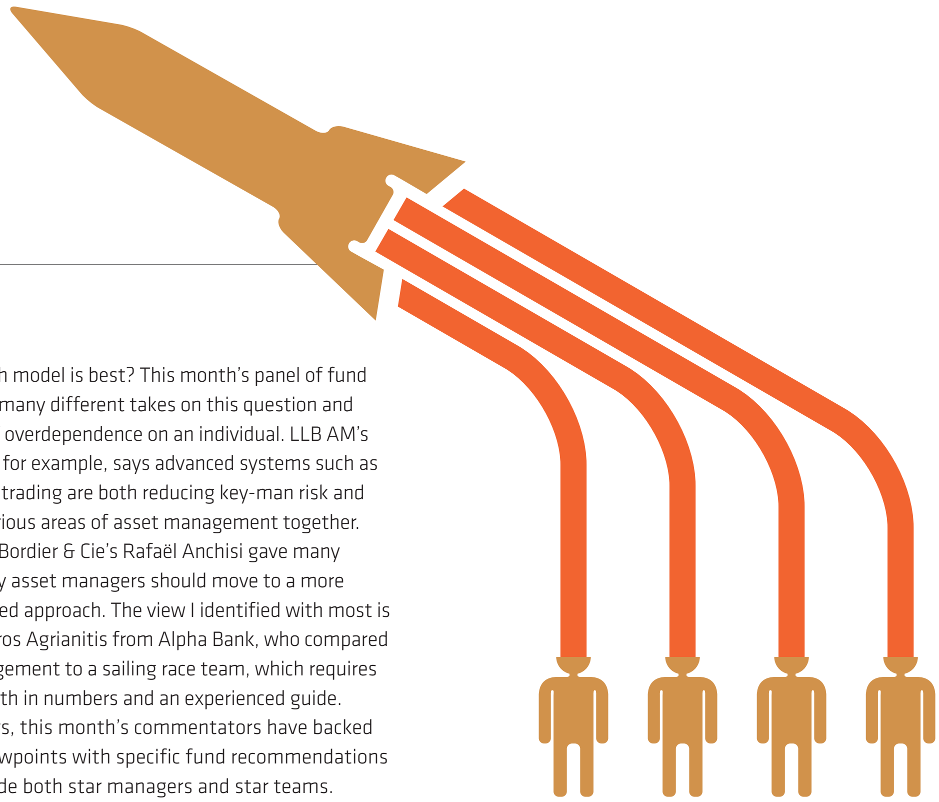
Dream teams

Many fund managers emphasise teamwork above individual performance, so who is excelling in the field of collective endeavour? Which asset managers have proved that more minds are better than one and are there any drawbacks to a group approach?



CITYWIRE VERDICT

TERRI-ANN WILLIAMS
INVESTMENT REPORTER, CITYWIRE SELECTOR

The *Citywire Selector* news desk is always buzzing with manager moves and hires, and there is particular interest when these managers have 'star quality'.

Since the start of the year, we have reported on a number of high-profile exits, including Talib Sheikh moving from JPM to Jupiter, as well as Mark Mobius throwing in the towel at Franklin Templeton, only to resurface at an Indian investment boutique.

Meanwhile, fund selectors at our recent Madrid forum touched on another related point. Inversis Gestion's Guendalina Bolis and Allfunds Bank's Vanesa Del Valle Broussard discussed the fact that you can never really eradicate key-man risk, although you can reduce a reliance on star names by being proactive and taking a closer look at what actually incentivises a team.

But which model is best? This month's panel of fund buyers had many different takes on this question and the issue of overdependence on an individual. LLB AM's Tim Gruber, for example, says advanced systems such as algorithmic trading are both reducing key-man risk and bringing various areas of asset management together. Elsewhere, Bordier & Cie's Rafaël Anchisi gave many reasons why asset managers should move to a more team-focused approach. The view I identified with most is that of Spyros Agrianitis from Alpha Bank, who compared fund management to a sailing race team, which requires both strength in numbers and an experienced guide.

As always, this month's commentators have backed up their viewpoints with specific fund recommendations which include both star managers and star teams.

BUYERS' VERDICTS

TIMO GRUBER

LLB Asset Management
Liechtenstein

Our selection process incorporates several checks where 'people' are a key issue. We are looking for robust investment results so organisational stability among key personnel is very important. For this reason we favour team-approaches. However, there is a growing trend which has also brought a group approach to the fore. The rise of complex investment strategies that use various algorithms, is evolving constantly. Such franchises cannot be run by a single person and require vast teams of people to generate ideas, develop models and implement portfolios. The **Invesco Pan European Structured Equity** fund shows how mathematicians, programmers and portfolio managers can successfully work together as a quantitative investment team.

No matter how many people are in a team, success depends on whether those professionals can work together. Are processes organised in a manner that allows all team members to generate good ideas for the portfolio manager? Are people incentivised to work successfully together, or are team members always stepping on each others' toes?

We are not dogmatic in terms of selecting star managers or teams but team-based solutions tend to minimise the risk of investors pulling out if a key individual leaves. The trend is for fund houses to build excellent management teams where a lead manager is responsible for investment decisions. Star managers, on the other hand, have become a highly-endangered species. Nevertheless, we also watch out for this valuable species in our daily fund research, in the hope that the star manager approach does not die out completely.

TILO MAROTZ

Donner & Reuschel
Germany

There is nothing wrong with key-man risk. If we do a good job of assessing a manager's skills, as well as their surroundings, there is a good chance of success. This is especially the case when you go off the beaten track where outperformance/alpha potential is higher and provided by small organisations with crucial individuals and less teams. Over-optimised processes and investment committees often dilute good decisions and make it much more difficult to analyse and evaluate the attribution details. Investors should also remember there is key-man risk in every portfolio management team as somebody has to take the final decision. That said, one example where a team approach is working is RP Crest because the structuring of the process and business model is

BUYERS' VERDICTS

much more important than the asset class itself (volatility premium) or the focus on one dedicated portfolio manager.

RAFAËL ANCHISI

Bordier & Cie
Switzerland

Asset managers may have many reasons to move toward a team-oriented approach, such as optimising the operational structure for a particular investment strategy or simply as a way to reduce costs.

Whatever the reason, fund selectors should always look at a fund's competitive edge on standalone basis and the value it can add in relation to the overall portfolio. For this reason we select managers with different investment approaches as a way to diversify. The benefits of diversification mean investors should not rely on a star manager model and a team-based approach can offer as much value as a very skilled manager anyway.

The **DPAM L Bonds Emerging Market Sustainable** fund is a good example of a strategy that reduces key-man risk. First, the investment universe is defined by unbiased filters and second, a top-down structural allocation is set. Finally, both co-managers contribute with bottom-up ideas.

Reducing key-man risk gives a more predictable performance pattern, which makes the job more comfortable for a fund selector.

Ultimately a team-oriented approach is compromised as someone has to take the lead in the investment decisions. Therefore, we have to consider both star manager models and teams, while remembering that all that glitters is not gold.

NEIL SHILLITO

SG Wealth Management
UK

If you'll pardon the pun, I think the demise of New Star in 2009 was probably the beginning of the end for the cult of the star manager. To be fair, I think the media promoted the idea of the star manager more than the investment houses themselves.

I think Woodford Investment Management made a big mistake in the early days, although who else were his marketing team going to promote? Other groups have quietly dropped the idea and rightly so, but I would be hard-pressed to name a group that has been noticeably better at disengaging than its peers. I have yet to identify a 'dream team', the very terminology is just an advertising construct. Nevertheless, a company that has made a virtue out of a collegiate approach and had performance to match is Baillie Gifford. Each manager is ultimately responsible for their own funds and makes the final decision on style, portfolio construction and so on. But managers on different desks contribute to the team as a whole by sharing ideas and offering constructive criticism.

There are positives and negatives to the team approach but in my experience the best performing, long-term managers are always those left to get on and run the money as they see fit. This does not mean that they are locked in a cupboard all day and no doubt they benefit hugely by spending time with their colleagues, but they are responsible only to themselves.

Conversely, absolute return funds, multi-asset funds and global mandates are probably better served by a team-based approach because the investment mandate is too broad for any one individual to claim expertise in every area.

ROBERTA RUDELLI

Unicredit
Italy

We have always favoured a team approach rather than a star manager one, since our fund selection process itself is a team effort where all opinions are considered. This attitude guarantees that every decision is exposed to different points of view so there is less chance a portfolio manager's potential 'love affair' with a stock goes unchallenged, even when performance is negative. The 'dream team' consists of people with different backgrounds and mindsets where daily debate underpins all activity. A good example are the bond teams at Invesco Perpetual and Schroders. One possible drawback of the team approach is a lack of consensus which leads to a neutral view of the market and to a benchmark allocation without any conviction. Moreover, in a strong market rally, teams tend to underperform star managers, especially in the short term. To avoid concentration of risk we prefer to limit the number of funds managed by the same team.

CARLO LUIGI GRABAU

Leleux Invest
Belgium

Opting for a star manager can be risky because the performance and destiny of the fund are closely tied to that individual. Almost all major asset management companies have reduced or are reducing key-man risk in accordance with their business models. In doing so, decisions are more consensual, often leading to average performances. The range of experience provided by a team can enrich the investment process, but ultimately it is how this information is used that matters and the final decision must be concentrated in few hands. When we choose a star manager we always check if he or she is well supported by the rest of the team and when we choose big teams we make sure the decision-making process is effective. **Larry Puglia** of the **T Rowe Price Blue Chip Growth** fund is a good example of a star manager and the **Capital Group Global High Income Opportunities** strategy ticks all the boxes for a team approach.

SÉBASTIEN GENTIZON

Pictet Wealth Management
Singapore

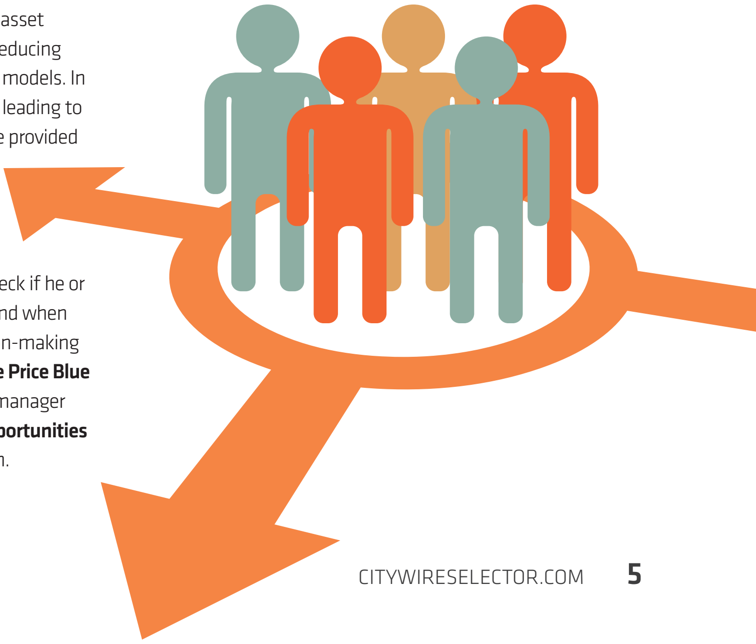
At Pictet, over the past 212 years, there have been only 41 partners, each with an average tenure of more than 21 years. As the terms of the partners overlap, their knowledge, experience and values are absorbed and passed on to the next generation. When it comes to our manager selection process, we use our own firm as an example and believe that the people in a company are the key to success. Top managers will continue to succeed if they are able to hire people who will fit in with their firm's culture and investment philosophy. With this in mind, we strive to develop relationships and trust in order to gain a deep understanding of how each company operates. This means our fund monitoring process is primed to identify any risk.

We do work with managers where collegial decisions underpin the investment process but we don't steer away from a star manager model. We are confident we can reduce key-man risk using our active monitoring approach which aims to pick up clues of any possible transition. Both approaches have strengths and weaknesses and either can generate long-term success if the model is well built.

SPYROS AGRIANITIS

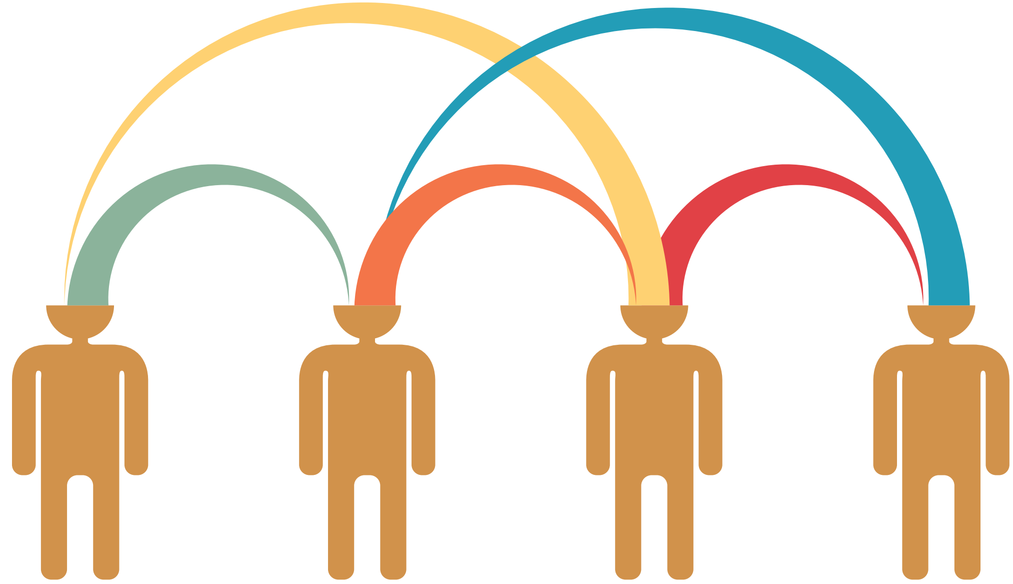
Alpha Bank
Greece

A sailing race team is a good analogy to use when looking at what makes an effective fund manager. In sailing, it would be impossible for even the best of captains to win a race alone against full teams, just as it would be highly unlikely for a sailing team to get very far without experienced guidance. We have seen the pitfalls of both extremes in fund management, where one person runs the whole show, or an unwieldy democratic approach where decisions take ages to be made and implemented. We favour the model of an effective team where a skilled fund manager combines with others, but still fulfils his or her role of leading the way. In this respect we single out the following: BlackRock's



BUYERS' VERDICTS

global multi-asset team for its risk-managed funds such as **BlackRock Multi-Asset Income**; Goldman Sachs' quantitative investment strategies team for its CORE equities range of funds; and M&G's retail fixed interest team for innovative fund management in strategies such as **M&G Optimal Income**. Elsewhere, Pictet's thematic equities team is one of our favourites in the thematics space and we have singled out funds such as the **Digital**, **Security**, and **Megatrend** strategies. Last but not least, we like Schroders' European credit team for its consistent results on the **Schroder ISF Euro Corporate Bond** fund. We also have faith in Pimco's global credit team in managing the troublesome fixed income asset class in coming years.



BART VAN DE VEN

Accuro
Belgium

Do we prefer big investment teams or star managers? The answer is not black and white.

We like funds applying a team approach, but we don't shy away from star managers and are happy with our long-term investments in successful boutiques.

We want to capture the best of both worlds for our clients. The star manager model is better in some areas of the market, while a team-based approach is more suited to others. An example of a star manager fund we favour is **Nicolas Walewski's Alken Small Cap Europe** strategy, while the **Comgest Growth World** fund is a recommended team-based approach.

PIERRE BONART

Edmond de Rothschild Asset Management
Switzerland

Team-based approaches are generally associated with lower active risk levels than single-manager alternatives. In other words, selecting a fund whose management decisions are made by a team not only reduces key-man risk, but also cuts active risk. Investors often choose this approach in the hope of more regular performance, on the understanding that there may be less chance of the strong outperformance that is possible with a single manager.

Both models have advantages and disadvantages. A single manager can be more responsive and may find it easier to implement his or her own choices, which often result in a higher level of active risk.

Teams, on the other hand, can produce more balanced portfolios that are enriched by different ideas. However, this comes at the risk of individual disempowerment.

In team-based approaches, particular attention should be paid to how decisions are aggregated and how team members remain accountable and incentivised. Capital International or Wellington are examples of properly implemented collegial management.

There is a risk that team-based approaches are selected, not because they are the best fit for a client's needs, but as a way to reduce a fund selector's personal risk, which is a typical case of agency bias.

We do not favour one approach or the other, but are careful to select funds that are the best match for a client's objectives and risk constraints.

THIERRY CROVETTO

TC Stratégie Financière
Monaco

There is no simple answer to which approach is better.

For example, the investment universe needs to be taken into account. Funds with a star manager can significantly outperform those run by teams in a small investment universe such as UK small/mid-caps, where a strategy like the **Polar Capital UK Absolute Equity** fund stands out. Meanwhile, global universes often require a range of expertise.

One key manager can be the architect, defining asset allocation by using internal resources stock or bond picking and the **EdR Bond Allocation** fund is a case in point.

The strategy also matters: one fund manager can use quantitative models and still be the sole decision maker.

It is also important to highlight the decision-making process. It is harder to manage a fund with multiple minds – big teams discuss, solo managers take decisions. Funds managed by teams are often less flexible and proactive than those managed by a star manager.

We think a tight team of two fund managers who challenge or complement each other can be an alternative as key-man risk is lower and the decision-making process remains stable and simple. This is the case with the **Memnon Market Neutral** fund.

We have no preference really and are pragmatic. We only care about the fund's risk-adjusted performance, investment strategy and risk management process. However, we are ready to sell a fund if the key-manager leaves the company.

SELECTORS' FAVOURED FUNDS

FUNDS	MANAGERS	CITYWIRE RATING
Alken Small Cap Europe	Nicolas Walewski	CITYWIRE A
Blackrock Multi-Asset Income	Alex Shingler, Michael Fredericks, Justin Christofel	n/a
Capital Group Global High Income Opportunities	n/a	n/a
Comgest Growth World	Céline Piquemal-Prade, Laure Négiar, Vincent Houghton, Zak Smerczak	CITYWIRE A (Piquemal-Prade, Négiar)
DPAM L Bonds Emerging Market Sustainable	Carl Vermassen, Michael Vander Elst	n/a
EdR Bond Allocation	Guillaume Rigeade, Eliezer Ben Zimra	n/a
Invesco Pan European Structured Equity	Thorsten Paarmann, Michael Fraikin	n/a
M&G Optimal Income	Richard Woolnough	n/a
Memnon Market Neutral	Laurent Saglio, Vincent Bourgeois	CITYWIRE AA (both)
Pictet Digital	Sylvie Sejournet, Nolan Hoffmeyer	CITYWIRE AAA (both)
Pictet Megatrend	Hans Peter Portner	n/a
Pictet Security	Frédéric Dupraz, Yves Kramer	n/a
Polar Capital UK Absolute Equity	Guy Rushton	n/a
Schroder ISF Euro Corporate Bond	Patrick Vogel	CITYWIRE AAA
T Rowe Price Blue Chip Growth	Larry Puglia	CITYWIRE A