

Buyers' market: Q&A

Do selectors still favour independent boutiques?

Which boutique managers are they following and why?

After the market crisis and subsequent upturn, is the appetite for investment boutiques as strong as ever? This month, our panel of investment professionals consider the arguments for and against investing with boutiques and tell us which independent managers they follow and why. **Pietro Cecere** compiles the results.

Maxima Pacan
Banque de Luxembourg



Usually, we find boutiques have their interests better aligned with those of institutional investors than larger firms. In addition, boutiques are usually more flexible in the way they manage funds, while larger firms are often more benchmarked to their indices. However, we prefer large-scale boutiques to very small ones. We tend to see better risk management and client servicing at large independent asset managers.

We have been long-term investors with the Parisian-based **Comgest**. It has the kind of ownership structure we particularly like – every employee at Comgest owns some shares in the company. It takes a very long-term view and does not hesitate to set itself apart from the consensus. We have invested in the **Magellan fund** – its global emerging markets equity fund – for a long time.

In the same asset class, another boutique we like is **Nevsky Capital**, whose shares are owned by Thames River Capital. Nevsky fund managers bring a lot of experience in the field and have produced incredible outperformance over long periods. We listed the **Nevsky Emerging Asia fund** as soon as it was opened to institutional clients.

Finally, **Fred Alger Management** is a US equity house which has been independent since 1964. It has seasoned analysts studying each sector trend in great detail. We have been using its **Alger American Asset Growth fund** for a few years now.

Jacques Bossuyt
Capital at Work

Having worked for one of those very large firms myself in a former life, I now have an outspoken preference for boutiques for many reasons. Boutique managers are often older – ‘done that, been there’ – and have already proven their talent. They also have more freedom in their decision-making.

For me, as an equity fund of funds manager, it's very important to have personal contact with fund managers. I not only want to understand their style and process, but I also want to know the personality of the guys, so I can appreciate their outperformance or forgive – or not – their underperformance. Boutique managers are more available for their investors. If I am invested in a small boutique fund, I am an important client. If I'm invested in a multi-billion fund, the guys don't even know my name.

Among many others I like **François Mouté** from **Neulize US Opportunities**, **François Badelon** from **Amiral Sextant Grand Large**, **Alexander Farman-Farmaian** from **Edgewood**, **Didier Le Menestrel** from **Financière de l'Echiquier**, **Robin Geffen** from **Neptune Global Equities**, **Ivan Nyssen** from **Contrarian Equities at Work**, **Philip Best** from **Argos Argonaut Microcap**, and **Mike Corcell**, ex Threadneedle US long/short now at **RWC**.

I've also been with **Edouard Carmignac** and **Frédéric Leroux** from the beginning, although their company can't be called a boutique any more. I also have some boutiques under the umbrella of big names such as **DWS Invest Global Agribusiness**, managed by **Oliver Kratz**. And I also like **Raphael Kassin**. His short stay with CS wasn't a hit, but I invested again with him at **Reyl**.

Frank Moisson
CIO, Smart Private Managers

Boutiques tend to have greater entrepreneurial thinking and behaviour. They are often specialised and focus on a limited number of funds and products, and have to deliver good performance on their funds. Boutiques tend to have teams of focused people with better cohesion.



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We have **Bluebay**, **Comgest**, **Carmignac** and **Exane** in our selection list. These firms did much better during the crisis and have excellent long-term track records. They are specialised and have been able to deliver much more consistent returns. They have very strong teams and processes and have done very well in employee retention. They also give good communication to their investors. But not all boutiques are good, and they need thorough due diligence before selection, especially on operational issues.

Tord Lundgren

JRS Asset Management

It is not necessarily better, return-wise, to invest with a boutique manager. Instead it depends on the size of the portfolio, degree of freedom managing risk, incentive structure for the people managing the product, etc. A lot of the larger firms have teams and products meeting all the important criteria.



We follow too many boutiques to list them all, but for examples for equities we like **Artemis**, a great quant house; **Bedlam**, high conviction and unconstrained; **Nevsky**, great stockpickers with loss restrictions; and **Cramer Rosenthal McGlynn**, great SMID value approach. In alternatives, **OPM**, **Salus Alpha**, **Rothschild** and **Signina**, for their transparency and liquidity.

Wim Antoons

Delta Bank

We have always had a strong bias towards small investment boutiques. We want to align the interests of our clients with the fund manager. Big investment houses seem to focus primarily on increasing their assets under management, whereas we like houses that focus more on performance and the protection of existing shareholders through, for example, soft closing of funds.

Often they are more specialised in a certain investment style, asset class or region. A manager who fits our approach perfectly is **Montanaro**, the London-based fund manager specialising in value investing in European small caps. His focus is on strong and consistent performance based on a rigorous investment process developed over many years.

In an independent boutique there is more focus and enthusiasm to generate alpha than in larger firms

Vasco Nuno Jesus

BPI Gestão de Activos

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We feel that in an independent boutique there is more focus and enthusiasm to generate alpha than in larger firms. We also feel we have easier access to the fund managers, investment processes and information in general. Usually the capital structure is mostly within the company, which provides alignment of interests.

We follow **Oddo Asset Management**, which has good, consistent numbers across the various types of funds, and a good balance between performance and risk. The capital structure is mostly the owner's family (around 40%) and employees (around 30%), with independent teams and low turnover of staff.

Jupiter Asset Management has independent teams, good consistent results, a fundamental bottom-up process, and the managers are fully involved. **Odey Asset Management** has excellent results, a different type of philosophy, with the capital structure mostly owned by Crispin Odey and his staff. These are the most important to us right now and the ones we follow more closely.



Nicole Strebinger

Julius Meinl Investment

There are always pros and cons for larger firms and independent boutiques. For me, the main reason to buy products from boutique managers is the specialisation. A lot of boutiques cover special industries or offer niche products. Due to this specialisation their investment universe is smaller and the performance of the products is often better than others. Another reason for these boutiques is their size, which allows the management in difficult periods to react faster and more efficiently in changing market conditions. At the moment I like to work with **Lacuna-Adamant**, a biotech medtech boutique. It employs people from the pharma biotech industry and has huge know-how in that universe.



Silvia Cova

BAWAG P.S.K.

Investing with boutiques is attractive because of their focused specialisation. Founders and managers reveal a profound expertise, a sort of credo behind their approach, and a high personal commitment.

Traditionally we have been very restrictive, but included names like **Lupus Alpha** for absolute return investments or **Fisch Asset Management** for Japanese convertibles. We also like the multi-boutique approach of partners like **Nordea**, **BNY Mellon** or **Natixis** and **Legg Mason** that add an extra level of due diligence to our process and offer unique access to outstanding managers in the US or Asia.



Martin Biber

WMPartners

Independent boutiques have the opportunity to structure the team, the process and the infrastructure so that the investment objectives can be best achieved. This can lead to a clear edge against the main competitors.

However, small is not always beautiful. The boutiques need the ability to exploit the weaknesses of larger, less flexible firms. If this is not the case, I believe the risks of investing in a small firm are not justified. I consider boutiques for special, focused and non-benchmark strategies. Larger firms should have an advantage for benchmark-oriented strategies.

One of the boutiques we like is **Schelcher-Prince**. It has a long history in managing FI and the size of the funds allows the manager to exploit mispricings in single securities and market segments.

Dr Michael Partin

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We like finance boutiques as most of them are well focused and innovative. Although they have relatively limited resources in compliance and public relations, their partners are also asset managers and owners. This is particularly advantageous in times of crisis as boutique partners are required to show far greater stamina than salaried fund managers. Examples of innovative investment boutiques include **Trendconcept** of Frankfurt and **Aquila Capital** of Hamburg. Other interesting boutiques are Luxembourg-domiciled **European Value Partners** and London-registered **Polunin**, firms that specialise in managing funds for larger fund companies as well as their own. ▶



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Alfredo Granata

Banca Finnat Euramerica

We firmly believe that independent boutiques are able to acquire a deep knowledge of local markets even in a more globalised world. This is one of the reasons we created New Millennium SICAV, which allows direct access to every portfolio manager. We are looking to improve our partnership with other small global players to offer our clients wider investment opportunities. Among the fund managers we currently prefer are **Muzinich** on high yield bonds and **Cazenove** on European equity.

Giuliano Anselmo

Polaris Investment



There is great value in investing with independent boutiques. They tend to be much more flexible, their approach is usually more dynamic and original, their investment ideas are very often interesting and innovative, and these companies are usually specialised in some particular asset class, showing expertise and experience in specific strategies. The portfolio managers are less constrained and are free to take strong calls.

There are, of course, risks – some of them are too unconstrained and don't give the required attention to the risk profile of their strategies, for example. Others don't have a solid company structure to deal with specific needs arising from institutional investors, while some are just too small to be able to manage a large mandate without compromising performance.

Overall, I would say boutiques represent a great opportunity for investors, but only if you are very selective and aware of all the potential risks.

We follow just those small managers who are able to implement innovative strategies that will be of interest to our investors, but also have the ability to deal with our very specific requirements in terms of risk management, reporting and administration.

Just to mention some of them, I would say **Intech**, **Comgest**, **PanAgora**, **Sinopia**, **Mondrian**, **Rogge**, **Reyl**, **Wegelin**, **Trinity**, and **Clay Finlay**.

Giorgio Bensa

Ersel AM

In the first place there is the alignment of interest argument – a boutique exists as far as it can deliver performance, because of the lack of a proprietary distribution network.

THE 12-MONTH VIEW

The sectors and fund managers that leading selectors are focused on for 2010

Ivan Mlinaric

Warburg Invest

The Copenhagen conference has come and gone, but the issues still remain. Luckily, many political and corporate leaders have understood the need for an integrated approach to contain global warming and are focusing on the opportunities for change. Desertec, Golden Sun, Solar India and many other government and private programmes aimed at creating a new energy framework are giving substantial tailwinds to companies in the areas of renewable energy generation, smart grids and energy efficiency.

A structural change in consumer demand will be another strong driver for these sectors. The train is rolling – and it is gaining momentum.

Managers who understand the intricacies of the 'new energy' story will be able to achieve handsome returns for their investors.

One fund that I believe is poised for glory is the **SAM Smart Energy fund**. Also, look out for promising new projects, such as the **Craton Renewable, Alternative and Sustainable Resources fund**, where specialist resources expertise and sustainability strategy come together to create a potential winner.



Alexis Bienvenu

Primonial Fundquest

Sector rotation has been swift in the past two years, and often surprisingly dramatic, making sector performance forecast very hazardous.

If a more local bet had to be taken, the traditionally defensive sectors such as healthcare, telecoms and consumer staples, which have strongly lagged the markets since March, now have a much more attractive PER than the cyclical sectors. But it could be a bad idea if there are big surprises on profits, which is very possible.

Commodities could still perform well due to a large amount of liquidity and solid growth in the emerging world, but this asset class could prove to be speculative, and hence volatile.

In the defensive growth sector, one of our key convictions at the moment is the **Focus Europa fund**, managed at SPGP in Paris by **Frédéric Motte** and **Jerôme Archambeaud**; but we also like the **Comgest** range of funds, with managers such as **Vincent Strauss**, **Arnaud Cosserat**, and **Laurent Dobler**.

Within the realm of funds investing in companies producing or marketing commodities, we like **First State Natural Resources** managed by **Joanne Warner** and the **JPM Global Natural Resources fund** run by **Ian Henderson**. In the pure commodity funds area, we like **Harewood Oscillator Commodities**.

To deliver performance, boutiques have to take active risk, with concentrated portfolios and a high degree of conviction, and actually this approach is the most effective way to produce alpha.

A key issue is that partners need to be passionate about managing money and not focusing on growing the company. The main drawbacks to me are that sometimes you have to deal with situations requiring more in-depth analysis of the business stability.

We usually manage concentrated portfolios and aim to build long-term relationships, so boutiques fit well with our investment philosophy. To give an example, for our Ucits III fund we recently invested in **Rivoli**, a Paris-based boutique that runs quantitative hedge/Ucits funds. The company was created in 1996, and is fully owned by its management.

In the global equity space, we have selected **Aubrey**. Although this is a new venture set up in 2007, we have known and admired the partners/managers for a long time. They have created a blend of strong investment approaches, and since launch, the results have been very interesting. ■

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Giuliano Anselmo

Polaris Investment



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