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## FACE TO FACE: John Kim

# Against the grain

NYLIM chief sees having insurance company parent as a strength during the tough times money managers are now experiencing

By Douglas Appell

**D**ire economic conditions are forcing many financial conglomerates to rethink their commitment to the money management business, but John Kim is swimming against that tide. After two decades heading up investment operations for insurance giants such as Aetna Inc., CIGNA Corp. and Prudential Financial Inc., Mr. Kim took the helm at New York Life Investment Management LLC in April 2008.

Investment bankers are of two minds when contemplating growth prospects of NYLIM, which owns five other money management shops. On the one hand, parent New York Life Insurance Co. emerged from the turmoil of the past two years with its AAA rating intact and ample capital to back up plans to expand money management operations. On the other, the same conservative culture that guided New York Life through the storm has made it a cautious player on the money management mergers and acquisitions scene, bankers say.

While conceding the organizational challenges of being an insurer-owned money manager, Mr. Kim predicts the recent market collapse will play to the strengths of being affiliated with a strong, well-capitalized parent such as New York Life. "We believe we were built for times like this," he said.

**Some argue that insurers and money managers don't mix well. You've spent your career at that intersection.** The real (challenge) is accepting the "tax" imposed upon an entrepreneurial culture of an asset management boutique by a large insurance company, while taking full advantage of the

positive attributes of being owned by a large institution. ... What we've experienced over the past nine months is a change in the tide, where being associated with a financial institution that is well capitalized, that's branded as a strong, conservative company, is going to be a huge

source of strength for an asset management firm. ... The crash of 2008 has made an indelible impression in the minds of investors — that they really should rein in their risk postures and align with institutions that are thinking thoughtfully about long-term value creation as opposed to near-term alpha generation.

**But the flipside of that coin is being less nimble.** Absolutely. In the best of all worlds, you'd want investment professionals to be as unconstrained as possible. I fight that tape all the time. The real genius in leading asset management organizations going forward is to take advantage of all the positive attributes (of being owned by a strong, conservative financial institution), but always be cognizant of what makes money management businesses strong. (When) I joined 15 months ago, one of the first things we did was reaffirm (our) multiboutique orienta-



William Neumann

tion — a structural guard that allows us to have entrepreneurial organizations and cultures, yet be appropriately aligned to the larger institution.

**NYLIM owns 100% of its boutiques, but in the past, you've said money managers should have equity in their firms.** That was a core tenet of why Aeltus (Investment Management Inc., an Aetna money management unit that Mr. Kim headed a decade ago) was successful. You are singing off the same page of the hymnal. I've gotten a commitment from the CEO of New York Life, Ted Mathas, and the vice chair, Gary Wendlandt, who was actually in this role a few years ago; all three of us are committed to creating an equity-oriented plan for each of our boutiques. We're in the process of working on that.

**Is there anything else in the works to promote an entrepreneurial culture?** (NYLIM bond subsidiary MacKay Shields LLC's recent acquisition of a municipal bond team from Mariner Investment Group and its adoption of four mutual funds with a combined \$750 million in assets from Epoch Investment Partners) are two examples of how a larger organization like New York Life can support the entrepreneurial growth aspirations of a MacKay Shields. We're providing the capital for them to buy assets, hire teams and the like. ... We think this is the best of both worlds: We have a very entrepreneurial culture and operating model, and we're infusing more resources to make them even stronger.

**You've shifted McMorgan & Co.'s fixed-income assets to MacKay Shields, and shut down MacKay's domestic equity strategies. What's the plan?** McMorgan has been a very good franchise for the Taft-Hartley segment over the years. It has suffered a fair bit of asset and client erosion, and ... the fixed-income capability of MacKay Shields was so much better than what was available within

the McMorgan organization. It was a fairly easy decision for us to basically have McMorgan continue as a strong packager and distributor and relationship manager for the Taft-Hartley segment, but outsource the core of the asset management function to a best-of-breed competitor, which happens to be a sister organization ... That was a pragmatic business decision, that was a win-win for our organization and our clients.

**Are you looking to be like other multiboutique firms, such as BNY Mellon, which offer a full range of investment capabilities?** No. I believe at the core, especially in the mutual fund marketplace, to be successful strategically and financially you have to manage most of the (strategies) that you offer. But we also recognize, especially when dealing with non-captive, third-party distribution entities such as wire houses, that having a comprehensive, open-architecture best-of-breed product lineup is important. For the mutual fund world, we want to have the full representation of the best-in-class asset classes, including external subadvisers ... For the core asset classes, where most of the asset flows come from — large-cap equity, growth, value, core international and global products, core fixed income, including municipals — we want to manage those products ourselves. So we have a non-core, core delineation.

**What trends do you see on the institutional side?** When it comes to beta-alpha separation, I would posit that the (search for) cheap beta and high alpha will continue for the foreseeable future. Hedge funds will remain a durable asset class (as will private equity and real estate equity.) I think the next evolution of liability-driven investing

## SNAPSHOT:

### John Y. Kim

- ▶ **Current position:** President and CEO, New York Life Investment Management LLC
- ▶ **Assets under management:** \$234 billion as of May 31
- ▶ **Employees:** 1,494
- ▶ **Age:** 48
- ▶ **Education:** BBA from University of Michigan; MBA, University of Connecticut
- ▶ **Personal:** Married, three children
- ▶ **Interests:** Golfing (member of USGA executive committee)
- ▶ **Performance** (as of June 30):

#### MacKay Shields High Yield Active Core

One-year return: 3.15%	Benchmark: -3.53%
Three-year return: 4.93%	Benchmark: 1.81%
Five-year return: 5.77%	Benchmark: 4.10%

#### Institutional Capital Select Equity

One-year return: -22.36%	Benchmark: -26.21%
Three-year return: -5.90%	Benchmark: -8.22%
Five-year return: 1.72%	Benchmark: -2.24%

#### MacKay Shields Core Plus Bond

One-year return: 7.12%	Benchmark: 6.05%
Three-year return: 6.83%	Benchmark: 6.43%
Five-year return: 5.57%	Benchmark: 5.01%

Benchmarks, respectively: ML US High Yield Master II; S&P 500; Barclays Capital Aggregate

will provide some guarantees that perhaps may be out of the money that an insurance company or some other financial institution can underwrite.

### Are you in the market for big acquisitions?

We're generally looking at small to midsize opportunities, with three areas of focus. We really want to grow our mutual fund franchise, to be a top 20 franchise for the MainStay Funds ... That's probably our No. 1 aspiration: to buy a midsize mutual fund complex that we can merge into the MainStay chassis. ... On the institutional side, we'd love to develop a relationship with a boutique that specializes in large-cap domestic growth, and buy an international manager; (possibly) an overseas manager that offers asset management capabilities, but also international distribution. ■

For complete performance and other composite information please see the following links:

For MacKay Shields Core Plus Bond:

<http://www.mackayshields.com/disclosure/CP.pdf>

*Please note that the returns mentioned in the article for the High Yield Active Core product as of 6/30/09 were preliminary. Final returns are reflected via the attached link.*

For MacKay Shields High Yield Active Core:

<http://www.mackayshields.com/disclosure/HYAC.pdf>

For Institutional Capital Select Equity:

(please see composite information attached separately below)

The S&P 500 Index is an unmanaged index that is widely regarded as the standard for measuring large-cap U.S. stock market performance

The Merrill Lynch High Yield Master II Index (H0A0) is a commonly used benchmark index for high yield corporate bonds. It is administered by Merrill Lynch. The Master II is a measure of the broad high yield market, unlike the Merrill Lynch BB/B Index, which excludes lower-rated securities.

The Barclays Capital (BC) (formerly Lehman Brothers) U.S. Aggregated Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade or better fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

An investment cannot be made directly into an index.

Past performance does not guarantee future results.

**INSTITUTIONAL CAPITAL LLC  
SELECT EQUITY COMPOSITE  
ANNUAL DISCLOSURE PRESENTATION**

<b>Year End</b>	<b>Total Firm Assets (millions)</b>	<b>Composite Assets (USD) (millions)</b>	<b>Number of Accounts</b>	<b>S&amp;P 500 (Inc Div)</b>	<b>Russell 1000 Value (Inc Div)</b>	<b>Annual Performance Results Composite Gross</b>	<b>Annual Composite Dispersion</b>
2008	12,175	4,700	21	-37.00%	-36.82%	-37.02%	0.21
2007	18,358	6,101	23	5.49%	-0.17%	7.83%	0.10
2006	18,236	4,558	18	15.80%	22.25%	21.67%	0.15
2005	12,969	1,900	15	4.91%	7.05%	10.77%	0.55
2004	12,697	1,216	16	10.88%	16.49%	18.92%	0.39
2003	12,658	653	10	28.68%	30.03%	41.90%	0.60
2002	10,224	443	10	-22.10%	-15.52%	-24.80%	0.38
2001	13,717	553	7	-11.89%	-5.59%	0.03%	0.74
2000	14,895	459	6	-9.11%	7.02%	11.86%	1.06
1999	12,169	24	1	21.04%	7.34%	28.05%	0.00

**Select Equity Composite**

As of December 31, 2008, the Select Equity Composite had 21 portfolios and was valued at \$4.7 billion. This represented 39% of the firm's assets under management. In the Select Equity mandate, position sizes generally do not exceed 10%. A portfolio in this concentrated mandate typically holds 20 to 30 names. Positions are trimmed or expanded regularly, which may result in turnover of 100% to 200% annually. Accounts managed by ICAP for less than one full month and accounts with severe client imposed restrictions on investments in certain securities or industries are excluded from the composite. Actual performance in a particular client account may vary. The performance of ICAP's composite reflects the reinvestment of dividends, interest and other earnings. The annual composite dispersion presented is an asset-weighted standard deviation calculated on the accounts present in the composite for the entire calendar year. The Select Equity Composite contains fully discretionary large cap value accounts and for comparison purposes is measured against the S&P 500 and Russell 1000 Value indices. Performance of ICAP's composite is presented on a gross of fees basis (before the application of investment advisory fees). ICAP's investment advisory fee structure is described in Part II of its Form ADV, a copy of which is available on request. Annual advisory fees for an account at ICAP's minimum separately managed account size are generally based on the following schedule:

<u>AUM</u>	<u>Annual Fee</u>
First \$25 million	0.625%
Next \$25 million	0.50%
Over \$50 million	Negotiable

Fees and other expenses the client may incur in connection with the account will reduce actual results. Compounded over the five-year and since inception, December 31, 1999, periods, fees at that rate would reduce annualized returns by 0.63% and 0.66%, respectively, for the Select Equity Composite. Actual results for a particular client account will depend upon the fee structure applicable to the account and any restrictions imposed on the account. Past performance is not necessarily indicative of future results, and it should not be assumed that future recommendations will be profitable or will equal the performance achieved by past investment decisions.

Institutional Capital, LLC. has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®).

Institutional Capital, LLC. is an independent registered investment adviser. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. The firm maintains a complete list and description of composites, which is available upon request.

The U.S. Dollar is the currency used to express performance. Returns are presented gross of management fees and include the reinvestment of all income. Additional information regarding the policies for calculating and reporting returns is available upon request.

The Select Equity Composite was created December 31, 1997. Institutional Capital, LLC's compliance with the GIPS standards has been verified for the period beginning 1/1/98 through 03/31/09 by Ashland Partners & Company LLP. In addition, a performance examination was conducted on the Select Equity Composite beginning 1/1/98. A copy of the verification report is available upon request.