

# Pensions & Investments

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F A C E T O F A C E

## HEAD NORTH

**T**wo years ago, Robert P. Morgenthau and a team of six investment and sales professionals started NorthRoad Capital Management LLC. Mr. Morgenthau had spent 10 years at Lazard Asset Management, New York, starting in 1990 as a portfolio manager. When he left in 2000, he was managing director and global head of marketing and distribution. (His six partners at NorthRoad all had worked at Lazard as well.) He said he decided to leave because he was weary of traveling overseas every six weeks and also wanted to try life at either a very small or very large firm. (Lazard manages \$70 billion.) After taking off 11 months to get to know his family again, he became president of private advisory services at Banc of America Capital Management, overseeing 250 portfolio managers responsible for \$110 billion around the country. Within six months he realized he didn't want to work at a very large firm after all. Instead, he decided to build a company from scratch. Bank of America Corp. provided some startup capital, and the remainder came from the seven partners. Mr. Morgenthau — whose grandfather Henry M. Morgenthau Jr. was secretary of the Treasury during Franklin D.



William Neumann

Roosevelt's presidency, and whose father, Robert M. Morgenthau, is the highly regarded New York County district attorney — graduated cum laude from Amherst College, with a bachelor of arts in English. His first job in finance was a posting trader on the over-the-counter trading desk at Shearson American Express, New York. He was planning to go

on for an MBA, but instead enrolled in the company's rotational training program in 1982 to learn the business and then moved into asset management as a portfolio manager at Shearson Asset Management. Recently Mr. Morgenthau talked with reporter **Ricki Fulman** about the challenges of starting a new firm, its goals and strategies.

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**Q** What differentiates NorthRoad from competitors?

**A** Three things: our investment philosophy; our discipline; the judgment of the people carrying it out. Our philosophy is completely rooted in common sense and basic capitalism. We believe investors should act as business owners would when evaluating a private company and look for the inefficiencies created by the market. We try to take advantage of other people's mistakes in the market, which is ruled by fear and greed. When people are motivated by fear, they will sell equities at irrationally low prices, and we can be buyers. When greed kicks in they will buy at ridiculously high prices, and we can be sellers. Our discipline is to be investors for the long run. So many investors have time horizons of three to six months, whereas we want to hold on for at least five years. Our average turnover has been around 5% to 20% a year.

**Q** What is your strategy?

**A** We're strictly large-cap value and invest in companies in global developed markets whose market cap is greater than \$10 billion that have produced an average return on equity of over 10% for the past five years. Because a lot of our clients want portfolios without U.S. companies, we run both global and international portfolios, with around 70% of assets under management in the international portfolio, 30% in the global portfolio.

**Q** How big do you hope to grow?

**A** Our goal is to grow. We're not worried about capacity constraints or an end point. Because we manage only large cap, we can handle a lot of money.

**Q** What are the pros and cons of running a small firm?

**A** On the pro side, we can be completely focused on one thing. We're all owners, and everyone's incentive is tied to the success

**ROBERT P. MORGENTHAU**, chief executive officer, NorthRoad Capital Management LLC, New York.

**ASSETS UNDER MANAGEMENT:** **\$1.1 billion**

**EMPLOYEES:** **12**

**PERFORMANCE** (for the 12 months ended March 31):

International equity: **44.5%**  
(57.6%)

Global equity: **30.8%**  
(43.9%)

**BENCHMARKS (RESPECTIVELY):** MSCI EAFE; MSCI WORLD

or failure of what we do. We're a group of like-minded people and we all believe in the mission of the firm. But on the con side, there's a lot of risk. We're an undiversified business and are susceptible to the vagaries of the market. We have to be highly confident in the wisdom and success of the one thing we do.

**Q** How did you choose the name NorthRoad?

**A** It's a combination of the direction we want to go in and the idea that we all want to be on the same road because we're very focused. Also, it was the only name we could all agree on after considering hundreds. One of the hardest things is getting the name.

**Q** How do you spend most of your time?

**A** I devote much of it to developing the company's business strategy and meeting with clients. I attend many new business presentations to prospective clients and also talk with existing clients to discuss what we're doing. It's important for us to help our clients figure out how we fit into their portfolios and how our approach makes sense for them. I also meet with intermediaries, (consultants) to be sure they know who we are. Most seem to have a favorable view of us. The ongoing challenge is to keep building the business and to be in as many searches as we can. We didn't have a brand name; we're creating it.

But we were already known for being focused and disciplined.

**Q** Do you get involved with the investing side?

**A** Not at all. I miss it, and keep up with the markets largely through reading and following companies we're likely to invest in. I talk with our portfolio managers, debate ideas, making sure I know why we've made decisions ... for my own well-being. Our portfolio managers are three of the best out there, so I never say anything, even if I disagree with some of their choices.

**Q** How long did it take to break even?

**A** The assets came in faster than we expected. We reached the break-even point somewhere between \$600 million and \$700 million under management in the fourth quarter of 2003. We didn't take any assets from Lazard, but some clients did follow us at the beginning. There were never any non-compete agreements. Other former clients hired us later. A major turning point occurred in January when we were selected by (the \$165 billion California Public Employees' Retirement System, Sacramento) to manage \$200 million in our international strategy. We were chosen to be in their manager development program, and it's made a significant difference. It has opened doors on the institutional side, and led to our being in more searches.

Passing the \$1 billion threshold has given us critical mass. Potential clients can and do look at our track record as of the second quarter of 1996, when our investment team started managing the strategy. But a few clients held off investing with us because they wanted to be sure we were financially viable.

**Q** What do you do for fun?

**A** Our family passion is skiing. But we (that includes my wife, 14-year-old son and 10-year old daughter) also like to hike, sail and bike.