TALKING WITH

Iain Stewart, Fund Manager and Investment leader at Newton Investment Management Ltd talks finance as an art, science and mountain cycling with Richard Romer-Lee of Square Mile.

Iain Stewart

HOW DID YOU GET INTO THE INDUSTRY?

I needed to earn some money! I was a scientist - a marine biologist with a PHD in Fisheries Science - but by 1984 it was getting tough to get work in science, especially with the job cuts under the Thatcher and Reagan administrations. The competition for proper jobs was huge. I had a few friends in finance and was interested in how markets and economies work - other systems alongside biological and ecosystems.

I was offered a job by Reed Stenhouse, an Anglo-Canadian insurance operation, as Stewart Newton's assistant. It was on a Thursday and they said if you want a job, come in the following Monday. They said "we will be taking a bit of a risk with you and you with us". It would have taken months in science to go through that process.

HOW DO YOU MAINTAIN YOUR DRIVE AND ENTHUSIASM?

I am a big picture person and it's such a broad industry - what's going on still interests me. I like developing investment themes and helping to focus our investment team, which is full of bright yet disparate people. I am motivated by trying to preserve clients' capital, making them money and trying not to frighten them along the way. We have a lot of responsibility - we are trusted by them to deploy their money and do a good job for them. It's an honour.

WHAT SHOULD INVESTORS WORRY ABOUT?

It feels like there will be another major financial problem, which will take people by surprise. The catalysts can be hard to spot, but are always obvious with hindsight. It doesn't really matter what they are.

There has never before been a time in history when the authorities have used financial assets as the main policy tool. Asset prices are being distorted by policymakers, which is likely to end badly.

WHAT GOOD ADVICE HAVE YOU BEEN GIVEN?

I was lucky enough to be surrounded by many people in the early part of my career who were quite fundamental in how they did things. There was no room for any B/S! I remember Arthur Bonas, who was ex Fed and had been head of research at Greenwells in the days when stockbrokers advised their corporate clients, and who ran the Exempt fund before me, saying "don't accept what everyone tells you as gospel". This struck a chord as being a scientist, I was trained to look at the big picture and then understand the detail. Be prepared to be patient – and frustrated for a long time. If your perspective is wrong, it is hard to see the wood for the trees.

WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING THEIR FUND MANAGEMENT CAREER?

Think long term and about the real risks of owning assets rather than the esoteric or quantitative ones. Finance isn't physics – it's an art, not a science. Quantitative approaches have become the norm as they are cheap, but if you take something that is not linear, like markets and finance, and apply too much quant, it will lead to false views. Science is iterative - standing on the shoulders of giants and all that - whereas in economics and finance we seem to go round and round. Economies are more like ecosystems than machines.

WHAT MAKES A GOOD FUND MANAGER?

Try not to be too emotional – especially as the market place is – and to have a good feeling for the things you do understand and make sure you get help for the things you don't. As a fund manager, you are always making mistakes – it's good if you get about 60% right. You can learn from your mistakes but try not to get too focused on the things you get wrong.

Fund managers sometimes are like goalkeepers. The rational thing is to take up as much of the goal as possible and hope you stop the ball. But they jump, as that's what's expected of them by the spectators. There's an element of that in our world, when often the best thing is to be patient, particularly when the risk/reward is against you.

When prospective returns are lower, the asymmetry of returns and risk become more important. If you can participate in periods that seem more irrational then great, but it's not easy. The idea you can put a number on risk and control it is hard to fathom. Finance is not linear - it's mainly an experiment in leverage.

WHAT'S THE MOST EXTRAORDINARY THING YOU HAVE SEEN?

Sitting in the office on 9/11, everything stopped as people were looking at the screens...

At a market level, and in a big picture way, how cycles and asset prices are built on belief and for how long they can go on. The 1990s experience culminating in the tech bubble - what people were prepared to believe in an environment where momentum was strong enough - was pretty extraordinary. In times like that I feel like the person trying to exit the tube station when everyone else is going in. It means I don't get all of the upside, but hopefully avoid the howlers.

WHAT SHOULD INVESTORS DO IN AN ENVIRONMENT WHERE RETURNS ARE LOW AND MONEY IS CHEAP?

The authorities have incentivised people to use leverage (e.g. credit) to chase yield - if you can't get it risk free, move along the risk spectrum. In trying to limit this, people are looking for alternatives, for example taking illiquidity premiums, but this will be affected by the broader market environment. Even if one accepts the illiquidity, at times of stress things are likely to be more illiquid than one thought. There is another option, the hardest of them all - that is to be patient. However with the amount of intermediation in the industry, people need to justify their fees and this becomes less of an option as the pressure to do something intensifies.

WHAT WORRIES YOU?

It concerns me that people have been attracted to absolute return who should have money on deposit, and that our industry gives the impression that returns can be generated in all market conditions in a low risk way. Our approach did not originate in that way. We always wanted to focus on capital preservation and asymmetry, with an upwards only target in a world where indices could be unreliable.

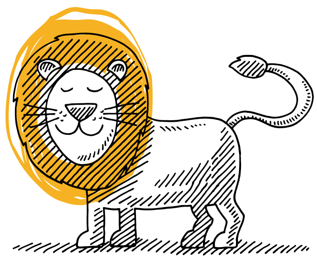
There is a risk asset managers could be in the crosshairs, if things go wrong, as banks were last time. That investors have been displaced into risk when perhaps they shouldn't have been and that liquidity in many instants is not as great as people might think. As a result of this shift, a small change in sentiment could lead to a big change in price. I worry how ETFs will work in a stressed environment and I worry that the industry gets even more regulation on the back of public opprobrium.

HOW DO YOU LIKE TO RELAX?

By taking exercise - mainly cycling. I love the Alps and cycling in them in the summer and skiing in winter. Last summer I cycled from Mont Ventoux to Antibes. Whilst I was not in for the competition, I managed to do Mont Ventoux in 1 hour and 59 minutes, which was 6 minutes quicker than 4 years ago! I also enjoy gardens, and the natural world as a biologist.

WHAT WAS THE SEMINAL MOMENT IN YOUR CAREER?

Being given the opportunity to run the Newton Exempt fund in 1992. I have been associated with/involved with it since then. The Real Return fund was an evolution of this.



WHAT ARE YOU PROUD OF?

Professionally - that we have a reputation for doing a good job. We have demonstrated that you can create a pretty decent business from having a view and good research. I am also proud that we have built excellent careers for many people.