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ALPHA SOURCE

EMERGING FIRMS DRAW ATTENTION

Sponsors, consultants receptive to portfolio managers' new ventures

Portfolio managers who've recently left established firms to launch their own shops are finding a growing number of consultants and plan sponsors who are willing to give them the time of day.

For some entrepreneurs, it has been a pleasant surprise.

"It shocked me a little bit" that big consulting firms and large, sophisticated plan sponsors have been so receptive to a newly minted firm, said veteran investor Quinn R. Stills, who left The Boston Co. Asset Management, LLC, Boston, with a handful of colleagues last year to set up Palisades Investment Partners LLC, Santa Monica, Calif.

More pension plan sponsors are seeing nimble startup firms as a promising source of sorely needed alpha. Last month, Chicago-based Boeing Co.'s \$36 billion pension plan announced it plans to allocate \$1 billion to emerging managers. William Atwood, executive director of the \$10.5 billion Illinois State Board of Investment, Chicago, said he sees the fund's potential \$500 million-plus program — of which only \$80 million has been funded — as an effective way to identify efficient money managers that can add "pure alpha" to its portfolio. The long-term hope is that the program will serve as a "farm system," with Illinois eventually placing those young firms on its list of more established money managers for heftier mandates, he said.

A number of startup money managers

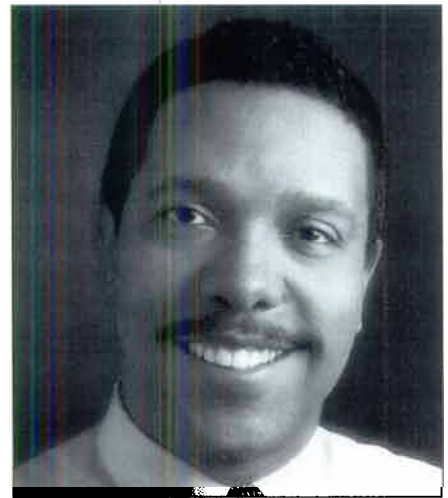
have caught the attention of investors, including these:

Channing Capital Management

Eric Taylor McKissack launched Chicago-based Channing Capital Management LLC in January, after leaving another Windy City firm, Ariel Capital Management LLC, where he was vice chairman and co-chief investment officer. His track record, managing more \$10 billion in midcap equities at Ariel, won his new firm favorable scrutiny from leading fund of emerging fund programs such as Northern Trust Global Advisors, Chicago; FIS Funds Management Inc., Philadelphia; and Progress Investment Management Co., San Francisco.

"I felt that I had one more enterprise-building energy spurt left in me," said Mr. McKissack, Channing's chief executive officer, president and CIO. "This was the time to do it." Channing's seven-person team includes Rodney B. Herenton, the company's head of institutional marketing and client servicing and the principal behind Herenton Capital Management, Inc., Memphis, Tenn., and Director of Investments Wendell E. Mackey, a former managing director with New York-based Valenzuela Capital Partners LLC.

Mr. McKissack said by the end of August, Channing will have \$130 million under management in its midcap value strategy, with half of the assets run as a subadviser of Regions Bank's Morgan Keegan Mid-Cap Value Fund.



Eric Taylor McKissack said he had 'one more enterprise-building energy spurt left in me.'

Going forward, however, "we hope to focus our own efforts on the defined benefit market," he said.

Plan sponsors' growing interest in emerging managers is "a great thing," and the endorsement of fund-of-funds providers such as Northern Trust and FIS gives sponsors an added level of comfort when they look at young firms, Mr. McKissack said.

At the same time, those intermediaries institutionalize a "farm-team structure" that results in management fees being shared among a greater number of hands. "We hope to grow out of that space in the not too distant future," Mr. McKissack said.