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Asset  
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Awards

2018

## POISED FOR PERFORMANCE

*Envestnet finds the active management champions,  
like GW&K Investment Management.  
Robert Gray, Partner, Head of National Accounts  
shares what makes their portfolios thrive.*

**GW&K**  
INVESTMENT MANAGEMENT

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Photography by Tom McKenzie

*From its universe of over 2,800 strategies, the Envestnet | PMC team drills down to a group of about 600 portfolios to uncover a small group of gems. Read on for details on how these award-winning asset managers produce consistent results for investors.*

**A**t the 2018 Envestnet Advisor Summit, *Investment Advisor* and Envestnet recognized the winners of this year's Asset Manager Awards. The summit took place in mid-May in New Orleans, with social psychologist Amy Cuddy giving one of the keynote speeches.

Cuddy told a crowd of 2,000-plus RIAs and other attendees that body language is an important way for advisors to make themselves both more powerful and more trustworthy. "You are trying to give [clients] a sense of safety," she said, adding that sitting up straight is critical.

With the plethora of distractions today, clients appreciate knowing that their advisors and other business partners are "present" — both physically and mentally. The victory pose, in which you throw up your arms in a "V," is "hard-wired" in human beings, explained the author of "Presence: Bringing Your Boldest Self to Your Biggest Challenges" and popular Ted Talk speaker.

Taking a cue from Cuddy, Horizon Investments President and CEO Robbie Cannon confidently lifted two Asset Manager Awards over his head during the May 16 recognition ceremony. That gesture drew a hearty round of applause from those in the exhibit hall.

While the recognition event included brief highlights of why Envestnet | PMC analysts and *Investment Advisor* staff chose this year's award winners, there is (of course) much more to

tell about how these actively managed portfolios are producing strong results in a highly competitive field.

The award winners are picked from Envestnet | PMC's universe of over 2,800 strategies, which also is trimmed down to a group of about 600 portfolios; to be considered for an award, a manager's team must have at least three years of experience running a strategy with \$200 million or more in assets.

The analysts evaluate the performance and risk-adjusted metrics of these strategies, according to Tim Clift, chief investment officer of Envestnet | PMC.

They also look at the dynamics of the overall team, how these active managers are compensated and incentivized, and what the alpha thesis of each portfolio is: "What do they believe they can do that others can't, what edge do they have that is different, and which ones will have the potential to perform well in the future?" Clift explained.

As in the past, this year's 14th annual Envestnet-*Investment Advisor* Asset Manager Awards recognize active managers in different asset classes who have topped the benchmarks, have shown solid performance throughout the years and are best-in-breed in their respective classes. In addition to the profiles that follow, video interviews and other content from the summit, can be found on ThinkAdvisor.com.

## FIXED INCOME ASSET MANAGER OF THE YEAR

### GW&K Investment Management, Enhanced Core Bond Strategy

Advisors, clients and other market-watchers focused a lot on the strong performance of equities in 2017. But thanks especially to its off-benchmark exposure to high-yield bonds, Boston-based GW&K Investment Management's Enhanced Core Bond Strategy performed "exceptionally well" last year, according to Envestnet | PMC fixed-income analyst Mike Wedekind.

At the same time, the leaders of this GW&K fixed-income portfolio diligently have been watching risk. For the past 18 months, the taxable fixed-income team has moved to reduce spread duration and taken "a measured approach to the significant agency mortgage-backed securities (or MBS) portion of the portfolio by focusing on non-current coupons," Wedekind explains.

How did GW&K come to operate as an award-winning fixed-income shop? According to Partner Robert Gray, head of national accounts, it started out as an advisor to high-net-worth clients in the Boston area in the early 1970s. After growing its client base for the next 10-15 years, it moved into third-party business "when firms started to send their fixed income clients to us to manage," Gray says.

"That's really when [GW&K] took off. We had a particular expertise and still do today in the municipal bond side [of the business]," he explained. "But our taxable department was really founded in the late '80s, and this strategy which we won the award for was really a derivative of our first taxable strategy, which came into being in 1988."

The group's taxable department now manages about \$4 billion in assets. "We've seen good growth, and that's really a reflection of our active management approach and our ability to be flexible within the space that we occupy."

In terms of high-yield holdings, GW&K zooms in on those of "the highest quality ... so really you're talking about single- and double-Bs," according to Gray. "Most of our investments are in the separate-account format where the clients own the underlying securities. And we've had great success in just focusing on single- [and] double-Bs just below the investment-grade space, and we've been doing it for a long time."

How does the firm feel about rising rates? "As a fixed-income shop, it may sound odd but we really go to bed every night hoping that rates will rise. The last thing we really want is to become Japan, where interest rates really collapsed. We believe in a rising-rate environment that allows us to be active and really do what we do well," he explained.

Many retail investors tend to sell their bonds or shorten the duration of the portfolio when rates rise, he points out. But GW&K does the reverse, "because that's really when you want to lock in

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**—Robert Gray**  
Partner-Head of  
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higher rates. We use the analogy that it's sort-of like eighth-grade math — rate times time equals distance," Gray said.

With rising interest rates, the group aims to "lock in higher rates for a longer period of time or longer duration," he explained, "to extend our duration and — depending on where we are in the cycle, we will potentially overweight the high yield sector or underweight it."

Most recently, the firm has "lightened up ... a little bit on the high yield side," but it believes with these holdings "you're going to do better than just being in Treasuries" over a full market cycle.

Also, the Enhanced Core Bond Strategy (unlike some passive or laddered strategies) can incorporate winners in the taxable market, according to Gray. "We utilize all five sectors of the fixed-income market ... and will overweight and underweight those areas depending on what portfolio manager Mary Kane thinks" is most attractive in terms of relative value.

As for the credit quality of its high-yield holdings, the portfolio has moved that up a tad. "Right now, the spread between BB to BBB and BBB to A is really as tight as it's been since the financial crisis in 2008," he said. "At some point, we will probably look to take advantage of spread widening, when and if that happens."



## Disclosure

GW&K is an SEC-registered investment management firm that offers active equity and fixed income investment solutions. Founded in 1974, GW&K is an independent and autonomous investment management firm that is an affiliate of Affiliated Managers Group, Inc. (NYSE: AMG), a publicly traded global asset management company. For more information please visit: <http://www.gwkinvest.com>

According to Envestnet, the Asset Manager of the Year award finalists and winners were chosen using a systematic, proprietary, and multi-factor evaluation methodology developed by Envestnet | PMC's Premium Research Solutions, a leading source of investment manager due diligence and research for advisors. Its evaluation framework considers a variety of qualitative and quantitative criteria into consideration, such as investment process and style, performance, firm profile, customer service, and tax efficiency. To be eligible for an Asset Manager of the Year Award, an investment manager's strategy must be reported through PMC's PrimaGuide research application, and have at least \$200 million in assets. Investment managers must also have portfolio management teams with at least three years of experience running their respective strategies.

GW&K Investment Management did not pay a fee to be considered for the Asset Manager for the Year awards. This award recognition is not indicative to GW&K Enhanced Core Bond Strategy's future investment performance. No investment process is free of risk, including GW&K's Enhanced Core Bond Strategy as presented in this document. No strategy or risk management technique can guarantee returns or eliminate risk in any market environment, and you therefore may lose money. **Past performance is no guarantee of future results.** The value of investments, as well any investment income, is not guaranteed and can fluctuate based on market conditions. Diversification does not assure a profit or protect against loss. GW&K's active management styles include equity and fixed income strategies that are subject to various risks, including those described in GW&K's Form ADV Part 2A, Item 8. GW&K's Form ADV Part 2A may be found at <https://adviserinfo.sec.gov/Firm/121942> or is available from GW&K upon request. GW&K's Enhanced Core Bond composite returns are used in Envestnet | PMC's Premium Research solutions. Full composite performance information for GW&K's Enhanced Core Bond composite is available upon request. Actual results may differ from the composite results depending on the size of the account, investment objectives, restrictions, transaction and related costs, the inception and date of the account and other factors. Inclusion in the Asset Manager and Strategist of the Year Awards does not constitute a recommendation to make, hold or seek an investment in any GW&K Strategy.