

SPECIAL REPORT BOUTIQUES

By **Jonathan Polin**,
 director
**Resolution Asset
 Management**

There was a time when big was beautiful in the investment world.

Investors flocked to entrust their money with large organisations which radiated solidity, strength and, above all, size. But in recent years this historically efficacious selling point has become something of an Achilles heel for many groups, as investors and advisers increasingly shun the regimented processes and rigid structures associated with larger fund houses in favour of more flexible, nimble and unconstrained fund management companies.

Boutiques have grown in popularity because the needs of investors – and fund managers – have changed. Investors have simply grown tired of funds failing to outperform and want reassurance that a fund manager has the investment freedom to maximise his or her talent.

Indeed, without a bull market to mask the intrinsic flaws in many large companies' investment processes, increasing numbers of fund managers have come under scrutiny as the well-worn 'relative performance' argument loses its lustre with disgruntled investors.

The net result is that fund managers have changed in line with investors' demands. Many of the best managers are, by and large, no longer sated by salary and support: they want more autonomy and a greater say in how their business is run.

They want to manage their funds without constraints and without interference. And in many cases, they can only achieve that in a boutique.

The flight to boutiques has, of course, accelerated in the past couple of years, as fund managers have increasingly sought to strike out on their own, or with like-minded companies. This trend has been wholeheartedly embraced by IFAs, as evidenced by RAM's research last year showing that 79% of advisers believe that boutique-based managers will, in general, outperform managers in larger firms.

Boutiques are popular for many reasons, but by far the most important is that boutique managers can run money without shackles.

Constraints compel managers to buy stocks or sectors they may not necessarily like and, clearly, that can act as a brake on performance.

But that model still persists in many of the big houses, which rely on investor inertia to keep their assets under management looking reasonably healthy.

Boutiques steal a march on these traditional groups simply by employing cultures and philosophies designed with performance – rather than the company's coffers – in mind. This is not, of course, to suggest that managers in boutiques are not driven by self-interest, because they, like everyone else, of course are.

Small is beautiful

After years of entrusting their money to large organisations, investors are finally seeing the appeal of the more 'intimate' investment firm



But there is little doubt that boutiques can not only more effectively align these interests with those of investors, they can also better harness managers' talent for managing money.

Broadly speaking, there are three major variants of boutiques: standalone boutiques; boutiques that have grown to become substantial organisations but retain the culture and investment freedom on which the business was initially built; and bou-

tique 'umbrellas' where two groups – one usually far larger than the other – work in conjunction to offer a single proposition.

The first two types of boutique have, for years, defined what it is to be a boutique. But that is changing with the advent of umbrella, or hybrid, groups.

Currently, there are only a handful of these types of companies in the market. Resolution – with 12 umbrella boutiques in total – is one, alongside others such as Thames River. Generally, the 'hybrid' boutique groups provide the financial clout, distribution, marketing support and legal and compliance functions that are necessary to run an asset management business while allowing the managers to run the money as they please. The profits are shared to ensure the managers' interests are directly aligned with their investors (bearing in mind that most managers of this ilk put a healthy amount of their own wealth into their funds).

This hands-off approach affords the umbrella groups an advantage over their standalone counterparts, particularly the smaller, newer boutiques, which require their managers to devote much larger chunks of their time on non-investment issues.

This is a serious issue because it can make a surprising difference to performance, notwithstanding the fact that most boutique managers run fewer funds than their counterparts at much larger organisations.

Either way, boutiques – of any kind – are here to stay. New launches continue apace and that can only benefit intermediaries, who can choose from an ever-wider pool of well-incentivised, talented managers who have the freedom to run money as they wish.

And, crucially, those managers – so often the former stalwarts of much large companies – have the environment in which they have always wanted to work, making them far less likely to resign and move to another company. Managers still leave their jobs, of course, but it is one-way traffic: the top people simply do not leave boutiques to join larger organisations. Why would they?

KEYPOINTS

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- Broadly speaking there are three major variants of boutiques: standalones, boutiques that have grown to become substantial organisations but retain the culture and investment freedom on which the business was initially built; and boutique 'umbrellas' where two groups – one usually far larger than the other – work in conjunction to offer a single proposition.
- New launches continue apace.