portfolios are in a state of reconstruction after sustaining the investment lows of 2008 and early 2009.

"There's been a lot of self-examination on that front, and it differs from institution to institution," he said. "We do a lot of cash flow analysis for our clients and liquidity analysis. I think like everything else good information makes for good decisions and a well-informed committee will function better than a committee that doesn't have that information at their fingertips."

In addition, Massey said the introduction of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) has provided an extra layer of internal institutional analysis of practices for nonprofits, which has led his firm to conducting a substantial amount of education on fiduciary standards.

"We have an open door policy for committee and finance members, we encourage members to call us and express their views, which gives us a better feeling for the dynamics of a committee," he said. "In many instances we have very smart people sitting around the table and I think developing a relationship with committees is important, but you have to have relationships with members also, and they have to feel like they can call and talk to you outside of committee meetings."

Overall, Massey believes that one of the greatest challenges over past two years is getting clients back into a long-term way of thinking about investments when many of them were getting caught up in short-term emotions over the market collapse.

"Our role is to bring consensus around the table," he said. "When we were going through the financial crisis, there was a wide disparity of opinions, but our role was to take a strong hand and build a consensus within that committee. We'll always bring strong opinions to the table, and people can choose to accept or ignore them, but our role to build consensus was an important one during a period of crisis."