Boutique of the Week: Centre Asset Management

Nicole Piper / 25 November 2019, 09:00

We showcase a lesser-known manager from a smaller shop running a unique or impressive strategy.

Location

New York, New York

Specialty

Long-only US equity, fixed income and infrastructure investing

Strategies

American Select Equity, Active US Treasury, Global Infrastructure

Founded

2006

AUM

$1.1 billion

Employees

7

Portfolio managers

3

How the firm was founded:

James Abate founded Centre Asset Management in 2006. He previously served as North America investment director for GAM from 2001 to 2006 and head of US active equity at Credit Suisse Asset Management from 1995 to 2000.

‘Centre Asset Management was created to offer differentiated truly active fund strategies that may not be available elsewhere, and are tactical, pragmatic, and opportunistic,’ Abate said.

In 2010, Sanlam became a majority owner of Centre after Abate recognized the need for additional resources after the financial crisis. Sanlam has a multi-boutique framework which allowed Centre to remain an independently operated investment unit within the group.

Flagship fund or strategy:

The firm’s flagship strategy is its equity offering, called American Select Equity. It is available as both a mutual fund and a Ucits. This is the case for the firm's two other strategies too. In total the large-cap equity strategy has $404.2 million in assets under management. The strategy has between 35 and 55 stocks, and the top 20 names typically account for more than 50% of the fund’s net asset value. Abate is the sole manager listed on the strategy and he has been running it since its launch.

‘Less attention is paid to sectoral weights than the overall risk characteristics of the entire portfolio: namely size, volatility and currency sensitivity,’ Abate said. ‘Centre uses quantitative portfolio construction and risk management tools for what we deem optimal stock-position sizing within certain risk parameters.’

Process:

For the flagship strategy, Centre uses economic value added – or economic profit – to determine a stock’s long-term growth prospects.

‘Specifically, the focus is on whether or not the decisions companies are making are the right ones, as in either value-added capital spending or other growth-oriented capital allocations such as acquisitions,’ he said.

‘That, in Centre’s belief, is how companies create shareholder value: allocate capital to grow when able to exploit an excess return on capital and wisely contract when unable to,’ he added.

Philosophy:

Economic profit is at the core of the firm’s philosophy, which takes a holistic approach to looking at companies from an asset-backed growth and risk perspective.

‘The process by its discipline tends to keep the American Select Equity strategy away from “empire builders” and growth for growth’s sake when executives are more concerned with expanding their business units, their staffing levels and the dollar value of assets under their control than they are with developing and implementing ways to benefit shareholders,’ Abate said.

Abate also advocates transparency with his investors and provides them with literature about applying the concept of economic profit.

One they got right:

Abate recalls the time when his team was able to identify the March 2009 stock market upside opportunity when the market was still in a trough.

‘We began to see the quickest and most efficacious cost-cutting and restructuring across corporate America that we’d witnessed in our careers up to that point,’ Abate said. ‘The tremendous number of bottom-up investment opportunities undergoing broad-based wise contraction, such as Starbucks and other companies then trading at generational lows, allowed us to ignore the macro gloom and fears over a Japanese-style secular bear market at the time and adopt a fully invested, bullish posture.'

One that could have been better:

The firm's focus on cyclical growth and dynamism across market sectors has seen it take a hit from its energy investments.

'After being nearly zero weight the energy sector during the commodities collapse in 2015 and 2016, we began to invest in certain domestic exploration and production companies in 2017 – we held them until mid-2019 – that we felt had undertaken restructuring efforts to create shareholder value at lower oil and gas prices,' he said.

'The continuing volatility of the oil and gas prices, domestic pipeline constraints, and our failure to appreciate ESG considerations that have permanently impacted the risk premia and valuation for the sector in a negative way, ended up impacting our performance,' he added.