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ABDALLAH NAUPHAL BUILT LONDON'S INSIGHT INVESTMENT INTO A $667 BILLION BOND GIANT. NOW HE'S AIMING TO WIN THE U.S. OVER TO LIABILITY-DRIVEN INVESTING. PAGE 36

Stateside-Bound
CEO Nauphal believes his $667 billion firm is ready to crack the big U.S. market.

THE BIGGEST ASSET MANAGER YOU'VE NEVER HEARD OF

FIXED INCOME

INSIGHT INVESTMENT HAS BUILT A POWERFUL U.K. FRANCHISE WITH LIABILITY-DRIVEN INVESTING. CAN IT TAKE ITS MODEL TO THE U.S. AND BEAT THE AMERICAN BOND GIANTS?

BY JESS DELANEY / PHOTOGRAPHS BY FELICITY MCCABE

Abdallah Nauphal was in Washington visiting a client when the news broke that British voters had chosen to leave the European Union. Awake in his hotel room in the early-morning hours of June 24, the chief executive of London-based Insight Investment took a few seconds to wrap his head around the reports on the television before dialing Adrian Grey, the firm's chief investment officer for active management, to get a rundown on the markets. After a second call with his chief risk officer, Charles Farquharson, Nauphal felt confident that although the Brexit vote might touch the lives of his London employees on a personal level, the firm, which manages £499 billion ($667 billion) of mostly fixed-income portfolios, would be insulated from any fallout.

"For us it was a big event, and we rehearsed what it could mean," Nauphal tells *Institutional Investor*. "Even though we didn't believe it would go that way, we managed our risk well for the event, and we were fully ready for it when it did."

Insight has been dodging bond market bullets more adroitly than most investors throughout its short but spectacularly successful history. Founded just 14 years ago as the modest £26 billion asset management arm of then-powerful U.K. banking and insurance group HBOS, Insight grew rapidly and thrived even as its parent stumbled in the financial crisis. HBOS was saved through a government-arranged merger with Lloyds TSB Group in 2008; the following year Lloyds sold the firm — by then managing £88 billion — to Bank of New York Mellon Corp. for £235 million. Subsequently, its assets have grown by an astonishing 467 percent.

The secret to Insight's rise: its ability to tailor fixed-income portfolios to the needs of its clients, typically using a liability-driven investing approach. LDI strategies took off in Britain in the early 2000s, when market volatility prompted companies to look for ways to de-risk their defined benefit pension plans. For many corporate treasurers the solution was to discard the old 60-40 balanced pension fund model in favor of bond portfolios with maturities tied to the funding needs of future retirees. As LDI spread like wildfire across the corporate landscape, Insight's executives took advantage of the trend as well as anyone. The firm's financial solutions group, which concocts LDI portfolios, manages roughly three quarters of group assets. Insight enjoys a position of prominence as the U.K.'s second-largest LDI manager, behind Legal & General Investment Management (LGIM), an arm of London-based insurer Legal & General Group, and ahead of BlackRock, the New York–based giant.

The market turmoil engendered by the Brexit vote demonstrated the soundness of Insight's approach, Nauphal contends. While most of the asset management industry seeks to maximize returns using flawed models based on historical data, he says, the firm works with pension funds and other clients to design fixed-income portfolios that can meet their future funding needs almost regardless of the economic, political or market weather. "If the future is uncharted, it's like taking a boat and sailing into uncharted waters," the CEO says in an interview at Insight's office in the City of London, near the Thames. "You don't want to rely on a map you buy at the market; you want to build a good ship."

The morning after the referendum, Robert Gall, head of market strategy for the financial solutions group, arrived at the office before 5:00 a.m. Many of his colleagues were already busy at work. Though it was "one of the most interesting days since LTCM and the Russian crisis," Gall says, referring to the 1998 collapse of hedge fund firm Long-Term Capital Management, he and his team didn't have much cause for concern. Because LDI is an exercise in long-term risk management, Gall wasn't tearing his hair out as stocks, interest rates and the pound plummeted. "It was more about looking at the screens, seeing how wildly the markets, and currency in particular, were moving and then thinking what that means for future hedging decisions," he says. "The conclusion that we were quickly coming to is that it was likely to encourage people to hedge more because, if anything, the exit vote made the world we're in less certain than the day before."

Having built a big franchise at home, Nauphal has set his sights on the massive U.S. market. Buttressed by BNY Mellon's 2015 acquisition of Cutwater Asset Management, a $22 billion fixed-income specialist manager that has been integrated into Insight, the firm has built up an 80-person office in New York and is preparing to take on some of the world's biggest bond managers — including BlackRock, Pacific Investment Management Co. and PGIM, the investment arm of Prudential Financial — on their home turf.

It's a daunting task. The $13 trillion U.S. Treasury market sets the pace for bond markets and yield curves around the world, and the $8 trillion U.S. corporate bond market is the deepest and most liquid credit market on the planet. With more than 200 bond funds on offer, the U.S. is a highly competitive arena in which a handful of managers have prospered in a battle for riches and bragging rights. From 2009 to 2013, fixed-income managers swelled their books on the back of a bond rally that saw PIMCO double in size, to $2 trillion, and PGIM's fixed-income assets jump from $354 billion to $628 billion.

Yet Nauphal believes the U.S. is ripe for the kind of disruption that Insight helped bring in the U.K. PIMCO has struggled since co-founder Bill Gross, the longtime "bond king," suffered a bout of poor performance and was ousted after a 2014 management dispute. His departure triggered a record wave of redemptions from the mutual fund he had built into the world's biggest. The ensuing media reports filled with juicy details of infighting among senior executives underscored the double-edged nature of Wall Street stardom. Gross joined Janus Capital Group with a tarnished reputation and has so far failed to rekindle his magic, leading the media to sound the trumpets for a new king of bonds: DoubleLine Capital's Jeffrey Gundlach.

At Insight there's no star manager calling all the shots. The firm eschews the race to have the best-performing bond fund, instead priding itself on its team-oriented culture and ability to tailor investment strategies to clients' idiosyncrasies. "I think we offer a disruptive impulse in the market," says CIO Grey. In his view, the celebrity culture of the U.S. that rockets hot bond managers to stardom is a problem akin to the political phenomenon that has seen real estate mogul and reality television star Donald Trump get one step away from the U.S. presidency.

Insight isn't blazing a completely new trail. LGIM opened a U.S. office in Chicago in 2006 and now manages more than $100 billion there, much of it in LDI strategies. And Nauphal's timing could hardly be better. PIMCO is still struggling to regain its mojo since Gross's departure. DoubleLine suffered a

blow in August when Bonnie Baha, a portfolio manager whom Gundlach credits for much of the firm's strong growth, was killed in a car accident. And investors are worried about bond valuations and the risk of tightening by the Federal Reserve. Yet the big U.S. houses remain supremely confident. "I do not see them as a threat at all," Gundlach tells *II* in an e-mail exchange, referring to Insight. "I never heard of them until your e-mail mentioned them yesterday."

Insight's relative anonymity in the U.S. is surprising given its size, industry executives say, and Nauphal and his team face a big challenge in trying to gain recognition alongside the U.S. bond heavyweights. The broader economic environment doesn't make that challenge any easier. The postcrisis climate of high debt and slow growth has combined with aggressive central bank easing to push bond yields close to historic lows and bond prices to stratospheric highs. Many investors fear the bond market is a giant bubble at risk of collapse. For Insight this poses a dilemma: Pricey bonds make it expensive to create an LDI portfolio and leave bond investors exposed to potential losses if interest rates rise.

"I THINK WE OFFER A DISRUPTIVE IMPULSE IN THE MARKET."

ADRIAN GREY, CIO for active management

Insight executives and clients say concerns about rates are overblown and that demand for LDI strategies hasn't diminished at home. Yes, U.K. government bond yields have fallen sharply following the Brexit vote, but lower rates drive up pension funds' future liabilities, raising the attraction of de-risking strategies. "You would think that lower yields might put people off from doing LDI transactions, but in the U.K. people expected yields to mean revert for years and then eventually they threw the towel in on that," Gall says. "What they don't want to happen is to roll the clock forward 12 months, yields have fallen more and they've still got a big deficit."

That view is shared by Trevor Welsh, head of liability-driven investment at the Pension Protection Fund (PPF), a £23 billion U.K. government–backed guarantee scheme that has more than $10 billion in assets managed in LDI portfolios by Insight and LGIM. "We've been in a bull market in bonds since 1984, and it's still going," he says in an interview at his office in the south London borough of Croydon. "The problem is not that pension funds haven't been making returns. It's that the cost of long-term liabilities has gone through the roof."

As low interest rates reduce the rate at which pensions can discount their future liabilities, funded ratios have plunged. The post-Brexit drop in U.K. government bond yields — the ten-year gilt yield has halved, to 0.68 percent — has pushed up deficits in U.K. defined benefit pension plans to an all-time high of some £1 trillion, according to London-based consulting firm Hymans Robertson. The nearly 6,000 pension schemes eligible to be covered by the Pension Protection Fund saw their average funded ratio drop to 76.1 percent in August from 84.3 percent a year earlier.

The so-called Big Three of BlackRock, Insight and LGIM control some 85 percent of the U.K. market for liability-driven investing strategies, according to a June report by KPMG. The potential is immense if Nauphal and his team can achieve anything like that prominence in the much larger U.S. market. "LDI is really a scale business," says Daniel Mikulskis, head of defined benefit pensions at London-based consulting firm Redington — a firm that, like Insight, built its brand around the LDI revolution. "You're not trying to sniff out some star manager."

The air is festive on a June evening at the Royal Academy of Arts, in London's West End, as hundreds of Insight clients and business partners mix with journalists and the firm's employees at the group's annual summer party. It's the opening night of the Academy's Summer Exhibition, and Insight's party guests get first crack at bidding on more than 1,200 pieces of art ranging from oil portraits to avant-garde installations. The works come from both established artists and unknowns, making the exhibition a truly popular event in every sense of the word.

Just ten days before the referendum, the partygoers buzz with speculation about the upcoming Brexit vote. Nauphal makes the rounds to welcome guests while Grey regales colleagues with a story about his weekend in Marseille, where he and his son attended the England-Russia match in the Euro 2016 soccer tournament and nearly got caught up in a violent brawl between opposing fans. Although the two stayed out of harm's way, Grey recalls his astonishment at seeing tear gas seeping into the subway station as they were leaving.

Nauphal takes great pride in the annual party, which has been the firm's signature marketing and social affair for 11 years. "There is that sense of challenging your boundaries and creativity that I always found to be an exciting part of what we at least like to replicate in a much more controlled fashion within our own sphere," he says.

The high profile of the Royal Academy evening is a far cry from Insight's modest origins. HBOS had just burst into the big leagues of U.K. banking through the merger of mortgage lender Halifax and Bank of Scotland when the group combined its fledgling asset management capabilities to form Insight in 2002. Seeking to diversify its retail-oriented business, Insight acquired Rothschild Asset Management, an institutional manager, in January 2003. The deal was most important for the expertise it brought. "It turned out to be a reverse takeover by Rothschild," says Nauphal, who had been CIO at Rothschild and took over as head of fixed income at Insight.

The son of a banker, Nauphal, 55, was born and raised in Beirut but left Lebanon in 1978 to escape the country's civil war. He spent some time in Greece and London before attending New England College in New Hampshire. After graduation Nauphal took a job as a banker at Indosuez in London for a year before returning to the U.S. to pursue master's degrees in finance and information systems at George Washington University. He joined Schroder Capital Management in New York in 1986 and became head of fixed income for Schroder Investment Management in London in 1998. He left for Rothschild in 2001.

After Insight and Rothschild completed their merger in 2003, Nauphal and his colleagues reconsidered the direction of the business. They predicted that the decades-long trend of accumulating savings in defined benefit pension plans would soon peak and start to reverse as companies closed their plans to new members and altered investment strategies to meet the fixed funding needs of future retirees. Insight's executives decided to reinvent the firm's platform to cater to the shifting needs of pension funds, closing down its equity and real estate businesses and focusing on three areas of expertise: fixed income, absolute return and risk management techniques such as LDI.

LDI strategies got a big boost in 2001, when pharmacy group Boots (now part of Walgreens Boots Alliance) decided to de-risk its pension plan by adopting a fixed-income portfolio geared to the funding needs of its employees and retirees. The real accelerator came in 2006, when the International Financial Reporting Standards began requiring U.K. companies to incorporate the funded status of their pension funds into their balance sheets. Suddenly, the ups and downs of the stock market and interest rates could have a material impact on a company's balance sheet, and on its share price. Plan sponsors rushed to limit that volatility by adopting LDI strategies, which employ fixed-income and derivative instruments to match portfolio assets with future liabilities. "The core of LDI is about hedging liabilities in a liquid way," says Redington's Mikulskis. Mike Walsh, head of institutional distribution at LGIM, puts it in terms that come naturally for his group: "Ultimately, what we're talking about is investing more like an insurer."

LDI isn't for everybody. Severely underfunded pensions aren't about to close the gap by bulking up on bonds, especially at today's high prices. But in forsaking the potentially higher returns available on riskier assets like stocks, plan sponsors adopting LDI strategies achieve a more predictable funded status, making it easier to plan for future contributions.

When Insight takes on a new client, it creates a so-called glide path to transition a fund's portfolio from a higher proportion of riskier assets to one dominated by fixed income as the plan's funded status hits key hurdles. The fixed-income portfolio is constructed to generate cash flows to meet future payouts to beneficiaries while the plan invests the remainder of the portfolio in riskier assets like stocks and alternatives in hopes of generating excess returns to close the funding gap. "If the solution is not perfectly tailored to the client, at one point or another the market is going to expose that," Nauphal says.

JIN LEE/BLOOMBERG

Because the Pension Protection Fund is an insurance scheme at heart, it has a policy of fully hedging its liabilities in terms of interest rates and inflation, putting it at the extreme end of the LDI spectrum. The fund has 58 percent of its assets in cash, gilts and annuities, and only 7 percent in stocks. The rest is tied up in hybrid assets and alternatives such as real estate and infrastructure. PPF also applies a derivative overlay on the nominal amount of the fund's expected liabilities to mitigate the impact of fluctuations in exchange rates, interest rates and stock prices on its underlying portfolio.

"Once you start going down the LDI route, it's like a virus that infects the entirety of the rest of the portfolio, because you're constantly looking at relative efficiency gains," says PPF's Welsh. The scale of the fund's bond buying keeps fees on these investments relatively low, at about 5 to 10 basis points for LDI transactions. "You're not paying for manager alpha," he says. "You're paying for manager skill and efficiency.

Exactly one day, four hours, four minutes and 52 seconds before the first referendum poll was due to release its results, Vincent Reinhart, chief economist for Standish Mellon Asset Management, was addressing a room full of journalists at a BNY Mellon press luncheon in New York and showing off the bank's official U.K. referendum countdown app on his smartphone. A former secretary and economist of the Federal Open Market Committee, Reinhart gave a sweeping overview of the global macroeconomy, from the prospects for Federal Reserve tightening to the economic slowdown in China. He ended with some thoughts on what to expect from the referendum. With polls showing the odds of Brexit as a virtual coin toss, price movements were guaranteed to follow either outcome, as the markets would be pricing in the likelihood of both scenarios, he contended. Beyond that he refrained from offering many predictions.

"Corners are tough," Reinhart said. "They're tough to forecast. They're tough to price. And nobody's models work."

The luncheon, which included representatives from seven other firms in BNY Mellon's investment management stable, gave executives an opportunity to tout the merits of their multiboutique model, which has grown to 13 different firms across all asset classes since Bank of New York and Mellon Financial merged in 2007. The network now manages $1.6 trillion from offices in 35 countries, making BNY Mellon the world's sixth-largest asset manager and the second-largest manager of LDI assets, behind LGIM.

"That's the power of the multiboutique model," says Mitchell Harris, CEO of BNY Mellon's Investment Management business. "You're not making it one-size-fits-all and making everyone look alike. There are attractive things to each of those unique cultures that make them great investors."

“IT’S A PLATFORM THAT’S BEEN IN NORTH AMERICA FOR 20 YEARS WITH A CONSISTENT TEAM, AND NOW WE HAVE A BROADER TOOL KIT.”

CLIFFORD CORSO, CEO, Insight North America

With postcrisis regulation putting the squeeze on bank balance sheets and a crop of Silicon Valley upstarts threatening to disrupt such traditional lines of business as custody, asset management has a critical role to play at BNY Mellon.

Harris points to four long-term industry trends driving the division’s strategy: a demand shift to bespoke strategies, a shift away from active management to indexing and so-called smart-beta strategies, heightened need for diversification through alternatives like absolute return and real estate investments, and the long-term growth prospects of emerging markets.

With a hand in all those areas, Insight Investment was an obvious choice for BNY Mellon when Lloyds was looking to sell the unit in 2009. Nauphal welcomed the acquisition because asset management wasn’t a core part of Lloyds’ business. Thanks to Insight’s size and strategy, Nauphal has a louder voice among the boutiques at BNY Mellon.

Each of the boutiques has a high degree of creative control over its investment style and business strategy while the mother ship provides support functions like human resources and information technology services on a centralized platform. Sinead Colton, head of investment strategy for Mellon Capital Management, a $336 billion equity and multiasset manager, enjoys the degree of autonomy that the arrangement provides. “It feels like working for a smaller firm,” she says. “We really see BNY Mellon as a partner.”

BNY Mellon encouraged Insight to expand into the U.S. market from day one, but the firm was preoccupied with its explosive growth in the U.K. and Nauphal knew better than to fight a war on two fronts. “Whatever he does, he’s concerned with doing it very well and having the time to focus on it,” Harris says. “I think his approach now, like it was in the U.K., is careful and methodical — getting performance and a track record up and worrying less about building his brand until he builds performance and builds his products.” Insight’s stunning growth since 2009 means that it now towers in size over BNY Mellon’s next-largest boutique, Mellon Capital Management, as well as Standish Mellon, a $152 billion fixed-income shop that also offers LDI solutions. That overlap can create some brand confusion in the market, but BNY Mellon’s Harris doesn’t see that as a problem. “It’s pretty rare that things are so similar, given how fragmented the markets are, that we would see them really competing head-to-head,” he says. “There’s also the broader philosophy that if you can get two of these boutiques into a final, then your likelihood of winning has gone up.”

Insight began laying the groundwork for its global expansion by combining with Pareto Investment Management in 2013. Harris had been CEO of Pareto, a London-based currency risk manager, from 2000 until its acquisition by Mellon Financial Corp. in 2004. After Harris became president of BNY Mellon Investment Management in 2009, he thought Pareto would be a good addition to Insight’s arsenal. “With their aspiration to be more than a U.K. or continental Europe manager, the one skill they seemed to be missing was a multicurrency component to their LDI,” Harris says.

Along with Pareto’s suite of currency hedging tools, Insight absorbed the firm’s employees and offices in the U.S., Japan and Australia, marking its first foray outside Europe. After the merger Insight gradually added more troops to the U.S. office, waiting for the right moment to strike. “The U.S. is a market you don’t do half-heartedly,” Nauphal says. “We decided to let the Pareto business carry on for a while until we had the bandwidth to focus on the U.S. in a more substantial way.”

As demand for LDI continued to surge in the U.K. and Europe, Insight’s staff grew from 250 people to more than 700. Managing such explosive growth is never easy, but Nauphal credits the firm’s success to its nimbleness and ability to conform to clients’ specific needs. “The new challenge is how we operate across global boundaries as effectively and at the same time scale up,” he says.

In the MetLife building, atop Grand Central Terminal in midtown Manhattan, Insight North America shares the seventh floor with two other BNY Mellon boutiques: $27.9 billion distressed-debt manager Alcentra and $69.4 billion multiasset manager Newton Investment Management. Insight’s operation is headed by Clifford Corso, former CEO of Cutwater, who has been integrating the firm into Insight since the acquisition last year.

To rivals and investors who question whether Insight is fully committed to the U.S. market and has the scale and capability to take on the competition, Corso is blunt: “The answer is yes and yes,” he tells *II* in an interview at the firm’s offices. “It’s a platform that’s been in North America for 20 years with a consistent team, and now we have a broader tool kit.”

Cutwater got its start in 1994 under the wing of MBIA, a municipal and mortgage bond insurance specialist. MBIA wanted to bring more of its fund management in-house and run money for external clients, so it set up a modest operation with some $5 billion in assets and fewer than a dozen employees. Corso jumped at the opportunity to head Cutwater’s fixed-income management because he believed the industry was headed in the wrong direction with managers focused on beating quarterly benchmarks.

The division’s early client wins were mostly other insurance companies. It’s no coincidence that many of the largest players in LDI, including Insight and Legal & General, have their roots in the industry: Insurers rely on returns from investing premiums to meet payout obligations well into the future. They face unique regulations governing how much risk they can take and have long employed techniques for matching assets and liabilities. Many larger insurance companies, whose scale makes it cost-effective to manage their own assets, built up capabilities for handling money from third parties, often smaller insurance companies. “There’s nothing like eating your own cooking and being able to offer those meals to the market and have them be acceptable,” says Corso.

Over time more than half of Cutwater's assets came from external sources, and the unit generated more than 50 percent of MBIA's profits. Then the subprime mortgage crisis hit in 2008, causing the U.S. market for mortgage-backed securities to freeze up and pushing once triple-A-rated MBIA to the verge of collapse. As the company sought to restructure itself, it turned Cutwater into a separate operating unit. The interests of the parent and the money management arm continued to diverge until MBIA agreed to sell the business to BNY Mellon in 2014. Throughout the turmoil Corso and his team hung together, and they now occupy senior positions on the 80-strong team that makes up Insight North America.

"That's the cutwater," says Corso, pointing to a model boat in a glass case in the conference room. "The silver strip running under the bow is called a cutwater because it cuts through the water." The name was chosen to project confidence in the team's ability to glide through the choppy waters of global markets with proper portfolio construction.

Insight relied on organic growth in the U.K. and Europe, but the U.S. is a different story. "I could've sent two people to the U.S. and said, 'Hey, we're starting to do the U.S.,'" Nauphal says. "But it's a very competitive market, and you want to do it with the commitment and resources required."

The LDI market in the U.S. is much more fragmented than in the U.K., and Insight is the last of the Big Three to build a team devoted to the country. BlackRock has long provided liability-driven strategies and other bespoke portfolios through its BlackRock Solutions division, and it has developed a big presence in the U.K. and continental Europe. LGIM spent three years establishing a track record in long-dated credit out of its Chicago office before building a solutions team to attack the LDI market. "We didn't go, 'Hey, we've done it in the U.K. and we're here now,'" says institutional distribution chief Walsh.

Corso and Nauphal met in the summer of 2013 through a mutual friend in the financial sector. They had lunch at a Manhattan restaurant and hit it off, finding they shared the ambition of building a global platform to equip clients with investment vehicles that can weather the rough seas of today's markets. "For me personally, it was a very exciting lunch because the key to success is making sure you're aligned, and that's not that easy to find," Corso says. Insight's New York office is now home to more than 35 of the firm's 100-strong fixed-income team and about half of its 40-odd credit analysts.

Although LDI has gained traction with corporate pensions in the U.S., it doesn't enjoy nearly the same popularity that it has in the U.K. After the U.S. Pension Protection Act was passed in 2006, plan sponsors began paying more attention to how their fixed-income portfolios matched their liabilities, even if they didn't start doing actual asset-liability matching. For many funds this simply entailed ditching the Bloomberg Barclays Aggregate Bond Index for longer-duration credit because the average pension liability has a 12- to 15-year life span.

In general, U.S. pensions make less use of derivatives than do their peers in Europe. "Some medium to small clients are more adamant to stay in the cash bond market, and they're willing to give up the nth degree of precision for the simplicity of, say, blending commingled funds together," says Gary Veerman, head of BlackRock's U.S. client solutions group.

For a more sophisticated approach, many U.S. pensions have turned to St. Louis–based NISA Investment Advisors. At the end of June, the firm managed $103.5 billion in long-duration bond portfolios for 138 clients, including half of the 50 largest U.S. corporate plans.

Jess Yawitz, CEO of NISA Investment Advisors, sees a "feeding frenzy" for LDI looming on the horizon. A modest rise in long-term interest rates or an improvement in funded status, possibly caused by strong equity returns, could prompt pensions to sell riskier assets in favor of more fixed income. "Time is going to be our friend in terms of clients deciding to move more rapidly into LDI," Yawitz says.

That may sound like good news for Insight, but a bidding war for bonds is likely to be bad news for pension funds. "There's going to be a lot of competition," says Carol McFate, chief investment officer at Xerox Corp. "Every plan that has a glide path, as it hits a trigger, is going to be competing against other plans for many of the same bonds."

But the prospect of low yields isn't stopping more pensions from getting in the LDI game. International Paper stopped using swaps to hedge its liabilities back in 2008, when the crisis caused swap rates to diverge from the corporate bond rates used to calculate pension liabilities, but the company revived the practice earlier this year. "We were waiting for rates to go back up before putting these things back on, but they never did," says Robert Hunkeler, the company's vice president of investments.

The opportunity appears ripe. Can Insight seize it? The firm has relied mostly on word of mouth from clients and consultants rather than on aggressive marketing, and it will continue to do so, says Robert Wiedemeier, the senior marketing manager, who came to Insight from Morgan Stanley Investment Management earlier this year. "The big challenge here is getting the Insight name to be known in the U.S., and I think the advocacy model is the way to go, and that's what Insight has done for years," he says.

McFate and Hunkeler are familiar with Insight, but both have long-standing relationships with NISA and they couldn't be happier. That underscores another challenge for Insight: LDI assets tend to be sticky because of the complexity of portfolio construction, which is a big appeal for managers but makes it hard for a new entrant to dislodge an incumbent manager.

Corso acknowledges the difficulty but sees plenty of clear water ahead for Insight's American operation. "It's early days for the de-risking journey in the U.S.," he says. •