

Dream Machine



Episode 2: Carl Vine: Mount Fuji, polyphenols and remaining passionate

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Alex Matcham: Welcome to the Dream Machine with me, Alex Matcham and my colleague Laura Brown.

Laura Brown: Hello.

Alex: Each episode we're going to speak to one of our fund managers in order to try to get to know the people behind the portfolios.

Laura: That's right. We're going to be asking our investment expert what their favourite drink packet of crisps or chocolate bar is from our vending machine.

Alex: As well as some other questions in order to get to know them a little bit better.

Laura: And we should say at this point, this is not a promotion for any of the items talked about on Dream Machine, there is a whole world of snacks out there.

Alex: Indeed none of the content of dream machines should be considered as financial advice nor nutritional advice. If you are unsure, you should speak to a financial advisor or a nutritionist.

So with the disclaimers well and truly done, let's begin. This episode we're talking to Carl Vine, Fund Manager on our Asia Pacific investment team. Carl has been with M&G Investments since 2019 and has a particular focus on Japanese equities. Carl, welcome to Dream Machine.

Carl Vine: Thank you very much.

Laura: Let's start with a bit of context setting, which is going to ask you about how you felt when you were asked amongst all the marketing requests we give to you, to do a podcast about your dream vending machine items.

Carl: A bit intimidated because I'm not very good at, you know, what's your top five books? Top five songs? Top five movies? I've got a bit of a sweet tooth, so the idea that I'd have to narrow down to some favourite items was a little bit daunting. But I think we think we got there.

Laura: Sorry, I'm very excited about this list. This is a good one.

Alex: Indeed. There are good choices ahead. Maybe we start with just thinking about how you got into the world of investments and then M&G, because I know your M&G Prudential career started earlier than 2019, but be interested in just your general start in investments and how it came about.

Carl: Yes, it was pretty deliberate, if I'm honest. I remember being at university. On my first week at university during fresher week, I just went straight to the careers office. It was empty. And so I spent roughly three years trying to figure out what I might do with the rest of my life. And I just kept circling

around investments because I, rightly or wrongly at the time. I think in hindsight rightly, identified that there was kind of an intellectual component to it, that it's a puzzle, right?

That the central. The core problem of investing is making decisions under conditions of uncertainty, which I just think is really interesting, intellectual topic. So that's really how it happened. I only actually applied for jobs in the investment world and ended up working for the Prudential straight out of university and have been very happy with that career decision and ever since actually.

Alex: And latterly you know your focus on Japanese equities, how did that specific interest and opportunity develop?

Carl: It was a complete accident like you know a lot of people's careers. The idea of going into investment was absolutely deliberate. The idea of going into Japanese equities was, was not. When I was at university, I'd spent, you know, part of my degree was looking at the Japanese economy and Japanese politics. So I came to the city with sort of an interest in Japan. And then really just by accident, the first project I was given at the Prudential was to look at Japanese financial market deregulations that sort of, you know, that kind of Japan thematic from university carried over.

And then it was announced, the company announced, I think in 1998 that it was going to open an office in Japan in 99. And I sort of put my hand up and said, if you need a photocopier or a coffee maker, I'm your man. And so it I sort of fell into it is the honest truth. But it's been, it's a fascinating market and I never got bored so I just kept doing it. And here we are some years later.

Alex: Indeed.

Laura: In many ways kind of a vending machine Nirvana, Japan. So perhaps we start the vending machine process proper with your dream drink, please Carl.

Carl: Well, again, I sort of went back and forth on this. I settled on coffee, had to settle on coffee. I am quite keen on a good cup of coffee. All different types of coffee.

Laura: I'm not sure if this is one.

Alex: Well this is a cup of coffee.

Carl: This is a cup of coffee. Let's do a little test then.

Alex: Indeed.

Carl: And we'd probably leave that there and say.

Alex: You don't have one go to coffee that is dependent because usually people have their order, but yours is, it varies. Is that right?

Carl: It varies, yes. Depends what sort of mood. I mean, I think, I think it's the province of the coffee. So coffee is quite good for your brain. Caffeine is quiet neuroprotective and the, but only if you buy reasonable coffee. Anyway, there's a whole thing about.

Alex: I didn't know that it was protective.

Carl: Yes.

Laura: I've only ever seen that spider diagram where it does a web on caffeine and it goes crazy. So it's better for you.

Carl: Yes, well, it's interesting as a debate about it, and I'm not going to pretend to be the fountain of all knowledge on this topic. I think caffeine, we're going to go into rabbit hole, I'm sorry. I think caffeine actually reduces blood flow in the brain. So some people say, well, that's probably bad, isn't it? And but it's you know, that's not a chronic outcome. It's just an acute moment where that happens. But actually, it's really the impact has on the neurochemistry in the brain, which makes you feel alert. But anyway, all of the, if you don't damage the oils in the coffee during preparation, then it's the it's those polyphenols that and some of those rich oils that are quite neuroprotective for the brain anyway. So they say.

Laura: So yes. Well this will may not be of that exact quality.

Alex: I doubt there's many polyphenols in this one.

Laura: I can't taste any.

Alex: I'm not sure that the coffee machine out there does permanent polyphenols, but.

Carl: It might destroy them. You know, it's all good. So yes, probably coffee and in a Japanese context, there is plenty of coffee in vending machines in Japan. Even if you're walking up Mount Fuji. There's something like 5 million vending machines in Japan.

Alex: 5 million?

Carl: Yes.

Alex: That's amazing.

Carl: Somewhere in my brain, I don't think it's the most dense per capita. There may be another country, but anyway, it's up there. There's 5 million.

Laura: Up Mount Fuji.

Carl: So as you, if you've ever walked to the top. At a few points along the way up the mountainside there are vending machines.

Laura: Vending machines?

Carl: Yes. It kind of kills the mood a little bit if I'm honest.

Laura: That's not quite what you want to do ,in your photo, is it? And you talked a bit about your developing your career at M&G. How do you think about, I suppose you're working with a broader team now think about, you know, teams underneath you. How do you think about career development as a Fund Manager now?

Carl: I think it's probably healthier for people just to think about developing skill sets. And then those skill sets define the career in a way. So I think what we try to encourage in the team is just a lot of curiosity, a lot of tenacity, hard work, ask lots of questions, never be afraid to ask a stupid question. A lot of clichéd stuff you'd read in a bunch of self-help books, but actually it's all relatively good advice.

So I think the I think focusing on, you know, skill sets and your own human capital development is, is where career development should start, I think. If you continue to grow your human capital over time, I think everything else takes care of itself, actually, typically. Maybe that's a bit of a romantic idea, but that's roughly what I think.

Alex: Yes, that's good.

Laura: I love your description of fund management as a creative, or investment as a creative process. Can you talk a bit more about that.

Carl: Well, I definitely think it is. You know, I think that there is, there's probably a temptation for outsiders to look at investment and think that it's quite a quantitative endeavour, that it's a bit nerdy, there's a lot of accounting involved. And, you know, I just see it completely as a creative process.

There are languages, there's an investor, there's a language to investment that one has to learn in order to play that creative game, which includes accounting and certain financial metrics and ratios. But that's all smoke and mirrors. That's just like learning French, it is just that's just how you engage with the subject matter. I think ultimately, you know, we are all sat on a rock flying through the universe, trying to make sense of some things. And the idea that we've got any kind of model that helps predict. Anything sensible given those uncertainties is a bit silly.

So I absolutely see it as a creative process. I also see it as a behavioural one, where still today and who knows in the future, given what's happening to computation, market prices are determined at the margin by humans. And, and we're tricky with tricky things. So I've always been pretty engaged by the idea of, we're never going to figure out the answer again, we're on a rock flying through the universe. Like, just forget about it. We're all idiots, so we won't figure out the answer, the holy grail.

But actually, just asking a different question can unlock an entirely different way of thinking about a topic or help you identify risks that transform the way you think about the appeal or the apparent appeal of an investment. So I've I definitely am of the view that the some of the best investors have highly creative minds.

Alex: Like that. Well, we. I think it's a solid first choice. Coffee. Obviously, there's lots of latitude there so thank you for bringing that to the vending machine. Heading back to your next item. We're on this rock flying through space, but you still have to have a favourite packet of crisps. So what is your choice of crisps?

Carl: So, again, a tough one. I went for Monster Munch. And why did I choose Monster Munch? So first of all, I don't eat many crisps because I can't trust myself around them. So I try to ban them from my life. But if I was to think, I basically, to answer the question, I went back to a time in my life where I probably ate too many of them, which was as a kid. Can I open these?

Laura: Yes open them.

Carl: And Monster Munch as a kid, it came up a lot. But it was tough. It could have been KP Sips, you know, the list goes on. They're crunchy, this is not going to be good on the microphone is it?

Laura: That's part of the fun, the noise.

Carl: I mean, that's just absolutely brilliant, isn't it?

Alex: Full disclosure, this is my favourite bag of crisps as well.

Laura: I mean, the excitement when this email came through Carl.

Alex: You've nailed it, this is the jackpot of crisps.

Carl: This is good. This is good. Yes, I haven't had some of these for a while.

Alex: You're going to go on a crisp binge now?

Carl: I mean these things are really not good for you. But in the moment they are just so fantastic.

Laura: Amazing.

Carl: Yes, it's an old favourite from childhood. But to be honest, I am. I'll eat any kind of. I have a low, when it comes to crisps, I have no standards and I'm prepared to lower them. I will eat any of the flavours.

Alex: But you said you had a sweet tooth more than savoury.

Laura: As a snack tooth.

Carl: I'm a bit of, a bit of both.

Alex: You and I both.

Carl: I quite like toast and Marmite with a bit of jam on top. I've never seen these in Japan, by the way.

Laura: No, they're not.

Alex: Maybe there's a business opportunity there to import.

Carl: I think we could have some of those on the side of Mount Fuji.

Alex: Indeed. Think they'd do a roaring trade.

Carl: Just for middle aged Brits who are walking up.

Laura: Probably, actually.

Alex: You've already talked a little bit there about, you know, some of the things that interested you. What motivates you day to day? You know, what gets you up in the morning, you know, consistently for your job and what you do.

Carl: Actually, normally my dog wakes me up, actually. I like what I do. That's it, really. Yes I like what I do. I love my team, feel a huge sense of kind of responsibility to the team. I feel part of something in that sense, we're kind of like a tribe. So I want to perform for them.

I think it's a huge responsibility managing money for other people, and that motivates me. You know, when you're out performing, you sort of worry that you're going to stop outperforming. When you're underperforming, you underperform. You worry that you're never going to outperform again. And so I just feel I feel motivated by the results. You know. I want to, I've always been sort of goal oriented individual.

Getting up in the morning. It's never really been an issue. But I think a huge part of that is I enjoy what I do. I think as you get a little bit older taking care of yourself becomes quite important. Maintaining the energy to leap out of bed up every morning, which is why we don't have too many Monster Munch. I think, you know, it comes down to enjoying what I do. Still now the first thing I do when I wake up is check how the portfolio did overnight. Maybe it's an addiction. I don't know. Maybe it's not healthy at all.

Laura: It's an interesting place, isn't it? Because you know, you're always aware of your performance on a daily basis, you know? But, I mean, I can have an off day and no one will know. Do you know what I mean? I find that it's an interesting kind of thing to put emotionally to put yourself into, isn't it? As in, like a life of a fund manager.

Carl: Yes well, there's always that. There's always, the numbers are what they are. I was going to say, the numbers don't lie, but actually they do lie. You can have periods when things are going well, when actually you feel like you didn't contribute much to it. Conversely, you can have periods where you're not doing very well and you think you're really working very hard. So but anyway, over longer periods of time, the numbers do kind of they speak for themselves.

Real time feedback is a really important part of behaviour modification, which I think if you're going to become a better investor is really important actually. So that's one of the reasons why I check in so frequently on the portfolio.

There's no right or wrong about this. You know some fund managers don't check in on the performance of their portfolios daily. They just let the portfolio breathe and it is no judgement for me about that. It's different ways to skin a cat, so to speak, but I like the constant real time feedback. You know, it's like if I said to you, if you'd only ever driven a car with no speedometer and I said, right now go and drive this car at 30 miles an hour, you might not, you wouldn't, you'd have no context for.

Alex: Yes.

Carl: If I give you two hours in a car with a Speedo, you kind of roughly figure out this is 30 miles an hour. Roughly. The point is then that feedback, real time feedback is really important part of behaviour modification. So I like the fact that the portfolio speaks to us. You know, if you listen carefully it will tell you when you're being an idiot and, and, and vice versa.

Alex: And through your career you would have seen a lot of change in particular the advent and growth of algorithmic or short term trading and the growth of passive investing in particular. How do you deal with that or how have you had to evolve the way you operate in that sense? And what do you think the future looks like from that perspective?

Carl: I think that in any business and investment is no exception. I think you have to be really clear. About. Your competitive advantage and what you do in the marketplace compared to everyone else. And I think that in financial markets, the end of financial markets that we've sort of turned into a casino of high velocity, short term trading that is that's all algorithmic at this point. Most not all, mostly,

I still think that there is some runway left where longer term investment decisions, longer term mispricing opportunities are beyond computation, that won't last forever. But that that's still, I think, true today to say that some of the things that we do as humans in terms of mid to long term investment decision making is not easy to replicate in an algorithm, that is catching up quickly.

But so anyway, I think I've tried to steer away from. In our investment process anything that could be easily replicated, whether by humans or computers, and try and build competitive advantage and a moat around those remaining parts. I think we, you know, we haven't perfected that, but we've certainly made some headway.

Laura: Should we return to our next.

Alex: Indeed.

Laura: Our next item, which I think is your dream chocolate bar. Again, it sounds like the one that you found the hardest to choose.

Carl: I can't even remember what it was that I went for the Dairy. Yes, exactly. The Dairy Milk, the fruit and nut. In the end, this is a little bit self-indulgent. This is actually my mum's favourite.

Alex: Okay.

Carl: And I just remember as a child having these.

Laura: We've just taken one of these massive ones.

Carl: That's fine. Can I take that with me.

Laura: Yes, of course.

Karl: Sunday evenings. It's just lovely time with my mum munching on her favourite chocolate, so it's sort of my favourite chocolate as a consequence. But again, pretty low bar on chocolate for me. You know, if it's got a lot of sugar, I'm susceptible.

Alex: There is definitely this link with some of these foods.

Carl: Yes.

Alex: To nostalgic connections.

Carl: Yes, true.

Alex: You mentioned about, you know, pickled onion Monster Munch as a child and that's this, there's a comfort or something there that, you know.

Laura: It's just very familiar.

Alex: Would you like a piece Carl?

Carl: Sure, Why not? Yes you're right actually, are we going to get into Sigmund Freud theory about childhood?

Alex: No, I think I mean, we had Alex Araujo, and he was talking about the smells and tastes being the most evocative of the senses in terms of feedback and memories. And I think he's got onto something that I don't know where he got it from, but.

Laura: I think that's our connection to all of these, right? It's exactly that, a place and time.

Alex: So you mentioned earlier on 5 million vending machines in Japan, an awful lot of vending machines as the sort of spiritual home of vending machines in Japan. I would have expected maybe a little bit more of a Japanese flavour in your snacks. Can you give us you can give us an idea of some of the things you've had out of buying the machines in your time in Japan, food or otherwise items? And just if you can remember any, or things you've seen in vending machines that that are particularly notable.

Carl: Yes, I quiet like, have you ever had pocky?

Laura: Oh yes, those little stick things.

Alex: What is it?

Laura: It's like a biscuit with chocolate on it. My kids love them. It's like a chocolate with flavour on.

Carl: Yes, with flavours on. Yes definitely. There's been the occasional time on a train station platform where I've indulged. Otherwise I may have bought a beer from time to time and a vending machine.

I used to, when I lived in Japan. I would on a Friday with a group of friends, would go up to the mountains and ski during ski season and we'd pile onto the Shinkansen and grab a beer and some. You can get hot food, you can get a hot meal from a vending machine. So you'd get a beer and a curry from the vending machine.

Alex: And was it alright?

Carl: Yes, absolutely, yes.

Laura: That's very cool.

Alex: I like the idea of a curry.

Carl: But there's all manner of things you can buy in vending machines in Japan. But yes, I think the Japanese confectioneries is nice, but as we said earlier, there's just loss of childhood history with some of these things that are in front of us right now that that trumps that.

Alex: On the topic of the future of investment markets, how do you see things evolving from this point onwards?

Carl: Yes, I think we should expect that everything is going to be different from what we could forecast anyway. That's been the, I think that's the history of things, is that we're not very good at forecasting the future. I think that when, I think about investment firms, I think what excites me about potential changes that lie ahead and how we might meet them head on. I think investment firms need to move away from some of the rules of thumb that have defined them in the past.

So we have, our world is built around equities and bonds and high yield and high grade and private equity and early stage and late stage. And we've created these convenient buckets. Convenient from a product perspective and a selling perspective and, you know, to some extent from a client perspective. As the world is changing, though, as it's evolving, as companies can go from one customer to a billion customers in a month, which is something we haven't seen in history.

I somehow sense that those traditional silos are not best served for the companies involved. And I think the investment businesses, the best investment businesses are those that serve companies that add value to companies. And, you know, one thing that we're working very hard on in our business is to be seen as the shareholder of choice, which is we can provide you with patient long term capital, but actually we can add value beyond capital.

And I think it's a shame that in active management and I would just talk for equities because that's what I know best. I think in public equities, you know, we've had this race to the bottom. There's been fee compression, we're competing against passive in ETFs. And somewhere in that, I think we've forgotten that we're allowed to try and add value to companies. And in my experience, looking at any business, if you can add value, you can charge for it. And there's no reason why it's private equity firms that hustle for the companies that they're invested in, only. You know, we can and should be doing that.

And we are evolving as a practice around that, which is how can we help these companies become better versions of themselves? Now, as you attempt to do that and as you look at investment through that lens, these barriers between these different silos, these different product classifications, they kind of melt away. And I think that's a good thing.

So what I would love to see, let's just say in our business, but definitely in the industry at large, I'd like to see our human capital, the way we arrange it, the way we think about products, the way we build investment returns, evolve in a way that I think better suits the economy that that we face.

You know, when you can go from, as I said, one client to a billion in a month, which is not typical, but I'm just trying to make the point, the idea of early and late stage investing kind of collapses. Right. So I think I think what excites me, what back to earlier question drives me to get out of bed every day is, I think we can evolve our investment mousetrap to include all stages of evolution for a company.

Now, one team alone can't do that. But if we can build an organisation that is much more fluid within itself, I think we've got a much better chance of creating intelligence and know how to provide that

value added to the companies that we invest in. So I think that's quite exciting. So whatever happens in the future, whether it's high inflation, low inflation, low growth, you know, who knows all that. We'll leave that to other people to predict. But I think if we can evolve our mousetrap to find value between these silos, to get back to adding value as active managers to the companies we invest in, then I think our right to exist will be that much stronger.

Laura: Shall we wrap up with our review playback Alex?

Alex: Indeed, thank you very much Carl. For all that remains for me is to play back your options.

So as a drink we have coffee. No particular style of coffee, but ideally full of phenols or polyphenols, I said that wrong. Crisps, pickled onion Monster Munch. An absolute world of a choice for crisps. And then Dairy Milk, fruits and nut, to take you back to your time of your mother. That feels like a really good vending machine.

Laura: Top class.

Carl: Awesome.

Laura: Thank you. Thank you very much for joining us.

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