

## Q&A: Hall Capital's Krinsky Lifts Curtain On Fund Manager Selection, Seeks 'Smart' Investors

**H**all Capital Partners is a San Francisco-based independent investment advisor that oversees approximately \$20 billion in assets for a clientele consisting chiefly of families, foundations and endowments. **Simon Krinsky** has been with Hall for almost nine years and in November was promoted to co-director of portfolio management. *FINalternatives'* **Mary Campbell** spoke to him recently about his company's "long and painful" process of evaluating potential investments, the advantages of a long time horizon and the search for the 'smart' investor.

*FINalternatives: Can you tell me a bit about Hall Capital Partners?*

**Krinsky:** We were founded in 1994 by a woman named **Katie Hall**. Today we manage just over \$20 billion for about 125 clients, a mix of families, foundations and endowments. We invest across asset classes; it's actually a pretty healthy mix of cash, bonds, public equities, hedge funds, private equity and private real assets with the latter three categories—hedge funds, private equity and private real assets—in the \$7 billion to \$8 billion range. We have offices

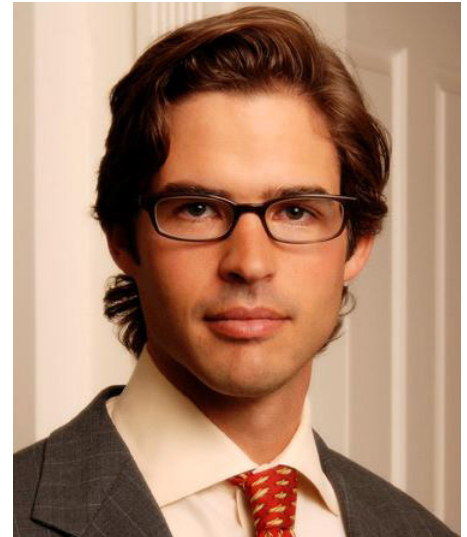
in San Francisco and New York. We're headquartered in San Francisco [and] we have about 120 employees [including] 25 dedicated research people... We don't manage any assets in-house, we're not affiliated with any banks or broker dealers, we're a totally independent firm.

*FIN: And what about your own background in finance and role at Hall Capital Partners?*

**Krinsky:** I am the co-director of portfolio management. I joined the firm—it will be nine years in April— so eight-and-a-half years ago. I spent the first six years of my professional life at **Goldman Sachs** starting in the convertible arbitrage business in New York and ending in the private client business in San Francisco, where I was rescued by Katie Hall.

*FIN: What do you look for when evaluating potential investments?*

**Krinsky:** It's our objective to find really terrific managers... We have a few institutional biases: One is, no matter what we're investing in, we're looking for folks who do deep fundamental analysis (of



*Simon Krinsky*

companies, events, cashflows) and that's true whether they're expressing that fundamental viewpoint through buying muni bonds or relative-value arbitrage or private equity or private real assets. We've got this deep, fundamental bias.

We're also looking for really smart investors and we tend to de-emphasize structure. We don't feel like we need to own anything, so if we can't find a great investor, [if] we can't find a process that we're comfortable with, we're okay just not owning it and 'it' might be...equities in Russia or liquid commodities... we don't feel like

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we have to fill every box in the universe. We're really looking for smart managers and we'll deal with their structures later. So, a lot of our best managers over time have quite flexible mandates to invest across capital structures, to invest across geographies, to invest across capitalization ranges, and I think this flexibility is a really big advantage for families, foundations and endowments and sometimes a disadvantage for big institutions.

There are a couple of traits inherent in the psyches of what I would describe as the 'best' families, foundations and endowments, which are often not shared by big institutions: they have very long time horizons (which many of the big institutions do too) but they're willing to take advantage of the investment opportunities that a long time horizon offers. That's never been more evident than in what we're seeing now. It seems evident to us that institutional investors are hyper-focused on yield-producing assets and hyper-focused on liquidity because that's what their bosses tell them to do, I think there's a fair amount of survival and job security that go along with being focused on liquidity and being focused on yield today.

But... families, or foundations or endowments, they can really afford to exploit everybody else's hyper-attuned focus on those two factors. And there are actually things to do, there are really interesting investments to make, if those aren't priority one and priority two, if you're willing to tie up your capital for a little bit of time—a year, two years, three years—in some of the hedge fund strategies that take advantage

of certain less-liquid credit opportunities or... more complex relative value opportunities....

In terms of volatility/liquidity/yield, if you can find a really, really smart investor who has an appropriate structure and time horizon, then each of those factors can actually work to your advantage. Volatility, if you're committed to owning equities for a number of years, really does help because you can buy great assets when they're cheap. Illiquidity can help too, because there are going to be forced sales of assets and you can buy them cheaply. And this maniacal focus on yield is an advantage too, because there's a potential for real asymmetry in liquid credit markets today where interest rates are so low and spreads are reasonably tight. From our perspective, many of the liquid credit markets are priced to perfection—the most you should realistically expect to earn going forward is the current yield—and of course, if the stuff hits the fan, there's potential for real principal loss. And so, all of those are trade opportunities for the right size and the best family foundations.

**FIN:** *You use the phrase 'smart investor' to describe the kind of manager you're looking for—how do you identify a smart investor?*

**Krinsky:** *[Laughs.]* Through a long and painful process. Track record is obviously a factor but it's not the most important factor. I don't have a list of most important factors to tell you about, it's an art and a science, mixed. A lot of it is experience-based and I think if

I were to try and differentiate our firm, the biggest differentiator is that our research folks are grown up, they're investors, they've been in the business for a long time and they're really good at identifying talent. It definitely starts with Katie Hall, who is the CEO and CIO, and her background. After business school she started a couple of hedge funds and she has a real technical understanding of investing that, unfortunately, many folks in our business don't have. And that extends to the heads of each of our research groups, who have real investing experience.

What we're looking for is not only the ability to earn good returns for investors, but we need to understand the drivers of those returns. We'll spend a lot of time sitting down with portfolio managers, analysts, operations people and going through positions. We don't actually need full-time, real-time transparency of every trade in the book, but we need to know what has driven returns, we need to make an assessment of whether the process can be replicated, which is a pretty important thing—it's one thing to generate great returns for the last 10 years, we're much more interested in what they'll do going forward. And the punch line is, the best way to do that is to understand the positions, to sit down with managers and discuss the how's and why's of how they got there. So, there's a little bit of an art in that, as well as the more typical kind of qualitative analysis.

**FIN:** *Is infrastructure important? Support staff, reporting systems, etc.?*

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**Krinsky:** It's hugely important... There are a couple of big buckets: there's the business of the business and then there's the operational due diligence side and there's a lot of overlap between those. On the operational due diligence side, we've always done a lot of operational due diligence in-house but our core competencies have been more on the investment side. So, in the last couple of years we've actually hired a forensic accounting out-source solution to help with some of the operational due diligence. But it's a massive component of the process. We have regular meetings with auditors, we review financials religiously and obviously we do background checks and references with all of the key people.

Equally important, on the business of the business side, is understanding how people are paid, understanding succession, making sure the fee structure is consistent with the underlying investment thesis—so, if somebody is going to charge 1 and 20 or 2 and 20 and invest in a highly directional way with a lot of volatility, we'll try to quantify the risk—what does one bad year do to that firm's ability to keep its smart people? If they lose 20% or 30% and the rest of the world doesn't (which is different than 2008, if everybody loses 20% or 30% people tend not to leave their firm), but if they have a bad year and everybody else is okay, are they going to lose their brightest mid-level people?

Also...when the head of the firm says, "I own all the equity but we have a sort of phantom equity program so that X percentage of the firm participates in a real way with

the growth of our business," we'll then go and talk to senior analysts and junior analysts and make sure that they're getting the same message and can corroborate that... So there are a bunch of really important judgment calls around culture and the business of the business that are just as important as the operational side.

**FIN:** *How long does that process take?*

**Krinsky:** It's a pretty big range, I mean, typically, it's a year or two. There are absolutely situations where we've moved much quicker. Usually, when we move quickly it's because we've known the investor for a long time—for example, [if] the number two at a firm we've invested with for years, if he or she leaves to start their own firm, and takes a couple of people we also know with them, situations like that where we've got a high degree of familiarity we may move more quickly.

There are, for better or worse, many, many situations where we've moved slower, and the reason comes back to this notion of understanding the portfolio. It takes a long time to have meaningful conversations with folks about what they own and then to actually evaluate how those investments did—and it's not just how did the fund do, but [if] 18 months ago we were talking about a long senior/short junior trade in a company and the manager articulates a thesis that includes a catalyst that might be 12-18 months away, well, you kind of have to wait 12-18 months sometimes to see how these things play out. And, you know,

it's not that we would invest with somebody because they were right once [*laughs*]. So we tend to have really thoughtful, thorough meetings with folks for a long enough time so that we can get comfortable that they can repeat their past good performance.

**FIN:** *Does Hall Capital Partners have limits, upper or lower, in terms of the size of fund you'll invest in?*

**Krinsky:** We are open to investment in funds of all sizes with a couple of caveats. One is, we don't want to have the potential to put somebody out of business...We don't want to be such a meaningful percentage [of a fund] that if we decided they weren't going to pass muster we would effectively force them out of business, forcing them to liquidate positions.

A lot of it kind of depends on what the underlying investments are. Though we have \$20 billion that we manage we're not turning over \$20 billion every year, so we really can invest in some pretty small opportunities—can and do. And again, it depends on what they do: we've invested in \$25, \$30 million seed stage venture funds where we might get an allocation of \$3 or \$4 million for our clients. We wouldn't invest in a \$25 million long/short U.S. equities hedge fund—that's too small for us...[but] we would, perhaps, invest in a sub-\$100 million fund that did private investments in India....And on the other extreme, we are very wary of the impact of managing too much money amongst asset classes. We stay away from funds where we feel they're like asset gatherers, not investment managers.