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Are your PMs crash tested? Probably not

John Coumarianos / 26 March, 2020

We dig through our database of 5,037 portfolio managers to see how many invested through the last financial crisis.

There are fewer current mutual fund managers who have experience of a bear market than you might think.

That's partly the result of a bull market that lasted 11 years and partly the result of the fact that manager turnover in the fund industry is high.

It's hard to know if turnover is higher now than usual, but there's no doubt that active management has been under pressure as gobs of capital flock to index funds. Jeremy Grantham said that managers have 'exactly 3.0 years' to prove themselves until their clients fire them. One could alter Grantham's phrase without losing much of its veracity by substituting managers for fund companies feeling the heat from indexing.

The question of a long cycle and disenchantment with active management aside, we ran data on manager tenure and came up with some interesting numbers.

First, of the 5,037 mutual fund managers in Citywire's database only 24% of them navigated their current fund through the financial crisis of 2008 from the previous market peak in October 2007. A slightly greater number of current managers – 26.7% -- list their tenure from the start of the last bear market in July 2008. And 29.7% of current managers have been tenured since the last bear market's bottom in March of 2009.

Good company

Of larger funds companies, those with more than 20 managers, only one firm, Affiliated Managers Group (AMG), could boast that half of these had tenures stretching back to the 2007 market peak. AMG had 23 of 48 managers with tenures dating back to the pre-2008 market peak. But AMG isn't an ordinary asset manager. It's a company that purchases and holds majority stakes in boutique managers, giving their founders an option to cash out while still running their firms. And, as we'll look at shortly, boutiques tend to have lower manager turnover and so more PMs who have been in place since the start of the last crisis.

Among more traditional larger asset managers with more than 20 managers, Loomis Sayles, Franklin Templeton, and John

How the biggest fund groups fare

Group	PMs Tracked	Active in October 2007	Percentage
Fidelity Investments	135	22	16.3%
J.P. Morgan Asset Management	91	35	38.5%
BlackRock	85	12	14.1%
Dreyfus Corporation	75	20	26.7%
Invesco	74	22	29.7%
Legg Mason	73	25	34.2%
Franklin Templeton Investments	70	31	44.3%
Columbia Threadneedle Investments	70	21	30.0%
John Hancock Group	68	28	41.2%
Wells Fargo	66	24	36.4%
PGIM Investments	66	18	27.3%
T Rowe Price	66	17	25.8%
Goldman Sachs Asset Management	61	12	19.7%
Neuberger Berman	60	17	28.3%
American Century Investment Management	59	19	32.2%

Source: Citywire Discovery

Hancock all have more than 40% of managers today with tenures dating back to October 2007.

The very largest firms tended to have lower percentages of long tenured managers. Of Fidelity's 135 managers, 16% were managing funds for the firm at the 2007 market peak. JP Morgan does better with 39% of its 91 managers stretching back that far. BlackRock has 14% of its 85 managers and T. Rowe Price has 26% of its 66 managers with tenure from the pre-crisis peak.

There are some notable boutique firms whose managers all saw their current funds through the last crisis and bear market from the peak of the last bull market. They include Tweedy Browne Company. The firm began as a broker to small, thinly-traded, out-of-the-way stocks in which Benjamin Graham trafficked, and acted as Warren Buffett's broker in the purchase of his first shares of Berkshire Hathaway.

Today, Tweedy Browne manages value funds including Tweedy, Browne Global Value (TBGVX). Two of the fund's managers, William Browne and John Spears have led the fund since mid-1993, and a third, Thomas Shrager, joined Browne and Spears at the end of 2003.

Category concerns

When manager tenure was looked at on a category basis, the Europe Stock category boasted the highest percentage (68% or 15 of 22) of managers with tenures dating back to the pre-crisis peak.

Next, almost all the municipal bond categories followed Europe Stock. Muni fund managers find it hard to get fired, really enjoy what they do, or both.

It is worth pointing out that all categories with 60% or more managers tenured since before the last crash were small categories, with fewer than 35 managers today.

Of those categories with more than 100 managers running money today, manager retention rates are unsurprisingly lower. Of these, the best performer was Small-Cap Growth (43.9% of 262 managers), followed by Mid-Cap Growth (40% of 250) and Large-Cap Growth (39.9% of 451).

Perhaps that owes to how well growth has performed over value for the past 10- and 15-year periods. While many of these managers have likely lagged their indices over this time, they will not have lost clients money and thanks to market appreciation their funds will have grown in size, keeping their employers happy.

Categories with the lowest percentage of managers with long tenures were liquid alternatives. That data can be skewed, however, by the fact that there are likely more liquid alternatives funds now than there were in 2007.

Less than 20% of Emerging Markets Bond funds, Ultra Short bond funds, and Short Term Bond Funds have managers who navigated through the last bear market. Ultra Short and Short Term bond funds struggled during the financial crisis with poor quality mortgage-related debt in an effort to capture extra yield, which might have put paid to a few careers.

Turnover in more popular categories

Category Name	PMs Tracked	Active in October 2007	Percentage
Equity - Small Growth	262	115	43.9%
Equity - Mid-Cap Growth	250	100	40.0%
Equity - Large Growth	451	180	39.9%
Equity - Small Value	171	68	39.8%
Equity - Mid-Cap Blend	166	66	39.8%
Bonds - Muni National Interm	153	60	39.2%
Equity - Large Value	416	151	36.3%
Equity - Foreign Large Value	129	46	35.7%
Equity - Small Blend	302	100	33.1%
Equity - Large Blend	443	140	31.6%
Mixed Assets - Allocation --50% to 70% Equity	257	80	31.1%
Equity - World Large Stock	348	108	31.0%
Bonds - Intermediate Core-Plus Bond	218	65	29.8%
Equity - Mid-Cap Value	135	40	29.6%
Bonds - High Yield Bond	277	78	28.2%
Bonds - Intermediate Core Bond	181	50	27.6%
Bonds - Multisector Bond	163	45	27.6%
Bonds - Short-Term Bond	244	66	27.0%
Mixed Assets - Allocation --70% to 85% Equity	132	35	26.5%
Equity - Foreign Large Blend	209	55	26.3%
Equity - Foreign Large Growth	154	38	24.7%
Mixed Assets - Allocation--30% to 50% Equity	173	42	24.3%
Bonds - Bank Loan	117	28	23.9%
Equity - Diversified Emerging Mkts	322	74	23.0%
Bonds - Ultrashort Bond	103	23	22.3%
Mixed Assets - World Allocation	145	26	17.9%
Liquid Alternatives - Nontraditional Bond	144	25	17.4%
Bonds - Emerging Markets Bond	118	20	16.9%
Mixed Assets - Tactical Allocation	119	17	14.3%
Liquid Alternatives - Long-Short Equity	131	17	13.0%
Liquid Alternatives - Multialternative	161	8	5.0%

Source: Citywire Discovery

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