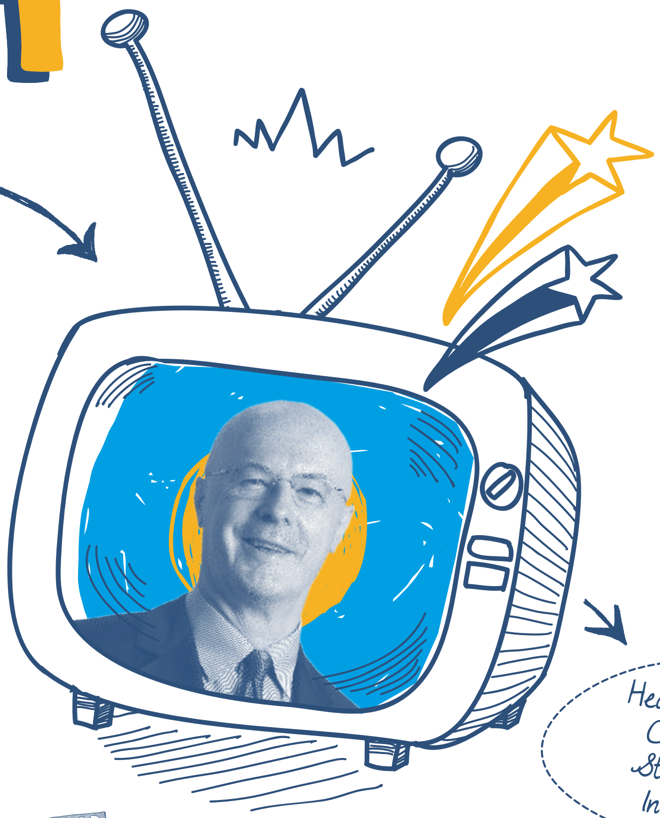
TALKING WITH

Harry Nimmo

Harry Nimmo, Head of Smaller Companies at Standard Life Investments talks smaller companies, valuable lessons and lycra with Richard Romer-Lee, Managing Director at Square Mile.



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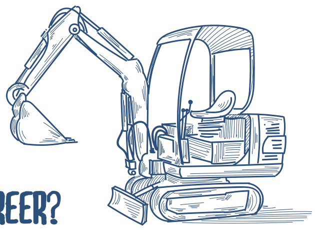

HOW DID YOU BEGIN YOUR CAREER?

I had a career before fund management in the construction industry. A geography degree and surveying diploma led me to a small surveying company where I operated a theodolite and level. Unfortunately the UK construction industry went into recession in 1980, which led to my boss sharing some bad news – there is no more work for you – and some good news – we have a relationship with a company – Al Jalahimah – in Saudi Arabia. So there I went and spent a few years in boom times. However I realised that was not what I fancied long term.

I came back to Scotland, became more sensible, bought a flat, went back to university and took the first job that came my way as a trainee investment analyst at Standard Life.

WHEN DID YOU START RUNNING SMALLER COMPANIES?

I spent five years on the US equity desk, using my "expertise" to cover oil and gas stocks. This was later to provide invaluable insight as in 1986 Sheik Yamani decided Saudi Arabia should not be the swing producer any more – and decided to drive the marginal providers out of business. The oil price fell dramatically, the marginal players were driven out. This scenario was rerun in 2014 and we had no oil or gas stocks. This was followed by three years on the UK Equity desk before being offered the chance to be Head of UK Smaller Companies in 1993. It was a great opportunity.

WHAT MAKES A GOOD FUND MANAGER?

Experience counts. Spotting winners and staying with them. So many people sell good stocks too soon and it is a huge mistake. In small cap you can make two, three,10 or even 20 times your money. Great examples have been Paddy Power, which I bought in December 2004 and sold in the last six months. We made 12 times our money. Others have been ASOS and Hargreaves Lansdown. Don't be too active – there is no need to churn your portfolios. If your performance involves a lot of churning, you will run into capacity issues much sooner.

WHO HAS INSPIRED YOU?

Two people come to mind. The first is John Thomson, who was head of the US desk, then UK desk and then CIO at Standard Life before he moved onto Stewart Ivory. He was a great people person, a great leader, an inspirational figure and a good talent spotter. He was both gregarious and able to take tough decisions.

The second is Jeff Saunders. He was the seminal intellectual designer of the matrix, which underpins my investment approach. He had a good process and the intellectual rigour to support what he designed. I owe him a debt of gratitude for that.

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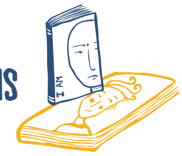
WHAT DO YOU FIND MOST REWARDING?

Making money for clients. Although we rarely meet the people whose money we are looking after, I occasionally receive comments from them saying we have helped them to retire earlier, build an extension on their home and so on.

I also enjoy meeting business builders - the people that really make things happen. They are the people to back. Ted Baker, Peter Hargreaves and Stephen Lansdown spring to mind.

WHAT VALUABLE LESSONS HAVE YOU LEARNED?



About 10 years ago I thought about this and came up with 6 rules for investing in smaller companies.

These are:

1. Consistency – sticking to your process
2. Running your winners
3. Lower business risk = higher return, and by lower risk I mean does a company have revenues and profits, is it paying a dividend, net cash on its balance sheet, visibility of earnings, long term contracts with its customers and does it know where its growth will come from?
4. Valuation is of secondary importance
5. Know what investors want – outperforming in bear markets is more important than in bull markets
6. Companies require growth – it can bail them out of problems.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING THEIR CAREER?

If you have the luxury of choice, go for a business that's expanding, as opportunities will always arise. You can develop your career on the back of such a situation. However, if a business is contracting, you will always be worried about your job, there will be a culture of concern and pessimism and you will either be firing people or be amongst people being fired.

WHAT WAS THE SEMINAL MOMENT IN YOUR CAREER?

I can't help it – but I do like recognition. The OBSR awards at the Dorchester stands out – particularly being recognised for the consistency of approach and tenure at one company. Lots of people move around and that can be very disruptive for investors.

WHAT HAVE BEEN THE MEMORABLE MOMENTS IN YOUR CAREER?

I tend to think in negatives. The tech bubble was mad, crazy and stressful. It was up there with the South Sea company and tulips. Markets were really irrational and at the time it was difficult to stand aside and be rational. Many smaller companies managers came to grief. The banking crisis was when I thought this is serious. At the time I was improving our house and all the money I was due to pay to the contractors was in the Bank of Scotland. It was then in danger of going bust so late one night I was desperately trying to transfer money into other banks. It was a dangerous period – if poor decisions had been made at the time, or there had been a lack of inter-governmental cooperation, things would have been even worse. In the longer term, you want to be with the best businesses.

WHO DO YOU ASSOCIATE WITH THE WORD SUCCESS?

Ray Kelvin, founder of Ted Baker. He has a market stall background and the business started as a concession in Goldbergs, a long since defunct chain of department stores in Scotland. He built it as a quirky brand, a men's brand at that, initially with shirts. He never advertised, but did use PR cleverly. He built the business steadily, listed in 1997, broadened into womens' wear and then internationally. It wasn't without its problems on the way but he clearly identified what is important in fashion retailing and developed a fantastic brand. And a brand transcends most things, even the move to online shopping away from stores. The stock rose from 150 Pence to £36 at its peak.

WHAT WOULD YOU LIKE TO ACHIEVE IN THE FUTURE?

I am 59 and we have a good team and £3bn of assets under management. I would like to grow this to £5bn and develop in new geographies. I would also like to be hugged by all of my investors. One of my investors came up to me recently after an AGM and hugged me and it felt good!

WHAT WORRIES YOU?

Many things worry me, including the connectedness of financial markets, the "instant-ness" of information flow, the layer upon layer of derivatives, ETFs etc. Markets and banking are interdependent. It feels like regulatory control is a few steps behind the innovativeness of markets. There could be trouble ahead because of this – I have sympathy with Warren Buffet's view that derivatives are weapons of mass destruction.

HOW DO YOU RELAX?

I have become a MAMIL... a middle-aged man in lycra! I used to play a lot of racquetball and squash but my knee is shot. Cycling is alright though – it's low impact. So my friends and I charge round a 25km circuit around Edinburgh and end up at a pub for a couple of pints.