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Industry Views

Multi-Manager View: Picking a US Manager

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The US equity space has been the graveyard of many an aspiring fund manager. It is notoriously difficult to outperform the US equity market consistently – a fact to which many UK based US equity managers can testify. The resulting shortage of supply often tempts US based houses to come over to the UK to try and fill the gap. When they do, one thing we are particularly keen to gauge is their level of commitment to the UK market – are they prepared to dedicate the sales and marketing resources needed to really develop a UK client base?

As a fund of fund investor and professional fund selector, this creates a tension. One is keen to spot up-and-coming funds early, but it can be a difficult balancing act, as we have to combine the desire to find talented managers with the requirements of running a significant amount of money. Generally we don't have set limits in terms of fund sizes and the proportion we'll own, but when it comes to managers recently arrived from the "New World" we like to see signs of growth in assets under management.

Away from these practical issues, one theme that we have noticed while meeting US managers has been the increasing blurring of 'growth' and 'value' in many portfolios. The US mutual fund industry is much more well-defined than the UK one, in that every fund is typically classified into a Morningstar box, by style (value, core or growth) and market cap. In the UK, funds tend to move around more in terms of style and exposure, over time.

In contrast, the typical US manager has historically been perfectly happy to define themselves as either a growth or a value investor. However, the managers we've seen recently, despite being largely 'value' investors by name, are increasingly talking about growth stocks coming into their portfolios, or onto their radar screens.

The compression of valuations that we've seen over recent years has widened the opportunity set for traditional value managers, and has illustrated the fact that value and growth investment styles are no longer mutually exclusive. Furthermore, some industries that were previously the exclusive domain of growth managers – technology, pharmaceuticals – have seen substantial de-ratings in recent years. For a while this left them friendless, with neither value nor growth managers seeing much reason to buy. More recently, valuations of some stocks have reached levels that are attracting a bid from the value camp.

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