Emerging Manager Monthly
A Publication of Financial Investment News
November 2015 www.emergingmanagermonthly.com Vol. X, Issue 11

Texas County MTA Plans To Include Emerging Mgrs. In All Searches

A Texas-based transit authority will now require at least one emerging asset management be included in every manager search conducted by its two pension funds going forward as part of a move that its chairman hopes will spur other institutions to recognize that quality firms are being ignored by the investment consulting community.

The $231 million Metropolitan Transit Authority of Harris County (Texas) Union Pension Plan and $148 million Metropolitan Transit Authority of Harris County Non-Union Pension Plan & Trust will now require women-, minority- and disabled-owned firms or managers with less than $1 billion in assets under management to be included in every asset class search.

The new process was led by MTA Chairman Gilbert Garcia, managing partner of Houston-based investment manager Garcia Hamilton & Associates, a minority-owned firm with more than $6 billion in assets across domestic fixed-income and growth equity.

Garcia says he decided something needed to be done when he saw statistics that showed that the 20 largest consultants advised on nearly 90% of total institutional assets and in the fixed-income space, the top 20 firms manage more than 70% of total assets.

"If consultants will go the extra mile, I think everybody wins and, in today's environment, these pension funds have to go the extra mile because they need to find the alpha to meet their return assumptions in a low return environment," Garcia said.

Pension Trustee Jason Simpson said in a statement that, "Not only will we be reaching a greater depth of managers, but the opportunity given to women and minority managers is immeasurable. We know this is a positive move and hope this will lead to change within the industry on a national level."

The plans are calling the rule the "Garcia Rule" after Garcia, borrowing from the National Football League's Rooney Rule, which requires minority candidates to be considered for head coaching and other front office positions.

Ruby Dang, partner and director of marketing and client services at Garcia Hamilton and a trustee on the Harris County MTA pension board, said in the past that emerging managers have been afraid to speak up because of fear of repercussion from the investment consultant universe but that Garcia Hamilton's size has provided it with the ability to "do the right thing for the industry and have the courage to move forward."

Gilbert Garcia

"This is not about us at all, it is about the industry and if we have to be the first ones to step out and if that has negative repercussions, we think it is the right thing to do," Garcia said. "We are now getting found. It is really about the others that aren't critical mass yet whose performance isn't getting found."

Dang said the trustees see the importance in their role, which is to get the best return for the participants. "I think in showing how smaller firms can probably exploit markets differently and can generate alpha, the trustees were thrilled," she said.

Garcia said that it will take some time for the Garcia Rule to have an impact on the MTA plans as they move through an asset allocation review with new consultant Marquette Associates but that with time, he fully expects positive results.

Ultimately, it is the hope that other plans, particularly larger institutions, will follow the MTA's lead. "For a plan that is of substance in size, to step out and do something like this, that will really move the needle," Garcia said.

"The managers win because they get exposure to the plans, they get exposure to the consultant, the plans win because they probably see some players they would not have seen otherwise…and the consultants win too because if they also through this process find undiscovered firms that may not have hit their radar before that are firms they can bring to all their clients," Garcia added.