

# High voltage investing

**C**ommon sense. Two words you rarely hear in an industry knee-deep in sophisticated finance-speak. But if you ask Ken Marshman, an asset consulting expert in charge of more than \$120 billion in retirement dollars, those two words hold the keys to the kingdom of making money – and keeping it when markets go haywire.

Marshman is taking up a new post this year. He will still be the chair of JANA Investment Advisers, the asset consulting business owned by NAB, but starting this month he will be handing the chief executive spot to his colleague Ian Patrick, previously the group's head of international equities research.

His title may have changed from managing director to head of investment outcomes but his remit stays the same. To spot the best investment opportunities and implement them on behalf of more than 60 institutional clients with a combined funds of more than \$120 billion.

Doing that job has become increasingly hard these days, he said. In some ways asset consultants are devolving from must-have to nice-to-have. Many super funds are either starting up an in-house investments team or beefing up their existing one to a full scale operation.

"One of the major challenges we face as a business, is to provide an edge and to be one step ahead of what those in-house providers have been providing," he says.

But JANA has little to worry about based on their performance. The group ranks highly in the September 2007 joint implemented consulting (IC) research by Rainmaker Group and Counterpoint Group. In the international shares category, JANA returned five times more than the average consultant. In the three months to September 2007, JANA was the only consultant that stayed in the black.

The formula? Keep it simple. "We really shouldn't forget how simple the process of investment is. You can have fancy structures but the investment function is very simple to understand. You ask 'Where are the areas of future wealth creation?' and that's where investor's money should be."

For example, JANA has shied away from highly leveraged investments because they may provide a higher return but because a bulk of it comes from financial engineering, the strategy can easily be duplicated. "Because they are easily replicable, they can just as easily disappear."

Simple but not plain. JANA timed its foray into private equity well before investing in the sector became mainstream. It branched into infrastructure way before that too became mainstream. And it bailed out of international equities before returns there started to fall.

The group hasn't shied away from hedge funds either, launching a fund of hedge fund late last year that charges up to 400 basis points less in fees, uses a managed accounts platform and splits the alpha and beta returns so that investors can pinpoint exactly where and how they are getting their money.

Where are all these ideas coming from? Do asset consultants get paid to lock themselves up in a room and conjure up innovative investment ideas after running some numbers? Partly yes but mainly no. Marshman says many of their strategies come from talking to industry participants. "Last year, we did 2,500 interviews with investment managers here and overseas. By talking to the market, you understand it, that's where it comes from."

For example in 2002, Marshman came across a New York-based fund manager who talked about small companies trading at 30 to 40 per cent discount to their fair value. JANA did its own research that backed the fund manager's claims and proceeded to recommend the strategy to clients. True enough, the small companies index is one of the best market segments in the past five years.

Not only that, JANA's best call was to be extremely underweight in global equities in early 2000 and very long on property and infrastructure around the same time. The group didn't always get it right though. Their worst call was to be underweight in Listed Property Trusts (LPT) around the same period, missing out on what were arguably the halcyon years for LPTs.

The group's track record does show that there were more good calls than there were bad. Unlike in-house investment teams, it helps that JANA can cast its net wider when it comes to sourcing ideas. Not even the biggest super fund can speak to more than 2,500 investment managers each year to find the best of breed.

"I think we have two advantages that can add to, not replace, the value of those in-house services. First, we have the breadth of vision which is greater than what any single investor will be able to achieve by virtue that we work with multiple clients with multiple problems,"



"Secondly, we can never afford to be a slave to a single idea, we have to be receptive to continually searching for different ideas and thoughts which organisational in-house teams might not be able to do," he explains.

While Marshman has been talking shop since 1986, it was in the mining and electricity sectors that he honed his investment and management skills. Straight after finishing a Masters degree in Economics at Monash University, he worked on a Treasury role at Hamersley Iron (now part of Rio Tinto) before going up the ranks to director of finance at the State Electricity Commission of Victoria (SECV). He was chief executive of the high voltage group network and power network of SECV for a year and was at the Commission when the Victorian government decided to privatise its electricity assets.

It was during his stint there that he met John Nolan, whose consulting firm at the time, John A Nolan and Associates (now JANA), was the adviser of SECV's super fund. Marshman joined Nolan's business in 1995 and witnessed it grow from a staff of 9 to a team of 50, and from a handful of clients to influencing over a third of the Australian workforce in terms of their retirement savings.

But it's not all work and no play. Married with three children supports his local scouting association in Melbourne and is still a member of his university's hockey team. When asked by young scouts what he does for a living, he answers, "I look after your parent's retirement savings." How do they respond? "They just say, 'Wow.'" And that's one word that pretty much describes the responsibility that rests on his shoulders. ■