

# INVESTMENT WEEK

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## Fund Manager Focus

**Richard Colwell**

**Columbia Threadneedle**

# Head of UK equities Colwell: 'I am now a player-manager'

By Daniel Flynn

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For many, taking control of a 12-strong team of UK fund managers just one month after June's Brexit vote while continuing to run a number of existing mandates would be a daunting task, but Columbia Threadneedle's Richard Colwell believes a team-based approach has made his transition so far to a 'player-manager' role run smoothly.

Colwell took over as head of UK equities in July last year, following the retirement of his predecessor and overall head of equities, Europe, Leigh Harrison, in May. On top of his newfound responsibility for a team running approximately £19bn in assets under management, Colwell also continues day-to-day management of Columbia Threadneedle's range of UK income funds, including its flagship £3.6bn UK Equity Income fund, which has outperformed the IA UK Equity Income sector over one, three, and five years, according to FE.

Here, Colwell looks at how this new role has affected his responsibilities as a money manager, the potential effects of the Investment Association's consultation on the IA UK Equity Income sector, and how his valuation-driven approach meant last year's Brexit vote had a minimal effect on the construction of his portfolios.

### How has your day-to-day role changed since becoming head of UK equities?

Fundamentally, I am still a front-line fund manager, responsible for the funds with which I have been involved for nearly seven years. The best way to describe it is I am now more of a player-manager. With Leigh's retirement I am now head of the UK team, but this is a much more focused role than Leigh's was.

These additional responsibilities take up perhaps 20% of my time, and I resourced this last September by relinquishing day-to-day sector responsibilities to Jeremy Smith, who I worked with for a long time at Schroders. He came on board as head of UK research but also to work alongside Leigh running institutional money. Without Jeremy, I would not have been able to fill my new role.

I have tried to embrace a flat management structure so far, as there are a number of successful, senior fund managers in the UK team who have all stepped up to take on additional responsibility as well.

We are also sharing responsibilities when interacting with the rest of the business, on both fund management and industry-wide issues.

My job is not to micro-manage people who run their funds in a different way to me, but to support them and ensure they get the backing they require. So managing upwards in the business is also important.

It is one of those situations where the team has been successfully built up by

Leigh (most of us were hired by him) so it becomes more of an acceleration of evolution, rather than a revolution. It is not me coming in and making symbolic changes. The team has been working well but it is hard to sustain success, so it is about continually refreshing things and sharpening up best practice.

There are some really sharp young people coming through the ranks and if you are taking the trouble to hire graduates you cannot just stick them in the broom cupboard, so I made a virtue of not hiring analysts and fund managers externally after Leigh left. We think we have good bench strength and I want to let my team step up and take responsibility.



## CV Richard Colwell

### 2016 - PRESENT

Head of UK equities, Columbia Threadneedle

### 2010 - 2016

Portfolio manager in the UK equities team, Columbia Threadneedle

### 2007 - 2010

Portfolio manager at Aviva Investors

### 2002 - 2007

Credit Suisse Asset Management

### 1994 - 2002

Schroder Investment Management

## Fund Manager Focus

### Richard Colwell

#### Columbia Threadneedle

#### Does your approach to the UK equity team differ in any way from your predecessor's?

As Leigh was overall head of equities, he had other desk heads report into him, but I do not have any of that. I have more time to focus on driving the UK team, but my clients and the funds I am responsible for remain my priorities.

As a result of this, I have a vested interest in the team being strong and vibrant by doing defensive work on stocks we own in our portfolios, and offensive work on new ideas.

#### As the manager of Columbia Threadneedle's range of UK income funds, what is your stance on the Investment Association's (IA) consultation on the UK Equity Income sector?

We are an important constituent of this sector, so have been in an ongoing dialogue with the IA about this issue. It is about balance, and we think it is in clients' interest to have clearly defined parameters for inclusion. Investors want a well-populated, strong area, with plenty of funds to choose from.

Despite other members being our competition, we do not like to see well-established funds drop out of the sector. It may be of short-term benefit to us, but it is not what it is about.

We definitely do have some sympathy with the claim that in a low-interest rate world, achieving a 10% yield premium over the market standard, as currently required by the IA, could distort the shape of funds.

That being said, I think the IA's current requirement for each fund in the sector to achieve at least 90% of the FTSE All Share yield is an important criteria, which needs to stay in place.

Similarly, I do not think the barrier for entry should be lowered by so much that it enables growth funds in disguise to enter the sector or new funds to qualify just to be disqualified after three years. Perhaps the IA should require a three-year track record before funds are allowed in?

#### In light of last year's political turbulence, have you made many changes to your portfolio positioning?

We have not actually made any dramatic changes to the shape of our funds. The worst thing we could have done post the Brexit vote was to desire more 'comfort', as was initially perceived.

The fact that dollar earners and international stocks, which had been out-of-favour at the end of 2015, suddenly became the place to be because they were the furthest away from the UK economy was not enough for us.

We thought the valuations were getting quite full so we resisted that

kind of call. We did not buy any more throughout the initial volatility and instead took some profits.

You have an investment backdrop which seems to be dominated by a lot of ETF trades and macro hedge funds, which get caught up horribly going into big news events and then attempt to round trip back. We do not want to get whipsawed like that either, as it is not our game.

#### Which stocks have been the most resilient this year?

There have been two really standout stocks for the Income fund this year, with both seeing important management changes a few years ago which we hope we helped to facilitate.

One is Morrisons, the supermarket, and the other is Electrocomponents, a distributor for engineers. We built up big stakes in both when share prices were under pressure a few years ago, and things have recently been looking very promising. It is still early days in both cases though, so we would not necessarily declare victory yet.

Both companies operate in very tough environments and serve as a reminder that rather than just having a top-down view on industries, we must figure out the levers a company can pull themselves to initiate an improvement in their business.

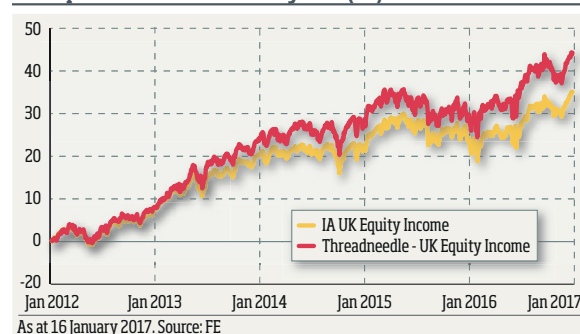
**There may be an opportunity in more domestically-orientated companies where the market is quite fearful. However, it is important the market does not become so scared that it begins to slow and puts pressure on profit margins and cashflows**

It is because of this we are now also adding to a number of stocks we already own that did get hit – such as BT, ITV and some retailers. We still like the companies and see now as a great time to increase our stake.

In a similar light, going forward we think there may be an opportunity in more domestically-orientated companies where the market is quite fearful. However, it is important that the market does not become so scared that it begins to slow and put pressure on profit margins and cashflows. It is just about doing the work to see whether a given valuation already provides a cushion or not.

The economy could be flirting with a recession in 2017 but that is not to say we are heading for the hills and avoiding all things domestic. It is not about top-down weather forecasting, it is more about trying to assess what valuations are telling you.

#### Fund performance over five years (%)



#### Given that your approach to running money wavered little in the face of global turmoil, how did your style fare last year compared to recent history?

Whatever the size of the fund, we have typically hunted for ideas at the bottom end of the FTSE 100 and the top end of the FTSE 250. This means we usually have roughly 70% in the FTSE 100 but also like small- and mid-cap ideas when looking to boost capital return and contribute to dividends.

As an industry, UK fund managers have had quite a good time of it against the indices for several years, but, as previously mentioned, last year the mega-cap stocks have done much better.

We are trying not to obsess over how we are stacking up against our peer group or our index on a quarterly, six-month, or even a yearly view, but instead are trying to generate risk-adjusted returns over three or five years.

You have to differentiate, making sure clients know the fund is not a closet hugger, if you want to have a chance of delivering those longer-term propositions.

#### That being said, do you have any longer-term concerns about the reliability of corporate earnings and dividend cuts among UK companies?

We do not fear the prospect of an individual dividend cut, as we are trying to do the work on whether that threat is factored into the company's valuation or whether market concerns are overdone and the company's cashflow is in recovery, allowing it to limbo through. That is where we are trying to be selective in taking on market anxiety.

But, as we are eight years on from the global financial crisis, this cycle is quite mature and therefore it should not surprise investors that we started to see some dividend cuts from 2015 onwards. We will see more of that, as it is just the nature of the cycle.

The fear for investors is they hit an air pocket of three or four stocks that get a dividend cut – that is what we are trying to avoid.