

**Sam Katzman****Constellation Wealth Advisors***By JingLin Huang*

Sam Katzman has served as the chief investment officer for Constellation Wealth Advisors since the firm's inception in 2007. In that capacity, he runs the firm's investment committee, providing direction and oversight to Constellation's \$4.5 billion assets under management. The firm's investment committee provides asset allocation guidance, and is charged with seeking out timely opportunities across the capital markets.

Katzman began his career in the financial services industry at Arthur Andersen & Co. His diverse background includes positions at Citi family office as a portfolio manager and senior advisor. He has also held positions at the Chase Manhattan Bank and Salomon Brothers, Inc. Katzman directed the financial assets for the family office of a wealthy New Jersey investor immediately prior to joining Citi Smith Barney.

Infovest21: Tell us about your investor base.

Sam Katzman: It is weighted towards ultra high net worth individuals and families. We have a growing endowment and foundation business.

Infovest21: What is a typical allocation to hedge funds?

Sam Katzman: Each client portfolio is customized but a typical hedge fund allocation is 20-30% where appropriate.

Infovest21: Do you invest in hedge funds directly or funds of funds?

Sam Katzman: For larger clients, we can and do invest directly. For most clients, we have an internal fund of funds that we employ. Given

the minimums in most hedge funds, and that you need a certain number of funds to derive the benefits of a diversified portfolio, unless you have a significant amount of wealth, it is very hard to construct your own hedge fund portfolio.

Infovest21: Which hedge fund strategies do you invest in?

Sam Katzman: Currently, our portfolio is composed of 14 hedge funds. Of those, 10 are long/short equity, two long/short credit and two global macro managers. But we are always looking for new strategies if they make sense and if they don't require excessive leverage to generate returns.

Infovest21: What are some opportunities of interest given the macroeconomic environment?

Sam Katzman: The managers that we allocate to should always have the opportunity to make money irrespective of the macro landscape. For the most part, they have consistently made money through various market cycles.

Currently, there is an opportunity in long/short equity, not only domestically but on a global basis. We have a couple of long/short managers focusing on international markets as well as some sector-specific managers. We like the idea that long/short managers can capture two-thirds or more of the upside with one-third or less of the downside. We like the risk/reward profile and efficiency they add to our portfolios.

Infovest21: Tell us about your portfolio construction approach and the role of hedge funds in the portfolio.

Sam Katzman: We review income and liquidity needs, risk tolerance, tax rates and growth targets of our investors among other factors. We generally attempt to generate the majority of a client's income needs from our fixed income allocation. However, with interest rates at historically low levels, we have been seeking income generation from our risk assets as well. We are not seeing a lot of upside in the bond market. A mistake that many investors make is to introduce too much risk into the fixed income portfolio by stretching for yield through increased duration or lower credit, and they don't compensate for that extra risk in the other parts of the portfolio. We are keeping our discipline on the fixed income side and supplementing our portfolio yield by adding dividend-oriented equities and income-oriented real estate.

Hedge funds play a meaningful part in our portfolio construction because they are a very efficient asset class on a risk/reward basis. They are often not tax efficient however or as liquid as long-only investments. So there is a trade-off and we attempt to maximize our risk/return profile for each client keeping those trade-offs in mind as well as their portfolio specific needs.

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Infovest21: What is the risk tolerance and target return profile for your portfolio?

Sam Katzman: The important thing for our high net worth and endowment clients is to make sure that their portfolios are managed to meet their goals. Often, investors are overly focused on a benchmark but their goals do not necessarily warrant looking to a certain benchmark or taking the same level of risk as that benchmark. That said, once we construct a portfolio which we believe will get them to their goals, every manager we deploy on their behalf will be judged against their relevant benchmark. Proper financial planning should be about getting to the client's goal and not worrying on an overall basis what the benchmarks are doing. Also, each manager should be assessed to see if they are generating enough alpha and justifying their fees.

Infovest21: How do you apply the concept of efficiency to your portfolio?

Sam Katzman: We are trying to construct a portfolio that will meet a client's goals with the least amount of risk and at the lowest cost. If we cannot find a manager who consistently performs in a specific sector of the market, we are more than happy to buy an ETF or index to fill that space. We are indifferent as to whether we are buying an active manager or investing passively through an index and we have used passive strategies in the past.

On the long-only side, we tend to use fewer managers that have more latitude in terms of market capitalization and the types of companies they can buy so they have a broader mandate. By doing that, they are more likely to beat the index and generate alpha. If you overbox your managers, you tend to get index like returns.

As for monitoring, we get excellent transparency into the portfolio and we review a look-through report on a monthly basis. This report shows our gross and net exposure by market segment as well as a geographical breakdown. This provides enough information to assess risk levels in the portfolio.

Infovest21: What are the top two qualities you look for in a hedge fund manager?

Sam Katzman: First and foremost is a certain integrity that is paramount. On the investment side it is a combination of discipline and rationality. We are hardwired emotionally to do the wrong thing in the investment process. The good manager is often a contrarian and has the conviction that he is right and his work is sound. However, he also has a process in place that allows him to prevent his emotions from getting the best of him and imposes an objective process to exit a losing trade.

Infovest21: Tell us about your due diligence process.

Sam Katzman: For hedge funds, we partner with ABS Investment Management in Greenwich, Connecticut. They assist us with due diligence and co-manage our hedge fund portfolio because we felt that we needed that extra expertise, especially for reviewing back office operations. They have a great infrastructure with offices globally and have hundreds of meetings and calls with potential fund investments per year. Our screening process focuses on qualitative as well as quantitative factors and reviews the organization, its ownership structure, the research process, team dynamics and other factors.

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Infovest21: Describe your edge in investment management.

Sam Katzman: We spend a lot of time on the macroeconomic view. That helped us in 2008 to move to cash and get defensive. We spend a lot of time in our investment committee meetings debating and discussing what is going on in the world and thinking about how our asset allocation should reflect our views.


In terms of monitoring, we look at trades for every manager on a weekly basis in the long-only space. We are constantly monitoring to make sure that people are not drifting from their mandates. That process has served us well.

We are very focused on what process is driving a manager's performance. Often, what draws you to a manager are their numbers. But you need to determine how those numbers were derived and what types of risks they are taking to get them. We want to make sure the numbers are repeatable and by understanding the process around the investments we can get a better idea if they can replicate their results.

Infovest21: Have there been changes to your investment and due diligence process?

Sam Katzman: Some of the fraud and blow-ups that came out of 2008-2009 made everyone pay more attention to risk controls and where their funds are custodied. For example, some investors lost money because their hedge funds used Lehman as a custodian. We pay more attention to those details now, but we have always had a thorough review process.

Infovest21: What is your outlook for institutions investing in hedge funds?

Sam Katzman: We believe the outlook for the hedge fund space is very positive and it is going to remain a large part of our business. As we have spoken about, there are a lot of macroeconomic uncertainties in the world today and that is most likely going to be reflected by having more volatility in the market. Long/short hedge funds should do well in that environment. Further, most funds have matched their lock-ups with the asset class that they are managing so liquidity in the long/short equity space is very reasonable. 

Constellation Wealth Advisors

Assets: \$4.5 billion

Locations: New York, NY and Menlo Park, CA

Sam Katzman

Title: Chief investment officer



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