EXECUTIVE INTERVIEW: Not just luck

Lucy Macdonald, CIO, global equities of RCM, tells *Angelique Ruzicka* that the firm's successful search for alpha did not come down to luck

RCM'S IN-HOUSE global research platform is one reason why Lucy Macdonald was attracted to the firm, which is the specialist global equity company of Allianz Global Investors.

Up until recently, paying for research was rather obscure and no one could put a finger on exactly how much it would cost an investment management firm. But then Fidelity put a $7m-a-year price tag on Lehman's research capabilities. This move by Fidelity is not yet widely imitated but then some investment management firms like RCM don't need to go down that route.

"I joined the company six years ago and one of the reasons why I joined was because there was access to the global research platform. I looked at how the global equity portfolio was constructed and at what was and wasn't working. What was clear is that we were in a position where we were able to pick stocks and they were adding value even through periods where performance wasn't good five years ago. The stockpicking itself however was very good," says Macdonald.

Around the world

Macdonald is now chief investment officer of global equities at RCM and head of the global equity fund management team. Prior to working for RCM, she worked at Baring Asset Management for 17 years, where she started off managing its UK high alpha fund before moving over to managing the firm's global fund. But now she manages global mandates for clients around the world for RCM and has been instrumental in launching and managing the global high alpha product.

"We launched the fund in 2003. Roger Myners and I came up with the concept and we got one of our existing clients to fund it," she says. Macdonald added that the main reason for launching the fund was that there weren't many genuine global alpha funds around. "There are a lot of supposedly active managers around that were actually closet indexing. So they would be delivering the index plus a little bit and charging an active fee for it, but the way the market is developing is that clients want more alpha."

Since inception the global alpha fund has produced an average of between 3-4%, but over the last year it returned 10%. However, such performance cannot be attributed to pure luck or investing in the right geographical sector, says Macdonald. "Returns have been boosted from a variety of areas, from investing in Nintendo to oil companies, utilities, industrial companies and China. It's not just because we've had a bit in emerging markets or a bit in smaller companies. Our bets have worked and they are from a number of different sources of performance."

RCM uses both quant and fundamental research in choosing equities for its portfolios. Macdonald feels that both strategies have their merits but slams managers that invest in whatever the computer spits out. "We do a lot of risk modelling for the portfolios we have but we don't follow them blindly. If you look at what's happened in the last three months with the quant funds that's what you get from blindly following a risk model. If you believe everything that comes out of these then you are going to have your legs cut off. It's not sensible, nor is it intelligent."

Grassroots and global research is also what sets RCM's funds apart from the rest, feels Macdonald. The research departments' aim is to analyse equity across the capitalisation spectrum from large cap to micro cap all over the world. Grassroots is a vital tool in helping managers to increase their understanding of a company, says Macdonald.

"When we were looking at Nintendo we talked to nontraditional gamers, such as women and older people to see if they are interested in this product. Over 50% of them said they were interested because of the sort of software that was coming out and it was grassroots research that gave us this inside knowledge of the market that we wouldn't have had otherwise," points out Macdonald.

Against the grain

But even though analysts are conducting such in-depth research Macdonald claims managers at RCM can still go against the grain and retain autonomy over what stocks to choose for their portfolios. "We don't have to agree with the analysts at all. If that's what we feel will add value and we think the analyst is completely wrong then we have the autonomy to do it. We have done it once or twice in the past, but it's the exception rather than the rule," says Macdonald.

Last month RCM's investment conference centred on the impact of globalisation. It hit home the point that globalisation is not just a term anymore but reality because businesses from around the world are more interdependent and interact more feverously. Of course, this fits snugly with the argument for investing in Macdonald's global high alpha fund but Macdonald admits that it's not that easy to convince all investors. "It comes down to how well the domestic market has done. In Japan it's a relatively easier sell as their market is weak but in Australia and South Africa it is harder. We are launching an absolute return product in Hong Kong in the next month and that is going to be a hard sell as well as Chinese equities have done so well," she admits.

Global equities

As the debate and merits of globalisation rages on, pension funds and institutional investors will have to decide whether it's best to stick to their domestic market, which they are familiar with, or whether to follow the trend and invest in other markets in the hope of boosting returns. Of course, investors could dip their toes in the water and invest in a regional fund that invests purely in Asia or Africa, but Macdonald feels that it's the wrong way to go about it.

"I think global equities is a onestop- shop for an institutional investor. You don't need to have several different regional products because they are all correlated. Unless you believe that you can get better returns by having four different investment managers investing in different regions then why would you? You will just end up paying more in fees."

In spite of the fact that equities have been out of fashion of late, Macdonald is positive about the role this asset class has to play in the future. "I believe it's a good long-term asset class. I know it's been around for hundreds of years and it's been out of fashion for the last three years. The markets are just coming round to the asset class after the technology bubble burst. The great thing about equities though is that they are a warrant on growth. You can buy into a company like Apple and Nintendo and they have all the innovation and ideas and you just go along with them."

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