

Seattle Business

WASHINGTON'S LEADING BUSINESS MAGAZINE

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**MONEY MANAGERS
STILL THRIVING
A POWERHOUSE
IN DESIGN**

GATES TO THE CITY

**HOW THE GATES FOUNDATION'S
NEW CAMPUS WILL FUEL
REGIONAL POWER AND GROWTH**

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as featured in

**Seattle
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MASTERS *of* MONEY

Did you have as much fun in your business in 2009 as Washington's money managers did in theirs?

We hope not. News of the market's recovery in 2009 obscured the less happy developments—firms pulling out of the state or closing up shop, clients pulling out money, fears that the rebound would be short lived.

Assets under management fell 15 percent from mid-December 2008 to Feb. 11, 2010, according to the annual survey compiled by RAH Financial, the Covington-based executive search firm for financial-services companies.

Roger Hendrix, the firm's president and CEO, recalls meeting with some money managers early in 2009 who were interested in selling or merging their firms out of "fear and desperation." Those emotions subsided—somewhat—later in the year as the markets improved and as managers realized the payouts, on a percentage of earnings, would be less than half of selling prices in the boom years.

Not that they're feeling comfortable. "Many still are very fearful of the next shoe to drop in the market, i.e., the feared 'double bottom,'" Hendrix says. "Many are still sitting on a pile of cash, with some having 50 percent or more of their [assets under management] in cash, waiting for the buying signals, protecting what's left of some investors' assets who experienced a 30-percent-plus drop" during 2008.

"It has been very difficult for even the most savvy of biz dev professionals to win new [high net worth] accounts, as most investors still haven't recovered from the '08-'09 market turmoil," he adds. "It's tough sledding when you are attempting to win new business when your average account returns are negative on a 1-, 3- and 5-year basis."

But it wasn't bad news for everyone. Here are snapshots of three firms that bucked the trend and increased their rankings and the investment assets they're managing.

PARAMETRIC PORTFOLIO ASSOCIATES

2009: \$33 billion*, No. 2
2008: \$21.1 billion, No. 2

IF YOU'RE LOOKING FOR A money manager with a battalion of analysts trying to outsmart the market and spot the next hot stock or sector, Seattle-based Parametric Portfolio Associates is probably not the place for you.

Qualitative research? "We don't do any," says Chief Executive Brian Langstraat. "Parametric is a very unique firm in that we have no resources and no professionals dedicated to the effort of deciding qualitatively on markets, companies, interest rates, economic cycles. We don't try to predict return in any form. I think that makes us pretty unique in the marketplace. ... All of the value we add is in longer-term strategic insights and then in customization and transparency and providing exposure to markets and asset classes and particular segments of markets in the most efficient way possible."

What you will find with Parametric is repeated use of terms like "structured" and "rules based." Parametric's approach, the company says several times on its website, is engineering portfolios with "explicit risk and return targets and continually measuring and managing the impact of relevant costs." Says Langstraat, "There has been and continues to be a long-term secular trend toward index-based investing in the marketplace, which is probably the ultimate in transparency and rules-based investing and focus on fees and costs. Many of the products

Despite a down economy, some wealth managers who took a conservative approach are feeling optimistic.

BY BILL VIRGIN

PHOTOGRAPHS BY
HAYLEY YOUNG

that Parametric offers are enhanced versions or improved versions of indexes.”

That conservative approach makes Parametric the No. 2 manager on a list of the state’s top firms (see p. 42), with \$33 billion in assets under management.

In 2009, clients seemed to like that method just fine. Langstraat says the market’s rally had something to do with the jump in assets under management. But he adds the firm has had a consistent record of asset inflows for several years. “We’re seeing institutional flows into our emerging-markets product—pension funds, endowments, foundations. We saw for the first time in 2009 significant flows from European investors, bearing fruit from some of the efforts we’ve had to expand our distribution into Europe. 2009 was a year of fairly broad-based growth in terms of sources of funds.”

Parametric markets its products mainly to wealth management advisers, while Boston-based Eaton Vance, which owns a majority stake in the company, sells them to mutual funds and institutional investors in the United States and Europe. An affiliate company, Parametric Risk Advisors, based in Westport, Conn., concentrates on options and derivatives.

Langstraat says Parametric, which already does structured portfolio investing in emerging markets, is now working on extending that approach to the developed world outside America; it’s also looking at rules-based investing in commodity markets. “Because we’re not trying to get up every day trying to develop new insight into the tactical valuations and growth prospects, it’s innovation in these longer-term exposure areas that will continue to drive our growth,” he says.

SATURNA CAPITAL

2009: \$2.7 billion*, No. 14

2008: \$1.4 billion, No. 36

IF SEATTLE IS SOMEWHAT off the beaten path of the money management industry, then how far off the map is Bellingham?

Not so far that investors haven’t been able to find it, if Saturna’s gain in the RAH rankings is any indication.

Saturna’s stellar Morningstar rankings for its mutual funds probably didn’t hurt, says Nicholas Kaiser, Saturna’s chairman and equity portfolio manager. “That’s what drives retail

customers and advisers to our funds,” he says.

Those customers were also likely attracted to Saturna’s stated conservative approach to investing. “We don’t have a goal of beating the market in an up period,” Kaiser says. That means Saturna’s funds will tend to trail market averages in years of recovery. “In down markets, we lose less. That seems to be a strategy more and more people appreciate.”

Saturna might be best known for its Amana funds, which are managed according to Islamic investing principles. That means avoiding interest and steering clear of companies involved in such businesses as liquor and gambling. Kaiser notes only about 40 percent of public companies pass the initial screen.

The restriction on interest means no investing in banks, which proved to be a very good thing for the Amana funds. Kaiser also steers clear of companies with high degrees of leverage, which keeps him away from airlines. (Boeing is also out because of its debt level and its defense division.) “We’re a value manager; we simply look for good value,” Kaiser says. “The formula works pretty well.”

The Amana group last year added a developing-world offering to its income and growth funds. That might sound contradictory given Saturna’s conservative approach and the reputation for volatility in those emerging markets. But Kaiser adds that volatility results from a preponderance of smaller, more leveraged businesses. Screening out those leverage-dependent companies improves returns over the long haul.

Saturna also operates the Sextant family of funds; Kaiser says those function on what’s known as a fulcrum advisory fee, in which the money paid to Saturna is tied to the fund’s performance.

Don’t expect any dramatic changes from what Saturna has been doing. Kaiser notes that while the S&P 500 fell in the first half of 2010, Saturna’s assets under management rose. “Protecting people’s money in down years has kept us doing well,” he says.

ZEVENBERGEN CAPITAL INVESTMENTS

2009: \$2.2 billion*, No. 19

2008: \$2.0 billion, No. 28

HERE’S A CHALLENGE: Making a case for investing in growth stocks at a time when, as Zevenbergen Capital Investment’s Lisa Foley puts it, “Everybody felt like the wheels were coming off.”

But Zevenbergen Capital Investments did, because that’s what it’s been doing since 1987: looking for opportunities in high-growth stocks. And given the increase in assets managed, investors were buying the story.

“One of our biggest joys is when clients have the confidence to add additional funding, which they did, and also acquiring new clients who want to add that growth perspective to their portfolio,” says Foley, managing director and investment officer for the Seattle-based company.

Two reasons that new and existing clients were willing to invest with Zevenbergen, Foley says, are experience and a long-term perspective. “We’re not new to seeing extreme cycles, and having the experience in order to position for those extreme times,” she says. “Some people change their philosophy at the wrong time.”

That’s a mistake with an investing philosophy based on longer-term performance, she adds. “One year doesn’t make a cycle,” Foley notes. “You have to look at years leading up to [the present] and then if you’re lucky enough to be looking at them in the rear-view mirror, the years after that. Not every year is a winning year. For us, we’re asking our companies to perform long term. We’re not asking them to do what we want them to do in one year.

“We have to manage the portfolio that way and our clients expect ups and downs with our style. They’re also prepared that in the long term, we’ll deliver.”

Zevenbergen Capital’s performance benefited from positions in early cyclical stocks such as technology and consumer-discretionary companies. On the other hand, its holdings of alternative-energy stocks suffered because those companies found it tough to find financing. “Not every sector was rosy,” she says.

But such is the nature of growth-oriented investing. “The plan for us is to stay consistent to the philosophy,” Foley explains. “We’re actually looking for the year to set up a good benefit for us. As you get the recovery period after an economic downturn, it becomes a situation where all boats float.” The trick, she says, is finding businesses with consistent earnings growth in the later stages of a rebound. And doing that is the firm’s forte.

“That’s just part of the cycle,” she adds. “Sometimes value does well; sometimes growth does well. 2010 is going to be a growth year.” **SB**

TOP WASHINGTON STATE

| RANK 2010* | RANK 2009 | MANAGER | MANAGER TYPE | CITY | 2009* (\$ MILLIONS) | 2008* (\$ MILLIONS) |
|------------|-----------|---|--|--|------------------------|------------------------|
| 1 | 1 | Russell Investment Group | Wealth/Hedge Fund Mgmt. | Tacoma | \$94,160 | \$118,000 |
| 2 | 2 | Parametric Portfolio Associates | Money Mgmt./Mutual Fund Spec. | Seattle | \$33,000 | \$21,063 |
| 3 | 5 | Rainier Investment Management Inc. | Money Mgmt./Mutual Fund Mgrs. | Seattle | \$17,100 | \$16,200 |
| 4 | 6 | StanCorp Investment Advisers Inc. | Wealth Mgmt./Inv. Advisers | Lynnwood/ Ore./multiple offices | \$15,458 | \$13,990 |
| 5 | 5 | Edge Asset Management (formerly WM Advisors) | Money Mgmt./Mutual Fund Mgrs. | Seattle | \$15,173 | \$20,200 |
| 6 | 8 | Wentworth, Hauser & Violich | Private/Institutional Wealth Mgmt. | Seattle/ San Francisco | \$11,562 | \$8,550 |
| 7 | 9 | Prime Advisors Inc. | Wealth Mgmt./ Inst. Fixed Income Managers | Redmond/ Windsor, Conn. | \$9,600 | \$8,478 |
| 8 | 10 | Milliman Inc. | Wealth Mgmt./Pension Consultants | Seattle/ multiple offices | \$8,125 | \$8,000 |
| 9 | 9 | Silver Creek Capital Management LLC | Hedge Fund Mgmt. | Seattle | \$6,367 | \$9,237 |
| 10 | 11 | UBS Financial Services Inc. | Wealth Mgmt./Broker-Dealer | Seattle/ Bellevue | \$6,000 | \$7,000 |
| 11 | 14 | U.S. Trust/Bank of America | Wealth/Trust Mgmt. | Seattle/ multiple offices | \$5,250 | \$5,540 |
| 12 | 13 | US Bank Private Client Group | Wealth/Trust Mgmt. | Portland/ Seattle/ Coeur d'Alene | \$5,100 | \$6,100 |
| 13 | 19 | Laird Norton Tye | Wealth Mgmt. | Seattle | \$3,200 | \$2,900 |
| 14 | 36 | Saturna Capital Corp. | Money Mgmt./Mutual Fund Spec./B-Dlr | Bellingham | \$2,715 | \$1,368 |
| 15 | 16 | Blackrock Inc. (formerly Quellos) | Wealth Mgmt./Alternative Investments | Seattle/ multiple offices | \$2,700 | \$3,000 |
| 16 | 17 | Washington Capital Management Inc. | Wealth Mgmt. | Seattle | \$2,600 | \$2,930 |
| 17 | 26 | Kibble & Prentice Holding Co. | Wealth Mgmt. | Seattle | \$2,560 | \$2,020 |
| 18 | 21 | Washington Trust Bank | Wealth/Trust Mgmt. | Ptld/Seattle/ Spokane/Boise | \$2,300 | \$2,279 |
| 19 | 28 | Zevenbergen Capital Investments LLC | Wealth Mgmt. | Seattle | \$2,200 | \$1,996 |
| 20 | 25 | Freestone Capital Management Inc. | Wealth/Hedge Fund Mgmt. | Seattle | \$2,000 | \$2,036 |
| 21 | 22 | Goldman, Sachs & Co. | Wealth Mgmt. | Seattle | \$2,000 | \$2,100 |
| 22 | 18 | Weyerhaeuser Asset Management LLC | Wealth Mgmt./Pension/Profit-Sharing | Federal Way | \$1,945 | \$2,900 |
| 23 | 23 | Wells Fargo Private Client Services | Wealth/Trust Mgmt. | Seattle/ Tacoma/ Bellevue | \$1,900 | \$2,100 |
| 24 | 27 | Bernstein Investment Research & Management | Wealth Mgmt./Broker-Dealer | Seattle | \$1,900 | \$2,000 |
| 25 | 24 | Cornerstone Advisors Inc. | Wealth Mgmt. | Bellevue | \$1,740 | \$2,060 |

MONEY MANAGERS

| RANK 2010 | RANK 2009 | MANAGER | MANAGER TYPE | CITY | 2009 (\$ MILLIONS) | 2008 (\$ MILLIONS) |
|-----------|-----------|--|--|--|--------------------|--------------------|
| 26 | 32 | Brighton Jones LLC | Wealth Mgmt. | Seattle/ San Francisco | \$1,600 | \$1,504 |
| 27 | 47 | Threshold Group LLC | Wealth Mgmt./Family Office Svcs. | Gig Harbor/ Portland/ Philadelphia | \$1,550 | \$985 |
| 28 | 30 | KMS Financial Services Inc. | Broker-Dealer/Investment Adviser | Seattle | \$1,490 | \$1,743 |
| 29 | 31 | Badgley, Phelps & Bell Inc. | Wealth Mgmt. | Seattle/ Portland | \$1,480 | \$1,662 |
| 30 | 41 | Pugh Capital Management Inc. | Institutional Fixed Income Money Mgmt. | Seattle | \$1,464 | \$1,240 |
| 31 | 35 | Reliant Consulting & Research | Wealth Mgmt./Pension & Trust Cons. | Kingston | \$1,432 | \$1,432 |
| 32 | 20 | Mastholm Asset Management LLC | Money Mgmt./Mutual Fund Spec. | Bellevue | \$1,339 | \$2,790 |
| 33 | 37 | GW Capital Inc. | Institutional Money Mgmt. | Bellevue | \$1,300 | \$1,367 |
| 34 | 29 | Benchmark Plus | Wealth/Hedge Fund Mgmt. | Tacoma | \$1,176 | \$1,920 |
| 35 | 45 | Merriman Inc. | Wealth Mgmt. | Seattle | \$1,164 | \$1,077 |
| 36 | 40 | Paragon Investment Management Inc. | Wealth Mgmt. | Seattle | \$1,102 | \$1,248 |
| 37 | 34 | Sweetwater Investments Inc. | Wealth Mgmt./Native American Tribes | Redmond | \$1,100 | \$1,462 |
| 38 | 38 | BNY Mellon Wealth Management | Wealth/Trust Mgmt. | Seattle/ Tacoma | \$1,100 | \$1,300 |
| 39 | 43 | Northern Trust Bank | Wealth/Trust Mgmt. | Seattle | \$1,100 | \$1,200 |
| 40 | 48 | Pacific Portfolio Consulting LP | Wealth Mgmt. | Seattle | \$1,066 | \$920 |
| 41 | 39 | Union Bank of California | Wealth/Trust Mgmt. | Portland/ Seattle/ Tacoma | \$1,050 | \$1,250 |
| 42 | 52 | Seattle-Northwest Asset Management LLC | Fixed Income Asset Mgmt. | Seattle | \$949 | \$775 |
| 43 | 68 | Key Private Bank | Wealth/Trust Mgmt. | Seattle/ Tacoma/ Bellevue | \$850 | \$475 |
| 44 | 44 | Coldstream Capital Management Inc. | Wealth Mgmt. | Bellevue/ Portland | \$803 | \$1,109 |
| 45 | 46 | D'Annunzio Consulting Group Inc. | Wealth Mgmt. | Tacoma | \$757 | \$1,021 |
| 46 | 49 | Pioneer Square Advisors LLC | Wealth Mgmt. | Seattle | \$727 | \$852 |
| 47 | 12 | Convergent Wealth Advisors LLC | Wealth Consultant | Kirkland/ multiple offices | \$710 | \$6,200 |
| 48 | 53 | NLJ Advisors Inc. | Wealth Mgmt. | Port Angeles | \$707 | \$754 |
| 49 | 51 | Moss Adams Wealth Advisors | Wealth Mgmt. | Seattle | \$698 | \$813 |
| 50 | 61 | SeaCap Investment Advisors | Wealth Mgmt. | Seattle | \$629 | \$608 |

*Managers are ranked by assets under management (AUM).
Source: RAH Financial (www.rahfinancial.com).