

Funds of Funds - Part 2



John Abunassar

William Blair Hedge Fund Strategies

John Abunassar is a member of the William Blair Hedge Fund Strategies investment committee and is responsible for providing strategic and tactical guidance on manager research, strategy and portfolio construction for the William Blair Hedge Fund Strategies Team. Prior to joining the firm in April 2011, he was a principal at Guidance Capital and a member of the firm's investment committee. Prior to that, he was CEO and president at Allegiant Asset Management. He also held roles at Banc One Investment Advisors, The Capital Control Group and Hewitt Associates.

Infovest21: What differentiates William Blair's funds of funds from its peers?

John Abunassar: Our clients tell us there are a few differentiating factors relative to others in the marketplace. The first is that the core of our team has been together since 2001 which has created exceptional chemistry. Each member of the investment team has direct experience managing portfolios. This experience is a significant benefit to our investors as our analysts have real life perspective when analyzing and selecting investments. There is no substitute for the knowledge gained through living the markets i.e. making buy and sell decisions on a real time basis.

The second differentiating factor is that we have always invested solely in specialist managers. These are managers who focus their efforts on a narrow set of opportunities and have a clear edge in a specific area of expertise. Since the inception of the team, we have invested in over 180 specialists.

Third, we have always managed our portfolios and funds of funds using modules which leads to flexible portfolio structure and

enhances the ability to ensure the underlying managers are delivering exactly what they have committed.

The combination of the modular structure and investing in specialists facilitates the process of creating custom portfolios that are structured to meet the unique needs of investors. We believe commingled products will continue to play an important role but the the market has and will continue to evolve towards hedge fund portfolios built to achieve investor specific goals.

Infovest21: How do you define specialists?

John Abunassar: Specialists are managers who do one or two things very well. They have a clear edge in a well defined opportunity set.

We have invested solely in specialist managers. These managers... focus their efforts on a narrow set of opportunities and have a clear edge in a specific area of expertise.

They have a proven and deep domain experience in a specific field and they bring all their resources to bear on the opportunities within that specific field.

Infovest21: Are all your funds specialist funds? Do specialist funds tend to be emerging managers?

John Abunassar: Yes, all of our investments are made with specialist managers.

Specialist funds are often, but not always, emerging managers. The managers we invest with tend to be smaller, harder to find, and somewhat capacity constrained. Some managers start life as specialists and then expand their mandate in order to increase their asset capacity and thus their management fees. We take a skeptical view of this strategy expansion for the sake of growing the business.

Infovest21: What type of managers are institutions looking for?

John Abunassar: The institutions we work with are generally looking for a unique set of hedge funds that rely on complementary return sources to other investments in their portfolio. With interest rates at low levels and the equity markets at all-time highs, a properly structured portfolio of hedge funds can reduce the reliance on interest rate movement and corporate earnings for returns. We are able to accomplish this through the use of our proprietary database of specialists that has been built since the team's inception in 2001.

Layout and Additional Research by Johnathan Lugo

Infovest21: What are you looking for in a manager?

John Abunassar: One of the guiding principles of our manager selection process is that each manager must have a well-defined and analyzable strategy. Each must demonstrate an economic logic behind its ability to generate returns. We do not impose rigid limits on fund age or size. We explicitly assess an organization's fitness for supporting its strategy using our 10 evaluation criteria.

We do not seed new managers, but will invest with newer, less established managers because they frequently have greater trading flexibility as a result of having moderate assets under management. Sometimes they offer fresher perspectives and new approaches.

However, we remain sensitive to the business risk that accompanies investments in young and small organizations and will often pass on otherwise attractive managers because we deem their funds too young, undeveloped or otherwise lacking adequate business controls and resources.

We are seeing interest in our non-directional strategy as an alternative to fixed income and in our equity long/short strategy from investors who are cautious about the level of the equity markets.

We are also sensitive to the possible shortcomings of funds that are too large or inflexible. It can become difficult for very large funds to deploy assets as effectively as they might have at earlier stages of development. Large organizations can also become distracted by the range of their product lines or can have their incentives to perform well in a given strategy diluted by the range of the firm's offerings. 40% of our managers are outside the US. We look for the best managers and are indifferent to location.

Infovest21: What is the genesis of the funds of funds group?

John Abunassar: The team was launched as Guidance Capital, LLC in 2001. We joined William Blair in April 2011.

Infovest21: What have the implications been from the acquisition?

John Abunassar: From an investment perspective, there has been no change. We have the same team, use the same process and apply the same approach. From the infrastructure and business support side, we now have a very solid foundation and are an important part of William Blair's overall success.

Infovest21: What are your current assets under management?

John Abunassar: As of September 30, 2013, William Blair has about \$58 billion in assets under management and the Hedge Fund Strategies group has approximately \$420 million. We are pleased that our client list and asset base have grown significantly since the transition.

Infovest21: Do you expect to see more consolidation in the space?

John Abunassar: We do expect to see more consolidation in our industry - primarily with one-dimensional organizations that need to

diversify their product offering. We are very fortunate to be part of a \$58 billion firm that has a clear commitment to alternatives and funds of funds.

Infovest21: What does your client base look like?

John Abunassar: Our client base is made up of approximately 60% institutional investors and 40% high net worth individuals. Institutional investors include not-for-profits, corporations, and Taft Hartley plans. Our products and custom solutions fit well with a diverse set of investors.

Infovest21: What percentage of your assets is in customized portfolios? Has that changed over time?

John Abunassar: About 50% of our assets are in customized portfolios. The other half is in commingled funds. Five years ago, the percentage in customized funds was much smaller.

Infovest21: What are your return expectations?

John Abunassar: Each portfolio is structured to meet the expectations of our investors. As we have done since the team's inception, we strive to provide competitive returns through differentiated sources within the bounds of our client's investment guidelines.

Infovest21: How do you perceive the consultants' role?

John Abunassar: We work with consultants all the time. Very often, our work is complementary or additive to their efforts.

Infovest21: Do you use managed accounts? Do you have any '40 Act product?

John Abunassar: We do offer managed accounts. Managed accounts continue to gain an increased level of importance to investors.

We launched a commodity long/short strategy mutual fund in April 2012. We continue to research developing other '40 Act funds where we are confident that the team's proven investment philosophy and approach can be applied successfully and where it will serve as a long-term component of an investment portfolio.

Infovest21: What are the challenges facing funds of funds today?

John Abunassar: Like all businesses, funds of funds have evolved. Investors have become more familiar with investing in hedge funds and have become more targeted with the types of managers they desire and how these investments fit in their portfolios. This has led to greater competition and lower pricing. We have embraced this evolution as it does not change what we have done for over a decade.

Infovest21: Where do you see opportunities today?

John Abunassar: Within the broad market, there are still investors who do not have hedge fund exposure and/or are interested in diversifying their portfolios from traditional markets. Specifically, we are seeing interest in our non-directional strategy as an alternative to fixed income and in our equity long/short strategy from investors who are cautious about the levels of the equity markets.

Within the institutional space, customized funds and completion

strategies have been of great interest.

Infovest21: What are your plans going forward?

John Abunassar: From an investment perspective, we will stick to our knitting. We have been researching, analyzing and monitoring hedge funds for a long time and our investors have been served well. Our most senior people will continue to do the work (we do not rely on inexperienced analysts or data collectors) as we believe they are best equipped to identify unique investment opportunities as well as detect risks within hedge fund portfolios.

From a product perspective, we will continue to work with clients to ensure that they are invested in a portfolio of hedge funds that give them the best opportunity to achieve their goals.

William Blair Hedge Fund Strategies

Location: Chicago, Illinois

As of 9/30/2013:

William Blair Assets: \$58 billion

Hedge Fund Strategies Assets: \$419 million

John Abunassar

Title: Investment Committee Member

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