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Boutique Adds Investment, Sales Muscle with \$60M Buy

Westwood hired about half of Salient's 40-plus employees, including all of its investment and sales professionals. The purchase will give Westwood a stronger grip among wirehouses, where Salient had a big presence.

By Beagan Wilcox Volz | December 1, 2022

Investment boutique and wealth manager Westwood nearly doubled its intermediary sales team with its acquisition of Salient Partners, which closed in the middle of last month, Chief Executive Brian Casey said.

The team grew from five external wholesalers dispersed across the country, to eight, and from two internal wholesalers, to four, he said. The firm also hired a distribution leader and several individuals in marketing, internal sales support and operations.

The Dallas-based firm hired 23 of Salient's approximately 45 employees, Casey said in an interview, including nine sales and marketing staffers, nine investment professionals on three separate teams, and several operations and compliance employees. Westwood hired Salient's portfolio and distributions teams "in full," he noted.

None of Salient's C-suite executives joined Westwood, Casey added. Westwood also did not extend job offers to Salient employees whose roles duplicated ones that already exist at Westwood.

Westwood had 149 employees as of Nov. 21, including those who came from Salient, Casey said.

Westwood declared a third-quarter net loss of \$1.2 million, compared to a net loss of \$400,000 in the second quarter, due to lower revenues on fewer assets under management and higher expenses in areas including compensation and benefits, according to its earnings report. The firm reported net income of \$1.9 million in the third quarter of 2021.

The firm spent \$9.5 million on compensation and benefits during the third quarter, down from \$10.2 million in the year-ago period, the firm disclosed.

The acquisition increases Westwood's distribution reach significantly, Casey noted, largely because Salient's sales capabilities complement Westwood's. Salient had a strong presence in the wirehouse channel, while Westwood has developed ties with the independent broker-dealer, RIA and institutional channels.

“[W]e think we can take our strategies into their market and theirs into ours,” Casey said.

With its purchase of Salient, Westwood's total assets under management across all products increased 33%, to \$16.3 billion, the firm stated when the transaction closed.

The deal included five Salient mutual funds, bringing Westwood's total to 15, with about \$4.3 billion in assets under management as of Nov. 28, Casey said.

Westwood announced the acquisition in May. It paid \$35 million in cash upfront, without taking on any related debt, and will pay another \$25 million over the next three years in cash and equity, contingent upon growth and revenue retention goals.

The acquisition is expected to be immediately accretive to earnings, with about 100% accretion to economic earnings per share expected in 2023, the first full year after the transaction closed.

The purchase is slated to increase Westwood's annual revenue by 47%, to \$97 million, according to a presentation with details about the transaction.

Terms of the deal include \$5 million in restricted stock grants to six members of Salient's energy infrastructure team, a filing shows. The stock awards will vest in five years, if the employee stays with the firm. The team manages about \$2.1 billion in total assets, including the \$1 billion Westwood Salient MLP and Energy Infrastructure mutual fund.

The other Salient investment teams that are joining Westwood focus on tactical equity, real estate and private investments. Westwood has focused on value and multi-asset investing.

Westwood was also able to lower the combined firm's real estate costs by ending the lease for Salient's Houston offices and expanding its current offices in the same city, to include adjacent space to make room for the new employees joining from Salient, Casey said. This results in a “much lower expense footprint for the Houston office,” he said.

About \$1 million in annual savings will be reaped through adding the five Salient mutual funds to the same Ultimus series trust where the Westwood funds sit. Westwood in late 2021 transitioned its mutual funds to the series trust model in order to cut administration, accounting, transfer agency and other costs, disclosures show.

Westwood cut management fees on each of the five Salient funds it acquired by 5 basis points, Casey noted.

Employees owned about 22% of Westwood as of March 31, according to the firm's website. The firm has not disclosed whether the Salient acquisition has impacted the proportion of the firm that is owned by Westwood.

Several large mutual funds also own substantial shares of Westwood. The \$5.2 billion Allspring Special Small Cap Value Fund held 5.3% of Westwood's shares as of Sept. 30, Morningstar data shows.

Three large Vanguard funds, including its \$1.2 trillion Total Stock Market Index Fund, held a combined 6.7% of the asset manager's shares, according to data compiled by Morningstar.

The stock closed Wednesday at \$12.20 per share. Its 52-week high is \$20.00 per share, and its low was \$9.52 per share.

Salient in 2015 acquired Forward Management, bringing its total assets under management to \$27 billion, the firm said at the time.