seed investments

Boutique or Big?

Last week we introduced the concept of boutique managers and what makes them different from large managers. If you missed out on this one, please check it out now.

Click to Read : Boutique versus Big Managers by Mike Browne >

This week, let's take a closer look at some of the pros and cons of each, and how the Seed Funds are currently positioned when looking through this lens.

Most of the traits of boutiques listed last week can be seen both through a pro and con lens and it is important, as the fund selector, to ensure that each side has been thoroughly examined to gain comfort when investing with a boutique manager. Equally, the traits of a large manager can be viewed through both a positive and negative light.

Owner Managed / Co Investors / Accessible

While one would like to invest where there is alignment of interests between the manager and the investors – which is achieved through portfolio managers being material shareholders in their business and being co invested in the funds that they manage – there is the risk that the portfolio managers spend too much of their time on the management of the company and not enough on the management of the investments.

Large investment companies will typically have systems and structures in place to allow the portfolio managers to focus on managing investments.

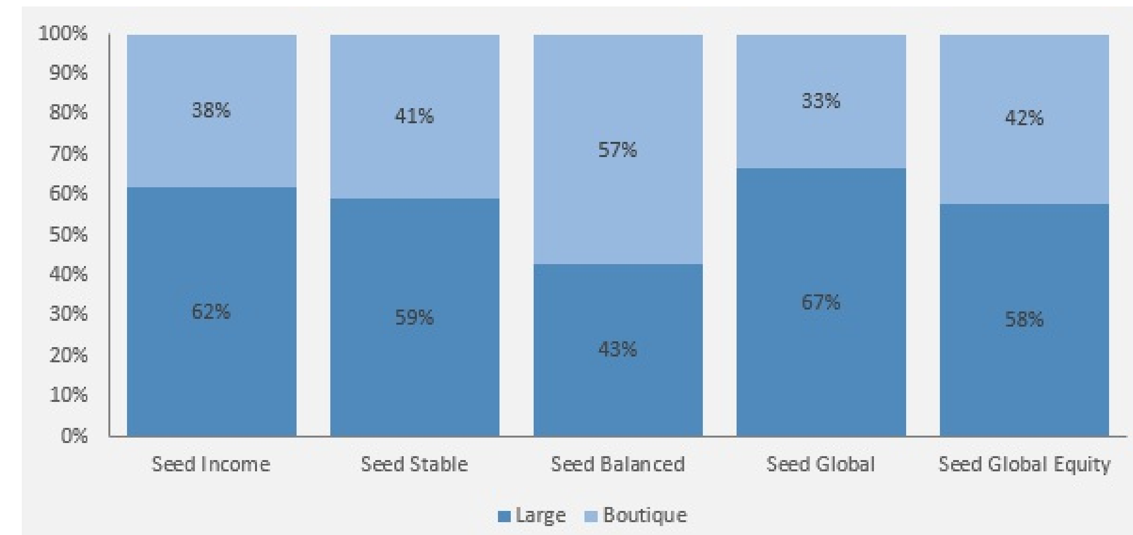
Focused / Agile / Low AUM

Where a manager with a focused range underperforms (often due to factors out of their control – like their investment philosophy being out of favour) there aren't complementary strategies that can help the business continue to make commercial sense. There is a risk that losing a few key clients can drop the firm's Assets Under Management (AUM) to a subscale level and put the company's future at risk. Large managers, on the other hand, generally have a range of investment strategies and possibly separate underlying businesses that can help them to tide over the inevitable period of underperformance.

The risks are definitely higher when investing with boutique managers, but this higher level of risk can result in better investor outcomes if the risks are correctly assessed, and the investments are closely monitored. 'Key man risk' is the most important risk when investing with a boutique manager and this risk needs to be continually assessed as it can change over relatively short periods of time.

Many companies exhibit some boutique characteristics and some of a large manager (i.e. many that sit as a shade of grey) but, despite this lack of clarity, I have attempted to categorise the managers in our Funds as either Large or Boutique and shown the breakdown in the chart below.

It is apparent that both boutiques and large managers are well represented in all of our Funds.



Source : Seed Investments (31 October 2023)

When investing into ETFs or trackers, we almost always allocate to large managers that have the resources and scale to manage them efficiently. On the other side, niche strategies are often best allocated to boutiques and then watched like a hawk!

Most managers/allocations are somewhere in between. A good boutique is better than a poor large manager, and a good large manager is better than a poor boutique – ultimately, we need to know who's making the decisions and assess the likelihood of them making good decisions most of the time.

As mentioned in previous articles, we don't come with preconceived notions that we either want to invest with boutique or large managers. Instead, we understand the risks and potential opportunities that each of these business types exhibit and then attempt to assess, for each investment proposition, which is the best option.

Mike Browne CFA
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If you have any questions about the Seed Funds, please don't hesitate to reach out to us on investmentteam@seedinvestments.co.za.

On behalf of myself and the team, take care.

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