

The ability to follow an investment approach is much harder during a disappointing period of performance.

Lessons in extremis



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10 July 2023

I'm sure a common problem I share with readers is the enjoyable struggle of choosing from the long list of TV shows and movies that get recommended to me. Like the Hydra, as soon as one is ticked off, two more appear. Five years in the making, I finally got round to watching Oscar-winning documentary *Free Solo*¹.

The film follows American rock climber Alex Honnold, in his bid to complete a climb of El Capitan, a vertical rock formation in Yosemite National Park. Honnold's area of specialty is 'free soloing', which is technical rock climbing without ropes or any other protective equipment. As you can imagine, this is the extreme of extreme sports.

People at the pinnacle of their field, performing unimaginable feats, can often appear alien to us. While a genetic component to their ability is usually found (an MRI scan revealed little-to-no activity in Honnold's amygdala, a part of the brain that plays a vital role in our fear response), I have found that life's outliers often share insights into their personality and methods that are much more common and applicable to us mere mortals.

An activity that involves the highest level of risk-taking may not seem the most appropriate place to identify traits to look for when searching for good fund managers to partner with. However, we know that only a small fraction of fund managers are able to outperform their benchmark over time. We are looking for another kind of outlier. While we don't want the complete 'free soloing' fund manager version of Alex Honnold, there are other characteristics that do appeal.

Finding managers with a sound process that is consistently carried out, even when the proverbial fingers are slipping, is a very helpful trait for a fund manager. The ability to follow an investment approach is much harder during a disappointing period of performance. We need managers who can take Honnold's perspective: *"I'm not thinking about anything when I'm climbing, which is part of the appeal. I'm focused on executing what's in front of me."*².

Honnold's climbs are real life experiments in the human ability to withstand fear and pressure. While an equity bear market or failed stock pick may not bear the same consequences as losing your footing halfway up El Capitan, the same fight or flight reaction is firing. In Honnold's words, *"I've done a lot of*

*thinking about fear. For me the crucial question is not how to climb without fear, that's impossible, but how to deal with it when it creeps into your nerve endings."*³.

Free solo climbing also requires a level of risk management that is difficult to comprehend in everyday life. Still, while Honnold's actions hit levels of risk taking that are very uncommon, his methods to manage the dangers faced, reveal a useful tool for fund managers. He says, *"I've walked away from more climbs than I can count, just because I sensed that things were not quite right."*³. Mistakes made by a fund manager are inevitable, but we look for a highly disciplined approach to stock selection, grounded in the avoidance of a permanent loss of capital.

Finally, I was struck by Honnold's passion for the sport he loves. Fame and fortune have enabled him to turn his hobby into a career, but these clearly play second fiddle to why he has pushed the boundaries of rock climbing beyond his peers. A common trait we see in successful fund managers is their passion for the job beyond the material. This can't be quantified but is often easy to spot through a fund manager's words and actions. I'll leave the final word with Honnold, *"... climbing without a rope, gear or a partner - I did it because it seemed like the purest, most elegant way to scale big walls. Climbing, especially soloing, felt like a grand adventure, but I never dreamed it could be a profession."*⁴.

Sources: ¹*Free Solo* (released 2018. Directed by Jimmy Chin and Elizabeth Chai Vasarhelyi). ²Interview, Will Chancellor, 4th August 2014, ³*Alone On The Wall*, Alex Honnold, ⁴The New York Times - The Calculus of Climbing at the Edge, Alex Honnold, 19th Nov 2014.

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Market Focus - 10 July 2023

- » Global equities contracted by -1.4% last week
- » Janet Yellen said it's too soon to rule out the threat of a US recession
- » Brent crude rose by 4.8% to \$78.47 per barrel
- » Gold rose by 0.3% to \$1925.05 per ounce

US

- » US equities fell -1.1% last week, with insurance and utilities outperforming while homebuilders and healthcare underperformed. US markets had a half day on Monday and were closed on Tuesday for Independence Day
- » ADP Nonfarm employment change for June was 497k (vs. 228k expected), and non-manufacturing Purchasing Manager's Index (PMI) for June was 53.9 (vs. 51 expected)
- » US month-on-month average hourly earnings growth for June was 0.4% (vs. 0.3% expected)
- » Janet Yellen said it's too soon to rule out the threat of a US recession, but data suggests *"that there is a path to bring inflation down in the context of a healthy labour market."*

UK

- » UK equities fell -3.7% last week
- » Andrew Bailey rejected the need for a higher than 2% Bank of England inflation target, saying changes could damage credibility and *"unpick expectations."*
- » UK Manufacturing PMI for June was 46 (vs. 47.2 expected), and construction PMI was 48.9 (vs. 51 expected)
- » UK Halifax Housing price index showed that prices contracted by -2.6% year-on-year in June (vs. -2.3% expected)

Europe

- » European equities fell -3.1% last week, with all sectors in the red; construction and healthcare were worse, whilst basic resources and banks performed better
- » European Central Bank's Mario Centeno is confident inflation has peaked and is quickly receding and suggested underlying price growth will follow with a lag
- » German Manufacturing PMI for June was 40.6 (vs. 41 expected)

Rest of the World/Asia

- » Global emerging market equities fell -0.6% last week
- » Japanese equities fell -1.5% last week
- » Chinese equities fell -0.9% last week
- » Chinese consumer inflation was flat in June while factory-gate prices fell further, fuelling concerns about deflation risks and adding to speculation about potential economic stimulus
- » People's Bank of China again extended support for the Yuan with daily fixing. Premier Li Qiang pledged to *"spare no time"* in implementing a batch of targeted policies to strengthen the economy's recovery from the pandemic, he said in remarks at a seminar with researchers on Thursday, according to state-run CCTV
- » Australian interest rate decision for July was 4.1% (vs. 4.35% expected)

Market Summary

Cumulative returns					
Asset Class / Region	Currency	Week ending 7 July	Month to date	YTD 2023	12 months
Developed Markets Equities					
United States	USD	-1.1%	-1.1%	15.3%	14.1%
United Kingdom	GBP	-3.7%	-3.7%	-1.2%	3.8%
Continental Europe	EUR	-3.1%	-3.1%	9.2%	13.4%
Japan	JPY	-1.5%	-1.5%	20.9%	23.1%
Asia Pacific (ex Japan)	USD	-1.2%	-1.2%	1.8%	-0.3%
Australia	AUD	-2.2%	-2.2%	2.2%	10.9%
Global	USD	-1.4%	-1.4%	13.5%	14.3%
Emerging Markets Equities					
Emerging Europe	USD	0.5%	0.5%	13.5%	47.7%
Emerging Asia	USD	-0.9%	-0.9%	3.1%	-1.5%
Emerging Latin America	USD	0.2%	0.2%	18.8%	30.9%
BRICs	USD	-0.6%	-0.6%	-1.0%	-6.3%
China	USD	-0.9%	-0.9%	-6.3%	-17.5%
MENA countries	USD	1.5%	1.5%	4.5%	-1.5%
South Africa	USD	-1.8%	-1.8%	-7.2%	-5.4%
India	USD	0.1%	0.1%	7.5%	16.0%
Global emerging markets	USD	-0.6%	-0.6%	4.2%	1.5%
Bonds					
US Treasuries	USD	-1.1%	-1.1%	0.6%	-2.9%
US Treasuries (inflation protected)	USD	-1.2%	-1.2%	0.7%	-2.8%
US Corporate (investment grade)	USD	-1.3%	-1.3%	1.9%	0.2%
US High Yield	USD	-0.6%	-0.6%	4.8%	6.8%
UK Gilts	GBP	-2.1%	-2.1%	-5.7%	-17.5%
UK Corporate (investment grade)	GBP	-1.1%	-1.1%	-2.1%	-8.7%
Euro Government Bonds	EUR	-1.4%	-1.4%	1.1%	-6.8%
Euro Corporate (investment grade)	EUR	-0.5%	-0.5%	1.6%	-1.6%
Euro High Yield	EUR	-0.2%	-0.2%	4.2%	8.1%
Japanese Government	JPY	-0.2%	-0.2%	2.6%	-0.2%
Australian Government	AUD	-1.1%	-1.1%	0.1%	-1.6%
Global Government Bonds	USD	-0.7%	-0.7%	0.2%	-3.0%
Global Bonds	USD	-0.9%	-0.9%	1.3%	-1.4%
Global Convertible Bonds	USD	0.6%	0.6%	5.5%	7.3%
Emerging Market Bonds	USD	-1.3%	-1.3%	1.9%	4.4%

Cumulative returns					
Asset Class / Region	Currency	Week ending 7 July	Month to date	YTD 2023	12 months
Property					
US Property Securities	USD	0.1%	0.1%	4.9%	-2.7%
Australian Property Securities	AUD	-1.8%	-1.8%	-0.2%	-3.8%
Asia Property Securities	USD	-1.5%	-1.5%	-8.4%	-12.1%
Global Property Securities	USD	0.1%	0.1%	1.2%	-4.8%
Currencies					
Euro	USD	0.5%	0.5%	2.4%	8.0%
UK Pound Sterling	USD	1.0%	1.0%	6.2%	7.0%
Japanese Yen	USD	1.6%	1.6%	-7.8%	-4.3%
Australian Dollar	USD	0.5%	0.5%	-1.7%	-2.0%
South African Rand	USD	-0.2%	-0.2%	-9.5%	-11.1%
Swiss Franc	USD	0.8%	0.8%	3.8%	9.7%
Chinese Yuan	USD	0.4%	0.4%	-4.5%	-7.2%
Commodities & Alternatives					
Commodities	USD	1.3%	1.3%	-5.9%	-6.1%
Agricultural Commodities	USD	1.0%	1.0%	1.4%	4.8%
Oil	USD	4.8%	4.8%	-8.7%	-25.0%
Gold	USD	0.3%	0.3%	5.5%	10.5%
Hedge funds	USD	-0.2%	-0.2%	0.5%	1.6%

Source: Bloomberg Finance L.P. Past performance is not indicative of future returns.

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