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Belvest 研富

A tail of two services

by Gabby Byron

The COVID-19 pandemic reshaped our world in many ways, including how we work and live. One of the unexpected consequences of this period has been the widespread adoption of remote work, bringing both new possibilities and challenges to our lives. As we adapted to this “new normal”, I found myself faced with the challenge of finding appropriate care for my newly adopted puppy while returning to the office.

Initially, I opted for a large "doggy daycare" service, attracted by its impressive facilities and countless furry attendees. However, my puppy struggled to adapt and socialise in this environment. The overcrowded space left little room for individualised attention, which he needed for socialisation and development. Determined to find a nurturing environment for my pup's growth and happiness, I turned to a local business offering a personalised pet care service. With a limited intake of just a few dogs at a time, my puppy received the individualised attention and affection he deserved.

In the world of investments, boutique investment houses often play second fiddle to larger asset gatherers. Just as my dog benefited from the personal touch of a local sitter, boutique firms specialise in being selective and creative in their investment approach.

One of the key advantages of boutique firms is their ability to remain nimble, allowing them to respond swiftly to dynamic market conditions, potentially generating enhanced returns. They can take concentrated positions, construct high-conviction portfolios, and move in and out of positions without disrupting the market for those securities. This flexibility allows them to capitalise on opportunities that might be overlooked by larger, more cumbersome investment houses. In contrast, these larger firms may struggle to manoeuvre in the market due to their sheer size. They often need to allocate significant capital to any position, which can influence asset prices and limit their ability to respond quickly to changing circumstances.

Additionally, managers of large funds face constraints as their assets under management grow. Their investment universe shrinks, limiting their ability to invest in smaller companies or less liquid assets. For instance, if a fund has £5 billion in assets, a 1% position would equate to investing £50 million.

To maintain a less than 5% ownership stake in a company, they can only consider investments in companies with a market cap over £1 billion. This restriction removes numerous potential investments from their universe, limiting their opportunities.

Larger firms also tend to have lengthy decision-making processes, often leading to a herd mentality where they follow conventional wisdom rather than thinking outside the box. This lack of creativity can limit their ability to seize unique investment opportunities and adapt to changing market conditions.

Those in favour of larger firms would argue that the managers take fewer risks, have extensive research resources and substantial infrastructure platforms supported by cutting-edge technology. However, in our view, they are offering all bark but no bite when it comes to generating alpha. Advocates of boutique firms would point out that managers have to endure less market noise and have more freedom to exercise their conviction.

Ultimately, the performance of an investment fund comes down to the skills of the underlying fund manager. Boutique firms, with their freedom to concentrate on investment performance rather than sales and marketing targets, often take more active roles and managed risks to generate higher returns. In contrast, larger firms tend to have larger risk management teams, which can result in tighter controls to reduce volatility, leading the managers to be less active in deviating away from the benchmark. When evaluating third-party investment funds, we believe it is essential to look for active managers who are willing to take proportional risks to generate better returns.

Just as my dog enjoys his more personalised care, investors who choose boutique firms can bask in the confidence and satisfaction that comes with their more creative and flexible investment strategies. These firms excel at accessing niche investment opportunities and maintaining the nimbleness to act quickly, all of which contribute to a higher likelihood of generating superior returns.

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