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Boutique vs Large Managers

As multi-managers our job is to allocate capital to a range of external managers in the process of building investment portfolios. One of our key skillsets is therefore to determine which are the best external managers to allocate to. When going through a due diligence process with prospective managers, there are a range of questions we'll ask as we attempt to get to the bottom of a manager's ability to add value. Managers can be classed as either a boutique or large manager (and often somewhere in between) and this article will attempt to define what exactly boutique managers are.

Boutique managers – how do we define them?

There is no official definition of what constitutes a boutique manager, but they will typically tick quite a few of the below boxes:

- Owner managed
- Focused
- Agile
- Low AUM
- Accessible
- Co investors

Owner Managed

Boutiques are often launched by experienced professionals who want to go their own way. Management in a boutique typically are large (majority or even 100%) shareholders in the business and they therefore determine its direction.

Focused

The product range offered by boutique managers is usually focused. Some managers only offer 1 strategy, while others may offer a few that are broadly aligned. Boutiques also only generally offer investment management services, they outsource non-core capabilities and won't be a diversified financial services company (offering administrative, trading, banking, or other financial services).

Agile

Small teams with less bureaucracy can make and implement decisions a lot quicker than larger teams that possibly have more formal decision-making structures. As the asset base managed by boutiques is more manageable than large managers, they are also able to get in and out of investments much quicker as they have less liquidity issues.

Low Assets Under Management (AUM)

As a result of having a focused range, and wanting to remain agile businesses, assets managed by boutiques are typically much lower than traditional or large asset managers. While there are benefits to having smaller AUM (more nimble/agile in the market) it is key to ensure that a boutique's AUM will generate sufficient revenue to profitably run the business and to ensure that the boutique's managers aren't spending a disproportionate amount of time on the road trying to raise assets.

Accessible

With a small, and usually closer, pool of clients, boutique managers can be more accessible to end investors. Having this kind of access can give investors better insight into the manager's thinking and can help them stick the course through a tough period. The closer relationship can also allow for more customised solutions that better meet the client/investors' needs.

Co Investors

Boutique managers often invest into strategies that they have high conviction in and they therefore also invest their personal investments in the strategy. In this case the client and manager's interests are aligned. If the fund does well, both the client and the manager do well and vice versa.

The above are some of the traits that boutique asset managers will exhibit, and while there are a lot of positives with these characteristics there are also risks that investors need to be aware of when investing with boutique managers. Next week we'll take a closer look at the pros and cons of boutiques vs large managers and then also how Seed's unit trusts are currently positioned.

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If you have any questions about our 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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