Investment Management WEEKLY

The Weekly For Institutional Investors and Their Money Managers

June 16, 2008 Vol. 21 Issue No. 24

At Press Time

New Leadership at Putnam

Effective July 1, **Robert Reynolds** will take the helm at **Putnam Investments** as its new president and CEO. He is replacing **Charles "Ed" Haldeman**, who will become chairman of **Putnam Investment Management**. Reynolds was vice chairman and chief operating officer of **Fidelity Investments** from 2000-2007.

AT PRESS TIME *cont. on page 11*

TABLE OF CONTENTS

Top Five Weekly Mandate Wins

Jennison Associates	450M
T. Rowe Price	450M
Eaton Vance	270M
ING Investment Management	270M
Fiduciary Management	225M

Iowa Regents Examine Assets

Board May Approve Hedge Fund Foray

By Jakema Lewis

The $1.8 billion **Board of Regents for the State of Iowa** is currently undergoing a review of its asset allocation, said Chief Business Officer **Patrice Sayre**.

"This is a formal review with our financial investment advisor, **Wilshire Associates**," she said, adding that plan changes will be brought to the August Board of Regents meeting for discussion and anticipated approval.

According to the minutes for the Regents April meeting, the board will consider increasing its investments in real assets. Additionally, it may make an initial allocation to hedge funds.

"We will likely be moving towards more alternative investments, but may have to have legislative action," Sayre said.

The fund has a current target asset allocation of 45% domestic equity, 30% domestic

IOWA *cont. on page 11*

Ala. PACT Seeks Int'l Equity Managers

By Marc Sorondo

The $702 million **Alabama Prepaid College Tuition** (PACT) Trust Fund is searching for international core or growth equity managers.

According to the RFP, which was issued by the **Office of the Alabama State Treasurer**, the PACT fund is interested in hiring multiple firms for an expected five-year term. The managers will have the option of using emerging markets and the portfolios will be benchmarked against the MSCI EAFE index. The RFP states that the PACT fund currently has a 21% allocation—or approximately $146 million—in international equity.

Anthony Leigh, deputy treasurer with the state treasurer's office, did not respond to calls by *IMW*'s press time. **Callan Associates** is assisting with the search.

The RFP is available on the Alabama treasurer's Web site, at **treasury.state.al.us**. Proposals are due July 7. ■

Investment Manager *Profile*

Seix Advisors Bullish on Bank Loans

By Dave Lindorff

"Neither a borrower nor a lender be" might be sound advice when it comes to maintaining friendships, but **Bob Sherman**, CEO of **Seix Investment Advisors**, is making plenty of friends among investors with his bank loan investing strategy, which seeks to minimize risk while earning outsized returns

SEIX *cont. on page 6*

SEIX, *cont. from page 1*

through investing in high yield debt instruments. Now the company is expanding beyond high yield bonds into high yield loans.

Sherman said moving to the asset class is a logical step.

"We've been managing high yield securities, investing in double-B and B-rated bonds, for 11 years, and in all that time, we've never owned a defaulted bond at the time of default," he said. "On the other hand this strategy has done well, even through hard times."

For example, in 2000, when the high yield bond market was down 3.8%, the Seix strategy was up 7.5%. Similarly, in 2002, when the market was down 1.1%, its strategy was up 7.5%. The firm expects to have the same success with loans.

"Moving to loans is a natural extension of our strategy," he said.

And when it comes to loans, that strategy, simply put, is about "avoiding losers."

As Sherman explained, "High yield loans have very limited upside. They are callable at par by the issuer, so the trick is to avoid the losers and to collect your coupons." This philosophy has worked for Seix, which Sherman said "hasn't had a down year in our 11-year history."

At present, Seix is managing $6 billion in bond debt and $3 billion in high yield loans. That latter figure, which includes $2.4 billion worth of collateralized loan obligations (CLOs) and $600 million worth of institutional loans has been reached in just three years, says Sherman.

Sherman said that with the loan strategy, as with the bond strategy, the approach at Seix is very company specific and research intensive.

"We have nine analysts covering 2-4 industries each," he explained. "And each one is expert in those areas. For example, we have an M.D. covering health care, and a chemist covering the chemical industry."

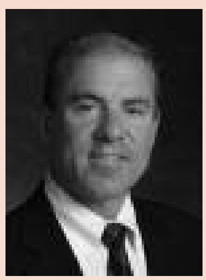
The process of picking loan investments has five factors, Sherman said. The first thing the analysts look for is improving cash flow, accompanied by de-leveraging activity.

"We don't just want to see good cash flow," he explained. "We want to see management applying that cash flow towards reducing debt, not towards acquisitions."

Next is a seasoned management team. Here, Sherman said that Seix's size opens doors.

"Being one of the largest high yield fund managers out there tends to get us access to company executives," he said. "It's one of the advantages of size."

The third factor is defined liquidity sources. Does a company have an adequate bank line and friendly relations with the debt market, so that, as Sherman puts it, "if there's a bump in the road, they'll have access to help."



Bob Sherman

Fourth comes asset protection.

"This is where we look at things like assets relative to debt outstanding."

Finally, the companies have to be strong competitors in their market.

"We're looking for companies that have something that makes them special, that are in strong competitive positions within their particular market," Sherman said. "We are not bottom feeders."

Typically, Seix limits any individual loan to 1-2% of a portfolio, with 3% being the upper limit. The strategy also has industry constraints. For example, if an industry represents more than 5% of the overall market, loans from that sector can represent no more than 2.5 times that percentage, or 12.5% of the overall strategy's investments. In the case of smaller sectors—say a sector that is only 1% of the overall market—then the upper limit for the strategy is the index percentage plus 5%. These limits have produced a current strategy that is 30% invested in telecoms, 12% in health care and just 1% in energy.

"We are heavily focused on sectors that are non-cyclical," Sherman said. "It's a precaution for what could be a long or deep slowdown."

The firm's investments are nearly all in the domestic U.S., and even when in Canada or Europe, are U.S. dollar denominated. There are a total of 125 issuers represented in the strategy's holdings, and 250 separate issues.

So why should investors consider a bank loan fund, instead of a more common bond fund?

"The bank loan index has outperformed short-term bonds, the NASDAQ, the Russell index—it's a very strong performer," said Sherman.

What about the credit crisis, which has seen record foreclosures, bank failures, and even the near collapse of **Bear Stearns**?

A white paper just put out by Seix argues that after a rough first quarter, the bank loan sector has rallied strongly, with demand growing, especially from non-traditional investors faced with continued volatility in other asset classes.

To Sherman, the current environment presents an opportunity.

"Since we're known for our conservative approach," he explained, "we're doing quite well."

***Bob Sherman** joined **Seix Investment Advisors** 11 years ago after working as senior VP and director of Marketing & Client Service at **Daiwa International Capital Management**. He earned a degree in finance from the **University of Connecticut**. The firm specializes in fixed income investments and manages about $21 billion for institutional clients.*