

Too Good To Be True? How Glenmede Conducts Manager Due Diligence

Ben Alimansky, First Vice President and Director, Manager Alliances Program



Glenmede researches and identifies talented public securities investment managers through its Manager Alliances Program (MAP). In light of volatility in the

market and the Madoff scandal, the new head of MAP, Ben Alimansky, discusses Glenmede's approach toward manager due diligence.

The importance of performing thorough due diligence on investment managers is a key component of a wealth management organization. Glenmede employs two different perspectives when analyzing an investment manager.

The first perspective we use, investment due diligence, examines the manager's investment strategy and the skill of its team. We engage the fund manager in detailed discussions to understand the underlying processes used to find attractive investment ideas. We want to know what investment characteristics the manager finds important. This should be supported through numerous examples which demonstrate consistency of the approach over time.

Understanding how a manager practices risk management is a critical aspect of investment due diligence. This may include reviewing both explicit rules, such as constraints on the size of individual positions, and implicit rules, which cover how the manager makes buy and sell decisions. Furthermore, the manager should have a clear rationale for the number of positions in the portfolio and the relative size of each security to

the overall portfolio. Information on different aspects of the strategy should be generally transparent, available on a regular basis, and viewed as part of ongoing due diligence.

A careful examination of the fund's historical track record should reflect the stated investment approach. It should be intuitive, both for a traditional long-only fund or complex hedge fund. We are skeptical of outsized performance and never hesitate to ask, "Is the performance too good to be true?"

The second perspective looks at the manager as a business. Mutual funds, hedge funds, and separate account strategies are businesses where talented professionals practice their craft. The success (or perhaps more importantly, resistance to failure) of the fund or strategy depends on its success as a business. We examine how the fund manager has structured the organization, both in terms of staffing and operations.

With regard to staffing, we want to see that the business is staffed to meet its objectives, both in terms of research and analysis as well as back office and operations. We want to see stability in the organization, rather than turnover. We also want to understand how key decisions are made, how analysts contribute ideas, but who has the final say and responsibility. We consider whether the fund is staffed appropriately for the strategy being executed—and that there is capacity for future investment.

In conclusion, due diligence should

follow one's intuition. It is iterative and often requires multiple meetings and conversations with a manager and its employees. We use our judgment, gained over years of investing experience, and ask probing questions, not relying purely on any one particular piece of

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information. Finally, we continually monitor the manager to ensure that it continues to meet objectives and sticks to its original mandate over the course of the investment.