SO YOU WANT TO BE AN ASSET MANAGER?
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"Higher!" your child calls as you give her a push. The wind tousles her hair, and you don’t give a thought to the rigidity of the swing’s chains or the sturdiness of the frame. As her toes touch the sky and she squeals with delight, you realise that the things you trust most, never stop working to earn it.

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Editorial introduction

South Africa is at the forefront of emerging market asset management, with eight firms in the Towers Watson Global Top 500 survey of asset managers. This compares with nine in Brazil, eight in China, five in India and none in Russia – an outstanding performance, considering the Bric countries together contribute 20% of the world’s GDP.

The industry plays a critical role as an allocator of capital by mobilising it to fund future projects and providing solutions to meet its clients’ needs. A number of critical developments have allowed the asset management industry in SA to become a globally competitive business and thrive. A well-structured, formalised savings sector, driven initially by life insurers, pension funds and unit trusts – and underpinned by a sophisticated capital market – played an important part. A strong regulatory backbone created an environment that fostered innovation and growth.

In the summer 2013 edition, we tackled the evolution of SA asset management, tracing its journey over nearly four decades to its becoming the highly professional industry it is today. This winter 2015 edition continues that conversation, with excellent local and international contributions that will deepen readers’ understanding of what it takes to manage money. The themes range from the people you will meet in investment management, the best places to hone your skills, the benefits and drawbacks of the different business models you will find, and what it takes to achieve success.

We start with a historical piece, Lessons from the 18th century, by Ainsley To of Credo Wealth, which traces the origins of mutual funds (known as unit trusts or collective investment schemes in SA). This financial innovation allowed ordinary citizens to pool and invest savings in a transparent, cost-effective investment vehicle. An “out of the box” perspective imagines an asset management firm represented by a three-dimensional cube that captures process, knowledge and experience. Combined with visionary leadership, Bruce Simpson of Sanlam sums up the factors critical to the success of the niche owner-managed firm or the large institution.

Asset management is a talent business and, like professional sport, you need top talent. Jim Ware, founder of Focus Consulting Group and author of several books on investment leadership, looks at the traits of highly talented individuals and what drives them.

For the individual considering a career in asset management, Claire Rentzke of 27four summarises the factors critical to the success of the niche owner-managed firm or the large institution.

Collective Insight
Lessons from the 18th century

In July of 1774, a Dutch merchant, Adriaan van Ketwich, got a group of investors together to create what became the world’s first mutual fund, Eendragt Maakt Magt (which we’ll abbreviate to EMM). EMM was a closed-ended vehicle with a mandate to invest in a diversified portfolio of foreign bonds and colonial plantation loans. Two hundred and forty years on, technological and financial sophistication has advanced by leaps and bounds. But from an investor’s perspective, what real progress have modern asset managers made since the world’s first mutual fund was formed in Amsterdam?

TRUE INNOVATION “Eendragt Maakt Magt” translates into Unity Creates Strength. The strict diversification requirements of the fund fulfilled an unmet desire from investors to pool their capital so they could diversify their risk. Van Ketwich was an entrepreneur fulfilling a genuine need from investors for diversification, something they had been lacking following the financial crisis of the two preceding years.

According to the Investment Company Institute (ICI), there were more than 16,000 investment companies in the US alone as of the end of 2014. You would think the last thing investors need is another fund to choose from... and yet over 500 new funds have been opened each year for the past 10 years. Are there really 500 unique innovations each year that improve on what is already on offer for investors? As the saying goes: “In physics, we have three laws that predict 99% of outcomes, but in investing we have 99 laws that end up predicting 3% of outcomes.”

SETTING EXPECTATIONS There was a spirit of transparency in the structure of EMM. Van Ketwich, who formed and administered the trust, was not to be involved in the daily investment decisions to avoid conflict of interest. The fund also published all its holdings in its share documentation, providing full transparency to investors.

And specifically in terms of performance expectations, EMM’s prospectus promised to pay a statutory 4% annual dividend. To entice investors, there was additional potential upside through a share buyback scheme, in which the fund would use excess interest income to purchase shares at a 15% premium. But what is most interesting is that these buybacks would be based on a lottery that selected shareholders at random. While the buyback scheme was a clever piece of marketing to raise assets, the outcome was explicitly random. It was set up as a lottery, and it fully acknowledged that the future return for investors would largely be determined by luck.

According to a 2014 State Street survey, only 42% of investment professionals believe alpha comes from skill and not luck. Yet today most asset managers use past performance to set future return expectations for potential investors. Track records are vigorously trumpeted as if they carry some sort of meaning, despite the plethora of studies suggesting there is no evidence for persistence in past performance — if anything, one might observe that, on average, the returns in mutual funds have a tendency to revert to the mean. As with the tobacco industry, asset managers have become adept at giving customers what they want, even if that’s at odds with what they need.

INVESTOR RETURNS VS INVESTMENT RETURNS A lot has changed since the 18th century, but one fundamental law of investing is still the same: “Gross Return = Costs - Net Return.” Investors keep what they don’t pay for in fees. EMM’s prospectus had a stated 0.2% management fee, one twentieth of the 4% statutory dividend payments. In other words, the fund’s fees were 5% as a proportion of the pre-tax return (excluding the buybacks). After two and a half centuries, the picture looks dramatically different for modern-day investors. With the average expense ratio for bond funds at 0.61% and the yield to worst on the Barclays Global Aggregate index sitting at around 1.7%, the proportion of return kept by investors has fallen dramatically. More disturbingly, for the vast majority of underperforming active funds whose performance expectations, EMM’s prospectus had a stated 0.2% management fee, one twentieth of the 4% statutory dividend payments. In other words, the fund’s fees were 5% as a proportion of the pre-tax return (excluding the buybacks).

But with higher AUM and larger volumes of products come new challenges and areas for improvement. Parts of the industry have developed purely to repackgage complexity and opacity as real

innovation, to exploit financial illiteracy and promote their speculation as science, and to take a larger portion of investors’ returns for their hard work in these endeavours.

So you want to be an asset manager? If you can provide a service beyond that which is available already, with a fully transparent process and a fee structure that passes on the majority share of returns to investors, while you separate candidly the roles played by luck and skill in the potential outcomes... you might just end up being one of the best asset managers since the 18th century.
An ‘out of the box’ perspective

I would not go so far as to say that successful asset managers are “special people”, but I have often heard them referred to as being able to think “out of the box”. This got me thinking. What exactly does that mean, thinking “out of the box”? I decided to examine the constructs of a box. It begins as a one-dimensional construct referred to as an interval; a second dimension is added and it’s then called a square. Lastly, a third dimension is added and it is called a cube or “box”. So what lies outside the box?

The smart people have determined that there is in fact a fourth dimension and if this is added to the cube we have what is referred to as a tesseract. I am not even going to pretend I understand this, but it led me to the conclusion that there is in fact such a place as “outside the box”. Someone a lot smarter than I had burnt a lot of grey matter to prove it. So how could this be relevant to managing money?

1. PROCESS

This is the first and basic construct of managing money and forms the first dimension of the box: the interval. Here you need a clearly defined objective. You need to know the parameters you will operate within and the boundaries of your investable universe. Not even the best managers on the planet have the capacity to successfully cover all the possible options in the global investable universe.

Lastly, you will need to know how you are going to view the investable universe you are planning to operate within and develop a disciplined approach to managing the prevalent risks associated with this universe. There are no rules on how to approach this, but a good starting point is to clearly understand your personal risk appetite as it’s going to get tested many times over your career.

2. KNOWLEDGE AND INFORMATION

The second construct or dimension is knowledge and information, called the square. This construct is both internal and external. The internal dimension would be your training. What you have studied, i.e. do you have a mathematical or a fundamental background? I am not saying you have to be well-qualified to be successful, but an honours or master’s degree in mathematics or finance is more likely to get you hired these days.

In this category I would also include how you process information. If you have a keen eye for detail, it may be a good idea to start out targeting a research role. If you are able to process information and act quickly, then target a role in execution such as a on a trading desk.

The external part of this construct is access to information. Having access to reliable information is critical to developing a successful investment process. In the world of asset management, it’s not time = money but rather information = money. The size of an organisation does not necessarily determine the quality of information it receives, or the speed at which it is received (nevermind the speed at which it processes this information). However, if an organisation is a boutique, it needs to ensure its information flow is competitive for the space in which it operates.

3. EXPERIENCE

This is the third construct and dimension that completes the box, forming the cube. There is no substitute for experience; it is the glue that binds all the elements of the first two constructs together. It’s one thing to get fast, reliable information, but how do we process it? Simply put, experience is bringing to life your investment process.

The realm of financial markets is continuously changing and evolving. It’s only over time that you will be able to develop a sense of how you can exploit this state of flux to the benefit of your clients and then yourself. Because of this, you will require both patience and curiosity. Patience, because you may have to wait for opportunity due to your age. This is a good skill to develop, though, as knowing when to act is a large component of successful money management. You need curiosity because you will need to be constantly on the lookout for opportunity and be prepared to try things even if you get your fingers burnt occasionally.

So now we have the three-dimensional box.

BUT HOW DOES ALL OF THIS FIT TOGETHER TO FORM THE CONSTRUCT OF A SUCCESSFUL ORGANISATION OR TEAM?

It’s not overly important if the organisation is a large firm or a boutique but the structure of the teams (groups of investment professionals) and the alignment of clients’ and managers’ interests are critical for the long-term sustainability of performance.

At the top you need experience, this is non-negotiable, coupled with a tried and tested investment process. Beneath them you need the energy of youth. I am not sure people always grasp the importance of this. The energy, hunger and diversity of perspective that youth brings to a team or a process is tangible and needs to be openly embraced. All too often, we forget that skills transfer, knowledge and understanding of existing or potential clients’ needs to flow in both directions on the age continuum. You just need to look at the development and distribution of talent to see this in action.

Overlay this with an added dimension – vision – and you have a future-fit asset manager for tomorrow.

4. VISION

This is the final construct and fourth dimension; the one that allows good managers (or teams of managers) to become great and think out the box; the one that takes asset managers to the next level. This manifests itself in many ways. It could be a leader’s ability to motivate, an organisation’s ability to align the interests of the client with the manager, a manager’s ability to know when to be contrarian or a young person’s ability to see the holes in an existing investment process. How it manifests itself is not important. What is, is to embrace it when we see it. So often the first three constructs stifle construct four and keep us trapped firmly in the box. It is the vision that sets us free.
The people you’ll meet in the investment world

Asset management is a talent business. In professional sports, you won’t win the World Cup with average players. The same goes for asset management – your investment firm won’t be world-class without top talent. Teamwork is important, but teamwork cannot make up for average abilities. So, what kinds of people populate successful investment firms?

We’ve used the original descriptions from Rob Goffe and Gareth Jones’s book Clever: Leading Your Smartest, Most Creative People and then provided our comments on how these apply in the investment world.

As you read them, see if you can relate to the traits of these people. Or, if in fact, you are one of these people!

1. Cleverness is central to their identity.
   They are their work. Their passion for their work defines them, and they identify with their craft, not the firm. They are driven and often perfectionistic about their work.
   They want to get it just right. They don’t like relying on others, so they tend to be poor team players. They want to believe that their own cleverness can get the job done.
   Sometimes their independence creates hostility towards the firm.

2. Their skills are not easily replicated.
   The knowledge of clever people is tacit. It is embedded in them. A great deal of their cleverness resides not in what they know but what they know and how they know it.
   Indeed, this is one of the dirty little secrets in the investment world. Many investment processes cannot be replicated because they rely on one clever person.

   Bigger organisations may have enough quality bench strength to fill in. But many firms have investment teams of five people: one seriously clever person, with four analysts helping with research. It is often the case that none of the four researchers could replace the star portfolio manager.

3. They know their worth.
   This point follows from number 2. If the clever person is truly talented, then chances are they know that their skills are unique. And this is a challenge for leaders: “confident in their own worth and ability, clever people exert pressure on their leaders.”

   Their scepticism about the value of leadership puts pressure on leaders to demonstrate their worth.

   True. Which is why leading clever people in investment firms is challenging.

   And when compensation negotiations can be so difficult. “Clever people will always debate what they are worth. And skilfully. This requires skilful mediation about what fair compensation means. You must get the clever person to buy in.”

4. They ask difficult questions.
   They are passionate and willing to debate. In fact, many CEOs consider this a prerequisite for clever “status.” You must be willing to defend your ideas.

   Challenging assumptions and cherished beliefs is what makes clever people so valuable.

   Especially in the investment world.

   This point is amplified by the nature of markets: in order to win, you must see things differently from the rest of the world.

   You must be willing to challenge conventional views. The leader’s role is to live with the discomfort that accompanies this dissident thinking.

   And to appreciate it. Despite their challenging personalities, clever people want to be valued for their contributions. Their egos need stroking, even though they deny it!!

   In order to win, you must see things differently from the rest of the world. You must be willing to challenge conventional views.

5. They are organisationally savvy.
   They are expert gamers. They typically don’t like politics, but when their hands are forced, they are clever and can play with the best of them.

   My initial thought was, “no, most clever investment people are rather naïve about office politics.” But as I inventoried the many clever people we’ve worked with, I realised they are good politicians when they need to be. Especially in the investment world because they understand trade-offs. And they understand game theory.
6. THEY DON’T LIKE HIERARCHY AND DON’T WANT TO BE LED.
If there is one thing that defines clever people, it is that they don’t want to be led, and they are absolutely certain they don’t want to be managed! They have an undiagnosed disdain for organisational hierarchy as captured in the following chart. They don’t give a hoot about titles. You’ve got to influence them through your skill and knowledge. At the end of the day, they are a “show me” group. Smart leaders know that you cannot lead these clever people, the best you can do is guide them – gently – in a desired direction. They are likely to be motivated by factors other than money and power.

Not entirely. Money is a yardstick for them. And star portfolio managers seem acutely aware of what “winning” and “losing” compensation packages look like. Performing well and then getting a big bonus is the equivalent of scoring a touchdown and then spiking the ball in the end zone. If you deprive portfolio managers of their victory dance and spike, they don’t like it. After all, it is a money industry, so the generic rules for clever people – about money – are a little different in the investment arena. Money matters as a motivator. As to being led, the advice absolutely applies: don’t make the mistake of thinking investment professionals gladly salutate and carry out orders. They would more likely give you the one-finger salute than carry out orders. This is where skill is required from investment leaders; they must know how to lead through influence, not orders.

7. THEY EXPECT INSTANT ACCESS.
Clever people are very absorbed in their own thinking, so when they have a great idea they want it taken into consideration immediately. Clever people have low boredom thresholds. Very low. They tend to hate needless meetings. They are very conscious of the value of their time.

Absolutely true. Fortunately for portfolio managers, they often get to act immediately on their ideas, which is very gratifying. Unfortunately for analysts, they often do not get to act on their ideas immediately and end up frustrated. CIOs and portfolio managers need to keep this in mind as they manage a research team. These people consider themselves clever, and want to play by the same rules other clever people enjoy. Smart CIOs and portfolio managers will give them as much freedom and access as they can.

8. THEY WANT TO BE CONNECTED TO OTHER CLEVER PEOPLE.
Clever people need other clever people in order to achieve full potential. Even the most self-absorbed portfolio managers will acknowledge that they need good ideas and good research to win. Clever people need others; they need organisations to plug into. Clever people enjoy networking with like-minded or like-qualified individuals. For clever people, networking is not a social nicety but a source of perpetual improvement and bright ideas.

Yes and no. Certainly portfolio managers and analysts have their sources for good ideas. Some internal, some external. One of the major subjects that occupies large global firms is: How do we get more bright people talking to one another, so as to get some synergies? There is one firm that leads the pack in this respect. How? It developed a very user-friendly intranet that allows its employees to share ideas. Some internal, some external.

great science, a world-changing computer programme, or even an innovative new coffee machine if it was thrust before them. As Goiffe and Jones say, “you know you’ve a success when you hear the clever people say you’re not getting in the way too much”. This part made us smile. For years we’ve been saying that the investment industry suffers from ADD: Appreciation Deficit Disorder. Despite research coming out in neuroscience around the brain and being appreciated, few investment leaders or practitioners have changed their behaviour. When we ask CIOs why they are stingy with their praise, we get responses like: “Well, we pay them don’t we?” or “If we praise them, they’ll ask for more money.” And our favourite one: “If we praise them, they’ll stop working so hard.” Those beliefs are wrong. Our experience – and the neuroscience – point in the opposite direction: appreciate and value your staff and they will work harder, demand less money, and be far more loyal.

JAMES WADE
FOUNDER, FOCUS CONSULTING GROUP
Focus Consulting Group is a firm dedicated to helping investment leaders leverage their talent. Wade, CFA, is also a highly acclaimed industry author and international speaker on the subjects of investment leadership, culture and building high-performing teams. A frequent keynote speaker at the CFA Institute, Mutual Fund Educational Alliance, Investment Adviser Association, US Institute and other major industry conferences, Wade is recognised for his insightful, inspiring and entertaining presentations.

PROOF THAT WE’VE BEEN DOING THE RIGHT THINGS RIGHT, DAY AFTER DAY, MONTH AFTER MONTH.

PRUDENTIAL BALANCED FUND

<table>
<thead>
<tr>
<th>ANNUALISED RETURN</th>
<th>CATEGORY AVERAGE RETURN</th>
<th>OUTPERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 YEAR</td>
<td>14.7%</td>
<td>11.5%</td>
</tr>
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<td>3 YEARS</td>
<td>18.5%</td>
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<tr>
<td>5 YEARS</td>
<td>15.2%</td>
<td>12.3%</td>
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<td>7 YEARS</td>
<td>12.3%</td>
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<tr>
<td>10 YEARS</td>
<td>15.3%</td>
<td>12.8%</td>
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<tr>
<td>SINCE INCEPTION</td>
<td>15.6%</td>
<td>13.6%</td>
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Source: Morningstar® ASISA SA Multi-Asset High Equity Category Annualised Return Average

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Source: Morningstar data for periods ending 31 May 2015 in the relevant ASISA categories. Prudential Portfolio Managers Unit Trusts Ltd (Registration number 1999/0524/06) is an approved CISC management company (N29). Assets are managed by Prudential Investment Managers (South Africa) (Pty) Ltd, which is an approved discretionary financial services provider (#641019). Collective Investment Schemes (unit trusts) are generally long-term investments. The value of participatory interest (units) may go down as well as up. Past performance is not necessarily a guide to the future and the Manager provides no capital or return guarantees. Unit trust prices are calculated on a net asset value basis, which for money market funds is the total book value of all assets in the portfolio divided by the number of units in issue. Fluctuations or movements in exchange rates may also be the cause of the value of underlying international investments going up or down (unit trusts can engage in borrowing and selling foreign unit trusts, are traded at ruling prices. Commission and incentives may be paid and if so, would be included in the overall costs). Different classes of units apply to the Prudential Collective Investment Scheme Funds and are subject to different fees and charges. A detailed schedule of fees and charges and maximum commission is available on request from the company’s investing document or prospectus. All of these expenses may be capped at any time in order for them to be managed in accordance with their mandates. Performance figures are sourced from Morningstar and are based on lump sum investments using NAV prices with gross income reinvested. Purchase and redemptions requests must be received by the Manager by 10h30 (13h30 for Money Market and 10h30 for Dividend Income Funds) on the last trading day of the month. All online purchases and repurchase transactions must be received by the Manager by 10h30 (13h30 for all Funds) on the last trading day of the month. General market performance data may have been provided for illustrative and explanatory purposes. This information is not intended to constitute the basis for any specific investment decision. Investors are advised to familiarize themselves with the unique risks pertaining to their investment choices and should seek the advice of a properly qualified financial consultant or adviser before investing.
The best training grounds

So where do you get to build the best experience, in a large management firm or in a boutique asset manager? The answer will probably depend solely on you as a person, what your ambitions are and what your expectations are. There are pros and cons to each side and, as is usually the case, what you get out is perfectly correlated to the effort you put in.

As there are pro and cons to investing with a boutique manager relative to a large institution, the same double-edged sword exists in selecting the training ground for your career in financial services. Ultimately different personalities will be suited to different environments and it is up to each individual to determine what their strengths and weaknesses are and decide which would fit them best.

<table>
<thead>
<tr>
<th>LARGE INSTITUTION</th>
<th>BOUTIQUE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JOB PERFORMANCE</strong></td>
<td>Job security and support in meeting performance targets</td>
</tr>
<tr>
<td><strong>TRAINING</strong></td>
<td>Established and crafted training programme</td>
</tr>
<tr>
<td><strong>JOB SECURITY</strong></td>
<td>Secure income stream</td>
</tr>
<tr>
<td><strong>ECONOMIC SCALES</strong></td>
<td>Larger team structure</td>
</tr>
<tr>
<td><strong>FOCUS</strong></td>
<td>Focus on the job at hand</td>
</tr>
<tr>
<td><strong>OPPORTUNITIES</strong></td>
<td>Limited to the job at hand and the availability of opportunities elsewhere in the organisation through an application process</td>
</tr>
<tr>
<td><strong>LEVEL OF RESPONSIBILITY</strong></td>
<td>Increasing gradually</td>
</tr>
<tr>
<td><strong>CAREER PATH</strong></td>
<td>Well mapped out</td>
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So start your journey to securing your financial well-being today and give yourself peace of mind - now and into the future.
The must-have traits of an asset manager

We canvassed a number of top asset management professionals to ask for their wisdom on what it takes to be a successful asset manager. These five industry notables gave us their thoughts on the qualities you need to excel – not just as an individual but as an asset management company.

HERMAN STEYN
CEO, PRESCIENT GROUP

So you want to be an asset manager? Ask yourself:

1. Do you have a well-developed instinct for risk? Making real investment returns requires taking some risk. You need to be comfortable that you’ve taken the right level of risk.
2. How’s your chess game? Investment success is based on having the right strategy, staying focused and the ability to think ahead.
3. Do you enjoy reading? Investment is about information, research and ideas. The pursuit of these can be a solitary process that’s not for everyone. But it’s an integral part of the investment decisions you make.
4. Fund managers need to separate investment decisions from other emotionally driven reactions to what’s happening in the world. They need to be able to compartmentalise investment decisions you make.
5. Fund managers need to separate investment decisions from other emotionally driven reactions to what’s happening in the world. They need to be able to compartmentalise the societal outcomes of an event from the financial consequences.

HYWEL GEORGE
DIRECTOR OF INVESTMENTS, OLD MUTUAL INVESTMENT GROUP

Jim Ware, the US-based consultant who has done extensive research on what makes a successful asset manager (also see page 30), has pinpointed trust, curiosity, candour and accountability as the most important behavioural characteristics for an asset manager. But how do you ensure these qualities are brought to the fore?

We believe there are four key elements to this:

1. Coherent teams – the whole exceeds the sum of the parts in bringing together individuals who are curious, self-confident, and possess strong intuitions. They need to be able to make decisions quickly and accurately – and then know how to stick with them even if they don’t pay off immediately.
2. Best-in-class research, focused on innovative idea generation, keeps portfolios fresh with strong, new stock positions which are constantly fighting for a place in the portfolio. As the analysts are rewarded only if their recommended stocks are actually included in an investment portfolio, customers are the ultimate beneficiaries of the quality of research and the resultant investment performance this generates.
3. Portfolio construction ultimately determines the success or failure of fund managers’ investment decisions. So a lot of emphasis needs to be placed on risk management – but here we’re talking about a far more comprehensive oversight of risk factors if portfolio construction is going to drive outcomes effectively.
4. Clear incentives need to be completely aligned with client success over an appropriately long timeframe.

ANET AHERN
CEO, PSG ASSET MANAGEMENT

You have to be surrounded by people who have a common buy-in to the basic environment:

• You must have a mentor inside this organisation (or outside of it, if needs be). This is about gaining insight into what the right questions are, and attaining the technical skills to discover the appropriate answers; and
• Thirdly, the best in any field are the ones who have taken their development and learning into their own hands. They are driven and widely read. They also engage with topics they want to learn more about and interrogate them. This unyielding enthusiasm to continue learning and growing is integral to excelling in this field.
• It goes without saying that to do any of these well you require a high level of intellect and just plain hard work. But being smart can sometimes be its own handicap. Extremely intelligent overachievers have often never failed at anything until they face “the market”. Even a good fund manager will fail, but it’s the resilience to get up and keep going that makes a great manager.

KHAYA GOBODO
CO-STRATEGY LEADER, AFRICA PUBLIC MARKETS – INVESTEC ASSET MANAGEMENT

The single, most important ingredient required to be successful as a fund manager is passion. The best managers I have had the privilege to observe and/or work with cannot imagine themselves doing anything else. This may sound clichéd but it is an absolute truth. Everything else is important, but really, that’s just detail.

Your tertiary education need not necessarily be investment-related. There is an element of creativity to your work as a fund manager – as long as this is complemented by some interest in a numeracy-related field.

It is irrelevant whether you join a large or a small firm – the more important thing is to look for the three elements that are integral to a great learning environment:

• First, ensure the firm is about investment excellence, as opposed to favouring product distribution;
• Second, you should identify and have the blessing of a mentor inside this organisation (or outside of it, if needs be). This is about gaining insight into what the right questions are, and attaining the technical skills to discover the appropriate answers; and
• Thirdly, the best in any field are the ones who have taken their development and learning into their own hands. They are driven and widely read. They also engage with topics they want to learn more about and interrogate them. This unyielding enthusiasm to continue learning and growing is integral to excelling in this field.

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Delphine Govender
Chief Investment Officer, Perpetua Investments Managers

Before you can work out how to achieve success as an asset manager, you first need to determine how you define success.

• Is it best performance record? Biggest in-flow of assets? Profitability? Number of industry awards? Most recognised brand? It turns out there is often little causality between these factors.

Ironically, while each identifiable measure of success can be calculated objectively, determining overall success, it seems, is ultimately subjective. This is because the entirety of advantage of asset management is essentially built on trust and hope. Does the asset management firm do enough to earn and maintain the confidence of clients and the investing public at large?

And the harsh reality is that there is a strong element of luck at play – not just skill – in how outcomes are achieved. If success is purely defined by the objective assessment of one’s skill (determined by qualifications, years of investment experience, track record or even as manifested by one’s attained net wealth from the investing endeavour), then identifying such investors should be a relatively unprovocational exercise. But it often isn’t. Of all the sources of possible advantage, the ones that stand out are behaviour and emotional resilience. Keeping a level head when there is fear and greed requires pragmatism. Filtering the noise from the fundamentals, seeing the big picture and sticking to your philosophy in times of extreme optimism and extreme pessimism.

There are three key factors that would help an individual achieve this pragmatic approach:

• Experience
• Humility
• A vital dose of passion

But perhaps the most important attribute one wants to see in one’s asset managers is that they constantly remember the purpose of investing – to better their clients’ lives. Find an asset manager who understands that point clearly and you have a potential winner.

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COLLECTIVE INSIGHT

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Every year, actuaries and investment consulting firm, Towers Watson, publishes a research piece on the world’s 500 largest asset managers. In the most recent edition (dated November 2014), there is a chart showing how ownership of the biggest 20 managers has changed over the past decade.

It is clear from the graph that independent managers have been on a relentless growth path (more than doubling as a proportion of the top 20 over the past 10 years) at the expense of investment firms owned by both insurers and banks. Much has been made of the rise of boutique firms, but this trend in the growth of independently owned asset managers is more than that: you can hardly call any one of the world’s 20 largest asset managers a “boutique” (number 20, the smallest one on the list, manages nearly $1tr or R12.5tr today).

So why do independent firms continue to eat more of the lunch previously enjoyed by their institutional counterparts? The reasons for this are no doubt manifold and it would be presumptuous to postulate any one as the main factor.

I would, however, focus on an aspect I believe is key in the management and success of any investment business – namely the way in which boardroom conversations are conducted.

The boards of directors of the better independent asset management firms are likely to be dominated by senior management professionals (who are almost always shareholders in the firm, too). Yes, there may be selected individuals from other walks of life, and hopefully they will weigh in with noteworthy contributions on the more general debates, but ultimately they would typically not hold sway when anything really crucial comes up for discussion.

The management boards of institutional investment firms, on the other hand, are by their very nature likely to be populated by senior executives of the parent company (whether that is an insurer or a bank). Only on rare occasions would any of these individuals have specific asset management experience.

This may not matter much when times are good, markets are going up and performance is decent. But the real value of a suitably constituted board of directors will be evident when there is “blood on the streets” (in the inimitable words of Baron Rothschild) and when clients start putting the firm under pressure because of investment performance concerns (whether in absolute or relative terms). In times like this, boardroom conversations are likely to be stressful (and so they probably should be).

Why is the firm underperforming?

HOW DOES ONE BEGIN TO RECONCILE THESE EXTREMELY DIVERGENT FRAMES OF MIND? AND ARE THEY EVEN COMPATIBLE WHEN PUSH COMES TO SHOE?

Whose “fault” is it? How does one fix it? Might it be a question of investment philosophy?

These are all difficult questions, and a group of experienced investors would probably come up with different responses compared with a board dominated by professionals of a different ilk.

In the case of an asset management business owned by an investment bank, for example, chances are that the leading voices around the boardroom table will be those of individuals who originally made their mark in a corporate finance environment (or “rainmakers”). My friends from that world may feel slighted when I say this, but I would suggest that it is not the ideal background for contemplating the vexed questions of an asset manager’s performance, process and philosophy.

At the risk of oversimplifying it, the typical investment banking deal consists of identifying a problem (or an opportunity), articulating a clear plan to solve or address it, delegating accordingly and implementing it. If necessary, extra resources can be accessed. Those involved will work as much overtime as necessary to make deadlines. Turnaround times are usually weeks, sometimes months, very rarely years. Outcomes are quickly measured, fees and commissions are earned, profits are banked. The next deal looms.

This is all very different from the asset management world, with multi-year cycles and many uncontrollable factors playing their part. For example: is three years enough to measure performance properly?

Most experienced investors would probably say no. Five years? Maybe…

How does one begin to reconcile these extremely divergent frames of mind? And are they even compatible when push comes to shove?

Also bear in mind that, with a large diversified investment company, one part of the group (for example, the insurance company) is likely to be a key client (if not the biggest one) of the investment business. Not only is it likely that the various people around the asset manager’s boardroom table will thus be differently “wired” in such a case (with senior managers and actuaries from the insurance operation going toe-to-toe with the executives from the investment business), but those representing the insurance side will also be somewhat conflicted. This clearly complicates the dynamic, specially in the toughest conversations on, for example, questions of investment performance.

Another point relates to corporate culture. What works in a bank or insurance company does not always work equally well in its asset management subsidiary. Take innovation, for example – often listed as one of the corporate values of modern businesses, especially those in financial services. It may be applicable in a dynamic investment banking environment but, personally, I’d be very happy for my asset manager to shun innovation (collateralised debt obligations, anyone?) in favour of old-fashioned principles based on valuation, diversification and patience.

I accept that there are also reasons institutional groups enjoy certain benefits over standalone asset management businesses – the security of having a large captive client being just one such example. This is, ultimately, also why there will always be diversified financial services groups which continue to operate with in-house investment teams – it makes pure economic sense to retain margins by managing this captive asset pool yourself.

Against this backdrop, I do not expect firms owned by insurance companies and banks to disappear from the list when Towers Watson publishes its next research piece on the world’s top 500 asset managers. But I would also not be surprised to see independent managers rise even further as a proportion of the largest 20 investment firms in the world.
An invigorating career, if you have fortitude

Being an asset manager is almost always exciting. It spans a massive array of disciplines, is influenced by the behest of news flow, brings you into contact with senior management in all sorts of businesses and is highly competitive. At many firms, it’s patently overpaid! But, it’s hardly utopia.

YOUR TOOL KIT
You will need to be able to read financial statements with ease and to analyse them with a critical eye for deviations from accompanying narrative and “creative accounting”; principles of compound interest should come to you naturally; macro and micro economics should be aiddle (even if you doubt their value); your presentation skills should be excellent; you must possess a healthy dose of scepticism without being an outright cynic; you must be prepared to be contrarian, but at the cost of being vilified when you’re wrong; you will have already displayed ample skills as an analyst. These are just the essentials – they won’t suffice to make you a good asset manager.

Be prepared for more studying. You will need to write easy but compulsory regulatory exams to demonstrate your knowledge of legal and ethical obligations as a fiduciary. You will probably be expected to write (and pass) the three levels of the CFA exams: these are the gold standard of the industry. You may aspire to managing only equity portfolios, but you will need to demonstrate skills in fixed interest, derivatives, behavioural finance and more. Continuing education is a permanent reality.

INVESTING ANALYSIS – AN EXAMPLE
Asset management is multifaceted. Let’s say you need to decide on exposure to retailer Shoprite in your clients’ portfolios – an everyday and relatively straightforward type of decision for an asset manager. You’re well acquainted with Shoprite’s financial and operating performance; you’ve met and appraised management’s capabilities; you know about determined expansion plans into sub-Saharan Africa; you’ve allowed for the volatility in Nigeria’s naira and its translation effects into rand earnings; you painstakingly assess many valuation parameters, both in time series and in cross-sectional analyses. You decide to buy most Shoprite shares and you’ve already had an intellectually gratifying day.

You submit your order to pre-trade compliance checks, place it with your dealing desk and monitor your stockbroker’s execution. Now you can turn your attention to a flood at an Australian coal mine, the higher borrowing costs of banks arising from translation effects into rand earnings; the volatility in Nigeria’s naira and its revaluation in mid-2015; interest rates, a larger denominator in your detailed models. This impinges on bottom-line earnings and on plausible valuations. Doubts emerge. What if the CEO retires early? What if supposedly hands-on management misses stock theft by employees on a grand scale, as happened in the 1990s? What if US bond yields rise, causing higher South African interest rates, a larger denominator in your dividend discount model and a lower projected share price? When you bought those shares, who sold them to you? Someone who knows more than you? The most indomitable investment mind will always toil under a host of uncertainties.

The following day you read of new political strife in the Middle East: oil prices are up sharply; delivery prices of groceries will increase; disposable income in some African countries will be under pressure. Shoprite’s operating margins will be below the levels you so carefully used in your detailed models. This impinges on bottom-line earnings and on plausible valuations.

Despite what should be demanding entrance criteria, barriers to entry in asset management are actually quite low. Knowing the right people or having the gift of the gab may be enough. So appalling garbage often passes for research; simple extrapolation of stochastic prices is reified; parading short-term performance is widespread; unduly influencing potential clients goes on; and enrichment on a grotesquely unethical scale happens more than you may suspect.

So, you want to be an asset manager? Go for it! It’s rewarding, well-rewarded stuff. Just be ready for high levels of antagonism, deep disappointments, a low likelihood of staying the course until normal retirement age and for dealing with critics with 20/20 hindsight. The rest is easy!
Practising caution is sometimes the boldest decision you can make.

When it comes to investing, there’s often the temptation to ride the euphoria of speculation. It’s why we resist it. We carefully do our homework, weigh up the pros and cons, check, re-check and analyse, scrutinise and remove emotion from each and every investment decision we make. Because we believe that there’s a time to be bold and a time to be cautious. Knowing when to be which is what makes us Wealthsmiths™.

Our expertise includes:

Active  |  Passive  |  International  |  Multi-Managed Solutions