Meketa Enhances OCIO Business With New Hire

BY COLIN RAJALA | OCTOBER 15, 2015

Meketa Fiduciary Management has bolstered its direct money management experience to partner with its expertise in manager research and asset class knowledge—key ingredients it sees as necessary to provide world-class discretionary investment solutions in an outsourced cio space that is attracting firms from every corner of the financial services industry.

The firm, established by general investment consulting firm Meketa Investment Group in 2014, recently brought on Rafi Zaman as cio to lead and oversee its discretionary services efforts.

Zaman, who previously served as head of global equities at DuPont Capital Management and chairman of the DuPont Pension Fund investment committee, will work with clients on asset allocation, manager selection, asset/liability modeling, liquidity studies, risk measurement/monitoring and spending analyses.

Rafi Zaman

Meketa Managing Director and Co-CIO Ed Omata said the creation of MFM and the appointment of Zaman are "important enhancements to an already robust OCIO business" that has been in operation since Meketa Investment Group began formally managing clients assets on a discretionary basis in 2006.

Omata said that MFM has grown to more than $5 billion in assets under management through word of mouth and responding to inbound requests, with clients including the Asheville, N.C.-based Warren Wilson College endowment.

"Given that we have been managing discretionary assets for close to a decade now, we nonetheless recognized the value that could come from adding resources with more direct portfolio management experience," Omata said. "With Rafi, we saw the opportunity to add someone who not only has a direct portfolio management background, but also someone who has considerable experience in risk management, and who spent 10 years as chair of the investment committee for one of the largest pension funds in the country. Taking his experience and plugging it into an already robust OCIO and discretionary framework that leverages the full resources of a global consulting firm, we believe Meketa can offer a unique and competitive solution in this space."

ON DELEGATING DISCRETION

Foundations and endowments looking to delegate investment discretion are doing so to lessen constraints within their resources, governance, time or capital markets purviews, while also hoping to improve the overall performance of their investment portfolios, according to Zaman.

"When you take a step back and look at the current investment landscape, it is clear that investing is not as simple as it used to be," Zaman said. "The number of investment options has grown, investment fees have risen, and the overall complexity of portfolios has increased. The typical board of trustees is faced with the need for more detailed information and knowledge and time commitment to make these decisions in a timely manner."

Having the flexibility to make timely investment decisions is a benefit of MFM's governance structure, which takes into account the fact that the typical board may only meet on a quarterly basis, according to Principal Aaron Jamieson, who serves as director of marketing and is involved with communications with existing clients and the development of new business.

MFM features a four-member investment committee to make investment decisions that are long-term in nature and encompass risk management, strategic asset allocation and portfolio construction, Omata said. The committee consists of Omata, Zaman, Meketa Investment Group Co-CEO Stephen McCourt and Meketa Investment Group Head of Hedge Funds and Marketable Alternatives Brian Dana.

The four members are actively involved beyond the investment committee level, participating in Meketa Investment Group's Private Equity Investment Committee, Marketable Securities Investment Committee, Strategic Asset Allocation Committee, Fiduciary Services Committee and Global Macroeconomic Committee, according to Jamieson.

"We put a lot of thought into how to integrate all of the committees and their members trying to find the best way to balance committee responsibilities with other responsibilities," Jamieson said. "The benefit of having multiple people in multiple committees is that it allows the individuals and committees to cross reference each other and have open, candid dialogue. We were conscious about not spreading the staff too thin."

Beyond the work on the investment committee level, Zaman and Omata collaborate with MFM's dedicated personnel and Meketa Investment Group's 60-plus investment professionals to leverage the parent company's manager research team to evaluate managers. Leveraging Meketa Investment Group's capital markets knowledge across all asset classes is also key to making the best decisions for the firm and its clients, according to Zaman.

Meketa's staff members span the country and globe from the firm's offices in Boston to San Diego to London, collaborating together informally and formally on a daily basis about all asset classes and a broad range of managers and strategies, according to Jamieson. The main difference between the research and investment solutions of MFM and the consulting portion of the firm lies within a different implementation structure for clients preferring to delegate discretion.

"Our ability to cover all asset classes, identify and monitor underlying asset managers and asset management experience, which allows us to implement strategies swiftly and efficiently from a risk management standpoint, really stands out," Zaman said.

"The discretionary model also allows us to react in real time to market events," Omata said. "It provides us the opportunity to act more tactically and to actively position portfolios to take advantage of temporary market dislocations or, more importantly, to reduce risk as needed."

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ON MFM'S OCIO APPROACH

Investment consultants have emerged as more significant players in the outsourced cio space, with large nonprofit advisors such as Cambridge Associates and Mercer bolstering their ocio businesses in recent years as an extension of their long-established non-discretionary businesses.

While large consulting firms tend to have a lot of positive attributes, including depth of manager research, coverage of asset classes, no conflicts of interest and a breadth of resources, they are often criticized for a lack of direct money management experience, according to Omata.

"This is based on the view that providing investment advice is fundamentally different than actually managing money, and while consulting firms have plenty of the former, they tend to be lacking with the latter," Omata said.

On the opposite side of the outsourcing spectrum is asset managers, which Zaman said are typically focused on one or a small number of asset classes, but tend to lack the broad asset class coverage needed, as well as an external manager research effort necessary to select the underlying managers.

The firm believes that the inherent lack of direct money management experience that limits other outsourced cios will serve as the lynchpin to MFM's success, as it is able to combine the experience from both sides of the table into its business.

Zaman previously spent 17 years at DuPont and in his final eight years at the firm, he served as head of global equities, overseeing $15 billion in assets and managing a team of 35 portfolio managers, analysts and traders. He previously served in a variety of positions with the investment management firm, including head of domestic equities, head of quantitative equities and portfolio manager for domestic large-cap, mid-cap and small-cap, long/short equity, international equity and emerging markets equity strategies.

While MFM's direct money management experience may be seen as attractive to potential clients, Zaman said he realizes that not all institutional investors are keen to giving up full discretion of their assets. MFM allows clients to determine how involved they want to be in every aspect of the investment process, tailoring the clients' portfolios to their individual needs and goals and allowing them to benefit from economies of scale without sacrificing customization, according to Zaman.

"The perception of outsourcing is that it is a yes or no decision, either the board does it all or gives up control of the portfolio," Zaman said. "MFM's approach is to offer the investment boards various choices, depending on their level of comfort. It can range from the board using us as a sounding board to help them make timely decisions, to different levels of discretionary advice."

When a foundation or endowment thinks about outsourcing discretion or control from a consulting relationship, potential conflicts of interest become an important topic, according to Omata. In the traditional consulting relationship, the board or investment committee is directly involved in the decision-making process and can play an important role in assuring that any potential conflicts of their consulting/advisory firm do not become realized conflicts. In an outsourced cio relationship, that extra layer of checks and balances can be lost as a firm's overall compensation varies according to how they invest the assets or the firm could allocate client funds to their own investment products.

"Because the space is still relatively new, there are a lot of gray areas and it is difficult to make apples to apples comparisons from one ocio to the next," Omata said. "There are outsourced cio firms that have policies to avoid potential conflicts of interest that exist in their business models, but from our perspective, the safest approach is to simply find a firm that doesn't have any potential conflicts to begin with. With no conflicts of interest, Meketa Fiduciary Management is able to make truly objective investment decisions on behalf of our clients."

MFM and Meketa Investment Group do not offer their own investment products, allowing the entities to align their clients' interests with their own.

ON MANAGER RESEARCH

Manager selection ability is a key component to MFM's outsourced cio services and Omata and Zaman are directly involved with manager research in the public markets, leveraging their experience to drill down into a level of detail and understanding that is rare in the field, according to Omata. MFM utilizes Meketa's research team for insights on the private markets.

"The biggest challenge with manager due diligence meetings is that often times they know what you want to hear and the meeting becomes an over-rehearsed sales pitch," Omata said. "The key for us is to avoid being walked through the manager's pitch book, turning the meeting into a less formal question and answer session."

It is during that less formal question and answer period that MFM digs in, getting a sense of a firm's risk management abilities by looking at their ability to balance a strategy's risk and opportunity set as well as portfolio construction by looking through a manager's history of holdings, not just the top 10 holdings.

Ed Omata

Zaman noted that it is particularly important to look at the historical holdings of a strategy compared to its current holdings to determine if the firm is keeping within their investment thesis, as their previous holdings may show a different story of their past performance, whether it be taking more risk to generate a return or holding a risk that did not prove to be a risk at that time in the markets.

"We look beyond the top-level performance and focus on the underlying drivers of that performance, particularly on a risk-adjusted basis," Omata said.

Interested managers can reach the firm by contacting Jamieson at 760-795-3455 or via e-mail at info@meketafm.com.