

Emerging Manager *Monthly*

Blackcrane Capital's Asset Growth Begins To Take Flight

Global equity manager Blackcrane Capital's standing in the institutional landscape has begun to soar in the three years since Northern Lights Capital Group took a stake in the Bellevue, Wash.-based firm.

The three-year mark of the Blackcrane Overseas Alpha fund came at both a fortuitous, if not oddly-timed place for the firm to begin gathering assets and mandate victories as the international and global markets saw a slight drawdown in 2016.

"Right as we hit our three-year mark and when performance had hit a bit of a drawdown last year, we were very fortunate to be meeting with long-term oriented investors," CEO and CIO Daniel Kim said. "They saw that drawback, it seems, as a time to pull the trigger and invest in the firm."

Blackcrane's recent successes in the institutional space have helped it climb to over \$650 million in assets under management and its mandates include manager-of-managers allocations from the California State Teachers' Retirement System through Leading Edge Investment Advisors and at the New York State Teachers Retirement System and North Carolina Retirement Systems through FIS Group.

"We're super-excited. We've hit some pretty tough milestones to pass both from an operational as well as an investment standpoint," Kim said. "I think and I hope that positive days are ahead of us."

Those positive days seemed farther from reach in mid-2014 when Kim and three partners launched Blackcrane with less than \$1 million in capital. The firm's humble beginnings at that time required the team to rent office space from another company during off-hours, Kim said.

"It has definitely been an adventure," Kim said. "We took a fairly bootstrap approach when we started the firm. I didn't have a couple million dollars laying around to get a nice office and launch full-on. We essentially went without drawing any compensation for the first couple years."

The 30% equity stake the firm cemented in 2014 with Northern Lights, now Pacific Cur-

rent Group, provided the launching partner Blackcrane needed in taking on both marketing and distribution responsibilities early on in the firm's life, according to Kim.

"It was a very seamless way for us to get out into the institutional market, relatively speaking," he said. "We targeted the emerging manager-of-managers space to build relationships early on, as well as approached the more unconstrained, philosophically active firms like SEI."

Kim noted that the firm's first significant breakthrough came in October 2014 when it was funded by its first institutional client in SEI Investments. "SEI was a breakthrough for us. That was amazing for us to get a sub-advisory account for a 40 Act fund. Other than that it's primarily been consultant-driven, as the emerging managers-of-managers have great relationships with the public plans."

The firm has been able to project a strong impression of the strategy over the years, particularly noting how it would react in various environments, which has in turn lent confidence to investors. "I think I was fairly upfront and candid about the types of environments that strategy should thrive under, but also the situations where the strategy can face challenges," Kim said.

The firm's Overseas Alpha strategy contains between 30 and 35 names and requires a 10% earnings delta that can be quantified over all time periods before it will even consider an investment, which ultimately helps Blackcrane maintain true objectivity and hold themselves accountable to that objectivity, Kim said.

"We have several risk management philosophies, but an important one for us is that we embed risk management directly into the fundamental investment process," Kim said. "In this day and age if you make a 5% error on your projections and your company misses by 5% or 10%, especially these days, who knows how the market will react to that news. Maybe the market will look past it...but that's not something I feel comfortable counting on."

The team targets companies across the

cap spectrum and undergoing some sort of significant or fundamental changes, according to Kim.

"It's an all-cap strategy that takes us back to the roots of active management," Kim said. "We generally don't allow constraints and restrictions to dictate the investment process. We want to be flexible when it benefits our clients."

The firm combs corporate earnings announcements within 24 hours to look for a beat or miss by preferably 10%, Kim said. A company beating or missing the market by more than 10% tends to coincide with a change and means "a higher likelihood of future misprojections," which becomes Blackcrane's starting point for potential portfolio inclusion followed by the more intense research process, he added.

The Blackcrane team is made up of six investment professionals including Kim, with he and two associates serving as regional heads covering the U.S., Europe and Asia. Each head spends 50% of their time researching their region while splitting the remaining 50% between the other two sectors, according to Kim.

"It forces cross-fertilization across geographies and prevents certain cheerleading biases," he said. "We're all human - we're going to want more assets and influence in our respective regions... If there's something that even marginally tarnishes the purity of the investment process, if we can we're going to catch it."

While he is happy with the firm's current investment staff, Kim added that he envisions an incremental internal build-out of the firm's operations and client service staff as Blackcrane continues to grow.

Moving forward Kim feels that between its two strategies, Overseas Alpha and Global Equity, Blackcrane has capacity to handle between \$3 billion and \$5 billion.

"We're not trying to build empires here. We have an extreme passion for our investment philosophy and we want to use it to benefit as many people as possible," Kim said. "We don't want to sacrifice performance."