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Thoughts from a Top
Fund Selector

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Last Friday I interviewed a senior fund selector with over a decade of institutional experience, an individual who has had the unique experience of working in fund sales, consulting, in-house fund selection and is now part of the investment team at a leading pension fund provider. Below are some of the topics covered over a few beers. There will be a part two dealing specifically with the art of quantitative fund selection coming out in due course.

“What has been the highlight of your career thus far?”

Being able to see each side of the industry, having worked at a pension scheme in operations and investments, in a consultancy and working with an asset manager in a sales role all helps to give a very clear picture of the industry. Moving across each element of the industry has been a highlight unto its self. Seeing it from a different angle is quite enjoyable and has absolutely made me a better analyst for it.

“How have your views on fund selection changed over the last 10 years?”

The biggest change after working in sales is I now have a completely different view on how to assess a manager and the work you have to go through to dig past the narrative from the sales team. I used to always feel the manager put a bit of spin on things, but it was essentially the truth. I now believe the narrative is geared from that first interaction you have with a manager and in order to be an impartial judge on whether or not a fund is a good investment, you cannot let the manager control that.

It's about how you disturb their process so you can get to the truth and avoid prejudice. I've got to because as soon as the narrative is controlled prejudices come into the equation. I don't want to build prejudices around a narrative I'm being fed, I know they're there and that they exist and it's my job to try and minimise them as much as possible in order to make a sound judgement.

“What are the major trends facing the industry today?”

Continued consolidation is something the industry is struggling to cope with. The new world where fees are being compressed and technology allows for the automation of so many processes means there are effectively too many people working in the industry. This is evidenced by the number of people sloshing around looking for work and struggling to find it. The industry is quickly finding ways to consolidate and cut its costs.

No one is willing to pay high fees anymore and the access to data gives clients many more points of challenge to managers and the data points they use to find the best they also use to rule out the majority of funds. So you have the entire industry chasing a handful of players while at the same time unwilling to provide managers with the fee revenue to grow organically so the only way to grow is to consolidate and cut costs.

“Is consolidation a good thing?”

Broadly speaking no, it makes a fund selectors job much harder. You also lose the concentration of culture and philosophy that help make a fund likely to outperform. A 20 person shop is much easier to monitor and research than a 200 or 2000 person shop. Their underlying culture and investment philosophy is also much easier to understand and much more concentrated when there are fewer people involved.

“What is a major risk faced by managers today?”

How managers go about devising and launching products is something they seem to constantly get wrong. Private debt is a good example where arguably the product life has already peaked, spreads have tightened over the last two years and investors who want exposure to private debt have already got it. Yet we’re seeing more and more managers launching private debt strategies. It’s very difficult to develop and launch a product at the right time and it’s something smaller managers in particular need to get right otherwise risk failure.

“What is your one killer question for a manager and why?”

“Who is your best competitor” – Managers should know who out there is better than them or at least on the same level. It’s your job as a fund selector to identify best in class managers. This helps expand your universe and allows you to test how strong your relationship with a manager is, because a lot of them won’t be completely forthcoming with their answer!

“What are the key skills that help make a good fund selector?”

A strong understanding of data science and the ability to use technology to make your job easier and spot the statistical anomalies that allow you to ask better questions and get to the truth of the matter. The industry is splitting in to those that understand the power of technology and those that don’t, the ones that don’t will be left behind. True intellectual curiosity as well, managers are used to the standard scripted questions, but if you can approach it almost as if a journalist would to probe and probe till you get to the heart of the matter you will be much better at your job.

“If you were to hire what would you look for?”

I’d want a real thinker. Someone who challenges decisions in a constructive and intellectual way, not someone who is used to going through a box ticking exercise. The beauty of what we do is that it is a mixture of science and art, in order to master both you need to be constantly questioning and learning.

It’s what has put me off other firms in the past who would have wanted me to fit into a particular box, where perhaps I wouldn’t be allowed the intellectual freedom to source new ideas and look at things from a different perspective.

This is the first in a series of interviews I will be conducting with individuals in the industry, if you have any questions, comments or critique, or would like to speak about a particular topic please feel free to let me know. I look forward to making this a regular addition.

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