

Fund-of-funds manager Mark Houghton says humility is the key



"Mark Houghton believes even legendary investors have their dog days."



by [Vesna Poljak](#)

Mark Houghton has met more fund managers than most people do in a lifetime. The King Tide Asset Management co-founder, who is a former high school teacher, evaluates professional investors all the time as part of his fund-of-funds strategy.

Aside from a natural ability to beat the market, probably above-average intelligence, and excellent risk management, Houghton finds that good managers share another unifying trait: humility.

So he is fairly well placed to agree with Howard Marks, who talks about the importance of knowing what you don't know in his book, *The Most Important Thing*.

Houghton recalls meeting a self-assured Australian fund manager whose pitch to King Tide was that they had figured out a quantitative process to beat the market.



Mark Houghton indulges in his other passion, surfing."

"When I hear that, it's immediately a red flag for me. No-one's cracked the code, it's hard work and it's difficult. The more confidently they talk about their approach, the more wary we become."

He also recalls hearing from a friendly fund-of-funds manager in the US who became enraged when an investor he was backing acquired a trophy vehicle.

"He had a very similar approach to us. One of his managers had bought himself a Bentley and was getting chauffeured to work and that sent him on a path and they ended up redeeming from that manager."

Auckland-based Houghton doesn't ask fund managers what they drive, but he won't invest with someone if their character leaves him cold. That doesn't mean a master of the universe can't make money – far from it.

"Sometimes you can be wrong and that fund can go on and continue to be outstanding, but you've got to stick to your own process and your own belief system. One of the characteristics we find of a great manager is humility."

King Tide evaluates funds in Australia and New Zealand. "Our job is once removed from picking stocks, it's trying to identify who the best managers are."

Investors hear all the time that past performance is not an indication of future returns, but track records still matter in Houghton's book.

"You can't say you're good at anything if you don't succeed at it, you can't say you're the best tennis player in the world unless you win the championship. You've got to have at least been successful in your role as a manager, obviously."

A young man's game

His edge is sounding out emerging talent.

"The early years in a fund manager's life are his best years," he says, admitting disappointment that the industry is dominated by men.

"That's a function of them having very low FUM" – funds under management – "when they start, \$10 million or less. If you can get enough comfort around a manager's ability early, that's an advantage.

"If a manager continues to do well until he's old he'll be an absolute legend. It's a very difficult game to play, it's very tough, very demanding and it's definitely not easy to beat the market and beat your peers.

"A number in Australia who have reached that legendary status in our view, grown their funds under management and maintained that performance. [Kerr Neilson](#) and [Geoff Wilson](#) and people like that."

Houghton thinks their quality is demonstrated not just by what they've built but the talent they have mentored.

"Those people have been hugely influential in the Australian funds management industry, if you look at the managers that have worked for them and started their own funds, you'd be amazed." Neilson and Magellan co-founder [Hamish Douglass](#) are among the few that have global profiles, he adds.

"We were invested [with Dick Fish](#) for example, we're not any more, but he's a pairs trader. That's not easy, it's very difficult but somehow he's figured out how to do it successfully and he beat the market.

"It was simply the way he was wired up, he found a way of producing outstanding returns and just because he was talented." Fish has signalled his intention to retire.

[Stephen Aboud](#), who co-founded LHC Capital, "worked for the Lowy family for [12] years managing their capital and he's an outstanding investor in my opinion".

Low funds under management is not something Houghton gets discouraged by. "The low FUM is a function of them being relatively new to the market, to be honest."

These days, even edgy long-short strategies have the sophisticated trappings of a larger established mainstream fund.

"They're on platforms, they've got retail offerings, daily liquidity. It would be very hard to find a manager with a three or five year track record with low FUM."

'Bit like picking the All Blacks'

One of King Tide's rewarding discoveries was Tim Carleton and Matthew Parker's Auscap Asset Management.

"[Auscap is a classic example](#), we liked those guys. They were out of Goldman Sachs, the prop trading desk, and when the Volcker Rule came out they had to leave the bank," he recalls.

"When we found them they only had \$8 million of FUM and now they've got over \$400 million. We consider them to be very talented investors.

"It's a bit like picking the All Blacks, you know. These days there's a tremendous amount of quant data, you've got all the computer programs and Catapult provides that software that allows you see to how fast they're going.

"We've got all the quant data in Australia you can find, we've got about 85 funds that we track and all of them are risk-based. The essential element to outperforming the market over the long term is to protect the downside."

Houghton says managers only differentiate themselves when markets fall. And that works in different ways, using hedging, shorts, cash or buying undervalued businesses.

"Each manager has to figure out what suits his temperament, and his way of looking at things, and they find their own unique way just like Dick Fish found it in pairs trading, or [Geoff Wilson, who always carries a fair amount of cash](#). Both are equally valid."

'Really tough time'

King Tide is tracking in negative territory over the last 12 months, which Houghton describes as a "really tough time".

"You have to go back to your fundamental beliefs. The thing about most great managers," he says, "they definitely spend some time in the dog box."

King Tide backs 16 funds across long, long-short, small cap and market neutral strategies.

Houghton started out as a high school teacher and avid surfer; he lost about 40 per cent of his wealth in the sharemarket crash of 1987.

Remaining interested in New Zealand's burgeoning financial advice industry and the emergence of unit trusts, he studied the model for six months on behalf of a large investor.

His business took off and he enrolled in a diploma of finance, just when modern portfolio theory was "all the rage" and which Houghton wholly disagreed with. He abandoned studying, but one of his professors become a client.

Even though he is passionate about active, he had a role in helping Vanguard bring index funds to NZ.

"Indexing is a very sensible option," he says. And listed investment companies, he thinks, are perfect for an active manager.

"The problem with LICs is this discount and premium volatility that you can't control and it's just created more volatility for no reward. We do invest in LICs but usually just to arbitrage between the LIC and the unlisted vehicle."

The volume of product coming to market is all being driven by what investors supposedly want, or "what's hot at the moment".

He remembers being told a fund-of-funds strategy would never work. "We've created King Tide, a very experienced bunch of guys, and we've created something we believe in."