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Start-Up Managers Thrive in First Year

by Chris Larson

It’s easier than ever for investment professionals to leave a large firm and hang out their own shingle. Managers who have successfully done just that in the last year say the increasing number of firms offering financial and back-office support to new firms make it likely that an increasing number of portfolio managers will strike out on their own.

That’s how San Diego-based quantitative shop ClariVest Asset Management got its start. The firm formed last March when Stacey Nutt and several other professionals left Nicholas-Applegate Capital Management. Nutt is now ClariVest’s CIO and president. He says he couldn’t have launched his own firm as recently as a few years ago. “What we’ve discovered is that there’s a revolution in the industry, driven by technology and the ability to outsource,” he says. “The technology is allowing it to happen. Five years ago, you could not outsource the kind of stuff we can outsource today.”

The firm outsources its back- and middle-office functions to firms like Mellon Financial, Charles River Development and FactSet, and gets its marketing from Stellate Partners, which also owns a stake in ClariVest. ClariVest also received capital and other start-up assistance from Lovell Minnick Partners, the private equity firm dedicated to the asset management space. “They’ve been extremely supportive, with all kinds of guidance, not only the cash to start up,” Nutt says.

Nutt points to an obvious benefit to having so many service providers in the marketplace: “The manager can focus on what he does best,” Nutt says. “We’re very fortunate to get into this situation, where we are riding the wave of a revolution in the industry.”

It’s been a strong first year for the firm: ClariVest has nearly $1.3 billion under management, with another $300 million awarded but not yet funded. “And we have a very strong pipeline,” Nutt says. The firm uses its quantitative process to manage money in a wide range of equity strategies, across most styles and capitalizations, and both domestically and internationally.

Also celebrating a strong first year in business is Evercore Asset Management, a New York-based value shop that opened last January. “We have a multi-year strategic plan, and had expected to finish 2006 with about $125 million,” says Gail Landis, managing principal for marketing and client service. The firm closed the year at $157 million, with a “very active pipeline,” she adds.

The firm, which received some start-up capital and ongoing infrastructure support from the advisory and investment firm Evercore Partners, launched with traditional small- and mid-cap value products, and recently opened a long/short fund and a concentrated long-only fund, both of which are by-products of the existing strategies.

Evercore was founded by a quartet of former Sanford C. Bernstein & Co. professionals, including Landis. She says that rigorous planning, and making the right hires, have been key to the firm’s early success.

“We went into this by over-investing in infrastructure,” Landis says. “We signed a five year contract with Mellon to do our back- and middle-office functions. We put in an integrated trading and order management system. We have institutional-level client reporting. If anything, we tried to over-engineer it at the back end, so that if we get the institutional opportunities that are in front of us now, those institutions would be confident that we can absorb the business without any kind of stresses.”

Evercore started with about eight employees, and now has 14. “Culture is very important to us,” Landis says. “We’re adding people who we know – we know how they think, what they’re like as people. We want to be around people we like and trust.”

Another young start-up is Elessar Investment Management. Richard Giesen left his job as a portfolio manager at National City Bank and, with two colleagues, opened the Cleveland firm a year ago. “We’re very happy with how the year progressed for us,” he says. “We set up all our systems, made sure we were fully compliant with regulators, and raised the appropriate amount of working capital.”

Elessar hasn’t won much business yet. “But that’s something we had anticipated,” Giesen says. “The institutional business we’re pursuing has a longer lead time. You really have to go out and rebuild all your prior relationships, with the consultants and managers of emerging managers. You have to basically start from scratch. That is now just starting to get some traction,” he says.

Elessar’s sole product is a small-cap value strategy, which puts the firm in an area that’s popular with investors and that has tight capacity. “We’re seeing quite a few searches for small-cap value assignments,” Giesen says. “And the space is very tight. A lot of managers are closed. So we’re getting attention, not only because of our track record and my past performance, but also the fact that we do have significant amount of available capacity.”

Like the other start-ups, Elessar outsources most of its non-investment functions, but does keep its legal and compliance work in-house. Partner Mitch Krahe is an attorney and was in National City’s compliance department. “Mitch is responsible for everything but investment management,” Giesen says, “all the back office and compliance functions.” The firm does its own marketing, RFP work and database updating.

Most start-up firms are at least partially owned by their founders and key employees. That’s likely to continue with the recent avalanche of private equity dollars and other financing options available to fund managers from specialists like Lovell Minnick or Rosemont Investment Partners, to private equity players like TA Associates, or specialty financiers such as Asset Management Finance. Ownership definitely works in the manager’s favor, owners say.

At ClariVest, eight of the firm’s 12 employees are part owners. Nutt says consultants and clients like the stability that comes from that. “We’re not going anywhere. We all own a piece of the business, and we’re committed to it,” Nutt says.

Managers who want to start their own shop sometimes have to deal with legal ramifications. After Nutt left Nicholas-Applegate, for example, he and his old firm filed competing lawsuits related to his departure and the creation of ClariVest. The legal wrangling continues, but Nutt says it’s not a distraction. “Early on it was a nuisance, but now that we’re bigger, it’s not really an issue,” he says. “We’re focused on our business and let the lawyers deal with it.”

Indeed, focusing on the business and plenty of leg work is key to success. During Evercore's first year, "We went to a lot of meetings. Probably between 80 and 100 meetings," Landis says. "We populated the databases, we built out our Web site." Those efforts are paying off, she adds. "For a small shop, we are very, very far along."