FINANCIAL REVIEW

Kevin Charleston believes finding value has only got harder

William McInnes

Kevin Charleston has seen just how tough it can get when the market falls heavily. But it has only strengthened his belief that fundamental intrinsic value analysis is the best way to invest.

As chief executive and president of Loomis, Sayles & Company, a Boston-based investment firm with $US249.7 billion ($354.4 billion) worth of assets under management, Charleston believes that even with a fundamental approach, value has only got more difficult to find.

"It's much harder," he says. "It's a more difficult environment for active investment management."

Kevin Charleston believes value is only getting harder to find. **Dominic Lorrimer**

He add the US bull market's long run has meant passive investors without strong strategies were still able to make reasonable returns, although he believes the tide is now changing.

"You had a long period where you had high market returns and you had circular flows, particularly in the US, going into that," he says. "You could be [just] okay, not that differentiated and you could build a reasonably good business.

"What's happened with the rise of passives, with people feeling less positive about returns going forward, is the bar has been raised much higher on what constitutes a best-in-class capability and you're getting a real shaking out of strategies.

"You're getting consolidation as well. What you need to do to be able to command sophisticated investors to give you their confidence is just much higher. We just we have to work harder."

In the midst of a tougher operating environment, Charleston stands by the need for fundamental investing, an approach set by Loomis Sayles founders Robert H. Loomis and Ralph T. Sayles in 1926.

Fundamental analysis

"Their philosophy was you do good fundamental research, figure out the intrinsic value of businesses and effectively invest for your clients in both fixed income and in equities," he says. "We still have a lot of the same kind of foundations. Any of our strategies are generally going to have a real strong fundamental underpinning."

He adds that most of the company's funds, while different in style or geography, ran low-turnover, fundamental, high-conviction strategies. That investment philosophy has seen the US-based firm invest heavily in financials, industrials and information technology stocks.

"Fundamental intrinsic value analysis is still the heart and soul [of what we do]. We think there's a lot of opportunities to add value and do the hard work."

Expanding down under

As a subsidiary of Natixis Investment Managers, Loomis, Sayles & Company have looked to expand their footprint, partnering in Australia with local Natixis stablemate Investors Mutual.

That firm, headed by Anton Tagliaferro, is offering the $US19.9 million Loomis Sayles Global Equity Fund to Australian investors in the retail space and represents the first time Investors Mutual have launched an international fund.

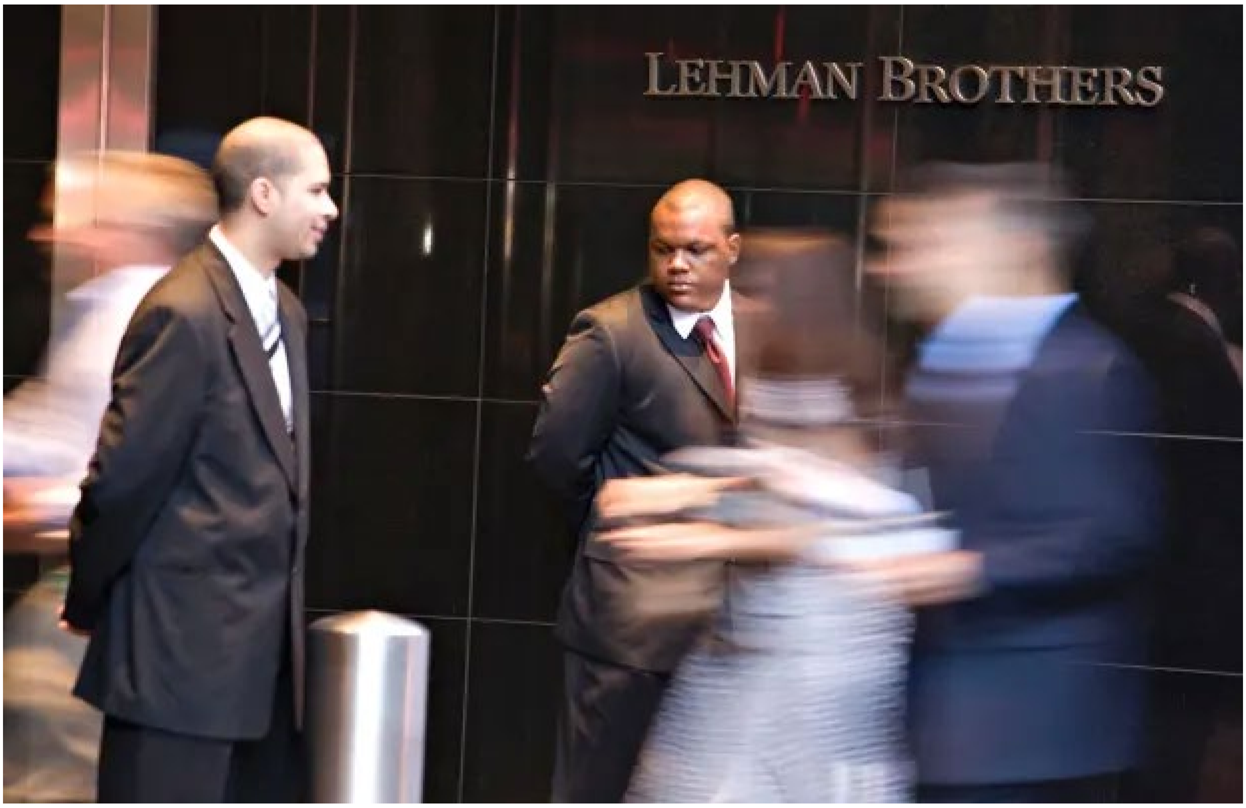
Loomis, Sayles is partnering with Natixis stablemate Investors Mutual, headed by Anton Tagliaferro (left). **Dominic Lorrimer**

The fund has risen 6.9 per cent since inception on November 1, 2018, and has outperformed the benchmark MSCI All Country World Index, which rose 3.8 per cent.

The fund includes large holdings in tech stocks like Alphabet (Google), Amazon and Alibaba Group, and industrial stocks like Sherwin-Williams, Roper Technologies and Danaher Corporation.

Charleston says Australia's superannuation structure made it an attractive market for overseas investment firms who could offer retail investors a greater diversity.

"We've been in the institutional market in Australia for 20 years now, primarily on the fixed income side and the equity side," he says.



Staying out of the subprime mortgage market helped Loomis weather the GFC. **JEREMY BALES**

"If you look at the flows of money coming in, it's such a great structure for retirement savings. But you've got all this money coming in and the idea that it can all flow into Aussie equities is probably unrealistic."

Weathering the GFC

Loomis Sayles' high-conviction strategy was heavily tested in the midst of the Global Financial Crisis, although Charleston admits its success during this period wasn't all intentional.

"In 2008, we looked brilliant because we weren't in subprime, not because we knew what it was going to do what it did but it was primarily because we didn't devote a lot of resources to it. We weren't in it because we knew we didn't understand it enough," Charleston says.

"But by November of 2008 it didn't really matter if you were in risky assets, you looked as dumb as everybody else. What we did well over that period though is again, the fundamental analysis. We knew what we had so while things were pretty bleak in November and December and in the first quarter of 2009, you didn't see us selling a lot because we knew what the value was."


"We've got a really broad set of capabilities," Kevin Charleston says. **Dominic Lorrimer**

He believes the company's focus on fixed income investment was another factor that helped it to weather the storm.

"We didn't make really any changes to our employee base because actually the work had increased and not decreased," he says. "We believed strongly in where we had invested and by the end of 2009 that credit had kind of been the place where people took risk again and we had more than made up for the losses and the business was growing again."

A big universe

Charleston credits part of Loomis's success to the wide coverage universe they have spanning different geographies, investing styles and asset classes.

"We've got a really broad set of capabilities," he says. "On the equity side we've actually more than doubled the assets over the last five years there. It's domestic US equity but also global small cap and both value and growth. We've also just established an emerging market equity capability which we hadn't had before."

Loomis Sayles also manages close to $US40 billion worth of global fixed income assets.

"That's clearly a big part of the franchise. We've got huge securitised debt and credit," Charleston says.

"If you go to the US and say to people what do you think of Loomis Sayles, I do think the first thing that people will tend to point out is just a credit capability.

"We invest more than almost everybody else in it, so when they rank who's the best at what, credit research is usually the one where we'll be ranked the highest."

Charleston also recognises the importance of quantitative analysis, although he still firmly believes in the "art" of investing.

Quantitative analysis

"We were long the art of investing but we were probably not as advanced on the science part of it," he says.

"Jae Park along with Dave Waldman, head of our quantitative research, began working with our investment teams and really harnessing the more quantitative inputs into the process not replacing what the teams did but just giving them a deeper foundation to understand the risk and the portfolio better."

While he believes quantitative analysis can play a strong role in investing, he still believes in the power of the investment team to make the final decision.

"They've got a highly disciplined process," he says. "I think what we're good at as a firm is really assessing each of our investment teams, determining where they have skills, where they have demonstrated insight and making sure that as they construct portfolios it's reflecting areas where they have market insight beyond market consensus. We've really tried to build both the art and the science [of investing]."

Boy from Boston

Born and raised in Boston, Charleston has never strayed too far from the city, receiving his BA from Trinity College and an MBA from Boston University. He began his career as a financial analyst with The Boston Company in 1988 before joining Nvest Companies in November 1993. In March 2000, he was invited by Loomis, Sayles CEO Robert J. Blanding to join the firm as chief financial officer.

"Having worked closely with the CEO of Loomis, he asked me to come on and be the CFO and work with him," Charleston says. "In May 2015, he gave up the CEO title so I've been CEO since May 2015.

"Loomis from a management standpoint, I think we try to be low-drama. There's been a lot of continuity in the team."