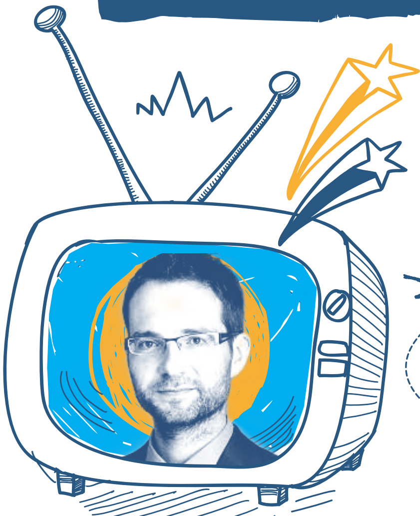
September 2018 - 044

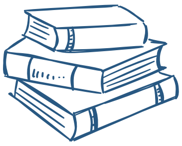
TALKING WITH

Alex Wright

Talking value investing, Brexit and travelling with Alex Wright, Portfolio Manager, Fidelity International with Richard Romer-Lee, Square Mile



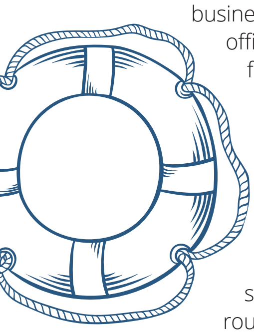
Portfolio Manager, Fidelity International



HOW DID YOU GET INTO THE INDUSTRY?

I wanted to be a fund manager from the age of 12. I am not sure I knew what one was, but my grandad dabbled in shares and badgered my parents to buy me some F&C Investment Trust shares – he liked its history. I thought it would be a great job and career. I had a great economics teacher, which fuelled my interest. But it wasn't easy to find work. I did an internship with Prudential in the Defined Benefit Pension Administration Department, which was about as close as I could get. I applied for loads of jobs and was lucky enough to be offered one by Fidelity. It was my first job and I have been here since 2001.

WAS IT EVERYTHING YOU THOUGHT IT WOULD BE?



Yes! Partly as Fidelity is a good company and the initiation process has a good structure. I spent four weeks in Dartmouth on a business bridges course and two weeks in the Boston office. I was given a sector to cover on day one, had my first company meeting on the first Friday, and within a month had written a company note and made a recommendation. Within three months I was the lead on the sector and the go-to person on those stocks. It really was a case of being thrown in at the deep end. I covered building materials, alcoholic beverages and leisure and emerging markets banks. They were three very different sectors and provided a good grounding for a rounded approach.

WHEN DID YOU BECOME A FUND MANAGER?

On 1st January 2007 – I was a roving generalist with a UK mid and small cap focus and saw a multitude of sectors. Then in June 2007 I started to run a pilot fund, which became the UK Smaller Companies on 2nd March 2008.

WHAT DREW YOU TO SMALLER COMPANIES?

I always found it easier to find an edge in medium sized and smaller companies. With very large companies, it's difficult for anyone to fundamentally change a company. Sectors come into and go out of favour and it's harder to find the standouts amongst the change. Further down the market cap spectrum, one can find companies with dramatic change potential.

HOW DO YOU FIND AN EDGE?

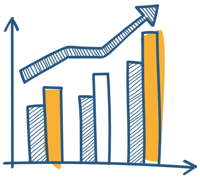
When I came into the industry, you could get an edge from talking to companies and investors. Now almost all investors meet companies, so you need to go beyond that by talking to their customers, competitors and consultants too. Experience now enables me to recognise patterns in a turnaround situation which will change the market's perception of a company. If you can look further ahead, the market is very good at discounting what will happen in the short term – over 6-12 months. But it struggles beyond that.

WHAT MAKES A GOOD FUND MANAGER?

That's a difficult question as there are lots of different types of fund manager. You need to be self-aware and acknowledge what you can do and not try to do something else. You need to have strong views and conviction yet be open to challenge and notice change – you can be wrong. As a contrarian, value investor – which I am – you are always being told you are wrong! It's a funny profession – as a doctor or lawyer for example, you get most things right. In fund management you get loads of things wrong. My 'batting average' is 47% - so I need to continue to learn.

To read more Talking Withs visit squaremileresearch.com/Insights/Talking-With

WHY DID YOU CHOOSE CONTRARIAN VALUE?



We have a fund manager academy, which is run by Tim McCarron, John Stavis and Sanjeev Shah. It helps you understand what kind of stocks work for you and what kind of fund manager you want to be. I felt most comfortable with value contrarian and it was working for me. The advantage of being a value investor is when I do get things wrong, I tend to lose less as stocks are already cheap. It is important to be careful about leverage – how much is supportable or covered by assets – how does working capital work when revenues are falling?

DO YOU THINK THE INDUSTRY STRUGGLES TO GAIN TRUST FROM CONSUMERS FOLLOWING THE FINANCIAL CRISIS?

The media tends to only report on bad days in the markets - they don't publish many success stories. Therefore the perception is that investments are for rich people, risky and expensive. With the passage of time, more transparency, more professionalism and being more shareholder and customer friendly, this should be corrected.

WHO DO YOU LOOK UP TO?

Joel Tillinghurst – who runs the Fidelity Low Price Stock Fund for our sister company FMR. It's the world's largest small cap fund – at some $30bn in size – using a value approach. It has a phenomenal track record. He has some 2000 holdings and knows them all. I have also found it useful to read books written by famous investors – for example Jim Rogers (from a human behaviour perspective), Warren Buffet and Benjamin Graham.

WHAT CHALLENGES DOES THE INDUSTRY FACE?

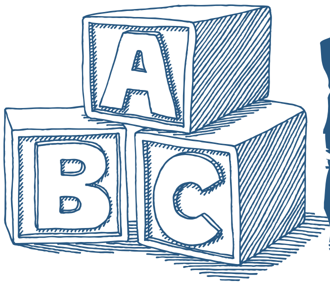
Over the last 10 years, there has been a massive rise in the use of passive funds – and that's clearly a challenge. Why has this happened? A combination of cost and markets going up – led by large companies in the US. Active management hasn't added much. It has been less the case in the UK – but UK investors have been investing more globally. I see good news in this, as the amount of money invested in passive, trend following, smart beta strategies has led to lots of mispricing opportunities.

HAS THERE BEEN A SEMINAL MOMENT IN YOUR CAREER?

There have been an awful lot of big events. My first day in the office was on 10th September 2001 – the terror attacks on the twin towers happened on my second day. The effects on managing money in the aftermath of Lehman's was another memorable time – it was bad even though we did relatively well, or rather less badly. The volatility following the EU Referendum resulted in a fund losing 700bps relative in 2 days which was painful. I didn't expect the no vote, but I was aware of the risk.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE SETTING OUT AS A FUND MANAGER?

It is an ever-changing job and you will always be learning. It's important not to rush it as you can be overwhelmed by the number of companies and amount of information. Be an expert on small things, on what you need to know, and know what not to bother about.Tune out the noise and talk to lots of people to get different viewpoints. You can then work out what you are good at.



SHOULD INVESTORS BE WORRIED ABOUT BREXIT?

Whilst the UK stock market isn't the UK economy, the vote has had an effect in that growth has gone from one of the fastest in the OECD to one of the slowest. Uncertainty and FX moves affect consumers. Predicting how the process plays out is a mug's game but understanding the context for companies is important. My portfolio was overweight the UK economy before the vote – it is now much less so.

WHAT EXCITES YOU ABOUT MARKETS?

There are always exciting individual company stories and opportunities, whatever the market conditions.

WHAT WORRIES YOU THE MOST ABOUT MARKETS?

They have had a great run – the bull market is 10 years and counting – average returns of 10% over the last 5 years. It's been a golden decade. Investors' expectations, however, should be lower. While profit margins have been high and growth has been good there are still legacies from the financial crisis in the form of absolute debt levels. In the west, it is not much worse but it certainly has not gone away. In the east, however, there is considerable leverage, for example in China. I can't see a catalyst for it being a problem, but it is still a risk.

WHAT'S THE BEST LESSON YOU HAVE LEARNED?

Graham Clapp gave me good advice – the number one rule is not to make mistakes; the number two rule is to admit them when you do. As a fund manager you will make horrendous mistakes. I made a big mistake with a Turkish bank, Yapi Kredi – which lost 40%.

HOW DO YOU RELAX?

It's a full-on job and I have three kids – that keeps me busy. Although I am pretty average I play for the Fidelity 5-aside football team, called the Special Situations...Anthony Bolton was the initial sponsor. I have always been a fan of travelling and was lucky enough to have a 6-month sabbatical in 2005 during which I went round the world.