Boutique funds catch the eye

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Illustration: *Michael Fitzjames*

Savvy investors are increasingly turning to specialist fund managers for higher returns, writes Peter Weekes.

Australians love to invest. Per capita we have more funds under management than any other major country, suggesting that as about 5 million people start making their own superannuation investment decisions, there is a substantial degree of financial literacy.

New research by AFG Financial Planning found that funds under management, including managed funds and superannuation, jumped by 85 per cent in the four years to 2004, to an average $US32,489 ($A42,850) per person - the second fastest growth rate behind Spain.

AFG's principle dealer, Ross Naylor, says the surge is a result of the country's strong economic performance, the robust stockmarket, strong dollar and the role of financial planners.

"More people are more comfortable now with managed funds. They have been around for some time and Australia has a very advanced managed-fund model compared to the rest of the world," he says.

Managing director of researcher and actuary consultants Plan For Life, Simon Solomon, says the rise in funds can not only be explained by the $1.6 million flowing in every month from superannuation, as much is also taken out in the form of retirement income streams.

Independent research house Investment Trend's Mark Johnston has a theory - the high cost of housing. His research suggests that there has been a substantial mind shift in the nation's thinking about investments.

"In the past, people would pay off the house before making other investments but because of the rising price of housing young people are no longer doing that. They are investing elsewhere," he says.

"It's really about people looking at non-housing investments earlier. Managed funds is one of those options and direct shares another."

Investment Trends' survey revealed of those age over 60, 61 per cent thought it better to pay off the mortgage before investing elsewhere. This falls to about half for those aged 50 to 59, 41 per cent for those in their 40s and 26 per cent for those under 40.

Smaller boutique and niche managed funds appear to be the winners, growing their assets under management by 43.2 per cent and 22.5 per cent respectively in the 12 months to March, the Plan For Life report found.

Boutique investment houses have proliferated as key managers have left the large funds and set up their own companies. There are now about 80 boutique funds in the market.

"The rise of boutique funds, particularly over the last five years, is good for the investment community because there are now investment houses offering quite a range of genuine choice," says David Cooper, the chief executive of Treasury Groups, which helps establish boutique funds and runs their administration. "They are not departments of insurance companies or departments of banks.

"Their interests are also more closely aligned with investors because the managers own the business and it is only viable if they do the right thing by their clients."

Instead of lumbering into the sharemarket like elephants, boutiques are more nimble and willing to take a risk on what they believe will perform well over the longer term.

Morningstar's head of consulting, Anthony Serhan, says the growth in boutique funds has been "quite significant" since 1999.

"It's a more sophisticated market that we're dealing with, and people are happy to look beyond bigger brands, more so now than in the past," he says.

"Certainly the performance dynamic is still a big factor in the market, and the fact is there have been a number of high-profile boutiques (that) have posted some very strong numbers, and that's created some of the confidence that people do have in that market now. So yes, (performance has) certainly helped the flow of money into that sector."

Returns, particularly for smaller funds, range from a strong 37 per cent last year to a poor 9 per cent.

Still, with economists and analysts predicting that sharemarket returns will halve over the next year, do these small funds offer the best investment opportunity for retail investors?

Intech Financial Services' head of manager research, Fraser Murray, says the size of boutique funds means they can move quickly in a falling market. "If you are smaller and more nimble it is a good time at any time, it's a net advantage," he says.

"Even if the market is going down, if you are the more nimble guy you can be the first one to get out."

Boutiques may also become a victim of their own success, with larger funds taking a stake in their business, such as Commonwealth Bank, which snapped up a 30 per cent stake in boutique firm 452 Capital in May.

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