

Emerging Manager Banks on Low-Risk Strategy

Article published on June 1, 2009

By **Paul O'Dowd**

Private equity firm **Brookstone Partners** has launched an asset management unit catering to investors that want to take on less risk. The affiliate, which officially opens its doors today, is initially offering a single balanced portfolio that will act as a custom-made separately managed account for investors.

The product, which stretches across equities, fixed income and alternative investments, has taken in \$70 million in seed capital so far, and the firm's executives expect to have \$200 million in managed assets by year end. Brookstone began managing the strategy three months ago, and is starting out by targeting family offices and high-net-worth individuals, but hopes to have institutional investor interest down the road.



Michael Toporek
CIO
Brookstone
Partners Asset
Management

Michael Toporek, who runs the private equity firm alongside partner **Perry Jacobson**, will handle the investment responsibilities of the portfolio. He describes the product as heavy on the quantitative side, meaning there will limited need for a research staff and stock picking.

The new firm is headed in the right direction with a low-risk product because institutional investors continue to keep an eye on the long term, says **Lord Abbett** senior economist and market strategist **Milton Ezrati**. But he says he expects the equities portion of the balanced portfolio to hurt the product.

Brookstone's balanced portfolio includes a fixed income program with high-grade corporate,

government and municipal bonds; a risk-controlled equity program that seeks to match an annualized rise of up to 30% in the S&P 500 and limit potential losses to 15%; and an alternative investment program that includes private equity, venture capital, real estate and hedge funds.

Toporek, who says the asset management business is organizationally separate from the private equity side, designed the product to limit downside risk, maintain liquidity and exceed market index returns over the long term.

The firm will hire few if any marketers, with an eye instead to outsource the responsibility to other firms.

“Our plan includes reaching out to other asset managers we know and allowing them to offer our products to their clients,” he says. “We would be the asset manager and they would be the relationship managers. Over time, I would expect us to have a focused marketing person, but we expect to limit the number of direct clients we have to larger accounts.”

For now, Toporek and Jacobson will be the ones marketing the product and getting the Brookstone name out to potential clients. “Our plan is to begin planting the seeds with institutional investors, so they know us,” Toporek says. “Over time, as they gain comfort and we gain size, I would hope the two intersect and result in gaining them as clients.”

Lord Abbett’s Ezrati says that institutional investors are continuing to invest in long-term strategies. “Their attitude is that they don’t want to beat the markets; they simply want to fulfill their pension obligations,” he says, adding there is simply a less-risky appetite in the marketplace.

Ezrati warns that he sees little interest at this point in the equities portion. “They don’t want the equity part – they want bonds. That is where all the money is flowing,” he says. “People are weary with anything to do with equities.”

Toporek, who started his middle-market private equity shop in 2003, has experience on the equity and fixed income sides of the business. Earlier in his career he worked at **Chase Investment Management**, where he structured fixed income and equity products for institutional investors. He also worked in **Chemical Bank**’s investment banking group, **UBS Warburg** and **SG Cowen**.