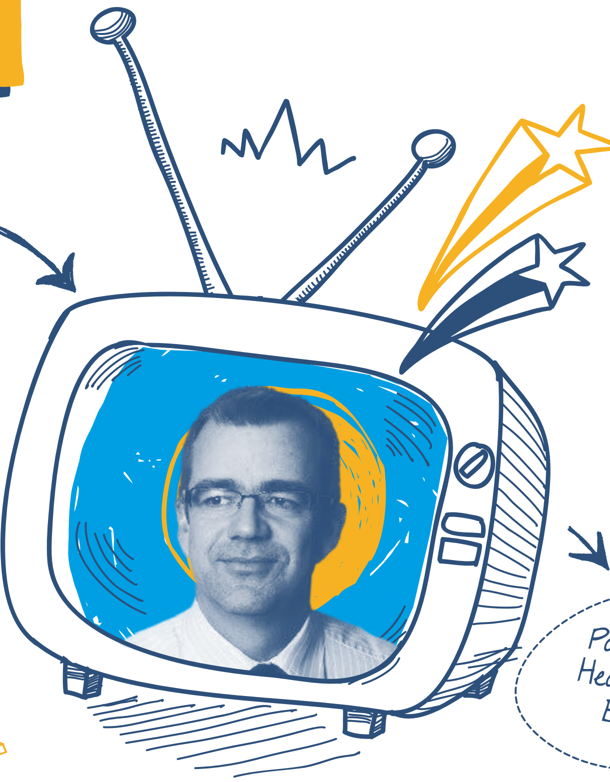
TALKING WITH

Hugh Sergeant

Hugh Sergeant, Partner and Head of UK Equities at River & Mercantile talks investment philosophy, writing and the beauty of landscapes with Jason Broomer at Square Mile.



Partner and Head of UK Equities

WHY DID YOU ENTER THE ASSET MANAGEMENT INDUSTRY?

I studied economics, finance and history at the LSE. One of my professors there, Les Hannah, focused on corporate history and he had written extensively on blue chip firms such as ICI and how they had developed over the years. Academic concepts applied to the real world interested me and helped pique my interest in the stockmarket.

In those days, fund management had a lower profile than areas such as trading and investment banking but the focus on medium and long term trends appealed to me far more than more short term thinking prevalent in the other sectors.

To be a good investor you need to understand the historical background. The lack of focus on market history is an omission in courses such as the CFA however good the technical training is. In fact, the level of financial education of the general public is generally unsatisfactory. Nothing is taught at school and, perhaps asset management firms have some responsibility to promote better financial education. Most investors are naïve and do not recognise the power of compounding and as a result become overly focused on the short term rather than the long term.

WHAT WAS THE MOST FORMATIVE PERIOD OF YOUR CAREER?

I was hired by Gartmore on the university milk round and spent three years there. Joining in 1987 was an interesting moment, however, Gartmore had at this stage no overriding cultural standpoint and most employees did as they liked. I really began to develop as an investor when I moved to Phillips & Drew/UBS where the culture was very much focused on value investing. Here Tony Dye was a mentor and although he is best remembered for being sacked at the height of the TMT bubble, he developed an extremely strong record over the course of his career.

IN SUPERMARKETS PEOPLE BUY MORE OF GOODS WHEN THEY ARE SOLD ON DISCOUNTS YET IN THE STOCKMARKET BARGAIN STOCKS ARE SHUNNED. WHY?

This comes down to the behaviour of the crowd, investors can be collectively put off by perceived risks and noise. Stock markets have continual cycles which are driven by animal spirits and human psychology. This presents the opportunities for value investors.

WHAT MAKES A GOOD FUND MANAGER?

It comes down to finding a way of making money that suits your own DNA. Investment philosophy comes first. You also need independence of thought and the ability to stand back from the crowd. Often the pressure is most extreme at turning points in markets and these moments can test your strength and independence. You need full confidence in your underlying investment philosophy. For example, it was very trying in 1999 buying into stocks that were continually falling in price, sometimes as much as 3 or 4% in a day, as the TMT names boomed. 2015 was a similar experience in many ways as investors became only interested in 'quality' names during the bond bubble.

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IS VALUE INVESTING THE SAME AS CONTRARIAN INVESTING?

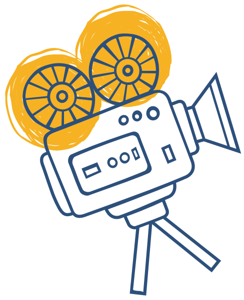
No, I don't think it is. You don't want to be always fighting other investors, you need other investors to follow you. Contrarianism is only really required at turning points in markets.

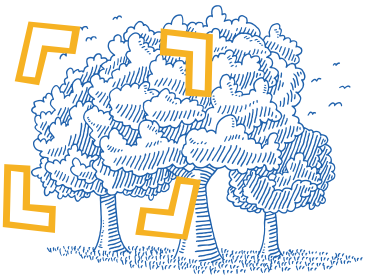
HOW HAVE MARKETS CHANGED OVER THE YEARS?

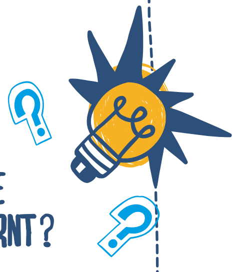
Everyone now has the same information and it has made the market cycles even more extreme. People are most comfortable in a crowd and this presents the opportunities to exploit. The availability of data is so much more widespread, for example we can now screen micro stocks in Brazil.

WHAT INTERESTS DO YOU HAVE OUTSIDE OF WORK?

Family life does come first though rather sadly investments come a close second. I was brought up in Malaysia so I love to travel and like a cosmopolitan lifestyle. That said I do enjoy the countryside and trekking allows you to savour the beauty of landscapes. I also enjoy the arts whether theatre, movies, or music.







WHAT IS THE MOST VALUABLE LESSON THAT YOU HAVE LEARNT?

You need to be able to offset your natural weaknesses. For me, I can sometimes get too excited by the value opportunities presented by markets. This needs to be tempered by developing stronger timing disciplines and only commit the most capital at the appropriate moment. You end up losing a lot less sleep as a result.

WHICH BOOK WOULD YOU RECOMMEND?

I don't think there is a single book. Ben Graham's Intelligent Investor is a fine place to start but Buffett and Templeton shouldn't be overlooked. Peter Lynch is also worth exploring although he is often labelled as a growth investor. He was always comfortable buying into more than one stock to get exposure to an idea and had at one stage over 200 positions in Savings & Loans companies. I too am sometimes criticised for having a long list of portfolio holdings. Oddly I also see Anthony Bolton as having a similar approach as Lynch, perhaps this comes from the Fidelity heritage. Bolton used charts as a tool to help his timing, a further useful lesson.

I KNOW THAT YOU HAVE SPOKEN IN THE PAST ABOUT WRITING A BOOK. HOW DO YOU INTEND TO DIFFERENTIATE IT FROM OTHER BOOKS BY VALUE INVESTORS?

I think my quarterly reports will provide a lot of information for the book. The River & Mercantile value approach is slightly different to other value investors with its focus on potential and timing as well. The mix of quants and fundamentals is very powerful. The value discipline offers a clear way to make money but the approach taken by say UBS can be too narrow and can act as a restriction.

The development of our global approach has been a natural extension of our process. In some ways, my earlier focus on the UK has meant that I have not got into the detail of the impact of the emancipation of billions of people around the world until recently. This is something I regret. Over a billion people in China alone have been lifted out of poverty into the global economy. The transition of process towards a global approach is much simpler than in the past, thanks to technology. This is an exciting time to be doing this.