

# TALKING WITH

Talking value investing, love of reading and chess with Alastair Mundy, Portfolio Manager, Investec Asset Management and Richard Romer-Lee, Square Mile



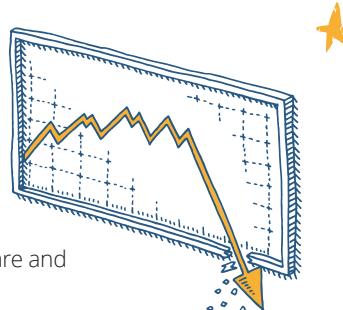
Alastair Mundy

Portfolio Manager  
Investec Asset Management

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## HOW DID YOU GET INTO THE INDUSTRY?

I was studying for an actuarial science degree and realised I was not clever enough to be an actuary, so I needed a plan B. I graduated in 1987 - the year of the Black Monday stock market crash - when asset managers abandoned the milk round. I called every fund management company listed in the back of the FT. Commercial Union had a desk spare and I joined as a gilt analyst.



## HOW DID YOU BECOME A FUND MANAGER?

With gilts there is only one decision to make - am I bullish or bearish? I found it shockingly boring, so much so that I decided to study for an MBA. I needed a reference and went to the head of equities, who was the chair of the Society of Investment Analysts, to get one. He suggested I become an equity analyst, so I did. Chris Burvill then left to join Guinness Flight, Clive Beagles had been picked to do something else so I was the only choice to take over as a fund manager. I had no idea what I was doing. Can you imagine that happening now?



## WHAT MAKES A GOOD VALUE INVESTOR?

Independence of thought. A willingness to act alone. Being comfortable in yourself. The ability to admit defeat and realise you have been stupid. Self-confidence and yet humility. Fund managers are performing seals - they always have a trick. Otherwise you are an indexer. But the next one may not be as good. You may have just been lucky. Back to that self-awareness. You need to be able to accept you will make a lot of mistakes. Perhaps accountants don't always make the best fund managers as the numbers don't always add up.



## WHAT WERE THE ESSENTIAL INGREDIENTS IN BUILDING YOUR TEAM?

Everyone has to have the contrarian DNA - it's more important than intelligence. Then the willingness to have independent thought. At the same time you need debate in order to be able to make decisions. As a team, we try to destroy our own ideas and thus we need to trust each other, as we are constantly trying to pull apart each other's work. Trust builds over time so it helps to have long servers, though new people help to keep things fresh.



## VALUE INVESTING CAN BE A BUMPY RIDE. DO YOU GET HEAT FROM ABOVE?

You want challenging support. Our management understand what we do and are more concerned about style drift than underperformance - which you'll get plenty of - to make sure we are true to what our clients expect.



## WHAT'S THE SECRET OF INVESTEC'S SUCCESS?

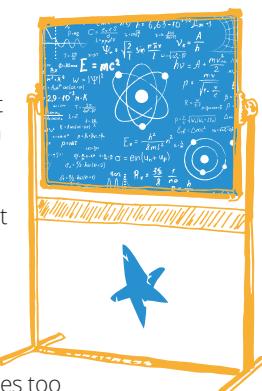
I've been here so long I have become institutionalised. They have backed a number of teams and approaches. It's a good recipe and then get the sales team behind you. Although I have only worked for two companies, there is definitely something dynamic about the culture here which is a long way from that of a sleepy life company.





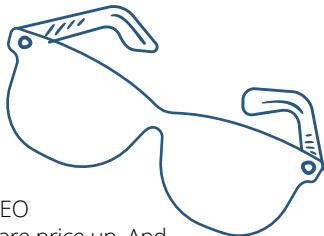
## HOW DO YOU SPOT THE UNLOVED STOCKS YOU DECIDE TO BACK?

There's no specific formula that works. How do you define value traps? Each factor is subjective. You can't measure quality of management quantitatively. How much is too much debt? It depends. Who really knows if a company is in structural decline? Having a framework is important. A lot of what we do is down to experience. The majority of value stocks go down. But value investing works. Our strike rate is good. Our biggest weaknesses are that we don't run our winners for long enough and sometimes it takes too long for our investments to come good.



## WHY DON'T YOU VALUE MEETING COMPANY MANAGEMENT?

Their views on the future are often far too rose-tinted, buoyed by the optimism of a CEO and influenced by wanting to keep their share price up. And obviously they are restricted in what they can tell you. We use company meetings to try to piece together the past rather than the future.

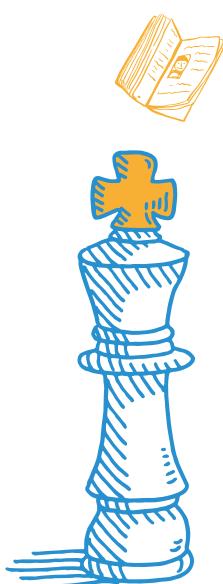


## HOW DO YOU DEAL WITH EXTENDED PERIODS OF UNDERPERFORMANCE?

You feel embarrassed, but history says those are the times we are most likely to perform. Getting the message right at these times is very challenging, but we do tend to get the best questions and challenges from clients when the going gets tough. But actually, our clients really understand what we do as value investors. Perhaps the bigger challenge is that there is more momentum in share prices at the moment, which has extended the current period. Yet it should also provide more opportunities.

## DO TECH DISRUPTORS THREATEN MEAN REVERSION?

A lot of stuff doesn't mean revert. Don't mistake the bottom of the page with the bottom of the chart! There has always been disruption, it's everywhere. Emotions – greed and fear – have always driven markets. I see a greater challenge – if the forces of capitalism are greater than ever, it's harder to justify investing in companies with higher P/E ratios.



## WHAT'S THE BEST ADVICE YOU HAVE BEEN GIVEN?

Most of the good advice I have come across I have read in books.



## WHAT PROMPTED YOU TO WRITE YOUR BOOK – "YOU SAY TOMATO"?

It was a collection of my monthly essays on bits of interesting information I wanted to remember. It was essentially marketing to myself. The irony is that just after the book was published, compliance stopped me writing any more essays.



## WHAT BOOKS WOULD YOU RECOMMEND?

There is a list at the back of my book, but it really doesn't matter what you read – as long as it is non-fiction. If you read 25 books a year for 20 to 30 years, you should be able to pick something up. At the moment I am reading Endurance: Shackleton's Incredible Voyage and I want to read Sir Alex Ferguson's autobiography. I remember reading about the last days of EMI when the share price was tanking and about how an analyst wrote a note saying why that was happening. The rationale was convincing. Then Guy Hands stepped in and paid way in excess of the share price to buy the company. It reminds me that share prices can move for all sorts of different reasons.



## WHAT DO YOU MAKE OF THE GLOBAL FINANCIAL CRISIS?

We might only be halfway through. During peak levels of QE, everyone who provided it said it was a temporary measure. Until they've reversed it, anything can happen.

## WHAT DO YOU DO OUTSIDE WORK?

I play lots of chess online – on RedHotPawn.com. I played 250 games for Cascaid last year. Chess at my level is about heuristics – rules of thumb – so it's always fun to confuse opponents by throwing some crazy moves. I was playing 100 games simultaneously. I also watch as much cricket as I can. It's a game that is all about numbers, is fantastic for trivia and is steeped in history. I like the fact that you can play for five days yet still draw.



## WHAT SUSTAINS YOUR DRIVE AFTER OVER 30 YEARS OF INVESTING?

I am evangelical about value investing. I want to prove we can do it and not to be in the relegation zone.

