



TALKING WITH



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Talking green bonds and inflation with Campe Goodman, Fixed Income Portfolio Manager at Wellington Management and Richard Romer-Lee, Chief Executive Officer, at Square Mile.

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HOW DID YOU GET INTO THE INDUSTRY?

A combination of knowing what I was interested in and a lot of luck. I went to graduate school to study economics and put off figuring out exactly what I wanted to do in the field. When I was there I met someone who worked at Wellington who set me up with a summer internship – I was the first fixed income intern Wellington ever had – it was 1999. I must confess to spending several years at MIT in a doctoral program but eventually dropped out. I looked at a number of jobs, but Wellington it was, and I have been here ever since.

WHY ECONOMICS?

Economics uses maths to explain how the world works, albeit with varying degrees of success. It does a decent job in some areas of explaining complex systems, how people make decisions and dealing with scarce resources – though in other areas you need to take it with a pinch of salt. Fixed income investing does a better job of using economics than equities – there's a natural and logical progression to it.



WHY WELLINGTON?

It's a good place with supportive people who are willing to help. That's endorsed by those who join the business from others. We collaborate – an ethos that pervades the company and how its people behave. I have spent my career looking across the different parts of the markets and have been able to do so using my macroeconomic background, which has kept me learning – and makes up for not having worked in trading or on Wall Street.



WHAT MAKES A GOOD FIXED INCOME FUND MANAGER?

There are certain characteristics that make a good investor. Being a clear thinker and being able to identify the things that matter from the huge amount of information that's out there. You should also be a little bit stubbornly independent – the best decisions are often made when one looks at things differently to others. It makes us a bit peculiar.

Within fixed income, at Wellington we are quantitative as there is an aspect of problem-solving about it. Being passionate helps. Fixed income investing is about taking the right level of risk to get a return. We tend to be more cautious and analytical than those who operate in the higher returning parts of markets – equities and private equity – a lot of whom are focused on taking a lot of risk to get a lot of return. It's important to work in the right environment and for a team to comprise diversity of thought and trust among its members.



WHAT'S THE ROLE OF FIXED INCOME IN PORTFOLIOS FOR THE NEXT 10 YEARS?

Fixed income provides liquidity and safety during times when risky assets are struggling. It has significantly less volatility than equities and tends to hold up quite well in times of stress. A great example of this was in January 2020 when many people were saying rates were too low and there was no way it would do well at times when risk was off. Yet two months later stocks were selling off, it looked like the world was ending and you couldn't hold enough fixed income at that point.

I get really fired up that people are saying fixed income has had such a horrible year. The first quarter of 2021 was a terrible quarter for fixed income, historically one of the worst – yet in that "horrible" quarter most core portfolios were down 3-4%. In a bad quarter for equities, they could be down 15% or more.



WHAT LEVEL OF RETURNS SHOULD INVESTORS EXPECT?

It's a bit depressing from a high-quality perspective – perhaps 2 to 3% over the next few years, maybe 1 to 3% in Europe. And lower quality fixed income, perhaps 4 to 6%. However, that's in the context that we will be lucky to get 5% out of equities, many parts of which, particularly the US, are expensive.



WHAT EXCITES YOU IN MARKETS?

The best value is in emerging markets – hard currency debt issued by corporates. I am perennially excited about floating rate loans, also called leveraged loans or bank loans. They're not glamorous, but have good yields, don't appreciate much in price and have surprisingly low volatility even though they have below investment grade ratings. Granted every now and then they suffer with terrible mark-to-market periods, but they have historically had very high recovery rates (low losses) when they default.

WHAT'S YOUR INFLATION OUTLOOK?

It's going to be high over the next year or so and then come down. Transitory versus longer-lasting is a false dichotomy – we know that it isn't going to stay this high forever. The real question is will it come down enough to be in the 1.5% to 2.5% range. I suspect it will stay at the higher end as it has worked its way into so many goods and services, in particular housing and other shelter components, which are big parts of the inflation baskets. Even if we work through the supply shocks and get goods prices under control, we still expect to see somewhat persistent inflation through wages and through shelter.



It's not all bad if it's a little higher – it's been too low for the last 10 years.



WHAT DO YOU THINK ABOUT GREEN BONDS AND INVESTING RESPONSIBILITY?

My philosophy in managing assets in green bonds is they are nice to look at, but you really have to look beyond them at the underlying issuers to find where the values are. Sometimes they are in green bonds and social bonds but more often they are not. There's a premium in green bonds on average in Europe, but not in sustainable investing.



In our impact bond approach, we are looking for issuers who are trying to address a major world social or environmental problem through their core goods and services. In what we call sustainable investing, which is a broader approach, we are seeking to invest with either impact issuers or issuers who are trying to address a major world problem through the way they do business.



WHAT ARE YOU WORRIED ABOUT IN MARKETS?

If I am wrong about inflation, it gets out of control and there's a bond bear market. That and all the suffering that would bring.



WHAT'S YOUR VIEW ON CRYPTO CURRENCIES?

They're not my thing! I am not a currency investor. My advice to my friends who ask is to be very careful.



WHAT ADVICE WOULD YOU GIVE TO YOUNG PEOPLE STARTING THEIR CAREERS?

I already do this as I am no longer a younger person! Find a great mentor who will take the time to give you feedback and learn from them. They don't have to be the biggest name, at the fanciest firm or have the biggest paycheck. Feedback really is a gift – and when receiving it, don't get defensive, listen and say thank you. Most of the time people want to help you. You can learn so much. I did a lousy job at receiving feedback for a long time.



WHAT MARKET LESSONS HAVE YOU LEARNED?

I have been through two tough periods in markets. My first couple of years – from 2000 to 2002 – were horrible for risk assets. Over this time, the person for whom I worked – L.T. Hill – experienced a period of underperformance and I watched him handle it with so much grace and it was only in retrospect I realised just how tough it was. It was admirable how good he was at explaining what he was doing and why to investors. I have always tried to remember that.

Later, in the financial crisis, I learned you have to stick with things you believe in – if you sold out, you were dead. But also, the people who did the best were those who had lower risk going into the crisis. It's easy to underestimate the importance of risk. I could have managed the risk in my portfolios better and am always trying to.



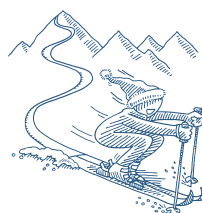
WHAT HAS PERMANENTLY CHANGED DUE TO THE PANDEMIC?

Flexibility and remote working are here to stay. We are learning how to communicate in so many ways. It's a really positive thing. You can get any speaker you want for events as you only need them for an hour – they can speak online – it's really cool.



HOW DO YOU RELAX?

I have three young daughters and spend a lot of time hanging out with them. My favourite daily activity is reading to each of them – they are old enough, 9, 6 and 4, so from Tolkien to Anna Hibiscus and Isadora Moon. I love to get outdoors, whatever time of year, hiking in summer and skiing in winter. I will drag two of the girls along – and carry the little one in my pack.



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