



Stuart Alexander, Close Investments



Jonathan Polin, Resolution Asset Management

The Debate

Boutique investments – when small really does mean beautiful

This week's debate focuses on the definition of boutique operations and their potential for innovative investing

This week's Conjecture focuses on boutique investments. Taking part in the debate were Stuart Alexander of Close Investments and Jonathan Polin of Resolution Asset Management.

What is your definition of a boutique?

Jonathan Polin (JP): Boutiques mean different things to different people though my personal belief is that a boutique really is a small

single asset class manager, who runs money with a very discernible style. By definition, boutiques have a limited capacity. It is an area where fund managers are doing one thing and one thing only – bringing their intellectual capital to deliver good performance. They are not getting involved in all the other aspects of fund management in terms of running a company. They are

really concentrating on picking stocks and producing good performance for their clients.

Stuart Alexander (SA): That is a very accurate description though I would add that one of the clear differentiators as a boutique is the owner stakeholder element of the business. You have entrepreneurial ethos across it, it is profit-driven and the people involved are innovators.

Some asset groups have smaller divisions based overseas running, their Pacific equities, for example. Would that fit in with your definition of a boutique?

JP: In some ways it does, although I don't see this as an either/or situation. There are plenty of benefits from having small boutiques and I think a lot of the larger groups are trying to grapple with how to incentivise fund managers at the moment. How do you do that with an overarching structure whereby you, as the corporate body, own the majority of the equity? My view is that I am very happy to only own 50% of the business and I would rather have 50% of something that is material, going to perform well and increase revenues very significantly while making sure the people involved are getting very good rewards and are locked in.

From an investor's perspective, what are the key benefits of investing in a boutique?

SA: Performance is obviously a key issue but one of the factors of a boutique is that you are highly visible so there is nowhere to hide if you are not working for the benefit of the business. Your contribution is instantly recognised. The other thing to bear in mind is, from the client's point of view, you can develop quite innovative ideas in the boutique arena. In the larger houses, if you have something different, which will probably have an incubation period of several years before coming to fruition, you do not really have the time to wait. In the smaller houses you can put something aside, let it rest and hopefully develop over time and then bring it to market.

So how do you go about establishing boutiques?

JP: I meet a lot of fund managers, either out of existing boutiques or larger organisations, who are specialists at managing particular asset classes. It comes down to identifying managers who can perform and then making sure they can work within a boutique environment and continue to produce good numbers. That takes a long time and it takes quite a lot of effort but there also has to be a meeting of minds if we are really going to make it successful. I do what everybody else does – I research all of the media to see



who is performing and who has performed well under all sorts of different market conditions. That is really a risk control for us as I want these boutiques to be successful from early on so I have to make sure I pick the right people and that is a time consuming process.

SA: Part of what Resolution and Close do is give access to the boutiques. We are the shop window and we are giving the boutique managers access to the intermediary and wholesale markets.

What issues have you encountered when talking to managers at other groups?

JP: The key issues come in two parts and relate to either looking at individuals in larger organisations or existing boutiques that want to revert into something bigger. In the latter case, we have to make sure those individuals have the level of performance we require and that they work within a business determined to grow and have a definable process that makes them different and appealing to the marketplace. What I am not in the business of doing is taking on failing boutiques and giving them a hand.

In the other case, we have to make sure they blend well with our existing boutiques. We are not replicating what is already available so we have to make sure there are enough people to sustain the longevity of the boutique. That means there must be a minimum of two people who can really work together and prove they have worked together for some time in the past.

Will changing styles, for example if there is a shift from growth to value, change the nature of boutiques?

SA: Boutiques are entrepreneurial, innovative and nimble in what they can do and boutique fund managers do not like to be pigeonholed as a growth manager, a value manager or a momentum. They have different styles during different market conditions. The one overriding thing here is they are not being effectively swayed or governed by large corporate bodies telling them they must invest in certain markets or stocks.

THE NEXT GREAT DEBATE

Next week's debate is global markets: what happens next? Featuring HSBC's Jonathan Arthur and James Harries of Newton. For more information go to www.conjecture.co.uk