Learning outcomes: 1. Asset allocation and manager selection 2. Merits of active and passive fund managers 3. Capacity constraints and the impact of portfolio size PRESENTER: Right at the core of multi-manager is choosing and blending funds to create investment products for advisers and their clients. In this Akademia unit we look at the issue in detail. Talking us through developments are Gary Potter, Co-Head of the BMO Global Asset Management Multi-Manager Team, and also Investment Managers Kelly Prior and Scott Spencer. And the learning outcomes are: asset allocation and manager selection as sources of investment return; the merits of active and of passive fund managers; and capacity constraints and the impact of portfolio size on fund manager returns. Well, Gary Potter, when it comes to multi-manager investing, what's more important asset allocation or manager selection? GARY POTTER: I think both have a role to play. I'd like to use a quote of Charles Richardson, who we saw, recently, who runs the Veritas Equity Income Fund, Global Income Fund. And he said in the current world the market has become over-optimistic in people's ability to judge macro. And we seem to live in a macro world where every macro piece of data counts, and for sure it's important, but we're also living in a very correlated world now. So America drops 10% tonight, Europe will follow tomorrow; it's just what happens. And I think therefore the market and people and the more modern solutions that are on the market are overemphasising the importance of macro. Yes it's important, and yes we always have a macro asset allocation view - overweight Asia and Japan, and underweight the UK for example in our portfolios - but with a low ego approach, because we just know that there are far more important things for us to spend our time on. We don't know what the world is going to look like in six months' time, what's going to happen. We can only try and judge the road ahead with reflecting on the road behind and what's happened already. So I think when we look at what we do in terms of manager selection, we just spend our time on the things that we have more control of, and that is 22 years plus of manager selection. And so putting the majority of our time into finding the very best management talent we can find and using them in a diversified portfolio. PRESENTER: But at the moment as you mentioned correlations are very high, I mean both between markets and asset classes. In say five years from now perhaps correlations will be very different between markets and asset classes. At that point would you put a greater emphasis on asset allocation and manager selection? GARY POTTER: We've lived, or I've lived through more than two decades of different types of market circumstance, and one overriding factor is that if you get the manager, the right manager with the right company, with the right fund structure, but most importantly at the right time of the investment, you'll make far more money than trying to allocate between Asia and Europe a bit here and there. So it's just with the history of all those years' experience on the team that we find that if you find an Andrew Swan at BlackRock, or Jonathan Pines at Hermes, in Asia four years ago when no one else was buying them, you'll make far more money than moving money around between various markets. PRESENTER: Well, if we move to fixed income, Kelly, you specialise in that within the team. So how do you work out what's more important, the macro or the fund selection, particularly as in fixed income macro is so important? KELLY PRIOR: Well it is. I'd like to answer the question in a broader sense as well with regards to Gary's point. So you talk about correlations and the fact that they have come in in terms of markets working together, but one of the things that we have seen break down, and I think this is relevant particularly for fixed income, is some of the historic relationships intra-market. So if you think about it we've seen, historically you'd think if Federal Reserve were raising interest rates that the dollar would strengthen for instance; obviously it's weakened. You've seen a lot of those perhaps more technical correlations break down, and this where manager selection and adapting the manager selection that you've actually got, and making it relevant to the market, and managers that can actually read the current environment are incredibly important. And we've always believed in being diversified, and that allows you to pick managers and combine managers who are able to read the current environment as well. So you can have experienced managers, perhaps people also that have got a different perspective. So if we think about fixed income,

perhaps at the moment having the ability to read the sentiment of the market is very important. Now a lot of historic guys have been looking at QE, and the fact that we've seen a lot of stimulus coming in, and if you think about history that would mean that we should see inflation, and that's not happened. Everybody was calling the yield curve, the backend of the yield curve was going to be rising, but obviously that's not happened because of technical factors. So fund selection has been absolutely crucial in terms of finding people that have been able to think about that technical aspect. And again it's about how you blend managers as well. PRESENTER: But anyone listening to that would say well that sounds fine in theory, but where's the proof that having this focus on manager selection has added value; where can you see it in the attribution? KELLY PRIOR: In terms of our own numbers, we've actually done attribution and suggested that 75% of our value added comes from manager selection over asset allocation. I think that would, we would consider that to be our proof statement in terms of again we've got a very long track record, markets and cycles are varied, but that's over that whole time period it's always added value for us. GARY POTTER: I think to add to that we've been in a period of five years, in the last five years we've had things like Brexit and various crises along the way, and yet over five years our performance numbers are right up there. So despite lots of ups and downs in markets, and more ups than downs, our fund managers have delivered because our manager selection has been pretty good. PRESENTER: But I suppose one thing, with all of these unknowns, you're claiming you've picked the right managers for it. It suggests you've got a very good view of the market; otherwise you wouldn't have picked a great manager who's got the wrong view. So, talk to me, are you actually taking a view on a market rather than an individual? GARY POTTER: We're very privileged to be able to not only take the internal view, but also the views of some very fabulous strategists, fund managers around the world, some of the very best that are on the cutting edge of fabulous performance, and we can garner all those views. And what we've learned over many years is that one view, one person's opinion at a point might be wrong, or might be right. And if they're right they probably overextend that view. The benefit of what we do is we can take all of the views from all round the world, all the bright managers we talk to, with their strategies, what they're listening to, and bring that into a consolidated opinion. And it is only an opinion, no one knows. But that low ego approach, just minding your eye, keeping aware of what's going on, does actually guide you through various different circumstances. SCOTT SPENCER: And on that, I mean we do about over 500 manager meetings every year, and we've been doing that for about 22 years. And we've never met one manager that says they get all their returns from asset allocation. Some say they get all their returns from stock selection. Most say they get a mix of the returns from asset allocation and stock selection. But no one ever says they get all the returns from asset allocation. The reason is it's just too difficult. If you could do it you'd probably be on a beach somewhere sipping piña coladas and so forth. So for us to get that consistent performance that we want for our clients, spending our time finding the right manager is the best way of going about it. PRESENTER: And what's your take then, Scott, on something like so called smart beta? Where does that fit? Is that active management, is that a passive product? SCOTT SPENCER: I mean there's different types of smart beta strategies. So some would fall more into the active quasi tech-type products and some would be more in the general passive and just picking on a particular factor. I mean we have looked at them. We don't tend to use them. We generally prefer to buy a genuine active fund with a manager behind it who can, as Kelly said rightly, can adapt to the environment. It's all right buying a certain smart beta strategy because you want to capture momentum or the high growth tech names, but if that all of a sudden changes and the market dynamics change you're stuck with that, and that becomes more of an asset allocation tool than it does a fund selection tool. PRESENTER: Gary? GARY POTTER: Yes, I'd just pick up on that. What we've learned over the years is that this industry is very good at overcomplicating things. And the swathe of new products, I mean I use smart beta as potentially one example of that. It's important to know various factors and when to move from A to B and C to D.

They might get two out of three right. But the one that goes wrong torpedoes the ship. So our view is yes we're aware of all those factors, we're aware of stuff that goes on. But actually if you just keep it comparatively simple, find outstanding talent and let them do their tricks and magic, you get good performance. PRESENTER: But are you saying there that actually you'd rather leave the smart individual to make a decision on where the market's going? GARY POTTER: Yes, I think… PRESENTER: And if so how do you feel about things like style bias? GARY POTTER: Well we always deliberately have broad style exposure. We tend not to overtly bias our portfolios or overtly take a big cash position or overtly say we want value and not growth, because there is no right or wrong way of running money. So, a growth manager with 22 stocks versus 150 stock value portfolio, both can be equally very capable in what they do. And so when you structure a portfolio or a fund of funds you've got to have a bit of everything, but make sure that the players you have in each position are the very best in class. PRESENTER: Now, I want to bring Kelly in a second, but just before I do very quickly, you said right at the start we want to focus on the things we can control. What are the things you can, a quick list, what are the things you can control when you're investing? GARY POTTER: Well undoubtedly there are thousands of funds available for us to choose from. Add on other listed investments which you, we can't cover everything. But I think over the time what we've done is find a pretty good way of whittling down which funds are interesting to us. New ideas, one of the things we tend to do quite well is to find managers before they've become household names, and I think that's a skill. I think the way we ask managers questions is quite unique. Others would say they do the similar thing, but we've over 20 years plus as a team honed a set of questions that does get the right answers. And we can come onto shorter capacity in a moment, but filtering funds. But we've got a very old dog-eared address book with lots of contacts who we can check out with people. And we're getting people approaching us with new ideas and that sort of thing. And so we extend the boundaries, rather than just stick to the large funds. PRESENTER: Well given everything we've said Kelly, would you as a team ever buy a passive fund? KELLY PRIOR: Yes, we would. There are certain markets where depending on the product that you're actually running there can be benefits in terms of the correlation to the underlying market and the price that you can pay. And as I say there are certain markets where passives make more sense than others. So for instance statistics prove that the US market is a very difficult one to actually actively outperform over a full cycle. And we've talked about style biases, and again it's certain styles will work in certain market conditions, but it's a good market, if you need to have an anchor it's a good market to use passives in. Europe on the other hand is a very good market - statistics would show - for active managers. And the area where I really don't think it makes sense is fixed income. Because if you think about what a passive or an index fund is actually giving you, it's the largest exposure to in the fixed world the companies or the countries with the most debt, which with no analysis of the actual covenants and the quality of the underlying bonds. To my mind I just don't think that, and particularly given what's happened more recently, makes any sense, because you've seen less discriminate lenders in the market. And if they've been going out and borrowing lots of money, they're going to become larger components of those indices which the passive funds will be buying, and they're probably the ones that you want to have the least exposure to. So you're more likely to get your money back, I would argue possibly not, and yet you've got a greater exposure to them by buying a passive fund in that area. PRESENTER: Gary? GARY POTTER: Just to simply add that we think passive versus active, we're not saying that one is better than the other; I think it's a question of the cyclicality of the trend. And we've just come off the back of, end of 2016, for five years a very strong period for passives. And Preston and history would suggest, as it did in several periods before in the '70s and the '90s, late '90s that active looks set for a bit of a rebound. It is cyclical, you just need to know where you are in that cycle, and adjust your weighting where you use passives accordingly. SCOTT SPENCER: And we do use passives within some of our fund range, but at the moment it's among its lowest weighting as we've been taking money out of

passives and putting it more towards genuine active managers. And I think that's the key: it's genuine active managers; it's not just those core funds that charge you an active fee and give you index plus one or two. If you're going to buy an active fund genuinely make sure you're buying a true active fund, whether you measure that by active share or tracking error or so forth. But actually if you look at those genuine active funds, they statistically do outperform. The problem with the stats is a lot of it is mixed altogether with core index plus type funds, which really skew the stats in favour of passives when you add the fee argument into it. PRESENTER: Well you mentioned active share there, could you give us a quick definition or example of what it is and how it works? SCOTT SPENCER: Well active share effectively is just the percentage difference a fund is to the index. So if the manager owned a large volume of the same amount of stocks and the same percentage as the index, he would have a low active share. But if the manager is very different from the index or the benchmark, you'll have a higher active share. So it shows really how different the fund is from the benchmark. PRESENTER: But isn't there a danger if you go for a lot of funds with high active share you're just taking, investing in a lot of managers who take very extreme positions? It doesn't necessarily… SCOTT SPENCER: There is if you just go in isolation, but the idea and one of the beauties of a fund of funds is we can blend those together. So for instance in the US we can take something like [unclear 0:14:56] which we own, only owns 33 shares, so it has a high active share from that point of view. Very much in the value camp in terms of the style tilt to the fund you mentioned earlier. But we can blend that within Hedgewood, which only owns 22 names. So again high active share, but you blend them together you get a kind of consistent return but a consistent outperformance. PRESENTER: So how many funds would you need in a fund of funds to achieve diversification? SCOTT SPENCER: It varies on what the idea of the fund of funds to do. If you're looking at one that is more in the multi-asset camp you have to have fixed income and property and so forth. It varies. There's no right or wrong way, as Gary mentioned, to run money. We take a more diversified approach because we don't necessarily make big bold asset allocation calls. We let the managers express themselves that way. So from that point of view we do have more individual names than many of our peers out there. PRESENTER: Now Gary a little earlier you were talking about capacity constraints, how much money a manager can run, how big an issue is this? Because presumably if you find a really good manager, there's other fund of funds players out there, they're sooner or later going to find the same manager too. GARY POTTER: Yes, we tend to find that over history we will tend to find them earlier. We'll back our conviction earlier with newer ideas, so young manager untried and untested, but new products that perhaps have got experienced managers that people haven't picked up on. One of the fallacies in this market right now is people saying I need a three-year track record, I need a fund with £½bn of assets before I can even get involved, because I've got to extend it to all my offices around the country or whatever it is. And also there's also some model portfolio managers, they go through various hoops to get a fund approved. If we want to buy something we'll buy it. And I think we've got plenty of evidence historically of us buying things like a Chelverton income back in 2008/09. It was £5m. We backed the BlackRock Asian Growth Leaders at $5m before it was ever a household name. We saw something in Dave Horner, Dave Taylor and Andrew Swan at BlackRock, and plenty of other examples. We like to be involved with a fund when it's building and creating its track record, rather than living off it, and there's an awful lot of funds that are being bought today I think that are living off their past track record. They've become too big, they're over-cumbersome, they've got some very good managers, but they're just too big. And I think when it comes to capacity it's one of the biggest things that we determine in our manager selection, just where they are on that capacity curve. Because we know from evidence and history that the bigger a fund grows, however good a ship's captain is, the bigger the boat the harder it is to turn around and stop. And so we quite like at the margin smaller more nimble flexible managers, because that gives you an edge. PRESENTER: So are you as a fund of funds provider capacity constrained, is there a size above which you'd just say I can't bother

with a Chelverton and putting £4m in, £5m? GARY POTTER: Well the answer is obviously there is a capacity constraint. It's certainly not where we are, we're at just over £3bn in assets, and we haven't got any of those issues at the moment. Remember we're investing across, across our 10 products something in the order of 100 names I think it is or something like that. And therefore when you think if you're buying a Clive Beagles at around £3bn, and you own 5%, that gives you plenty of upside. So there is obviously natural capacity, but it's nowhere near where we are right now. I think the bigger problem comes when funds were £200m and they're now £2bn, and the track record that was created, which was a good one when it was £200m, is now waning because the asset base is just drowning the ability of the manager to generate alpha. So it's very much a key part of our selection criteria, it's just how much a manager can run. And we ask that question very early on. PRESENTER: But Scott, how do you work it? If you meet a fund manager, he's got £40m, fabulous track record and he says I think I'm good up to £500m, do you take him at his word; how do you work that? SCOTT SPENCER: Well we write that number down. So every meeting we do is recorded. So I would just add, probably with the exception of manager change, capacity or managers breaching their kind of capacity, number is probably the second biggest reason why we end up leaving a fund or going somewhere else. But in terms of that we do, as I said earlier, lots of manager meetings. And when we first see a manager we will always say how much do you think you can run in this strategy? And they always pick lovely round numbers, so it's either £500m or a billion, and we go OK fine, scribble that down. Go and see them again in six months' time, how much can you run? Ask the question again and see where that number is. Now what usually happens is every time they get closer to that billion they'll give you some reason, oh the market's expanded, you know, it's great, it's a great time, I think I can run £1.5bn or £2bn. We will always judge it on that kind of original number, because while the market may have expanded and that may be a valid reason, the market can also detract in terms of liquidity. So we need to be aware of how a manager's style suits that number. And there's no particular number in mind. If you're a manager that takes big long term thematic bets you can probably run more money than you can if you're a bottom up small cap stock picker. But we do always treat it based on the original number. And from that point of view we can get a fairer comparison of where we are. GARY POTTER: Evidence would suggest from those examples we could use that those managers that stick to that number, and respect that capacity number maybe market adjusted a little bit, actually do better pound for pound. SCOTT SPENCER: It's one of the reasons why the majority, a lot of the managers we select actually have capacity limits on their funds, so they will soft close, and we kind of like that. Model portfolios and so forth out there tend to struggle with funds that soft close. We really want products that can do that, because it shows the manager is more focused on performance than they are asset gathering. PRESENTER: Assuming that's the case, and someone says I don't want to run more than a billion, and you think they're very [unclear 0:20:57], would you be happy if they then raised their fee or put a performance fee on top? GARY POTTER: Well we have examples where there are performance fees already respecting the fact they want to control the amount of assets. So we haven't got a problem with the performance fee angle. Raising their fee I think in this fee conscious environment would be a tough one. I think when you start out with a manager relationship or buying a fund with that sort of capacity constraint, you understand what you're getting into on day one. And as I said before we tend to get in quite early, and so we have a good relationship with the companies obviously. So we don't tend to suffer fees going up, but we don't mind performance fees as long as the performance is there and the capacity is [unclear 0:21:40]. KELLY PRIOR: I think that's an absolutely crucial point as well. When you go and see a manager early on in that track record, you establish a relationship. And that doesn't mean there are sacred cows, but we want to work with people. So, as they're growing, the last thing they're going to do, or it would be incredibly unusual for them to thank you for their asset growth by raising a fee, I don't think that's ever happened to be honest, and quite the opposite. Managers respect the fact that you backed them early. You took the

time, and that's very much what our process is about. Take the time to truly understand what makes the fund tick, and why you can back it early. Work with them. And then as they grow, and as they develop and as people take on assets, they generally will expand as a team. Things do change, and that's what we, when we meet with managers, and we do every six months, understand that gradual change. And if we do decide to walk away from a fund, do it in a grownup way. Talk to people, make them understand, and we have fabulous relationships. And there are many times when we may have stepped away from a fund, whether it's because the market conditions aren't right for them, they've disappointed, something's happened where we've been invited back in the future. And I think this is a people business, people make decisions with regards to how they run funds. And I think as long as you keep that dialogue open, and you can be honest with people, they'll be honest back with you. But backing people early gives you a fabulous door opener if you like to have those honest conversations, people appreciate that. PRESENTER: But also how do you think about, because there lies an extra layer of charges in a fund of funds, so how do you work all of that out? Because at some point there's an end consumer who's got a TER that's a little bit higher than if they bought a direct equity fund or a direct bond fund? KELLY PRIOR: True, but then I think you have to think about, well there are a couple of issues, aren't there? So obviously as a fund of funds you have to think about CGT, and actually the fact that we're officially, in terms of the tax benefits of an actual fund of funds, which I think are a positive one. But also the work that we do, we are adapting to market conditions, and that's the point is to give a consistent return profile over time. Which we think the fact that you are adapting and changing your fund selection within that over time pays benefits. Our performance over time includes all of those fees, and as Gary mentioned we've been consistent over time. GARY POTTER: And I think just to wrap that up, I give one example which wraps up all the things we've been discussing. Luke at Old Mutual, capacity constrained, fund closed to investors. We've been in the fund an awful long time. The index has done I think is it seven years something 109%; he's done 327%. We might pay a little bit more for that, but we are absolutely prepared to pay that. When you wrap all these things in discussion, it's absolutely right, and it was the number one fund last year in the UK. PRESENTER: We've got about five or six minutes left, and I want to move from talking around some of the investment pieces to in a sense where the products fit for advisers and their end clients. Scott, what do you do to make sure you've got a broad enough product suite that if you're a financial adviser you can put your client in there and be confident that there's a fund there for them in their 20s, 30s, 40s, 50s, 60s, 70s and beyond? SCOTT SPENCER: Well we have a very big range of funds. We run about 10 funds with two distinct ranges: one being the risk targeted range, one being the more risk profiled range. So we think we do have a product almost out there for everyone, but we're never going to go there and tell an adviser this product is suited for this particular client. The advisers will always know their clients better than we do. We can just produce what these products are going to do in terms of performance and volatility, and let the IFA map them to their particular client. But we do have one of the biggest ranges out there in terms of fund of funds. What we don't want to do is we don't only have one range, let's say a risk targeted range, and try and shove everyone into that range. That's not for us. We have two distinct ranges, two distinct price points, and it's up to the individual client and financial adviser to choose which one is necessarily better for them. PRESENTER: Gary? GARY POTTER: I was just going to add I think, you know, we're very fortunate that we, when we merged with F&C [unclear 0:26:01] we inherited the lifestyle range, and that gives us a broad exposure to the marketplace. And I think working increasingly with distribution partners, as we do, they want to be able to recommend a product line or the complete suite, and let their advisers then choose which of the ranges they want to buy. If you've just got one product, there's an awful lot of work and due diligence and platform issues and wrap issues that go into a proper distribution part, national network working with you. And when you've got a complete range that they can just say yes we like all what you do, and you've got the complete range, yes we're happy to endorse

it. Then the advisers with their dynamic planner, DT or risk profile or whatever they choose to work with, we have the solution that will meet them. And then they can switch between those funds over time if their client profile changes. PRESENTER: And if they're switching between funds, do you have initial charges, or do you see somebody as a BMO client, and as long as they've…? GARY POTTER: There's no initial charges – if a client was switching mid to mid so they wouldn't be suffering, we wouldn't charge anything. PRESENTER: And what are some of the, I suppose quick question. We see a lot of the use of volatility as being seen now increasing, not everywhere but as a source of risk, and to some extent a source of risk and return that you can expect. What are your thoughts on that Kelly; is that a good way to look at funds? KELLY PRIOR: As volatility being a bad thing or? PRESENTER: I wouldn't say a bad thing, but it's become a proxy for risk in some cases, and volatility itself is volatile. Given where we are at the moment, what's your…? KELLY PRIOR: I think volatility, well obviously we've been incredibly, actual market terms eerily low volatility absolutely, which again has played into the hands of passives and various things. And it hasn't thrown up if you like the natural opportunity set, because from a company's perspective a better allocation of capital hasn't been rewarded necessarily. We would welcome volatility, absolutely. Whether that's a relevant measure of a good or bad fund I don't think that necessarily is the case. But I think volatility would be a good thing, we would definitely welcome it. But I don't see volatility as a measure of risk, no, absolutely not, because we would always encourage our investors to be long term. And yes of course markets should be volatile, of course they should, and they haven't been and it's quite unusual. But if you actually track over time, the returns you can actually get through riding through that volatility and actually staying in markets, and not panicking when they're dropped down because actually that creates fabulous opportunities in terms of the actual, the better companies. The baby gets thrown out with the bath water. As long as you stay with good managers who pick good companies, who allocate capital properly when markets come back round to themselves, and think about well actually which are the better companies? The other side of the volatility can give you fantastic performance. But again it's about being long term. GARY POTTER: I think volatility has also been distorted by QE fundamentally over the last seven or eight years. So our clients, the financial advisers, and their ultimate clients, our ultimate clients, they see risk as am I losing money? We think an awful lot about downside and drawdown, rather than industry-wide measures of volatility or value at risk statistics that mean nothing to our ultimate client. So it's that sort of old experience hand team that go into that, and we think an awful lot about downside. So I think volatility as a measure of risk is not ideal. I agree with Kelly. KELLY PRIOR: And it's based on history. GARY POTTER: Exactly. KELLY PRIOR: And what does that tell you about the future, particularly in this environment where we have such distortion, such technical distortions on markets. Personally I'd struggle with it as a true measure of value, or a true measure of how things are going to perform going forward in the future. PRESENTER: Well, given the range of funds that you offer, is your mentality behind running them always the same regardless of whether it's quite an aggressive growth fund, through to quite a conservative say distribution fund; is it about making people money or is your first thought let's not lose the money? KELLY PRIOR: You never want to lose clients' money, obviously, but the point is it's about being paid for the risk that you're taking, I think, and having that sensible mindset with regards to is this a good opportunity again for the long term. So we'll have different, with regards to the lifestyle range that Scott mentioned, obviously they are risk targeted those ranges. So there is a link there in terms of the volatility that we can expect and the outcome; whereas the navigator range are more outcome driven, so there's some differences there. But I think our process is the same no matter which fund we run. It's about finding good fund managers who can perform over the longer term, particularly in that fund of funds format. PRESENTER: Now, there's a lot of outsource solutions available, so to ask final question to each of you. I'll come to you first Gary. If you could give one piece of advice to an adviser looking at somebody who was saying oh yeah, we can run all your investments

on your behalf and that of your clients, one crucial thing they should think about. GARY POTTER: Well I think it would be naïve to say that we could run everything for one client, but if we did I think my piece of advice was be patient, don't panic, invest on a fundamental basis. But that fundamental basis has got to be research driven. Make sure you understand exactly what you are doing and what you're owning, and that comes to managers or IFAs picking us as outsource managers. Do the due diligence on the people. Have they met all the people in the team? We sent our team out to meet people, the IFAs that we're talking to. And make sure you can understand when a team over, not one or two years but multi-years, decades, can perform when they have a tougher time, make sure you understand that before you commit. And we spend a lot of time talking to our advisers about that, and they should come in and see us. If they don't do that due diligence you're never going to get off on the right foot. PRESENTER: Scott? SCOTT SPENCER: Yes, I'd kind of echo that. It's all about understanding what you're buying, rather than being sold on some kind of glossy marketing brochure or some lovely performance line. It's really getting to the heart of what it is you're buying, whether you're buying a fund of funds or a regular fund. Truly understand what makes the team tick, how they pick funds or how they pick stocks. How transparent they are, that you know everything. So when there does come a period of volatility you would kind of understand how you would expect that to perform. So it's all about understanding and making sure you know what you're buying. PRESENTER: Kelly, final thought. KELLY PRIOR: Trying to think if I can add any value over and above what the guys have said. I think it would be just make sure that clients are aware of risk, but ultimately be long-term investors. And that would be the advice that we would always hope that IFAs would give their clients. We are in a cycle, and it's extended, and ultimately you need to be invested for a longer time period perhaps than, the mentality of the market has become shorter term perhaps, so that would be something that we think people should always be thinking about. GARY POTTER: One final word, I would just say I would encourage people, it's a partnership: the client with the IFA, the IFA with us. And that chain has got to stay strong. And so you have to work with those partners, understand how their needs are changing through time with the market, but respond with appropriate articles, help and assistance. Because ultimately we have no god given right to run money, we have to go out and earn that trust, and we do that day in, week in week out. But make sure you have a partnership. So in a bond of trust, like us with our managers, get that trust working with the IFA and the IFA business, and if you've got that trust you have a good bedrock. SCOTT SPENCER: I think that's important. It kind of links into one of the reasons we pick funds is that kind of alignment of interest. You want to pick teams or products or funds or fund of funds that have the same alignment of interest to you and your client, which in our case is to deliver consistent outperformance. Don't pick on those groups that are more incentivised to raise assets or do other types of stuff. If you pick on funds that are generally incentivised to outperform you're halfway over the battle. PRESENTER: We have to leave it there. Thank you very much indeed. Gary Potter, Kelly Prior and Scott Spencer, thank you. In order to consider the viewing of this video as structured learning, you must complete the reflective statement to demonstrate what you've learned and its relevance to you. By the end of this session, you'll be able to understand and to describe asset allocation and manager selection as sources of investment returns; the pros and cons of active and of passive fund managers; and the capacity constraints and the impact of portfolio size on fund manager returns. Please complete the reflective statement to validate your CPD.