
Pep talk ... the parallels between football and fund management!

UK equities | October 2022



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Apologies in advance to non-football fans, but with the unseasonal World Cup in Qatar on the horizon I am once again¹ thinking about the similarities between football and fund management. I am less concerned in this viewpoint with the state of the UK equities market – I've recently said why I believe the UK remains an excellent hunting ground for investors² – and more with behavioural finance: why the UK equities team at Columbia Threadneedle Investments invests like we do, how we work, and why we have conviction in what we do. So even if you're not up on how many times goal machine Erling Haaland has found the back of the net this season (14 in eight games³), there will still be something here for you!



Trust the process "I won 21 titles in seven years: three titles per year playing in this way. I'm sorry, guys. I'm not going to change."⁴ That was Manchester City manager Pep Guardiola in October 2016 when he felt the need to defend himself after a run of five games without victory. He ended that season trophyless for the first time in his managerial career. Since then, however, he has won four Premier League titles, an FA Cup and four League Cups.

Likewise, we're conviction investors. We're bottom-up stock pickers. We research firms, looking at them from different angles. We try to fully understand them with active engagement with management, and set out to identify good businesses. We are not particularly interested in economies, monetary policy or politics; we trust that the fundamental research we do and the good companies we buy will deliver success over the long term.

¹ Richard Colwell, Investing? It's a funny old game, June 2018

² Richard Colwell: UK equities: winter of discontent?!, September 2022

³ As at 3 October 2022

⁴ Independent, 'I've won 21 titles in seven years' - Guardiola insists he won't change his ways, 22 October 2016



Unconstrained approach Andrew Robertson was a defender who had played for Queen's Park and Dundee United in Scotland, and was with struggling Hull City, when Liverpool paid an initial £8 million for him⁵. Since then he has developed into a world-class defender with a value closer to £60 million⁶. The point being: don't be afraid to hunt in overlooked areas for underappreciated potential or hidden gems at attractive prices. We do our own research and analysis and find great companies where others simply don't look.



Valuation and sell discipline Brighton's Ben White had multiple seasons out on loan in the lower leagues before a breakthrough season with Brighton in the Premier League brought Arsenal sniffing – they bought him for £50 million⁷. Brighton then repeated this trick with Marc Cucurella who they signed for £16 million and after one season sold him on for £56 million⁸. Both of them were shrewd signings with potentially years of useful contributions ahead, but the importance of valuation cannot be understated and if you think something is too expensive or priced too high, despite being a good performer, you should look to sell it.



Long-term focus Chelsea are particularly guilty of short-term thinking and impatience. You could build a brilliant line-up from the names they have had on their books who they've sold off cheaply because they didn't perform immediately: Romelu Lukaku, Mohamed Salah, Kevin De Bruyne, Declan Rice and Tammy Abraham. We buy companies for the long term. We know that realising the value from contrarian calls can take years, but we have a long-term focus and our portfolios tend to have high average stock holding periods.



4-4-2 This formation may have fallen out of favour in the modern game – although many teams play a variation of it – but it provides a useful touchpoint for portfolio construction. We have three distinctive categories of holdings we categorise thus:

Defenders (Defensives)	40%	Midfielders (Average risk)	40%	Strikers (Higher risk)	20%
Robust, low-risk companies offering superior cross-cycle value over other businesses with similar defensive qualities		A wide range of companies, including cyclical businesses with strong strategic positions		Companies with significant operational and/or financial leverage, in turnaround situations or in the early stages of their cycle	

⁵ The Times, Andrew Robertson to undergo Liverpool medical before £8m move, 19 July 2017

⁶ <https://www.transfermarkt.co.uk/andrew-robertson/profil/spieler/234803>

⁷ BBC, Ben White: Arsenal sign England defender from Brighton in £50m deal, 30 July 2021

⁸ Reuters, Huge Cucurella fee shows high price of a little Premier League experience, 5 August 2022



Think active, act lazy “Behind every kick of the ball there has to be a thought,” said cerebral Dutch maestro Dennis Bergkamp⁹. Yes, you can run around looking busy, taking hopeful punts here and there, but what about doing less with more consideration? Take Nottingham Forest, who were promoted to the Premier League in May and set about building a squad to stay up. They bought 22 new players¹⁰! We avoid over trading. Likewise, if a stock (or a team) is going through a sticky patch we won’t panic and hit the sell button – perhaps it needs a tweak to management or a new regime. Either way, we believe in making our actions count, and behind every trade is a huge amount of thought.



Don’t worry about things you cannot influence There’s a lot of noise in football, a constantly churning media machine spitting out endless articles and thought pieces, programmes and podcasts. Likewise with the economy and the macro outlook, Brexit, Covid, the cost-of-living crisis ... none of which we as investors can control. We try to avoid noise pollution and concentrate on our core beliefs, our research, our conviction, our process and the long-term.

⁹ <https://www.onlinegooner.com/articles/view/5079>

¹⁰ Daily Telegraph, 'I regularly get phone calls at 3am': How to settle in 22 new Forest players, 15 September 2022



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