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## The SuperMarket

*A focus on marketing and third party firms*

### AMI Asset Mgmt. Sees Growth In Recurring Revenue Strategies

AMI Asset Management has received its first major institutional account in its domestic small-cap growth equity portfolio and is poised to keep the ball rolling.

The firm recently passed \$1 billion in total firm assets under management and in September reached its five-year track record on the small-cap strategy and now with an anchor \$135 million allocation from the Missouri Local Government Employees Retirement System in the portfolio, is ready for an uptick in institutional investor interest.

"Now that we've got a significant institutional account, we are seeing a lot of activity," Director of Sales and Marketing Matt Dorband said of the strategy, which has returned 41.34% for the one-year period ending Sept. 30, 27.04% for the three-year period and 19.31% for the five-year period, according to eVestment, compared to Russell 2000 Growth Index returns of 33.07%, 19.96% and 13.17% over the same time periods.

The Los Angeles-based firm was launched in 1998 by Bill Tanner, who had developed a large-cap growth strategy built on the premise of investing in companies with recurring revenue models.

In 2005, Chris Sessing joined Tanner and President and Co-Portfolio Manager Matthew Humiston on the investment team as lead portfolio manager and in 2008 applied the philosophy and process used in the large-cap growth portfolio to the small-cap sector.

Of the approximately \$900 million in the two equity strategies—the remaining assets are in legacy fixed-income accounts for high-net-worth clients—the firm has about \$750 million in the large-cap strategy and \$160 million in the small-cap, buoyed by the large allocation from MoLAGERS.

Overall, approximately \$400 million of the firm's \$1.2 billion in assets under management is from institutional investors.

Dorband said reaching the \$1 billion mark in total firm assets has helped both strategies show up on more investor screens, which has also helped generate more interest.

"They have all said to us, 'give us a call once your strategy gets above \$100 million in small-cap or once you get a major institutional investor,'" he said.

Having a strategy with a unique take on the market has also been a differentiating factor for the firm.

"The twist is, and what we haven't seen out in the marketplace, is we focus on companies that only have a high degree of recurring revenue," Sessing said, explaining that the firm focuses on companies with recurring revenue business with a lifespan of two years or less.

For a company to be included, it must have at least 50% of its revenue from a recurring source, he said.

"On the upside, it provides a solid base of business for companies to grow," Sessing said, while explaining that on the downside the companies are somewhat protected because of more predictable earnings.

The downside protection is the key to the strategy and was apparent in the returns of the large-cap strategy in 2008, when the firm returned -22.00%, compared to -38.44% by the Russell 1000 Growth Index.

"What we really look to do is keep pace in these bull markets but where we are really adding value is in the bear markets...our downside capture is really the strength of the strategy," Dorband said.

Both strategies will typically hold 30 to 40 companies.

Through its due diligence process, the firm also looks to identify companies with a 10% or greater discount on their true intrinsic value.

"We are trying to capture a combination of growth and valuation," Sessing said.

He said the recurring revenue model in general is attractive to companies and has been gaining traction in areas such as the software industry, where companies are moving to "software as a service" models that charge a subscription rather than having individuals or companies purchase software and then pay a back-end maintenance fee.

"Every company would love to go to that business model," he said.

The firm is hoping more investors want to go to this type of investment model and believes the groundwork laid over the past 15 years has positioned it to gain significant traction in the institutional landscape.

"This firm has really taken Bill's strategy and formulated it into a billion dollar firm," Dorband said. "We haven't seen any other firm out there using our strategy."