FINANCIAL POST

Embracing the Alternative

INVESTMENT ADVISORY FIRM WESTCOURT CAPITAL GROWING AS BABY BOOMERS CASH OUT

Jonathan Ratner – Tuesday, June 13, 2017

You're a Baby Boomer entrepreneur who's decided to sell the business you've built over the past 30 years, and thanks to your hard work, you are now sitting on a hefty eight-digit cheque. What next?

That dilemma, which is becoming more common as the massive demographic group ages, has been fuelling growth at Westcourt Capital Corporation, an investment advisory firm that focuses on alternative investments for high-net-worth clients.

"If you sell your business for what appears to be a lot of money, and then try to replace the significant dividends and salary you were making along the way, you can't — not in the low-interest rate environment," says David Kaufman, Westcourt's chief executive and a long-time Financial Post columnist.

Rather than concentrating on stocks and bonds, Westcourt takes an alternative approach to asset allocation through investments in areas such as private equity, private debt, real estate and hedge funds, with a focus on both portfolio construction and investment manager selection.

Westcourt Capital Corp, chief executive David Kaufman, left, and newly appointed president Robert Janson at their Toronto headquarters.

"An entrepreneur Baby Boomer is much more willing to see what's out there, rather than just plug into the same frequency of stocks and bonds," Kaufman says.

That demand has helped Westcourt, founded by Kaufman in 2009, go through a major expansion in recent years, growing from five employees and less than $1 billion in assets under advisement when chief investment officer Robert Janson came on board four years ago, to well over $3 billion in AUA and a staff of 20 people today.

Janson, who joined after spending six years with UBS in Switzerland as a portfolio manager, is now taking on the role of president as well.

"We are equity partners in the business, and Rob is running this place day-to-day," Kaufman says about Janson's enhanced role.

"If someone is speaking to him, they need to know they are speaking to the management of the firm."

The pair will continue to work with clients, including eight billionaire families, in two main ways: either providing full-service asset allocation and portfolio construction, or offering the firm's best ideas on an a la carte basis.

The second group includes clients that may have their own family offices, so they already have high-level portfolio construction, and don't need help with consolidated reporting because they already have internal CFOs or something similar.

"What they want are great ideas," Janson says. "This set of clients plugs into the same investment solutions group other clients do, and they say, 'When you have a great idea, knock on my door' — but it has to meet specific objectives."

By pooling clients' capital, Westcourt is able to allocate between $100 million and $200 million at a time to various individual strategies, giving it the scale to access the full range of institutional money managers.

"An institutional manager that gets money from pension funds and insurance companies, meets with Westcourt in the same way," Kaufman says. "We're not only able to get a seat at the table, but we can negotiate the same terms. All of our investors get the same deal, because access and pricing go together."

Westcourt usually has about 20 investment products on shelf that are actively approved and recommended, while an individual client's portfolio might hold 12 to 15 of those at any given time, although the weightings can change dramatically and clients have different mixes of those investments. Kaufman and Janson also invest their own money in these same strategies.

"The simplest alternative strategies are things like real estate: buy apartment buildings, take a management fee, collect rent, and pay out the difference. It's hard to do well, but easy to understand," Kaufman says.

"Someone else may be running a mergerarbitrage hedge fund — it is not that easy to describe how that works."

While it can be hard to explain a strategy like convertible arbitrage or market neutral to a client so they can have informed consent before agreeing to invest, Westcourt first needs to understand that the managers it recommends are actually doing what they say they are doing.

That's where the staff's brainpower is directed: Since the firm doesn't do any trading, it can focus all its efforts on due diligence and monitoring investment strategies and funds.

The emphasis on alternative asset classes, which have gained traction in the wider investment world in recent years, also sets in apart.

Giant funds such as the Canada Pension Plan Investment Board and Ontario Teachers' Pension Plan are considered to be among the world's best investors, and they long ago adopted a much more diversified approach.

Janson noted that in the past decade, CPP's allocation to alternatives has jumped from the single digits to nearly 50 per cent, but that approach has not trickled down from the institutional world into the retail world.

Likewise, Registered Investment Advisors that specialize in allocating a client's funds to managers have been common in the U.S. for years, but are almost unheard of in Canada.

Janson, who returned to Canada after learning the ins and outs of wealth management in Switzerland, where private banking was commonplace, soon realized that he didn't want to continue as a portfolio manager in the traditional channels, and saw that there was a niche he could help develop.

"The dominance of certain financial players in Canada is second to none in the world," he said. "Unfortunately, Canadians are sort of stuck 10 or 20 years behind the way the rest of the world manages money, and that was a key driver for me."