

# Start-up seeks to turn industry obsession with scale on its head

Niche Jungle caps its products at €25m or less in assets under management

By Ed Moisson | 5 June 2023

An Italian asset manager is seeking to grow its business by offering an array of funds that most firms would deem to be sub-scale and uneconomic to run.

Niche Asset Management has launched two funds within its Niche Jungle Irish collective asset management vehicle that are capped at €20m and €25m in size.

Europe's funds industry is often criticised for offering too many funds, many of which are deemed to be too small.

Over 9,200 European mutual funds tracked by Morningstar have less than €25m in assets under management, a size at which most firms look to shut or merge products if there are no clear prospects for growth.

However, Massimo Baggiani, founder and fund manager at Niche AM, says his firm can create a "scalable" business managing a series of small funds that invest in niche strategies over relatively short time periods.

Mr Baggiani defines niche strategies as value-oriented themes that are finite in length and so products may be closed only one or two years after launch – again at odds with industry convention.

The firm selects niche projects where it sees catalysts for a significant change in companies' valuations.

Korea Reunification and Japanese Orphan Companies funds are the first products in the Niche Jungle range, with an Indonesia small-cap fund in the pipeline, which will also close to new investors when it reaches €25m.

The Korea project invests in South Korean companies with a strong domestic business that would benefit from reconciliation between North and South Korea. The Japan project invests in Japanese companies that have scarce analyst coverage and have been listed for at least 10 years.

Both are article eight funds under the EU's Sustainable Finance Disclosure Regulation, reflecting the firm's emphasis on sustainable investing, with investee companies needing to be "responsive to direct engagement on sustainability".

Mr Baggiani describes the firm's projects as "liquid club deals" that are structured as Ucits funds and offer daily liquidity.

In traditional club deals, several private equity investors pool their assets and buy collectively, in principle enabling investors to purchase more expensive companies than they could do individually.

The small size of projects does not mean the funds face liquidity problems, Mr Baggiani says, with investments spread across more than 100 or 150 holdings resulting in them being "more liquid than many Ucits" funds.

"Above a certain AUM, the approach cannot be consistent, and the liquidity deteriorates," he adds.

Niche Jungle says it will only launch a fund if there are sufficient securities to ensure diversification.

Each project charges a 20 per cent performance fee for returns over a calendar year in excess of a high water mark. The firm does not charge annual fees for investment management, although it does charge for its administration costs.

The combination of multiple projects with small assets under management, performance-related fees, and the ability to offer a wide range of strategies are what make Niche Jungle scalable, Mr Baggiani says.

The firm is targeting institutional investors, family offices and asset managers with its projects, initially focusing on the UK and Italy.

Niche AM's focus on institutional clients partly reflects that it does not see itself as a fund manager as traditionally conceived.

Mr Baggiani says the firm focuses on delivering an investment opportunity, rather than whether the opportunity is the right one to invest in. This leaves it to the client to decide whether they are willing and able to "dig into the portfolio" and decide whether it is appropriate to invest.

He is open to other fund managers joining the Niche Jungle platform once his firm reaches the limit to the number of projects that it can manage.

These firms would need to follow a similar approach to "deep value" and sustainable investing, however.

Expanding the platform in this way will further "help the creative forces in the industry", Mr Baggiani says.

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