

(SYmmETRY) Adoption of boutique approach to asset management is a positive (749) with pic Kevin French

Such has been the success of niche managers that many of the large investment houses have regrouped their business into a series of boutique firms and this is positive for the industry, according to Kevin French head manager research at SYmmETRY Multi-manager.

He says, “Some of the qualities that have made boutiques very successful are now being found within some the historically larger asset management firms as they seek to unlock potential.”

He emphasises that boutique asset managers, also referred to as niche or specialist managers, are some of the industry’s best talent and cannot be ignored by retirement fund trustees looking to maximise returns at acceptable risk. “Many independent niche managers, often regarded as small, inexperienced and even insignificant owner-managed enterprises, have distinguished themselves in terms of returns due to their focussed approach to investing.

“Contrary to perceptions, the individuals running boutiques tend to have many years of experience. They’ve lived through bull and bear markets, representing stability and in many cases are the cream of the investment crop. Importantly, many have demonstrated their viability and sustainability by growing assets, on the back of strong performance, to over R10 billion.”

He predicts that the best niche managers will continue to perform well. “Chances are they will also continue to erode the market share of established managers, whose gains or losses in net assets have been obscured by the rampant bull market of the past three years.”

Profit growth for most of the larger investment managers has been a function of market performance rather than growth in new assets under management, French explains. “On the other hand, many of the boutiques started over the past two to three years have quickly gained traction in terms of attracting assets and are already profitable.”

Asset managers are using improved profitability to strengthen their businesses, especially in terms of investment teams, systems, service and product development. At the same time there is increasing competition, including from private client asset managers and stock brokers now starting to market to institutions.

He adds, “Everyone wants a piece of the asset management pie with the result that the universe has grown in size and complexity. This supports the case for multi-managers with the capabilities to manage the risks associated with both market complexity and investing with niche managers.”

Addressing the challenges of choosing and blending niche managers, French says, “The SYmmETRY philosophy is to constantly look for managers who have the skill and ability to generate long term above average performance. We subscribe to the view that these good managers are not necessarily the ones everyone else is using. In fact there is a strong probability that they are more likely to be the ones everyone else isn’t using.

“In a market where there are relatively few asset managers those that are successful can quickly reach a point where the size of their assets under management starts to impair their ability to generate out performance. This is dependant on their natural style with which they generate out performance. For example a manager that generates most of their out performance from smaller capitalization shares will start to find it more difficult to buy enough of these smaller caps as assets increase. Asset size and natural style are key determinants of a manager’s ability to generate performance.”

Diversification means that one is appointing managers that have different ways to achieve the same long term out performance. “There are two key ways to find out how managers

do this. Firstly one must know the manager, what his natural style is, what philosophy he believes in, what his natural biases are, who makes up his team etc. All these come from in-depth discussions with the manager themselves. Secondly one needs to analyse what a manager has done in the past. This does mean looking at a manager's performance but more importantly what has driven that performance. Which underlying shares were purchased and sold when, what market conditions prevailed when, which sectors did he have biases towards and when etc. This entails a lot of data analysis which is not always readily available, especially for some of the more niche managers. “

“After one of the strongest equity bull markets in the past 50 years, and the fact that boutique or niche managers are often more flexible and faster implementors due to smaller asset pools and quick decision making, we believe boutique or niche managers are ignored at one's peril.”