TAG'S GROWTH CURVE

TAG Associates, a New York multi-client family office, rode out last year's market turbulence in part thanks to a commitment to hedge funds. Chief executive Stanley Pantowich talks to *HFMWeek* about TAG's investment strategy **BY MICHAEL S FISCHER**

TAG Associates, a multi-client family office and portfolio management services company in Manhattan with approximately $6bn of assets under management, has a much heavier concentration in hedge funds than many family office portfolio managers. This is why the firm's wealthy clientele fared better than other investors last year, says chief executive Stanley Pantowich. "If you were being advised by a more traditional investment firm/bank, you didn't have 40% of your portfolio in hedge funds; you had more in the stock market than we would have had," says Pantowich. TAG's stock market exposure as a general principal is 50% long/short managers and 50% long-only managers.

The firm offers two in-house funds of hedge funds (FoHFs), which the firm's clients can access at no fee. TAG Relative Value Fund requires individuals to have $5m in investable assets, while TAG Diversified Strategies was designed for smaller trusts and endowments, requiring $2m in investable assets. Both funds follow a similar strategy, which, according to Pantowich, is to earn a consistent rate of return without relying on the direction of the traditional stock and bond markets. The goal is to earn 90-day T-bill rates plus 4% to 6% over a full market cycle.

TAG also allocates to both outside FoHFs and individual hedge fund managers. The approved list of FoHFs includes Archstone, the Blackstone family of funds, Lanx, Larch Lane, Pan Ross and Robeco Sage. "We know the people who run those funds very well; we like them, we understand them, we trust them,"

THE TAG STORY

TAG Associates was formed in 1983 by Stanley Pantowich and two colleagues, all partners at Arthur Young (now Ernst & Young). Pantowich says he and his partners started the firm at the behest of Steve Ross, the founder of Warner Communications, who was their client at the accounting firm. He asked them to manage his financial affairs and those of half a dozen senior employees. It was not to be an exclusive arrangement, but Ross would make it worth their while to leave their partnerships at Arthur Young and start their own business with him as their anchor client. "I got a chance to do what I wished to do—deal with individuals," says Pantowich. "I had an offer I couldn't refuse. It was basically a five-year deal."

The partners' business plan was to quickly diversify the business beyond the wealthy half dozen initial clients. Today TAG employs 71 senior service coordinators, portfolio management professionals, accountants, bookkeepers and administrators. "We're still in the Warner Communications building, though it's no longer Warner Communications."

The firm's typical client today is a first-generation entrepreneur, and 70% of clients come from the New York metropolitan area. "We say we're in the stay-rich business; we're not in the get-rich business," says Pantowich. "We don't like risky things; we're not good at it. The people we've hired have the same general philosophy."

says Pantowich. "Also, very typically in investing in individual hedge funds, we like dealing with a name, not with an institution. Some of those names have gotten very big, but I can still call the guy who started the firm."

To help offset risk, TAG invests 7% of its FoHF assets in an "insurance bucket"; managers who will make money in a down market and, it's hoped, won't lose a lot in a flat-to-up market, says Pantowich.

Pantowich describes portfolio construction through the example of a $100m portfolio of a client who is happy making 7% or 8% a year, who doesn't want to lose a lot of money, but isn't interested in being 100% municipal bonds. TAG concludes that 40% of the portfolio belongs in hedge funds, about 20% in very liquid bonds and the remaining 40% in a mixture of long/short hedge funds, long-only investments, private equity and real estate.

To invest the 40% hedge fund allocation, or $40m, TAG might put $7.5m in each of three FoHFs, one of which might be an in-house fund. Each FoHFs would be invested in some 30 underlying managers. TAG would then complement those three core funds with single hedge funds selected for strategies that make sense in the current investment environment. "Today, we think the best upside risk/return relationships are in credit strategies, and the lowest risk, decent return investing is in the merger and acquisition space," says Pantowich.

INDEED, PANTOWICH CAN'T GET enough of credit. "Credit, credit, credit, credit – 16 different ways: convertible bonds, senior bank debt, distressed debt, mortgage-backed..." He especially likes the Debtor in Possession Loan Fund recently offered by Sankaty Advisors, the fixed income affiliate of Bain Capital.

And at the opposite end of the spectrum? "I'm scared of the stock market," he says. "I've been wrong for a while, but I'm not changing my tune. I think it's overvalued and due to tank. If our classic investment would be 20% to 30% in the stock market, it's half that today."

Pantowich says that the only complaints he's hearing from his clients are along the lines of: "Why aren't we more in the stock market? How come my portfolio is up only 10% through September 30, and if I had all my money in the stock market, it would be up 20%."

To which he responds: "If you'd had that same allocation to the market last year, you would have been down 30% and you were down only 16%." TAG Relative Value Client Fund lost 15.9%, according to BarclayHedge, which compares with a loss of 22.2% for the fund-of-funds index. This year, the fund is up 8.7% through August, compared with a 7.0% gain for the index.

Pantowich says that TAG's relationships with its outside managers have undergone a "sea change" over the past year. "We have demanded better liquidity and gotten it, from both individual managers and FoHFs." He says TAG was invested mainly in domestic hedge funds, which typically offer less friendly liquidity terms than offshore ones. "We would see that a domestic FoHF had annual liquidity and the offshore version of that fund [for TAG's foundation and IRA clients] had quarterly liquidity. It would bother us, but we couldn't get any action until we said we were going to take our money out. And many have changed."

Pantowich says that when the crisis became acute a year ago, TAG was gated by some good funds, "and not happily so." Several had more illiquidity than they should have, while others were top performers—"which meant everyone wanted their money from them." He says TAG always wanted to know how much its managers had invested in illiquid securities. "Reporting is quarterly, and we thought 10% was not a bad thing, but when people came in for redemptions, 10% became a big thing."

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> STANLEY PANTOWICH, CHIEF EXECUTIVE, TAG ASSOCIATES

Things are different now. "We're making demands today for better and more frequent reporting, and third-party administrators, which many people didn't have. We have walked from people who didn't do it, even though we had ultimate trust in them. We're a fiduciary; we can't be accused of not doing the little stuff."