

TRANSCRIPT: EPISODE 72
28 May 2020 (pre-recorded 27 May 2020)

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Please note that these are unprecedented times and markets can react very quickly to news. The views expressed are at the time of recording and could change.

[INTRODUCTION]

Darius McDermott (DM): I'm Darius McDermott from FundCalibre and this is the Investing on the go podcast. Today I'm particularly delighted to be joined by John Ions who is CEO of Liontrust. As regular listeners to the podcast will know, normally we talk to fund managers about asset classes and regions and we thought it would make a nice change to actually talk to somebody who runs an asset management business. So, John, thank you very much for taking some time to talk to us today.

John Ions (JI): Thanks Darius, it's good to be here.

[INTERVIEW]

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DM: So, look, I've known you for a long time, we've been around for several of these dicey markets. This one as much as any, how did it feel being a CEO of an asset manager business during the extreme market falls in February and March?

JI: I suppose like many things you continually try and, you know, prepare for things and as you say, we've been around for a while, in my 32 years I've seen, you know, sort of market corrections and shocks and things, but I think this one was totally different and different in so much as there's obviously, you know, nobody predicted what was going to happen, but it happened at a time when, you know, economies were operating relatively efficiently and there wasn't too much stress in the system. So, first and foremost, as we got to see what was happening and the spread of the virus and the slowdown coming in place, it was, you know, important for us to sort of get to grips with what we were going to do, where and how we'd operate, it became sort of clear a couple of weeks before we all sort of departed our offices that that was the position we were going to get into.

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And so you know, we had to, you know, to plan to take effect of that, at Liontrust you know, we were very fortunate that we had a strong belief in sort of embracing that working from home culture and looking at how we improve sort of work life balances for people. Operating on the assumption that if you want to attract the best talent in fund management, sales, marketing, the administration side of the business, you've got to create the right environment for people. But you know, so we had plenty of experience of operating like that, but I suppose the big challenge was taking 10-15% of the workforce and applying that principle across that whole company to a hundred percent.

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DM: And how was that just from a technology point of view and I know a number of your fund management teams as you stated already work from home the majority of the time, but new things sort of an entire firm, not just fund managers who clearly need their Bloomberg terminals, et cetera. What challenges did that bring up for you?

JJ: There's, sometimes, you know, you get lucky with these things, with the acquisition of Neptune that we made last year, we'd only just finished integrating them into our office so that it meant that when we had to start moving people away, the core kit you need, what we sort of refer to is as are the golden nuggets these days, hard drives, screens, we had an excess supply of those. So, phase one in terms of actually kitting people out, you know we got lucky there from that point of view. The other side of the business is that we stress process, not just through fund management but through sales, through marketing, administration, all the time and we have a phrase internally which is if you like, "the relentless pursuit of the basics," we know that every day we come to the office or we don't come to the office in this environment, we do the day job as well as we can day in day out that will give us the edge.

So, having those sort of, rigorous and very robust processes across all aspects of the business allowed us, you know, once we started to separate from the central core of our offices, to continue if you like, with the daily routines and processes that are there. And so, we had inbuilt checklists to go back to from that. Now there are all sorts of different ways to communicate and the way we're doing this Zoom call now, you know, one of the things we have seen probably is five years change, you know, in 5, 10 weeks now.

DM: Yeah.

JJ: Of the technology, the technology always existed you know for the last two or three years. But now the fact that people are being forced towards that change, you know, we've been able to embrace it across the business.

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DM: And do you think that will carry through to sort of fund manager meetings with clients when we are all able to be together again, do you think that there's more likely that now this Zoom meeting, because you always you know, fund buyers want sort of to look the fund managers in the eye and you know, more often than not they were done face to face.

JJ: Yeah, there was always that bias there beforehand that, you know clients would like to see fund managers in a one on one basis but very much with the sustainable team we've used a lot more video conferencing with them before the adoption and I think the fact that it's worked so well for fund management meetings, I think that means we will continue to have, you know, a very high content of that. It makes, you know everybody's working day much more efficient. I'd go as far as to say that even as we start to open offices up and move back towards there, realise that, you know, the environment, the social distancing will be in place, people will be worried about commuting and traveling. So, there'll still be a very high degree you know, 80%, 90% of meetings I should think coming up towards even to the year end we'll be through these medium.

[5:55]

DM: Yeah. I think I agree with you pretty much entirely there. You talked about that sort of 'five years in five minutes' type of change that we've had enforced on us from a technology point of view. We've had to learn to use Zoom and switch our cameras on and off, all these sorts of things. But do you see as a CEO of that business anymore structural change. Do you think that working from home culture will be more prevalent? You might need less office space, more hot desking. Do you see any sort of meaningful change that the pandemic has caused going forward?

JJ: I think there's...I've looked at a lot of you know, things over the last 10 weeks and looked to see, you know what have we learned? What did we used to do? How do we do things now?

And what are the positives we can take from this to change, you know, our business and develop it going forward? And I think a lot of this use of technology means that we can incorporate it into, you know, getting a much better work life balance for our employees. I think it means that we can get information much more timely, out to our clients. You know, the utilisation we've done with, you know, certainly you know portals for regular video updates from fund managers, from being able to do closed webinars in people's offices and multiple offices at the same time. So, I think that will help there.

I think we'll have more hot desking. I think, you know, that there's differences across the company and there is a bit of a sort of an age thing to it. You know, a lot of the younger people in the office a lot more of their social life you know comes around those. And so some of the softer things that are still as vitally important in building a culture inside of a business, they're important. So, you know, we'll still have office facilities where people will still come in. But I think what we will start to do is start to think more about teams you know, coming in for specific days, maybe Tuesdays, Thursdays,

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other teams, Mondays, Wednesdays, and giving people that time to work from the home. I certainly think on the research side, on the fund management side, you know, the ability to operate in isolation, especially in times of such volatility in stock markets, actually to be able to get away from that noise and just to go back to your checklist to look through stock selections all the time to absorb that information in that sort of isolated environment can very much be seen as a positive.

[8:33]

DM: So just from a FundCalibre's perspective then, we rate several products from your UK franchise of the Economic Advantage team, which we've been familiar with for a very long time. What do you think it is about that team particularly then that's made it so strong but not just so strong, but you know, that consistent level of outperformance that they've managed to deliver on the longer standing products and actually now that the newer product, which of course is the [Liontrust UK] Micro Cap fund, that's got off to a tremendous first three, three and a half years.

JJ: I think, you know, that team led by Anthony Cross, Julian Fosh, Victoria Stevens, Matt Tonge and now Alex Wedge in it there, you know, just shows, you know, how you can take over the 10 years I've been involved with it, but the 20 years where they've produced, you know, outstanding returns from the funds shows, you know, the importance of process there. You know there is a beautiful simplicity to the economic advantage side, you know, they're looking for that intellectual property, you know, strong distribution, barriers to entry, recurring incomes, looking for companies that have got strong margins, generate good cash flows, providing that sort of higher return on your invested companies. And selecting those companies that you know are going to compound and do their job year after year after year and have faith in those companies, you know there's a beautiful simplicity to that.

But there's an awful lot of rigor and process that goes into identifying and selecting those companies and to always, but to always have a checklist to go back to. So, you know, so when you get periods of extreme volatility like we're seeing now is, well, why did I buy that company? Or do these reasons still hold good? Has anything changed in that perception? And that, often you need to ask those questions nearly on a daily basis, you know, of those businesses. And if the answer is no, nothing else changed, despite the short term noise of the stock market, you know that's a good investment. You know, so often when you see that, and you're right, you know, there's an exceptional team that's produced fantastic returns over a long sustained period of time.

It's been through many market cycles. So I having that reference point, that process, that axis, that anchor through periods of uncertainty is vital and you see it with other teams where managers have moved away from what their initial investment criteria were because of the outside noise and you lose the effect of your process and your performance suffers. So, you know, I think it's an incredibly talented group of individuals with you know, an excellent process and they themselves will say that

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what they do is they, you know, they just focus relentlessly on checking that and making sure that it does and it produces those exceptional returns.

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DM: The other franchise which you very cleverly got in, I think nicely ahead of the game, is the ESG or sustainable investing. You brought a team in, several years ago and the [Liontrust] Monthly Income Bond is rated by FundCalibre, just as a good high income corporate bond fund, not the fact that it's responsible investing, obviously it's a nice extra to have.

Do you think that the ESG, which was very topical in the last couple of years in our industry is a sustainable thing? I don't want to use the pun sustainable but, or do you think this is just one of those trends that we do see come and go?

JJ: I mean I think when we acquired the business three years ago, it was a business I was interested in five years before that. I think, you know, it's one of the big drivers. I think if you look at people talk about you know, is this a tipping point for, you know, sustainable investment, it's been rising up the agenda, you know, for a long time. You know, it's a reflection of the way the economy has worked for a long time. There's always been progress for cleaner air, cleaner environment, more fuel efficiency, you know, developments around the world. But I think now, you know there is a very good focus on that and I think, you know, the sustainable credentials, the things you look for or things that are reflected in sort of, you know, quality management.

I mean when you look at the recent correction in the stock market, people have sort of looked at it and thought it was a fairly indiscriminate, you know, fall. But if you look back over the last few months now you can see that there has been a bigger bias towards sustainable companies. You know, they've perform significantly better than companies that would say screen poorly for ESG requirements. So, I think that whole concept of you know, sustainable investing is a nice to have in a bull market, I think that myth has been completely debunked. And if you look at what kind of things go forward and you know, the importance of that and you know, no more so now than improvements in healthcare improvements, you know, in sustainable resources will become more and more, you know, take more and more of investors' focus.

[14:17]

DM: And you did touch on briefly the fact that you've been at Liontrust for 10 years, doesn't time fly when you're having fun, but Liontrust has been totally transformed in that period of time. It's been one of the few asset management companies, which has consistently been able to post positive flows both from a net and a gross basis. What's next for Liontrust John, what's the next phase?

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JJ: I always say that, you know, the key is just to continue to do the things that we are doing, you know, well, you know, the growth for the business and it has been exceptional over the last 10 years. That's based on a tremendous group of people and talent in the business and a very clear focus on what we do. You know we say we don't have a crystal ball of where markets are going to be. A lot of that's predictable, but you know, we know that process should be predictable and process across all parts of the business. And as I say if we do the day job day in, day out, as best we can, we know that will give us an edge on the others. There'll be plenty of opportunities for us to grow the business. I know through periods like this, I can't tell you where flows will be, I can't tell you where stock markets are going to be, but I know that there's a good opportunity for us to improve our market share in the industry to take things forward and, but very much just stay focused on the plan we've got. And the plan has always been, you know, organic growth if we can get it first and foremost, those are the things that myself, the management team, the employees inside the business can effect on a day to day basis. We look to hire in new teams where we believe we've got good strong investment process. But you know, we don't try and be all things to all men. We just look for the areas where we think we can deliver a compelling proposition.

The other side will be acquisitions, which we have made in the past. But you know, just because you've seen it now, just be those things get cheaper, it doesn't mean that they're good businesses, so you've got to have a clear focus on what you want to do or you want to do well. There are plenty of things that we can do and continue to add value with the existing business that we've got and I think those are the things that we're going to concentrate on first and foremost.

DM: John, thank you very much for that insight from the sort of the top of a fund manager business. As I say, we've had many fund managers from all over the world talking to us about their asset class and their geographies and I think it's been refreshing to hear from an investment person but not a day to day investor. So I really appreciate you taking the time in what are unprecedented times and really busy for everybody, so thanks very much John.

JJ: Pleasure, thanks very much Darius.

DM: For more information on any of Liontrust's Elite Rated funds, please visit FundCalibre.com and to subscribe to the Investing on the go podcast, please visit your usual podcast subscriber or at FundCalibre.com