



## Profiles

Thursday, December 9, 2010

### **Profile: Richard Stevens, Mill Creek Capital Advisors**

As investment consultants around the nation continue to make a push towards providing outsourced investment management solutions to institutional investors, Mill Creek Capital Advisors has looked to base their business purely around the concept of being a co-fiduciary in what they hope to be an objective, conflict-free manner.

"We split the advisory world into those who have something to sell and those who only give advice," said Richard Stevens, CEO of Mill Creek Capital, which is based in Conshohocken, Pa. "We do not charge fees for anything but giving advice. We're as pure as you can be in an advisory role, which is how we try to distinguish ourselves from those who distribute products."

In advising approximately \$2 billion in assets on behalf of foundations, endowments, pensions and high-net-worth individuals, Mill Creek has found that there are risks and liabilities that require custom advice for each type of institution, but also concerns or constraints that fall across the entire spectrum of its clients.

"If you split the world into those advisors who sell products and those who don't, we compete with other outsourced CIOs and the consulting world. The world has changed in terms of volatility and efficient markets, and we believe that it is not enough for an advisor in a fiduciary role to say, 'I'm going to pick managers and hope they outperform,' because in efficient markets that doesn't happen as frequently as it used to," he said. "Our experience is that there is a need for more than quarterly reviews, a more proactive way to attract returns based on asset allocation."

While the firm is still somewhat new, having opened in 2006, its staff's experience can be measured in decades. Stevens, along with President Joshua Gross and COO Richard Lunsford, Jr., spent numerous years with outsourced CIO firm Hirtle, Callaghan & Co., while CIO Thomas Chapin spent 21 years with Vanguard.

Stevens said that having its lead professionals spend their time on investments and client service is a significant part of why he started the firm, which is why it outsources much of its back office operations.

"...We outsource everything we can that could otherwise bog us down," he said. "We're a client service firm and investment people, which allows us to remain focused and nimble."

"If you go back to the concept of a fiduciary, it is not enough in volatile markets to try to outguess the next guy and pick the best managers," he added. "In order to proactively allocate among asset classes, one must be remarkably nimble. Often, what we see in other models is a one-size fits all approach. If you hired an in-house CIO, when capital markets changed, an important part of the job would be to remain proactive and nimble. As we go forward in complex markets, having the right team that will remain proactive and nimble" is a core part of the firm's philosophy, he said.

### **On Assessing Managers**

Stevens said that another part of the firm's philosophy is selecting top-quality investment managers.

In order to be utilized by Mill Creek, managers in the traditional asset classes, such as equities, must run a concentrated high-conviction portfolio that does not provide index-like performance. Overall, Stevens said

firms need to have the right organizational structure and ethics, whether they are big or small, that will justify paying more in fees for active management.

"It is that whole philosophy that defines the manager search process. We choose high conviction managers in areas to generate alpha. Once you find that manager, we're invested in them, if you will. We will use that manager across most client accounts in a particular asset class—because we're concentrated in our manager selections, as long as we receive favorable pricing and access, it doesn't matter to us if they're boutique or niche type firm," he said.

The alternatives asset classes are where the firm will most often look for more niche strategies, Stevens said. Mill Creek's alternative efforts, led by Andrew Daly, managing director of alternative investments, has been built around the concept of digging deep into the due diligence process to find more middle market boutique firms that will provide diversification and transparency for clients.

"We're big believers in diversification and transparency, which is why we created our own fund-of-funds in the alternatives areas," Stevens said, referring to Mill Creek's equity surrogate hedge fund-of-funds, absolute return fund-of-funds and private equity fund-of-funds, each of which is managed by the advisor without a separate management fee, keeping in line with the firm's conflict-free policy.

"We spent our own money to create the fund-of-funds," he said. "We thought that this would be the best solution for producing the desired returns and diversification, without using excessive leverage, and for our clients to match the overall strategic allocation."

### **On Client Service and Education**

Stevens said that as a co-fiduciary, Mill Creek's work with clients goes beyond meetings and in many cases, will be conducted on a day-to-day basis.

"I know there are firms that tout their education capabilities, but if I'm your co-cio there is an educational process occurring every day. To me it's more of a daily process than once a quarter or year," he said.

Stevens said that Mill Creek also emphasizes the importance of a healthy compliance backbone, which has allowed the firm to devote more of its time to clients. He said that staffs tend to get so caught up in the investment process, that administration and compliance duties are put on the backburner.

"I think that some firms don't pay enough attention to the regulatory environment they're working in. Being governed by the SEC requires detailed and constant attention," he said.

Ultimately, Stevens feels that if Mill Creek is performing well and clients are using them to their maximum abilities, the educational process will transcend the typical quarterly white paper or e-mail blast.

"I feel that if we're doing our job well, if clients are using us well, education is happening every day," he said. "If I'm responsible for this fund and have my cio in the next office, I should learn something every day about capital markets, the portfolio or the liability side or the regulatory atmosphere."

**Organization:** Mill Creek Capital Advisors

**Location:** Conshohocken, Pa.

**AUA:** \$2 billion

**Web site:** [www.millcreekcap.com](http://www.millcreekcap.com)

**Firms:** Managers can go to the firm's Web site for more information regarding its investment research process.