

Why we are happy to be small in a big investment universe

By **Stephen Adams, Head of Equities**
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In comparison to the 'big guys' in the equity investing arena we have a relatively small team. They have hundreds of analysts and fund managers in numerous locations around the world covering thousands of companies. But size isn't everything.

Every day we meet with companies and examine their strategies and financials. Competitive advantage is a key thing we look for, and indeed, in some industries that means scale. But we know that in 'people businesses' like ours, small can be beautiful. It's a fact of human psychology that as teams get larger their effectiveness declines. People struggle to communicate, weaker individuals can hide within the group and decision-making becomes drawn-out and painful.

That's why we have a compact team and have deliberately concentrated all of our equity investment professionals in a single location. We have a shared process and a common DNA but what we don't always share is the same opinion. Embedded within our DNA is a rigorous challenge and debate culture which ensures that each decision is thoroughly vetted by the team.

Some may believe that large teams can communicate more effectively. But we remain unconvinced. Can you work on something as complex and challenging as investment decision-making with someone in a different time zone, whom you've never met and don't really know?

Not only do we believe large teams struggle to communicate effectively, but each individual is likely to put in less effort. This is known as the Ringelmann effect¹. Ringelmann found that as teams grow in size, each individual expends less and less effort, harming the overall efficiency of the group. Our team is relatively small, helping to mitigate this effect. Indeed, we deliberately design our teams so that each individual is highly accountable and there's nowhere to hide. Every team member must pull their own weight; it's obvious if they don't.

In order to manage their sprawling organisations, large teams put in place numerous processes and hierarchies. This stifles decision-making, encourages 'groupthink' and 'silos' analysts into a myopic view of a single sector with little consideration of how their analysis fits into a portfolio. Even in smaller teams you need to be conscious of this - that's why our investment team have combined roles. We are part analyst, part portfolio manager. We are detail-oriented analysts and independent voices within a strong team that values context and pragmatism over belief and emotion.

At this point those who run large teams will pull out what they think is their trump card. 'How can you cover the global investment universe with such a small team?' It's simple, our time-tested, disciplined process uses a proprietary quantitative screen to unearth stocks with the characteristics we like. We have a bias to avoid the crowds and focus on under-researched or under-appreciated areas of, and factors in, the equity market. Once we've established our investable universe, we undertake rigorous bottom-up research to identify our best ideas. We run high-conviction portfolios, so the strength of our stock selection will always drive our returns.

In addition, we strive to meet the people behind the business, before, during and after the investment decision. Indeed, in the UK alone we have more than 1,100 management meetings a year. By actively engaging with management we can glean further insight, but also impress upon them the importance of good governance. We believe that companies with good governance are much more likely to be good investments. Investing responsibly is a cornerstone of our philosophy and it permeates our entire process from analysis to portfolio management – all enabled by our holistic approach.

In a nutshell, a major advantage a smaller team has against a larger one is speed. Combined roles, a small team, accountability, a holistic, streamlined process. All of this leads to quick decision-making, cross-fertilisation of ideas and rapid reactions to market events. We don't need to wait for our banks analyst in another country to deliver his or her verdict over email on Basel IV, we operate in person, as one team.

The bottom line is this: while large teams debate and deliberate, small teams will act and deliver. Size isn't everything.



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¹ Ringelmann, M. (1913) "Recherches sur les moteurs animés: Travail de l'homme" [Research on animate sources of power: The work of man], Annales de l'Institut National Agronomique, 2nd series, vol. 12, pages 1-40

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