Group of Boutique Asset Managers

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New investment research highlights existence of 'Boutique Premium' in the European Fund Management industry

- University study identifies a 'Boutique premium' in European fund industry
- Funds of small fund groups tend to outperform those from large fund groups
- More needs doing by advisers and platforms to promote boutiques

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New academic research suggests that specialist, boutique asset managers outperform their larger counterparts – significantly so in the case of European Mid/Small Cap and Global Emerging Market funds.

In what is believed to be the first academic analysis of the performance of boutique asset managers versus their larger counterparts, Cass Business School Asset Management Professor Andrew Clare, says that the 'boutique premium' demonstrated by AMG Group in 2015 for US equities, also appears to be evident in the European Fund Management industry. He found that the average outperformance of boutiques in Europe appears to be as great as 0.56%pa and 0.23%pa net of fees (or 0.82% and 0.52% gross of fees).

Professor Clare looked at 120 large fund groups, identified over 780, long-only 'mega funds' across all equity sectors, and tracked their performance from January 2000 to July 2019. As there is no industry definition of an investment boutique he then asked three leading investment consultancies that advise institutional pension schemes and insurance companies, as well as Members of the Group of Boutique Asset managers (GBAM), to identify firms they believed to be boutiques in order to make a comparison.

Professor Clare identified meaningful boutique outperformance in four equity fund sectors in particular – European large Cap; Europe mid/small cap; Global emerging markets and Global large cap.

Utilising the Fama and French five factor, as well as an index model (two competing methodologies developed to asses manager skill) to risk-adjust returns collected from Morningstar, Professor Clare discovered that the net-of-fee boutique premium was around 1.00%pa* in the European Mid/Small Cap sector and around 0.50%pa in the Global Emerging Markets fund sector.

Professor Clare commented:

> *"The results provide enough evidence to warrant further analysis of this important part of the asset management industry. Future research should focus on the factors behind the existence of the Boutique Premium, such as the ownership structure boutique managers and/or their approach to portfolio construction."*

The chairman of the Group of Boutique Asset Managers (GBAM), Tim Warrington said:

> *"We see boutiques as smaller, highly motivated, specialist firms which seek to consistently outperform while aligning their interests with that of their clients. It is therefore not surprising that Professor Clare found compelling evidence to suggest a boutique premium among smaller firms. Given the compounding of this premium over time could produce significant additional returns to investors, far more needs to be done by advisers and fund platforms to expose these benefits to long term investors."*

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