TALKING WITH

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Talking fintech, diversity and the Blinkist app with Suhail Shaikh, Chief Investment Officer, Fulcrum Asset Management and Richard Romer-Lee, Square Mile

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HOW DID YOU GET INTO THE INDUSTRY?

From a young age, I was mathematically inclined and enjoyed logic. My initial interest in the industry was fuelled by the regret of an older family member, who had chosen medicine instead of following his interest in finance. I ultimately chose to study Management at the London School of Economics, and benefitted from a broad training in economics, statistics, mathematics and psychology. I then began my career in Goldman Sachs Asset Management, first as an intern and subsequently full-time, where I was able to rotate across investment, product and marketing functions. I spent a year in equities, a year in fixed income and three years in asset allocation, which is the area I most enjoyed and chose to specialise in.

WHAT PROMPTED THE MOVE TO FULCRUM?

My original plan was to spend five to ten years at Goldman Sachs and then consider something more entrepreneurial. I was fortunate enough to be approached by the founders of Fulcrum, albeit earlier than I had intended in my career. I was offered the opportunity to join a small team and work with and learn directly from Gavyn Davies. To build an investment team under his tutelage was a chance not to be missed.

WHAT DOES YOUR ROLE AS A CIO ENTAIL?

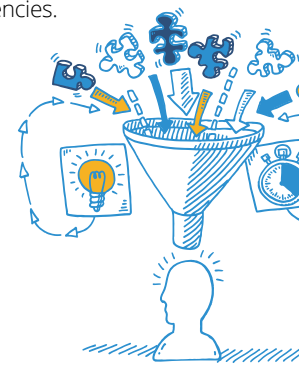
Around half of it is managing money - it's not always the case with CIOs. I particularly enjoy finding investment opportunities that are created by the behavioural biases of others and are often overlooked due to their more complex nature. Approximately 30% is spent picking, managing and overseeing investment individuals across our discretionary and quantitative businesses – team management. A large part of my role is in driving the firm's culture, so that people trust each other, feel appropriately rewarded and respect conflicting views. It can be tricky as we have many smart and ambitious investment professionals with different opinions, each with their own edge. I try to make sure they are at peace with one another. The remaining 15-20% of my time is spent meeting existing or prospective clients - after all, clients want to meet the people responsible for safeguarding and growing their capital.

HOW DO YOU ENSURE DIVERSITY?

For diversity to be effective and long-lasting, it should be achieved gradually. One of my roles is to identify and hire talent for the investment team. To build a team of ambitious individuals who think independently, intelligently and differently, it is crucial to consider all backgrounds and be cognisant of the multi-dimensional nature of diversity. This is particularly important in a business that marries quantitative and discretionary teams.

WHAT EDGE DO YOU LOOK FOR?

You need to have better information; be better at joining up and extracting signals from the information; be quicker by using technology; or use pioneering techniques. The purpose of all of these is to find sources of return where you get paid for taking risk. The trick is to identify where you have an edge and do more of it, but also acknowledge where you don't have an edge and stop doing it. In the world of macro-investing, we have added most value in fixed income and currencies. This is not an accident of history but reflects the far more direct translation of macro data and economic policy into interest rates and currencies, than into equities.



WHAT'S THE MOST EXTRAORDINARY THING YOU HAVE SEEN?

Human behaviour in times of panic and stress. Time horizons shrink and rationality goes out of the window. People can misjudge their willingness to take losses. When backtesting quantitative strategies, this has inspired me to double all losses and estimate emotion-adjusted results, which are always worse but more real. If investors can tolerate these weaker results, they are much more likely to invest appropriately and avoid horizon shrinkage. It's effectively modelling how people feel in periods of loss, living through the backtest and learning from the 'experience'.

WHAT MAKES ACADEMIC RESEARCH SO IMPORTANT?

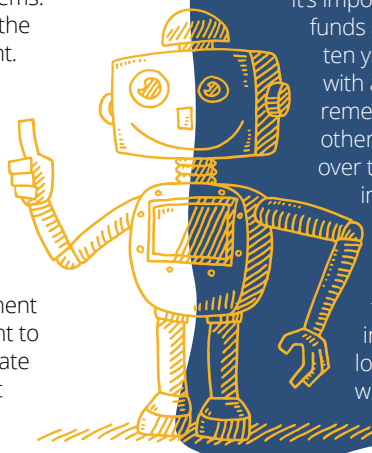
It comes back to having an edge. We can learn from the experience of experts whose incentive structure is to disseminate information, not hide it. It's important to learn from the best academic research in your field - therefore we have relationships with several academics, specialising in Bayesian techniques, nowcasting and VAR modelling. Our hybrid approach appeals to both academics and practitioners, which allows us to successfully integrate academics into our business.

WHAT GOOD ADVICE HAVE YOU RECEIVED?

My first industry mentor, Paul Marson, who was CIO and an investment strategist at Goldman Sachs, told me that it is necessary to have at least two of the following three attributes for fulfilment at work: impressive learning, sufficient earning and the opportunity to work alongside good people.

WHAT EXCITES YOU AT THE MOMENT?

It's exciting when you can find innovative solutions to complex and common problems. We are exploring opportunities in two of the largest mega-trends in asset management. The first is the ongoing migration from defined benefit to defined contribution pensions. We are designing a bespoke, actively managed, yet scalable and cost-effective asset allocation engine for individual members. Secondly, we are working with environmental engineers and academics to develop a highly differentiated and credible climate alignment strategy. As asset allocators, it is important to reward companies that make strong climate commitments, while also recognising that adjustments costs vary by industry.

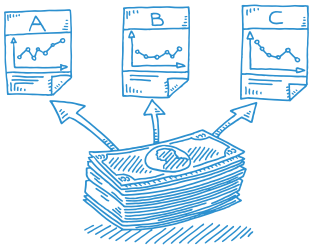


ABSOLUTE RETURN INVESTING GETS A BAD RAP...

It's important to know what you are looking for from absolute return funds and to assess them over an appropriate time period - five to ten years. Over the longer term they can provide decent returns with a low or negative correlation to stocks. It's important to remember they are part of a portfolio and are there to help when other parts are doing poorly, and should beat cash and bonds over the longer term. There has been lots of frustration where investors have had the promise of equity-like returns with bond-like volatility, but not received them. Professional investors should think carefully about where they are funding absolute return investments from and what they are expecting from them. If you fund absolute return investments from a volatile asset class, you can end up looking like a fool quite quickly if the market surges ahead, which it has a habit of doing against expectations.

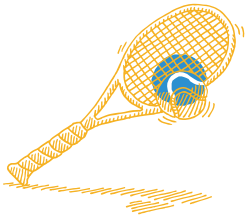
WHAT WORRIES YOU?

The maths doesn't add up on pensions. We are in a world where most pension pots won't generate what they need to. In that environment, there will be continued pressure on fees – which is a good thing – but lots of people will still be disappointed. Clients are always entitled to the bulk of gains and fees should be highly competitive. People need to invest more, not just expect more.



WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING THEIR CAREER?

Real expertise comes with a recognition of one's limits, including the presence of overconfidence and excessive fear. Study these behavioural traits and overcome them with knowledge, experience and breadth.

HOW DO YOU RELAX?

I am fortunate in that not much stresses me out. The biggest enemy in asset management is when one's own personal biases kick in - we saw a lot of this during the financial crisis. I am passionate about the firm that I have helped build, so it doesn't feel like work. My outlet is playing sports - tennis in the summer, squash or badminton in the winter. I have relatively young kids and an intense job, so I am not able to read as much as I used to. I try to use - and can recommend - the Blinkist app. It gives you 15-minute summaries of interesting books. While not perfect, it's much better than not reading the book.