West Coast Multi-Boutique Adds New Affiliates

By Morgan M. Davis May 28, 2014

Northern Lights Capital Group has added two new firms to its multi-boutique roster.

The Seattle-based firm, along with its portfolio company and affiliate **WHV Investment Management**, has invested in **EAM Investors**, a California-based small and micro-cap equities firm. EAM, which focuses on institutional clients, currently has $987 million in assets under management. At the end of April, Northern Lights also finalized a minority holding in **Blackcrane Capital**, a Washington-based international and global equities manager.

"It's an early stage growth investment," says **Jack Swift**, managing director at Northern Lights. Early stage boutiques often have better performance and the strong niche focus that institutional investors are looking for, he says. Northern Lights, which had $20 billion in overall assets at the end of March, provides capital through partnerships to asset management boutiques looking to grow. The addition of EAM and Blackcrane brings the firm's lineup to 14 managers. Some of the firm's boutiques operate their own distribution platforms, while others rely on centralized distribution through Northern Lights.

Northern Lights plans to help EAM develop its existing international business, including international small and micro-cap equity and emerging market small-cap strategies by providing distribution capabilities and seed capital to expand product offerings and presence in the institutional space. The firms hope to add mutual funds to EAM in the future by utilizing WHV and its current mutual fund experience, Swift says. Northern Lights will provide similar support to Blackcrane.

The two new firms add international products that Northern Lights sees as a growing area of interest. "[There is] increasing demand for managers in international and global equities," says Swift, calling EAM and Blackcrane's offerings "sunrise" products.

"Generally speaking, there's a lot of demand for managers in those asset classes," says **Steve Levitt**, managing director of Park Sutton Advisors. "These are very logical deals for them."

Unlike other multi-boutique asset managers, such as Affiliated Managers Group (AMG), Northern Lights owns a minority stake in each of its managers, says Swift. "The organization remains owned by the same people," he says, explaining the importance to Northern Lights that the boutiques maintain control of their own firms.

"I don't think the ownership structure makes much difference," says **Neil Bathon**, managing partner of **Fuse Research Network**. But, taking a minority stake in a firm could also be appealing to boutique founders. "It's hard for someone to give up control of their baby," says Bathon.

Multi-boutiques have been growing to woo institutional investors looking for more focused investing with the resources of a large firm. Earlier this year, AMG added **EIG Global Energy Partners** and **River Road Asset Management**. TIAA-CREF announced its acquisition of multi-boutique Nuveen Investments in April, adding a slew of capabilities to its business in one move. Similarly, New York Life bought Dexia **Asset Management**, now **Candriam Investors Group**, in a deal finalized in the first quarter of 2014.

“The marketplace clearly prefers specialists,” says Bathon. Investors want to see dedicated expertise to individual strategies, but “the real challenge is about distribution” for these niche firms, he says. A multi-boutique structure can offer distribution help, and its fairly common for boutiques to vary between centralized distribution and individual distribution within one structure, says Bathon. Boutiques typically keep institutional distribution in-house, while centralizing the retail distribution, he says.

Having multiple boutiques with different strategies and asset class focuses helps a firm stay more appealing to investors as only a handful of strategies will be popular at a given time. “This keeps you active in the market place,” says Bathon.

The back to back deals for Northern Lights is likely partially coincidence for finalizing the deals, but also a reflection of market sentiment, says Levitt. “It’s sort of feast or famine,” he says. “The overall environment for deal making is pretty good.”