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BIRCH RUN FINDS PATH TO TRACTION WITH CUSTOM OFFERINGS

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Domestic fixed-income manager Birch Run Investments has found traction in the emerging manager space through its custom designed fixed-income offerings.

The Exton, Pa.-based firm, launched in 2017 by David Killian, a former senior portfolio manager at Sterling Advisors, has almost $220 million in assets under management, up from the $104 million it managed in 2017.

The firm boasts its ability to create custom designed fixed-income solutions that factor in current challenges in the environment, including the flat yield curve and bond market shifts.

"Our ability to custom build portfolios to meet specific client needs and guidelines—not a lot of firms are willing to do that. I think that's our niche, rather than a one size fits all approach we can build a portfolio to meet any specific client needs that we come across," Managing Director Glenn Becker said.

The firm offered traditional core fixed-income, intermediate fixed-income and short-term fixed-income strategies at launch and has since expanded its lineup to include a short-term plus strategy as well as an opportunistic tax-exempt strategy for its high-net worth clients.

"The vast majority of fixed-income in this day and age is allocated to the biggest players in the space," Becker said. "These portfolios, by virtue of their size, it's not uncommon for them to hold 500 to 1,000 bonds. Being a boutique-sized firm, we're able to construct well diversified portfolios with the ability to take more meaningful position sizes in our high conviction ideas."

Becker is the firm's most recent hire after joining in August to oversee institutional client service and business development from The Swarthmore Group, where he served as president for 12 years.

The three-member investment team is rounded out by Portfolio Manager Joe Shacklock, who joined in 2018 from Sterling, where he and Killian previously worked together.

Birch Run's clients currently include both state and local government pension plans, multi-employer Taft-Hartley plans, corporates and sub-advisor relationships.
The firm finds that it can bring meaningful value to its clients as an active fixed-income emerging manager because it can be more tactical in portfolio positioning through its manageable assets under management as bond market liquidity declines.

"As an emerging manager with a more manageable level of AUM, we have the unique ability to move in and out of securities in a more nimble fashion compared to our larger peers," Killian said.

Additionally, shifts in bond market characteristics have revealed a demand for more non-Barclays index-based strategies.

The firm's core strategy invests across the entire yield curve in a mix of investment-grade securities, including U.S. government, corporate and securitized assets, while the intermediate strategy invests in a mix of investment-grade securities with maturities of less than 10 years.

Birch Run received an allocation from the Maryland State Retirement & Pension System through its emerging manager program with Capital Prospects in 2019 (EMM, 6/5).

"We're thrilled that Capital Prospects and the State of Maryland showed confidence in our ability. It was a very collaborative effort that resulted in the State of Maryland providing the seed funding for our Short Term Fixed Plus strategy. We're confident that a mandate of this type can only further our momentum in the emerging manager channel," Killian said.

The short-term strategy serves as a more conservative strategy with an emphasis on "a high level of current income and minimal interest rate risk," whereas the short-term plus strategy invests along the front end of the yield curve "with an emphasis on price appreciation and a high level of current income," according to the firm.

Lastly, the tax-exempt strategy is tailored to individual client needs and "seeks to enhance tax free income with price appreciation."

Looking to the horizon, Killian said that the firm is exploring ESG opportunities next as it "fits very well with what we're doing," he said.

"Given increased issuance of green bonds in the marketplace, fixed-income managers now have a greater ability to manage ESG-type mandates—a very welcome development," he added.