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Fast-Growing Manager Taps New Finance Model

by Chris Larson

A Seattle-based manager is using an innovative financing technique to help it continue its recent strong growth. Rigel Capital has signed on as the seventh firm to receive financing through Asset Management Finance, which provides firms with capital in exchange for a slice of the manager's revenue for the next few years.

"This is an excellent way of ensuring some liquidity, while ensuring we remain independent," says George Kauffman, Rigel's founder, CEO and CIO. Rigel, a growth equity manager founded in 1998, has seen its assets explode in recent years, ever since being placed in the California Employees Retirement System's emerging managers program. Kauffman says Rigel is on track to continue that growth.

When Rigel landed in CalPERS' Manager Development Program in late 2003, the firm had just \$120 million under management. CalPERS handed the firm a \$150 million mandate, and also took a 40% ownership stake in the firm.

That seal of approval was vital to an explosion in growth. "It spoke to us being an entrepreneurial firm, and to our excellent performance, and the recognition we have experienced people who have been involved in previous investment firms," Kauffman says. "We knew how to manage money, and just needed the opportunity to show it."

Firmwide assets under management grew to \$1.4 billion two years later, at year-end 2005, and to \$2.2 billion at the end of 2006. As of June 30, the firm has \$2.3 billion under management, mostly in a large-cap growth product.

That product's performance has been very strong throughout its history, except for a bad period in 2006, a year that it lagged its benchmark by 674 basis points, according to the eVestment Alliance database. Performance has improved this year, and the product's long-term numbers are still strong, including besting its benchmark by 965 basis points since inception in 1998.

Kauffman thinks the firm can eventually manage \$10 billion to \$20 billion. He expects some of that growth to be driven by the eventual cycling of growth stocks relative to value. Value has outperformed growth for many years now; market observers expect that to turn around soon, and Kauffman says he's seeing signs that make him think the tide is turning.

AMF was founded by Norton Reamer, the founder and former CEO of United Asset Management. Under the financing model offered by his new firm, a manager receives anywhere from \$5 million and up in cash, without giving up any equity or management control. Instead, AMF gets a fixed percentage of the manager's top-line revenue for a fixed period of seven to 20 years. The exact dollar amounts, percentage and length differ by deal. Terms of the Rigel transaction weren't disclosed.

Managers entering into a deal with AMF can use the money for any purpose. Kauffman says the financing is

“a way of ensuring the long-term independence of the firm.” The money will be used in part to “retire existing shares, and to incentivize the retention of the existing employees.” Members of the existing management team have signed contracts to ensure they stay with Rigel, the firm says. While CalPERS still holds a 25% stake in Rigel – the firm bought some of itself back about 18 months ago – Kauffman envisions a time when the firm buys those shares back as well and returns to being 100% employee-owned.

AMF benefits from revenue growth of any firm it works with, and Reamer agrees with Kauffman that Rigel’s prospects are strong. He knows Kauffman from years ago, when UAM bought an earlier Kauffman-led firm, Sirach Capital Management. “George builds a lot of loyalty and a very cooperative investment process, and he organizes it very well,” Reamer says. “And he is also very client service-oriented, more than a lot of people I know who are good investment managers.”

AMF now has money with seven firms. Reamer says he’s seen an uptick in interest from managers in the wake of the market turmoil last month, and expects a busy fourth quarter. “We have a lot of stuff coming down the pipeline now,” he says. “I would guess we will do three or four transactions between now and January 31.”

Kauffman has been in the investment industry for nearly 40 years, but he’s not planning to hang up his spurs anytime soon. “This allows me to be fully committed to this firm for the next 10 years,” he says.

Colchester Partners advised Rigel on the deal.

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