# Commentary
April 2015

# Manager of Managers

- Manager of managers is an investment strategy based on hiring and monitoring specialist investment managers for their expertise in specific markets or with specific investment styles.
- Those managers are then combined to create targeted investment funds or portfolios.
- Benefits include multiple levels of professional management and diversification in addition to customization.

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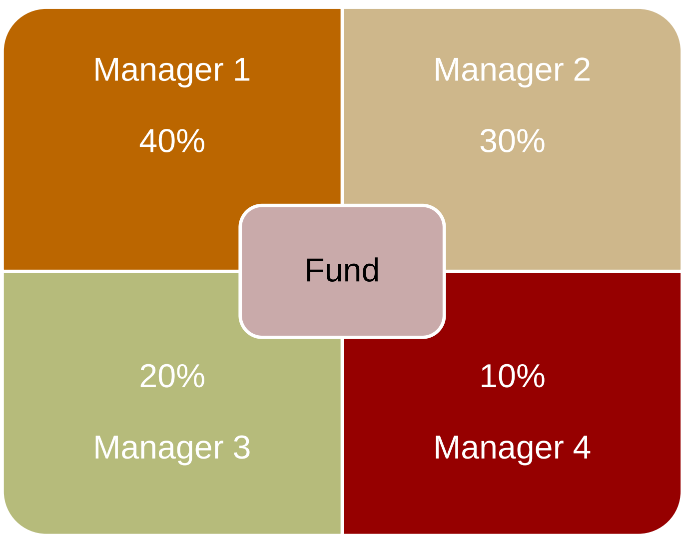
Manager of managers (also known as “multi-manager” portfolios) is an investment strategy based on hiring and monitoring specialist investment managers for their expertise in specific markets or with specific investment styles and then combining those managers to create a mutual fund or portfolio. Exhibit 1 highlights the concept within a fund. Note that assets are allocated to each manager based on that manager’s role in the fund, with more assets going to certain managers and less to others based on the fund’s objective.

**Exhibit 1: Sample Fund**

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### History

The concept dates back to 1969. In those days, there was no internet or commercial database of potential managers, so pension funds hired investment consultants to identify, select and monitor investment managers. As this business evolved, the consultants saw an opportunity to incorporate investment management into their list of services and did so by contracting directly with the investment managers.

Those managers often worked exclusively with institutional investors and had minimum investment requirements that were significantly beyond the reach of individual investors. The manager of managers concept enabled investment management firms to bring institutional investment managers to individual investors. It also provided convenient, one-stop-shopping for financial advisors, as it offers manager selection and monitoring, portfolio construction and ongoing due diligence in addition to performance reporting.

### SEI’s Implementation

SEI takes the manager of managers concept a step further, offering asset allocation via strategies or fund of funds. The manager of managers program is implemented by contracting directly with managers to manage a designated portion of a fund’s assets. The asset allocation portion of SEI’s program may be implemented using strategies where clients invest in multiple funds or a fund of funds in which clients invest in a single fund which itself invests in SEI funds. It’s important to note, that while SEI’s fund of funds are manager of managers products (because each of the sub funds has multiple managers), many fund of funds from other investment managers invest using sub funds that have single managers and thus don’t follow a manager of managers approach at the fund or asset class level. This is a key distinction which sets SEI apart from many of its competitors in the fund of funds space. The primary benefit of the fund of funds implementation is that it allows for lower investment minimums, while the strategy implementation allows for more customization and potentially lower overall fees.

### Why Invest With a Manager of Managers?

The answer to this is multi-pronged. Investing is a full time job, but most investors already have a job and therefore aren’t focusing solely on their investments. This is where the manager of managers comes in and professional investors select specialist managers to fulfill certain roles in the funds. Investments may be customized to meet specific client needs or selected from

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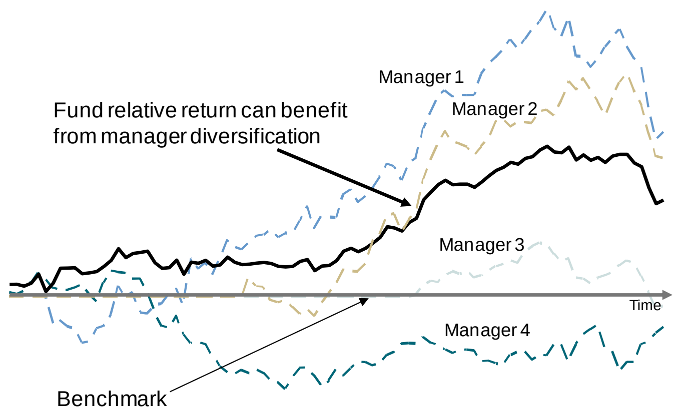
a group of pre-selected strategies. This provides the individual investor with the confidence that their portfolios have an additional level of oversight that they generally would not be able to provide on their own. The manager of managers selects specialist managers, monitors performance and risk and alters composition to adapt to market conditions.

This allows for a diversified portfolio, not just at the asset allocation level, but at the asset class level. SEI's funds mostly focus on a single asset class, but will generally be comprised of multiple managers that invest in the same asset class but do so in their own unique way. Investment styles, just like asset classes, are cyclical performers going in and out of favor at different points in the economic cycle. A simple example of this is that many equity funds will have a valuation-focused manager combined with a growth-focused manager, in addition to one or more other managers. Managers with a valuation focus would be expected to perform better after a period of economic contraction when stock prices are low. Conversely, growth managers may be expected to perform better during periods of economic expansion when companies are growing and earnings are improving.

This type of diversification can help manage volatility which can be the bane of investors as performance across investment styles fluctuates; potentially derailing the best laid plans. Thus the diversification provided by a manager of managers strategy can in turn potentially lead to strong, more consistent long-term gains as opposed to seeking short-term outperformance. This becomes more visually apparent in exhibit 2. Illustratively, some managers in a fund will be expected to outperform while others underperform. Over time, the performance of the managers can shift as well. Notice that performance for manager 4 has diverges from other managers and helps create diversification. Additionally, if managers are able to outperform, that alpha generation is additive across managers.

**Exhibit 2: A Multi-Manager Example**

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Many asset managers provide services with high account minimums which limit their services to large institutional clients that can invest millions of dollars with a single asset manager. The manager of managers construct can provide individual investors access to institutional asset managers. This is because the manager of managers can negotiate directly these institutional asset managers by pooling client assets in a fund.

**Evolution of Manager of Managers**

Offerings in the manager of managers space continue to evolve. Tax-managed solutions are now offered via a variety of strategies and funds. These solutions use a number of techniques, including overlays, to delay and reduce the tax impact on investors, lower trading costs and improve after-tax net performance.

SEI continues to seek further evolution in the space. An area that we are currently researching is whether overlays have the potential to increase efficiency in funds by providing transaction cost savings and improving performance for non-tax managed funds.

**Definitions**

**Alpha:** Alpha refers to returns in excess of the benchmark.

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