



# TALKING WITH



Mike Gitlin

Head of Fixed Income and incoming CEO  
Capital Group

Talking client needs and being an empty-nester with...Mike Gitlin, Head of Fixed Income and incoming CEO, Capital Group and Richard Romer-Lee, Chief Executive Officer at Square Mile.

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## HOW DID YOU GET INTO THE INDUSTRY?

I wanted to do something in the markets that was fast moving and interesting. In the '80s at high school I became really interested in markets and would follow daily stock prices in the newspaper, writing down the progression and why. Partly because of the math, partly because of the subject matter of the companies and some because of the competition. I graduated aged 21 and went to work in the back office for a hedge fund, settling trades manually. A couple of months in, the head of the firm called me into a meeting. I immediately wondered what I had done to get fired this quickly – but was asked if I would become a trader.



At age 22, I was trading the Asian markets from the east coast of the US, which meant I was working 5pm until 4am local time. I was the only person apart from the security guard in an office tower in downtown Hartford, Connecticut.

## HOW DID YOU GET TO CAPITAL GROUP?

It took another 22 years, via trading, the sell side – in Hong Kong at Citi, and then T.Rowe Price where I was responsible for trading global equity and fixed income. Then, despite my urging the boss to find someone more qualified, I was Head of Fixed Income. I joined Capital Group at the end of 2014 when Tim Armour, our soon-to-retire CEO, reached out to me. At the time, Capital Group was well known for equities but not so much for fixed income. It was a great opportunity to build a best-in-class global fixed income business.

## WHAT DOES YOUR DAY LOOK LIKE?

A little of everything. My current role is somewhere between existing Head of Fixed Income and incoming CEO. The transition is occurring over the course of this year and I try intentionally to make every day some internal and some external. It can be easy to become so inwardly focussed that you can begin to be blinded to what clients need and how their needs are evolving.

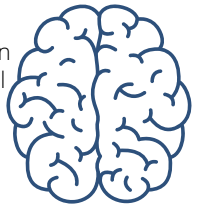


## WILL THIS CHANGE IN YOUR NEW ROLE?

From internal/external split, I don't envision much change. I'll focus more on the long-term strategy of Capital Group and opportunities to evolve alongside our clients.

## HOW WOULD YOU DESCRIBE CAPITAL GROUP?

Capital Group is the largest active long-only manager in the world whose focus is on client outcomes. Our mission statement is to improve people's lives through successful investing. We are focussed on the client experience – a combination of managing well for them, trying to beat our competitors and benchmarks, and to interact, brainstorm and service them so we are good partners. We've done that for 92 years and our strategy remains the same today.



## WHAT IS YOUR EDGE?



Being a private company, we think, is a huge advantage. We are not beholden to external shareholders who may have a different timeframe than we have, so we can focus on what's right for clients over the long term. That, in turn, will be right for our shareholders, who are all internal. Secondly, the Capital System – the unique way in which we manage money. It's differentiated with portfolio managers and analysts both managing money and working together as partners. Our analysts think like investors, which is an entirely different mindset. We are also a collaborative company to help us do better than competitors and benchmarks. Every one of our portfolios is open for the other investment professionals to see.



## WHAT CAN INVESTORS EXPECT FROM MARKETS OVER THE NEXT 5 – 10 YEARS?

We have just revised 20-year capital market assumptions which have equities returning 7% per annum and fixed income 4%. I'm not sure they will be exact, but directionally they should be close. When you come out of a year when both stocks and bonds are down – the first time it's happened in 40 years – you will always have some investors who are looking backwards.

Today, fixed income is very attractive, having been the opposite 14 months ago. You can envision fixed income returning mid-single digits on an annualised basis over the next 10 years based on where different central bank policy rates are today. Therefore you can have a balanced portfolio where both sides of the equation are directionally affording a similar opportunity.



## WHAT'S CAPITAL GROUP'S AMBITION IN THE UK?

We have always succeeded by being a good partner with our clients. In the United States, tens of millions of individuals are impacted by Capital Group strategies in one way, shape or form. We have a similar goal in the UK of being impactful to individuals and institutions. We have one future, which is as a global asset management company. We feel we do something different and better and feel we can do it for more people.



## WHAT DO YOU WORRY ABOUT?

Geopolitics is increasingly important and divisive – Russia and Ukraine and how it ultimately plays out; how the US and China relationship evolves; and how countries become inwardly versus externally focussed. While geopolitics is important, at times it can distract from the long-term investment opportunity. Being invested and staying invested and not chasing returns are super important.



## WHAT SHOULD WE READ INTO THE INFLATION REDUCTION ACT?

In many ways, it's its own stimulus program into a different energy world. It will accelerate a trend that's already on the way. Whether or not it reduces inflation I have no idea! But it should increase investment. As far as broad rate policy goes, we must differentiate between emerging and developed markets. Emerging markets are ahead of the curve as they have built the muscle to combat inflation, which developed markets haven't. Many of them are beginning to cut rates when many of the developed markets are still playing catch-up to battle inflation.



## WHY SHOULD PEOPLE EMBRACE ACTIVE INVESTING OVER THE NEXT 5 TO 10 YEARS?

In fixed income, the vast majority of money is actively managed and the vast majority of active managers beat passive. I don't know why anyone would own passive fixed income. If you knew central banks had to raise interest rates by hundreds of basis points to combat inflation, would you want to own the duration of the benchmark or would you want to be underweight duration? If you are passive, you are the benchmark! Why give up the toolbox?



In equities it's a different proposition. Some managers don't beat the benchmarks and some do. We have 20 equity strategies with more than 20 years of track record, and 18 of the 20 have beaten their benchmarks by an average of 147 basis points annualised as at December 31st 2022.\* There will be periods when it is challenging for active managers to beat the benchmark, but if you look at the equity market today, our managers are finding lots of unique opportunities. I expect the pendulum to swing back towards active. Active hasn't helped itself by letting passive effectively define ETFs as passive. This is now changing and this will help. The vehicle itself will become more important in the next decade.



## WHAT ADVICE DO YOU GIVE TO THOSE STARTING A CAREER IN INVESTMENT MANAGEMENT?

Try to find intentional training programs where you are learning the business. The sell-side does it very well. Anywhere you can be trained formally in 2 or 3 years is a great way to start in the industry. And, especially in today's hybrid working environment, be present in the office as much as possible. Learning doesn't happen on Zoom or WebEx as much as it does in person. The more you can voluntarily show up and pick someone's brains, the better off you will be.



## WHAT LESSON HAS STOOD YOU WELL?



In a leadership position – over communicate. Associates want to know what's happening so make it easy for them. And do so in a genuine way – even if it's not the best of news.

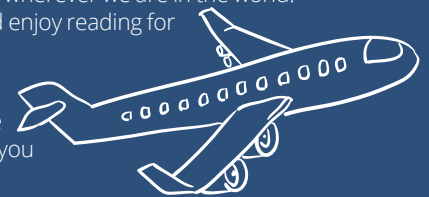


It's also crucial to have a strong work ethic and self-discipline. We had a 4-star retired general speak at a charity event recently, Stan McChrystal, who said the number one trait of leaders he's seen in his career is self-discipline.

## HOW DO YOU RELAX?

Now that we are empty nesters, my wife travels with me 25% of the time, which means I spend more time with her and less at work dinners wherever we are in the world. On planes I can hide and enjoy reading for work and for fun.

I walk 4 or 5 miles a day. And I love spending time with my adult kids – can you still call them kids?



## WHAT CAN WE LEARN FROM THE US?

I'm not sure that list is very long! Anything you can do to push back on extreme political divisiveness the better. Anybody who wants to plot themselves on the very far end of a political spectrum doesn't want to work together to make things better. It's not growth positive.

I spent 8 months in London and a month in Asia last year, which was a great experience both professionally and personally. Not everyone can do that, but it was a game-changer. If I had to pick one place to live in the world and couldn't move, I'd pick London. I love the walkability, the history, it's super cultural and you have really old buildings here! The only downside is the shortness of the winter days – it's shocking! Where does the light go?



\*147% pts average annual excess return over 786 combined fund years, as of December 31, 2022. Time-weighted average annual excess return across these 20 equity-focused American Funds. The equal-weighted average annual excess return is 1.37 percentage points. The time-weighted average gives greater emphasis to those funds that have been in existence longer. For example, this means that the 1.24 percentage-point annualized difference between The Investment Company of America and its benchmark is given proportionally greater weighting in alignment with its more than 89 years in existence when calculating the average across all 20 funds. American Funds are not registered for sale outside the US.

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