



TALKING WITH



Hector Kilpatrick

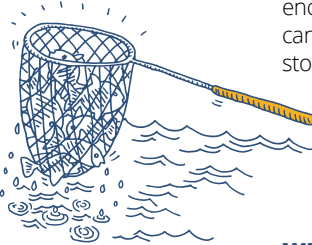
Chief Investment Officer
Cornelian Asset Managers

Talking contrarian instinct, promoting positive change and contemporary reading with Hector Kilpatrick, Chief Investment Officer, Cornelian Asset Managers and Richard Romer-Lee, Square Mile

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HOW DID YOU GET INTO THE INDUSTRY?

I grew up on a farm in Argyll on the west coast of Scotland. I started out as a fisheries manager for the National Rivers Authority in Wales. Within a year, I realised public quangos weren't for me. So I studied for an MBA with the idea of contracting out to the public sector – to provide services to the NRA. The course broadened my horizons and I thought about investment management. I saw a job advertised in the FT for a portfolio manager in Norwich and I thought the interview would at least be good practice. Being from Scotland, I wasn't sure about Norfolk – but I was offered the job and it would have been foolish to turn it down. I did my exams there and when they moved to London, I moved to Standard Life Investments.



WHAT MAKES A GOOD FUND MANAGER?

You need to have a contrarian instinct – the best place to make money is to position your portfolio away from the crowd. You need an inner self-belief – not arrogance – that you can have insights that will make money and not be distracted by the white noise created by people who are paid to get you to do things. You need to be able to change your mind and admit when you are wrong.



IS IT A TOUGH JOB?

Sometimes it feels like there is a higher power who is poised to pull the rug from under your feet when you are doing well. You need to care about performance – having sleepless nights can be a good thing. It is always difficult looking forward – and always easy with hindsight. Having a clear philosophy and process helps explain how you are doing.



IS IT HARD TO SWITCH DISCIPLINES, HAVING MANAGED EUROPEAN AND UK EQUITIES AND MOVING TO MULTI-ASSET?

Europe to UK was no big deal. In fact it was great fun as the way I analyse stocks and sectors transferred across well. It provided a free rein as I was able to offload 10 years of baggage. I would encourage people to switch and try different areas – you can add value by not having deep-seated views on specific stocks. I moved to multi-asset as I felt I could grow a franchise, especially at the time when the regulator was encouraging IFAs to do less single strategy fund picking. I did have to learn more about fixed interest and alternatives though.



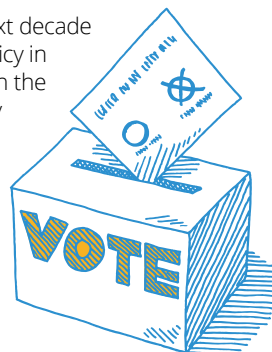
WHAT'S HARDER – EQUITIES OR FIXED INTEREST?

We have two elements to managing equities – direct for UK stocks and third-party funds for international equities. In fixed interest, it's gilts direct and funds for everything else. We have got the long-duration gilt dynamic wrong. We've continually challenged our position but believe long-dated gilts are mis-priced. The underperformance as a result of being relatively short duration in gilts has been difficult for us and lots of others – so I guess fixed interest is harder.



WHAT WORRIES YOU?

I'm concerned about the political outlook for the next decade or so. This adventure in extraordinary monetary policy in developed markets has created a huge gap between the haves and have-nots. Extraordinary monetary policy is now the norm, with more automation of jobs, environmental stresses which could lead to the cost of living going up and the electorate vacating the centre ground. These together could result in fundamental political change and a challenge for markets.



WHAT EXCITES YOU AT THE MOMENT?

The investment cycle has further to go. The impact of coronavirus probably elongates the up-cycle as policy makers respond with further liquidity provision.



WHAT'S THE MOST EXTRAORDINARY THING YOU HAVE SEEN?

When I worked at SVM, the office was above a branch of Northern Rock and we actually saw the run on the bank happening in real time. There were people queuing down the road. There was even some poor soul sitting on a chair, who was clearly very ill, being helped along as the queue moved. More recently, seeing the entire German bund yield curve turn negative was shocking in every way.

WHAT ADVICE WOULD YOU GIVE TO ASPIRING YOUNG FUND MANAGERS?

Get your exams, ask lots of questions, accept that you will be wrong some of the time. Learn lessons, forgive yourself and move on. Be visible – it's very easy to defer to more senior folk, but they want to know what you are thinking.



WHAT BIG THEMES DO YOU SEE FOR 2020 AND BEYOND?

ESG is here to stay. We have done lots of work to develop a greater understanding on the environmental and social factors. It's quite exciting how the investment management industry can help promote positive change in corporations.

2020

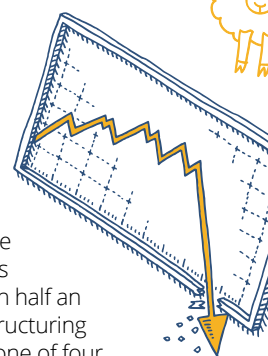


WHAT ARE THE CHALLENGES FACING INVESTORS?

There could be a real issue with RPI plus objectives with asset values having been bid up as far as they have. Can the industry still deliver real returns from these levels? My concern may be premature given there is probably further to go in the economic cycle, with the Fed keeping rates low despite unemployment at 50-year lows. If we are to maintain the RPI plus record through the cycle, portfolios will need to be unconstrained to protect capital in down markets.

WHAT'S THE BEST LESSON YOU HAVE LEARNED?

If you are part of the consensus, and you want to generate excess returns, you shouldn't be there. Stepping away from the crowd is gratifying if the crowd then move towards your position. I have made plenty of mistakes, probably the biggest of which was owning a stake in Jarvis, whose share price fell 80% in half an hour during which you couldn't trade it. It was a restructuring story which was heavily exposed to Network Rail as one of four suppliers, so the assumption was it would get its fair share of business. However, accounting issues were unveiled and that was that. One learns quickly in this game that you do not have a monopoly on wisdom. If you can look yourself in the mirror when reviewing the decisions that went wrong, with the information you had, and know you have made the same decision again, you are probably okay.



HOW DO YOU RELAX?

I have a smallholding – a few sheep, horses, hens and dogs – and have planted quite a few trees. I do enjoy looking after them. I like reading – at the moment I am reading *Scum of the Earth* by Arthur Koestler. It is one of many books I have found from Eland Books, who publish classic novels, usually about travel or culture, which have fallen out of print. They produce very few duds. It is about an anti-fascist Hungarian who fought in the Spanish Civil War, but was now witnessing the Germans invading France in 1941. It's a contemporary account about the fall of France. I wonder if the rise in populism we are seeing now has an echo with the start of fascism. I've always found it difficult understanding how fascism could come about, but perhaps reading books such as this help provide some insights concerning today's political pressures and the rise of populism.

HAVING WORKED IN BOTH FUND AND WEALTH MANAGEMENT, DO YOU SEE ANY DIFFERENCES IN HOW THEY INVEST?

I don't really see a distinction. Perhaps there is more of a focus on client outcomes and risk-adjusted returns in wealth management, and less on beating peers, which is certainly the case in the institutional world.

a focus on management,

