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Wealth Firm Sees Growth

Q+A: Firm's assets triple since 2018 with no M&A activity.

By KENNEDY ZAK *Staff Reporter*

Kayne Anderson Rudnick, a wealth management and investment management firm based in Century City, has seen sizable organic growth in recent years.

With zero merger and acquisition activity – by choice – the firm has gone from about $22 billion in assets under management in 2018 to $69.8 billion as of September.

Operating as a separate business unit from the wealth management side of things, KAR's investment management entity distributes equity investment strategies primarily to institutional investors on a global scale.

Meanwhile, its wealth management business, which functions like a registered investment advisory firm, provides a full suite of advisory services, including estate planning, financial planning and investment advisory services in a family office service model.

Executive Managing Director **Stephen Rigali** spoke with the Business Journal about the firm's growth strategy, including its move to international investments.

Having joined KAR more than 30 years ago at a time when the firm's original founders were on the hunt for the second generation of leadership, Rigali has seen the firm's evolution firsthand.

Boss: Stephen Rigali has led Kayne Anderson Rudnick through significant growth.

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Tell me KAR's leadership structure and what your role within that looks like.

We do have a nontraditional executive structure in that there's a three-person team, and that really doesn't feel unusual to us because that's how it was established between **John (Anderson), Rick (Kayne)** and **Allan (Rudnick)**, and then transitioned to (new) people over time. So it's just been the model that we've lived in and for us, it works.

It only works if the three people who are working together respect each other, respect each other's opinion, understand that there's going to be differences of opinion, but there's a process of working through that. And each one of us has our primary areas of focus, but we make strategic decisions collectively and in a collaborative way.

Craig Stone is our chief investment officer, and Craig is responsible for the broad oversight of our 23-person investment team (where) we manage a number of equity and fixed income portfolios.

Jeannine Vanian is our chief operating officer and is responsible for everything in terms of the business side on a day-to-day basis. Then I broadly have responsibility for what's happening with the growth initiatives at the firm, which has become global over the last decade or so, and then I'm also responsible for those people who are communicating to our clients and making sure that our client service remains at a level that we want it to be.

…In this kind of model, you have to check your ego at the door. This is very much a team, collaborative oriented environment.

According to KAR's investment principles, the firm has a "different idea of quality" which shapes its investments. What does this mean to you?

Quality can be a pretty generic word in our industry. There's not a lot of professional investors like us who say that we want to own or make investments in lousy businesses, although there are certain firms that do that quite successfully.

John Anderson thoughtfully built out a family office where their main activity was the identification, purchase and management of a broad list of privately held companies… And the idea when Kayne Anderson Rudnick started was to take the experience and success that John had as an owner of businesses and apply that to evaluating publicly traded companies.

So quality to us is a business characteristic; it's not a financial output. It's truly evaluating a business and developing conviction that you've identified a company that is clearly differentiated somehow, that that differentiation is defendable against competition and that the business model can sustain that growth trajectory.

Do you favor long-term or short-term investments?

We try to come at it from a standpoint of, let's continue to conduct ourselves in a manner that we are evaluating this business as a potential long-term owner of a business and not someone who's transacting in stocks based on what happens every quarter in a business, which we think is nonsense. So, we can be very significant shareholders in our businesses. Oftentimes we're top 10 shareholder. In many cases, we're the largest single shareholder; we have owned securities for decades so we can be a very long-term holder.

Tell me about your investment strategies.

A lot of institutional investors segment their investment pool by specific categories… So over the decades, our product lineup has an overarching similar investment philosophy and approach in how we apply it, but it's segmented between U.S. small companies, mid-sized companies, large companies and then non-U.S. companies, either developed or emerging markets. And again, we apply the same philosophy and approach across all those strategies and we've been successful. Today, we manage 23 different equity strategies.

We have been primarily known as an expert in identifying U.S. small- and mid-sized companies as potential investments and we have applied that for the first few decades (at KAR) with U.S. companies only… Our U.S. small cap core portfolio and our small-mid cap core portfolio are two of our largest strategies, as reflected by the assets that are being managed in those.

Then maybe 10 to 15 years ago, we began to apply it to opportunities outside the U.S. And so we manage what we call international, which are non U.S. portfolios, and then global strategies that mix U.S. and non U.S. together.

With that, our business has really grown significantly outside the U.S. in Asia and Europe… Our activities in non-U.S. equities, both developing and emerging markets, are areas that clients are beginning to understand that we have developed an expertise in and that are growing quite rapidly, but are maybe not as well-known as our U.S. strategies.

Since 2018, KAR has grown its assets under management from $22 billion to nearly $70 billion today. What has contributed to this growth?

Our growth has been organic, and we're proud of that. As you well know, there's been significant merger and acquisition activity in our industry, and many people have been successful in building their business around M&A activity and it's not that we're not cognizant of that; we just think that it's a different business model. When you acquire other companies, it does have an impact on culture and you become a different business. And we've chosen to take a more methodical, thoughtful, organic approach.

Part of the reason that I think we've grown significantly over the last 10 to 20 years, (which is) really kind of an outlier in our industry, is because (people have) recognized that we have been successful in generating attractive investment returns with this quality profile that we've applied.

We also understand what our core competency is and so we have focused on what we think we are experts at, and we're not trying to evolve ourselves into something different. And when you simply apply your trade and you're successful at it, you get recognized for it and that leads to people seeking (you) out are and (to) long-term successful client relationships.

Tell me about your client base.

I get asked the question, "What is our preferred client?" And I try to think of it more broadly from a behavioral finance kind of standpoint as someone who has typically developed a significant amount of wealth. They are typically a professional or operating a business. They're busy. They know that they don't have the expertise in managing their own money, and so they're looking for someone that they can trust to provide advice in a customized way and provide a broad suite of services…

(People) from very different backgrounds can fit into that broad behavioral kind of description. But over the years, we have developed certain niches proactively that have made sense from how our client base has evolved over time.

What are some examples of these "niches?"

There is a very large community of (widowed) women who… need a trusted individual to provide them advice during a very difficult period of time. So that's been a network that's been developed.

We have an office in San Francisco, and so that office is particularly impacted and focused on all of the wealth creation in Silicon Valley in the last 10 to 20 years. And so, we have a very significant client base from those individuals.

Oftentimes they are very young, not necessarily having come from wealth and … they're incredibly smart in terms of what they do, but now they have a significant pool of capital that is beyond their dreams.

Related to that Silicon Valley niche, there has been a significant amount of professional immigration into the tech sector, where people are coming from different countries, different cultures and need someone to help them navigate an understanding of the U.S. financial markets and help them with their investments.

What's next for KAR?

Growth is important here at (KAR) in that it allows you to hire and retain key talent and advance people through the organization and pay them well and recognize them for their success.

But we've never communicated to our employees that today we manage about $70 billion in assets, and we want to be at x billion in five years. In our industry, it's a fallacy to think that you can control that.

The combination of longevity, applying your trades, being successful at it, being nice people and easy to work with, and understanding your core competency and delivering advice in a customized way is how we approach things. I feel very confident in our success going forward, because I can see the next generation that we've developed over the past decade, and they're going to continue to move forward with the same initiatives and that's our formula for growth going forward.