

Talking being a contrarian investor, multi-asset funds and karate with Richard Romer-Lee, Square Mile



TALKING WITH

Nick Mustoe



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HOW DID YOU GET INTO THE INDUSTRY?

My economics teacher at school taught me about the stock market, which got me interested in investing. At university I regularly lost my grant money by making poor investments, but I still really wanted to be an investor. When I graduated I joined a company called Phillips & Drew. Back in the 80's you started early in terms of actually managing small portfolios, so I did that within a couple of months of joining the company. I had a tremendous experience.



DOES SHORT TERMISM CREATE ADDITIONAL PRESSURE?

Human nature is that we always want immediate results. Pressure is always on a fund manager whose performance is visible daily – there is no escaping from the data. But the secret is how you handle it. Focussing on what offers the right opportunity and the right return – and not worrying about the fashions of the market – that's the key thing.

WHAT KIND OF INVESTOR ARE YOU?

I learnt right from the start to be contrarian. Always questioning what is the consensus today and what everyone else is excited about. You're always conditioning yourself to look at other things and to question where the enthusiasm is and whether it is right.



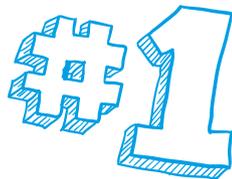
CAN YOU GIVE US AN INSIGHT INTO YOUR ROLE AS CIO?

I love investing but I also love managing investors. It might sound strange, but I see the two going hand in hand because you are investing in people and you are trying to spot the new talent. Doing that is very rewarding. I spend a lot of time with people to actually understand how they invest and to do the right things at various stages and help the fund manager to get the very best out of what they are doing.



WHAT MAKES A GOOD FUND MANAGER?

The best investors are humble. As soon as you feel confident, the markets have a habit of punishing you. You also need the ability to make a decision and to learn resilience. You have to have an emotional strength that keeps you going when you make investments – good and bad.



WHAT'S THE BEST ADVICE YOU HAVE BEEN GIVEN?

Find a good mentor that can help you and understand where you're going wrong. Being an investor can be a very lonely place and having a good mentor is really important. There were quite a few mentors at Phillips & Drew, but Tony Dye stood out for me because he was such an inspirational stock picker and investor.



IS BEING A CONTRARIAN INVESTOR MORE DIFFICULT?

Absolutely. You have to believe that the analysis you've done, the process you're following and how you'll invest will work. There are moments when you wake up in the morning and wonder, 'am I missing something?' You just have to live through it.



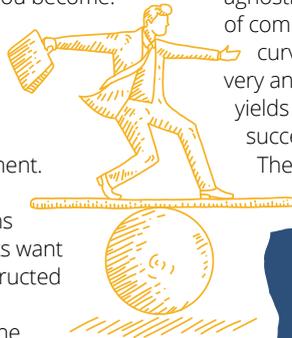


WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING OUT IN THEIR CAREER?

Contrarian is not the only way. Find what type of investor you intrinsically are and stick to that. Work with good people because in the early days they will shape who you become.

WHAT CHALLENGES DO YOU SEE FACING THE INDUSTRY AT THE MOMENT?

There is a lot of pressure on active management. That will change as it has a key role to play. An active manager can exploit valuations gaps, and also protect portfolios. What clients want from their portfolios and how they are constructed is also a challenge, moving away from just components to more solutions. At Invesco, the solution-based and multi asset products have grown as a proportion of our business.



WHAT WORRIES YOU ABOUT MARKETS?

The amount of money that has gone into some of the growth sectors. It has been valuation agnostic. Secondly, just a little bit of complacency about how interest rates, inflation and the fixed income curve could change over time. Everyone has become very set in feeling very anchored by the valuation levels we've had and so interest rates and yields look too low and there's a danger because those areas have been successful investments and there is a lot of money in those areas. The opportunity is finding the real valuation opportunities elsewhere.



DO YOU THINK PEOPLE CAN STILL MAKE SENSIBLE GOOD MONEY?

It's a tricky environment. We've had Trump's tariff situation and weakness in some emerging markets. Plus we've had a lot of volatility in the last year. But there are still opportunities. The growth outlook in general around the world is still positive. Earnings from companies are still positive. The key thing is looking at the markets and sectors that offer the big upside. The valuations are very wide and there is a big opportunity if you invest in one of those cheaper sectors.



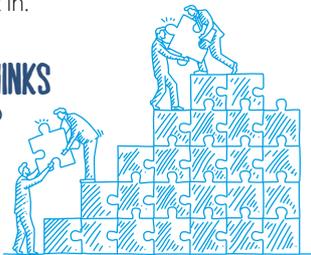
HOW DO YOU MANAGE YOUR MULTI ASSET FUNDS?

Our new Summit range is risk adjusted – there are five products going from low to high risk. Although there are 800 funds to choose from it only boils down to 30 or 40 that I invest in. It's a blend of asset classes so equities and fixed income, but also alternatives. There's

also a blend between active and ETFs so I can put together a good risk adjusted portfolio that gives exposure to a broad range of different types of return. I find that the process I have works and distils down my choice of funds I want to invest in.

DO YOU THINK THE INDUSTRY THINKS ABOUT RISK IN THE RIGHT WAY?

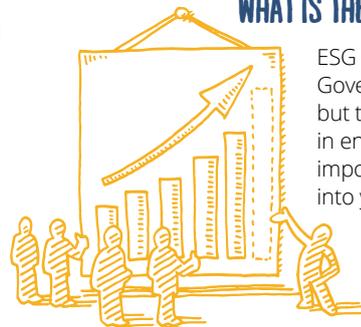
Giving end investors different solutions that enable them to match what their risk tolerances are to the ultimate product is something I think we are getting better at. People look at their long-term savings and pensions and understand whether they are a higher risk or a lower risk investor. We're all becoming much more sophisticated in terms of how we actually communicate that and how we create products that align that.



WHAT IS THE IMPORTANCE OF ESG INVESTING?

ESG will become mainstream investing. Governance is always really important but the risk factors and opportunities in environmental and social issues are important too. You have to weave ESG into your fundamental investment approach and really understand the businesses. It's not so much exclusion, it's more about

understanding what a business is doing in those areas and then engaging with them to improve it. Those two things go hand in hand and make it more likely that you can improve the returns you make and make a positive impact.



WHAT EXCITES YOU ABOUT MARKETS?

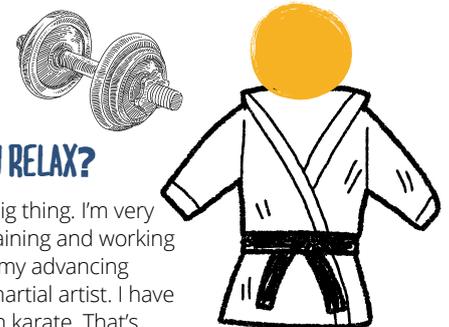
There are a number of sectors around the world which have underperformed in the last few years. With this huge focus, particularly on technology in the US – the FANG stocks – a lot of sectors have largely been ignored. There is a big store of value to be unlocked in some very big sectors. Particularly things like financials, as a lot of the big banks have underperformed. There is quite a valuation gap between the sectors that have worked and the

sectors that haven't, which creates massive potential. Coming off the back of a decade of ultra low interest rates and QE, we have had many market distortions created by investors wanting to find a little bit of income or a bond alternative. As we get a change in regime, with rates and inflation going up, what has worked in the past and what works now will be very different. There is a big opportunity if we are on the right side of that.



HOW DO YOU RELAX?

Sport is my big thing. I'm very much into training and working out. Despite my advancing years, I'm a martial artist. I have a black belt in karate. That's how I unwind.



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