



**LEAN ON  
ME**





Multi-boutiques make a compelling offer money managers cannot refuse, as many depend on the arrangement for survival. **Karren Vergara** reports why this symbiosis is so critical in wealth management.

**M**agellan Financial Group's and Platinum Investment Management's fall from grace is a trajectory every fund manager wants to avoid at all costs.

Bound by the same fate, the once-darlings of the wealth management landscape are now plagued by substantial outflows, under-performance, and the exit of key personnel as they try to rekindle the days of active management glory. The rise in popularity of cheaper passive investments and more superannuation funds internalising investment teams are also adding fuel to the rabid fire they are trying to extinguish.

At a shareholder briefing last November, Magellan executive chair Andrew Formica<sup>91</sup> tried to appease shareholders' fears about the organisation's stability and growing concern amid key staff exits and large redemptions that saw funds under management (FUM) nosedive from over \$100 billion to \$34.3 billion in less than two years.

Boasting a market capitalisation of about \$11 billion in

2020, this is now down to about \$1.5 billion at the time of writing.

Formica conceded that the firm "may well be a target" for other fund managers looking to acquire at a significant discount.

Meanwhile, Platinum has lost nearly 40% of its FUM since the start of 2020, when it had \$24.6 billion. It was left with \$13.5 billion at the end of April.

Newly minted chief executive Jeff Peters wasted no time introducing a turnaround strategy that will prioritise a review of the investment platform, research function, portfolio construction, risk management processes, and product design. Its investment philosophy, though, will not change.

Australia's wealth management space is not short of homegrown boutique fund managers vying for the biggest prize of them all – institutional investor mandates namely from superannuation funds, which conversely are shrinking every time APRA releases performance test results.





**01:**  
**Andrew Formica**  
executive chair  
Magellan Financial  
Group



**02:**  
**Shaun Ler**  
equity analyst  
Morningstar



**03:**  
**Damien McIntyre**  
founder and chief  
executive  
GSFM

To take survival by the horns some opt to go it alone while others join a multi-boutique family.

However, Morningstar equity analyst Shaun Ler<sup>02</sup> says: “Those days where boutiques can stand on their own and do everything by themselves are getting more challenging.”

Joining a multi-boutique, to Ler, appears the logical approach, particularly if the business is struggling.

“However, there are some other considerations. Culture is a big thing. Magellan has its own unique culture and so does Platinum. For the vast majority, it’s a bit hard for them to be part of other businesses simply because they might have that cultural clash,” Ler says.

There’s also a massive catch or the quid pro quo principals or owners must carefully weigh up.

“The whole point of partnering with growth incubators like Pinnacle or Fidante is that you want to get more FUM but need to give up something to do that. Even though I have to give up about 20% or 30% of my earnings, the upside is that I get more FUM,” Ler says.

“And I think that’s a win-win scenario.”

Platinum and Magellan did not respond to questions around whether joining a multi-boutique is a scenario being considered as part of their respective reviews. However, Magellan did flag elsewhere that it’s mulling its own multi-boutique.

**Well-trodden path**

How and why a boutique fund manager gets off the ground is a familiar story.

The typical playbook shows that a ‘star’ or ‘hotshot’ fund manager that performed exceptionally well for the employer gains the confidence to set up a new shop and – even at the risk of a lawsuit – convinces the entire team to leave. That the star fund manager had no equity in the business and wants some is another accelerant.

The five founders of Pella Funds Manage-

ment ditched Pengana in 2021 to stand on their own. More recently, the global equities team of London-based Royal London Asset Management left to set up a yet-to-be named venture under the tutelage of Pinnacle.

The star manager may have had longstanding relationships with JANA or Frontier or several institutional clients, says GSFM chief executive and founder Damien McIntyre<sup>03</sup>.

“They might have been managing money for someone for a long period of time, and there’s a lot of professional and personal respect for that person or that team. Typically, what would happen is that a couple of institutional clients would back them from day one and get attractive fee deals,” he says.

In this scenario, the fund manager scores a substantial amount that provides cash flow and something to launch with.

“For the most part, that’s how a lot of boutiques evolved,” McIntyre says.

“What they are good at doing is managing money.”

The commercial acumen, however, is not up to scratch when it comes to other aspects of the business, he notes, pointing to middle and back office or compliance functions. Then there’s the distribution side.



*It’s disingenuous to bring the same client and try and sell them the same things managed by two different fund managers. No one wins.*

**Damien McIntyre**



“A lot of boutiques start with the idea of adding one salesperson and that salesperson, may well be experienced and competent and a good person, but don’t give the coverage of the entire market. You can’t compete with scale,” he says.

The practice of symbiosis pervades the natural world in which different species benefit from a mutualistic relationship.

A pilot fish, for example, rides parasites from sharks. This bond is so fortified that pilot fish ride the ocean side by side with sharks and can easily enter their mouths and clean food stuck between their teeth without getting eaten themselves. In exchange, pilot fish benefit from sharks protecting them from their predators.

Symbiosis is no less powerful in the business world. The late Rafe Sagarin<sup>04</sup>, a marine biologist from the University of Arizona, wrote in the *Harvard Business Review* that animals don’t work together so they can ‘break down silos’ or ‘reach across the aisle’ or ‘diversify their assets’. They work together to solve problems.

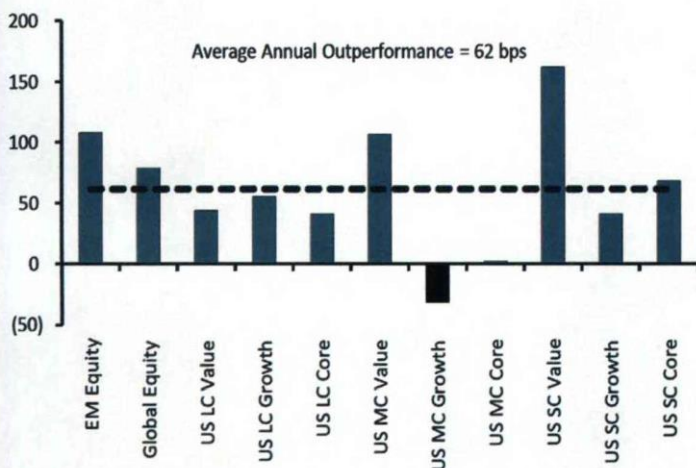
“Symbioses can be so long-lived that the individuals become inseparable, or they can consist of extremely short get-togethers that focus on one immediate problem,” he wrote, urging businesses to look to symbiotic relationships to overcome the limits of operational capabilities.

Ten years ago, the star fund managers who left established institutions to set up their own shops typically benefitted from relationships they had with institutional investors, McIntyre reinforces – but things are different now.

“That part is now becoming increasingly difficult to navigate. It comes down to who are you? How good are you? And what is your point of difference that allows you to stand out from the rest of the crowd and raise money?” he says.

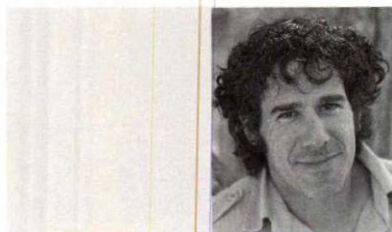
“If I was to start a boutique today and I had an idea, it makes sense to outsource middle and back office, compliance, and distribution to specialists.”

Figure 1. Boutique outperformance vs. non-boutiques



Source: AMG proprietary analysis and classification of firms and strategies. MercerInsight® database utilized for return data. Firms represented include AMG Affiliates. Analysis based on rolling one-year gross returns for institutional strategies during trailing 20-year period ending 3/31/18.





**04:**  
**Rafe Sagarin**  
associate research  
scientist  
University of Arizona



**05:**  
**Karyn West**  
managing director  
Apostle Funds  
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**06:**  
**Peter Barany**  
senior portfolio  
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## The boutique premium

A study by US-based Affiliated Managers Group (AMG) found that a “boutique premium” exists after analysing data in the two decades to 2018 that revealed active boutiques outperformed non-boutiques in 10 out of 11 categories by 0.62% p.a. on average (see Figure 1).

Outperformance was most prominent in US small-cap value equity (+1.62%) and emerging markets equity (+1.08%) strategies.

Their ability to outperform was made possible by characteristics unique to them – namely principals’ significant direct equity ownership (a minimum of 10%), the presence of a multi-generational management team, and investment centricity.

Many of the talented investment professionals are drawn to the boutique structure, where the incentive system allows them to own the results of their investment performance, AMG found. Not only that, but they also offer an entrepreneurial culture and allow them to have a direct impact on the future success of their business.

A separate 2020 study from the City University of London also found that a boutique asset management premium exists in European mid-small cap and global emerging market funds.

Boutique managers’ outdid mega active funds ranging on 0.82% p.a. and 0.52% p.a. on a gross and net-of-fee basis respectively.

The biggest takeaway is if investors want to avoid garden variety investments, boutiques offer a specialisation premium that financially literate wholesale or high-net-worth investors typically demand.

The \$6.1 billion Apostle Funds Management is a specialist in sustainable investing catering to the wholesale and institutional markets. Apostle managing director Karyn West<sup>05</sup> says the fund manager seeks to differentiate itself by going above the “supermarket approach” and products that are fairly commoditised.

As a multi-manager, Apostle seeks to partner with unique managers that are skills-based, aligned with its ESG investment philosophies, and will provide something relevant to investors in the coming decade. Dundas Global Investors and Kayne Anderson are two international fund managers it partners with.

“We like boutique groups that have skin in their own game. Large, generic listed companies have lesser interest to us. We are looking for performance,” West says.

“We also want the people that we’re partnering with to really understand the Australian marketplace and its nuances very well, including the fee environment that we have here.”

At times, she adds that searching for the best partner can be like trying to find a “needle in the haystack” as it also involves bringing promising ideas from offshore managers to Australia in a bid to fill a niche gap in the market.

“An example is the global Carbon Credit Fund that we run. We built our own product, hired our own carbon expert to come in and build a fund here in Australia. There were

funds that are US-only carbon credits but none that had a true global approach to it. It was something we felt was necessary for us to consider [to complement] our People and Planet Fund with net-zero obligations,” West says.

The \$280 billion superannuation fund Australian Retirement Trust (ART) rarely starts with a blank canvass when it looks to join forces with fund managers nor finds itself screening the entire universe.

If it was seeking an Aussie equity growth manager, for example, Peter Barany<sup>06</sup>, senior portfolio manager for public markets at ART, says the team has an inbuilt knowledge of the universe and can immediately name seven or eight good growth managers.

On top of that, it has a bench of two or three other managers in the same league the investment team engages with on a regular basis.

“If we’ve got an issue with a manager that we invest in, we can go straight to our bench,” Barany says.

ART applies a rigorous framework when assessing all potential managers that includes delving into the organisation, investment strategy, performance, and fees.

While assessing and meeting the investment team is a given, it’s equally important to pay attention to other affiliates if the boutique is part of the network.

“You also need to be aware of what’s going on with the other affiliates within the umbrella organisation because one of those affiliates might account for a very large portion of the multi-boutiques’ AUM,” he says.

## Follow the leader

ART’s Barany observes that over the last five or 10 years, many large fund management organisations have reorganised themselves into “quasi multi-boutique structures” where investment teams have been handed almost full autonomy – even within a large funds management organisation.

“There’s been a pretty big backlash against large, integrated models where rules and procedures have mushroomed to the detriment of performance. They’ve tried to take the benefits of a boutique structure and put that into a large firm,” he says.

“Some multi-boutiques hold all the equity of the underlying manager; some hold a minority, and they think that can incentivise the manag-



*There’s no such thing as a perfect partnership.*

**Rafe Sagarin**

er to keep growing their business or providing performance.”

One thing to be wary of is boutique owners willing to sell out completely to a multi-boutique. “Because if you’re really confident in your long term, why would you sell out all of your equity to the to the umbrella corporation?” he asks.

For the multi-boutique owner sitting on top of the structure, it’s a sweet deal taking a cut of revenues and performance fees on a regular basis.

But how can the affiliate members ensure that they are not being pitted against each other, particularly if the network continues to add to the stable?

GSFM’s McIntyre says: “It’s disingenuous to bring the same client and try and sell them the same things managed by two different fund managers. No one wins. The managers themselves don’t win and it’s not good for our integrity.”

“It’s very much a deliberate decision on how to avoid a chain of conflict,” he says, noting that it’s critical above all to understand the client’s agenda.

“You have to wait for the moment when the clients are receptive to listening to a new idea. And when they are at that moment in time, that’s when it’s fair to proceed. When we do it that way, we make sure everyone gets a fair hearing.”

Morningstar’s Ler says it’s important for multi-boutique owners to provide optionality, meaning a diverse set of asset classes and offerings that are not correlated to each other to run more sustainable businesses or else face the reality of closure.

However, Ler forebodes that more consolidation will eventuate among boutiques.

“Further, we could potentially see more multi-boutiques [such as Pinnacle and Fidante] because everyone is realising that I can’t survive by myself, and I will need to join hands,” he says.

Resource Dependency Theory (RDT) in sociological terms states that no business can ever be self-reliant to survive. Businesses need, among other things, materials, funding, labour, and information.

Businesses ultimately engage in transactions that are advantageous to it, but incidentally create a dependency that is not. Some examples include power and bargaining imbalances.

No where is RDT more evident in the multi-boutique model, a quirk so esoteric to the funds management industry that it’s almost impossible to see insurers, financial advisers, accountants, engineers operating in this manner. Boutique fund managers need it to survive. The late marine biologist Sagarin espouses the benefits of symbiotic relationships for survival because, in reality, a business cannot be all things at once.

“There’s no such thing as a perfect partnership,” Sagarin says.

“Natural organisms don’t strive for perfection; they just try to solve problems.” **FS**