

# Boutique warms up

Northward Capital, the fund manager spun out of IAG Asset Management, is intent on maximising the opportunities available to small equity players in today's market, PATRICK COMMINS writes.

## FUND FEATURES AT A GLANCE

- ✦ **NAME:** Northward Australian Equity Trust
- ✦ **INVESTMENT APPROACH:** Invested predominantly in listed Australian securities and cash. The investment style is active, high-conviction, style-neutral and research-driven, using a multiple portfolio manager approach.
- ✦ **INVESTMENT OBJECTIVE:** To earn a return which exceeds that of the S&P/ASX 300 Accumulation Index (ex-LPTs), over rolling, three-year periods.
- ✦ **MINIMUM INVESTMENT:** \$100,000 through MasterKey Custom platform.
- ✦ **FEES:** Annual management fee of 0.95 per cent with a performance fee of 15 per cent of any outperformance above the S&P/ASX 300 Accumulation Index, calculated quarterly.
- ✦ **DISTRIBUTIONS:** Every six months.



**T**HERE IS an image of boutique funds nimbly moving through the investment management industry, deftly sifting through equity markets and plucking out quality stocks. Meanwhile, behind them, the larger investment funds stumble along, shackled within conglomerates and labouring under layers of bureaucracy.

This is a picture Simon Rutherford, chief investment officer of start-up boutique Northward Capital, is happy to paint when he discusses the fund he co-founded last November from what was the Australian equities unit at Insurance Australia Group Asset Management.

Rutherford says his experiences so far in running the \$1.4 billion fund have been very rewarding.

"When you want something done you just go out and do it, you don't wait for senior manager approval," he says. "Everyone's running the business as an owner and trying to generate good returns and run a profitable organisation."

Darren Thompson, who started Northward with Rutherford and is now chief executive, also relishes the independence of the boutique structure.

"The key advantage is a single focus on the portfolio," he says. "We don't have extraneous distractions which previously might have come down from non-funds management people."

The Australian equities team comes to the market with a strong record of investment performance. The Mercer Investment Consulting survey ranked Northward No. 3 among the long-term horizon funds over three years, with a return of 21.4 per cent. Over two years the fund ranked sixth, recording returns of 17.4 per cent.

The fund describes itself as high risk, and suitable for long-term investors with a horizon of at least five years. Previously available only to wholesale investors, the fund is making the move into the retail space.

There are three keys to the fund's long-running outperformance, Rutherford says.

on Rutherford,  
Northward Capital:  
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NIC WALKER

First, he points to the skilled investment team. Aside from himself and Thompson, who run the overall business, Northward's investment team comprises four other ex-senior managers from the IAG business. Between them, they have a total of 38 years' experience in investment management.

Second, the managers have in place an investment process they believe differentiates the fund from its competitors. "The way we operate a multiportfolio manager system is a fundamental part of how we're different from other managers," Rutherford says.

Northward's process allows its specialist sector portfolio managers to back their highest conviction ideas and manage their own sector holdings within the overall portfolio, encouraging accountability and timeliness.

"The fund is driven on fundamental research," Rutherford says. "Fundamental stock-picking drives the portfolio based on our sector portfolio managers. And all our sector portfolio managers are analysts as well. They are very experienced: each of them has over 10 years' investment experience.

Since each stock is selected on its individual merits, the portfolio's structure is likely to differ substantially from the composition of the benchmark index.

"We target 3 per cent alpha over the S&P/ASX 300 (ex-listed property trusts), and we aim to deliver a quality portfolio over time," Rutherford says. "We don't have any analysts per se – Darren and I run the business overall – but each one of the team has accountability for their sector portfolios which make up the overall portfolio."

Globally, Capital International and Wellington Management would be the closest comparatives to Northward's investment process, Rutherford says.

He says the fund has been operating under the current investment management style since 1994. Thompson adds that the way the manager researches and selects stocks has remained constant over the past 10 years.

The manager targets an investment range of 90 per cent to 100 per cent Australian equities and from 0 per cent to 10 per cent cash.

The team believes the third and final key to its investment success is the boutique structure, which it expects will give it an extra performance edge.

Northward Capital broke amicably from IAG,

assisted by seed money from nabInvest, a new division of National Australia Bank specifically set up to take equity stakes in breakaway fund managers. NAB's boutique incubator took a 51 per cent stake.

The remaining 49 per cent, held by Northward staff, will eventually be increased to a controlling share. The investment team manages daily business, however.

"There is an expectation that the investment team will move to voting ownership in the medium term," Thompson says. "The running of the business on a day-to-day basis is very much conducted by us, the investment team. NAB is in effect taking a meaningful, but minority, role."

The alignment of customers' and fund managers' interests is crucial to the boutique story: the people who own the business are the people who run the business. This is expected to reassure investors that the managers will stay focused on what they're paid to do, which is to generate alpha.

"We know how we want to run our business," Rutherford says. "Our business is all about investment management and finding undervalued companies."

NAB brings the weight of a significant capital backer, and provides Northward with the distribution and product development expertise lacking in a fund that is essentially run by investment professionals.

Utilising the capabilities of its large stakeholder, the fund is now available to retail investors through the MLC MasterKey Custom platform.

By June, the fund will appear on the broader MLC MasterKey platforms, which will allow individual investors access to the fund with a minimum \$5000 initial deposit. "We're excited about going into the retail arena and growing the retail fund," Rutherford says.

"We believe we could be running quite a lot more funds under management given that we've been managing a much larger amount in institutional money for 10 years at IAG."

The fund will look to expand its retail offering across other platforms, while continuing to build relationships in the broader market with asset consultants and clients directly. Meanwhile, Rutherford and his team recently won a \$240 million mandate from Jana's implemented consulting platform for Australia equities. ✪