MESIROW FINANCIAL’S BOB MARTIN AND SUMIT DESAI HAVE A LOT OF QUESTIONS... JUST ASK THE MANAGER WHO TOOK THREE YEARS TO GET ON THEIR BUY LIST
A shareholder letter from 20 years ago might not seem important, but Mesirow Financial’s Bob Martin and Sumit Desai examine all the evidence to uncover the truth behind a manager’s track record.

perhaps they are not so unfortunate after all. Still, three years is a lot of due diligence, and you could forgive the manager in question if they never wanted to see Mesirow’s gatekeepers, Bob Martin (left) and Sumit Desai, ever again.

‘At its core, investment success is determined by investing in high quality businesses that are trading at attractive valuations,’ Desai says. ‘We often spend a lot of time with the portfolio managers that we’re reviewing and go into the models that they're building to understand how they're coming to the assumptions and the conclusions that they’re coming to, as a way of understanding how much of an role valuation actually played within their processes.’

Here, ‘a lot of time’ means anything between six months and three years, and most of that time is spent interrogating managers’ models and how they have reached their track records.

‘Quantitatively, it’s easy to find managers with successful historical track records, but the challenge is in understanding whether those track records were achieved in a way that is repeatable,’ Desai explains. ‘A lot of that repeatability comes from understanding the culture of the firm, how they go about analyzing companies and stocks, how the analyst team is structured, and how information flows across the team to help make decisions.’

GOING IN-DEPTH

Together, Desai and Martin are responsible for building the firm’s open architecture platform of 20 handpicked actively managed strategies. These are then used by Mesirow’s 35 wealth advisors and seven wealth specialists, each of
GETTING HANDS-ON

Their process is not just time-consuming for the manager under scrutiny though. Martin and Desai also suffer for their art, particularly on the qualitative side of their work. They once spent several weeks reading 25 years’ worth of letters to shareholders from a single portfolio manager, cross-referencing against the manager’s holdings over time to assess whether the manager was really doing what they said and whether the expressed process and philosophy held up over investment cycles.

“We try to get a sense of how that fits, how that suits the current investment landscape, and whether it’s something that we think is persistent and will continue to work over time,” Martin says.

The portfolio manager in question had spun off from a larger firm to start their own boutique with a focus on managing variations on a single strategy.

“We requested that they pull out all the shareholder letters that they could, and there were shareholder letters going back to the early ’90s that we put together in a book. It was almost 150 pages of shareholder letters,” Martin recalls. “I literally read through them all and earmarked items that stood out to us. Then we had an initial meeting with the manager where we sat down and questioned them about their investment strategy in 1998 when the market was like today. When they provided us that backlog of shareholder letters, they didn’t expect us to read through them all, let alone flag things from 15 or 20 years ago to review with them,” he adds.

CONSISTENT PERFORMERS

As time-consuming as this extra work can be, Desai says the fruits of their labor lie in spotting consistency — or the lack thereof — in managers.

“In one case, a manager said they were focused on finding quality businesses but then started talking more about macroeconomic factors and how they would position the portfolio differently if they thought there was a recession coming,” Desai recalls. ‘That wasn’t consistent with what they originally said, or what we were looking for.’

He explains that because of the value that he and Martin saw in open and transparent communication, the team appreciates those managers who write letters explaining their theories on the individual holdings that they’re buying and selling.

While transparency and consistency are important traits, Desai and Martin have also come to value the independence of employee-owned firms, smaller boutiques and breakaway managers, which they believe not only have the potential to deliver future outperformance but also to create alignment of incentives.

“We want business owners. We want people who understand what it means for an underlying business to create value and who really have that long-term focus,” Desai adds.

Although it can be risky to bet on such managers at the very beginning, Martin says they often examine the manager’s past accomplishments and then try to assess how the strategy might fit into Mesirow’s advisors’ portfolios.

Martin recalls one such manager who had experience investing in hedge funds and private capital. The team had been following the manager for six years before they were added to the recommended list a little more than a year ago.

“This manager tends to invest in idiosyncratic ideas globally, so these are ideas that are very different than what you find in an index, very different from what you find in most other

$6 BILLION
OPEN ARCHITECTURE PLATFORM
7 WEALTH SPECIALISTS

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