



Charles Sanford



Charles Sanford is a member of Babson Capital's Fixed Income Relative Return portfolio management team responsible for the day-to-day management of our Core, Core Plus, and Investment Grade

Corporate strategies. He has over 15 years of industry experience. Prior to joining Babson Capital in 2004, he worked at Booz Allen Hamilton and BellSouth. Charles holds a B.A. from Amherst College and an M.B.A. from Harvard Business School.

FIRM OVERVIEW

Babson Capital Management LLC manages more than \$110 billion (as of September 30, 2009) in assets for a broad range of institutional investors in the U.S. and abroad and is the lead investment advisor to our parent, the Massachusetts Mutual Life Insurance Co. (MassMutual). Our goal is to build long-term relationships, based on transparency and trust, that provide value to our clients. Through proprietary research and analysis and a focus on investment fundamentals, we develop products and investment strategies that leverage our broad array of expertise in fixed income, equities, alternatives, structured product, and debt financing for corporations and commercial real estate.

RISK AND REWARD:

SANFORD STAYS FOCUSED ON RISK MANAGEMENT TO REWARD INVESTORS AS APPETITE GROWS FOR INVESTMENT GRADE

As a former angel investor and business-efficiency consultant, Charles Sanford has seen a lot of companies in good times and bad. Charles believes that being established with a sound business model gives companies an advantage over new entrants to the industry. Risk management is a key focus for Charles as he oversees investment grade portfolios. With a market recovering from the recent crisis and investors seeking safer havens, he discusses his approach to creating value for the long term, lessons he has learned, and investors' views of investment grade today.

What did you do before entering the investment business?

I started at Booz Allen Hamilton straight out of Amherst College and was there for three years. I worked on several bank merger projects, identifying and valuing synergies. At the time, banks with large retail branch networks were merging and consolidating branches. Having been a math major, I was given the task of creating large financial models to quantify the impact of the proposed mergers, both operationally and financially. After a few such projects, I moved to Booz Allen's operations practice and worked with Fortune 100 companies to help drive efficiencies from an operations standpoint. I worked on a wide range of projects: modelling distribution systems to help a consumer goods company move pallets through its distribution network more efficiently, shadowing members of a company's sales force to improve productivity, working with a sales team to improve the interplay between sales and merchandising. Through these engagements, I was given a crash course in how businesses actually operate. After three years of consulting, I went to business school at Harvard. After business school, I went back to Booz Allen and did operations research for them for another two years.

Traveling five days a week for several years started to wear on me especially since I was also starting a family. So, I took a job at BellSouth in Atlanta, first doing internal consulting and then working with their Internet subsidiary, BellSouth.net, on M&A transactions and strategy. This was at the height of the Internet boom, and I was bitten by the Internet bug. A friend of mine from business school and I had started an angel-investing club for other members of our class at Harvard. It started to gain some traction, and we saw that there might be a business in it. We ended up raising a few million dollars to start an angel-capital company that would bring wealthy individuals together with technology startups. The company was called UniversityAngels.com because we created networks of investors around the schools they went to – as an



example, Harvard's network was CrimsonAngels.com. UniversityAngels.com ended up being the largest angel-investing network in the country at one point. We were doing well but then the Internet bubble blew up, and no one was interested in investing angel capital. We ended up closing the business and returned money to our investors. I started looking for opportunities and after a brief stint at a tech company where I helped raise start-up capital, I found a great opportunity here at Babson Capital.

What impact did the dot-com bubble have on your approach to investments?

I gained a real respect for experience and an appreciation for the fact that successfully running a business is very difficult even in the best of situations. To make a business work, you really have to focus intently on the fundamentals of that business in terms of what is going to make that business survive and thrive. Experiencing a variety of business cycles is very helpful because you see how businesses react in stressed situations and gain a better understanding of what to do when your business faces those inevitable challenges.

“ Startups are like a mass of baby turtles all racing down the beach to the safety of the ocean. ”

The dot-com bubble also made me appreciate that startups are like a mass of baby turtles all racing down the beach to the safety of the ocean. A lot of them are going to be picked off by seagulls and it really isn't their fault – just bad luck. Startups can fail for all sorts of reasons that are way beyond their control. Many things can derail you, like the lack of access to venture capital, suppliers going bankrupt, and so on. Having an established company and business model really puts you in good stead toward surviving and gives you an advantage over newcomers to the industry. It taught me to respect the value of size and the importance of being well established in business.

Who was influential in your development as a portfolio manager?

I was fortunate to have one of Babson Capital's senior portfolio managers, Steve Libera, serve as my mentor. Steve has since retired but his impact stays with me. He is a phenomenal man. He is very quiet, very insightful, and does not get caught up in the heat of the moment. I loved watching him operate in meetings. We routinely have sell-side analysts and strategists come to our offices to share their views on the markets. Steve would sit quietly at the back of the room and after this very smart person finished his/her presentation, Steve would have absorbed the presentation and ask an incredibly insightful, direct, common-sense question, which would cut right through to the heart of the matter. The question was always related to two things: how are we going to make money on this and does this really jive in the real world? That was one of his great strengths and was really fun to watch. He would just cut through all the spiel and the lingo that people in this industry tend to get caught up in.

How would you describe your style of portfolio management?

Babson Capital has established itself as, among other things, a very good fundamental credit-analysis shop, and I think we have real strength in that area. But, as Steve taught me, the ultimate goal is to outperform. Credit analysis is a tool that we use, but, at the end of the day, what our clients



pay us for is to outperform on a consistent basis – that is the sole goal of a portfolio manager. To do that, you have to combine a very robust risk-management framework with the work of our credit analysts. I majored in math and philosophy in college and love approaching large, complex problems with a quantitative bent. Managing a fixed income portfolio gives me plenty of opportunity to do that. It is one of the most intellectually challenging jobs I have had and I really love doing it.

My job is all about portfolio construction and managing portfolio risk. I spend a lot of time translating macro investment themes into high-level portfolio positioning. I use risk models I developed to stress portfolio structures to see how they will react in various market conditions. I work on portfolio structures until I am happy with the risk/reward trade-off. I then work with the research analysts to select securities that they like from a fundamental perspective and that fit the higher level portfolio structure.

What will you carry into the next cycle from this recent market turmoil?

An even greater emphasis on risk management. Too many fund managers had not analyzed what the real risks were in their portfolios and didn't manage those risks. Some of those funds severely underperformed. Risk management really is the key to successful portfolio management. And when I say that, I don't mean that you don't take risks – you can't outperform without taking risks. I make sure that the portfolios express my investment theses and have an appropriate amount of risk. I am not always going to be right on my investment positioning, but I never want the portfolios to react in ways I did not anticipate or don't understand. I am not doing my job as a portfolio manager if that happens. Steve used to tell me that managing a fixed income portfolio is like picking up nickels in front of a steam roller. You have to be very careful in choosing what you pick up and remember not to lean in too far. My risk models help me determine which nickels I can safely pick up.

“ Managing a fixed income portfolio is like picking up nickels in front of a steam roller. ”

In your experience, has investor thinking about investment grade changed?

Given the fact that equities have not performed well over a 10 year period, and that the equity market still seems very fragile at the moment, I think that the basic asset allocation tenets investors have had for a long time are being called into question. I expect that institutional investors are going to shift their asset allocation more toward fixed income. In particular, I expect the pension-fund clients to move toward liability-driven investing that focuses on the traditional asset-liability management (ALM) framework while minimizing pension-fund status volatility. Given our familiarity with ALM and our capabilities as an asset manager, I believe we are well positioned to capitalize on these opportunities. Even retail investors seem to be shifting to investment grade bonds. The volatility of the past year has been a real eye-opener for people trying to save for retirement. As America ages and more people get closer to retirement, they are not going to want the volatility of the equity market and they are going to want the steady income that investment grade bonds can provide.

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