

Boutique believer to release fund ratings – for free

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A veteran asset consultant will soon begin publishing ratings of the 300-plus emerging Australian equity managers in its database free of charge.

Steven Vaughan's Queen Street Partners, which researches more than 300 emerging Australian equity managers and selects a handful for inclusion in its model portfolio, will begin issuing research reports on boutiques to institutional investors from September.

Queen Street does not charge boutiques for ratings and will also supply its research for free.

Those institutions on the manager's distribution list for its monthly model portfolio report will be among the first to receive the ratings when they are published.

Steve Vaughan, managing director of Queen Street and before that an asset consultant with Callan Associates and Towers Perrin, said institutions typically missed the best performance periods achieved by boutiques, which were charted in their emerging years.

"To back a boutique, you have to do a lot of work. A lot of investors don't get around to this until the boutique has emerged and established. The performance then will be okay but they miss out on those 500 basis point returns and get 100 to 150 basis points instead."

"Often, asset consultants don't spend a lot of time with the boutiques – they don't fit the easy tick-the-box approach which says you need five or six analysts and a three-year track record."

Queen Street's ratings are determined according to the operational strength of the boutique, the skills and experience of its people and their ability to work together, and the viability of the investment process.

It rates 80 of the 300-plus managers it assesses as investment grade. Of these, six are chosen for the model portfolio.

In the year to June 30, the fund delivered -10.7 per cent against the -20.3 per cent return of its benchmark, the ASX300.

Vaughan said boutiques were holding up well despite the hiatus in institutional investment activity brought on by the financial crisis.

"We think about 8 to 10 per cent of boutiques might be under some type of pressure."

Queen Street is also considering offering tailored mandates to super funds willing to invest in emerging managers.

"Generally the big funds want a relationship with manager, and we want the managers, if they do well, to get more direct investments from the funds and emerge as a mainstream manager," Vaughan said.

"We don't want them to stay small forever."

He said there was a lot of unused capacity in the managers overseen by Queen Street.

"Of those we approve, we could allocate up to \$3 billion to them comfortably."