How COVID-19 busted a longstanding funds management myth

By Lachlan Hughes — 1 minute read 05 October 2021

The funds management industry has thankfully been relatively unscathed by COVID-19.

By and large, managers of all sizes have been able to carry on, although the pandemic has halted site visits and face-to-face meetings.

This has been a problem for large global equity managers given they position their expansive network of portfolio managers and analysts on the ground as their unique selling proposition.

Since the 1990s, when a flurry of international managers entered the Australian market in search of superannuation mandates, large managers have talked up their ability to cover an extensive investment universe and gain unique access to business leaders.

However, COVID-19 has created a more level playing field, with portfolio managers and analysts grounded and working from home for almost two years.

Arguably, there has been a level playing field for many years and this is reflected in performance league tables, which show a mix of small, medium and large firms at the top.

Technology and tougher regulation have minimised the likelihood of certain parties getting the jump on the market.

In the global equities large cap universe, there are no selective analyst briefings.

Professional investors, regardless of their size, get the same real-time information whether they're on Wall Street or Queen Street in Brisbane.

Details of earnings calls and investor presentations are public and investors can listen from anywhere in the world, receiving the same content at exactly the same time.

The CEOs, CFOs and senior leaders of listed companies take their disclosure obligations extremely seriously. Every precaution is taken to stop information from leaking and companies are careful not to spin for fear of misleading the market.

In this context, a manager's physical proximity to a company (i.e. being in the same state or country) and close relationship with management is largely irrelevant. Every investor gets the same story.

As such, even after the threat of COVID-19 has passed, managers will have the same opportunity to outperform.

With so much data available, the key is what managers do with that information.

As cliché as it sounds, separating the good from the average comes down to the Four Ps: people, philosophy, process and performance.

Proximity doesn't move the dial.

Big is not beautiful

In asset management, being big has its challenges. Size impacts a manager's ability to build meaningful positions in stocks, move quickly and generate alpha. It also heightens the pressure on managers to protect market share, often resulting in benchmark hugging.

Furthermore, large organisations are often hampered by legacy and bureaucracy, which means the distance between the people who do the work and the people who make the decisions is greater. A process and culture that does not promote teamwork and collaboration means bosses are less likely to be challenged and the best ideas may not get the attention they deserve.

Yet organisations that encourage employees to voice constructive concerns or ideas can play a critical role in improving organisational effectiveness and performance, according to a recent academic article in *Organisation Science.*

A speak-up culture that fosters openness, collaboration and humility is essential for consistent, sustained success.

Managers that believe in their philosophy and trust their processes should invite challenge because their style, methodology and conviction should be able to stand up to opposition.

Ultimately, process guides decision-making and ensures that the data that a manager values and prioritises is considered.

Bottom-up investors focus on company fundamentals like earnings, competitive edge (or moat) and people. Top-down managers place greater importance on macro-economic cycles and themes.

In the case of people, a manager may study a leadership team's track record of completing projects, delivering results and telling the truth. That may mean reading every annual report and listening to every result briefing for the past 10 years. It may involve tracing a recently appointed CEO's career back to previous employers to determine their ability, integrity and effectiveness.

An interesting case in point is the 2017 appointment of Mark Schneider to CEO of Nestle.

Renown for promoting internally, Nestle's move to poach Schneider from global healthcare group Fresenius led fundamental investors to dig deep into his background. They didn't need to be in Zurich to do their research. In fact, being outside the capital city bubble most likely enabled them to filter out the noise.

COVID-19 has again challenged the myth that global managers with large teams on the ground in every major capital city have an edge on their smaller, lesser-known peers.

The performance tables demonstrate that there is no correlation between outperformance and a manager's size or location.

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