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**Investment Manager *Profile***

# Emerging Managers; Jewels in the Rough

In the world of institutional investing, bigness is pretty much a given, but **Tina Byles-Williams**, founder, CEO and CIO of the Philadelphia-based **FIS Group**, contends it may not be the best way to earn a good return.

Byles-Williams has focused her $1.05 billion fund-of-funds on what she calls "emerging manager products."

"We have found that smaller, younger funds with emerging managers tend to do better than large firms and established managers," said Byles-Williams. "It does not give you a uniform advantage in all areas, and is more compelling in some types of strategies than others, but the advantage is there."

Tina Byles Williams

Among the reasons she offers for the better results of smaller firms with newer managers:

Portfolio construction is not as difficult. As firms grow larger, introducing new ideas gets harder; smaller firms are generally more nimble; smaller firms are more focused; and smaller firms have "less diffusion of talent."

"We're not saying every small firm manager is talented or that big firm managers are not talented, but smaller managers are not encumbered by 'group think,' and there aren't all the committees and meetings and so on."

Byles-Williams speaks from personal experience. A former CIO for the $2.5 billion **City of Philadelphia Pension and Retirement Fund**, she began her own now 18-employee firm in 1996 with a second mortgage on her home. "Obviously that made me very focused on the success of the business," she laughs.

At the same time, while FIS Group favors small emerging managers—which she defines as funds that tend to have less than $2 billion under management—Byles-Williams concedes that this can significantly increase the level of business risk.

"These firms are earlier in the entrepreneurial cycle," she said, "So an important part of our due diligence is looking for operational risk."

The challenge in buying into organizations that are early in their growth process, where the investment team may be completely different five years hence, is to get to know the principals well—and their principles. "Are they people interested in personal fame and fortune, or are they more interested in building a product?" she asked. And equally important, "Do they have integrity, and a true passion for what they do?"

The process of locating a new emerging manager and investing in the fund can take more than six months of work, "but once they're in our portfolio, we keep them as long as they continue to perform well, and maintain the kind of discipline that attracted us in the first place," she said.

Clients—mostly pension funds—come to FIS for three reasons, Byles-Williams said.

"Large investors, like pension funds, find it hard to evaluate emerging funds. It would be an administrative nightmare for them, so we become a vehicle for them to identify talent," she explained. Second, the big funds are looking for alpha. And finally, "In some cases, they're looking for investments that can help them meet diversity objectives."

While FIS doesn't go out of its way to invest in funds managed by women or minorities, it turns out that by focusing on emerging managers, many of FIS's 67 fund investments are managed by women and people of color, a clear plus for organizations that are looking for that kind of diversity in their investments.

In terms of investment screens, Byles-Williams said diversity is secondary. The first is whether a manager has demonstrated consistent, long-term alpha. Then that alpha source is identified. "Every product has its sweet spot," she said.

"For example, a manager may have once been an analyst of bio-tech stocks and will be particularly good at picking those stocks. Another might have developed a system for processing market information. Once we find that sweet spot, we tailor our investment to amplify where that sweet spot is."

Once a manager is selected, the product is benchmarked, sometimes with a standard benchmark, sometimes with a custom one. "We have to get this right," she said, "so we can understand our aggregate risk exposures."

Managers of the funds FIS invests in are hired on as sub-advisors by the firm.

In general, Byles-Williams said that FIS has found that equity strategies "tend to be the most fruitful" for smaller firms, so the focus of FIS's funds is equities, with most assets being under the Russell 3000 umbrella.

The FIS Russell 3000 Equity Emerging Manager-of-Managers fund, over the last five years, has outperformed the Russell 3000 index every year except for 2001. Over the past year, it gained 17.24%, as against a gain of 14.56% for the Russell 3000 index. FIS Groups' Small/ Mid-Cap Equity Emerging Manager-of-Managers didn't do quite as well historically, doing nominally worse than the comparable index in three of the last five years, but on the two years it outperformed the index, 2003 and 1999, it way outperformed it, gaining 17.76% and 36.98% respectively, as against 21.62% and 19.86% for the benchmark. The minimum investment for FIS clients is $25 million.

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*Byles-Williams was a principal and senior consultant at* ***WHP, Inc.****, then the nation's first and only full-service minority pension investment consulting firm. Byles-Williams completed her undergraduate work at* ***New York University*** *and a Masters degree from* ***Harvard University****.*