

MANAGER RESEARCH

The Heightened Importance of Manager Research in These Volatile Times

In recent weeks, we have witnessed extreme volatility and a dramatic sell-off in the markets in response to the COVID-19 pandemic. Wilshire has been working closely with our clients to assist in navigating through these challenging times; revisiting asset allocation plans, liquidity needs, and assisting with portfolio rebalancing. Importantly, our manager research team has also been actively engaged with our clients' external asset managers.

Wilshire has a dedicated team of manager researchers tasked with monitoring our clients' existing third-party asset managers and providing high conviction strategies when conducting manager searches. Our researchers function as asset class specialists, with a deep understanding of the managers in their specific area of coverage. The team interacts with managers on a daily basis, and in 2019 alone, conducted over 1,400 meetings.

While Wilshire's offices are temporarily closed due to COVID-19, the manager research team is working from home and the daily interactions with managers continue via telephone and video conferencing. Manager research is an important function, especially during periods of market volatility. Below, we highlight a few key areas that Wilshire's manager research team has been focusing on during recent conversations with managers.

Managers' Business Continuation Plans

What is unique about the current market sell-off is that it was caused by a global pandemic and the public health measures, such as shelter in place and social distancing, have led to nearly all managers implementing their business continuation plans. While managers are required to test their business continuation plans on a regular basis, this is likely the first time that many of them have had to implement the plan across their entire organization. Wilshire's manager research team has been speaking with managers about their business continuation plans. It is important for the manager research team to monitor how investment teams are interacting and portfolios are managed in this new environment. Fortunately, given today's technology and telecommunication tools, managers are better equipped to handle this situation.

Monitoring Relative Performance

While not unique to our current situation, monitoring manager performance through a volatile market environment is another important part of the manager research team's due diligence process. When formally evaluating an investment

manager, the manager research team develops performance expectations for the specific product or strategy they are rating. More specifically, the team should have an understanding of what market environments a strategy should perform well in and in what market environments the strategy may underperform. For example, an equity manager that seeks to invest in high quality, more defensive-oriented companies should perform well on a relative basis during significant market declines. Conversely, a deeper value-oriented manager that invests in more economically sensitive companies is likely to underperform during significant market declines. The opposite is usually true in market recoveries. The deeper value-oriented manager is more likely to outperform and the high quality, defensive manager will likely underperform on a relative basis. Volatile markets such as the one we are currently experiencing provide a stress test for these performance expectations. Wilshire's manager research team carefully assesses manager performance, making sure the relative results are within their expectations, and further due diligence is conducted when performance falls outside the range of expectations.

Monitoring Business/Organization Risk

Sharp market declines put more stress on asset managers from a business perspective, as a drop in asset levels directly leads to a drop in revenue. What makes the current period even more challenging for active managers is that it comes on top of several years of fee compression and investors shifting money into passively managed products. Given the additional pressures on revenues, there will likely be managers cutting costs to "right size" their business and this may include layoffs of investment professionals. It is important to note that Wilshire's manager research team explicitly evaluates managers from an organizational perspective. The Organization component of Wilshire's formal evaluation includes ratings for both the firm and the investment team. The manager research team continually monitors managers for signs of organizational stress and there is an even sharper focus during periods of market volatility like the one we are currently experiencing.

While manager research is an important function in all market environments, it is even more important during times of significant market volatility. Wilshire's dedicated manager research team continues to monitor our clients investment managers, focusing on the areas highlighted above and others.

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