

\$28B OCIO Cuts Ties with PE, Gets New Owner

By: Mariana Lemann

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Strategic Investment Group, a \$28 billion outsourced CIO (OCIO) provider, has partnered with London-based manager **Northill Capital**, in a transaction that increases its employees' stake in the company and frees it up from private equity ownership. Northill, a \$56 billion multi-affiliate manager, will purchase a majority stake in Strategic for an undisclosed amount from San Francisco-based private equity firm **FFL Partners**, which acquired 80% of the business from Strategic's founders in 2012. Through the transaction, Strategic's senior management and investment team will acquire 5% of the firm's equity, increasing their direct ownership of the business to more than 25%, with further increases expected in the coming years. Morgan Stanley served as a financial advisor to Strategic.

Finding a new owner was a priority for **Brian Murdock**, who joined the firm as CEO in 2014.

"My goal was always to find a permanent investor as capital support for our enterprise... with the blessing of FFL to start looking early to make sure we find the ideal partner rather than waiting to the very end and have to sell under duress just to anyone," he says, adding that a "quiet" search process began about two years ago.

A private equity manager typically holds an investment for about five years, according to **Bain & Company's** 2018 Global Private Equity Report.

"I received inquiries from many large banks, insurance and asset management firms," says. "We also spoke with large pension consultants but resolved preemptively not to engage with any private equity firms."

FFL Partners representatives couldn't be reached prior to publication deadline.

Northhill's acquisition of Strategic, the sixth transaction in its eight-year history, increases its assets under management to \$84 billion. Northhill's affiliates include Minneapolis-based U.S. equity manager Riverbridge Partners. Northhill's executives could not be reached before deadline.

In 2014, Northhill planted a flag in the U.S. with an office in New York focused on U.S. institutional sales.

"Northhill's investment in Strategic is consistent with our strategy to invest over the long-term in high-quality active investment businesses that create a strong strategic and cultural fit with Northhill," the firm's partner and founder **Jon Little** said in a statement.

Strategic, founded in 1987, will keep its 96 employees in Arlington, Virginia.

Strategic found Northhill to be an attractive buyer because of its approach to managing affiliate relationships, where it preserves independence, according to Murdock.

"That was important because many buyers wanted to potentially consolidate us or to be probably more involved in our business than we needed them to be," he says. "This is not about us becoming a very large firm. It is about staying very client centric and having a limited number of special clients."

The transaction eliminates the uncertainty about the future ownership of Strategic and that will help raise its profile in OCIO searches, says **Brad Alford**, founder and CIO of Alpha Capital Management, an OCIO search firm. "The employees will have more ownership and more skin in the game," he says. "We really wanted to remove the uncertainty to see who was going to buy them." In addition, the acquisition highlights the growth of the OCIO business. "The OCIO industry is the hottest thing right now," Alford says. "Everybody is trying to get into it."

Goldman Sachs Asset Management (GSAM) is among the latest firms to seek growth in the space, announcing plans to acquire Rocaton Investment Advisors, as reported in November. Rocaton had more than \$600 billion in assets under advisement, including approximately \$12.5 billion in OCIO assets, as of the end of September. Last year, GSAM announced it would acquire a portion of Verus OCIO business as well.

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