The Case for Boutiques: A Survey of European Boutique Asset Managers

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ABSTRACT

In this paper we explore a segment of the asset management industry that has received relatively little attention, that is populated by independent boutique, or specialist asset managers. We conduct a survey of these managers to try and determine: the structure of this industry; information about the competitive advantage that boutiques believe that they have over larger fund houses; and information about the impediments that they face.

Key findings:

1. Boutiques see the following factors as being particularly key to their competitive advantage:
    a. their independence;
    b. their focus on a small number of strategies;
    c. alignments of their interests with those of their clients;
    d. their agility / adaptability
2. Boutiques have particular concerns about: distribution; the ability to achieve a critical mass for larger allocations; and promotion by consultants all featured prominently.
3. More mature boutiques see succession as a significant issue for their businesses.
4. Respondents argued that performance-related fees helped them align their success with that of their clients, but that investment platforms were often not willing to accommodate such fee structures.

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1. INTRODUCTION

The asset management industry has been entrusted to manage the investments of pension schemes, insurance companies, banks, retail investors, amongst others. According to the IPE survey[1] of the world's largest 500 asset managers, the industry's global AUM increased from $112.86trn in 2023 to $120trn in 2024. This AUM is overseen by a relatively small number of asset managers[2]. The total global AUM for the top 100 managers is $92.88trn, and for the top 200 it is $109.92trn. Blackrock and Vanguard manage $22trn between them. These figures demonstrate the degree of industry concentration. Given this backdrop of industry AUM growth and the associated scale of the world's most successful asset managers, should we be concerned about what this means for new entrants? Should we be concerned about the impact on industry innovation? What scope is there for new entrants and the innovation that they might bring? And, ultimately, should we be concerned about the impact such concentration might have on the millions of investors that the industry serves? In this paper we turn the spotlight onto boutique asset managers.

Some research has highlighted the likely existence of a boutique asset manager premium. Using US data, AMG (2015) found that the outperformance of US boutiques over other asset managers over a twenty year period, was as high as: 127bps annually for emerging markets equity funds; 113bps annually for Global Equity funds, and between 31bps and 101bps for U.S. Small Cap Equity strategies. Clare (2022) looked at the difference in performance of the funds run by large asset managers and those managed by European boutique asset managers. The results showed that funds

[1] IPE Top 500 Asset Managers 2024 - Generation of change: asset managers grapple with AI on both sides of the P&L | IPE

[2] The scale of the industry is so large that central bankers and other regulators now assess the systemic risk that these institutions pose, concerns that until recently had been confined to the banking industry. The UK's gilt crisis in 2022, precipitated by the Truss government and exacerbated by the hedging strategies of UK pension funds, was a sharp reminder of these potential systemic risks.

managed by boutiques outperformed those provided by large asset managers by: *"0.52%pa and 0.23%pa on a gross and net basis respectively when we use a version of the Fama and French (2015) five-factor model and by 0.82%pa and 0.56%pa on a gross and net-of-fee basis respectively when we use an index model*" (Clare 2022).

One of the issues related to shedding more light on the Boutique Premium is the definition of a Boutique. AMG (2015) identified boutique fund managers using the MercerInsight™ global database where the definition of a boutique manager: "*was based entirely on AMG's proprietary analysis (AMG (2015), page 3)*." An asset manager was identified as being a boutique if: the Principals held at least 10% of the equity in the firm; if investment management was the firm's sole business focus; if the firm's AUM was less than $100bn; and if the firm was not offering, exclusively, smart beta or fund of fund strategies. Their classification methodology identified 816 unique "boutique" investment management firms in the database. Clare (2022) established a database of European boutique asset managers by asking professional investment consultants (including WTW, Aon Consulting, Redington Partners) to identify fund managers that they considered to be boutiques, being cognizant of the broad characteristics relating to ownership, strategy and focus that AMG had identified as being the crucial features of a boutique asset manager. In addition, the asset managers belonging to an industry trade body, GBAM (Group of Boutique Asset Managers) were also approached to name asset managers that they believed fitted the boutique description. The amalgamated list comprised 239 European boutique asset managers.

In this paper we do not seek to investigate further the boutique asset manager premium, but instead, using the database established in Clare (2022) as a basis, we hope to cast new light on this area of the asset management world by conducting a survey of boutique asset managers. The survey was conducted in part to understand more about the particular characteristics of boutique fund houses that may contribute towards the aforementioned boutique performance premium and equally, which characteristics may be headwinds to these businesses. The survey provides information about: the structure of this industry; information about the competitive advantage that boutiques believe that they have over larger fund houses; and information about the impediments that they face. The rest of this paper is organised as follows: in Section 2 we briefly review the related literature; in Section 3 we describe the respondents to the survey; in Section 4 we explore the perceived competitive advantage of the boutiques; in Section 5 we explore the impediments faced by boutiques; while Section 6 concludes the paper.

2. RELATED LITERATURE

With the exception of AMG (2015) and Clare (2022) to our knowledge there has been no other work written about the boutique premium[3]. However, a number of researchers have investigated the influence that fund size might have on performance. So why might there be a relationship between fund size and performance?

Perold and Salomon (1991) argue that diseconomies of scale might occur as a result of increases in price impact associated with larger transactions as a fund grows. Becker and Vaughan (2001) argue that as a fund grows larger: "*the portfolio manager loses flexibility: it becomes harder to switch in and out of positions. Executing a desired trade will take longer or create adverse market impact price moves. The resulting reduction in the speed and nature of the portfolio adjustment will ultimately impair fund*

[3] Note that Stewart (2021) has addressed some of the leadership themes with regard to boutique asset managers that are explored in our survey in this paper.

performance." Berk and Green (2004)[4] develop a theoretical model where low barriers to entry ensure that any short-term abnormal profits, which might arise from either manager skill or lower production costs, are competed away. In this model, knowledge of a fund manager's past performance will not provide information about future performance. In the Berk and Green model there is an optimal size for each fund in equilibrium. An important aspect of this model is the assumption that inflows to a fund are subject to diminishing returns, implying a negative relationship between fund size and performance. In practice these diseconomies of scale could arise from a range of factors, including the requirement for larger funds to accept less profitable investment opportunities. Elton et al (2012) suggest that diseconomies of scale could be the result of "*increased transaction costs, the acceptance of less profitable investments, organizational costs, or other reasons*". On the other hand, Fredman et al (1998) suggest that larger funds might benefit from lower expense ratios enabling them to dedicate more resource to research, thereby leading to economies of scale.

Other researchers have sought to establish or document any possible relationship between fund size and performance empirically. Grinblatt and Titman (1989) present some early evidence about this relationship. Using a sample of US data spanning 1974 to 1984, they find evidence for a negative relationship between fund returns and fund size using gross-of-fee returns, a result that is not replicated when they examine net-of-fee returns. Indro, Jiang, Hu, and Lee (1999) identify a nonlinear relationship between fund size and performance. They find that performance initially increases, but subsequently declines with a further increase in fund size; a result that implies that small funds enjoy economies of scale initially as they grow and

[4] Lynch and Musto (2003) develop a model of fund performance, where exogenous differences in manager skill are assumed. There are no diseconomies of scale as AUM grows with inflows. In their model successful managers do not change their strategy, but unsuccessful managers do. As such we might expect to find that *positive performance persists* and that poor performance does not (since the strategies of poor performers' changes over time).

as fixed costs are spread across a larger asset base, but that these economies of scale eventually disappear.

Chen et al (2002) find that after controlling for fund characteristics such as turnover and age, that both gross and net-of-fee fund returns are inversely related to fund size. Their result is also robust to the choice of benchmark. Following further investigation, they find more pronounced returns for small funds that invest in small cap stocks. They also find that small funds are “*better than large ones at investing in local companies*”. Chen et al argue that their findings are consistent with organisational diseconomies of scale. Chen et al (2004) also find evidence of an inverse relationship between fund size and performance. They find these diseconomies of scale to be more prevalent among small cap funds, which they argue is evidence that fund size (particularly small cap fund size) diminishes as a result of liquidity, since small cap stocks tend to be less liquid than large cap stocks. Yan (2008) also, finds a significant inverse relationship between fund size and fund performance, they find that this relationship is less pronounced when funds hold more liquid stocks. They also find that these diseconomies of scale are more pronounced for growth funds and for those with high turnover. Chan et al (2009) study the self-reported transaction data of 34 Australian funds. They find that large funds that follow a highly active trading strategy experience diseconomies of scale while large funds that follow a more passive strategy suffer less from this phenomenon. They argue therefore that the “fund size effect” is related to transactions costs. Both Yan (2008) and Chan et al (2009) imply that transactions costs and liquidity possibly interact to produce fund performance diseconomies of scale.

There does exist evidence then for an inverse relationship between fund size and performance. However, some researchers have found evidence that does not support this empirical conclusion. Using Australian fund data, Gallagher and Martin (2005) do not find clear evidence that fund size is inversely proportional to fund performance. Using US mutual fund data spanning 1999 to 2009 Elton et al (2012) find no real evidence of diseconomies of scale. They argue that funds may: "*benefit from lower expense ratios as they grow; offset any increase in transactions costs by commanding greater resources within their fund family*[5]*; have greater access to the best analysts and traders; and may even benefit from ideas generated within a larger fund family*". Using US mutual fund data spanning 2000 to 2017 Clare and Clare (2019) find very limited evidence for diseconomies of scale, instead they find that a fund's information ratio, its turnover and levels of net inflows and fees are all significant indicators of future fund performance, but that fund size (AUM) is not.

The empirical relationship between fund size and performance is therefore not clear. However, it is important to draw a distinction between the work discussed above and the results of AMG (2015) and Clare (2022). The extant literature does not distinguish between small funds that are managed by independent or specialist fund managers, and small funds that are made available for investment by large asset managers. The AMG and Clare studies focus on the performance of boutique asset managers and both find clear evidence of outperformance. It is possible that this documented outperformance may be due to size, but the outperformance may not be due to the smaller scale of boutiques alone, instead they may be due to other characteristics of these asset managers. One of the main purposes of the survey is to identify these characteristics, so that future empirical research may focus on these characteristics and subsequent performance. In the next section of the paper we summarise the findings of the survey.

[5] See for example Nanda, Wang and Zheng (2004) or Gaspar, Massa, and Matos (2006).

3. THE RESPONDENTS

The survey was made available to specialist, or boutique asset managers from June 2024 to September 2024. In total there were 87 completed surveys. Survey participants were also given the opportunity to have an interview to discuss the main issues highlighted in the survey, and to give them an opportunity to expand on other issues that they believed to be relevant. In total eleven post-survey interviews were conducted.

Table 1 summarises the characteristics of the respondents. The majority of the respondents, 37%, held senior positions in the firm: CEO, CIO, COO, Partner or Director. 14% were Department Heads and 5% were portfolio managers. In a number of cases the respondent held more than one position, for example, CEO and Partner. In these cases we classified the respondent by their most significant executive role in the business. It is clear from the table that the respondents were in an excellent position to complete the survey.

The asset management firms responding to the survey are relatively young businesses on average, as one might expect. Only 18% of the firms were established prior to 1994; 63% have been established for less than twenty years; 31% established over the last ten years; and 16% were established in the last five years. We asked the respondents about the origins of their businesses, because we wanted to learn about the genesis of the boutique population. We found that nearly three quarters of the businesses were "*entirely new businesses*" while 17% were spun out of existing asset management firms. We also asked the respondents about the legal structure of their firms; of course, most large asset managers are publicly listed companies or are part of a Plc structure. The majority of respondent firms (57%) are limited companies, while around one third have either an LLP or LP structure. It is generally thought that a partnership structure offers more flexibility in terms of governance and decision-making. However, despite this advantage it seems that the majority of boutiques prefer the Ltd company legal structure for their businesses. Table 1 also provides information about the AUM of the respondents. In total 42% of the respondents had less than $1bn in AUM, with 15% having less than $100m. However, at the other end of this scale 23% of respondents have AUM of between $10bn and $50bn, while 3% managed more than $50bn. On average 43% of respondent firms' AUM is sourced from the UK; while around 20% is sourced from Europe and from the USA. Finally, we also asked respondents about the number of people that they employed globally. One third of respondents had less than ten full time staff and, in total, 88% of respondents employed fewer than 100 people. To put this into context, Vanguard[6] and Blackrock[7] both employ around 20,000 globally.

Table 2 presents information about the sort of asset management services and products that the respondent firms offer. Nearly 90% of the respondents offer funds or pooled vehicles for investment; 77% offered separately managed (segregated) accounts; while 22% also offered a wealth management service or model portfolio service. Separately managed accounts allow for more client-specific tailoring. Amongst our sample, separately managed accounts made up an average of 35% of manager AUM.

On average 42% of the AUM of the respondents is derived from institutional investors, while 28% and 24% are derived from wholesale intermediaries and private clients respectively. It is perhaps surprising that such a high proportion has an institutional source, but this does indicate that institutional investors are not averse to

[6] See: About Vanguard
[7] See: BlackRock: employees 2023

allocating funds to boutique asset managers. Table 2 also touches on the issue of performance fees. 55% of our sample offer products with performance-related fees; 9% apply performance-related fees to the majority of their products, while 13% apply the structure to all of their products. Of those respondents that apply a performance-related fee to at least one of their products, 58% said that they did so to ensure an alignment with client interests, one of the key elements identified in this research as contributing towards a firms competitive advantage 13% said that they did so as a way of lowering the fixed, base management fee; while 15% said that they did so to ensure better alignment of interests and to lower the fixed fee. Overall, we believe that the proportion offering a performance-related fee is relatively high, this is in spite of the concerns raised by some of the fund managers interviewed that investment platforms make it very difficult to offer a fund with a performance fee.

Finally, Table 2 gives some indication of the investment focus of our boutique sample. We asked respondents about the asset classes they manage and about their style. In each case respondents could choose more than one option. The table shows that 75% of respondents managed equity portfolios while 24% managed fixed income funds. 19% of those firms that managed equity portfolios also managed fixed income portfolios. Perhaps also of note was the 34% of respondents that managed alternative portfolios for their clients. For those respondents that had a focus on equity as an asset class, Value was the predominant style offered to clients (42%) with Growth being the second most common style (17%).

The results presented in Tables 1 and 2 present the first snapshot of this section of the asset management industry. A typical boutique begins life as a new entity, prefers a limited company legal structure, offers some form of performance-related fees, derives the majority of its AUM from institutional investors and wholesale intermediaries, and employs fewer than 50 people.

4. THE BOUTIQUE COMPETITIVE ADVANTAGE

Interview participants suggested a number of advantages that they felt they had over larger asset managers. These competitive advantages could be the source of the boutique asset management premium. Table 3 presents the results of a series of questions put to respondents about this issue. The Table reports full sample results in Panel A. Panel B presents the difference in responses between those that work for firms with AUM of more than $1bn, and those that work for firms with AUM of less than $1bn. 57% of the boutiques in the survey had AUM of greater than $1bn. Panel C presents similar results but where we look at the difference between those representing firms that were formed prior to the GFC and those formed after the GFC. 40% of the boutiques in our survey were formed prior to the GFC. Finally, Panel D shows the difference in responses between those with more than 20 employees and those with less than 20 employees. 49% of the sample employed more than 20 people. Panels B, C and D give some idea of how the experience and views of the respondents might vary according to AUM, age and employee numbers. In each case, figures in bold indicate that the difference in the response rate is significant at at least the 90% level of statistical confidence.

4.1 Asset Class Specialisation

Nearly 40% of respondents cited asset class specialisation as being one of their core competitive strengths. The response to this question did not vary significantly by AUM, but we did find that respondents of firms founded before the GFC were (statistically) significantly more likely to respond *not at all* to this question; while respondents from firms with fewer than 20 employees were less likely to respond *not at all*. This result indicates that asset class specialisation is seen to be more important by smaller, younger boutiques.

4.2. Strategy focus

Boutiques tend to focus on a limited number of asset classes, and also strategies. Nearly 30% of our respondents saw their focus on a small number of strategies as being core to their offering. Once again we found that firms established before the GFC and, separately, firms with more than 20 employees responded *not at all* to this characteristic, results that were both statistically significant. This indicates again that larger, or more mature boutiques were less concerned about this issue than their newer, smaller boutique competitors.

4.3 Independence

One of the advantages that interviewees mentioned about operating as a boutique was the freedom to act, that is, that they were likely to be less constrained by the competing needs of a larger, more complex business environment. This sentiment is reflected in Table 3 to some degree. Just over 30% of respondent firms saw independence as being a core competitive advantage of their business with an additional 49% believing it to be a significant driver of their competitive advantage. There was very little variation that was statistically significant in this view. However, interestingly, firms with more than twenty employees were statistically less likely to see this as one of their competitive edges.

4.4 Client Service

One would hope that a boutique organisation would be in a position to offer a good customer experience, although of course, large firms would claim that this is not the preserve of small firms. Nevertheless, 51% of respondents saw client service as being a significant component of their competitive advantage, while 16% saw this as being core to their competitive offering. We found no significant variation with regard to this issue, by size, age, or employee numbers.

4.4 ESG Capabilities

The asset management industry is currently grappling with the challenge from government, regulators and clients to be more transparent about their sustainability credentials. ESG investing is a very controversial issue, there exists some evidence of a relationship between a portfolio's ESG score and positive future performance[8]. However, some interviewees mentioned the costs involved in accessing ESG data being at least part of the reason why boutiques might not wish to compete for business explicitly on this basis. Our survey gives some weight to this view; although 62% of respondents recognised ESG as contributing in some way to their competitive advantage, only 11% of respondents saw their ESG capabilities as being core to their business. This view of ESG capability was borne out in particular amongst respondents that had fewer than 20 employees, or who had less than $1bn in AUM who were both statistically significantly less inclined to see this as part of their core competitive offering.

4.6 Agility/Adaptability

There is a view that large firms are less agile and adaptable to changes in the business environment, indeed perhaps unfairly, when large firms announce a change in direction their efforts are often likened to those of a super tanker manoeuvring into a port. The respondents to our survey saw agility as being one of the key components of their competitive offering. 58% of respondents saw this as a significant aspect of their offering, while 20% saw it as a core competitive advantage. We found that

[8] See as a recent example Papathanasiou and Koutsokostas (2024).

statistically significantly more respondents that had an AUM of less than $1bn, or had fewer than 20 employees saw this as core to their offering. This reinforces the idea that smaller businesses are more agile, or at least see themselves in this light.

4.7 Alignment of interests

Finally, a number of interviewees suggested that their businesses were better aligned with the interests and needs of their clients, arguably a characteristic that requires adaptability too. Again, nearly half of our respondents saw this as a significant feature of their offering, while 32% saw it as being one of their core competitive edges. The view that alignment of interests was a core part of their offering, was found to be statistically and significantly stronger among: firms with less than $1bn, of AUM; were established after the GFC; and that had fewer than 20 employees. It would seem reasonable to conclude that the smaller a business the better aligned it will be with a concentrated customer base.

5. Impediments to future growth

The health of the asset management industry depends, at least to some extent, upon there being new entrants with new ideas. Generally speaking, barriers to entry in any industry tend to produce suboptimal outcomes for consumers (investors). To this end we asked our respondent firms to give their views about possible impediments to their future success. The set of options included “existential threat” as a possible answer. The full sample results are presented in Panel A of the Table. In panels B, C and D we again look at the differences in the responses of firms: with AUM greater than and less than $1bn (Panel B); formed before and after the GFC (Panel C); and with more than and less than twenty employees (Panel D).

5.1 Critical mass for larger allocations & Promotion by Investment Consultants

One of the challenges of any new business is to grow to a size that enables the firm to generate profits, that can, in turn, be reinvested to generate higher profits in the future. Interviewees mentioned two impediments to growth in particular. The first was the need to grow to a size that allows for larger allocations from investors. Generally speaking, it is seen to be good practice not to be the holder of the majority of units in a fund, therefore for an allocator with significant funds to deploy, smaller boutiques may not be large enough to allow for meaningful investments in a way that does not break fund concentration limits that the allocator may have set itself. Interviewees suggested that this issue was becoming more acute because of an increase in industry concentration, driven, in part, by the large wealth managers that operate multi-manager funds. Many of these funds now have AUMs of many billions[9]. For these wealth managers to make a meaningful allocation to a fund manager, the fund itself also needs to be relatively large. Related to the issue of fund size as an impediment to future growth, is the role that investment consultants play in allocating to boutiques. Investment consultants will also typically have minimum fund concentration limits that make it difficult to allocate to boutiques. Table 4 shows that 12% and 10% of respondents respectively saw issues relating to *scale for larger allocations* and the *promotion of their businesses by investment consultants* as being existential threats. In both cases, an additional 30% of respondents saw these issues as being significant impediments to their growth. With regard to critical size for allocations, a higher and statistically significant number of funds with AUM under $1bn saw this is an existential threat, while a higher and statistically significant number of funds with AUM above $1bn did not see this as an issue at all. Similarly, a statistically significant higher

[9] For example, the AUM of Quilter plc's popular Model Portfolio Service (MPS), *Wealth Select*, was just over £18bn in October 2024 (Quilter plc - Introduction Autumn 2024).

proportion of funds that were established after the GFC, or that had fewer than twenty employees saw this as an issue, while the opposite was true of those formed before the GFC or with greater than 20 employees. With regard to promotion by consultants, there was relatively little statistically significant variation in the results with the exception of AUM: respondents with AUM's of less than $1bn were statistically more likely to see this as an existential threat.

5.2 Availability on Investment Platforms & Distribution

When asked whether the availability of their products on investments platforms was an impediment to growth, the majority of our respondents didn't see this as a big issue: 34% said that it was an issue *to some extent*. There was very little significant variation in this response, except that 8% more respondents with an AUM under $1bn did see this as an existential threat. Closely related to this issue, is the more general issue of Distribution: 15% of respondents did not see Distribution as being an impediment to growth, while 41% said that it was an issue to some extent. 39% and 5% respectively saw it as a significant or existential threat respectively. Delving further into this issue, a significantly higher proportion (14%) of respondents that were formed before the GFC, and a significantly higher proportion (17%) of respondents that had more than 20 employees did not see Distribution as a problem at all, which in turn means that it is seen as more of an impediment to growth by younger, smaller firms.

5.3 Succession

The issue of succession is one for even the largest firms, but could be of a problem for smaller businesses that may have been established and subsequently run by a small number, or even one experienced professional. It is perhaps surprising then, that more of our respondents were not concerned about the issue of succession: only 19% saw this as a significant issue, while only 2% saw this as an existential threat to their business. Of the 21% of respondents (19%+2%) that saw succession as at least a significant issue, 61% of them were established prior to the GFC and 83% prior to 2013. This concern about succession amongst older boutiques is reflected indirectly in other statistics. A statistically and significantly higher proportion of our respondents, whose businesses had AUM of less than $1bn, or that were established post-GFC did not see succession as an impediment to future growth. This result probably reflects the maturity of these businesses, in other words: businesses that have not been established for very long, *do* not yet see succession as an issue. One of the interviewees referred to succession as a “silent killer”. They said that boutiques, many of which are founder-led, often overlook both the importance of effective leadership, and the complexity of succession planning, failing to prepare for transfers of leadership until it is too late.

5.4 Regulation

It is certainly rare to hear any section of the business community extolling the virtues of regulation! Indeed, interviewees did mention the thorny issue of regulation as being a burden for their businesses. However, perhaps surprisingly, regulatory requirements do not feature very prominently on the list of respondent’ concerns. 19% did not see this as a factor affecting growth, while a further 52% saw it only as an impediment *to some extent*. One in four of the respondents saw regulation as a significant issue, while 5% saw it as an existential threat. Further investigation revealed no significant variation in responses according to fund age, AUM or firm size (as proxied by number of employees).

5.5 ESG Capabilities

In Table 3, we saw that respondents did not see their ESG capability as being part of their competitive advantage, perhaps because accessing the necessary data is too expensive. The results presented in Table 4 are consistent with those in Table 3: few of our respondents saw ESG capabilities as a factor impeding their growth; 70% said that it was not an issue at all, while 27% said it was only an issue *to some extent*. Again, further investigation into these responses, revealed no significant variation in response according to fund age, AUM or firm size (as proxied by number of employees).

5.6 Number of Strategies & Client Concentration

Specialisation can be a major competitive advantage, but putting all of ones eggs in one basket, as the saying goes, brings risk. However, 90% of our respondents did not see a reliance on *a limited number of strategies* as a significant impediment to growth. This result should not be too surprising, since boutiques typically specialise in offering a limited number of strategies to their clients. There was no significant variation in this result by fund age, AUM or firm size (proxied by number of employees). Related to the issue of strategy specialisation is the size of the client base: the larger, and more diverse the client base the less likely that any firm will be damaged by the loss of one client's business. In the case of boutique asset managers, this could be a particular problem if, for example, a small number of clients choose a boutique asset manager for a particular investment strategy specialisation and that strategy subsequently falls out of favour, then client loss could threaten the viability of the business. But, once again, our respondents do not seem to be concerned by this issue of client concentration: 16% did not see client concentration as an issue, while a further 58% only viewed this as being an issue *to some extent*. Although just over 25% of respondents did see client concentration as being at least a significant impediment to future growth, once again we could find no statistically significant variation in this view by fund age, AUM or firm size (as proxied by number of employees).

5.7 Operational Capabilities and Technology

Finally, in an industry that is constantly being challenged by regulators to maintain or improve the robustness of their operations, and which is also constantly embracing new technology, we asked whether Operational Capabilities and Technology were seen as impediments to growth. The results indicate that these were not seen as obstacles to growth by our respondents: 89% and 85% of respondents said that Operational Capabilities and Technology respectively were either not a problem at all, or were only impediments to some extent. We could find no statistically significant variation in views about technology by fund age, AUM or firm size (as proxied by number of employees). However, we did find that a significantly higher proportion (19%) of funds with AUM below $1bn, saw this as an impediment *to some extent*.

6. FURTHER ANALYSIS

In this section of the paper we explore some more aspects of life as a boutique asset manager, presenting results related to the two main questions about the boutiques perceived competitive advantage, and about likely impediments to growth.

6.1 Performance Fees

Table 5 presents results relating to these two questions for those asset managers that offered their clients performance-related fees. Panel A presents the difference in response rate between the 55% of our respondents that offer performance fees and those that do not. Panel A shows that a significantly higher proportion of respondents that offered performance-related fees saw agility and alignment with client interests as being a significant part of their firm’s competitive advantage. With regard to impediments to growth, the response of those that offered performance-related fees were not statistically different from those that did not, in most cases. However, we find that 9% more respondents that offered performance fees saw Distribution as an existential threat; this result was statistically significant. Also, a statistically significant 11% more respondents that offered performance-related fees saw the availability of their products on investment platforms as being an existential threat. Interviewees did mention that investment platforms were often not willing to accommodate the relative complexity of administering performance fees. This is an issue that the industry perhaps needs to address. Boutiques generally wish to align their interests with those of clients. One way of doing this is to offer performance-related fees, it is therefore important that fund platforms can accommodate this. However, interestingly, we find a significantly lower proportion (20%) of respondents that offer performance fees see investment consultants as an impediment to growth. This indicates that investment consultants may look upon performance fees relatively favourably.

6.2 Institutional focus

In Table 6 we present the difference in response rates for the two main questions of interest by institutional focus. We classify a respondent as having an “institutional focus” if more than 80% of their AUM was derived from institutional investors. Given this definition, 28% of the respondents had an *institutional focus*; of this sub-sample, two-thirds sourced in excess of 95% of their AUM from institutional investors. The Table shows the response rate of those boutiques that focus on institutional business, minus those that do not have this focus. Panel A shows that a significantly higher proportion of respondents that focus on institutional business see asset class specialisation (27%) and a focus on a small number of investment strategies (23%) as being a core component of their competitive advantage. With regard to asset class specialisation, boutiques that do not focus on institutional business are more likely to see this characteristic as being important. Boutiques with an institutional focus see independence as being more significant (19%) than those boutiques that have less of an institutional focus, and less see it as being important *to some extent* (-19%). We also find a significantly lower response rate (-20%) to the *to some extent* option relating to the issue of ESG capabilities. Finally, we find that a significantly higher proportion (31%) of respondents with an institutional focus saw alignment with client interests as being a statistically significant part of their competitive advantage; fewer (-20%) saw this as being core but we do not find this result to be statistically significant.

Panel B of Table 6 shows that very few of the response differences between those focused on institutional and other respondents were statistically different. However, we do find that there to be a significant difference in the responses when it comes to their view of investment consultants. We find that 20% more respondents that focus on institutional business saw promotion by investment consultants as representing an existential threat to their future success. Investment consultants tend to be the “gate keepers” to institutional clients; given the background of consolidation and competition in the asset management industry it is of some concern that boutiques with an institutional focus should view consultants in this light.

6.3 Partnership Structure

The choice of legal structure for a boutique may affect the way in which it sees itself and the way in which it sees the challenges that it faces. In Table 7 we report the difference in response rates between those boutiques set up as a limited company (Ltd) and those set up as either a Partnership or LLP. The results in Table 7 show that the responses rates did vary. In Panel A we find that boutiques organised as a limited company are less likely to see asset class specialisation (-14%) as not being an important part of their competitive advantage; in other words, boutiques organised as partnerships are less likely to see asset class specialisation as being an important part of their competitive advantage[10]. They are also less likely to see ESG as being part of their competitive advantage. Interestingly, 24% more of the boutiques organised as an Ltd, saw alignment of interests with clients as being an important part of their competitive advantage. Panel B shows that more (22%) respondents from limited companies saw succession as a significant issue. Also, more limited company boutiques saw getting to a critical mass for larger allocations (23%) and promotion by investment consultants as being significant impediments to their growth.

6.4 UK Focus

Section 3 showed that the UK represented the largest geographical source of AUM. This gives us a large enough sample to determine whether boutiques that source most of their AUM in the UK, face challenges that are different to those faced by boutiques deriving their AUM outside of the UK. We therefore split the sample, between those respondents that derived 75% or more of their AUM from the UK (29%) and those that derived less that this level of AUM from the UK. The response differences are shown in Table 8. Panel A shows that those respondents deriving a larger portion of their AUM from the UK see their focus on a small number of strategies as being more significant than those that derive more AUM from outside of the UK. We find that this cohort are even less likely (22%) to see ESG capabilities as part of their competitive advantage. We also find that they are more likely (23%) to see client and staff alignment as constituting their core competitive advantage.

[10] More research may be needed to establish why partnerships are more likely to view asset class specialisation in this way.

Panel B shows that significantly fewer (-13%) of those respondents with a more UK-derived AUM base saw the reliance on a limited number of strategies as being a significant impediment for their future. We also find that these boutiques are more likely to see regulatory requirements as being a significant impediment (18%), however, we do not find this result to be statistically significant. Probably the most striking results in Panel B relates to Operational capabilities and Technology. Boutiques that derive more of their AUM from the UK are less likely to see Operational Capabilities (-31%) and Technology (-39%) as being impediments to their growth.

7. CONCLUSIONS

In this paper we have sought to shed a light on a segment of the asset management industry that has received relatively little attention to date. Building on the Clare and AGM research that established a performance premium, we wanted to uncover which characteristics of boutique funds could be contributors to this and equally which characteristics could be headwinds to these businesses. Boutique asset managers typically begin life as a new entity, prefer a limited company legal structure, offer some form of performance-related fees, derives the majority of its AUM from institutional investors and wholesale intermediaries, and employ fewer then 50 people. Our survey has shown that boutiques see their independence, their focus on a small number of strategies, the alignment of their interests with those of their clients and their agility, all as being particularly key to their competitive advantage. With regard to impediments to their growth, concerns about distribution, the ability to achieve a critical mass for larger allocations and promotion by consultants all featured prominently. Finally, we discovered that boutiques generally did not see “ESG considerations” as being part of their competitive advantage, possibly because being able to compete in this regard requires the purchase of expensive industry-standard databases. Future research could: focus on the possible relationship between boutique asset manager characteristics' and fund performance; and examine the viewpoints of fund selectors and regulators.

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Table 1: About the Boutiques (N=87)

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. In total representatives of 87 completed the survey.

What is your job title?	
CEO/CIO/COO	37%
Partner	16%
Director	22%
Dept Head	14%
Portfolio Manager	5%
Other	7%
What year was your firm established?	
Pre-1984	8%
1985-1994	10%
1995-2004	18%
2005-2014	32%
2015-2024	31%
What was the genesis of your firm?	
Entirely new entity	74%
Team spun out of another asset manager	17%
Other	9%
What is the corporate structure of your firm?	
Limited Liability Partnership (LLP)	23%
Limited Company	57%
Limited Partnership	10%
Other	9%

What is your firm's Assets Under Management/Advice?	
less than $100m	15%
$101m-500m	17%
$501m-1bn	10%
$1bn-5bn	22%
$5bn-10bn	9%
$10bn-50bn	23%
More than $50bn	3%
What is the geographical origin of your AUM?	
UK	40%
Eur (ex UK)	19%
North America	18%
Aus/NZ	4%
Asia	3%
Middle East	5%
Other	4%
How many full-time staff does your firm employ?	
Less than 10	32%
11 to 20	18%
21-50	26%
51-100	11%
101-200	7%
Greater than 200	5%

Table 2: About the Boutique Offering (N=87)

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. In total representatives of 87 completed the survey.

What services does your firm offer?*	
Funds / Pooled Vehicles	89%
Separately managed accounts (Institutional)	77%
Wealth Management / Model Portfolio Services	22%
Other	9%

What % of your AUM originates from:	
Institutional Investors	42%
Wholesale / Intermediaries	28%
Private Clients	24%
Other	4%

What % of your AUM is subject to a performance-related fees?	
None	45%
A minority	33%
The majority (but not all)	9%
All	13%

Why do you offer performance-related fees?	
To ensure alignment with client interests	58%
To offer the lowest possible base / fixed management fee	13%
Alignment & Lower base fee	15%
Other	15%

What investment strategies do you offer?*	
Equities	75%
Bonds / Fixed Income	24%
Multi-asset	25%
Alternatives	34%
Fund of funds	13%
Other	10%

What is your main investment style?*	
Value	38%
Growth	23%
Blended/Core	21%
Small Cap	20%
Quality	37%
Multi Asset / Fund of funds	21%
Other	22%

***Respondents were given the option to "tick" more than one category.**

Table 3: To what extent do you think your firm's competitive advantage is attributable to the following factors

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. For each category respondents were asked to choose either: not at all, to some extent, significantly so, or your core competitive advantage. Panel A shows the results for the full sample (N=87), Panel B shows the percentage difference in response rate between those with AUM > $1bn and those with AUM < $1bn; Panel C shows the percentage difference in response rate between those boutiques formed before the GFC and those formed after the GFC; and Panel D shows the percentage difference in response rate between those boutiques with more than 20 employees and those with less than 20 employees. Response rate differences in bold indicate that the difference was significant at at least the 90% level of confidence.

	Not at all	**To some extent**	**Significantly so**	**Your core competitive advantage**
Panel A: Full sample				
Asset class specialisation	8%	19%	33%	39%
Focus on a small number of investment strategies	6%	13%	52%	29%
Independence	1%	19%	49%	31%
Client service	5%	28%	51%	16%
ESG capabilities	39%	35%	16%	11%
Agility / Adaptability	9%	22%	48%	20%
Alignment of interests between clients and staff	4%	18%	47%	32%
Panel B: $1bn<Fund AUM>$1bn				
Asset class specialisation	5%	9%	1%	-15%
Focus on a small number of investment strategies	0%	3%	2%	-5%
Independence	2%	-4%	14%	-12%
Client service	-6%	5%	10%	-8%
ESG capabilities	**-21%**	15%	2%	4%
Agility / Adaptability	9%	10%	-2%	**-17%**
Alignment of interests between clients and staff	1%	1%	15%	**-18%**
Panel C: Pre-GFC<Fund established>post-GFC				
Asset class specialisation	**11%**	4%	-10%	-5%
Focus on a small number of investment strategies	**10%**	3%	-8%	-5%
Independence	3%	9%	3%	-15%
Client service	-3%	10%	-8%	1%
ESG capabilities	-9%	7%	-6%	7%
Agility / Adaptability	9%	12%	-7%	-14%
Alignment of interests between clients and staff	4%	4%	12%	**-20%**
Panel D: More than 20 v less than 20 employees				
Asset class specialisation	**12%**	10%	-13%	-10%
Focus on a small number of investment strategies	**12%**	7%	-1%	**-17%**
Independence	2%	11%	13%	**-26%**
Client service	0%	-1%	1%	0%
ESG capabilities	**-25%**	11%	7%	7%
Agility / Adaptability	5%	12%	3%	**-21%**
Alignment of interests between clients and staff	**7%**	7%	13%	**-27%**

Table 4: To what extent do you think the following factors are impediments to the future growth of your business?

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. For each category respondents were asked to choose either: not at all, to some extent, significantly so, or existential threat. In total representatives of 87 completed the survey. Panel A shows the results for the full sample (N=87), Panel B shows the percentage difference in response rate between those with AUM > $1bn and those with AUM < $1bn; Panel C shows the percentage difference in response rate between those boutiques formed before the GFC and those formed after the GFC; and Panel D shows the percentage difference in response rate between those boutiques with more than 20 employees and those with less than 20 employees. Response rate differences in bold indicate that the difference was significant at at least the 90% level of confidence.

Panel A: Full sample	**Not at all**	**To some extent**	**Significantly so**	**Existential threat**
Reliance on a limited number of investment strategies	38%	51%	9%	2%
Regulatory requirements	19%	52%	25%	5%
Succession	33%	46%	19%	2%
Distribution	15%	41%	39%	5%
ESG capabilities	70%	27%	3%	0%
Operational capabilities	39%	51%	11%	0%
Technology	40%	44%	13%	2%
Client concentration	16%	58%	20%	6%
Getting to a critical mass for larger allocations	24%	34%	30%	12%
Availability of your products on investment platforms	34%	38%	22%	6%
Promotion by investment consultants	17%	43%	30%	10%
Panel B: $1bn<Fund AUM>$1bn				
Reliance on a limited number of investment strategies	-15%	**23%**	-7%	-1%
Regulatory requirements	-1%	-3%	10%	-6%
Succession	**-20%**	8%	13%	-1%
Distribution	8%	17%	**-23%**	-1%
ESG capabilities	1%	-2%	1%	0%
Operational capabilities	15%	**-19%**	4%	0%
Technology	-8%	5%	3%	-1%
Client concentration	-1%	7%	-12%	5%
Getting to a critical mass for larger allocations	**26%**	8%	**-17%**	**-17%**
Availability of your products on investment platforms	4%	7%	-3%	**-8%**
Promotion by investment consultants	-2%	11%	6%	**-14%**
Panel C: Pre-GFC<Fund established>post-GFC				
Reliance on a limited number of investment strategies	-17%	**21%**	-5%	1%
Regulatory requirements	-11%	5%	4%	2%
Succession	**-21%**	12%	8%	1%
Distribution	**14%**	10%	**-25%**	2%
ESG capabilities	1%	4%	-6%	0%
Operational capabilities	6%	-13%	7%	0%
Technology	-7%	2%	3%	1%
Client concentration	-8%	17%	-9%	0%
Getting to a critical mass for larger allocations	**23%**	7%	**-26%**	-5%
Availability of your products on investment platforms	-3%	**21%**	-13%	-5%
Promotion by investment consultants	-5%	**29%**	**-17%**	-8%

Table 4 continued: To what extent do you think the following factors are impediments to the future growth of your business?

Panel D: More than 20 minus less than 20 employees	**Not at all**	**To some extent**	**Significantly so**	**Existential threat**
Reliance on a limited number of investment strategies	-9%	13%	-4%	0%
Regulatory requirements	-4%	1%	3%	0%
Succession	-10%	-3%	9%	5%
Distribution	**17%**	13%	**-30%**	0%
ESG capabilities	-1%	-1%	2%	0%
Operational capabilities	3%	-11%	7%	0%
Technology	-5%	2%	2%	0%
Client concentration	4%	1%	-8%	2%
Getting to a critical mass for larger allocations	**27%**	13%	**-31%**	-9%
Availability of your products on investment platforms	13%	-4%	-2%	-7%
Promotion by investment consultants	3%	12%	-9%	-7%

Table 5: Performance-related fees

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. Panels A and B show the response rate difference between those boutiques that offer some form of performance-related fee and those that did not. Response rate differences in bold indicate that the difference was significant at at least the 90% level of confidence.

Panel A: To what extent do you think your firm's competitive advantage is attributable to the following factors	Not at all	To some extent	Significantly so	Your core competitive advantage
Asset class specialisation	1%	-8%	-6%	14%
Focus on a small number of investment strategies	1%	-1%	1%	-1%
Independence	2%	-8%	11%	-5%
Client service	-1%	-11%	11%	1%
ESG capabilities	-1%	-2%	-2%	4%
Agility / Adaptability	-2%	-11%	**23%**	-10%
Alignment of interests between clients and staff	-3%	-6%	**23%**	-14%

Panel B: To what extent do you think the following factors are impediments to the growth of your business?	Not at all	To some extent	Significantly so	Existential threat
Reliance on a limited number of investment strategies	11%	-8%	-2%	-1%
Regulatory requirements	1%	-6%	2%	4%
Succession	7%	2%	-4%	-5%
Distribution	-10%	10%	-9%	**9%**
ESG capabilities	1%	2%	-3%	0%
Operational capabilities	-6%	11%	-5%	0%
Technology	11%	4%	-10%	-5%
Client concentration	-8%	9%	-2%	1%
Getting to a critical mass for larger allocations	-7%	-13%	13%	7%
Availability of your products on investment platforms	-14%	-8%	12%	**11%**
Promotion by investment consultants	**-20%**	3%	12%	5%

Table 6: Institutional v Retail Business

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. Panels A and B show the response rate difference between those boutiques that those boutiques that focus on institutional business, compared with those that focus more on the retail market. Response rate differences in bold indicate that the difference was significant at at least the 90% level of confidence.

Panel A: To what extent do you think your firm's competitive advantage is attributable to the following factors	**Not at all**	**To some extent**	**Significantly so**	**Your core competitive advantage**
Asset class specialisation	**-11%**	5%	**-21%**	**27%**
Focus on a small number of investment strategies	-2%	-6%	-14%	**23%**
Independence	5%	**-19%**	**19%**	-4%
Client service	5%	-3%	2%	-5%
ESG capabilities	4%	**-20%**	1%	14%
Agility / Adaptability	-1%	5%	-7%	2%
Alignment of interests between clients and staff	-5%	-6%	**31%**	-20%

Panel B: To what extent do you think the following factors are impediments to the growth of your business?	**Not at all**	**To some extent**	**Significantly so**	**Existential threat**
Reliance on a limited number of investment strategies	-6%	-1%	10%	-3%
Regulatory requirements	3%	15%	-11%	-7%
Succession	-3%	-3%	4%	3%
Distribution	-9%	9%	-6%	5%
ESG capabilities	1%	-8%	7%	0%
Operational capabilities	4%	5%	-9%	0%
Technology	16%	-13%	-6%	3%
Client concentration	-11%	-13%	14%	10%
Getting to a critical mass for larger allocations	7%	-6%	-1%	1%
Availability of your products on investment platforms	7%	**-22%**	5%	10%
Promotion by investment consultants	-12%	-7%	-1%	**20%**

Table 7: Legal structure of business

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. Panels A and B show the response rate difference between those boutiques that have an Ltd company structure and those that are set up as a partnership. Response rate differences in bold indicate that the difference was significant at at least the 90% level of confidence.

Panel A: To what extent do you think your firm's competitive advantage is attributable to the following factors	**Not at all**	**To some extent**	**Significantly so**	**Your core competitive advantage**
Asset class specialisation	**-14%**	3%	11%	1%
Focus on a small number of investment strategies	-8%	-11%	12%	8%
Independence	-2%	-12%	-2%	15%
Client service	3%	5%	-7%	-1%
ESG capabilities	**-20%**	**27%**	3%	-9%
Agility / Adaptability	-9%	13%	-1%	-3%
Alignment of interests between clients and staff	-6%	**-23%**	4%	**24%**

Panel B: To what extent do you think the following factors are impediments to the growth of your business?	**Not at all**	**To some extent**	**Significantly so**	**Existential threat**
Reliance on a limited number of investment strategies	-10%	14%	-11%	7%
Regulatory requirements	12%	-12%	-2%	3%
Succession	-7%	-17%	**22%**	1%
Distribution	-3%	-3%	12%	-6%
ESG capabilities	-6%	12%	-6%	0%
Operational capabilities	17%	**-21%**	4%	0%
Technology	2%	-4%	1%	1%
Client concentration	-5%	-13%	17%	1%
Getting to a critical mass for larger allocations	-5%	**-21%**	**23%**	4%
Availability of your products on investment platforms	0%	-6%	17%	**-10%**
Promotion by investment consultants	-9%	**-25%**	**36%**	-1%

Table 8: UK AUM

This Table presents the results of questions posed to European Boutique Asset managers. The survey was made available over the summer and autumn of 2024. Panels A and B show the response rate difference between those boutiques that derive 75% or more of their AUM from the UK-based investors and those that derived less that this level of AUM from the UK-based investors. Response rate differences in bold indicate that the difference was significant at at least the 90% level of confidence.

	Not at all	**To some extent**	**Significantly so**	**Your core competitive advantage**
Asset class specialisation	**-12%**	13%	-2%	1%
Focus on a small number of investment strategies	-3%	-1%	**17%**	-13%
Independence	-2%	3%	-17%	15%
Client service	-1%	-6%	8%	-1%
ESG capabilities	**22%**	**-20%**	-4%	2%
Agility / Adaptability	4%	-14%	8%	1%
Alignment of interests between clients and staff	1%	-2%	**-21%**	**23%**
	Not at all	**To some extent**	**Significantly so**	**Existential threat**
Reliance on a limited number of investment strategies	-18%	**28%**	**-13%**	3%
Regulatory requirements	-15%	-8%	18%	5%
Succession	-7%	14%	-10%	2%
Distribution	2%	1%	4%	-7%
ESG capabilities	**-4%**	3%	1%	0%
Operational capabilities	**-31%**	**22%**	8%	0%
Technology	**-39%**	**32%**	-1%	8%
Client concentration	-1%	-8%	17%	-8%
Getting to a critical mass for larger allocations	-5%	11%	-1%	-5%
Availability of your products on investment platforms	11%	-6%	4%	-8%
Promotion by investment consultants	4%	-4%	-3%	2%