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Credo Capital's head of research is bringing quantum physics to portfolio construction

GEMMA STILLERMAN

JAMES PHILLIPS

jphillips@citywire.co.uk

Credo Capital's Gemma Stillerman has had a rapid ascent. Just two and a half years after joining the firm as a senior research executive, she is now head of research and chair of the group's investment committee with the ultimate responsibility of setting the asset allocation for its £1.2 billion in funds under administration.

Although it could be argued that finance is in the blood – her father, Barry Stillerman, founded the wealth management arm of BDO Stoy Hayward – she took a slightly indirect route into the industry, studying physics and philosophy at Leeds University, majoring in quantum physics. 'Quantum physics is all about practical mathematics and you can take that into investment,' she says. 'It gives you a different view on things and leads you to break everything down and question why it is happening.'

After graduating with a first-class honours degree, during which time she worked as an intern at Goldman Sachs, Stillerman joined the UBS graduate training scheme. She speaks highly of her time at Goldmans, recalling: 'It was my first introduction to the industry. The training was very intensive and you were surrounded by very driven people. I realised that it was the type of environment I wanted to work in.'

In 2005, Stillerman joined GAM, working as an analyst on its emerging markets desk with responsibility for Latin American equities across all global emerging market long-only portfolios and hedge funds.

Being accountable for \$600 million at such a young age might have fazed a lot of people but Stillerman relished the challenge.

'It was a very exciting time in the Brazilian market, in particular,' she says. 'There were at least two or three initial public offerings every week and it was a great

grounding to be able to understand both how fund managers operate and how hedge funds work.'

Although she enjoyed the cut and thrust of emerging markets, Stillerman soon recognised that she wanted to broaden her knowledge base rather than work in one narrow sector. She cites the example of a friend at UBS back in 2008 telling her to look at what was going on in the credit markets, which were pointing to the unsustainable nature of the equity bull run.

The opportunity to take a more strategic role arose at Credo Capital, which she took, swiftly moving up the ranks. 'I was conscious that just focusing on Latin America was very narrow,' she says.

'To understand any one market you need to be aware of what is going on in other markets. If you are insular and just focused on one sector or market, you can lose a bit of perspective. 'To truly understand the macro environment you really need to know

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WEALTH MANAGER PROFILE

what is going on in credit, the housing and job markets, for example, in order to be able to build a holistic picture. So when I got the call from Credo, it was a very attractive opportunity.'

The South African-owned firm was launched in 1992 and expanded significantly over the following six years, broadening the number of services it offers alongside asset management and stockbroking to include property investment management, trust services, corporate finance, private equity and lending facilities.

The wide mix of the business provides both diversification and a broad range of skill sets that can be leveraged across the group. While most companies publicly baulk at the use of the term 'cross-selling', new private clients regularly come from happy customers of Credo's more business-focused arms.

Stillerman stresses that the private client offering is very much service-led. Smaller clients that are likely to grow into bigger clients initially have their assets invested in its in-house fund of funds range, while bigger clients receive a more bespoke service. This is run off six model portfolios offering varying risk profiles with three apiece in dollar and sterling share classes, which can then be tailored to meet different individuals' needs, such as a requirement for income.

Stillerman describes her role as 'finding the best investment opportunities out there' and although the group predominantly uses third-party long-only and hedge funds, it also implements some direct investments around the margins.

'Credo is very flexible and one of our calls within fixed income was that after seeing investment grade credit spreads fall 63% from their peak, we decided to buy selective high-quality corporate bonds directly,' she says.

'Although we are focused on finding the best fund managers out there, if the returns from an asset class are low it can be better to avoid the charges by buying the underlying asset yourself.'

Overall, Stillerman says she is quite negative on the state of the global economy, but stresses that there are still opportunities to be found. Equally, there are plenty of pitfalls but, perhaps owing to her quantum physicist past, she is wary of reading too much into any one set of data, particularly in such a sentiment-driven market environment.

'People focus on the unemployment figures in the US, but it hides the percentage of employers that have reduced their staffs' working weeks or made some employees work part-time,' she says. 'Realistically, firms will increase their employees' hours first before taking on new staff, so you really have to look beyond the headline figures.'

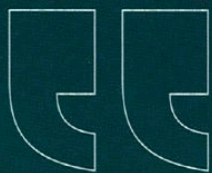
'One of the big risks is that people focus on one data point. Everything is calculated by humans, which means that there are errors and nuances to it, and you need to build a broader picture out of all of the information out there.'

'Although we are quite negative on the state of the global economy and concerned that we still have not seen the return of lending, spending and job creation, there are always opportunities in any environment.'

She points to emerging markets as a key theme within her asset allocation strategy and although the asset class has seen strong inflows on the back of the lacklustre growth in the developed markets, she believes that many investors continue to misunderstand the opportunity set in the emerging world.

'We are seeing self-sustaining growth in emerging markets, whereas developed markets are still 70%





People focus on the unemployment figures in the US but it hides the percentage of employers that have reduced their staffs' working weeks or made some employees work part-time

focused on the consumer,' she notes. 'Industrial production is above its pre-crisis peak, intra-regional trade is increasing ever more and the idea that they are still reliant on US consumers is no longer true.'

'If you talk about valuations, they have risen by 135% since their March 2009 lows, but they are still below their previous peak.'

She stresses that it is certainly not a broad-based trade, with the examples of China being down on the year and Brazil flat underlining the need to be selective in terms of both country and sector allocation.

She also warns of the risk of countries being spuriously linked together through the rash of acronyms, such as Bric (Brazil, Russia, India, China) and other groupings like 'the next 11'.

'There is a risk of acronym over-exuberance and the likes of Chindonesia mask the fact that there are huge discrepancies in terms of economies and investor sentiment,' she adds. 'But it is not about arguing against certain trends, it is about how to exploit them and a number of high-quality, profitable companies have been overlooked because they do not form part of the latest acronym.'

Her background as a fund manager has been invaluable in helping her spot these opportunities, Stillerman says, and says crucially, her experience of

actually running money helps give her an understanding of how markets and not just the economy work.

Credo's South African roots also mean that it is not as wedded to having a high UK equity exposure, unlike many of its peers, giving the team the flexibility to cast the net wider for returns.

Indeed, Stillerman is pretty downbeat on the immediate prospects for both the UK and Europe, noting that it is difficult to know just how much of the structural problems in the region have actually been priced into the market.

She also highlights the future problems being stored up as the baby boomers approach retirement.

'There are huge risks and there will be pullbacks and perhaps more shocks to come. If you look at the baby boomers, a whole generation of consumers are approaching retirement and are ill-equipped to do so,' she says.

'[Consultants] McKinsey said in a recent report only a quarter of people are adequately prepared; the OECD says that people really need to have saved 59% of earnings generated over a career, but the figure in the UK stands at just 31%.'

Even unloved areas can still throw up attractive opportunities and Stillerman points to commercial property as a case in point.

She admits that some people might raise their eyebrows at the fact that Credo tends to run a high property allocation, overlooking the fact that it has an in-house property team.

'Some are surprised when you have the foreclosure issue in the US and 2.5 million delinquencies with many more in distress, but we allocate internally,' she says.

'We are very bullish on our team, which is still finding a lot of opportunities. We recently sold a Sainsbury's warehouse building, generating an internal rate of return of 43% for our clients, for example.'

Such flexibility and the ability to look across the markets for investment opportunities is what sets Credo apart, she says, and a testimony to this is the fact that pretty much all of its new client wins come through word-of-mouth recommendations with the group never having actually marketed its services.

'The loyalty of our clients is one of the most impressive things,' she adds.

And despite its lack of marketing spend, Credo's profile looks set to continue to rise, with Stillerman increasingly becoming a more public face – and voice – for the company, through TV and radio appearances.

This all points to a positive future for the group – and plenty more column inches. ■

GEMMA STILLERMAN'S ASSET ALLOCATION

1

Global equities

'We are still watching for tangible evidence of lending, spending and job creation increasing as a sign that the global economic recovery is taking hold. The investment case for global equities is strengthening, though. There is the theme of investors having to search for yield with cash paying close to zero and investment grade spreads having come back down to 2002 levels. High yield has also recovered more than equities, so you are being paid to take risk.'

2

Quality is key

'The sharp recovery last year was a high-beta, low-quality rally. Within global equities, there are opportunities to buy strong companies that are unlikely to need credit, can increase their market share and have appreciated less than the market. But you need to be very selective and the emphasis is very much on bottom-up stockpicking.'

3

Emerging markets

'They are increasing their decoupling resolve, but there does remain a risk of contagion if international investors want to take their money off the table. But emerging markets' industrial production levels are back above their pre-crisis peak and they are much more reliant on intra-regional trade, and the idea that they are purely reliant on the US consumer is outdated. Again, it is crucial to be selective though, because not all emerging markets are the same.'

4

Commodities

'You do have to watch correlations. There has been a massive increase in the number of speculators coming into the market, trading them in line with other risk assets, which means that commodities now have a very high correlation with global equities. We take an active approach to investing in commodities, never passive, because you need to exploit different commodities at different times, rather than just buy a broad basket.'

5

Hedge funds

'While there remains such a lack of clarity around the direction of markets, we think hedge funds are well placed to exploit this. We have been holding a blend of long/short equity funds, including more beta-driven strategies and market-neutral funds. We also like global macro hedge funds, which can exploit the current volatility. We are looking for uncorrelated returns.'