



TALKING WITH

Richard Buxton

Head of UK Equities
Merian Global Investors



Three years on from his first Talking With interview in 2016, Richard Buxton, Head of UK Equities at Merian Global Investors talks to Richard Romer-Lee

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IN YOUR 34TH YEAR OF INVESTING, WHAT SUSTAINS YOUR DRIVE?

I still love investment, meeting companies, trying to judge the mood of the market to work out what's going on in the macro. After three and a half years both running money and helping to run the business, it's a huge relief to be fully devoted back to picking stocks.

FOLLOWING THE RECENT HIGH PROFILE RETIREMENTS, MIGHT YOU BE NEXT?

Indeed, Ian Spreadbury, Andrew Rose and Nigel Thomas have all retired. But I'm still hugely passionate about investing in this business and I have absolutely no aspirations to put my feet up. Having just undertaken a management buyout, I am physically committed for as long as that process lasts and beyond. I'm 55. Do I want to go and play a lot of golf at 60? I don't play golf, so another 10 years is good for me.



HOW IS WORKING FOR A PRIVATE EQUITY FIRM?

TA Associates, our private equity partners, have an incredibly long-term view of what is inevitably a cyclical business. They very much leave management in control and prefer having less than 50% of the business. They get the MI. They're very, very good members of the board, offering constructive dialogue, but are not in your face. That's the perfect kind of partner to grow this business with.



IS A LONG-TERM VIEW CRUCIAL IN THIS BUSINESS?

The short-term focus of the market is most bizarre - and it's getting worse and worse. Take Merlin Entertainment, for example. It's a fantastic long-term growth business, and one of those shares you just want to tuck away and come back in to five and ten years' time. As they're going through a massive CapEx phase, opening new theme parks around the world, more hotels on their Legoland sites, returns are subdued. But in a few years this is going to be a massive cash generative dividend-paying machine. Yet, their largest shareholder has gone public, saying it probably makes more sense to go private and relist in a few years' time when all this CapEx phase is over. When I first came into the business, long-term savings institutions were the natural backers of long-term businesses and provided capital for their investment. It's a very strange environment.



WHAT ABOUT SUCCESSION PLANNING?

Errol Francis and Ed Meier, who came with me from Schroders; Errol is only a couple of years younger than me, Ed is usefully younger than me, so it's already in the planning that there will be an opportunity for me to seamlessly walk away from the business at some point in the next 10 years - when it's the right time for the next generation.



WHAT DID YOU LEARN AS MERIAN'S CHIEF EXECUTIVE?

I learnt an awful lot about the asset management business, the capital requirements, the regulatory environment, the whole industry and what it is like to try with my ExCo colleagues to drive the business forward. The process of separating and buying ourselves out presented an extremely steep learning curve. I've spent my career meeting chief execs, finance directors, and quizzing them on their businesses. It certainly has given an insight into how testing it is to lead a business. But don't get me wrong, I'm not going to give up being quite tough in conversations with chief execs when I need to be.



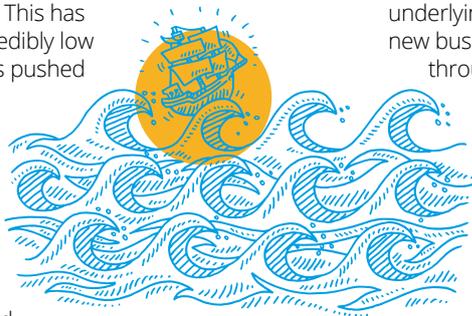
WHAT'S THE LATEST AT MERIAN GLOBAL INVESTORS?

It's going well in terms of separating ourselves out and standing alone. We've put together a fantastic board. We've got Sarah Bates, ex-chair of SJP, chairing and great non-executives of which one of them - Mark Gregory - is now our Chief Executive. From the moment that we actually consummated the deal, we entered a period where performance has been a little softer across the firm, the environment has got even tougher for all of the industry; we're seeing outflows from areas like mine, the UK equities large-cap space, so in pure business terms we were in a tough place straightaway.



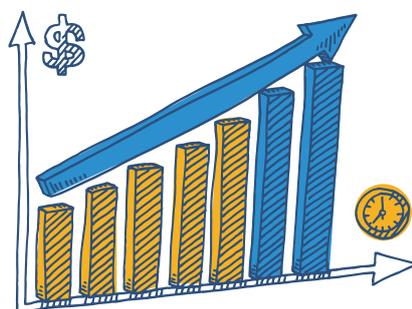
AS A CONVICTION INVESTOR IN TOUGH MARKETS, HOW DO YOU MAKE THE CASE FOR ACTIVE INVESTING?

It has been tough. Part of the reason is the extremity of the disparity between growth shares and value, and the style. This has inevitably been affected by incredibly low interest rates, QE etc, which has pushed multiples for stocks that are delivering any sort of growth into stretched territory. This is particularly true of classic consumer staples that you know are going to be here in a 100 years' time, but at the moment they're offering quite pedestrian levels of growth - and yet their valuations are very, very full. Conversely, value has really struggled for a decade since the financial crisis. I've never seen anything as extended as this bifurcation between value and growth styles, but I cannot believe that it is forever.



VALUE INVESTING WAS RECENTLY DESCRIBED AS A 20TH CENTURY PHENOMENON...

I don't believe that you can just abandon valuation. Around 80% of all Wall Street IPOs at the moment are companies that have never made a profit. There's a continued belief that they are all going to be the next Amazon, Google etc and a euphoric belief that you can pay very, very high multiples and it won't matter as all will come good in the end. I do not believe that. There will be some extraordinary misallocation of capital to be demonstrated in the years to come.



ARE UK DOMESTIC STOCKS AS CHEAP AS SOME PEOPLE CLAIM THEM TO BE?

They are not all cheap - some are cheap with good reason. There are very real challenges out there for a number of names on the high street. We have seen the demise of Debenhams - a share I used to hold. The restaurant trade is clearly overdeveloped, oversupplied and with excess capacity. We are now seeing the casualties, but there are stocks like Lloyds and Next where I do think these are cheap shares that will be shown to have delivered extremely good value compared to today's market...if we can even only clarify the outlook for the UK economy post-Brexit and the current politics.



SHOULD INVESTORS, AND DO YOU WORRY ABOUT BREXIT?

The uncertainty is a handbrake on the economy. The crying shame is that the economy is actually in remarkably good shape and has been incredibly resilient. The labour market continues to be extremely buoyant. Job vacancies are actually rising despite the odd casualty. There is an underlying entrepreneurial dynamic going on in the UK. Net new business formation is very strong and we're seeing this through the Chrysalis Investment Trust, meeting a lot of these newer businesses. The prospect of a very socialist Government would be not helpful for the UK economy.



HOW ARE YOU EMBRACING ESG?

I have always been pretty hot on governance. The difference between a good company and a less good company is really management, governance and the board. We have invested in additional resource and are looking desk-by-desk, across all the key portfolios a range of E, S, and G factors. Because we have limited resource, we're not going to target every single company in the portfolio, but three or four of the worst offenders. We are then going to have conversations with the chairman to discuss that we need to see further progress. Ultimately, if we are not seeing sufficient progress, the sanction is disinvestment.



WHAT DOES THE MERIT OF TOMORROW LOOK LIKE?

The vision is unashamedly a boutique. In active equity management there are no scale benefits. We want to attract other investors, other talent, other desks, other capabilities, refugees from larger houses where we can offer a much broader diversity of products than we do today. That said, we don't want to be all things to all people. We want to be focused on high alpha, high active share and possibly, ultimately capacity constrained offerings.



DO YOU STILL LIKE TO COOK IN YOUR SPARE TIME?

I am still very much the man of the kitchen and constantly try to encourage myself to be brave and try new dishes. I made a tarte tatin at the weekend which was a bit of a disaster, although my wife very sweetly said, 'no, no, it tasted lovely dear', but I have definitely got to try it again, because it wasn't quite right. There's more to do.

