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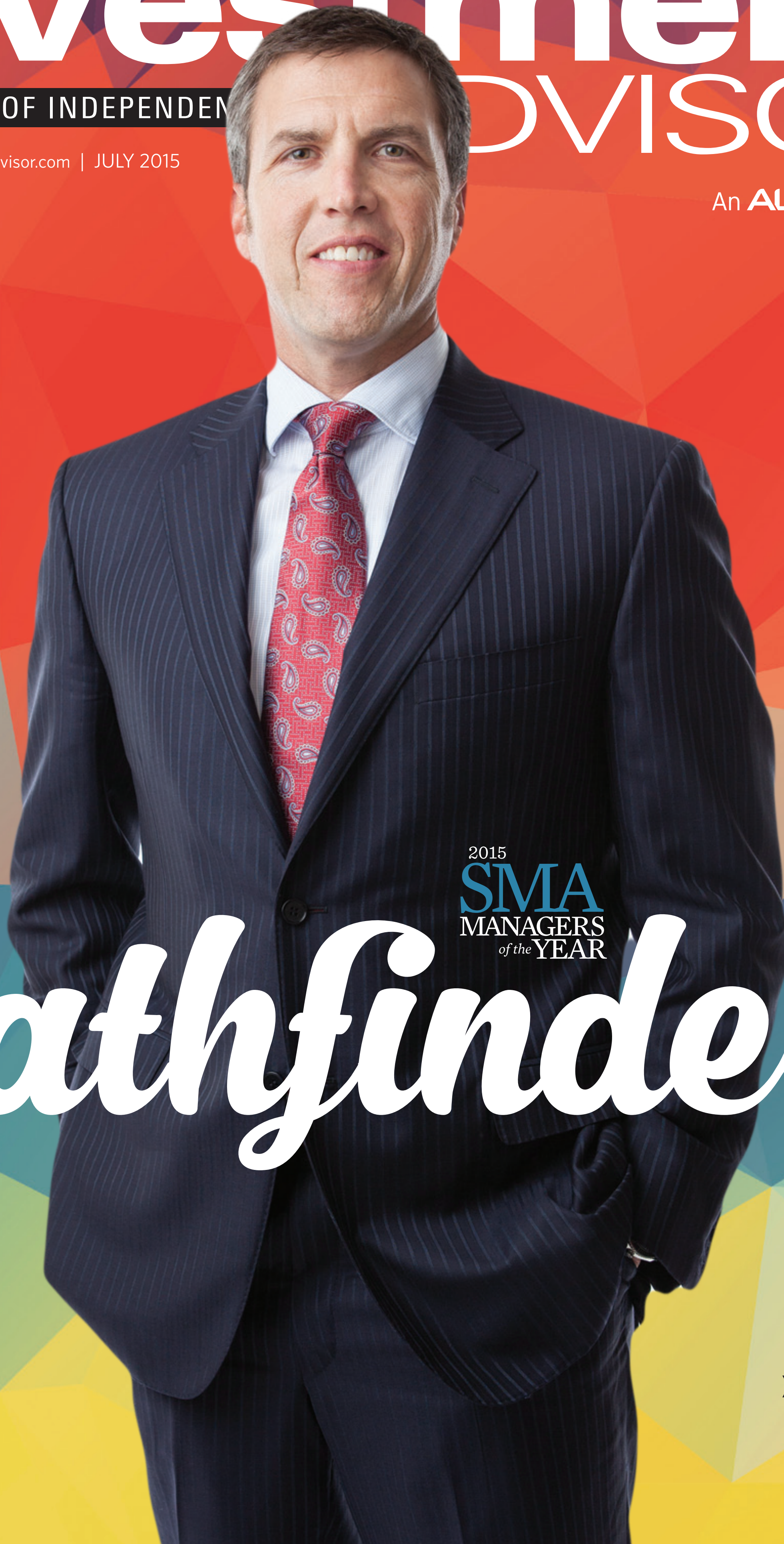


2015 SMA MANAGERS of the YEAR

Pathfinders

INVESTMENT ADVISOR 1980 35 YEARS 2015

Pathfinders

The 11th annual SMA Managers of the Year exhibit consistent alpha generation regardless of the murky meanderings of the markets

By James J. Green | Photography by Tom McKenzie

2015 SMA MANAGERS of the YEAR

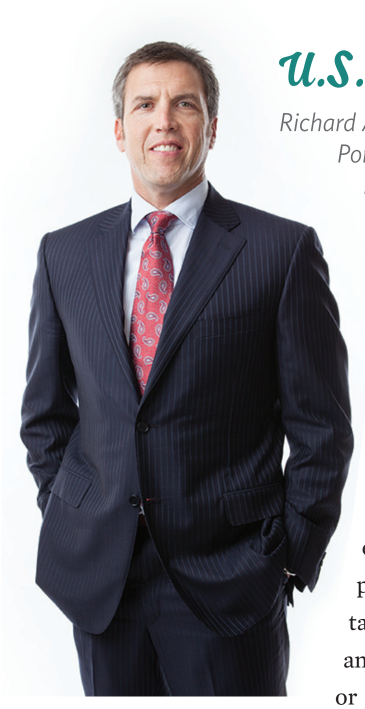
It's not easy to "beat the market" when it comes to investing on behalf of your clients, but it's even more difficult to do so consistently, year after year, by following rigorous research-based quantitative processes that also employ the qualitative intellectual capital skills of an independent-minded firm's experienced portfolio managers and researchers. Moreover, simply beating the market may not be the goal of specific clients: Preservation of capital for retired clients may be a higher goal, as may employing a tax-efficient strategy. Finally, it can be difficult or costly to gain access to the best managers, assuming you can identify them among the thousands of mutual funds, ETFs and private investing vehicles that exist.

Those are the reasons that for 11 years *Investment Advisor* has partnered with the due diligence experts at Envestnet | PMC to identify the Separately Managed Account Managers of the Year whom advisors can use on behalf of their clients. The 2015 SMA Managers of the Year were announced in May at the Envestnet Advisor Summit, following a well-honed months-long process that began with Envestnet | PMC's analysts working their due diligence magic on the universe of SMA strategies and concluded with an awards committee comprising Tim Clift and Geoff Selzer of Envestnet and *IA* editor Jamie Green making the final decision.

A striking example of this year's honorees is the overall manager of the year—a first-among-equals award chosen from the individual winners—Cushing Asset Management for its Cushing MLP Core strategy, which invests in the entire energy supply chain. Led by Libby Toudouze, who graces our cover, the energy MLP portfolio won Specialty Manager Award for the second straight year. As you recall, 2014 was a challenging year for energy investing, to put it mildly. The Envestnet | PMC analysts lauded Toudouze and her portfolio team at Swank Capital, general partner for Cushing, for outperforming its peers in a good year for energy investing (2013), but more importantly in the challenging 2014. Two data points tell you much of what you want—and need—to know about the Cushing strategy (and any good manager's strategy, for that matter). From Jan. 1, 2012, through Dec. 31, 2014, the MLP Core strategy's capture ratio was 150% on the upside and 65% on the downside, as measured against the Alerian MLP Index (AMZX).

In the pages that follow, and in video interviews on ThinkAdvisor.com, we'll tell you more about this elite group, their processes, and their people and culture.

A webinar on June 9 (archived on ThinkAdvisor.com) featured the winners of our two newest categories: Impact Award winner Duane Roberts representing Dana Investment Advisors for its Socially Responsible Equity strategy and Strategist Award winner Geremy Van Arkel for Frontier Asset Management. Unbidden, Roberts and Van Arkel repeatedly uttered the words "consistent" and "independent" throughout the session in describing their investing processes and their corporate cultures—which should be sweet music to the ears of advisors everywhere.



U.S. Equity Large-Cap

Richard Alpert, Managing Partner and Portfolio Manager
Dividend Growth, Raub Brock Capital Management

Raub Brock Capital Management's Dividend Growth portfolio is the second SMA Manager of the Year in the equity large-cap category.

The $600 million-plus strategy led by Managing Partner and portfolio manager Richard Alpert targets high-quality stocks with annual dividend increases of 10% or greater for at least five years to generate returns with less risk. That's almost twice the 5.7% annual dividend increase of the S&P 500 over the past 50 years.

The dividend yield must be greater than 1% at the time of stock purchase—"that assures that companies are committed to sharing their profits with shareholders," said Alpert—and the market capitalization must be at least $2 billion to insure sufficient liquidity in the stock's market trading.

"Our focus on dividend growth makes us different," said Alpert. "Many growth fund managers do not have an interest in dividends."

Dividends aren't the only criteria the portfolio uses in its bottom-up approach to stock selection. Increasing revenues, earnings and net income are also key.

"We want dividends to be paid out of current revenues and earnings, [which] speaks to the quality of the earnings," said Alpert.

The strategy tends to avoid companies that use debt to finance buybacks—an example of "financial engineering" that is "not geared to the long-term success of a company," said Raub Brock analyst Jason Rodnick.

Another distinction of Raub Brock's Dividend Growth strategy: its very concentrated portfolio of 20 stocks that are equally weighted.

"We think that good stock selection can have a meaningful impact on performance," said Alpert.

But how do you choose 20 stocks out of a universe of thousands? With quantitative and qualitative analysis, in that order, according to Alpert.

"We take a universe that starts out with about 4,000 companies and we narrow it down to 250 based on that initial screen," said Alpert, referring to the 10% annual dividend growth, 1% minimum current dividend yield and $2 billion minimum market cap. Then the screening turns qualitative, looking at fundamentals for growth, quality, valuation and volatility over time.

These include historical growth in dividends, revenues, earnings and net income; the strength of balance sheets, return on equity and credit ratings; and the ratios of enterprise value (market cap plus net debt) over EBITDA (earnings before interest, taxes, depreciation and amortization) plus P/E over the dividend growth rate. "Basically we look at whether we're getting companies that are growing their dividends at fair value," said Alpert.

Finally, Raub Brock's Dividend Growth strategy looks at volatility over time, preferring those stocks whose price movements don't stray far from expectations. "We think a lower volatility portfolio generates better returns," said Alpert.

Executing this disciplined approach to stock selection has clearly paid off for Raub Brock's Dividend Growth strategy. The portfolio earned 14.4% in 2014, 1.3% more than the Russell 1000 Growth Index, and it has outperformed that benchmark for the past one, five, seven and 10 years ended Dec. 31, 2014, while taking on a lot less risk. (It underperformed slightly for the three-year period).

The strategy's beta over the past 15 years is just 0.72 compared to the Russell 1000 Growth Index, and its risk-adjusted returns for the past five, seven and 10 years places it in the top decile of its peers in the SMA large-cap growth universe.

The strategy's turnover rate is especially low, averaging just 25% a year, and turnover is primarily due to trimming positions in order to maintain equal weighting of stock holdings rather than selling entire positions outright. "We tend to hold companies for three to four years or longer," said Alpert.

Stocks are replaced if dividend growth declines and Alpert and his team don't expect it will re-accelerate. The portfolio has "never" held a stock whose dividend was cut, said Alpert.

As of April 2015, the portfolio's top 10 holdings included three health care companies, two consumer staples, three consumer discretionary stocks, one energy master limited partnership and one financial research company. The dividend yield ranged between 1.1% and 3.6%, and averaged 1.67%.

"Our success is attributable to our unwavering adherence to our discipline and framework," said Alpert, who heads a three-man team that, in addition to Rodnick, includes David Raub, the founder of the 100% employee-owned firm and its research director.**—BN**

RAUB BROCK
CAPITAL MANAGEMENT, LP