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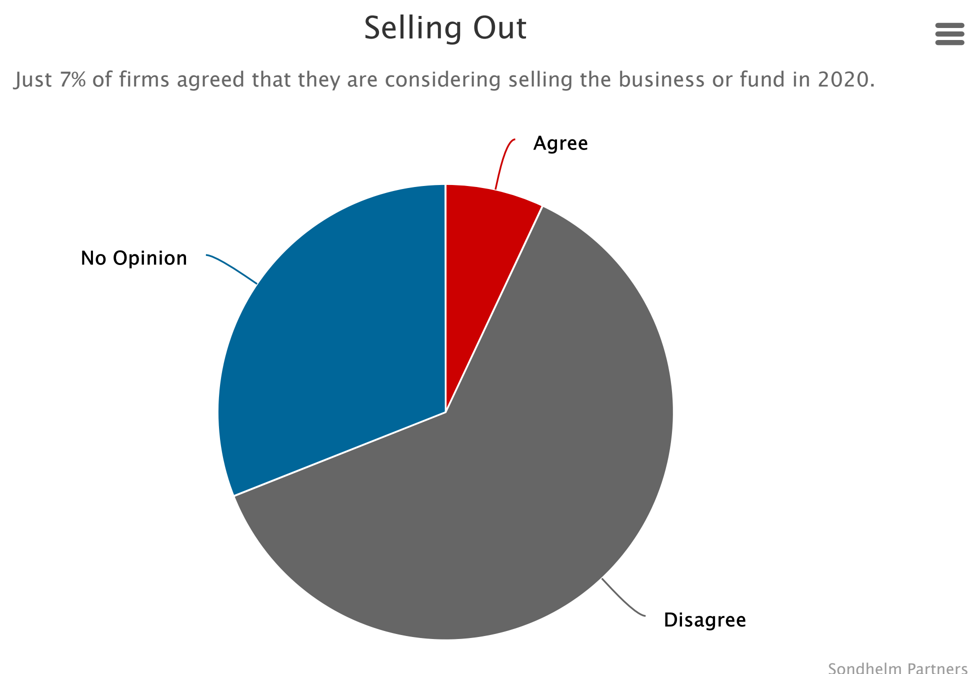
The Boutiques Are Alright

By Lisa Fu June 12, 2020

Recent market turbulence has put pressure on boutique asset managers, but most companies are not ready to throw in the towel just yet, according to a recent **Sondhelm Partners** study.

Out of the 55 boutique asset management firms surveyed, only 7% were considering selling their firm or fund as of April, the study shows. This number is unchanged with the percentage of participants that answered that they were considering selling the business or fund a year ago.

Sixty percent of respondents said they would not consider selling. Another third had “no strong opinion” on the matter.



“It takes a lot for a business owner or a bunch of partners to say, ‘we want out,’” Sondhelm says. “A lot of firms have very strong distribution. They’re not going to want to sell.”

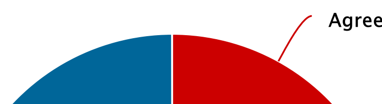
A small percentage of boutiques were tight on cash, with 16% indicating that they needed additional cash to remain solvent. The same percentage of firms said they needed additional liquidity a year ago. More than half, 51%, of survey participants indicated that they do not need additional cash in 2020.

“Revenues stabilized very quickly,” Sondhelm says. “If the market was still down 30% or 40%, meaning revenues were down 30% or 40% for three months, that might have told a different story.”

The S&P 500 Index hit 2,237.40 points, its lowest point since December 2016, on March 23 and has

Cash Hungry

The percentage of respondents that said they needed additional cash in 2020 to keep the business operating



since rebounded. As of Wednesday, June 10, the S&P 500 recorded 3,190.14 points, back to levels recorded in February 2020.

Boutique managers may be even better positioned now, after the market recovery, Sondhelm says. Boutique firms are generally profitable and flexible, he adds. Partners may have the option to take money out of their own paycheck and reinvest it into the firm, he explains. At the same time, mandatory social distancing has allowed firms to cut their travel budgets and reallocate the money, he adds.

"I think they're confident that they're not going to run out of money, any time soon," Sondhelm says. "There's enough money in a lot of these organizations to keep them protected."

Still, more than a dozen asset and wealth managers took paycheck protection loans, *FundFire* previously reported. **Bimini Capital Management**, which invests in residential mortgage-related securities, received $152,000. **National Holdings Corporation**, which is the holding company of **National Asset Management**, took a loan for $6.5 million, for example.

Most boutique asset managers are also hesitating to layoff staff or implement firm-wide pay cuts, according to the study. Only 11% indicated that they are considering layoffs or pay cuts in 2020, though this figure is more than double the 5% that considered such measures in 2019. Study participants indicated in their comments that they would rather decrease compensation for senior executives or bonuses than reduce headcount.

Cutting Headcount

Compared to 2019, the percentage of firms agreeing to consider layoffs or pay cuts has increased by six percentage points.

"With boutiques, they don't want to fire people, they don't want to lay people off," Sondhelm says. "In a boutique firm, you're like family. And the boutiques are just more patient."

Culturally, employees of a boutique firm are much more closely knit than a larger firm, Sondhelm says. Sometimes employees who are not very productive will stay on the job for a long time because "they are like family," he says.

Generally, boutique asset managers have fared much better than initial predictions by the industry back when the COVID-19 pandemic just started, **Cutter Associates** CEO **John Clark** says.

"It just seems that barring some negative trending and all the uncertainty, it seems like things are stabilizing and the boutiques are fine," Clark says.

The biggest concern was that these smaller firms would face a run on capital, he says. While public equity-focused asset managers faced less risk, there was a concern that firms investing in private credit products would be put under stress, he explains. A quick response from the Federal Reserve to initiate quantitative easing in the market prevented a lot of damage, Clark says.

Though M&A is not always motivated by financial struggles, sometimes firms that are hurting will go up for sale, Clark says. At this time, he says he has not observed a lot of firms putting themselves up for sale due to financial necessity.

"The reality is that the market downturn was so short that many firms were able to recover fairly quickly," says **Scott Gockowski**, senior manager at Casey Quirk.

Most firms have not been forced to make difficult decisions around expense needs or the employee base yet, Gockowski says. The revenue base for most asset managers decreased, then recovered, quickly, he explains. Over a longer time horizon, this dip in AUM is manageable, he says.

However, some boutiques that are concentrated in a single strategy or asset class that underperformed may be suffering, Gockowski says. Those firms may become "at risk" and seek various forms of capital injection, he adds.

Contact the reporter on this story at lfu@fundfire.com or 212-542-1233.

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