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In focus: scrutiny, in an environment where there is nowhere to hide, can be oppressive

PROS AND CONS » Only the right kind of manager has the credentials to make the leap to boutiques

The making of a manager

Jonathan Polin

There was a time when big was beautiful and attempts to suggest otherwise met with short shrift from advisers and clients alike. Nowadays, it seems however that the emphasis is changing as boutiques increasingly steal the limelight in the fund performance stakes.

There are undoubtedly many reasons for this shift in mindset, with isolated event acting as the catalyst. But in no small part, large companies have no one but themselves to blame. The failure of big organisations to motivate and secure the commitment of some of their portfolio managers has resulted in many of the industry's finest upping sticks – not just to move elsewhere, but to branch out on their own.

Push factors

Dissatisfaction with the internal culture is one of the central complaints cited by people who have taken the plunge and set up their own business. Although the impact of increasing external regulatory requirements is unavoidable, the side-effects of excessive internal bureaucracy are. Corporate protocol and office politics are seldom areas in which a dedicated portfolio manager wants to become embroiled – better to leave such pre-occupations to others.

Of course it is not just these disconsolate portfolio managers who want to keep their attention fixed on the job they do best. Clients and their advisers too have a vested interest. Over recent years, institutional and retail investors alike have shown a marked willingness to jump ship along with the fund manager. Not only is big no longer as beautiful, small is no longer as off-putting.

Boutiques have some key differentiators from their larger counterparts. First, they are small and tend to be companies managing a single asset class – specialists, often with a discernible style. They are frequently innovative, highly entrepreneurial and wholly profit-driven.

Consistent performance

However, not all fund managers can work in a boutique environment. They have to be able to demonstrate their individual skills independent of serried ranks of analysts. Scrutiny, in an environment where there is nowhere to hide, can be oppressive. Indeed, some of these entrepreneurial managers describe it more as a vocation than a job. But for those with a genuine love of the game, with a well-articulated investment process that successfully delivers real investment performance results, the break away from the previous corporate lifestyle does not come soon enough.

Yet it is important to appreciate that even with an unbroken record of excellent investment performance, boutiques are not without their vulnerabilities. Performance has to be seen to be sustainable over time and that is only possible if effective structures are seen to have been put in place – where succession planning is established at the outset rather than as an afterthought.

There has to be a recognisable entrepreneurial determination to succeed – no matter the investment climate for the specific area of expertise, no matter the market conditions for the products linked to it.

Arguably, boutiques are better placed to adapt to changing market circumstances by virtue of their size, but when the business threat is the proliferation boutiques themselves, sooner or later the wheat and the chaff will be separated.

In such circumstance, performance alone is not enough. Effective distribution is crucial if boutiques are to continue to add value to the product and service offerings of the UK investment industry. Boutique fund managers understandably want to stick to doing what they do best, but the rest of the world, institutional and retail investors alike, still have to find out about them.

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The main threat faced by boutiques is the very proliferation in their number

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