Super funds eye boutiques

Specialist managers have long-term staff making long-term investments, writes **Stewart Oldfield**.

Boutique fund managers are likely to win bigger Australian equities mandates for institutional clients because they can offer key staff superior incentives to outperform over the long term, a leading investment academic says.

Bob Officer, emeritus professor from the University of Melbourne, says giant superannuation funds will become less reliant on big fund managers to provide a diverse range of investment products as they could access a growing number of specialist providers.

The number of Australian equity managers has expanded from fewer than 40 in 1999 to more than 110 today as the country's lucrative compulsory superannuation regime increases its funds under management to more than $900 billion, which has encouraged strong growth in the start up of new boutique firms.

Officer, a former chairman of the Victorian Funds Management Corporation, has joined Melbourne boutique JF Capital Partners as its chairman. The Melbourne-based manager has $3.75 billion in funds under management and a number of major superannuation providers including MLC, VFMC, and the Queensland Investment Corp.

Officer says it is beneficial for fund managers to be encouraged to stay with a firm for the long term often through the issue of equity, meaning they are able to make long-term investment decisions on behalf of clients.

"I see boutiques taking increased share because they can incentivise people a lot better than the larger firms," he says.

Some big fund managers such as Perpetual Investments seem to have addressed the problem with lucrative option schemes for key staff while other big fund managers, including Colonial First State, are still grappling with the issue, having suffered high staff turnover in recent years.

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JF Capital Partners describes itself as an institutionalised boutique.

It is half owned by US giant JPMorgan Asset Management with the remainder owned by staff, and no one staff member owns more than 10 per cent of the firm.

Chief investment officer Michael Fitzsimmons said the firm's 12-strong investment team made decisions collectively. "We have very much a team-based approach, we are not a one-man band," he says.

The growth-styled fund manager is "battle hardened", after having traded through a wide variety of market conditions since its inception in 1999.

"We have been through good and bad times, and that brings a sense of maturity to the business that many other boutiques may not yet have," Fitzsimmons says.

Growth-styled managers focus on identifying companies that have strong earnings potential and whose price does not reflect that potential.

Fitzsimmons says the past decade can be divided into three distinct investment-style periods. From 1997 to 2000, the growth style outperformed; value-focused investors prospered between 2000 and 2002; while the past three years a has been fairly neutral.

"In this neutral environment we have done pretty well," he says. JFCP's three-year composite performance return exceeded the Australian benchmark by more than 5 per cent in 2005-06, ranking the manager seventh in Intech's survey of more than 60 managers.

Bob Officer and Michael Fitzsimmons: proving their worth. Photo: ESTELLE JUDAH