Sales Hires Ahead for Rebranded Bond Shop

By Paul O'Dowd March 12, 2010

Cutwater Asset Management, the newly-restructured asset management division of **MBIA**, is launching an aggressive distribution campaign in an effort to grow its institutional business. The firm is looking to hire two salespeople covering investment consultants and Taft-Hartley pensions, and will also soon sign on a third-party marketing firm.

"Growing the [$5 billion] institutional business is a key focus for us," says **Clifford Corso**, CEO and CIO of the Armonk, N.Y.-based firm. "The theme here, from our perspective, is to be a strong fixed income asset manager for clients."

Last month bond insurer MBIA turned its $43 billion asset management division into Cutwater Asset Management – a firm that is still owned by MBIA but will now operate independently. Executives of MBIA have said they are moving the firm into a traditional holding company structure that allows individual businesses to operate as separate entities.

Despite Cutwater's $43 billion in assets, only $5 billion comes from defined benefit pensions and other institutional investors.

Corso feels he can ramp up institutional assets under management quickly due to the firm's solid performance. The firm's product line includes offerings like core-plus strategies, high-yield and closed-end bond funds, but Corso pays special attention to Cutwater's flagship core fixed income strategy.

This product, which has $4 billion in assets, has outperformed the **Barclays Capital** Aggregate Bond Index each of the past five years, according to the **eVestment Alliance** database. Over the last five years, the strategy modestly outperformed the index by 89 basis points; over three years it has outperformed by 138 b.p. and over the past year it beat its benchmark by 446 b.p.

Corso hopes to use that strong performance to help "multiply" the firm's institutional assets over the next three to five years. One way to do that is to hire an experienced third-party marketing firm that already knows the institutional space very well, he says.

"This should give us rapid entry into the market," says Corso. Such firms, he says, "tend to be established and made up of trusted marketers that have been picked up [by third-party shops] after many years working at a specific firm. That is who we want – trusted marketers that are choosing us as much as we are choosing them."

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So far, Cutwater executives have met with at least a dozen third-party marketing firms and have yet to make a final decision, although Corso says he has "narrowed the list" since the launch of the search.

In addition, the firm is looking to hire internal business development professionals covering the investment consultant and Taft-Hartley channels. These hires will join a sales and service unit that currently has four professionals. Cutwater salespersons also handle some client service responsibilities, Corso adds.

“We need someone to talk to consultants because there are currently a lot of institutional investors that are looking to replace their current fixed income managers due to performance,” he says. “And we want to position ourselves properly.”

Speaking with investment consultants and getting them to green light a firm’s products are two different things, however. **Chris Tobe**, a senior consultant at **Breidenbach Capital Consulting** and a former NEPC consultant, says breaking into the fixed income space is difficult right now because investors are looking to invest with “safe names” and larger firms – not necessarily smaller ones.

“It’s really difficult when you’re [of Cutwater’s size] because consultants are used to big and safe names,” he says. “And right now, a lot of the fixed income business is going with **PIMCO** because of the way they have performed. It’s been a no-brainer for many because it’s a safe move.”

For smaller fixed income firms right now that are trying to make a name for themselves, he suggests taking on niche products, such as mortgages, as this is a way to separate themselves from the pack.

As for the Taft-Hartley hire, Corso says this is an important position for the firm, but admits it will be difficult to fill. “This is a slightly unique type of client,” he says, adding the firm currently has a small presence in the space. “For this type of client, an investment manager must understand their specific needs.”

One difference that union funds might have from other institutional investors is their need to withhold certain companies from portfolios that are anti-union. “It is a market that is underserved and perhaps a little misunderstood,” he says.