

JARGON

Boutique funds

Barbara Drury looks at good things in small packages.

Boutique funds are flavour of the month, with investors cheesed off at the mediocre performance and high fees of many mainstream fund managers.

High-profile investment managers have been quick to cash in on the trend and hang out their own boutique shingle. The challenge for investors is to identify style from substance.

Five years ago there were about half a dozen boutique managers; now there are close to 70. The money they have attracted has also gone through the roof. Best estimates of funds under management are about \$43 billion.

While boutique managers regularly top performance charts, the focus on star performers can be misleading.

Last financial year the average boutique manager outperformed the overall average by 1.3 percentage points. They did better in the small capitalisation sector, where average outperformance was 3.8 percentage points.

When people think boutique fund they tend to think of a highly skilled stock-picker, but that holds true for mainstream managers. And just because someone has performed well at a big fund does not necessarily mean they will excel at running their own business.

Boutique managers tend to own the business or a large chunk of it. This is viewed positively because it means they have a much greater stake in the fortunes of the business.

To be a successful niche player you need a clear

BOUTIQUE FUNDS HOW THEY STACK UP

Institution	Status	Total return (%)			MER (%pa)
		1 year	3 years	5 years	
Advance Imputation Fund #	Open	23.81	8.40	12.41	2.05
Australian Ethical - Equities Trust	Open	21.61	8.62	8.07	1.99
Colonial First State FirstChoice - 452 Aust Share *	Open	26.75	-	-	1.93
Hunter Hall - Australian Value Trust	Open	14.17	12.11	-	1.88
MMC - Value Growth Trust	Closed	22.13	18.07	16.77	2.89
Opis Capital Dynamic Equity Fund	Open	23.72	22.89	-	1.84
P.M. Capital - Australian Opportunities Fund	Closed	17.44	12.14	14.63	1.09
Parker Asset - Enhanced Leaders Trust	Open	16.56	6.29	8.36	1.88
Prime Value Growth Fund	Open	51.23	31.90	15.79	1.45
Sandhurst BMF - Sandhurst Industrial Share Fund ^	Open	20.67	12.65	18.11	2.10

MONEY MAN. BY MAPLE-BROWN ABBOTT * MONEY MAN. BY 452 CAPITAL ^ MONEY MAN. BY INVESTORS MUTUAL SOURCE: MORNING STAR



Illustration: Michael FitzJames

and distinctive style (whether it is a growth or value bias), a focus on a particular market sector or adherence to a benchmark or absolute return.

Boutique funds also have a reputation for being small and nimble, yet some have grown fat with success. Platinum Asset Management has more than \$14 billion in assets under management, while Maple-Brown Abbott has close to \$20 billion.

Boutique funds are more likely than their big brothers to close the doors to new money once they reach an optimum level.

Their smaller size and flexibility means boutiques find it easier to invest in good smaller companies. Yet, in practice, boutiques and their unwieldy competitors look remarkably similar when their share portfolios are compared.

This doesn't stop boutique funds charging a premium for their products.

Base fees are only marginally higher than average, but the sting often comes in the form of performance fees.

Of course, if investors are better off they are not about to complain.