Behind the Red Wheel

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“RWC’s teams reflect our belief that experience, well-defined investment philosophies and a creative environment are essential for producing differentiated returns”

Dan Mannix, chief executive, RWC Partners

Welcome

Adam Lewis, senior investment writer

In the past five years, RWC Partners has seen its assets under management swell over threefold, from just under £5bn to £18bn today.

In this period, the group has been highly active in adding a number of teams to its line-up, most recently with the hire of the founder and investment team of Agilis Investment Management to launch a multi-strategy fund. The addition of Agilis takes the number of specialist investment teams at RWC to eight.

In this guide we take a look at just who RWC is, its history, the culture and investment beliefs, the teams and the funds they manage.

We also sit down with chief executive Dan Mannix, who lays out the group's vision for the future and outlines what sets RWC apart from its competitors.

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A brief history

Since starting life in 2000, RWC Partners has expanded from its original London offices to a global presence, growing assets under management from millions to billions

Starting life as MPC investors in 2000 the company was originally named for its three founding partners. However, following an expansion into Europe in 2008 the firm rebranded as RWC Partners, with the RWC standing for Red Wheel Capital, named for the large red metal wheel in the centre of its London offices, previously used as stables for nearby military barracks.

Having originally operated as the old stable's winch, legend has it the wheel was once used to lift military horses up and into the first-floor stables.

Both the horses and RWC have now moved on. Following an exciting few years of growth and development, early 2018 saw the RWC London office relocate into new premises in the Verde building in Victoria, but the spirit of the wheel and all that it stands for lives on.

Building a multi-team approach to active management

Mannix joined RWC in 2006 as head of business development, at which time the firm was running about $900m in assets under management (AUM).

"When I joined, I believed there was an opportunity to build an organisation by bringing in world class investment teams to run specialist, high value strategies and investment services," he says. "Originally the focus was more on

"From 2013 we have seen a real acceleration in growth, to the point where today our AUM is over $18bn"
Dan Mannix, chief executive

absolute return funds, although we rapidly developed into convertible bonds and equity income."

Accelerating business

In 2013, when he assumed the role of chief executive, AUM had risen to just under $5bn which was spread across equity income, convertible bonds, Japanese equities and a European active engagement team.

"From 2013 we have seen a real acceleration in growth, to the point where today our AUM is over $18bn," he says.

"We now have 157 people working for us across eight independent investment teams and spread across offices in London, Miami and Singapore.

"We are now predominantly a high active share, long-only, investment specialist, providing our clients with exposure to developed and emerging market equities, convertible bonds and income solutions."

Mannix explains that since inception RWC has established investment strategies which are driven by entrepreneurial fund managers and their investment teams.

These teams reflect the company's beliefs that experience, well-defined investment philosophies and a creative environment are essential for producing investment returns for its clients.

Meet the teams

RWC's eight specialist investment teams are each comprised of dedicated and experienced managers, all of whom are committed to truly active management

RWC Partners is now comprised of eight specialist investment teams. While each of these teams run their funds in accordance with their own investment processes and management styles, the overarching focus is on true active management.

With the entire fund range seeking to offer strong long-term real returns, what connects the teams? "The one common denominator across the teams is the calibre of investment managers," said Dan Mannix, chief executive of RWC Partners. "All of our managers are independent thinkers and are continuously evaluating what they do in the market. They are investors who remain keen to learn and evolve their processes as they go, which is extremely important in a world which is forever changing."

Who are the teams running the funds?

"The one common denominator across the teams is the calibre of investment manager"

Dan Mannix, chief executive of RWC Partners

Convertible Bonds

Managing the RWC Asia Convertibles, Sustainable Convertibles and Global Convertibles funds within the Luxembourg-domiciled SICAV range is the five-strong convertible bonds team, which manages more than $1bn for investors, and is run by Davide Basile.

Running the portfolios, along with co-portfolio manager Justin Craib-Cox, the team has developed unique models and systems during the past decade, which has enabled them to identify the best investments within the asset class.

The team are passionate about the ability of the asset class to provide a hybrid solution for investors looking to have a balanced exposure to financial markets, and deliver returns that compound with low volatility over time.

Diversified Return

In 2019, RWC announced that the investment team of Agilis Investment Management, the specialist multi-strategy investment manager, was joining the organisation to form the RWC Diversified Return team. Led by Agilis founder Clark Fenton, the team employs an innovative investment approach which offers investors an uncorrelated solution with the benefits of low cost, frequent liquidity and simplicity.

Emerging and Frontier Market Equities

With AUM of $8.4bn, the RWC Emerging & Frontier Markets team is the largest at RWC. Co-managers James Johnstone and John Malloy, who both joined RWC in March 2015 from Everest Capital, are supported by a team of 18 analysts and economists who are based across the group's Miami, Singapore and London offices.

Within the SICAV range, the team manage the RWC Global Emerging Markets Fund, which launched in December 2015, and the recently-launched RWC Next Generation Emerging Markets Equity Fund. The team also run a number of Cayman-domiciled emerging and frontier strategies.

The team's agnostic and opportunistic approach has been honed over two decades, while the depth and experience of the team allows the managers to discover investment opportunities that are usually off the beaten track.

Equity Income

Located in London, the five-strong Equity Income team is headed up by Ian Lance, Nick Purves and John Teahan, who all joined RWC from Schroders in 2010. The team has almost 70 years' combined investment experience and now manage the RWC Income Opportunities, Global Enhanced Dividend and Enhanced Income Funds within the group's SICAV range. In October last year, the group launched the UK-domiciled TM RWC UK Equity Income Fund, which sits in its own OEIC.

London-based Lance, Purves and Teahan run $5bn for clients and are long-term intrinsic value managers who believe short-term sentiment drives many investors to overreact to news that has little or no impact on the long-term value of a company.

Underpinning all of the team's strategies is a single investment philosophy and process that aims to rotate around the market to where the team sees areas of undervaluation.

European Active Ownership

The RWC European Active Ownership team, which is co-headed by Maarten Wildschut and Petteri Soininen, joined RWC in September 2012 from Hermes Asset Management. The team's sole focus is the $726m RWC European Focus Fund, which is Cayman Islands domiciled.

Working out of RWC's London offices, the team invests in a small number of European-listed, high-quality companies they believe have the potential to create significant additional value should they address certain issues within their business and seek to act as a catalyst for change by constructively working together with the company and other shareholders.

European and UK Equity

The RWC European and UK Equity team joined RWC Partners in 2017 from Pensato, which was founded by Graham Clapp in 2008. The long-only RWC European Equity and Continental European Equity funds, alongside the long-short Pensato Europa Absolute Return Fund, are managed according to an investment philosophy established by Clapp when he was at Fidelity in 1993.

The team has a 'red sentence' which drives its philosophy: "We take positions in companies where we believe the economic potential of the business is different to that of the implied share price."

With an active share of 90%, the team, which includes co-manager Russell Champion, use an unconstrained approach and are comfortable straying from its benchmark.

The team's investment process can lead to a diverse

“All our managers are independent thinkers and are continuously evaluating what they do in the market”

Dan Mannix, chief executive of RWC Partners

set of opportunities across different business models, sectors and geographies, which limits unwanted factor risk and style bias.

Global Horizon Equity

Following her hire from Marathon Asset Management in April 2013, Louise Keeling joined RWC to establish a long-only global equity team.

In November of the same year RWC launched the Global Horizon fund within the Luxembourg-SICAV, and since then five more members have joined the team.

Combined with the Cayman-Islands domiciled RWC Horizon Equity Fund, the team today manages $2.2bn, making it the third-largest in RWC’s line-up.

Benchmark agnostic and able to seek out investment opportunities from around the world, the London-based team employ an unconstrained, bottom-up approach.

An alignment of interests runs throughout this strategy. It not only aims to align itself with end clients by having a fee structure which shares performance risk, but it also uses an investment approach that emphasises whether investee company management are adequately incentivised to be effective capital allocators.

Japan Active Engagement

Through a joint venture with Tokyo-based Nissay Asset Management (NAM), RWC manages close to $400m in Japanese equities and the strategy was launched in March 2005.

Yasuaki Kinoshita has been responsible for managing the portfolios since March 2008, and invests in a small number of Japanese companies he believes are undervalued but have lots of potential.

The team, which is based in London and Tokyo, has honed its approach over the past 10 years, utilising advisers, as well as the NAM analyst team of 20, to generate ideas. Nicola Takada Wood joined in September last year as a portfolio adviser, acting as a conduit between RWC, NAM and its parent company Nippon Life.

The RWC culture

Shaped by its people, RWC's culture is based on principles of ethics, trust and ambition. This is reflected in the alignment of the organisation's long-term objectives with those of its clients

The topic of culture within financial organisations has moved to the top of the industry agenda in recent years.

While regulation of the financial sector, and specifically the asset management industry, has been increasing since the global financial crisis, not only in volume but also in breadth and detail, many policy makers realise the limitations of prescriptive, rule-based regulation.

Why culture matters

As a result, Arthur Grigoryants, head of investment strategy and risk at RWC, said the main financial regulators are placing a greater emphasis on culture as the key effective control mechanism against unwelcome behaviour towards the industry's customers; namely savers and investors.

He noted that some of the worst examples of investor treatment during the last financial crisis are often directly blamed

"A better culture should lead to an increased productivity, wider engagement and improved retention of talent"

Arthur Grigoryants, head of investment strategy and risk

on poor, aggressive or misaligned culture.

"For many rather pragmatic and non-altruistic reasons, senior management often views culture as a tool to improve key business performance indicators – and ultimately profitability," Grigoryants said. "The logic here is that a better culture should lead to an increased productivity, wider engagement and improved retention of people."

According to RWC Partners its culture has become one of its key strengths. Grigoryants argued its people both define its culture and drive its evolution.

"In our organisation culture is subject to continuous development through debate amongst our colleagues, clients and their advisers," he said. "We often refer to our organisation's culture as an integral part of our business model and a key aspect of our differentiation. We therefore very much welcome the industry and regulators' renewed interest in this subject."

Matching the horizons of your clients

The problem for Grigoryants is that coverage of culture (particularly in the media) too often appears to be centred on the theoretical end of the argument, meaning it rarely digs deep enough into the subject.

While much lip service is paid to the importance of culture throughout the asset management industry, Grigoryants would like to see more organisations actively practicing what they preach.

"Despite its somewhat ephemeral nature, corporate culture cannot be simply a theoretical or aspirational matter and requires certain conditions and continuous dedicated hard work.

"We believe that the most important ingredient for an effective and positive corporate culture is the long-term stability of an organisation," he said. "The majority of the asset management industry's clients have long-term horizons. This could be due to the length of the investment horizon (pension funds, endowments, pension savings, wealth managers etc) or sometimes due to more practical constraints of those asset owners.

"It is therefore perfectly logical for asset owners to look for service providers, external investment managers, with a business horizon to match their own. That explains why we often hear references to asset owners and clients trying to build long-term partnerships."

With this in mind, Grigoryants questions why the investment management industry as a whole often struggles to match its customers' horizons. He has identified a number of challenges a typical asset manager may face when trying to align its business horizon to that of its long-term clients.

Some of these are industry-wide, such as the need to compete for people, consistently reinvest and manage the expectations of shareholders, redefine the industry norms and structure. While he added that other challenges result from the choices of investment and/or business managers. These include the short-termism of some investor groups and an inability to stick with investment strategies through a cycle, or even the unintended consequences of industry regulation and initiatives.

"In our own organisation we look at long-term stability as a key foundation of the culture we are trying to develop for the benefit of our clients, people who work with us and our shareholders," Grigoryants said.

"We try to factor this understanding into a wide range of daily challenges we have to address. This drives our hiring policy, the way we structure remuneration, the investment autonomy that we are so keen to preserve for our individual investment teams, the nature of internal support and governance that we have for our investment strategies, and our approach to client service and new business."

Q&A

Dan Mannix, chief executive of RWC Partners, has overseen its development and growth over the past six years since taking charge of the business. Below he outlines what sets it apart from competitors

Q: Can you explain the RWC strategy of hiring teams rather than just individual managers for the funds you manage?

A: We want our investment teams to have the latitude to invest in themselves and their investment capabilities. What we have come to observe over the 20-odd years we have been in business is that great individuals have their place in the industry, but if those individuals want to develop deep teams and resources it takes time and patience.

At the moment, we are finding significant opportunities in recruiting whole, well-established investment teams. They have already been through the start-up process and the phase of getting to know each other, and are settled on their investment processes. We do not only want to recruit teams however, and we will build them internally as well, it just

"There is going to be a deeper investigation by clients or not they are just paying lip service to governance

so happens that the last three capabilities that have come to us are teams of people who have worked together for many years and are already well formed.

Q: What are the key attributes you look for when recruiting managers and teams?

A: The heads of our investment teams have a great deal of autonomy to run and build their strategies, think about their processes and be able to have independent views from others within RWC and we cherish this. However, we also cherish the fact that these individuals are highly accountable to their clients and to other people within RWC for their behavior.

As a result, we look for people who both have the ability to run their own investment process and can develop and innovate these processes, but also those people who have the integrity and the attitude to be prudent and sensible with the breadth of autonomy they possess.

One of the clear differences between RWC and groups which label themselves multi-boutiques is that our fund managers are partners within the organisation and there is a mutual responsibility to protect the organisation's reputation. With an independent group board, an independent risk team and independent board of directors on all the funds we run, we have a number of bodies that oversee our behaviour.

An increasingly important feature of organisations is going to be that individuals will not be trusted in isolation to both own, run and manage investment organisations and I think there is going to be a deeper investigation by clients into all fund management groups as to whether or not they are just paying lip service to governance or if it is real.

Q: What attracted you to Agilis?

A: The Agilis relationship had been developing for about 12 months before they joined. Clark has been developing a really interesting approach, which is relatively modestly priced versus other absolute return products in the market and it is very liquid. Investors need strategies that diversify their risk away from core equity and fixed income assets. The drive for alternatives continues to grow and Clark and his team have designed an innovative investment approach which offers an uncorrelated solution with the benefits of low cost, frequent liquidity and simplicity.

The strategy enhances the breadth of our capabilities and will help meet the increasing demand from investors for strategies that have a low correlation with their core equity and bond portfolios.

Q: How important is performance for active managers in today's environment?

A: It is very oversimplified to equate active management with just performance, because this measurement all depends on timelines and does not capture the risk. For example, given the huge pressure managers are under to notionally deliver alpha and outperform, many are seeing a into all fund management groups as to whether or if it is real" **Dan Mannix,** chief executive

style drift, which today is towards growth.

At the same time, those managers who have to rigorously adhere to an approach that is underperforming are subsequently losing assets, a large chunk of which is finding itself going into index products.

Instead we think active management can be separated into three parts: managing risk, doing the primary research to create alpha and governance. Today we manage over $8bn in emerging markets and a significant amount of our value add is primary research. It means our funds are never going to be drawn into index hugging, or changing their style and essentially chasing performance.

Q: What do you see as the main areas of RWC's growth in the future?

A: We are not an organisation that has full fund coverage and we are looking for clients to invest with us for the long-term. This year we are seeing significantly more interest in our value and convertible bond strategies than we have in the last two-to-three years, while global equity continues to be a sector that attracts a lot of interest.

However, our approach is not to suddenly throw our weight behind specific strategies, as we want the timing to be right for clients.

For example, we added the emerging market team to our line-up when the region was going through a mini-crisis, while we brought in Graham Clapp's European team against the backdrop of a very challenging period. The Agilis team, founded by Clark Fenton, is joining at a time when investors are getting excited about making money from technology. However, these more thematic opportunities could do more harm to the brand than good.

The reality of things like artificial intelligence and electric cars is that while they will be powerful forces in the world in the next 20-30 years, making money out of them today is very hard. The financial services industry makes a business out of selling stories but does not necessarily sell great investments.

Q: Will this growth likely be organic or through the addition of more teams?

A: Organic growth is what we do all day, every day, because we have teams with capacity. The current discussion around liquid assets is fascinating in this context. We have been thinking about how to structure funds that have a genuine match between liquidity and the assets you own, and as an industry we need to do more to innovate in this area.

In relation to new teams, we have no plans to add more at present, but this doesn't mean we are not looking. We are always on the lookout for great people, who are very experienced, thoughtful and have integrity, and who are doing something different.

I didn't foresee 2015 would be the year we would establish a 15-person emerging markets team, but we came together through mutual friends and there was a great meeting of minds and I think that ability could take us in any direction from here.

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