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TORCHBEARERS

The winners of the 2016 SMA Managers of the Year lead the way in due diligence and consistent processes

2016 SMA MANAGERS of the YEAR

By DANIELLE ANDRUS and BERNICE NAPACH

Between the Department of Labor's finally released fiduciary rule hogging advisors' mindshare, increased market volatility with talk of a global slowdown, a crash in oil prices and currency devaluations around the world, advisors are stretched pretty thin. Keeping their clients calm and focused through all this is a full-time job, never mind finding ways to make them money.

The portfolio managers and analysts running separately managed accounts take some of that off advisors' plates, allowing them to focus on clients' individual needs while meeting their investing goals. According to the Money Management Institute, the managed money industry represents over $4 trillion as of 2015, after increasing over 3% last year.

Investment Advisor has been working with Envestnet | PMC for 12 years to identify the best managers in the space every year. Envestnet's analysts narrow down the universe of strategies available on its platform to 17 finalists. It's not enough to outperform their benchmarks; to be considered, the managers must *consistently* outperform with repeatable processes. They must be widely available on multiple platforms (not just Envestnet's) and allow for customization to meet individual clients' needs. As you'll see in the profiles that follow, they must also work well as a team to bring value to the advisors and clients who use their strategies.

Using Envestnet | PMC's rigorous analysis, the selection committee, which includes representatives from Envestnet as well as editors of *Investment Advisor*, choose the best of these finalists in several categories.

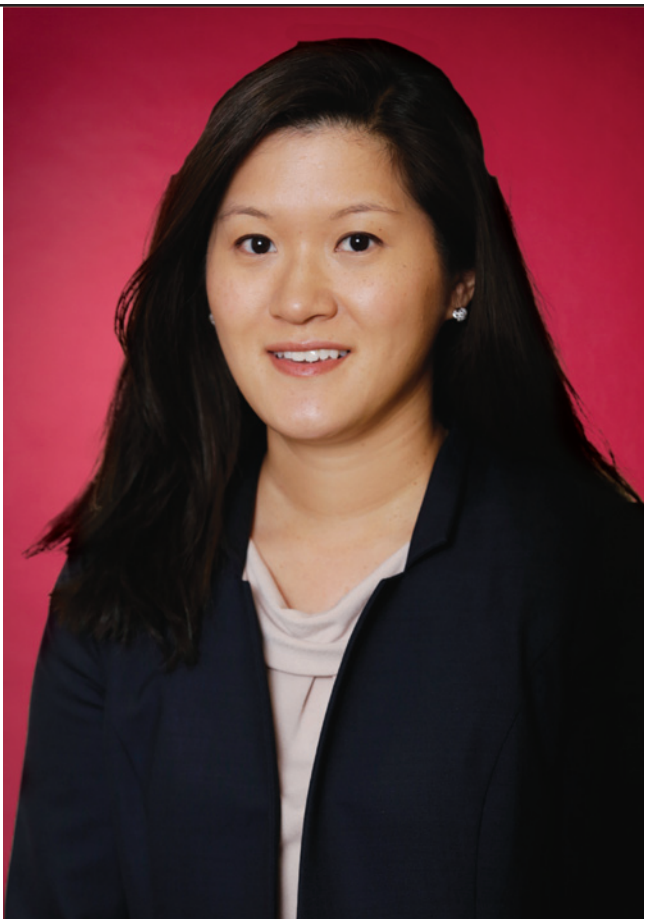
The winners were announced in May at the Envestnet Advisor Summit in Chicago. Look for video interviews with the winners on ThinkAdvisor.com in the coming weeks.

U.S. LARGE-CAP EQUITY

JENNIFER CHANG

Executive Director and Portfolio Manager

Schafer Cullen High-Dividend Equity Strategy



One of two awards in the large-cap category, Schafer Cullen's High-Dividend Equity Strategy focuses on high-quality companies that are able to deliver — and grow — dividends over several years. Envestnet | PMC's analysts found the strategy's one-year performance and 10-year risk-adjusted return were in the top quartile of firms in Envestnet's large-cap value SMA universe.

The portfolio had almost $11 billion in assets under management as of Dec. 31, 2015, and is a "very concentrated portfolio" of only 30 to 40 stocks, according to Jennifer Chang, executive director and portfolio manager of Schafer Cullen.

"We feel as though if we're doing the work, we want to have meaningful positions in some of our highest-conviction ideas," she said. The amount of capital in one position is limited to about 4% or 5%, though, because "we know we can be wrong at certain times."

The strategy is co-managed by Chang and Schafer Cullen's chairman and CEO Jim Cullen, along with a team of 10 generalist analysts.

"We're looking for catalysts that we think would be able to drive the earnings growth and multiple expansion story over the next three to five years because we're long-term investors."

There are three main criteria to the high-dividend strategy, Chang said.

First, portfolio managers follow a "low P/E discipline" and look for stocks at the bottom 20% to 30% of the market based on P/E, she said. That helps the strategy benefit from "those stocks being defensive in down markets but also in up markets, both from earnings growth and multiple expansion" perspectives.

The second criteria is that stocks have at least a 3% dividend yield. "Dividends are really a huge part of total returns. They're about 30% to 40% of total returns over the last seventy years," Chang said.

Higher dividends also indicate higher-quality companies, which leads to the final criteria for selection.

"We're looking for companies that pay strong dividends that are growing because it's really a reflection of the type of businesses that we want to be involved with," Chang said.

Schafer Cullen also looks at dividend growth relative to earnings growth to screen for companies that might be buying back stocks to pad earnings reports. Chang said companies with higher dividend yields and slower earnings growth should show slower dividend growth with those higher yields.

For example, she said, "We've been finding some great companies in spaces like technology where the dividends are slightly lower, still meeting our 3% threshold, but they've been generating double-digit dividend growth over the last five-plus years."

The strategy outperformed its benchmark, the Russell 1000 Value Index, by about 400 basis points last year. High-dividend stocks didn't do well compared to growth stocks in the first quarter of last year, Chang said, but several factors, including a slowing economy, China's devaluation of the yuan and emerging markets "sell off," have led investors to look for more stability in consumer staples and telecom, she said. "The fact that we were underweight in more cyclical areas like energy and industrials, that really benefited the strategy."**—DA**