The future of asset management
Davids and Goliaths?

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Starting with the facts, 2013 looks like it will turn out to be a very good year for the asset management sector. Assets under Management (AuM) are growing once again and are in fact at an all-time high.

According to the U.S. Investment Company Institute, mutual fund assets at the end of the first quarter of this year increased 3.8% to US$27.86 trillion. Worldwide net cash flow to all funds was US$339 billion compared to US$447 billion in the last quarter of 2012.

The improvement was said to be rooted in the prospect of an economic recovery and more positive sentiment on the financial markets. This is the result of an improving U.S. economy, a better control over the Euro crisis and improved data from China. In regional terms, Europe was the largest contributor of net sales in the first quarter with US$169 billion, followed by the Americas with US$150 billion and Asia with US$13 billion.

However, it is interesting to note that there are now more funds than stocks listed worldwide. According to EFAMA, there were 73,914 funds at the end of the first quarter of 2013 compared with 45,404 stocks (according to the World Federation of Exchanges in January 2013). In Europe, the number of funds from 3,200 asset management firms is close to 34,600.

To conclude, the top 25 leading master groups of asset managers hold around 50% of assets and accounted for 100% of sales in 2012 (the remaining groups had outflows on an aggregated basis). In 2012 the top five accounted for 55% of total sales while the top 25 funds by estimated net sales last year accounted for 38% of total sales.

What do all of these facts and figures mean for asset managers?

When looking at global trends in asset growth, it seems that the crisis is only helping big asset managers. Numbers appear to be on their side and further industry consolidation could be perceived as inevitable. It is true that the first years of the crisis have helped big names, as many investors had numerous uncertainties while big brands—being a proxy for solvency—were key drivers of inflows.

However, despite recent trends, the industry is continuing to develop towards what an analyst at Morgan Stanley described in 2008 as the 'The Barbell Strategy' meaning the polarisation of the asset management world. In this world, big asset managers with a broad range of capabilities compete with small specialists, or boutiques, who focus on a smaller range of investment strategies. Furthermore, due to the rise of ETFs and passive investment strategies, it is also possible to identify an emerging trend in the industry which one journalist of the FT referred to as 'Cheap or Spicy'.

Although everybody recognises the big names in the asset management world, it is not easy to decipher the meaning of the term 'Boutique Asset Manager' (BAM), as there is no one-size-fits-all definition.

Some may argue that size or maybe ownership of the company are the determining factors, or that they are simply companies specialising in a small selection of capabilities. The truth is that most BAMs share a performance driven culture, talent, creativity and an entrepreneurial spirit that works very well in these difficult times.

For those who are in the middle of the 'barbell' and are neither a big company nor a BAM, they face very tough competition and the future ahead will be difficult.

The top five performance drivers for boutique asset managers

The old saying *"nice things come in small packages"* may be true, but it is also true that size is an issue for most BAMs. In order to reach the minimum, AuMs need to develop a sustainable business and BAMs need to focus on the five keys to success: talent, performance, reputation, distribution and differentiation.

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The top five performance drivers:

TALENT

Because at the end of the day people are what really matter in this business. It is not easy to recruit and retain the best talent out there, but creating a 'virtuous cycle' whereby employees enjoy what they do and work together as a team is more of an art than a management science. This shows the seeds of success for most companies and here the intimacy of smaller businesses gives BAMs a clear advantage over bigger firms.

PERFORMANCE

Usually a consequence of putting the right people together and ensuring that the whole is worth more than the sum of its parts. In an industry with such a selection of products, good performance is not enough and top performance is a must. Luck also plays its part since markets can be in the wrong for very long before common sense prevails. Once the risk adjusted performance numbers are on your side, the focus moves to distribution.

REPUTATION

Size was an issue at the beginning of the crisis and everyone thought that some companies were too big to fail but reality quickly changed this perception. Today reputation is a key performance driver in asset management. The Merriam-Webster dictionary defines 'reputation' as: a) Overall quality or character as seen or judged by people in general and b) Recognition by other people of some characteristic or ability. If you are a serious asset manager, and deliver what has been promised in an open and transparent manner to clients with whom you maintain healthy relationships, then it is possible to build a strong reputation over time. Communication (PR, marketing and client communications) is therefore central to the service offered by boutique asset managers.

After the crisis many investors still prefer to invest with those who are really committed, turning their backs on those who are not. For them, reputation is like an egg and bacon breakfast. They have to decide whether to leave their money with the chicken (who is involved) or to the pig (who is really committed). Your reputation will make you a chicken or a pig!

DISTRIBUTION

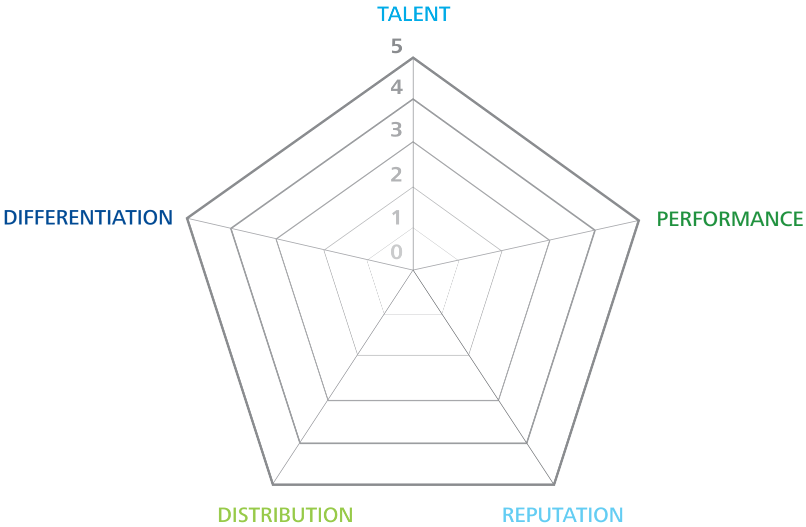
Many people think that distribution is the key to success, but this really all depends on how you define success. For big firms it is a question of countries, points of sale, reaching the top five in terms of market share, enormous expenses on marketing and sales staff, etc. For BAMs it is a question of approaching the issue intelligently; working with a selected number of distributors on which you can interchangeably rely on each other. Quality is more important than quantity and relationships really matter. To a certain extent this resembles a 'supply side' effect for big firms and a 'demand side' for BAMs, with all the implications for quantity and price with which every economist is intimately familiar. In this context, the UKs new RDR initiative is very good news for BAMS over the long term, although much more needs to be done in order to level the playing field.

DIFFERENTIATION

Differentiation is probably more important today than performance. In Spain, there are over 700 Asian funds for sale. Even if a fund is ranked number 12, which is very good, what are the chances of capturing investors' attention? Chances are slim unless there's an interesting story to tell to clients. After more than 10 years running a top performing global equity fund we launched two specialised global equity funds (March Vini Catena, which invests in stocks related to the wine industry and the March Family Businesses Fund, which invests exclusively in family-owned listed companies) to capture investors' attention and enhance our distribution capabilities in Europe and Latam. The two funds were run by the same team and had the same philosophy but boasted a higher level of differentiation compared to the original global equity fund.

The creation of the Group of Boutique Asset Managers

Top five drivers for Boutiques Asset Managers



Note: 5 means very good and 0 very poor.
Most BAMs should know where they are.

In April, in Abadia Retuerta (Valladolid, Spain), a Group of Boutique Asset Managers (GBAM) decided to launch a self-help group to foster cooperation among similar BAMs all over the world as a mean to achieve the following goals:

- Private discussions about important business issues (strategy, products, markets, clients, etc.)
- Improvement via sharing experiences and best practices in all areas of asset management (research, portfolio management, risk management, marketing, etc.)
- Gain a better understanding ofthe respective markets or regions to enhance distribution
- Obtain broader recognition in the marketplace by being a member of the GBAM (via website, media relationships, forums, etc.)
- Utilise GBAM as a reliable network for establishing contacts in different countries
- Any other goals that members wish to add

GBAM does not intend to become a lobby group or overlap with existing national or international organisations. Rather, it is a vehicle for a reliable network of peers to meet once or twice per year in order to discuss important issues for businesses, share ideas and learn from other colleagues' experiences. Essentially, GBAM is a private club where members can openly express their doubts and ask questions to other CEOs. The goal of the association is to provide added value to its members through sharing information.

What´s next for asset managers?

Most reports about the future of the industry make reference to the importance of Emerging Markets, demographic changes, the impact of new technologies, new regulation, state intervention in the economy, etc. However, all these trends and developments are secondary to mastering the five performance drivers, putting special attention on talent. If talent is achieved, the other drivers will eventually follow... as long as you have the time and resources to afford the waiting.

To the **point**:

- The industry has picked up once again and at first sight it seems that the 'Goliaths' of the industry are taking advantage of the after-crisis situation
- Asset management is a very dynamic industry and although funds outnumber equities, few actually beat the index
- Five drivers push boutique success forward in comparisonto other markets trends: talent, performance, reputation, distribution and differentiation
- Boutiques fight back through the creation of the Group of Boutiques Asset Managers (GBAM), recently launched in Abadia Retuerta, Spain
- At the end of the day, talent is what really matters

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