Small but mighty: boutique shops shine in top 10 global growth PMs

Photograph: Getty Images

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The sector's onerous research requirement has proved no barrier to boutique players

Given the size of the investment universe available to Global Large-Cap Growth managers, it is perhaps surprising that half of the top funds in this category are run by boutique shops rather than bigger names with greater resources.

TOP 10 GLOBAL LARGE-CAP GROWTH MANAGERS BY RISK-ADJUSTED RETURNS

PERFORMANCE AS AT JULY 31 2017 / SOURCE: CITYWIRE DISCOVERY

RANK	MANAGER NAME	CITYWIRE RATING	FUND(S) MANAGED	TOTAL RETURN %			3 YEAR SECTOR MR*
				1 YEAR	3 YEAR	5 YEAR	
1/24	Gordon M. Marchand George Fraise Robert L. Rohn	CITYWIRE AA CITYWIRE AA CITYWIRE AA	American Beacon SGA Global Growth	14.83	42.89	76.77	0.96
4/24	Jonathan White	CITYWIRE AA	John Hancock Fundamental Global Franchise	13.33	42.78	-	0.92
	Emory W. Sanders, Jr.	CITYWIRE A		13.33	42.78	90.19	0.92
6/24	Isabelle de Wismes Steven Watson Robert W. Lovelace	CITYWIRE A CITYWIRE A CITYWIRE AA	American Funds New Perspective	19.32	31.82	85.37	0.86
9/24	Matthew Benkendorf	CITYWIRE AA	Virtus Vontobel Global Opportunities	18.29	35.07	79.77	0.64
10/24	Hamish Douglass	CITYWIRE A	Frontier MFG Global Equity Frontier MFG Global Plus	16.04	29.61	82.39	0.41
	Average Manager			16.42	13.22	73.37	0.36

*The manager ratio is the average information ratio of the funds the manager has run in this sector over the past three years. A positive figure means the manager has outperformed their benchmark(s).

Take, for example, Sustainable Growth Advisers. This Stamford, Connecticut-based shop – set up in 2003 by the Citywire AA-rated trio of Gordon M. Marchand, George Fraise and Robert L. Rohn – subadvises the $35.6 million American Beacon SGA Global Growth fund.

Thanks to their skill, the fund sits atop the Global Large-Cap Growth category for three-year risk-adjusted and total returns, having posted 42.9% over three years, trashing the peer average of 13.2%.

The fund has significant overweights to technology and consumer staples, and to a lesser extent consumer discretionary, while underweighting healthcare and financials. Its high-conviction approach can be seen in that it has no allocation at all to telecoms, utilities or basic materials.

The fund is allowed to invest between 35% and 65% of its assets in overseas companies, but it currently has 54% in domestic firms, including top 10 positions in Visa, Nike and Google's parent firm Alphabet.

Its next most significant geographic allocation is an off-benchmark bet on emerging markets, which account for 24.5% of assets, with Hong Kong and China its second-largest country call at 10.4%, and India third at 4.7%.

Another subadvised fund run by a top-10 management team is the $214.3 million Virtus Vontobel Global Opportunities fund, overseen by Citywire AA-rated Matthew Benkendorf.

Benkendorf has been lead manager on the fund since March 2016, when his then co-manager, international equity star Rajiv Jain, left the Swiss shop Vontobel Asset Management, which subadvises the strategy.

In the one and half years since Jain's departure, Benkendorf has held things steady alongside Ramiz Chelat. For the three years to the end of July the fund has returned 35.1%, earning it ninth place out of the 24 Global Large-Cap Growth funds tracked by Citywire.

The fund aims to select what Vontobel believes to be well-managed businesses with consistent operating histories and financial performance, which not only have favorable long-term economic prospects but also generate good cash flow.

Recent outperformance has been driven by information technology behemoths Alphabet and Amazon as well as the likes of British American Tobacco and Reckitt Benckiser.

New frontiers

Continuing the theme of subadvised success stories is the $1.1 billion Frontier MFG Global Equity fund, run by Magellan Financial Group Asset Management.

The Sydney, Australia-based boutique mainly manages global equity funds for high net worth and retail investors in A ustralia and New Zealand, as well as a limited number of globally focused investment funds for institutional investors.

Citywire A-rated Hamish Douglass, who co-founded the shop with Chris Mackay, has returned 29.6% over the past three years.

The category could be seen as a play for diversification away from the US, especially in the face of slowing domestic growth prospects, but the majority of funds in this sector have leaned heavily on the US bull run, and continue to run high allocations here today.

With the exception of the Virtus Vontobel Global Opportunities fund, which had a 49% allocation to US stocks at the end of June, all the other top-performing funds in this category have more than half their assets in US companies.

Despite being run by an Australian manager, the Frontier MFG Global Equity fund is the most extreme on this front, with 70.2% of assets invested in the US at the end of June. Those looking for greater diversification from the US might be better off exploring the International categories.