Institutional Investor

April 16, 2020 • Institutionalinvestor.com

PORTFOLIO

The Managers That Do Well During Volatile Times

Independent, partner-owned firms outperform, especially when times are tough, a new study shows.

By Julie Segal

Amid the coronavirus-induced market volatility that seems nowhere near ending, investors should choose specialized boutiques rather than larger firms to manage their assets, according to new research from asset management investment firm Affiliated Managers Group.

Smaller asset managers, owned by their partners, significantly outperformed their larger, non-boutique peers as well as indexing strategies during periods of high volatility, according to a soon-to-be-published supplement to AMG's proprietary study on the so-called boutique premium. The study examined independent boutique performance in volatile market environments over the past 20 years.

To be clear, AMG — which primarily invests in institutionally oriented asset managers — has a horse in the race. But the firm used return data from Mercer to conduct the study, basing it on two decades of data. AMG has invested in asset managers including Tweedy, Browne Co.; AQR Capital Management; ValueAct Capital; Artemis Investment Management; and Winton Group, among others. The report studied 1,300 investment management firms and almost 5,000 institutional equity strategies representing about $7 trillion in assets.

"If we're talking our own book, well, at least we've been doing that same thing for 30 years," said Jay Horgen, CEO of AMG, in an interview with *Institutional Investor*.

Boutiques generated significant net excess returns compared with indexes in all 11 institutional equity categories studied, according to the report. They also outperformed non-boutiques in ten of 11 of those categories, which includes global equity, U.S. large-cap value and growth, mid-cap, and small-cap.

Boutiques are defined as active managers having less than $100 billion in assets and whose principals hold more than 10 percent of equity, though principals of the majority of firms studied held significantly more. In addition, a boutique had to count its sole business as investment management to be considered.

Among others, the study used indexes including MSCI World and MSCI Emerging Markets, Russell 1000 Value, Russell 1000 Growth, and Russell 1000.

Between 2000 and 2019, boutiques delivered an average of 116 basis points of excess returns — 1.16 percent — compared with non-boutiques when the VIX was more than 20. (The VIX is the Chicago Board Options Exchange Volatility Index.) The boutiques delivered 241 basis points of excess returns compared with passive indexes during those same time periods.

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Horgen attributed the outperformance to the entrepreneurial culture and alignment of owners with their investors that boutiques offer, as well as the specialty nature of these asset management shops. During stressed markets, these managers are better positioned to make quick and creative decisions, he said.

"They are nimble during times of volatility. That's where we think boutiques create the most alpha," said Horgen. "And that's when clients really need someone aligned with them and focused on their assets. It's happened in previous periods, and you'll see it play out over the next 3 months, or 6 months, or 3 years as markets recover," he said.

From 2000 to 2003, after the dot-com bubble, boutiques returned a cumulative 29.14 percent. In comparison, non-boutiques returned 20.20 percent, and passive indexing returned 4.03 percent. During and after the global financial crisis, from 2008 to 2011, boutiques delivered 1.74 percent, while non-boutiques had returns of 0.10 percent. Passive indexing, in comparison, fell 3.65 percent over the period, according to AMG.

Independent boutiques are "where the best people go," said Horgen. "Look at conglomerates. Those are employees, they are not partners who have an equity interest in their firm. [Boutique principals] feel the pain alongside investors. It's the kinds of people who are attracted to partner-owned firms, and then alignment, and then the specialized nature of the investment process."

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To read the full study including related disclosures please go to:

https://www.amg.com/content/dam/amg/boutique-advantage/Independent_Boutique_Advantage_in_Volatile_Environments.pdf

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