



TALKING WITH



Curt Custard

Chief Investment Officer
Newton Investment Management

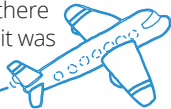
Talking technology valuations and travel with Curt Custard, Chief Investment Officer at Newton Investment Management and Richard-Romer-Lee, Managing Director at Square Mile.

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HOW DID YOU GET INTO THE INDUSTRY?



I was very lucky. I graduated from college with a degree in international economics, for which there are few jobs outside academia, at the height of the 1991 recession. I was managing a retail store when I got an interview for a three-month gig as an assistant to a head of fixed income. I flew from LA to San Francisco for the interview, which I thought didn't go well. I couldn't even work their computers. They offered me the role anyway and I had 72 hours to relocate. I ended up spending 10 years there at RCM Capital on the global fixed income desk – it was the closest I could get to the macro.



HOW DID YOU END UP IN THE UK?

At RCM I was envious of the Europeans who had taken a gap year. Having gone straight from college to work, I decided, aged 30, that I wanted one. On the flight from San Francisco to Cairo I was an emotional wreck, having left a promising career. I got lucky when Dresdner – who had bought RCM – got in touch with a job offer to work in London when I had finished my travels.



WHY DID YOU SWITCH FROM RUNNING PORTFOLIOS TO MANAGEMENT?

It's a different kind of problem-solving with the mix of personalities and team structures. I really enjoy it – I am a frustrated engineer at heart. When moving into management you have to acknowledge it's a new domain and ask yourself if you will enjoy it. It's not for everyone. One of the greatest mistakes in our industry is when people conflate managing portfolios with the management of people. It has blown up organisations and funds as they are very different skills and need very different decisions.



WHAT IS YOUR ROLE AS CIO?

I act as a foil for investors – part of my job is to ask difficult questions. I look at processes to make sure they are robust and advise on team structure. To understand psychology – behavioural finance – it is important people have frameworks in place so they don't fall foul of the many human biases, such as overconfidence.



HOW DO YOU MANAGE FUND MANAGERS?

You have to remind them of the environment they operate in – they can become myopic in a dynamic world and feel they have become good at something which will solve everything. The reality is it won't. It's important to encourage constant improvement. But I don't tell them how to manage money.



WHY IS DIVERSITY SO IMPORTANT IN PORTFOLIO MANAGEMENT TEAMS?

The goal is for cognitive diversity. If everyone thinks the same way, you may be able to build a really cool thing but it will be fragile. LTCM's demise was a classic example of this. With proper diversity there will be much greater input and challenges. Nowadays our client base is far more diverse and how one talks and does business with clients is different for different cultures. It differs in Stockholm from Madrid, in Seoul from Tokyo, in Atlanta (which is full of successful businesses) from New York. I remember at a former employer we lost a pitch in San Francisco because a European was too formally dressed by Californian standards.



HOW DO YOU GO ABOUT ENSURING YOU ACHIEVE DIVERSITY?

It's hard and I don't know why. It's partly down to too many people muddling wealth and worth. If you are rich, it doesn't make you brighter and smarter – you could just have been lucky. It is changing though. Just look at recent events with Reddit and Robinhood where a bunch of hedge fund managers got smacked.



WHAT ADVICE DO YOU GIVE TO NEW FUND MANAGERS?

With the benefit of hindsight, the most important skill is humility. The moment you think you know more than the market – when you think you have found the secret sauce – is when things will go wrong. Managers tend to start out humble, but that can change with a few good years. It takes a long time to become good. Keeping an open mind is also important.





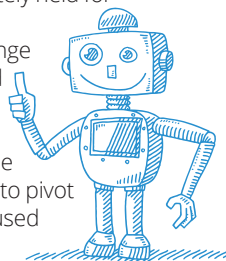
WHAT HAS CHANGED SINCE YOU STARTED IN THE INDUSTRY?

Markets are manipulated much more by governments today. It used to be the real economy that moved markets. Now governments are using markets to move the real economy. It persists because there is a mismatch between the objective function of central banks and the tools they have and the political wherewithal in legislative bodies. The US Fed seeks maximum employment and stable prices – goods and services, not financial assets. They can encourage financial repression to stimulate the real economy, but this creates incredible inequality between those with assets in the financial economy and those without.



HOW SHOULD ONE VALUE TECHNOLOGY BUSINESSES?

That's hard. Firstly, what is a tech business? Is BNY one? Its IT budgets are huge. Technology is not just about semiconductors and software. It's so much broader – and about the potential for disruptive change. Companies can be hard to value though. They are often privately held for longer and come to the market much bigger. People can underestimate their ability to change things. How long ago was TikTok formed? And it transcends so many, if not all industries. It's important to focus on adaptability – such as the pace of change disruptors often become disrupted only too soon. Are companies able to pivot as the future presents itself? Take Netflix – it used to mail DVDs.



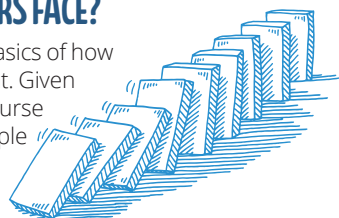
WHAT DOES AN ASSET MANAGEMENT BUSINESS NEED TO DO TO SURVIVE AND THRIVE?

Understand its role in society, look after stakeholders and translate what it does into language investors can understand. Fund managers need to understand the dynamics in the market that have changed. It's tough – if you are a value investor, what are you to do? How do you ascertain a dividend discount model when the discount is zero? You could be, and have been, waiting a decade. It's hard for this industry to change – people don't like change, especially to investment processes – and if you do tweak what you are doing, is it considered improvement or change? And yet iPhones update their software every few weeks and nobody bats an eyelid.



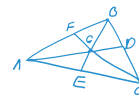
WHAT CHALLENGES DO INVESTORS FACE?

Many people do not understand the basics of how financial markets work. It's so important. Given a chance I would mandate a finance course at school. It worries me how many people are playing with their life savings.



WHAT'S THE MOST EXTRAORDINARY THING YOU HAVE SEEN?

Climbing Mera Peak in Nepal which is well over 6000 metres high. The air is pretty thin and it was quite a thing.



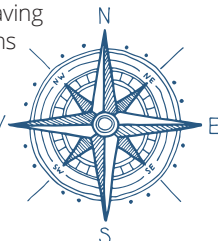
HOW IMPORTANT IS ESG AND RESPONSIBLE INVESTING?

We have always considered ESG factors – it's finance 101 – a fundamental consideration when analysing how a company is run. But it is capturing the public's eye, quite rightly. Climate change is real – the 'E' factor will be a big deal. Companies have an obligation to take all stakeholders into account – their customers, employees and shareholders. The smart companies get this. Investors are also becoming more interested in the societal impact of their investments. I am a passionate believer that investing responsibly has a positive effect on long-term performance.



WHAT ARE YOUR INTERESTS OUTSIDE WORK?

Travel is a personal passion. Before joining Newton my wife and I took our then 18-month old daughter and 3-year-old son on an 11-month trip across Africa and Asia. It was an incredible experience. What strikes me, having visited 78 countries, is that different nations have much more in common than people think. I love to cook. My signature dish is slow cooked spareribs – my kids would eat their body weight given the chance. If I'm in the US I cook French food so beef bourguignon would be on the menu.



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