TALKING WITH

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Talking the thrill of the chase, ESG integration and exploding rocks with Chris St John, Fund Manager, AXA Investment Managers and Richard Romer-Lee, Square Mile

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HOW DID YOU GET INTO THE INDUSTRY?

By answering a job ad in the FT. Friends Ivory & Sime were advertising a junior fund manager role. It was 1999 and I had to do it the old-school way by cutting out the ad, writing a letter and then hoping to get an interview. I did and was given the job. I had studied philosophy and psychology at university, and trained and qualified as an accountant at Coopers & Lybrand.

WHAT PATH DID YOUR EARLY CAREER TAKE?

I applied for a smaller companies role as I am predominantly interested in the nuts and bolts of, and people within, businesses. You can learn so much from investing in smaller companies, seeing the effect people can have. I had some experience from my accounting training and found it much more interesting to be looking at for example, lighting contractors from Catford explaining the next range of lighting solutions, and meeting the full array of polished management through to market traders, liars, thieves and cheats! I moved to Framlington in 2004 after the late Roger Whiteoak approached me to join his small cap team.

WHAT MAKES A GOOD FUND MANAGER?

Eyes and ears. I remember my Granny's advice. She told me "You have two ears and one mouth. You should be listening twice as much as talking". A real interest in companies, the world, how people operate, how companies and governments function and how they all fit into one big system. Having a good memory, the ability to learn from your mistakes and having conviction. I am envious of those who see the world in black and white. I generally see shades of grey - it plagues me and I constantly question myself.

WHAT ARE THE ESSENTIAL INGREDIENTS FOR A SUCCESSFUL TEAM?

Everyone should be allowed to be themselves, to be heard, make decisions and to get things wrong. A blame culture is bad - it shows traits of bullying. If bad news goes unreported when things go wrong, by the time someone 'fesses up things can be beyond repair. Large teams running funds can result in poor decisions and performance. It can create a very unhealthy culture. Having said that, it's important to be able to collaborate and cooperate - there is no monopoly on knowledge - and to have a supportive culture where one can share information and ideas. The competition is on the outside, not within.

ARE YOU WORRIED ABOUT PUBLIC MARKETS SHRINKING?

It doesn't feel restrictive at the moment, but by definition more companies mean more opportunities. It does help to have a buoyant IPO market, but these things are cyclical and it depends where the IPOs are coming from. It's logical that more businesses don't seek the public markets. Plus with increasing regulation, CEOs may find private markets more attractive with less reporting, a longer-term focus and less frequent press attention. The impact of less broker coverage post MiFID II has reduced resources and research put into smaller companies, which is worrying. I am also concerned by some of the recent focus on liquidity of stocks.

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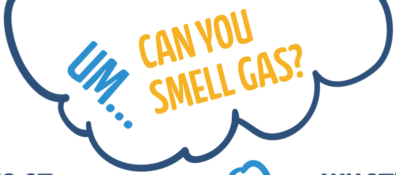
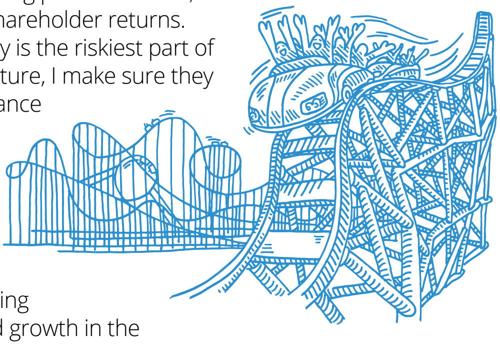


WHAT EXCITES YOU IN MARKETS AT THE MOMENT?

That never changes. I love the thrill of seeking companies. I look for those that can compound earnings, cash flow and dividends over long periods of time, and so drive good shareholder returns. Given that equity is the riskiest part of the capital structure, I make sure they have strong balance sheets. Then there are long-term, thematic drivers – such as growth in data, artificial intelligence, ageing populations and growth in the middle classes in emerging markets. While they are well known, they remain fascinating as do the opportunities they provide.



WHAT'S YOUR VIEW ON ESG INTEGRATION?

It's increasingly important in the eyes of investors, allocators of capital and in the minds of CEOs and FDs. The acceleration of interest is driven by changing consumer behaviour and expectation. The power of social media to spread dissatisfaction becomes very relevant when you are running a business. The last thing a company wants is to be running the risks of creating reputational damage which invariably leads to financial damage. Good governance is something that should have been bread and butter for fund managers for years. It's the 95/5 rule - but the 5 can be exciting with change and with change comes opportunity.

WHAT WORRIES YOU?

The rise of ETFs and trackers. The case for active fund management in some markets, for example the US, is relatively weak. The constant pressure on fees, rather than returns, is dispiriting. In the UK, the case for active is very strong. The market is inefficient and there is lots of value to be found. Living here is a great advantage, being able to spend time with management and seeing the companies in their environment. It is possible to deliver better returns to investors by investing in companies that compound earnings above the market, have stronger balance sheets and which are better managed than average. And avoiding those that don't. It would be much harder to do what I do on a global basis as you would not be able to see as many companies and would need to rely more on brokers.

DO YOU HAVE ANY BUGBEARS?

Short-termism - equities are a long-term asset. The price you pay for an asset is very important, but you must provide the time to allow the compounding effect to work and reduce the distortion of the initial price paid. I have a minimum time horizon of three to five years, an average of seven and ideally 20 years for owning stocks.

WHAT'S THE MOST EXTRAORDINARY THING YOU HAVE SEEN?

We met a company trying to raise money, claiming there was lots of gas in the rocks under land they owned. The CEO produced a rock and said the gas smell was only released by hitting it with an axe, whereupon he held the rock up to my head and smashed it. Bits flew everywhere. I'm pleased to say he was telling the truth. Another time, a smaller company came to see us with an early GPS system. They proudly did a product demo in the meeting to show it could map where we were. But it placed us in a Balls Brothers across the road. The broker tried to lessen the embarrassment by claiming its predictive capabilities! A meeting with another company - which will remain anonymous - also sticks in my mind. During our discussions it became obvious the management team were telling us a pack of lies. We ended it immediately.

WHAT ADVICE WOULD YOU GIVE TO A FLEDGLING FUND MANAGER?

The generation of graduates coming out of university seem driven by analytics, spreadsheets, discount rates and are very technical. This is all just a small part of assessing a good company and investment, so push the spreadsheets to one side and engage with the business to try to understand what they are trying to achieve and how they do it. Companies are like biological organisms - get involved with what makes them tick. It will provide context to all the technical analysis. Reading is a crucial part of the job. I'm reading Prisoners of Geography by Tim Marshall, about the geopolitical make-up of the world, its influence and why certain places are strategically so important - such as the Straights of Malacca. It led me to ruminate about businesses in terms of who could be prisoners of capital or geography. UK-based video game publisher Codemasters could have been a victim of wage inflation for programmers in certain hotspots. But technology allows it to hire programmers anywhere in the world, so it sidesteps those problems.

HOW DO YOU RELAX?

Our three boys aged 10, 12 and 15 are pretty full-on. We do lots of sport that keeps them busy. We live in the countryside and I like to walk or run with my Labradors to get away from the noise and to clear my head.