citywire global

1 OCTOBER 2014

SET YOUR OWN COURSE

For Grieg Investor's JOACHIM JELLUM fund selection isn't about ticking boxes. He tells **Atholl Simpson** it's about passion and finding straight-talking managers with the freedom to take risks and make mistakes

You can't fault Joachim Jellum's logic. If you want long-term market-beating returns, says the head of research for Norwegian institutional consultant Grieg Investor, you need to take risks and tolerate the odd mistake.

However, most fund managers are under increasing pressure to avoid temporary underperformance, which can lead to a narrow focus on short-term outcomes and a fear that the wrong call can cost you your job.

'Career risk has turned out to be one of the most important things we want to find out about managers but you can't ask about that in a questionnaire,' says Jellum, whose group has €4.8 billion of assets under advisory.

For this reason a lot of the names on Jellum's selection list are from independent boutiques, as many have a structure that allows managers to make mistakes and learn from them.

'When you start out as a fund manager you are young, hungry and ambitious and you have to take risks to outperform. Your moves are open for all to see but even the best investors are wrong four out of 10 times. So there is a real danger that you cuddle up with the herd after a couple of big misses. This is where the importance of culture comes in,' he says.

The more risky the strategy a fund manager runs, the more important his working environment is and the more support the company needs to provide.

'The people who hold the key to a fund manager's future in the company need a firm grasp of what the strategy is all about and you tend to get that in smaller firms.

'That is also why you don't find a lot of these high risk funds in banking systems because the people evaluating the manager's work in these set-ups don't really understand the approach and when they see underperformance they can't appreciate the bigger picture,' Jellum says.

BORN FREE

Based in Oslo, Jellum joined Grieg Investor straight out of university in 2004. A friend who was already working for the group told him about its strong independent philosophy and as a young upstart he was attracted by the chance to make his own recommendations free from overbearing influence.

He has been refining his selection approach over the past 10 years, learning from the decade's economic rallies and crashes and his numerous fund manager encounters.

'Being independent means that I can say and do exactly what I feel is right, there is no company policy. When I present to my clients I can tell them what I do and don't like about these investment strategies, there is no ulterior motive in anything that we do and it is very liberating.'

Grieg Investor focuses solely on institutional investors such as pension funds, insurance groups, charitable foundations and family offices. Jellum's clients include Norwegian Life Insurance company Silver Pensjonsforsikring and while his core investment approach is the same for all those he advises, there are some key differences between them.

'Family offices, for example, manage their own money, take a keen interest in their investments and need a lot of care and attention. With pension funds the focus tends to be more about regulatory demands,' he says.

Whatever the variables, long-term investment is what underpins his decision-making process. This is a high conviction approach that goes back to his company's roots and is clearly visible in the type of fund manager he targets: those with passion, dedication and with broad, independent minds.

MEETING OF MINDS

One of his favourite managers is fellow Norwegian **Kristoffer Stensrud**, the Citywire A-rated manager of the **Skagen Kon Tiki** fund and founder of Skagen funds boutique.

'Over the years I have learned that asking the manager how they have come about investing, hearing their life story and finding out where their passion started is key to understanding their motivation and process.

'Stensrud, for example, is not just reading sell-side books, he's interested in history and philosophy and has a very broad mind-set.'

This search for independent thinkers goes hand-in-hand with Jellum's desire to find managers who are not threatened by career risk, as he wants them to be able to invest along their own set of investment criteria.

'All fund selectors are looking for pretty much the same general attributes in a fund manager. It is the harder-to-measure stuff such as such as career risk and independence of thought that we spend more time on and that is where our experience comes into play,' he says.

'The quant side has become increasingly effective. Today there are plenty of products you can buy off the shelf that give you a fairly good indication of where the returns are coming from so it is very hard to gain an edge on quant work. For this reason the qualitative side is more time consuming.'

Another group that ticks the boxes for Jellum is US boutique Sands Capital Management, a Washington DC-based group founded by Frank Sands in 1992, which specialises in just one thing.

'All they do is growth investing,' says Jellum, who invests in the **Sands Global Growth** fund managed by **David Levanson**, **Sunil Thakor** and **T. Perry Williams**.

> 'You can find good managers in surprising places, so you have to be open-minded'

'If you try this type of system within a traditional banking group then it wouldn't work and you wouldn't be allowed to run with those positions, but you can with Sands because Frank Sands is the one who founded the company.

'As a selector I am always looking for these kinds of structures, especially when they are high risk strategies,' Jellum says.

GLOBAL OUTLOOK

The driving force behind Jellum's asset allocation choices is to pick fund managers that have a global mandate. Within his equity portfolio around one-third are index funds while the remainder are active long-only vehicles.

Funds like Sands Global Growth and **Artisan Global Value**, run by **Dan O'Keefe** and **David Samra** from Milwaukee-based US boutique Artisan Partners, embody this approach. Emerging market equity fund Skagen Kon Tiki is the exception that proves the rule, as this is one of the few regionally-focused funds in Jellum's portfolio.

'We believe in the long-term approach and by offering global mandates to clients instead of regional, sector or country-focused ones, we are a lot less tempted to actively change our exposures than if we had all the building blocks to play with.

'We are very aware of the behavioural side of both ourselves and the investor, so building a portfolio that is robust and diversified is essential.'

Despite his preference for boutiques, Jellum says his team doesn't shy away from funds run by bigger groups, such as **Nordea's Stable Equity Global** fund managed by **Claus Vorm**, as long as they fit into the portfolio construction plans.

'We spend a lot of time thinking about portfolio building. It is one of the few things in the industry that you can control to a certain extent. Our goal is to put together funds with different personalities so the overall portfolio is robust and flexible.'

For Jellum, fund managers have to strike that balance between being knowledgeable about the companies they invest in and understanding the current market environment, without falling into the trap of macro investing.

'We look at the full package and see if it makes sense to us. We always ask ourselves, do we trust the person in charge and what they say?

'You can find good managers in surprising places, so you have to be open-minded and take it on a case-by-case approach.'

Jellum uses the same principles when hunting for fixed income managers and seeks funds run along a global mandate that are diversified across countries, currencies and credit curves. In this space he opts for fund managers that invest in the upper scale of high yield and investment grade bonds.

UK boutique BlueBay Asset Management is one group that makes the grade and Jellum invests in Raphael Robelin's BlueBay Investment Grade Bond fund, among others.

Despite all the news surrounding the current interest rate environment, Jellum says he has not made any significant changes to his fixed income allocation.

'There has been a lot of negativity around rates being low but one of the reasons you have fixed income is a deflation hedge. We are open to all scenarios, the worst thing we can do is have all portfolios geared to one or two outcomes.

'The rising rate environment has been a real concern for us but you need to be aware that going really short is not free, it can cost you money and you should have a good idea of when the interest rates are going up and by how much. We might have slightly reduced duration for some of our clients but we haven't massively gone short.'

MANAGER ENCOUNTERS: TALES FROM THE FRONTLINE

FALLING OUT OF LOVE

'We were invested with a manager where the number of stocks had steadily increased over time,' says Jellum. 'His performance was fine but we thought we'd address this at the meeting in a subtle way and began by asking him: "If you were starting your fund from scratch today, what would the optimal number of stocks be?" He answered about 40-45 stocks. "So why are you invested in over 90 stocks?", we asked him. He replied that selling was hard and that it was easy to fall in love with your stocks. Looking back, this turned out to be one of our better sells, and probably among the easiest as well. You don't get straight answers like that anymore unfortunately.'

DIFFERENCE OF PERSPECTIVE

'We had a meeting in New York with a hedge fund some years back and the risk manager was going on and on about his great risk system and on our way out we asked to see it. It turned out to be an excel spreadsheet with plain vanilla formulas. I'm not saying that this model didn't do the job, it is more that when people say they have "great systems" or do "very detailed analysis", these expressions mean different things to different people. The way we have dealt with this is to kick the tyres harder than we did in the early days of our company. For example, we will simply point at a random stock and ask to see the full analysis. Then we sit down with one of the analysts and ask them to show us some of the systems they use. People are so skilled at presenting that you really don't know how effective their approach is until you check it out for yourself.'

THE GLASS TABLE TRICK

'A fund manager in London we visited told us he has a glass table so that he can read the body language of the people sitting opposite.'

LONE STAR

'We flew over to New York to meet someone whom we had already labelled as a star manager in his own right. When we met, the manager went some way to confirm this accolade by admitting that the only reason there was a team attached to the fund was because the company he worked for insisted on this as it believed a one-person outfit wouldn't look credible.'