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Small Young Manager Enjoys Good 4Q

by Chris Larson

Decent performance, transparency and a focus on consultants and the subadvisory channel have helped Epoch Investment Partners fare better than many of its peers over the past year. Epoch's assets under management have held up well compared to the broad markets in recent months, and the firm's top brass say they're pleased with that result.

The publicly traded Epoch, founded in 2004 by former Credit Suisse Asset Management head Bill Priest, announced this week that it ended the year with about \$5.3 billion under management. That's down from \$6.7 billion a year earlier, and down from \$6.1 billion at the end of September. The company says it's pleased by fact that its loss was significantly less than the broad markets.

"Virtually all major global equity indices were down in excess of 20% for the quarter," Priest says in a statement. "We were encouraged that our AUM fell less, approximately 12% for the same period. This reflects several new account awards and continuing net cash flows in existing accounts during the quarter."

Phil Clark, an Epoch co-founder and head of the firm's client service and marketing efforts, says it was a good fourth quarter, with new wins offsetting some of the market losses. "There were a lot of firsts for us in this quarter," he says, including Epoch's first-ever institutional clients in Japan, France and Australia. "And we saw some very meaningful net flows." The firm won assets from both new and existing clients.

Epoch focuses on equity products, mostly domestic value strategies across the capitalization spectrum and a number of global equity products, including international small-cap, global small-cap and a global absolute return strategy. Most of the firm's products have beaten their respective benchmarks over the past year.

Epoch's investment process looks for firms that are profitable and have good management, rather than focusing on a company's price-to-earnings ratio or similar measures. That sets it apart from other managers and, the firm argues, is in the long-run a better way to invest. "As we have often said, we believe our emphasis on cash flow analysis, rather than accounting measures, will produce superior investment returns at a lower risk level for clients over the long term," says Priest.

Clark thinks that simple-to-grasp investment process, as well as Epoch's long-standing emphasis on transparency in its own operations as well as in its investment process, will continue to make its products appealing to new investors.

In fact, the scandals and other troubles of the past year could work in Epoch's favor, the company thinks. "The failures of the regulatory oversight bodies over the past year have really highlighted the need for transparency, and may be one of the best things to ever happen to our firm," Clark says. "Investors have always wanted to know about the transparency of your investment process, and about you as a manager," he says; he expects those demands for transparency to only get stronger.

The firm has nearly 50 employees, a number that has been fairly stable over the past year, Clark says. Epoch

added three investment analysts in the third quarter of 2008. The company isn't actively hiring, but Clark says, "We are aware of some incredible talent that's out there, and we always see the potential to take advantage."

The firm has also been moving resources around a bit, with an increased focus on the consultant and subadvisory channels.

Epoch declines to give specifics about its pipeline for new business. "We continue to be very encouraged by the discussions and opportunities we are seeing," Clark says.

The firm's global equity product suite places it in what was the only strongly growing area of non-U.S. equities, at least through Sept. 30 of last year. According to Casey Quirk and Associates, global equity products saw net inflows of \$28 billion for the 12 months ending Sept. 30. Only two other non-U.S. categories – international growth and emerging markets – saw net inflows over that period; all other international equity products lost money, with \$34 billion in net losses in international equity over the year, Casey Quirk reports.

Domestic equities, including value, however, continued to see outflows through last year's third quarter. "Both U.S. Value Equity and U.S. Growth Equity products continued to suffer redemptions, totaling approximately \$60 billion," a recent Casey Quirk report says. "Declining interest in U.S. Equity products overall has impacted both styles of investing, outweighing the effects of any preference for style."

Growth and value products combined for \$60 billion in net outflows for the year ending Sept. 30, the report says. Growth accounted for just under half of that amount.

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