

**Altura Capital Group, LLC**  
**Asset Class Research Note**

September 2011

**US Core Fixed-Income**



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## Asset Class Report: US Core Fixed-Income

### Summary

Over the past year Altura has conducted several analyses of equity managers in its Emerging and Diverse Manager Information Platform (Altura Information Platform). This month we are focusing on US Core Fixed-Income, utilizing data through June 30, 2011. Our research shows that strong alpha opportunities also exist in this universe, although the opportunity set of managers is limited:

- Emerging managers generally have added value in US Core Fixed-Income, with the average firm outperforming the Barclays Aggregate benchmark over both 1 and 3 year time frames.
- Emerging managers also have, in aggregate, outperformed a broader universe of managers (which includes established firms) over the 1 and 3 year time frames.
- The universe of managers is small, with 19 products that qualify.
- Diversity of talent is prevalent, with a high level of Women and Minority Business Enterprise (WMBE) representation among the firms offering these products. Importantly, the diverse talent exists at all sizes of emerging managers, with firms ranging in size from a few million in AUM, to multiple billion in AUM.
- The largest firms seem to outperform the other firms in this space. This could be a sign of the resources needed to compete in this space, or it could be a result of the top quartile performance drawing in the assets.
- There is good dispersion of returns between the performance quartiles, which provides opportunities for manager selection to add value to a client mandate.

If you are a manager who offers US Fixed-Income products, we invite you to join our database at [www.alturacap.com](http://www.alturacap.com) or send an e-mail to [qa@alturacap.com](mailto:qa@alturacap.com).

If you are interested in more information about any of the managers in the Altura Information Platform, please visit us at [www.alturacap.com](http://www.alturacap.com), send an e-mail to [sales@alturacap.com](mailto:sales@alturacap.com), or call us at (212) 378-7133.

## Number of Products

This report is based on performance and AUM data ending June 30<sup>th</sup>, 2011. The data was extracted from the Altura Information Platform as of August 4<sup>th</sup>, 2011.

Benchmarks
Barclays Aggregate Bond
Barclays Govt/Credit

Altura allows managers to specify which index they believe they should be measured against. For US Core Fixed-Income we selected products for which the managers picked from either the Barclays Aggregate Bond Index or the Barclays Government/Credit Index.

There are 19 US Core Fixed-Income products<sup>1</sup> in the Altura Information Platform. Of the 19 products, 15 (78.9%) are run by Women or Minority Business Enterprises (WMBEs)<sup>2</sup>. Clearly, there is a small set of US Core Fixed-Income products, though there is great diversity of managers running those products.

The US Core Fixed-Income space is relatively sparse when compared to most of the US Equity space, which has a total of 350 products among various styles and sizes. Altura believes this paucity has several key influences:

- The first is the dominance of a few huge firms in the fixed-income space, where a few well-known firms are perceived as the “Gold Standard” for fixed-income money management.
- The second is the efficiency of the market. The variability in returns between managers tends to be smaller in the Core Fixed-Income space, as compared to any of the US Equity size/style segments, which provides less room to differentiate value add between managers.
- Finally, given the efficiency of the fixed-income market and the low variability in returns, fees tend to be lower, which makes it harder for emerging managers to start and maintain a business in this area.

<sup>1</sup> A product is counted if it meets all of the following criteria:

- The firm has picked one of the benchmarks listed above as the appropriate benchmark for the product.
- The firm has provided assets under management data (AUM) for the “as of date” of this analysis. In this case, the AUM is of June 30, 2011.
- The firm has provided at least 3 months (1 calendar quarter) of monthly performance data ending on the same “as of date” of June 30, 2011.
- The firm has not obviously mis-specified a benchmark, for instance running a product with the words “high yield”, “distressed”, or “preferred equity” in the product name.

<sup>2</sup> A product is considered run by a WMBE if more than 50% of the firm running the product is owned by women or minorities, or some combination thereof.

Average Firm Size by Quartile <sup>3</sup>	
Largest Quartile	\$5,276,817,711
2 <sup>nd</sup> Quartile	\$2,774,819,141
3 <sup>rd</sup> Quartile	\$1,256,184,531
4 <sup>th</sup> Quartile	\$421,709,648
<b>Entire Group</b>	<b>\$2,538,207,658</b>

The firms are distributed widely by size, with the average firm in the entire set having a respectable size of over \$2.5 billion. Given the asset class and its size, flexibility generally would not be expected to be an issue for even the largest managers in this set.

Performance by Size				
	Last quarter	Year to Date	Last year <sup>4</sup>	Last 3 years <sup>5</sup>
Largest Quartile	2.23%	2.95%	5.03%	7.53%
2 <sup>nd</sup> Quartile	2.08%	3.01%	5.00%	7.57%
3 <sup>rd</sup> Quartile	2.15%	3.07%	5.30%	7.53%
4 <sup>th</sup> Quartile	2.05%	2.61%	4.10%	7.05%
All US Core Fixed-Income	2.13%	2.93%	4.90%	7.46%
Barclays Aggregate Index	2.29%	2.72%	3.90%	6.46%
Universe Size	19	19	19	18

If one breaks down the performance by the size quartiles one can see that:

- The average of the universe has struggled over less than one-year periods, but outperforms the benchmark over the one and three-year periods.
- There appears to be a link between size and performance, with performance being proportional to size. It could be that the smallest managers are finding that the resources necessary to compete in this asset class are more than they are able to bring to bear, and/or the larger firms are reaping the benefits of a good track record in the form of additional assets.

<sup>3</sup> The quartiles are calculated by taking the number of qualifying products, dividing by 4 and rounding. For example, with 49 products, the first quartile would have 49/4 or 12.25 products, which would round to 12 products. The second quartile would then take the number of products that are left (49-12 or 37) and divide that number by 3 and round, which would be 37/3 or 12.33, which would round to 12. The third quartile would then have 37-12 or 25, which would be divided by 2, giving us 12.5, which would round to 13. The remainder would be in the fourth quartile.

<sup>4</sup> The Last Year is the past four calendar quarters of performance.

<sup>5</sup> The three-year return number is annualized performance. Performance numbers for periods of 1 year or less are not annualized.

Performance by Return Quartile <sup>6</sup>				
	Last quarter	Year to Date	Last year	Last 3 years <sup>5</sup>
Top Quartile	2.43%	3.39%	6.31%	8.36%
2nd Quartile	2.20%	3.01%	5.10%	7.78%
3rd Quartile	2.02%	2.78%	4.33%	7.40%
4th Quartile	1.82%	2.44%	3.60%	6.10%
All US Core Fixed-Income	2.13%	2.93%	4.90%	7.46%
Barclays Aggregate Index	2.29%	2.72%	3.90%	6.46%
Universe Size	19	19	19	18
All Manager Universe Return <sup>7</sup>	2.18%	2.93%	4.46%	7.13%
All Manager Universe Size <sup>8</sup>	366	366	366	356

If one breaks down performance by return quartiles (please see table above and chart below), one sees that:

- There is a meaningful dispersion between the 1<sup>st</sup> and 4<sup>th</sup> quartile performers.
- The average top quartile product outperforms the index and the universe by a healthy amount.

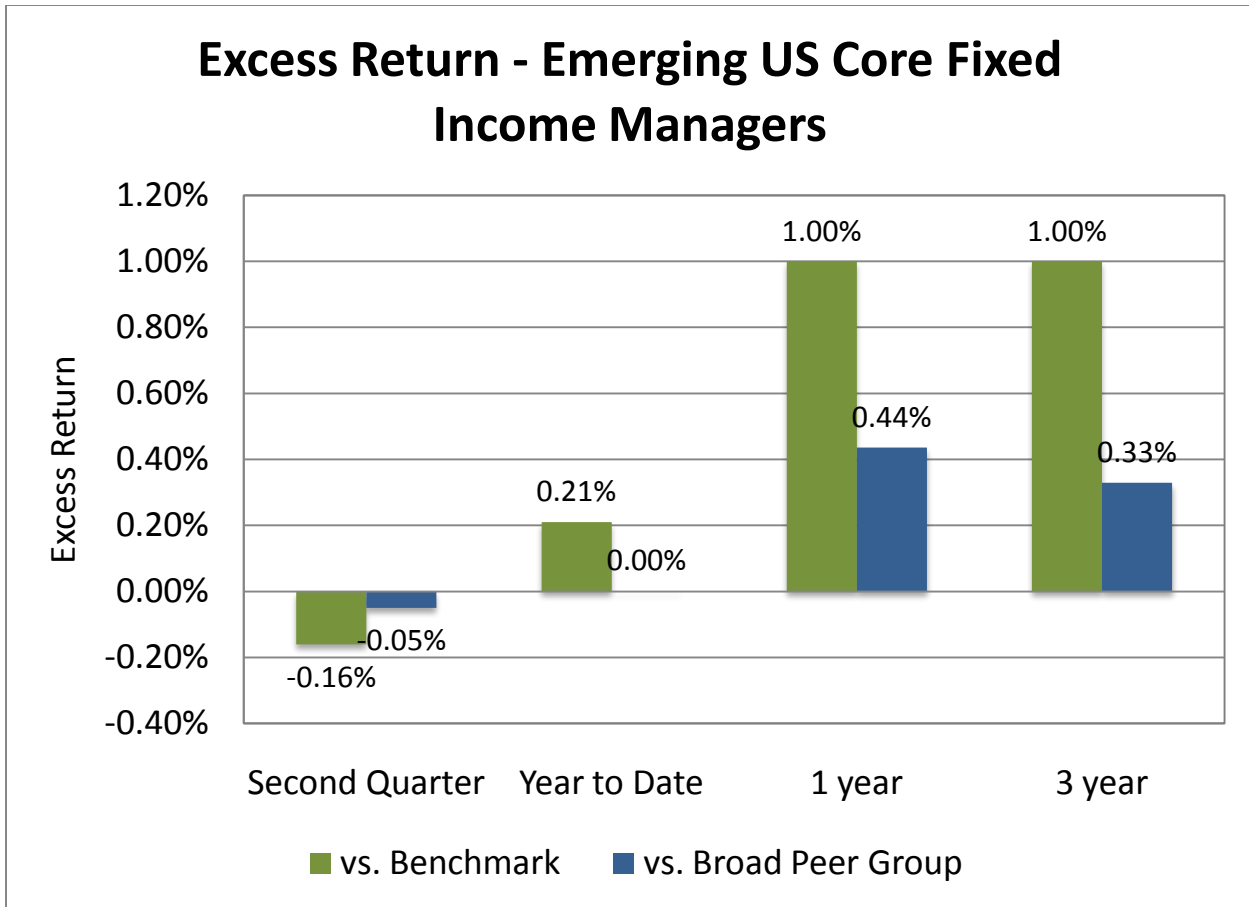
If one then compares the emerging manager universe from the Altura Information Platform to a broader universe of managers - which includes established firms and is labeled All Manager Universe in the table above - one sees that:

- The performance of the broader universe of managers is in the same general range to that of emerging managers, indicating that the universes are comparable.
- Over the 1-year and 3-year time frames, emerging managers seem to have a 30 to 40 bps per year performance advantage over the broader group of peers.

<sup>6</sup> Performance is calculated for each product for each period. The performance is then sorted from highest to lowest for each period. Quartiles are then calculated as described earlier, and the average performance for each quartile is shown. Note that a product can be in one quartile for one period and a different quartile for a different period. Also note that all quartiles within one period will have an equal number of products subject to numerical limits described earlier.

<sup>7</sup> The All Manager Universe was calculated by the Zephyr StyleAdvisor Platform on August 5, 2011. Zephyr has universes that are segmented by duration and by quality. The duration choices are short, medium and long; and the quality choices are super, high and medium. For this paper, we used the medium duration high quality universe. The return shown is the median return for the universe.

<sup>8</sup> The All Manager Universe size was calculated by the Zephyr StyleAdvisor Platform on August 5, 2011. The numbers are for the number of constituents in the medium duration high quality universe.



### Conclusion

A review of Altura’s US Core Fixed-Income universe shows good opportunities to add value, both relative to benchmark, and relative to their larger peers. Performance of top quartile products is particularly compelling, and the asset sizes of the firms involved allow for investment freedom as well as resourcing for research and operations. The universe of products is limited, however, so continued tracking of new entrants via a tool like the Altura Information Platform is key. Please contact Altura at [sales@alturacap.com](mailto:sales@alturacap.com), or (212) 378-7133 for more information.

## About Altura Capital

Altura Capital was established in March 2005 with the mission of creating new alpha generating opportunities for institutional investors by unleashing the economic potential of undiscovered, under-utilized or undercapitalized investment talent and markets, frequently described as “Emerging Managers.”

Our groundbreaking and comprehensive database, coupled with the investment expertise of our team and our commitment to research and innovation in the emerging manager space, has positioned the firm as a new and compelling emerging manager-of-manager service provider. Our innovative value proposition allows investors to tap into Altura’s unique manager sourcing and investment expertise, from manager due diligence to portfolio construction and monitoring.

A flagship product of Altura is the Altura Emerging Managers Information Platform, a groundbreaking, web-based, annual subscription application. The Platform provides institutional investors with daily updated research, data, analytics, due diligence, market intelligence, and collaborative tools.

Altura Capital is headquartered in New York City and has other offices in Seattle, Washington and Chicago, IL. Altura is a Women-owned and Hispanic-owned Company.

## Our Research Team



**Monika Mantilla** *President and CEO*

Ms. Mantilla is responsible for the overall strategic direction and leadership of the firm, including client relationship, marketing, product development, human capital development and financial management.



**Ravindra Deo** *Chief Investment Officer & Chief Technology Officer*

Mr. Deo is responsible for the philosophy, process, and operation of the investment department, and for the technology infrastructure of the firm, including the management of the Emerging Manager Information Platform.



**Lisa Kopp** *Director of Research*

Ms. Kopp is responsible for emerging manager selection and due diligence, manager of manager portfolio construction analysis, and assessment of broader manager and universe trends.



**Rev. Jeffrey Van Orden** *Chair, Investment Committee*

Mr. Van Orden is responsible for leading Altura’s investment committee, to provide oversight and insight to manager selection, fund construction, and investment department operation.



**Jay Garcia** *Chief Financial Officer & Chief Operating Officer*

Mr. Garcia is responsible for oversight and management of Altura’s financials, operations, and infrastructure. He also provides research insight and strategic guidance based on his experience as a director of securities analysis and partner/portfolio manager.

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