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WealthBriefing

GUEST ARTICLE: Guillaume Touze **"Boutique Asset Managers Feel the Benefit of Family Office Growth"**

Boutiques are thriving in parts of the investment world and family offices are helping to drive this process, Quadra Capital Partners says.

Opportunities for boutique asset managers continue to open up, perhaps giving the lie to the notion that the services sector is a story of relentless consolidation. In fact, while there certainly have been plenty of mergers and acquisitions and creations of "mega" investment houses - think of the likes of BlackRock to pick a real titan - there seems to be an equal pull towards the niche model, where specialist skills and a close relationship with a client are important distinguishing factors. And with modern technology making it easier for end-investors and asset managers to find each other, this can also make the "beauty parade" process arguably easier, reducing the influence of industry "gatekeepers" (and of course the regulatory changes in recent years, such as squeezes on trail commissions, change incentives for advisors to seek out the best talent). With all this in mind, and considering the interests of clients such as family offices, for example, this article examines how boutiques can thrive.

The author is Guillaume Touze, managing partner, CEO, Quadra Capital Partners, which specializes in areas such as absolute return investing and private equity. Touze has served as the chief executive of Quadra since 2014. He previously held a number of high profile positions at Barclays including president of Barclays Asset Managers, MD of Barclays Private Clients France and global head of investment, Insurance and Premier for Europe in London.

The author is based in Europe, but his comments about family offices and their effect on boutiques, and the interactions, are of course highly relevant to the North America market, certainly as far as conversations Family Wealth Report *has had with professionals in the region. As a result, the editors want to share these insights. We invite readers to respond. The views of guest contributors are not necessarily fully endorsed by this news organization.*

Fifteen years is a long time in finance. Think back to the Dot-com bubble all the way back in 2001, and how finance has changed since then. Where once the landscape was dominated by a few very big financial institutions, now there are greater numbers of far smaller organizations.
Hedge funds have spun out from the proprietary trading desks of the big banks and the big asset managers, while private equity shops and boutique investment houses have come from the M&A desks of those big investment banks. Peer-to-peer lending, crowd-funding and alternative credit institutions provide funding for the real economy where before it only came from the banks. Those few big dinosaurs that ruled 15 years' ago now face competition from large numbers of smaller, more nimble, more agile new entrants.

One important aspect of this big-to-small evolution is the growth in family offices. In the fifteen years since Dot-com, they have doubled in number. According to the EY Family Office Guide 2016 there are now over 10,000 around the globe. What is interesting is how these developments reinforce each other – family offices are seeking out boutique investment houses and these new boutiques are well placed to meet their unique requirements.

So what is fuelling the growth in family offices? In part, it is because of an overall increase in wealth. Since the 2008 financial crisis, global wealth, measured at constant exchange rates, has grown at an annual rate of over 5 per cent according to Credit Suisse's 2016 Global Wealth Report, more than making up the ground lost during that turbulent period. Put simply, there is more money to go around and to be invested today than ever before.

But that doesn't explain why that money hasn't simply been given to private banks, or found its way to large asset managers to invest as they wish on behalf of their clients. Why are families and individuals increasingly choosing to 'go it alone'?

I believe investors increasingly want a different experience. They have become tired of being offered the same mass produced products and not receiving a personalized service. When founding Quadra in 2013, I strongly believed that in the future investors would demand increased transparency and accessibility – a symptom of a recent period of underperformance, but also reflecting a level of caution and desire for control that has emerged since the 2008 financial crisis.

People want unique opportunities and with family offices increasingly managing the money of entrepreneurs, as opposed to "old money", this new cohort of investors is more interested in actively engaging with managers to formulate strategy and influence investment decisions. As a result they often want to find people and organizations that they can partner with.

This is where, in today's world, boutique investment houses can have the edge over the larger and more established institutions. As well as being more nimble and able to offer a greater degree of specialization and personalization, hedge funds are able to offer and are increasingly doing, deals with key features such as revenue sharing, which would simply be impossible with a large asset manager. This personal touch reaches deeper. For entrepreneurs whose money is being invested through a family office, there can be a real meeting of minds between them and the entrepreneurs running a
boutique investment house. These managers have often staked their own capital launching their fund and will often be investing their own money, alongside their clients', in deals they are recommending. This newer class of investors, having built their own companies, understand the challenges of starting a business and are more willing to put their faith in newer boutique houses – something more conservative, 'older' family offices are often more reluctant to do. They are also more open to investments in new businesses, via private equity-like deals which, whilst notionally more risky, can also yield superior returns.

Thus whilst boutique investment houses can offer more nuanced and less rigid investment strategies, they are also increasingly finding investors to partner with in order to execute those strategies.
At Quadra Capital, we have recently welcomed two entrepreneurs who cashed in on the sale of their health business. They both liked the Quadra spirit of innovating in alternatives whilst being liquid under the UCITS umbrella. They gave us the opportunity to manage part of their wealth and came early into the venture. We see that as a real sign of trust!
Big investment houses will always play an important role in the market of course; but as investors and their attitudes to investing continue to change, more space is opening up for smaller entrants. As financial evolution continues its onward march it is the boutique houses, with their specialisms and their flexibility, that are best placed to respond and take advantage of new opportunities.