Emerging Manager monthly

A Publication of
Financial Investment News

January 2008 www.emergingmanagermonthly.com Vol. III, Issue 1

Wilshire Looks To Expand Coverage of Emerging Space

There is a belief among many in the emerging manager space that large consulting firms are not interested in small asset managers. And while it is true that consultants working with large institutional investors have difficulty making allocations to firms with a lower set of assets, **Andrew Junkin**, managing director of **Wilshire Associates**, says that the perception doesn't fit the reality.

"That is really the message we have tried to get out over the last year or so," he said, adding later, "Just because we are Wilshire, just because we happen to be a relatively large consulting firm, doesn't mean we don't look at up and coming emerging managers."

> "Just because we are Wilshire, just because we happen to be a relatively large consulting firm, doesn't mean we don't look at up and coming emerging managers."
>
> **Andrew Junkin**
> *Managing Director*
> *Wilshire Associates*

Junkin, who recently provided an education into emerging managers for the **Tacoma Employees Retirement System**, said he believes there is some degree of truth to the idea that emerging managers may refrain from contacting large consulting firms such as Wilshire in their formative stages.

"I don't know if it's a fear of traction or they kind of want to practice their sales pitch on some of the smaller regional firms," he said.

Wilshire & Emerging Managers

Junkin says Wilshire has stepped up its efforts over the past year as it pertains to emerging managers. He said the decision is the result of both client interest and the firm's desire to identify top-performing managers.

"We as a firm feel like we have the best opportunity to find high quality managers for our clients when we have the broadest opportunity set," said Junkin, who works with several plans that currently have emerging manager programs, including the **California Public Employees Retirement System**.

"This is a project that I took to the other consulting teams and said, 'there is a lot of interest here and I think we need to step up our efforts to be more inclusive'," he said.

"Basically, the intention each time was to go out and find managers that we maybe didn't have coverage of," he said.

"We get to learn about them, we get to learn about what some smaller, more nimble shops are out there doing, and at the same time they get to learn what we as institutional investors are expecting from managers," he said.

Contacting Wilshire

Wilshire has a centralized manager research group, Junkin said. The first step for a manager looking to get on Wilshire's radar is to send a request for a questionnaire to universe@wilshire.com. Junkin said it is important that managers fill out the entire questionnaire.

"The completed questionnaire is the basis for our research when we meet with the manger. Any blanks are areas we need to cover in greater detail in the meeting," he said.

The next step after submitting the questionnaire is to contact the manager research analyst assigned to the firm's specific asset class. Junkin said the best way to do this is to send an e-mail to manager.research@wilshire.com and ask to schedule a meeting with an analyst, either in Santa Monica or Pittsburgh.

Junkin said the process generally takes several meetings. "We don't rush into things," he said.

Evaluating A Firm

Junkin said the firm focuses on six specific areas in its evaluation of any firm: organization, information, forecasting, portfolio construction, implementation and attribution.

He said a firm's ability to generate a unique source of information or gather assets, its ability to use the information gathered to create forecasts, the use of forecasts in creating a portfolio, trading and understanding the effects of what drives a portfolios performance are the key aspects of those areas.

Wilshire creates a preliminary score of a manager before an on-site visit. The score, ranging between 0 and 100, highlights areas of strength and weakness for a firm that is shared with the manager. Junkin said implementation and attribution each carry a 10% weighting, with the remaining four areas each weighted 20%.

Junkin said the score evolves through time and manages with an overall score of 55 or higher the firm will remain in contact with, and as the score increases, the more interest the manager will generate from clients.

"We have an open door policy. We will provide feedback to any manager that goes through our scoring process," he said.

Junkin said the one trait that Wilshire looks for, regardless of whether a firm is an emerging manager or an established manager, is the ability to forecast excess returns at the securities level.

He said when it comes to emerging managers the firm will have an increased focus on risk controls, back office and compliance.

"We want to see systems that are effective given the size of the organization. We know that everyone is not going to be able to have on-site legal and compliance teams," he said.

"We are definitely focused on whether a firm is economically viable or not. If a firm has $5 million under management and has had $5 million under management for three or four years, at some point you begin to wonder, can they really make it? But if it is a firm that is growing" then Wilshire will be interested, regardless of size, he said.

Areas of Interest

Junkin said he is beginning to see some traction in the 130/30 space, however the area with the most activity remains small-cap equity.

"By and large, I think a lot of people are focused on small-cap when it comes to active management in general, which sort of leads to a lot of small-cap emerging manager activity. Plus small-cap is a capacity constrained asset class," he said.