



TALKING WITH



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Talking prioritising stakeholders and cabin fever With Mike Fox, Head of Sustainable Investments at Royal London Asset Management and Richard Romer-Lee, Managing Director at Square Mile

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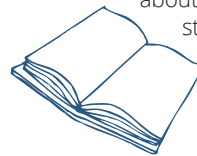
HOW DID YOU GET INTO FUND MANAGEMENT?

I trained as a chartered accountant but I didn't really enjoy it. The Co-op group was advertising for chartered accountants in Manchester – it was pre-CFA days. I started in 1999 at the tail end of the tech boom. I moved to London following Royal London's acquisition of the Co-op in 2013. Looking back, it strikes me how one's first choice of a career is as much down to luck as judgement.



WHY SUSTAINABLE INVESTING?

The Co-op group was one of the very few entities trying to understand ESG, ethical and sustainable investing (the terms were mixed in those days too). I was amazed how cynical and negative people were towards it. Yet it was brilliant at driving performance, even if it was tough. The approach has looked after me throughout my career as it has a remarkable ability to keep one out of trouble, for example avoiding many corporate scandals or poor quality commodity companies.



WHAT MAKES A GOOD FUND MANAGER?

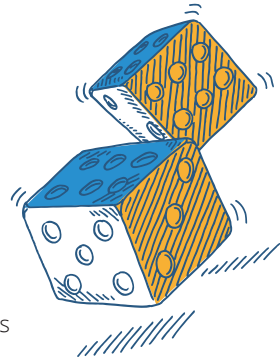
A quest for knowledge. When people stop learning after university or achieving qualifications their knowledge is frozen in time. You have to be strong in arts and sciences. Psychology and financial statements. Creativity and cash flow. It takes a certain mentality. The only difference between sustainable and traditional investing is there is a wider set of issues. Reading, thinking, inputs into the investment process – if you can do that, you have a competitive edge. The answer is never in a spreadsheet or just a company meeting – although they help.

I borrow from *Bill Nygren*, the US-based value investor – people are too quantitative nowadays, too numerical.



HOW DO YOU DEFINE THE TERMS ESG, ETHICAL, SUSTAINABLE AND IMPACT INVESTING?

ESG is an umbrella term. We define responsible investing as an all-market solution where ESG integration is one variable alongside others. It won't always be clear how each company thinks about it as there is no defined



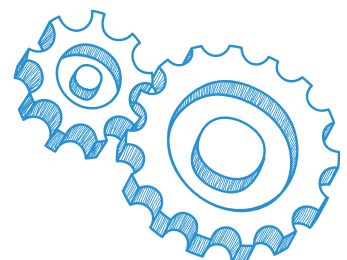
stance. Sustainable investing is about making positive investment choices and saying when something is wrong. ESG factors are put first, rather than being one of many considerations. Certain industries, sectors and companies are impaired by the ESG agenda while others benefit from it. For example carbon intensive industries versus renewable energy. Impact investing – which is a massively overused term – funds projects that would not necessarily receive money otherwise as there may be a lower financial return.

WHY IS SUSTAINABLE INVESTING BECOMING MORE MAINSTREAM?

Performance is a big part of it. This would not be happening if sustainable funds were all in the fourth quartile. People are curious as to where the alpha is coming from and whether or not it is durable. The generational shift is relevant, but a bit overdone. Clients are definitely becoming more receptive.

WHAT SKILLS DO YOU NEED IN A SUCCESSFUL TEAM?

It's all about culture. And yet I am hardly ever asked about it. Firstly, you need diversity – particularly cognitive diversity. There's never a right or wrong answer in a debate, not at the outset anyway. If we all agree on something, we have a problem. Secondly, there should be a flat, democratic structure for decision-making. I detest organisation charts. Someone with six months' experience can be as valuable as someone with 16 years – people from different backgrounds and with different experience. We must empower people to speak up, while making sure they can listen too.





WHAT'S YOUR VIEW ON LARRY FINK'S COMMENTS ON CLIMATE CHANGE, THAT "AWARENESS IS CHANGING RAPIDLY, AND I BELIEVE WE ARE ON THE EDGE OF A FUNDAMENTAL RESHAPING OF FINANCE"?

We are in a prime position to influence and make a difference. The political and regulatory drivers are clear to see, and now the asset management industry is responding too. Some were early and the majority are now jumping on the bandwagon.



WHAT LONGER-TERM IMPACT MIGHT THE CORONA VIRUS PANDEMIC HAVE ON MARKETS?

Over the last ten years or so, many companies have put the interests of shareholders over stakeholders. They have sweated their assets too hard, be they human, balance sheet or physical and have been so focused on return on capital they have forsaken every other variable. When things have gone wrong, they have done so in a big way. Look at WeWork and BooHoo. One thing that may come out of this awful crisis is the change in and greater focus on stakeholders, which in turn would lead to better returns.

WHAT IS YOUR EDGE?

The behavioural side of investing. Human behaviour may be the only thing markets can't arbitrage – the huge volatility in March is a perfect example. Temperament is huge in this business – it's as much if not more about EQ than IQ. Patience and having a long-term time horizon, calmness and clear-thinking are invaluable. The time for abandoning principles and beliefs is not when the market is all over the place.



WHAT ADVICE DO YOU GIVE PEOPLE STARTING THEIR CAREERS?

What people do and what they actually should do are entirely different. Being fascinated by how the world works, having a thirst for knowledge and a quest for information will serve you much better than any qualification. The Head of Equities at Co-op, Bob Blain, said live life simply, do what you enjoy and don't acquire expensive tastes.



WHERE ARE THE EXCITING OPPORTUNITIES?

There are two industries that fascinate me – technology and healthcare. They are the only two truly additive industries, creating new markets and profit streams rather than competing in existing ones. Their composition in the index and inherent valuations have increased so it is not illogical that equity markets have done well.

There is a fundamental misunderstanding of the technology industry. The acceleration of the digitisation of the economy has increased the inherent valuation of the sector. It will take years to work out how to price this change and there is no certainty it has been overvalued. People have become evangelical about technology and are becoming so about healthcare, which is significantly cheaper today.



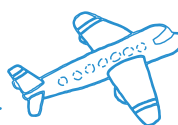
WHAT WORRIES YOU?

Crazy share price moves. The other day Astra Zeneca traded like a penny share – up 10% in one day for no apparent reason. That's not normal. It isn't clear who's driving the markets – is it the Robinhood gang, algorithms, electronic trading – it's all very odd and needs some thought. There is a nature to markets that's not been seen for a long time.



HOW DO YOU RELAX?

Anything to take my mind off things. I live in London and take great pleasure in the museums and galleries when I can. I used to play lots of golf – it's a simple game but at least one is concentrating on that little white ball for a while. I must confess to having a degree of cabin fever lately, but I have been reading a lot – not always serious stuff – which provides a good escape.



WHAT BENEFITS DOES RLAM'S INDEPENDENT ADVISORY COMMITTEE ON SUSTAINABLE INVESTING BRING?

Knowledge. It's about access to broader cognitive diversity and experience. We can work a lot of things out as a team, but the different perspectives and views we can draw upon can be hugely beneficial. For example, the Western view of censorship in China is, why would anyone tolerate that? Yet it's a way of life and not the problem we may see it to be. Conversely the Chinese have a view of the domination of our news by media moguls.



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