TALKING WITH

Talking equities, markets and playing the piano with David Cumming, Chief Investment Officer, Aviva Investors and Richard Romer-Lee, Square Mile

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HOW DID YOU GET INTO THE INDUSTRY?

Markets have power - more than people imagine. So when I left university, having read economics, I joined Royal London. I was more interested in macroeconomics than companies at the time, as well as economic strategy in less developed countries. That was in 1983 and I placed my first trade within 3 weeks of joining. That wouldn't happen nowadays. I ran my own fund - a UK income fund - at Edinburgh Fund Managers a couple of years later.

WHAT'S YOUR 10-YEAR VIEW ON THE ATTRACTIVENESS OF EQUITIES?

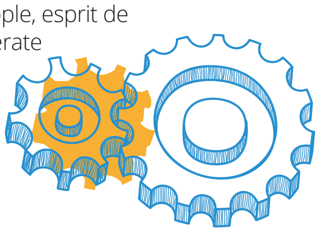
It's a good place to put your money - there should be decent returns. I don't foresee a capitalist dynamic change. There will always be challenges in terms of politics and other risks - and there will be a downturn. But equities are very cheap versus bonds and the cheapest they have been in cash terms for 100 years. UK and European equities are also extremely cheap versus the US. The UK is cheap partly down to Brexit, but we will eventually get past this. The FTSE 100 is down in dollar terms since 2000 and people are underweight. This will eventually change. Most companies in the FTSE are global and there are still growth engines in the world - the US and China, for example.

WHAT MAKES A GOOD EQUITY FUND MANAGER?

Being emotionally dispassionate and being aware of, but not involved with, the crowd. Be logical, analytical and cold. Given the volume of information out there, direct contact with companies is where I get a competitive advantage. I have always met with as many companies as possible. Be prepared for meetings, analyse the key issues and come away with an angle against the consensus. By doing this over and over again, you will load the dice in your favour.

WHY IS A RESEARCH TEAM SO IMPORTANT?

It's not just about being bright, analytical and individualistic. With the right structure, people, esprit de corps and peer group review, you will generate better ideas, make better decisions and deliver better outcomes for your clients.



AFTER MORE THAN 30 YEARS IN MARKETS, WHAT SUSTAINS YOUR DRIVE?

I am competitive. I want to beat the market, outperform the competition and meet companies. I still feel I have things to prove. I have a reasonable degree of self-confidence and a fear of failure. I like to build something and then win business. Plus I really enjoy it.

WHAT CHALLENGES DO SHRINKING PUBLIC MARKETS PRESENT FOR INVESTORS?

It can be quite difficult to invest in equities. It is easier for many companies, such as insurance companies, in the wake of Solvency II to issue bonds. Regulation is not making it easy for people to invest, and it's not particularly good for the economy as we should be allocating capital, not just lending money. I am not a big fan of private equity. It's not great for companies as it's about gearing up, short term-ism and taking cash out. There is moral hazard in how they operate. It's not great for what the German's refer to as Mittelstand - the medium-sized companies. I am a believer in having good equity markets supported by good asset management. It's a pity public equity markets have shrunk, although I am not sure it will continue. One challenge is that a more global focus for investors means less focus on individual markets. It's not great for the UK equity market.

WHAT'S YOUR VIEW ON THE RISE OF PASSIVE FUNDS?

They are obviously a threat as they have been winning. In the US, for example, which has seen a few companies drive the market up, unless you have been invested in them, you have underperformed. They have also created fee pressure. But, this creates opportunity for active managers, despite the air of defeatism. The fact is active management does work. If you have an edge you can add value. I am not a believer in the efficient markets hypothesis. And in a world where there is more macro, more systems, more quantitative investment processes which are underpinned by "the past equals the future", there is an assumption of more connectivity which just does not happen. There is no reason why active should not add value with a 3-5 year view. But you can and do get bounced around more in a world where there are more paint-by-numbers strategies.

WHAT SHOULD ACTIVE EQUITY INVESTING LOOK LIKE?

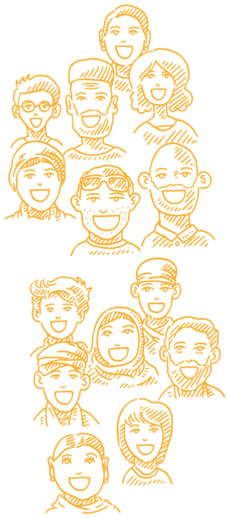
There must be clear blue water between active and the index. You need to be able to respond to changes in companies and in the market. Be a fundamental investor, contact companies, understand companies and that it's a different game, and extremely hard, to outperform every 12 months. We must try to make clients comfortable with the fact there will be periods of under-performance.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING OUT IN FUND MANAGEMENT?

The importance of being cold and dispassionate at the point of investment. Be enthusiastic, but with emotional control. Understand your companies, be forensic in studying their accounts and you won't be pushed around so much. There is a bigger information advantage at the micro level rather than the macro level. Both economics and politics can waste a lot of intellectual energy.

HOW IMPORTANT ARE ESG FACTORS IN INVESTING?

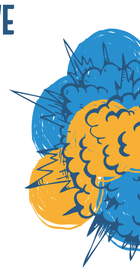
ESG is a big deal. I've always felt the "g" was important in making money. I like to see good chairmen and chief executives at companies, sensible board structures and incentives. It's useful to know how they are paying themselves as it can help to identify behavioural skews. The environmental and social side is changing, and has a bigger impact on institutional than on retail. But it is becoming more important to some people, how companies behave, sourcing and treating employees. I am not sure company bosses realise how much this has changed in the last five years. It is definitely on the rise as a value differentiator. In any event, companies with good board structures, who focus on staff welfare, with licences to operate and with good sourcing practices tend to be better investments. Those that don't get hit harder in adversity. Look at what has happened to some of the mining companies, for example.



HOW IMPORTANT IS THE OWNERSHIP STRUCTURE OF ASSET MANAGEMENT COMPANIES?

It's as much about the people and culture as the ownership. When that is challenged, it can lead to a high degree of risk. Diseconomies of scale can take place if companies or strategies become too big. It's important to feel you are able to make a difference. I disagree that you have to be bigger to survive. You can thrive in the middle with decent corporate access and decent structures. You do need a CEO who is an investor or who has a stake in the business, as it helps if they understand investing.

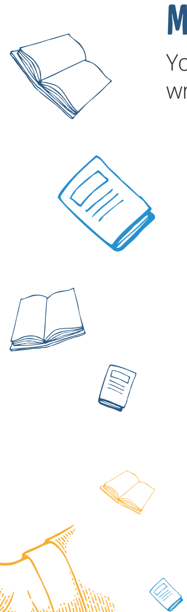
WHAT IS THE MOST EXTRAORDINARY THING YOU HAVE SEEN IN YOUR CAREER?



I have seen lots of companies going bust. It's always depressing when they do. I remember Polly Peck International in the 1980s - a FTSE 100 company that went bust, which is extraordinary to think of in today's environment. It was a classic case of check the accounting. Takeovers were often interesting, for example when Hanson Trust was bidding for London Brick, again back in the 1980s. They are less colourful today. Now there is more activist investing - maybe this signals that fund managers are not doing their jobs properly. We should all be activists. The most scary time was the banking collapse in 2008. I remember moving my money from RBS, which was in a grave situation, to HSBC. It coloured a lot of people as investors - but was actually a great buying opportunity.

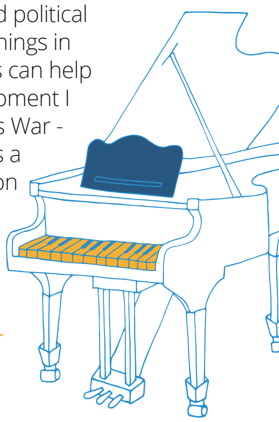
WHAT HAS BEEN THE SEMINAL MOMENT IN YOUR CAREER?

You tend to remember things that have gone wrong - I held too many banks in 2008.



HOW DO YOU RELAX?

I play the piano - both of my brothers are professional musicians so it's in the blood. I mainly play classical, but it depends on my mood. I read history and political biographies. It helps keep things in perspective and sometimes can help you make money. At the moment I am reading The Thirty Years War - which killed more people as a percentage of the population than the First World War. I also play golf, badminton and tennis.



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