

Emerging Manager Monthly

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November 2020

Monarch Partners Positioned For Value Market's Return

Monarch Partners Asset Management is quietly compiling milestones that have it positioned nicely for value's cyclical return.

The Boston-based value equity shop, which has around \$500 million in total assets under management, notched its 10-year firm anniversary in January, while its micro-cap strategy recently passed the \$100 million assets under management mark and reached its five-year track record in July.

Meanwhile, the firm's flagship smallcap value strategy outperformed the Russell 2000 Value Index in the third quarter and over the one-year period ending Sept. 30 while returning 7.98% since March 2010 compared to 6.55% from the benchmark, according to the PSN Informa database.

Frank Saeli, who joined as the firm's head of business development and client relations 12 months ago, has seen Monarch Partners navigate value's continued lag versus growth in recent years as well as the coronavirus pandemic and feels confident about 2021 being a year in which the firm can capitalize on given its recent successes.

"We were looking at a good year of performance when I joined and actually did close out 2019 with strong performance across all of our products, outperforming our benchmarks," he said.

The firm is excited about turning the page on 2020 and entering a better 2021, which is what Monarch Partners thought 2020 was going to be with strong numbers and a swing in momentum back toward value, Saeli said.

"Our clients are mainly institutional and that's why they've hung in there and why they've given us money in this time period because they feel confident that value investing, especially small-cap, should do well in this environment once we get through the election and get through COVID," Saeli said, adding that the firm has seen net in-flows from existing clients in addition to a new client in its micro-cap strategy in the second and third quarters.

The 100% employee-owned investment management firm adheres to a fundamental, bottom-up, value discipline in managing assets with a 10% quantitative component to the research process. The firm's committed sell discipline relies on selling stocks when they reach full value appreciation to target price, business fundamentals deteriorate or identified catalysts reverse.

The firm's strategies are diversified — between 60 and 150 stocks depending on the fund — with maximum position size of less than 10% of the outstanding shares of a portfolio company and sector weightings at plus or minus 10 percentage points of the respective Russell Index.

While the onset of the coronavirus pandemic wreaked havoc on

One Year Ago

Monarch Hires Business Development & Client Relations Head

Frank Saeli has joined Monarch Partners Asset Management as its head of business development and client relations, the firm announced.

Saeli is responsible for Monarch Partners' sales and client relations efforts and will work with the firm's institutional client base, the firm said. He reports to founder and CEO Wayne Archambo.

He replaced Hank Lawler, who recently left the firm after serving as sales executive and chief compliance officer, Archambo said, in an e-mail, adding that Saeli's new role is more focused on business development and client relations.

Lawler has recently joined Ziegler Capital Management as director of institutional sales and consultant relations, leading the firm's sales efforts to institutional plan sponsors and consultants in the U.S. and Canada, according to a separate press release.

Saeli most recently served as head of distribution at Manulife Asset Management and was previously a managing director and principal at Boston Partners Asset Management, the firm said.

He left Manulife in July and was not directly replaced in the role, a Manulife spokeswoman said, in an e-mail.

Additionally, Head of Operations So Chang Yi has been promoted to chief compliance officer at Monarch Partners, effective immediately, Archambo said.

Yi reports to Archambo and will also maintain her role as head of operations, Archambo added.

"Frank is a strong addition to our team, bringing more than 30 years of successful experience to this new role," Archambo said, in a statement. "We managed many client relationships together for five years at Boston Partners and I'm delighted that his expert guidance will help Monarch Partners expand our business. He also pleased to announce So's promotion. She has played a meaningful role in our continued success."

Boston-based Monarch Partners has approximately \$700 million in assets under management as of Sept. 30, the firm said.

The firm lost an approximately \$15 million account with the California Public Employees Retirement System through manager-of-managers Strategic Investment Group last month as part of a restructuring of the program (see Page 1).



Frank Saeli

the markets in March, Founder Wayne Archambo and the Monarch Partners team were able to "take advantage of the irrational dislocation of the market" on behalf of their clients and have been up 44% since March 19 relative to 34% from the benchmark, he said.

Archambo, general partner and portfolio manager, has lived and worked through a lot of market activity in a long career in the industry that includes time as head of small- and mid-cap value at BlackRock as well as at Robeco Boston Partners Asset Management. In his estimation the current marketplace feels like the beginning of a run on value reminiscent of 1999.

"I remember going to client meetings, telling clients at the time there's never been a better time to be a value investor and they sort of laughed it off and it sort of justified non-sensical valuation parameters. Back in those days you're looking at number of eyeballs looking at these internet companies, which was how they were evaluating names," Archambo said. "It just seems like now valuation has been thrown out the window and valuation doesn't matter in many of these growth names. And if anything, I've learned in 37 years of doing this is trees don't grow to the sky and at some point, valuation will matter."

Value came back with a vengeance in 2000 and "I see no difference now. This feels very similar," Archambo continued.

I've learned in 37 years of doing this is trees don't grow to the sky and at some point, valuation will matter.

He added that for those in the investment space that feel that "this time is different" and that value may be dead, the one thing that is never different is human behavior, a true constant, and that the only unknown is the timing of when value comes back, not whether it will.

While he doesn't pretend to know when value will return, Archambo and the Monarch Partners team have confidence in value's reemergence as they believe that fiscal stimulus has historically benefitted value while pointing out that pent up demand on the mergers and acquisitions side should also benefit the space, particularly in small-cap.

"This asset class let's face it, they're small and inexpensive. This is really the asset class that has benefitted the most from being acquired and there's been a, let's say a pause, in that. To me the moons are aligned for more M&A," Archambo said.

"There's not a new paradigm out there. I don't think value's broken and this same mentality occurred 20 years ago and is very consistent with what I lived through 20 years ago," he added.



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Monarch Partners Asset Management, LLC Disclosure

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