



Profile: John Regan, Permanens Capital

John Regan has believed there is a better, customized way to manage institutional investment portfolios, but has shied away from the term "outsourced cio" when asked how to describe his firm, Permanens Capital.

"I would call us a customized investment office for a university, school or large family office," he said, adding that he is finding the firm's services go beyond investments. "We're doing everything from providing input for bond rating agencies to working with the finance office to create a five-year projection for cash flows."

As Regan describes his firm, which he launched with Co-Founder Joseph Steinberg in 2011, you begin to wonder how he is able to balance the in-house needs of each client while providing them with the customized investment solutions he describes. In his defense, he said he's been able to find a balance in being part of his clients' investment decisions by building his firm on a platform of measured growth. Thus far, the New York-based firm has \$1.9 billion in assets under management and considers any new client to be a close partnership, with current relationships as near-by as Brooklyn and as far as Texas.



John Regan

A Custom View of Portfolio Development

Customization is a concept that Regan reiterated time and again throughout his description of Permanens' manager research process for its clients.

Where Regan believes the firm differentiates itself from its peers is through looking for ways to provide investment products to clients. Since the investment assets of the clients are pooled together, Permanens can negotiate with investment managers to create customized, separately managed accounts throughout the world with better fee terms.

"A lot of outsourced cios are saying 'we can customize it for you,' but they are referring to adjusting a typical 60/40 equity/bond portfolio," he said. "What they are not doing is going one additional level down to customize the investment allocation. Rather than buy an off-the-shelf mutual fund or broad strategy, we may go directly to the portfolio manager and get a customized version of his strategy with very specific parameters."

For investment managers, that means having a partnership with Permanens that allows the firm to go beyond their strategy's asset allocation to break down its exposures. On the qualitative side of the table, Permanens looks closely at a firm's investment ideas and their backgrounds as part of a rigorous due diligence process.

While a majority of the investment managers Permanens works with are sourced through the firm's own research to create a customized portfolio, Regan said he is not opposed to "off-the-shelf" ETF, mutual fund or separately-managed account products across asset classes such as equities and fixed-income for an allocation within one of its three risk buckets: defensive, equity sensitive and hard assets.

In the defensive bucket, the firm allocates to investment grade corporate bonds, high-yield fixed-income

and preferred equities, while the equity sensitive bucket focuses on commodities such as oil, gas, global energy, emerging markets equity and hedge funds.

Lastly, the hard assets portfolio is comprised of strategies such as gold, energy MLPs and private investments.

In evaluating hedge funds, Regan said he has been extremely selective in adding firms to client portfolios, allocating to only about half a dozen, by his approximation.

"We really only hire hedge funds when we think they're doing something special that can't be replicated elsewhere," said Regan, who has spent much of his career as a hedge fund manager with firms such as Andor Capital, Bessent Capital and Steeple Capital, which he founded.

Regan said he feels his firm provides additional value in conducting due diligence on managers — hedge fund or otherwise — because he has experienced both sides of the process, most recently serving as senior investment officer with Cornell University's investment office.

"I've been on the opposite side of due diligence for my own fund and I've run due diligence for Cornell's hedge fund portfolio. After having spent most of my career running hedge funds, one can sit down and very quickly get a feel for a strategy," he said. "The gross and net exposures don't tell you a lot. How much risk is the manager taking and is it worth the fees paid? Is it a special asset class that can only be accessed by a performance fee structure?"

"Hedge fund managers are receptive to talk with us because we're realistic about what returns are achievable," he added.

Setting Itself Apart From the OCIO Space

Part of Permanen's appeal to its clients is that it doesn't put a great deal of significance on benchmarks. Regan said he thinks the world is going to move away from the risk standard being put on institutions when they use benchmarks.

"If you select a benchmark, you're assuming a certain amount of risk. We are generally going to do much better with investment committees that understand the inherent risks of benchmarks," Regan said. "For example, we have a university where the specific goal of an investment portfolio was to exceed the cost of their own debt. We want to have a rate of return above that level and do not care about the S&P 500, in this case."

Since its founding, the firm has looked at its views on benchmarking as one of its many tenets that sets it apart from its peers. Regan said that the economic crisis in 2008 had a strong effect on his opinions of how endowments should be managed, which is one of the reasons why he started Permanens.

Regan said that the genesis of the firm was also going into a room full of board members with Steinberg and realizing that caring deeply about an institution was not enough to ensure its financial stability. He had to restructure its investment processes, including investment policy statements, from the ground-up.

"Both of us have been involved in numerous boards and investment committees. We give our money and our time to these schools, nonprofits and investment committees and we thought, isn't there a better way? We looked at the level of direct investment expertise and institutional access brought to the table and believed that we could do it better."

Further details regarding Permanens, including contact information, can be found on its Web site (<http://www.permcap.com>).