



TALKING WITH



Hugo Machin

Co-Head of Listed Real Assets
Schroders

Talking property and paddle boarding with Hugo Machin, Co-Head of Listed Real Assets at Schroders and Richard Romer-Lee, Chief Executive Officer of Square Mile

November 2021 - 084

HOW DID YOU GET INTO THE INDUSTRY?

I have been interested in financial markets for as long as I can remember. It might stem from my love of sport – I'm used to poring over results and statistics. I started following companies and their stock prices printed in newspapers each day. From there I was keen to understand why certain areas of the market and particular companies were doing well.

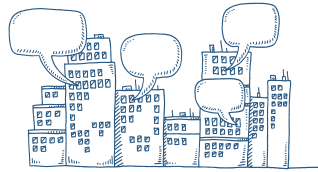


In 2000 I started as a junior analyst at ING on the buy-side, which was considered less glamorous in those days compared to the sell-side or hedge funds. It was a case of rolling up my sleeves and getting stuck in – taking meeting notes and manually inputting trades, before being allowed to meet companies and sell-side analysts and build company models.



WHY REITS/GLOBAL CITIES?

I was fortunate enough to work in Australia for 5 years and returned to London to work for AMP Capital. The Real Estate Investment Trust (REIT) industry had taken a big leap forward, borne out of issues in Japan where interest rates had hit the floor and investors were looking for a yield boost. I realised a couple of things – firstly the need to focus on one area and develop an expertise in it. Secondly, having worked on a REIT fund for 15 years, it was very clear that cities are the centre of economic activity.



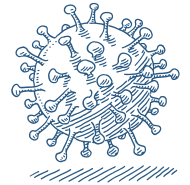
ARE YOU AN EQUITY MANAGER OR A PROPERTY MANAGER?

An equity manager first and foremost. I am not a property person but do have a level of expertise and a global perspective. My focus is on companies – you can have the best properties and rent returns, but if the corporate structure is poor, they won't benefit shareholders. I am not involved in the day-to-day physical management of properties.



HAS THE PANDEMIC AFFECTED THE RATIONALE FOR INVESTING IN CITIES?

The cities story is still very much intact. Cities remain the engine of the global economy and, despite what might have been portrayed in the media, people haven't really moved away from them, except perhaps from some of the most expensive cities in the world. Broadly speaking, for many people life's infrastructure is in cities – schools, work, friends, transport, etc. Yes, housing has become more expensive, but there has not been a big move away from them.



WHAT ABOUT OFFICES?

We divorce offices from cities, as undoubtedly the demand dynamics have shifted. We have not liked offices or retail for some time. Office landlords are being intermediated – the advent of the likes of WeWork has seen to that. WeWork could end up being the Nokia of the serviced office world whilst there could be another Apple out there. Buildings decay very quickly as demand shifts, and that can be difficult and expensive to react to. Sheds don't!



HOW HAS THE PANDEMIC AFFECTED YOUR TEAM?

It has accelerated the disruptive forces that were already in force. Real assets are an economic derivative that people either do or don't want. For example, the demand for data centres has increased and for offices decreased. The main impact on the team is it has become much more difficult for younger people to learn by just being around. The ability to learn in and the sociability of an office are so important and hard to recreate.



WHAT ARE THE BENEFITS OF HAVING JOINT FUND MANAGERS?

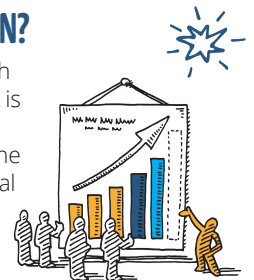
We each have certain skills where we are stronger than each other. Tom and I have known each other for a long time. We have a harmonious relationship and were offered the role as a pair. We hold each other to account and are aligned philosophically in how we think about running the team. We do not want a big team – we've learned from experience – and everyone has to buy into our decisions, which is really important so people don't get hung out to dry if something goes wrong.



It's okay to make mistakes, but we need to learn from them and not lose confidence. It also helps as the job is broader than simply investing. We have to take responsibility for many parts in a chain, from performance to the business side of the fund and looking after clients.

WHAT'S YOUR VIEW ON INFLATION?

It is not something I have had to deal with in my career as an investor – but the fact is it's a punitive, unseen tax on living standards. Official numbers underplay the impact it is having on people. My personal view is the market in general is a little complacent about it in terms of what it can do to savings and living standards – and how quickly it can do so. I am not sure there are enough questions being asked on how to pay for Quantitative Easing and the oppression of borrowing costs. They are real and challenging.



WHAT ARE YOU EXCITED ABOUT IN MARKETS?

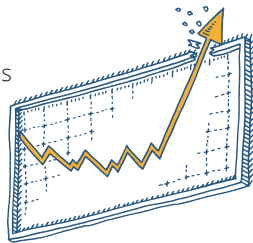
Some of the companies we are looking at in digital infrastructure - particularly in some emerging markets. I can see big opportunities if we can get our heads around the political and policy environments. For example, datacentres, 5G



communication towers, small cell towers and fibre companies – the backbone of the internet. It will also be interesting to find out what is going to happen to areas of the market which become obsolete. For example, how will shopping centres be repurposed and reused? The pricing is not quite there yet, but how much will the likes of Amazon take? The land is valuable as is its proximity to cities.

AND WHAT WORRIES YOU?

The inflation point really concerns me and if it does stay higher for longer, the challenge of delivering an attractive real rate of return for clients.



WHAT DO YOU THINK ABOUT ESG AND RESPONSIBLE INVESTMENT?

A strong focus on ESG becomes self-fulfilling. Certain companies will struggle to attract capital. We will limit and exclude investment into poor firms and never invest in certain companies on the basis of ESG considerations.

In those we do, we have to show the impact on how much we will invest and prove our exclusion process using third party data as evidence. In Europe, our investment strategy is classified as Article 9 which means we have to do this.



WHAT'S IT LIKE EMOTIONALLY?

When you have a situation like March 2020 – and this has to be put into perspective, running a pub for example, would have been much more challenging – it's very difficult to see everything you have to put into place not working. But markets ebb and flow and as long as you have a strong process and have done the work as much and best you can, you should be well prepared to ride out the storms. Process helps to pull a lot of the emotion out of what we do. When markets have a blip, turn off the screens, don't drag yourself into emotional purgatory.



WHAT'S THE BEST LESSON YOU HAVE LEARNED?

The emotional intelligence side of life is so important - listen to what people are saying and act accordingly. Communication is one of the most understated skills there is. We have to keep learning. As fund managers, we are trained as investors but it's more than just that. We have to have a product which is easily understood and intelligible, a systematic and robust process and deliver peer-beating performance. We must have all three together to gain traction. At the same time, the choice for investors grows, particularly with the advent of ETFs, which are a great development, and so the market becomes even more competitive. We must keep evolving and providing greater and more granular evidence for our investment decisions.



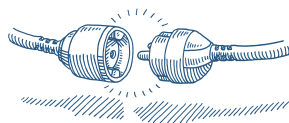
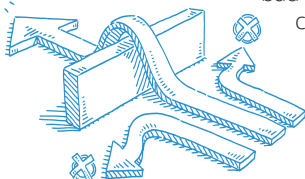
IN WHICH CITY WOULD YOU MOST LIKE TO LIVE?

If I was 20, it would have to be Hong Kong or New York City – they would be really exciting places to be. I was lucky enough to live and work in Sydney for a while, which was amazing and I loved it. I would go back given half a chance. Living in a Chinese city would be really interesting but I don't speak Mandarin which would make it difficult.



WHAT MAKES A GOOD FUND MANAGER?

A good fund manager has always got to be alert to as many informational inputs into their process as possible to underwrite the deployment of clients' capital. Any fund manager realises they will put themselves in a difficult situation if they are intransigent – no situation repeats itself exactly. A bad fund manager is someone who is convinced they are right.



HOW DO YOU RELAX?

Sport. Fund management is a fairly sedentary occupation so it's important to be active. I used to play lots of cricket, but now it's more golf and tennis. I also got into paddle boarding over the summer. In addition, my 4 children keep me busy!



This publication is for the use of Professional Advisers and other regulated firms only and is issued by, and remains the copyright of Square Mile Investment Consulting and Research Limited (SM). No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of SM. The views expressed are not necessarily those of SM and SM does not accept any responsibility for errors, inaccuracies, omissions or any inconsistencies herein.