NPN NONPROFIT NEWS
Investment Management News Resource

Profiles

Thursday, September 3, 2009

Profile: Alyssa Cheatham, Stratford Advisory Group

Even though alternative investments such as hedge funds have taken a great deal of abuse over the past year from institutional investors and the media, foundations and endowments focused on long-term investments have still been interested in making allocations, says Senior Consultant **Alyssa Cheatham** of **Stratford Advisory Group**.

"Generally we have not seen clients wanting to move away from alternative investments" said Cheatham, who plays a significant role in the hedge fund research efforts at Stratford after previously serving as an investment associate with a hedge fund-of-funds firm in Chicago.

She added that the firm has long been a proponent of institutional-quality hedge funds for its clients, which have been easier to identify with the consolidation of managers in the space.

"There are fewer players, which, combined with the current market environment, has set the stage for increased opportunities. The way we see it, we believe the strong institutional [hedge funds] we've recommended are positioned to have less competition and more opportunities," she said.

That isn't to say paying close attention to liquidity risks hasn't taken precedence over Stratford's goals to implement alternative strategies into portfolios, Cheatham said.

"With endowments and foundations, there are spending policies and operational metrics that need to be taken into account before the asset allocation can be determined," she said. "As many market participants discovered in 2008, institutional investors had a lot more risk in their portfolio than they realized. Stratford has worked with clients to integrate the operational side with the asset side in allocation studies. Asset allocation setting is not a one-size-fits-all approach."

Organization: Stratford Advisory Group
Established: 1982
Location: Chicago, Ill.
AUA: $14 billion
Web site: www.stratfordag.com
Firms: The most appropriate way for managers to get in touch with the firm is through its Web site as it maintains a proprietary research database. The email address is webmaster@stratfordag.com or go to the website and fill out the "contact us" section.

One important factor in those risk assessments has been liquidity, which has almost indefinitely canceled out private equity as an asset class for smaller nonprofits that cannot endure the 7-10 year lock-up periods.

"If you have a smaller portfolio, there may be limited ability to access alternative investments," she said. "But in the last few years there have been new products that have allowed smaller portfolios access to hedge funds and other alternative investments offered by top tier managers."

Manager Research Efforts

One unique aspect of the firm's research efforts centers on the fact that all of Stratford's consulting professionals are involved with manager research, said Cheatham, who focuses a great deal of her own efforts in assisting staff with monitoring the hedge fund space.

Aside from the consulting professionals involved in due diligence, the firm's dedicated manager research staff has two different groups to assess managers - traditional and alternative. Traditional research consists of growth and value equity, international and fixed-income teams, which are charged with using internal and external resources to evaluate who they consider to be the top managers in those areas.

In terms of making recommendations to clients, one area Stratford has held firm in is the large-cap equity space, where it feels that investing in passive managers while remaining active on the small-cap side is the best route for clients in many cases when taking a closer look at long-term performance and fee structures. Alternative research, however, becomes a bit more difficult as tracking the best vehicles through databases is an arduous task.

"For (alternatives) research, we rely on the extensive network we've built over past 10 years," she said.

In the hedge fund space, both direct and fund-of-funds managers factor into Stratford's research efforts and the term "institutional quality" plays a role in knowing the firms best-suited to work with the foundation and endowment space. In Stratford's view, institutional quality means that hedge funds have greater than $1 billion in assets, a staff with more than just one or two more strong minds, a substantial back office and are conveying transparency in the form of being registered with the SEC and receiving mandates from other pensions and nonprofits.

"Hedge funds that have been successful in the institutional marketplace have realized that they need to offer increased transparency to investors. Particularly as money continues to flow in from pension funds, hedge fund managers have had to evolve and adopt institutional best practices," she said.

Regardless of traditional and alternatives managers, knowing a firm's risk profile and how its key people are incentivized, such as employee ownership and "skin in the game," are important aspects to including managers in searches, she said. On the operational side, knowing if managers are poised to run an institutional fund, along with the in-house visits to talk to employees and to ensure that compliance procedures are in place, are additional areas of importance for the advisor.

With traditional investments, small-cap managers, for example, could raise red flags when they cross the $3 billion in assets under management threshold. Alternatives get a bit more leeway in regards to track records if the people in place are experienced with those types of products. Another red flag is the concentration of assets among one or two clients that can cause a stir when there are sudden or unexpected outflows.

Stratford's Thoughts On Education

"Education has always been a big part of what we do," Cheatham said. "But before we would ever recommend alternative investments, we want to present a very in-depth presentation to (clients) to make sure they understand the asset class they are investing in."

In terms of being more forward-thinking, Cheatham said that Stratford has been proactive in educations on high-yield, distressed-debt investing and all the newer "acronym programs" such as TALF and PPIP. In addition, knowing what is on the horizon in 2010, including what appears to be a greater inflationary environment, has resulted in numerous conversations with clients, with areas such as commodities and in some cases, private real estate, serving as inflation hedges to the portfolios.

Cheatham said that in regards to risk appetites for nonprofits, the landscape has changed a bit to a more open-minded approach to diversification through long-term investments.

"It feels different than in the past," she said. "Committees are more receptive to current opportunities in the market...whereas in the past they maintained a more static portfolio and did not often act opportunistically."

As institutions began to assess their advisory models last year, Stratford said various parts of the firm's philosophy, including its goal to keep consultant to client ratios down (currently at 12 to one) and getting to know clients on an operational side has paid off in bringing on new clients and maintaining current relationships.

"We've become really engrained and intertwined with the operational side of our client's organizations," she said. "It's not a one-size-fits-all for asset allocation - we're focused on understanding clients and creating a partnership."