MADE TO MEASURE

FROM FUNDS TO FURNITURE, WILMINGTON TRUST’S TONY ROTH TAKES A BESPOKE APPROACH
In an era of instant gratification, long-term investors are an increasingly rare breed. While the world around them collects Facebook friends and buys bitcoin, the long-term investor is offered no such rapid reaffirmation in their professional life. Instead, they must wait years to see whether a manager selection or an asset allocation was the right one. Perhaps this helps to explain the unusual hobby pursued by Tony Roth, chief investment officer at Wilmington Trust.

When he’s not meeting managers, building buy lists or managing models, Roth can be found in his workshop crafting bespoke furniture by hand. ‘I really like to do things with my hands, so whether it’s sailing or woodworking or photography or gardening, I find it to be very satisfying to do things with your hands where you get immediate feedback,’ he says. ‘It’s not the kind of thing that comes from work. Work is usually very intellectual and the feedback takes a very long time. I feel like this is a really helpful counterbalance to the uncertainty of work.’

Some of this uncertainty can be controlled by the same skills that serve Roth so well in his woodwork – careful planning and constant attention to detail. They helped him in his first job on Wall Street, running the wealth management group at Sanford Bernstein in 1999. It was here that he put his planning to good use in building an advanced asset allocation model that would later evolve into the Bernstein Wealth Forecasting System, which is still in use today.

After spells at Bear Stearns, UBS Wealth Management – where his responsibilities included manager research, portfolio strategy and asset allocation – and Aquitaine Management, he joined Wilmington Trust in October 2015.

Today he oversees the firm’s $50 billion wealth management platform, which offers advisors around 30 separately managed account strategies, around 75 mutual funds and between 15 and 25 exchange-traded funds (ETFs).

He is also responsible for the firm’s discretionary customized portfolios, which are available to clients with assets of $3 million or more.

Beyond his love of woodworking, Roth has two law degrees – one from Harvard Law School and another from the Sorbonne in Paris. It certainly sets him apart in manager research, and he looks for the same quality – having something different to offer – in managers for his platform and portfolios.

‘We look for managers that have a distinctive story around what they are going to do in the portfolio that they manage, that is coherent and differentiated from what we typically hear,’ he says. ‘We like to see long tenures of portfolio managers. We like to see portfolio managers who have meaningful portions of their own money in the portfolio that they are managing. And we like to see stable organizations.’

When searching for new managers, Roth and his team start with a large database such as Bloomberg, Morningstar or Lipper. They then whittle this universe down with quantitative criteria, placing a particular focus on factor attribution.

‘From the quantitative part, we are looking for consistency of performance and adherence to style. We don’t want to see managers that are drifting across styles,’ Roth says. ‘Most importantly, we perform factor analyses and factor regressions to understand whether or not the manager is really adding skill-based

VICKY GE HUANG

After two decades in the industry, Wilmington Trust’s Tony Roth knows the value of a carefully planned approach

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NEW FOCUS

Beneath the long list of managers the team already works with, Roth says he is always adding good managers in the domestic and international small-cap space due to strong demand and capacity constraints. However, he says the team is having a harder time finding quality managers for another equally popular category: environmental, social and governance (ESG) investing.

Roth explains that the difficulty comes in finding managers who meet clients’ ESG criteria and return expectations.

‘We are seeing a fair amount of demand for ESG but we are not providing those solutions,’ he says. ‘We generally haven’t found much out there where we can demonstrate these opportunities don’t require a meaningful compromise on investment performance.’

As traditional active managers come under increased pressure from passive funds in terms of both price and performance, many gatekeepers are placing a greater focus on quantitative criteria alone. Not only is it an opportunity for active managers to prove their worth, but it also adds value.

‘It’s more common to find the kind of manager we are looking for in small boutiques, but that doesn’t mean that someone can readily move to a larger platform,’ Roth says. ‘The challenge for us is to find those managers that have a track record and that are providing those solutions.’

Despite all these filters, some manager picks will inevitably have periods of underperformance. This is where resources and communication come into play, Roth argues.

‘When you start to get into situations where performance is not as strong as you might have wanted or is really bad, and you start to ask questions, and the firm is not able to provide timely answers in a written format that are clear – that’s usually a signal for us that the firm doesn’t have enough resources.’

Roth remembers just such a case with two managers from the asset management arm of a global investment bank. ‘The managers were running billions of dollars in an equity strategy, but were particularly hard to access, with meetings having to be scheduled well in advance just to understand how they were allocating the portfolio,’ Roth says.

‘They were very restricted in their time with us and there were certainly others like us who were demurring their time,’ he says. ‘He adds that accessibility and good communication mean he often gravitates toward smaller shops to find managers.

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Teams in the past have been composed primarily of investment professionals who have spent more than a decade at some of the most prestigious fund families.

‘As they have moved on, we have been able to bring in more people from outside,’ Roth says.

‘We are looking for managers out there that are going to benefit from a list of the disruptions happening right now across the economy,’ he says. ‘So, for example, one of the areas in the economy right now that has a lot of disruptions is digital security.

Although he thinks there is a lot more alpha to be had in private equity than in the public markets, the trick is to pick in early whereas he’s looking. ‘It’s really threading the needle to find managers that have a track record and that are not too big. Because once they get too big, it’s harder to get the money to work,’ he says.

‘Some of the managers we’ve been looking at with track records, they’ve been doing it for 20 years now, so it’s something we’ve become very aware of. But there are coupling things that are specialists in the space that have decades of experience, and that’s kind of special value that we can bring to the table that you are not going to find with a typical company.’

GOING ACTIVE

Having been in the industry for almost two decades, Roth has witnessed the shift from active to passive first-hand. But he still believes there are areas of traditional active management that will continue to prove merit.

‘It has been a bit harder for managers to add value. I think clients have been much more aware of cost and the need for managers to add value, so we’ve been spending a lot more time making sure that these managers are adding value after cost,’ he says.

‘And we’ve been much more accepting about including ETFs in portfolios where we haven’t been convinced that active managers can add value. So we look at our portfolios, and if it’s 70% actively managed and 30% passive. When we started off 20 years ago, it was all active.’

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