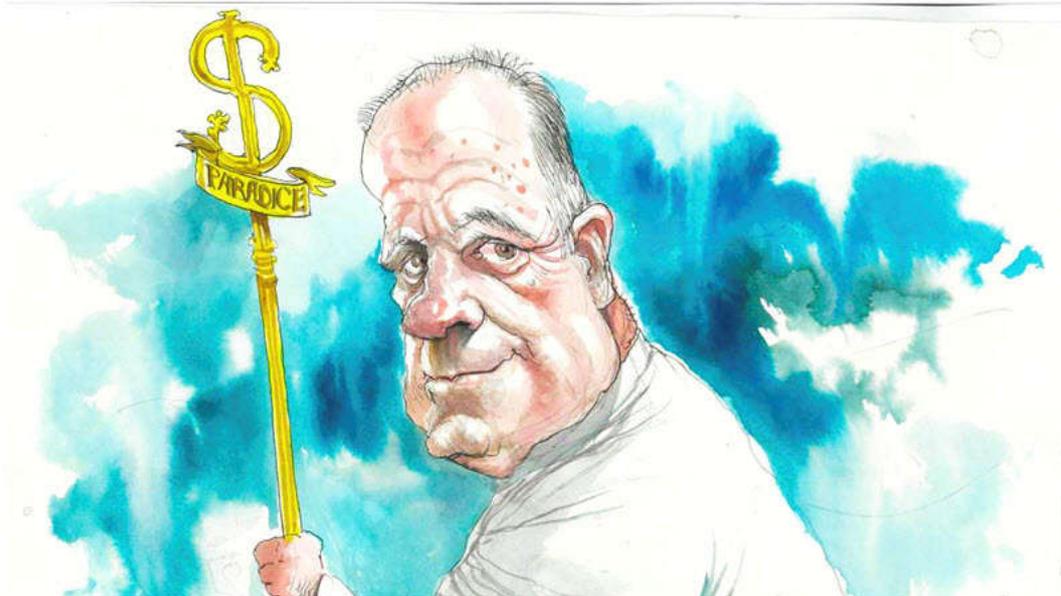




WATERSHED

FUNDS MANAGEMENT



David Paradise, founder of Paradise Investment Management, says good fund managers are generalists who "want to have a go". **David Rowe**

Chanticleer - Financial Review

David Paradise, Geoff Wilson on what makes a good fund manager

David Paradise, founder of Paradise Investment Management, says good fund managers are generalists who "want to have a go". David Rowe



by [Chanticleer](#)

Several anecdotes about "failed" fund managers revealed at the [Future Generation investment forum](#) in Sydney on Tuesday say a lot about what two legends of the market believe makes a successful fund manager.

During a panel discussion, moderated by Chanticleer, Wilson Asset Management founder Geoff Wilson and Paradise Investment Management founder David Paradise were asked the question: what makes a good fund manager?

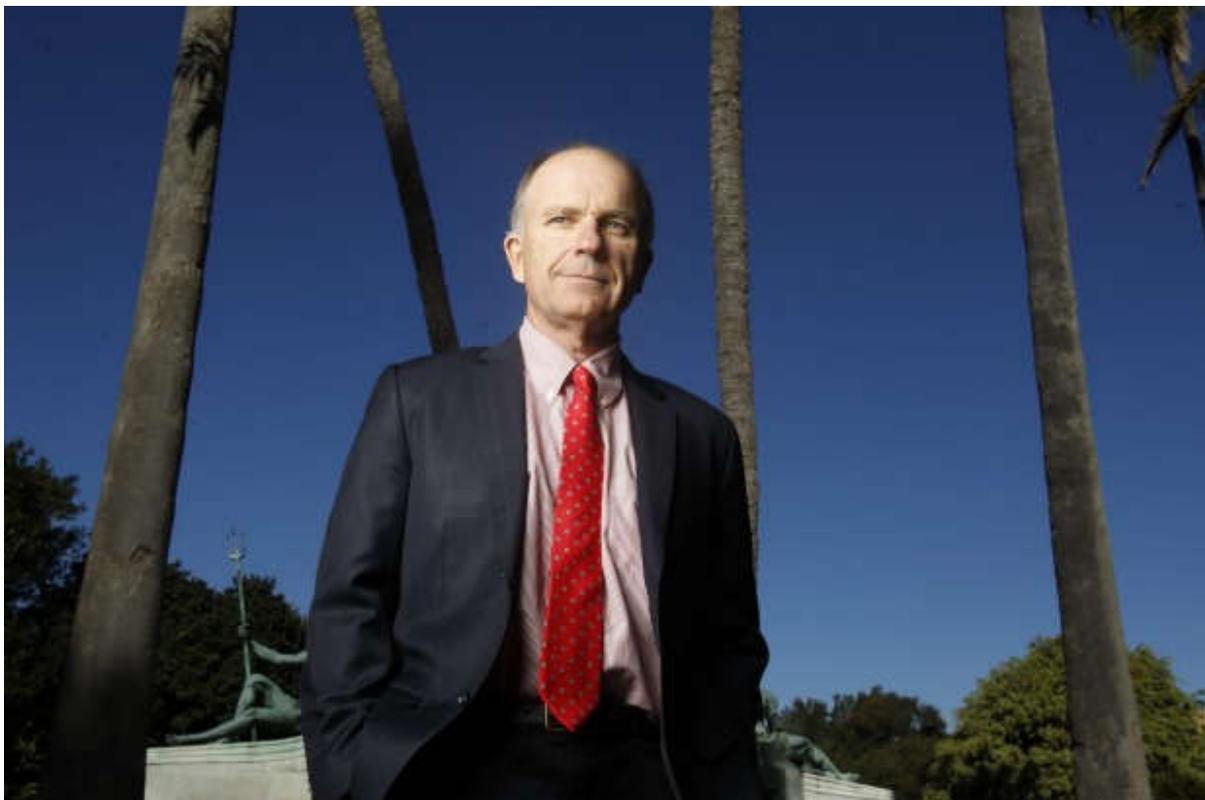
Address Level 22, North Tower, 459 Collins Street VIC 3000 Phone (03) 9614 8899 ABN 11 166 324 858

www.watershedgroup.com.au

A CORPORATE AUTHORISED REPRESENTATIVE OF WATERSHED DEALER SERVICES PTY LTD ABN 29 162 693 272 AFSL No. 436357

Paradice said he had learnt a lot about what makes a good fundie from the recruitment of a lot of people over the past 30 years working in equity investment.

"The best fund managers are guys who are generalists who work in small teams, which flies in the face of some of the bigger US groups," he said.



Paradice said his view on the need for generalists rather than specialists was confirmed many years ago when he employed a former stockbroker who was an expert in financial services. Louise Kennerley

"I find that when you have a small team of people, they are much more accountable for stocks in the portfolios and they tend to work a lot better.

"I like people to focus on capital preservation rather than get 40, 50 or 60 per cent every year."

Paradice said his view on the need for generalists rather than specialists was confirmed many years ago when he employed a former stockbroker who was an expert in financial services, energy and retail.

He said when the two of them travelled to Perth for some meetings he looked around while in the plane and saw his portfolio manager reading a "junk newspaper".

"What happened was the portfolio started to go towards financial services and retail, which were his areas of expertise. So, during the GFC he went and wanted to buy 3 per cent of Rams Home Loans and I put a stop to that and he halved the investment.



Geoff Wilson: "We had a similar situation with a guy, a young guy working for us, who was on the ferry reading his book. Someone reported that back to me." Daniel Munoz

"Then he wanted to buy some more and we had our general portfolio meeting where we discussed which stocks we should buy. He said I want to double this position and it was because his focus was solely on financial services.

"Of course, I said we are not buying any more. We had a discussion after the meeting and I said I don't think you belong here.

"It's about being a generalist and being able to look at any particular sector and find out what's cheap."

Earlier, Paradice told Chanticleer that good fund managers were people "who wanted to have a go" and they "don't want to necessarily get paid truckloads".

Wilson, who has had 35 years experience in investment markets, said people working for boutique, active equities managers outperformed passively managed money in exchange traded funds because they had more skin in the game.

He said the Future Generation Investment Company and the Future Generation Global Investment Company had a preference for choosing boutiques because fund managers who were owners of the business had much greater engagement in the investment process than salaried employees at a big fund manager.

The two Future Generation funds employ fund managers on a pro-bono basis and then the funds donate the 1 per cent annual fee that would have gone to the fundies to a range of charities.

"We had a young guy who worked with us and we were trying to work out if he was passionate because the boutique guys are passionate about what they do," he said.

"It's their life, it's their business, but if you are employed by AMP as a fund manager you are working for your salary – that's it.

"We had a similar situation with a guy, a young guy working for us, who was on the ferry reading his book. Someone reported that back to me.

"He does not work for us any more. He came into the office one morning and said what about this, which was on the front page of the *Fin Review* and he had not even seen it. He was just not passionate about what he did."

Graham Hay, a deputy portfolio manager and investment analyst at AntipodesPartners, said the problem with large institution-owned fund managers was that "career risk tends to overwhelm portfolio risk at the most critical time in markets".

"But the reality is that all active equity managers will go through periods of under performance," he said.

Hay said a US study of fund managers' performance over multi-decade time frames showed that the guys with top decile performance spent at least one period of three years in the bottom quartile and at least one year in the bottom decile.

"You have got to have the stomach and the institutional settings to carry on when times are tough and that's not easy," he said.

If you would like to discuss how Watershed can add value to your client portfolios please contact our Business Development Manager, Shantelle Lay on 0417 459 842.

[Watershed Funds Management](#)

Watershed Funds Management is a specialist Managed Account (MDA & SMA) Provider and has been a pioneer in the delivery of these portfolio solutions to financial advisers. Watershed leverages the expertise of a highly credentialed investment team to form a global thematic view that determines asset class and sector allocations. Our investment committee structure differs for each SMA and is chaired by an individual

with niche expertise and a proven track record for managing portfolios within that asset class. With a research process that is both rigorous and thorough we have been able to deliver strong historical returns across our full suite of Managed Accounts.

An investment in a Watershed Managed Account provides professional and active investment management with full transparency of holdings, transactions and structure. Watershed seeks to form a collaborative relationship with advisers, actively communicating portfolio strategy in the current market environment so that advisers are better equipped to communicate with their clients..

