

## Whatever it takes

By Michael Pascoe

**PORTFOLIO POINT: Getting the best returns mean first getting the best managers, a race apart, says Ian Macoun, who has just poached an entire team.**

Investing in managed funds is all about investing in the right investment teams. It's all about the people behind the portfolios. Ian Macoun, the managing director of Pinnacle Investments, has taken the principle to new levels with some high profile "poaching". Macoun is the man behind the spectacular poaching of Suncorp's investment equity team last week. The announcement that Denis Donohue and his very successful Suncorp would jump ship to Pinnacle was widely reported.

No wonder. Donohue's team – the group behind Suncorp's flagship Australian Equity Fund – reported an average 24.8% return before fees over the past five years. Now Donohue and his nine-person team will join Pinnacle, leaving \$5 billion worth of investments looking vulnerable since funds often follow the management that assembled them. In recent weeks it has been reported that fund manager UBS has endured outflows of nearly \$3 billion in the five months since it lost its equities team led by star manager Paul Fiani, who has opened his own boutique group.

What's the plan at Pinnacle? How does Macoun expect his dramatic recruitment ventures will pay off? The one time head of QIC and Westpac funds management is ready to answer our questions.

### The interview

**Michael Pascoe: Is it fair to say that Pinnacle collects boutique funds managers?**

Ian Macoun: Yes, we're in the business of helping experienced investment management people to set up their own investment management firms and to be in the business of running money; of investing money on behalf of both wholesale and retail clients. We think that the boutique structure, as it's been called, is by far the best way for investment management to be done these days. So the prospects of producing strong investment returns and sustaining strong investment returns over long periods of time are far greater in a specialist investment management firm that does nothing else than in, for example, the investment department of a major bank or insurance company, which is the way this has been done in the past.

**Well looking at this from an investor's point of view, why?**

I think experience is telling us that these people are producing the best returns in general and sustaining those good returns for long periods of time. Now there are a number of reasons for this. One is that good investment people seem to have left institutions fairly frequently, so institutions are not able to sustain a stable team over long periods of time. (Pinnacle poached the Suncorp investment equities team in November). I think institutions can't help but kind of require investment people to do other things and to work within other rules and structures.

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## **Are you talking about bureaucracy or perhaps compromising their goals for investment bank reasons?**

Look, I think the reality is that the institutions are set up to undertake different functions and you need a different environment for different functions. Certainly I think there is pressure, for example, on investment people to take more and more funds under management in an institution whereas in a boutique they will say, if we take more money there's a risk that we will prejudice our investment performance and so they won't keep taking it.

On the other hand, in institutions the edict comes from on high: 'We want you to grow by another 20–25% this year and keep doing it'. Most importantly, it goes to the nature of these people. Good investment people are pretty rare. They have unusual personality traits. They are very focussed. They are passionate about investing and very focused on working and thinking about which companies are going to be the best investments, and people like that just don't fit naturally within the structures and the environment of institutions.

You need the organisation to be designed specifically for the function of investment management. Institutions are good at a lot of things. They're good at distribution. They have lots of individual retail customers and they can gather up those monies and products and give it in bulk to good investment managers, but I think their best job is to be in distribution and then to parcel that money out to specialist investment management firms. That's how the investors get the best performance.

## **You've run institutions, big institutions?**

I have. I was the first chief executive of Queensland Investment Corporation, which now has about \$60 billion under management. I also ran Westpac's funds management business and you know, when you get to my age – I've been around doing this sort of thing for 20 years – you get to know all of the organisations and have a good understanding of how they operate and I am very clear that based on my experiences, and not naming any particular organisations, you are much more likely to get good investment performance out of this sort of structure than an institution.

It's something they should automatically outsource. Quite a few of them have done that. Others are sort of compromising towards this structure. Obviously BT has been listed recently and so Westpac are moving towards this kind of structure, but I think the pure boutique model where the investment people own the majority of the business, it's their business to set it up and run it as they see fit to produce good performance, but to be supported by another organisation that's good on the infrastructure – that's the best of both worlds. That's the ideal model.

## **Now while some boutiques are the best performers, some boutiques are also the worse performers.**

Exactly.

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**And you could say, 'Well, they're the best performers because they take more risks'.**

The reason that we do what we call a house of boutiques is that it is true an individual boutique on its own can be fragile because they have to do so much, and it's the same problem within institutions: they're trying to do too many things; but a boutique that has the distractions, the other functions done for them, by and large are the best performers and it's a great sustainable model but there's no substitute for doing your homework and figuring out who's good.

**Well, that's probably, from the investor's point of view, that's the multi-billion dollar question. All sorts of boutiques get all sorts of good results for a while, and bad results. How do you tell which ones are worth putting money with?**

You have to take a good look at who the people are, what their experience is, what their track record has been, how they've managed money in the past and whether they are they still doing it that way. Now you mentioned that they take more risk. I don't think that is necessarily the case. In fact, our boutiques typically are doing exactly the same sorts of things that they used to be doing in an institution. So the Suncorp team has just joined us to set up a new boutique; they will be managing money in pretty much exactly the same way in their new boutique as they managed money for 10 or 15 years at Suncorp, so it won't be more risky. The question is: will the organisation be more risky, so an individual boutique could be fragile. They may be less attentive to compliance and those sorts of issues. It's very important to make sure that they have those issues covered and again, the buyers in our model, our boutiques have all of that done for them by Pinnacle. All of the compliance and the fund administration, insurance – all those sort of things – they're done for the boutiques in a way that we get economies of scale in those functions.

**From an investment diversity point of view, would you still think an investor shouldn't have all their money with one boutique?**

Yes, an individual investor shouldn't have all their eggs in one basket and should have their money with more than one investment manager. But I would say to pick the specialist investment managers who are expert at that segment and that style; so if it's Australian shares, pick two or three excellent Australian share investors...

**Based on their past performance and Australian personnel?**

Well, you need to make an assessment. Past performance and the people are important. The structures that they're in are important. Now I know sometimes individuals are going to need some advice on this and that's what research houses and asset consultants and dealer groups do to some extent. They have to come in and review us. I mean we are reviewed extensively by some of these organisations: to make sure that we've got all the back office in place, and our compliance and systems are good. etc. So it's not an easy thing. But you know, investment management firms do get a reputation. They kind of demonstrate that they're good and then more and more people want to put money with them but there's no substitute for figuring out who the people are, what their experience is, how they manage money and are they doing it the same way, and is their structure, is their organisation strong or is it potentially a bit fragile.

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**Now obviously you will have a stable of five now, with Suncorp's team coming on board. (Pinnacle's poaching of the nine-person investment team led by Denis Donohue puts \$5 billion in funds under management at Suncorp under threat.) You wouldn't claim that they are the five best investment teams. There are others out there that you would like to have in your structure, I'm sure. Just in terms of percentage of the market, doesn't the usual law apply for every good one there's half a dozen average and four below average.**

No, Michael. I would say no it doesn't because if you have a superior structure and if you are able to pick the very best teams in the industry and I think we can do that. I think our structure is so attractive to the best investment managers that that law doesn't apply. Our stable is now Hyperion, which concentrates on growth-style Australian shares. They're one of the best in their business. Plato is a quantitative investment manager and they are one of the best in their business. Palisade is an infrastructure investment manager and they're one of the best infrastructure investors. Resolution Capital does listed real estate so Australian listed property trusts and global REITs and again they grew out of Lend Lease and they're one of the best in the business. And this Suncorp team, I've got to tell you, is one of the best Aussie equities teams around and they will blossom in their new environment and people can be very confident they'll do a good job.

**Will they be more expensive as part of the Pinnacle stable than they were at Suncorp, From an investors point of view?**

Absolutely not. Their fees will be no higher and possibly in some respects, particularly the early days lower than they were with Suncorp. We don't have the overheads and a lot of the administrative costs that they may have had in other places, so we have a very efficient model and our fees are very competitive.

**The Westpac spin off, of BT, is that about trying to adopt a boutique profile or merely a way of stopping the management from walking out the door.**

I think they (BT) are much closer to a boutique structure than they were therefore it's better than it was. But what matters is the environment in which they're working. When a group of good investors have their own business and they're building their own business it's very powerful.

**There has been a blossoming of listings of funds managers and there are more in the pipeline. Is that a weight of greed brought on by the success of the Platinum float, or are there good reasons for it, or mixed quality?**

There are pluses and minuses in listing. I think once a boutique is very strong and mature I think a lot of people are keen to invest in these sorts of organisations. It's very difficult to invest in a fund manager in this country. You can invest in a bank or an insurance company. My own view is that individual boutiques, until they are very strong and mature, should not list because they can be quite weak and everything is very transparent and so on, so I don't believe in listing individual investment management firms, but a group of firms – a substantial operation – can list and, you know, the benefit that people are able to actually invest in the fund manager as well as in the funds so we'll see. You won't be seeing Pinnacle list anytime soon. We have a lot more growing to do.

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## **But you're also owned by the listed company Wilson HTM?**

That's right.

## **Why would they ever want to spin you off?**

Well I'm not saying they would. Wilson HTM understands our model very well and they're a very good backer of Pinnacle and I would predict that they will do whatever is best for Pinnacle, and its boutique fund managers and its investors.

## **Is there room for a product through the Pinnacle name combining all five managers?**

Possibly. That's a distribution question really. At the moment individual investors can get access to any and all of the five, so we just let them make their own decisions in that regard; but yeah, maybe at some point there would be interest in an investment in the whole five together but that's not in our immediate plans.

## **In summary then, you're basically saying the vast majority of the Australian funds management industry have got it wrong? All the top weights?**

Yes.

## **A lot of these boutiques have opened the past five years; it's been a golden run. Any fool could make money in the market. Will we only real find out what works when we get a serious downturn?**

Well, the first point I would make is that it's not the case that any fool can produce strong investment returns, because remember our job is to produce better returns than the market as a whole. So there's been nothing different about this period from any other period in terms of, 'Can we produce good investment returns?' It is true that we've had a bull market but boutiques don't need a bull market to do a good job. They will be strong businesses because the volume of funds under management is growing strongly. That is absolutely going to continue for the next 10 years with superannuation, so it's a great industry. In fact I think that we really come into our own when markets are tougher – that's when people really focus on who the good managers are and who the mediocre ones are. I would say that even mediocre institution-based managers can produce reasonable returns in a bull market, but you need a good boutique when markets are tougher.

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