Manager of Managers Approach Addresses Multiple Needs

It’s no surprise that plan sponsors are still feeling the funding squeeze, even after two years of relatively strong market performance. Although interest rates have been on the rise, they’re still low by historical standards, and that means future pension obligations and spending policies continue to be more costly to meet.

Endowments and foundations are equally challenged by this environment, as future spending goals become more difficult to support. “In such an environment,” says Greenwich Associates consultant Rodger Smith, “corporate and public plan sponsors — and endowments and foundations as well — realize that there is little room for error in the one area in which they are able to exert considerable influence: asset allocation.”

Yet cost cutting pressures have put some organizations in a difficult position, because of the substantial resources required to effectively manage and monitor a portfolio of investment managers.

The answer, then, for a growing number of retirement plans, endowments and foundations has been to turn to a manager-of-managers approach for partial or total program management.

“The trend to outsourcing to manager-of-manager programs has not shown any sign of slowing,” comments Dave Dykstra, executive vice president and practice leader for Northern Trust’s Investment Program Solutions team. “In addition to cost control, fiduciary issues also continue to be of significant concern to institutional investors today. We’re finding that clients want to partner with providers that have proven track records, where the manager selection process and portfolio construction methodology have added quantifiable value.”
The Investment Program Solutions Advantage

An Interview with David J. Dykstra, Executive Vice President and Director, U.S. Institutional Manager of Managers Practice

Dave Dykstra leads Northern Trust’s Manager of Managers practice for U.S. institutional investors who choose to outsource their investment programs. Prior to joining Northern Trust in 2001, Dave was chief investment officer for UAL Benefit Plans at United Airlines, where his responsibilities included the development, implementation, and monitoring of investment strategies and objectives for the investment of United’s $13 billion in defined benefit and defined contribution plan assets. He also served on the Board of Directors of the United Air Lines Employees’ Credit Union, and was chairman of the investment and supervisory committees as well as of the United Airlines/ALPA Pension Board. Prior to joining United Airlines in 1986, Dave held financial management positions with Midcon Corporation and GATX.

Dave earned an MBA from DePaul University and a bachelor’s degree from Ferris State University.

What are the biggest challenges your clients are facing today?

Underfunding, of course, has been a growing problem for many institutional investors over the past two years. You can’t pick up a newspaper without reading about another plan that’s considering closing to new participants, or dealing with other serious funding issues. But just as problematic for many clients is trying to coordinate relationships with multiple providers, while keeping plan management costs down. Often, they’re having to do more with a smaller team, which really puts a squeeze on their resources. That’s why a growing number of clients have been turning to our team to help them with their investment programs – so they can focus on everything else on their plates.

How do you work with your clients?

We understand very clearly what our clients need, because most of us have walked in our clients’ shoes at one point or another in our careers. So we’ve built a program that reflects what we think the market requires from a fiduciary partner. This includes producing solid results, providing increased efficiency and delivering clear accountability.

And what differentiates your approach from other providers’?

Our advantages are in three key areas. The first is our people, as I’ve mentioned. Our team includes former CIOs, plan sponsors, money managers and consultants who see the issues from our clients’ side of the table and are focused on delivering practical solutions. Second, for us, it’s quality over quantity. We work with a smaller number of organizations so we can develop truly customized solutions for each one. Last, but not least, we provide what we call 360 degree accountability – as a fiduciary partner with a deep understanding of our clients’ business and where the investment plan fits in. And because Northern Trust has a rich fiduciary heritage spanning more than 115 years, this approach fits beautifully into our culture.

Do you have specific guidelines you follow in working for your clients?

Our team is committed to four guiding principles, which include the belief that asset allocation is the pri-
The professionals in Northern Trust’s U.S. Institutional Manager of Managers Practice are all highly experienced, but they have another important feature in common. They understand first-hand the challenges that institutional investors face, because most of them have been in those roles themselves. Senior team members include:

Robert D. Furnari, CFA  
*Director, Institutional Investment Program Manager, US Institutional Manager of Managers Practice*

Bob is responsible for the development, implementation and monitoring of NTGA’s investment programs, as well as client service responsibility for participants in those programs. He was formerly director of client services as well as senior vice president of U.S. manager research. Bob joined Northern Trust in 1985, having previously been with GE Capital. He holds a B.S. and M.B.A. in Finance from the University of Connecticut. Bob is a CFA charterholder and member of the CFA Institute.

Scott Jostes  
*Institutional Investment Program Manager, US Institutional Manager of Managers Practice*

In addition to serving as an Investment Program Manager, Scott also participates in the design and ongoing management of Multi-Manager Funds. Prior to joining Northern Trust, Scott served as a pension consultant for BAI, located in the Midwest. He has a B.A. from DePaul University and an M.B.A. from the University of Chicago Graduate School of Business.

Michael T. Meegan  
*Institutional Investment Program Manager, US Institutional Manager of Managers Practice*

As an Investment Program Manager, Mike serves as an extension of an institutional investor’s staff, responsible for design, implementation, monitoring and evaluation of the client’s entire investment program. Prior to joining Northern’s Manager of Managers practice, Mike was director, benefit finance of Morton International, where he had worldwide responsibility for management and investment of all Morton’s retirement and benefit plan assets. Previously, Mike was a Master Trust relationship manager at Northern Trust. Mike is also a two time past chairman of the Chicago Pension Forum, and previously served on the Executive Committee for the National Investment Sponsor Federation. He has a B.A. in Political Science from St. Procopius College and a JD from DePaul University College of Law.

Steven A. Miller  
*Institutional Investment Program Manager, US Institutional Manager of Managers Practice*

The most recent member to join the team, Steve previously served as Treasurer of Indiana University for 14 years, where he was responsible for all financing and investment activities, including serving as chair of the university investment committee. Before that, Steve was director of fixed income at Aetna Capital Management and, earlier, served as pension trust investments manager at The Upjohn Company. He received his M.B.A. and B.S. degrees from Indiana University.

Todd A. Rutley, CFA  
*Institutional Investment Program Manager, US Institutional Manager of Managers Practice*

Prior to joining Northern Trust, Todd was a consultant at Towers Perrin for five years, where he was responsible for investment consulting to institutional clients. These consulting services included portfolio optimization, performance evaluation, manager search, and investment research. Previously, Todd worked as an asset allocation manager at a pension plan sponsor and as a business economist. He received his M.B.A. from the University of Ottawa, M.A. from Laval University, and B.A. degree from the University of British Columbia. He is a CFA charterholder and member of the CFA Institute.
Manager of Manager Approach Addresses Multiple Needs

Dave should know. Over the past year, Northern Trust’s Investment Program Solutions practice expanded by more than $4 billion, as new clients hired Northern Trust to oversee part or all of their investment programs.

Fund of Funds Still a Popular Gateway to Alternatives

The manager-of-managers approach fills another important need these days, as the funding squeeze makes identifying new sources of alpha more important than ever.

According to the latest Greenwich Associates report on the U.S. investment management industry, more than a third of U.S. institutional investors expect to make a significant increase to hedge funds in the next three years, while another 30% plan sizable additions to private equity, and almost a quarter plan similar increases to their equity real estate.

For many investors, a fund of funds approach is the most desirable way to tap into the alternatives space. It offers efficient and cost-effective diversification as well as enhanced manager and strategy access. And it holds appeal for sophisticated investors looking for a multi-fund core exposure, as well as for investors who are adding alternatives for the first time.

The Numbers Behind the Trends

$10.4 trillion
Total pension and retirement plan assets in 1999.*

$9.4 trillion
Total pension and retirement plan assets in 2004.*

$2.97 trillion
Total assets in private defined benefit plans in 1999.*

$1.80 trillion
Total assets in private defined benefit plans in 2004.*

$1.03 trillion
Defined benefit assets for S&P 500 companies at 12/31/03**

$1.15 trillion
Pension liabilities for S&P 500 companies at 12/31/03.**

The Investment Program Solutions Advantage

Many driver of program returns, and that research is the key to identifying the right managers and providing the framework to combine them strategically to produce the most consistent results. In addition, we believe that diversification among both asset classes and managers can reduce investment risk, and that superior long-term results can only be achieved if portfolios are carefully monitored and rebalanced as needed.

What role does risk management play in your process?
Risk management is very important – in fact, it serves as an overlay to our entire process. We evaluate risk on two levels: manager risk and overall program risk. Within each, we consider operational, fiduciary and investment risks.

And at the end of the day, how do you measure whether you’ve been successful?
The ultimate measure of success, of course, is our clients’ satisfaction. So we have structured every aspect of our program, including our compensation plans, to ensure that our clients’ satisfaction is first and foremost. And again, because we’ve all been there, we do feel uniquely qualified to understand and meet our clients’ needs and keep our clients happy.