

HOUSTON BUSINESS JOURNAL

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Week of May 22-28, 2009

Throwing away the cookie cutter

Product innovations keep investment
firm's clients coming back for more



CRAIG H. HARTLEY/HBJ

From left, Haag Sherman, Andrew Linbeck and John Blaisdell of Salient Partners: Finding the best possible solutions to clients' investment needs.

BY MICHELLE HILLEN
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Prior relationships — some formed through business dealings and some formed much earlier, in childhood — were what brought the six managing directors of Salient Partners together.

And since they created the company in 2002, the investment firm partners have maintained a focus on strong relationships, both with each

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Haag Sherman
Salient Partners

other and with clients. Those successful relationships have become the bedrock of the company, and are a major factor in its growth, says John Blaisdell, one of the six managing directors.

"I think what distinguishes us from other investment firms is we began with a great set of clients, and we have retained those clients over many, many years," Blaisdell says, adding that 95 percent of the firm's new business comes from client referrals.

SALIENT: Biggest challenge is persuading potential clients to select a local company

"It's our clients who define what we do and what types of investment solutions we seek for them," he says.

The company focuses on three lines of business — trust and fiduciary services, advisory services and asset management. Its clients include wealthy individuals, families and institutions.

The original founders in 2002 included Andrew Linbeck, Haag Sherman, Jeremy Radcliffe and John Blaisdell. Salient later combined with Pinnacle Trust, operated by Steve Strake and Stephen Reckling. At the time, Pinnacle Trust was a wholly owned subsidiary of Sanders Morris Harris Group and, after the merger, Sanders Morris Harris owned 50 percent of the combined entity.

In 2008, Salient's management exercised its option to purchase Sanders Morris Harris' 50 percent interest in the company. Now, the six directors own 100 percent of Salient, Sherman says.

The company has grown each year, with revenue increasing from \$3.8 million in 2003 to \$104 million in 2008.

That growth can be attributed in large part to the focus on clients' needs, Sherman says.

"When a client or set of clients has a particular need, we will go out into the marketplace and find a solution," he says. "If a solution does not exist, we will develop a solution."

For example, Salient Partners had a set of clients who were interested in investing in timber, but there were no traditional funds open to high-net-worth families or even small institutions, he says.

"Timber is a very difficult asset class for high-net-worth families and even small institutions to access," Blaisdell says. "However, it was an essential component to their portfolio ... so under Haag's leadership, we developed a timber fund."

Another example was a request by some clients, including some religious-based institutions, to create a portfolio that included alternative investments with a screen for socially re-



Radcliffe



Reckling



Strake



TYPE OF BUSINESS: Asset management

YEAR FOUNDED: 2002

TOP EXECUTIVES: John Blaisdell, Andrew Linbeck, Jeremy Radcliffe, Stephen Reckling, Haag Sherman, Stephen Strake, managing directors.

NO. OF EMPLOYEES: 70

REVENUE:

2007: \$49.12 million

2008: \$103.66 million

WEBSITE: www.salientpartners.com

sponsible companies, Linbeck says.

"No one was willing to take the time and effort and work to actually apply (socially responsible screens) to the portfolio," he says. "We did, and we created a unique solution that is in great demand. Our business grew from that. They brought their peers ... because it was a good investment, but also met their mission objectives."

That focus on clients' needs has definitely been a contributing factor in the growth of Salient Partners, says Scott Schwinger, president of the McNair Group, who serves as an independent member of the advisory board for one of Salient Partners' investment funds.

"A lot of firms are very cookie-cutter," Schwinger says. "They say, 'This is the way we do it.' But Salient Partners is concerned with what the client wants."

For example, he says, the company's endowment fund is already very diversified, but some clients wanted even more diversity in their investments. Salient Partners responded by creating a subset fund to cater to those clients, Schwinger says.

Another investment strategy — that of avoiding big losses — also makes Salient Partners popular with clients, and has led to growth, Schwinger says.

"They really try to avoid the big losses, even at the risk of not making the big gains," he says. "Their philosophy is 'we are going for the doubles and triples, but we don't want to strike out.' In the long-run, they will do better than the team that gets homeruns half the time."

The philosophy has paid off, Blaisdell says.

In the first two months of 2009, when the S&P 500 was down nearly 20 percent, Salient Partners was able to deliver profitable returns to investors, he says.

That has been possible in part due to the firm's focus on diversification, which it achieves by taking an institutional approach to asset management, similar to that of a university endowment, Sherman says.

Such endowments are typically more diversified than a traditional portfolio, he says.

"If you look at what has happened in the investment world, people who thought they were diversified were not diversified," he says. "So they may have had small-cap equities, mid-cap equities, large-cap equities and some international equities ... but their whole portfolio is highly correlated."

To ensure diversity, Salient Partners invests across nine asset classes, creating a much more diversified portfolio, Sherman says.

The result has been that while clients certainly lost money in the market in 2008, they were more shielded than others with a less diversified portfolio, he says.

That careful management has provided a buffer for clients in a bad economy, he says, and helps to ensure that the company will remain strong even in tough economic times.

"We started this firm in the bear market of 2002. Some people thought we were crazy to do that, but it turned out to be the absolutely right time to do it," Sherman says. "We think that the opportunity set for us today is better than it was when we started in 2002."

The biggest challenge for the future is convincing potential clients to take a leap of faith with a local company, says Linbeck.

"There is such an enormous need here locally, both within wealthy families and in the institutional market," he says. "People do not need to leave this city to get the institutional quality solutions. They are here at this firm."

In terms of future growth, Sherman says he could see the company expanding its brand in Texas and adjacent states.

"Our view is ... if a perfect acquisition came our way, sure we would look at it and we would probably entertain that," Blaisdell says.

"Having said that, we think that organically growing it and making the ideas through product innovations and client referrals — it builds a more consistent brand."

MICHELLE HILLEN is a Houston-based freelance writer.