

# Emerging Manager Monthly

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## Small-Cap Value Shop's Focus On Future Benefiting Now

Sterling Partners Equity Advisors has been focused on the future, a strategy that has helped propel it through the COVID-19 pandemic.

The Chicago-based domestic small-cap value equity firm was launched as a long-only asset management subsidiary under private equity firm Sterling Partners in 2017 as CIO and Portfolio Manager Kevin Silverman brought his strategy over from boutique value shop Falcon Capital Management.

"It was a very nice courtship and it's proven to be a very good marriage," Silverman said of the partnership with Sterling, which has provided an invaluable level of infrastructure and support that has allowed the long-only team to flourish. "So, from that point on in the fall of 2017 our main goal was to prove out the concept of what we were trying to do."

The process of proving out its concept has required some significant work in marrying the long-only track record of Silverman and his team to Sterling Partners, which had not previously offered traditional public equity strategies.

This work has included both the investment side as well as the operational and marketing sides, according to Silverman, who highlighted the necessity of building out the RIA and adapting the existing Sterling best practices and processes, among other efforts undertaken in the last three years.

The firm next began "making rounds on the emerging manager markets," Silverman said, acknowledging that a track record of three years "is sort of a magic number" when it comes to institutional commitment to a firm.

"The investment team would say we've been together for about 15 years, so that's not new, but the platform and the trading and the infrastructure, the IT, the management is now backed through Sterling," Silverman said, adding that this work over the last three years has allowed the firm to now more formally introduce itself to the institutional market.

The firm also hired an institutional salesperson last fall in "anticipation of beginning to roll out the effort and at this point I think we've populated well over 15 databases," according to Silverman. He noted that the firm has had and continues to reach out to the top 100 institutional consultants.

He also noted that the firm has been approved for one larger retail platform and is close to securing approval from a second, which will give way to future conversations about a dedicated marketing approach to the retail channel, one that Silverman has a wealth of experience working in.

The firm, which has roughly \$75 million under management, has also been circulating the Taft-Hartley space with the help of

### Three Years Ago

#### Private Equity Firm Sterling Partners Launches Long-Only Business

Private equity firm Sterling Partners has launched Sterling Partners Equity Advisors, a long-only asset management business run by domestic small-cap value manager Kevin Silverman.

Silverman, who has managed the strategy since 2001, said he decided he wanted to bring the strategy to Sterling after working with smaller firms Third River Capital Management, Douborn Partners and, most recently, Falcon Capital Management.

The Chicago-based manager wanted to partner with a firm with a larger infrastructure that could help get past issues related to size and sustainability, combating what he felt is a bias against smaller firms, he noted.

"I believe it is almost the only thing that has been lacking. Does what I have been out before, the results have been pretty consistently good," he said.

Silverman's focused small-cap value strategy has returned 11.7% annually since inception on June 30, 2001, compared to 8.5% by the Russell 2000 Value Index. The strategy has also outperformed the index for the one-, three-, five-, seven- and 10-year periods ending Aug. 31.

Meanwhile, Silverman runs a diversified strategy that has produced similar results, returning 8.20% annually since inception on June 30, 2006, compared to 5.73% by the index.



Kevin Silverman

While Silverman was looking for local partners, he said it was natural for him to turn to Sterling given his familiarity with

**It was a wonderful combination of their very deep infrastructure and my very consistent deep process in value investing.**

the firm. It was then that he learned that the middle-market focused private equity asset management space to complement its existing resources and infrastructure for two years.

"I give them a call, learned that they

had this effort as well and were looking to launch an asset manager," he said. "We met and it was a wonderful combination of their very deep infrastructure and my very consistent deep process in value investing going back to the 80s. It was a very nice marriage."

Sterling Partners, which manages just shy of \$2.5 billion in private equity, is seeding Sterling Partners Equity Advisors with \$25 million, Silverman said, adding that he anticipates doubling that to \$50 million relatively quickly through friends and family investments.

The firm officially launched on April 3 and the focused strategy invests in 25 to 35 companies while the diversified strategy holds 55 to 65 names. All the track records are GDPR-compliant and portable, Silverman noted, having been audited by AICPA Compliance Group.

Now, six months into the launch, the firm is ready to begin marketing to institutions.

"We are just getting going in terms of outreach to an institutional audience," Silverman said.

a third-party firm and hopes to close on a direct allocation from one fund in a few weeks, Silverman added.

While the COVID-19 pandemic has put a damper on the institutional marketing process, specifically from a meeting perspective, the firm was able to procure its first institutional accounts this year, according to Silverman.

The forward-thinking ground laying that has positioned the firm in its current place should be aided by a top performing strategy that also relies on looking to the future.

"One of the things we pride ourselves on is being able to forecast the future very well, so we were already forecasting a future where people like more individual hobbies,

so we were a bit overweighted in leisure equipment, leisure activity, so that's been a big wind at our back here," Silverman said, highlighting the firm's views on demographics in identifying the value of companies. "We're also overweighted in areas that benefit from the productivity enhancements of the internet, the notion that there's going to be more online shopping, the notion that international trade is going to favor domestic producers moving forward."

"You know we were already tilted this way before the pandemic, so the fact that China gets shut down and Europe gets shut down, we were already America-centric. The fact that food delivery is gaining share, we're already tilted toward online with software and services that benefit from that," he added.

The Sterling Small Cap Value Diversified fund has outperformed the Russell 2000 Value Index over the one-, two-, three- and five-year periods ending June 30, most recently posting a 24.93% second quarter return compared to 18.91% for the index, according to the PSN Informa database.

"The primary element is simply that we've been tilted to the future already and the future is accelerated this year. The pandemic, as troubling as it's been for our in-person marketing schedule, our investment results have been enhanced...It's been a good period for us from the business point of view," Silverman said, acknowledging his gratefulness given the suffering of others in the pandemic's fallout.

This process of looking ahead and investing in companies with an eye on what is to come has helped the firm develop overarching themes—demographics, healthcare and convenience, among others—within its portfolio that go back some 20 years and keep the strategy primed to perform throughout time periods.

"They want to do something faster, better or cheaper than their competitors, that's a mantra for us. If our companies don't do something faster, better or cheaper than their competitor that allows me conviction that they're going to gain share, I'm not buying it," Silverman said. "It's just primarily an effort from 30,000 feet

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