THE BOUTIQUE ADVANTAGE:
OVERLOOKED OUTPERFORMANCE

AMG

While the debate over the value of active investment management has intensified in recent years, the outperformance of boutique managers may deserve a second look.

Active and passive management advocates have exchanged volleys for nearly 50 years—even more so since the global financial crisis. One side questions the merits of active stock-picking while the other insists above-market returns are attainable. We think it may be time for a fresh perspective.

Given our business model at AMG—investing in and partnering with best-in-class boutiques on a global basis—we wondered how boutiques would hold up under scrutiny, compared to active managers in general. To answer this question, we revisited a proprietary study analyzing the performance of active boutiques across nearly 5,000 institutional equity strategies. Our analysis spanned a 20-year period from 1998 to 2018 and included 11 different equity categories of varying market capitalizations, styles, and geographies (see About Our Study). Our five key insights are outlined below.

Five Key Insights

1. Boutiques broadly outperformed non-boutiques
2. Boutiques created significant value versus indices
3. Top-performing boutiques added more value for clients than bottom-performing boutiques detracted
4. Top-performing boutiques generated exceptional returns versus indices
5. Boutiques had a high frequency of beating benchmarks—and sustaining that outperformance over time

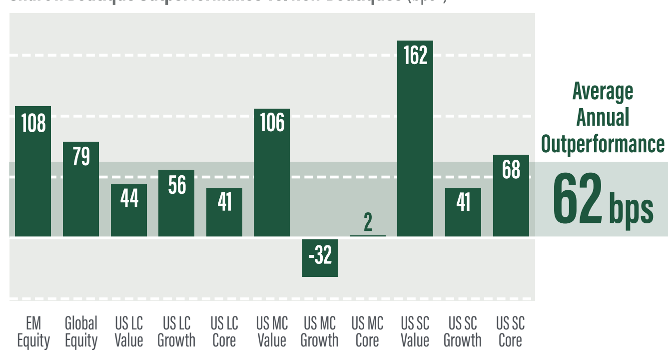
Boutiques Have Added Value

Our analysis provides strong evidence that active boutique investment managers generated significant value for clients, relative to both non-boutique managers and benchmarks.

1. Boutiques broadly outperformed non-boutiques

Over the past 20 years, the average boutique surpassed their non-boutique peers in 10 out of 11 equity strategies we looked at, by an annual average 62 bps across all categories. Boutique outperformance was most significant in U.S. Small Cap Value Equity (+162 bps) and Emerging Markets Equity (+108 bps annually).

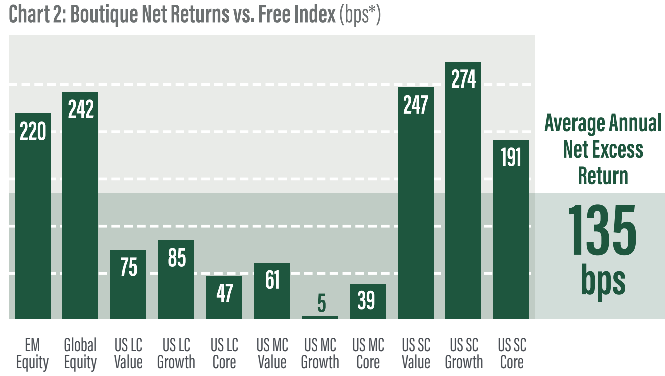
Chart 1: Boutique Outperformance vs. Non-Boutiques (bps*)



2. Boutiques created significant value versus indices

Contrary to industry findings that a majority of active managers have underperformed benchmarks, we found that boutiques have outperformed, even when factoring in estimated average fees. In fact, the average boutique outstripped its primary index in every category we examined.

Chart 2: Boutique Net Returns vs. Free Index (bps*)



* Basis point is equal to .01%

Source for above charts: AMG proprietary analysis and classification of firms and strategies. MercerInsight® database utilized for return data.

Chart 1: Firms represented include AMG Affiliates. Analysis based on rolling one-year gross returns for institutional strategies during trailing 20-year period ending 3/31/18.

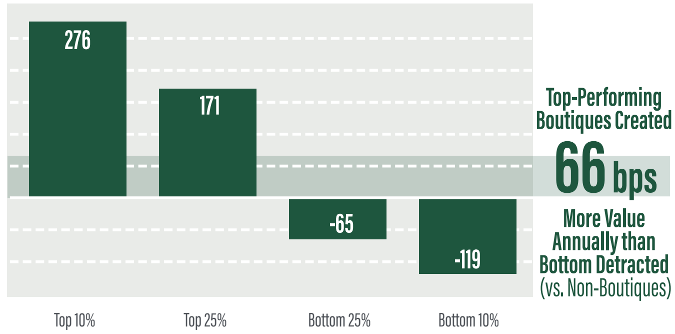
Chart 2: Firms represented include AMG Affiliates. Net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 3/31/18 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000® Value, Russell 1000® Growth, S&P 500®, Russell Midcap® Value, Russell Midcap® Growth, Russell Midcap®, Russell 2000® Value, Russell 2000® Growth, and Russell 2000®. Please see disclosures for index definitions.

Past performance is no guarantee of future results.

3. Top-performing boutiques added more value for clients than bottom-performing boutiques detracted

We found that elite boutiques (those in the top decile and top quartile) beat their non-boutique counterparts by a wide margin—an average annual 276 bps and 171 bps, respectively. Just as notable, laggards (bottom-quartile and bottom-decile boutiques) trailed their non-boutique peers by a much narrower margin (-65 bps and -119 bps, respectively).

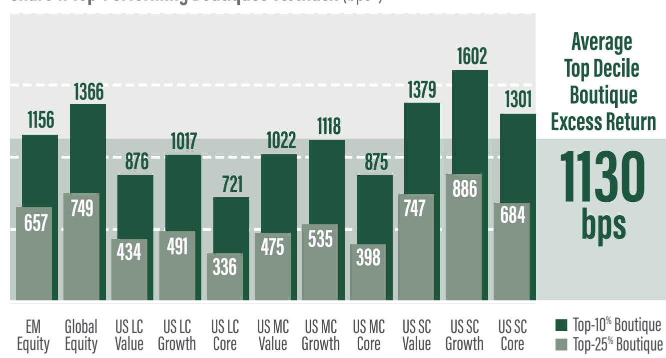
Chart 3: Top and Bottom Performers (Boutiques vs. Non-Boutiques, bps*)



4. Top-performing boutiques generated exceptional excess returns versus indices

When it came to beating benchmarks, top-performing boutiques really stood out—particularly in Emerging Markets Equity, Global Equity, and U.S. Small Cap Equity. While the average boutique generated 135 bps of extra return, **top-decile boutiques beat indices by nearly ten times that amount**.

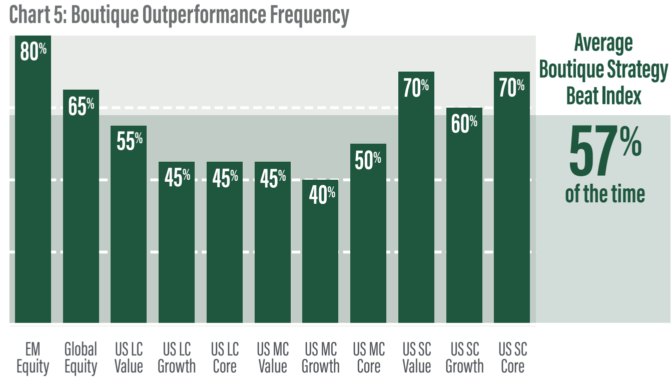
Chart 4: Top-Performing Boutiques vs. Index (bps*)



5. Boutiques on average had a high frequency of beating their benchmarks—and sustaining that outperformance over time

Across all categories we looked at, the average boutique outpaced its primary index 57% of the time. Their persistence was even more impressive: boutiques beat indices 54% of the time in years following one in which they had outperformed.

Chart 5: Boutique Outperformance Frequency



* Basis point is equal to .01%

Source for above charts: AMG proprietary analysis and classification of firms and strategies. Firms represented include AMG Affiliates. MercerInsight® database utilized for return data.

Chart 3: Analysis based on rolling one-year gross returns for institutional strategies during trailing 20-year period ending 3/31/18. Top and bottom performers incorporate investment strategies in the 10th, 25th, 75th, and 90th percentile on an annual basis.

Chart 4: Top performers include boutique strategies in the top 10% and top 25%.

Charts 4 and 5: Net returns estimated by taking one-year rolling gross returns for institutional strategies during trailing 20-year period ending 3/31/18 less estimated average boutique fee rates based on available data for each product category. Primary indices include MSCI EM, MSCI World, Russell 1000® Value, Russell 1000® Growth, S&P 500®, Russell Midcap® Value, Russell Midcap® Growth, Russell Midcap®, Russell 2000® Value, Russell 2000® Growth, and Russell 2000®. Please see disclosures for index definitions.

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Tap the Boutique Premium

AMG has a profound belief in boutiques, as evidenced by our 25-year track record of successful partnerships with some of the highest quality specialists worldwide. In our experience, investors targeting consistent, attractive relative returns would do well to consider managers with the following characteristics:

- Principals have significant direct equity ownership, helping to ensure alignment of interests with clients
- Presence of a multi-generational management team, fully engaged across the business
- Entrepreneurial culture with partnership orientation, which attracts talented investors
- Investment-centric organizational alignment, including careful management of capacity
- Principals are committed to building an enduring franchise, embedding an appropriately long-term orientation

About Our Study

Our analysis incorporated more than 1,300 individual investment management firms around the world. We classified investment managers as boutiques as long as they met four specific criteria:

- Significant principal ownership (with a minimum of 10%)
- Solely focused on investing
- Manage less than $100 billion in assets
- Not exclusively smart-beta or fund-of-funds

On average, the assets under management of those we classified as boutiques were $6.4 billion versus $134 billion for non-boutiques. Setting the limit at $100 billion allowed us to cast a wider net, but we also tested our analysis using $75 billion and $50 billion as an asset threshold. The differences were minimal, with a very small number of funds no longer qualifying.[1]

Some additional points on our methodology:

- We used data from the MercerInsight® global database—which enables comprehensive analysis of institutional track records on more than 6,000 managers and 32,000 strategies.
- We analyzed 1-year rolling returns for the 20-year period ending March 31, 2018: 1-year returns gave us a much larger sample size than if we had used rolling 3-year, 5-year, or 10-year.
- Net returns[2] were used when comparing the boutiques to the indices, to get a better sense of true value creation for clients relative to the index.
- Gross returns were used when comparing the boutiques to the non-boutiques, since the fee rate differential between the two groups was minimal.

[1] Source: AMG proprietary analysis
[2] Return comparisons with indices reflect deduction of estimated average fee rates based on available data for each product category.

Why AMG Funds

The largest network of institutional quality boutique investment solutions through a single point of access

Unrivaled access to insights of over 30 independent and autonomous investment managers

More than 100 actively managed products covering the risk spectrum for investors searching beyond the index

Index Definitions: The MSCI Emerging Markets Index captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,125 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI World Index captures large and mid-cap representation across 23 Developed Markets (DM) countries. With 1,633 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Russell 1000 Growth and Value Indexes represent the growth and value segments of the Russell 1000, which is an index of approximately 1,000 of the largest companies in the U.S. equity market. The Russell 1000 is a subset of the Russell 3000 Index. It represents the top companies by market capitalization. The Russell 1000 typically comprises approximately 90% of the total market capitalization of all listed U.S. stocks. It is considered a bellwether index for large-cap investing. The Russell Midcap Growth and Value Indexes represent the growth and value segments of the Russell Midcap Index, which is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$10 billion. The 800 companies in the Russell Midcap Index are the same 800 of the 1,000 companies that comprise Russell 1000 Index. The Russell 2000 Growth and Value Indexes represent the growth and value segments of the Russell 2000, which is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States. The S&P 500® Index is capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. It is not possible to invest directly in an index.

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