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The beauty, or not, of boutiques

Matthew Vincent

I blame that bloke who went shopping for clothes in Carnaby Street in 1967. You know who I mean, even if you think you don't. He can be seen sporting a silk top hat and luxuriant sideburns while perusing a rail of red military tunics in almost every TV documentary about the so-called Swingin' Sixties since . . . well, probably since 1970.

This dedicated follower of fashion has become lazy visual shorthand for an epoch that arguably never really existed. But I don't blame him for that. No, I blame that proto-hipster for making British men buy into the concept of boutiques. Before 1967, if one required a jacket, one visited a gentlemen's outfitter or department store. Since then, however, a near-universal belief in the superiority of boutiques has spread beyond clothiers and London's West End.

Last month, in a Scottish village that I remembered fondly for its high-street hostelry and second-hand bookshop, a resident rejoiced that a "boutique hotel" and "boutique wine merchant" now occupied their premises. I then returned to work to read press releases about "boutique fitness studios" taking market share from gyms, and the role of a water massage bed in winning the title "best boutique spa in Asia".

But what really got me was the official adoption of the term by the financial regulator. For some years, former City dealmakers have tried to pretend they are no longer rapacious fee-seekers by taking off their ties and calling their new ventures "boutique investment banks". Now, though, even the Financial Conduct Authority says its review of banking competition will range from "full-service banks to boutiques".

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Nowhere in banking are the latter more lauded than in wealth management. Since about 2008, when several big banks became unintentionally a lot smaller, a notion that small, boutique wealth managers perform better has taken hold. But is it true? In an attempt to find out, I went to see my friends in the industry. Their views seemed a little hazy.

I learnt from Yogi Dewan, chief executive of Hassium Asset Management — not the mid-1960s transcendental meditator — that investors prefer boutiques because they "feel a sense of trust" in the alignment of their adviser's interests. "The decision for a private family to use an investment boutique is more qualitative than quantitative," he says.

Etienne de Merlis, chief investment officer of "streamlined boutique" Signia Wealth, says smaller firms bring flexibility and increased expertise, by focusing on fewer activities.

> "Even the FCA says its review of banking competition will include boutiques"

Meanwhile, Stonehage Fleming, the multifamily office, sees boutiques as a distillation of "spirit" and "energy". "Boutique managers' better performance usually has to do with the particular fund manager's specific experience, his or her personal interest, 'energy', motivation," says Gerrit Smit, head of equity advisory.

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But how much better is it? It "tends to be better as costs are lower", says Dewan. OK. So how much better? "We cannot conclude boutique managers outperform other managers per se. The point is rather [they] are often driven by experts who have adopted a more entrepreneurial spirit," argues Smit.

> "Investment managers in a boutique can express themselves more fully"

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Tired of waiting for a definitive answer, I turned to the gurus at Asset Risk Consultants. After a short time, I could see spots before my eyes — on a neat scatter chart. Black spots represented the annualised returns of big wealth managers, plotted against standard deviation, or risk. Red spots represented boutiques, as defined by size and ownership. Over a five-year period, there were as many red spots in the bottom two deciles of risk-adjusted returns as there were in the top two.

Daniel Hurdley, head of research, puts it down to freedom of expression. "The typical boutique investment process allows investment managers to express themselves more fully . . . which can lead to greater outperformance, but may also cause a greater degree of underperformance compared with larger firms."

In other words, boutiques tend to the extremes of what's on offer from big retail operations. As anyone comparing trouser leg widths in Carnaby Street, 1967, could have told you.