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## Channing Capital Marketing Small-Cap Value Fund To Institutions

**Channing Capital Management** has begun to market a small-cap value portfolio to institutional investors.

The firm, which has \$652 million in assets under management, largely in its mid-cap value fund, launched the portfolio in the third quarter of 2006 but has only now started to truly market the product.

“What we had been doing so far, is blocking and tackling in the first year, just making sure we got off to a good start,” said **Wendell Mackey**, founding principal and director of investments at Channing.

The portfolio currently has \$71 million in assets under management.

**Rodney Herenton**, director of marketing at Channing, said the soft marketing of the fund began in the fourth quarter.

“We informed all of our existing clients that the small-cap portfolio had been incubated and we were ready to introduce it,” he said.

“It is so much easier when you come to the table and everyone knows each other,” Mackey said of initially marketing a second product.

The success of the fund in 2007 should make the initial introduction easier, as the firm returned 4.20%, nearly 14% higher than its benchmark, the **Russell 2000 Value Index**.

Mackey said the firm historically is able to provide a greater degree of downside protection to clients.

“Generally, with our performance, you see us do really well mid-cycle to late-cycle,” he said.

For investors familiar with Channing’s mid-cap portfolio, the general investment philosophy and process will remain the same.

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*Founding Principal & Director of Investments  
Channing Capital Management*

counts to their intrinsic value,” Mackey said.

“The central philosophy of how Channing looks at names is the same, but obviously we definitely are looking at it in two different market cap ranges,” he said.

“Mid, its sweet spot is going to be above \$2 billion at the low end and all the way up to \$14-15 billion on the high end. For small cap, (the sweet spot) goes as low as \$300 million up to \$2 billion,” he said.

Mackey said the firm looks for good quality franchises with “some type of moat” that limits the number of competitors. “From there, the products that are sold, we like to see some type of cache, that there is some type of secular demand there,” he said.

The portfolio will typically hold 35-40 names, with an average position of 2%.

“It will be diversified,” Mackey said. “We have a commitment to find good ideas or value no matter where it lies. If you look at our portfolio right now, you are going to see us represented in every sector.”

Mackey said free cash flow is a “lynchpin” for the firm, noting that it “gives a company a greater amount of flexibility.”

Herenton said the firm will look to increase its manager-of-manager relationships but will also look to push direct and subadvisory relationships as well.

**Rodney Herenton**  
Director of Marketing & Client Service

10 South LaSalle Street, Suite 2650  
Chicago, Illinois 60603  
Phone: 312-223-0211