TALKING WITH

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Talking opportunities and finding your edge with Neil Veitch Global Investment Director at SVM Asset Management and Richard Romer-Lee, Managing Director at Square Mile.

November 2020 - 071

HOW DID YOU GET INTO FUND MANAGEMENT?

With great difficulty. It's what I've always wanted to do – not for intellectual challenge, rather because I am competitive and like numbers. A TV programme called Capital City about traders made it look exciting – plus some characters drove Porsches. With no connections with the industry I studied economics at university and did a masters in investment. I applied for jobs along the way but found it tough to get in. I was eventually hired as an analyst working in the Isle of Man. Living there required a bit of an adjustment – it felt Presbyterian and austere even for a Scot. As the only UK national in the team – which managed money for a family office that had relocated from Hong Kong as they were nervous about the handover to China – I covered UK and Europe. We had no benchmarks and did some exciting stuff.

WHAT ARE THE ADVANTAGES OF WORKING IN A BOUTIQUE ASSET MANAGEMENT COMPANY?

Less bureaucracy, less need for meetings about meetings, fewer accounts to manage – all of which mean more time to focus on running money. We don't feel the need to build models for every single company – just the ones core to our portfolios.

In a big company, when analysts come up with ideas, I would worry it would be harder to access liquidity.

WHAT DOES YOUR TYPICAL DAY INVOLVE?

We have lots of autonomy and function as a series of teams under one umbrella. There is no house view. To that end we live or die by our performance. My colleague Craig and I are in the office shortly after 7am and read the results and statements looking for new information that might change our views or signs that something is changing. We try to meet as many companies as we can – we are fortunate in that they usually come to Edinburgh regularly. No meeting is wasted – we will always learn something new, and not just about the company but for example the supply chain, competitors, management teams. As a value investor, building knowledge is invaluable although it may take 10 years or more for an opportunity to invest, usually after a disappointment.

We speak to clients and whatever time is left is spent updating notes, spreadsheets and targeting research into areas of the market where we think we might get the best return.

HOW WOULD YOU DESCRIBE THE ROLE OF A FUND MANAGER?

It's an emotional roller-coaster. You can be and are judged at the end of every day. There's no hiding place. You can be right for all the wrong reasons and wrong for all the right ones. There's lots of luck involved and it's easy to be labelled an idiot. To beat the market you have to do things that are uncomfortable and therefore always open yourself up to criticism. When things do go well, you are always wondering can they last, what happens next. I find I tend to make more mistakes when things are going well – it's a classic for the job, overconfidence.

WHAT IMPACT HAS COVID HAD ON COMPANY MEETINGS?

One-on-one meetings provide the opportunity to have more of a fireside chat. Through electronic media, companies can communicate their story, but it's hard to build trust without that face-to-face dynamic, particularly with newer relationships. One of the things we find instructive is the interaction between CEOs and CFOs – the body language, how they work together and if they are comfortable with allowing each other to answer questions.

WHAT'S YOUR VIEW ON THE IMPORTANCE OF ESG?

It should be an integral component of a fund manager's analysis. It's even more important in digital and knowledge-based businesses where assets tend to be more intangible and reflect human endeavours and enterprise – it's so important to look after that capital. It can make portfolios more defensive, but at the margin. There has been a high correlation between ESG and what are labelled quality companies today. There's no doubt quality was undervalued – and many strategists' reports highlighted this at the time. My feeling now is perhaps this has swung too far and many stocks with strong ESG credentials have benefitted from the flood of money that has followed them. The problem with valuation is so much depends on human psychology and the ebbs and flows of the market.

WHAT WORRIES YOU?

The challenge of trying to identify what will change and to work out if it is truly reflected in share prices. One of the great things about fund management is things – companies, market structure, views on value and growth – are always changing. And as fund managers we are always learning. Hopefully I am better now than when I started. Some of my biggest mistakes – and I have made plenty – have been selling stocks too early. I remember Ashtead – I bought shares at around 40p in the nadir of the financial crisis and sold them for between 150p and 180p thinking I was smart. They are now around £28. My error was failing to consider the long-term shift from an ownership to a rental model in the US market.

HOW DO YOU VIEW THE MAKE-UP OF THE UK MARKET?

We would like more technology companies in the index, but the reality is lots have been taken over. The price we pay for a free market for corporate control is that some of the better businesses are taken out. With interest rates where they are, it's not always in the best interest of technology companies to list on public markets – they can be better off in private hands. Yet with over 800 companies we should be able to find lots of opportunities, especially when valuations are so skewed.

WHAT ADVICE WOULD YOU GIVE TO ASPIRING FUND MANAGERS?

Know your weaknesses and try to combat them. Acknowledge the role of luck – understand you can be right for the wrong reasons and vice versa. And don't be afraid to challenge where you feel something isn't right. I once had a meeting with a company which had been very acquisitive and it wasn't clear to me how they were treating the discontinued businesses in their accounting. The CEO objected to my line of questioning and told me that not only was I the rudest man he had ever had the misfortune of coming across, but he was considerably richer than me and considerably better looking than me. I have to say I was quite taken aback! It was very much a one-off, however.

WHAT EXCITES YOU IN MARKETS?

The divergence between perceived Covid winners and losers must create opportunities. Nothing is clear cut and one of the biggest variables is the disease outlook. There are many more cyclical sectors trading at or near their lows. The new normal will be fairly similar to the old, albeit with some big winners and losers, but the net effect won't be vastly different and is likely to be anchored to the old world. Consensus behaviour may not change as much as people expect.

HOW DO YOU RELAX?

I read a lot – mainly non-fiction. I usually have several books on the go at once, at the moment they include the first book of Robert Caro's biography of Lyndon Johnson, Nicholas Taleb's Skin in the Game and The Quality of Madness about the Leeds's manager Marcelo Bielsa. I like sport, both playing and watching on TV, I cycle a bit, climb a few Munros and coach youth football.