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**WHY THIS GUIDE?**

Essential reading if you’re considering a career in this field, the Vault Career Guide to Investment Management shows you how to break into investment management, what it’s like to work in the industry and what it takes to succeed.

**IN THIS GUIDE:**

- An overview of investment management employers, from retail funds to institutional investors
- A look at professional functions such as portfolio management, investment research and marketing
- A detailed hiring section with sample interview questions
- Life on the job: culture, lifestyle and more

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Vault.com is the source of employer and university rankings, ratings and reconnaissance for highly credentialed, in-demand candidates. Vault profiles, rankings and assessment tools deliver the insider perspectives and career research candidates need to successfully match themselves to the best available jobs, employers and career opportunities. Vault.com provides in-depth intelligence on what it’s really like to work in an industry, company or profession—and how to position yourself to land that job.

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Opportunities: Training programmes in Investment Management, Operations and Information Technology

What we are looking for: We hire graduates from a wide range of academic disciplines, from finance-related courses through to Physics, English Literature and Classics. We’ll provide you with all the technical skills you need through the three-year programme.

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KEY FACTS
Salary: Highly competitive.
Benefits/Perks: Bonus, pension and employment related insurance
Number of vacancies: Investment – 8, Operations – 3, Information Technology - 4
Number of employees: 800
Locations: Edinburgh
Degree sought: Any for Investment Management and Operations programmes. A related IT degree for the Information Technology programme
Apply: CV and covering letter
Application deadlines: Investment – 30 November 2014
Operations and Information Technology – 31 December 2014

CONTACT DETAILS
Address (HQ): Calton Square, 1 Greenside Row, Edinburgh EH1 3AN
Phone: +44 (0)131 275 2000
Website: bailliegifford.com
GREY MATTER MATTERS MORE THAN SUBJECT MATTER.

Your degree may have qualified you to critically discuss the works of Chaucer or give a detailed account of the effect of glaciation on the coastlines of Europe. It’s also given you something much more valuable; the mental tools and aptitude to learn, understand, analyse and explain. At Baillie Gifford, our business hinges on your ability to understand companies and the world around them so we can invest over £100 billion in client assets.

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Who we are: is a premier provider of global investment management, risk management, and advisory services. As of 31 December 2013, assets under management total US$4.324 trillion across equity, fixed income, cash management, alternative investment, real estate and advisory strategies. Clients include corporate, public, and union pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions, and individuals worldwide.

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What we are looking for: We value your individuality and know how important it is for you to find a career that reflects your interests and goals. If you are a passionate team player with strong analytical and communication skills, this could be the opportunity for you.

KEY FACTS

Salary: Highly competitive

Benefits/Perks: In addition to your Core Benefits which include Pension, Medical Cover, 25 Days Holiday Entitlement, you will also have access to a flexible benefits package

Number of vacancies: Dependent on location

Number of employees: Over 10,000 worldwide

Locations: 27 countries, maintaining a major presence in North America, Europe, Asia-Pacific, and the Middle East.

Internship: Yes. 10 weeks starting in June

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Apply: www.blackrockoncampus.com


CONTACT DETAILS

Address: 12 Throgmorton Ave London EC2N 2DL
Phone: 020 7743 3000
Website: www.blackrockoncampus.com
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Why Fidelity Worldwide Investment: Join us and you’ll discover that our business reflects the qualities of our people—entrepreneurial, forward-thinking, intellectually curious and self-reliant. You’ll enjoy early responsibility and the freedom to develop your skills through a combination of hands-on work and structured training. This will give you a thorough understanding of your chosen business area, as well as plenty of opportunities to develop a rewarding and successful career.

Opportunities: We offer a range of rewarding career opportunities that will recognise and develop your abilities and set you on your way to become one of our future leaders.

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What we are looking for: We welcome applications from all degree disciplines. You do not need a degree in finance or economics; we are looking for graduates with a forward-thinking attitude and an ability to look at things from a different angle.

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KEY FACTS

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CONTACT DETAILS

Website: www.fidelityrecruitment.com

Address: 25 Cannon Street, London, EC4M 5TA, United Kingdom

Phone: +44 (0)20 7283 9911

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**KEY FACTS**

**Salary:** Competitive

**Benefits/Perks:** annual bonus (discretionary), joining bonus, life assurance, pension scheme (with company contribution), private healthcare, season ticket loan, 25 days holiday, staff discounts on M&G and Prudential plc products

**Number of vacancies (UK):** 65

**Number of employees:** 1,500+

**Locations:** Graduates will be based in our City of London office.

**Internships:** Yes

**Degree sought:** All degree disciplines.

**Apply:** www.mandg.co.uk/graduates

**Application deadline:** Scheme dependent, please refer to website.

**CONTACT DETAILS**

**Address:** M&G Limited, Laurence Pountney Hill, London, EC4R 0HH

**Website:** www.mandg.co.uk/graduates

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Who we are: At Schroders, asset management is our business and our goals are completely aligned with those of our clients—the creation of long-term value. We manage £268.0 billion (EUR 324.1 billion/ $446.8 billion)* on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

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Why Schroders: As a graduate, you’ll be empowered to make your own career decisions and given the freedom to thrive in a meritocratic environment. We’ll begin by providing both financial support and generous study leave to help you gain professional qualifications. All graduates will undertake the Investment Management Certificate (IMC) during the induction programme. Investment graduates will then continue by studying for the Chartered Financial Analyst (CFA) qualification, while Finance graduates will work towards the Chartered Institute of Management Accountants (CIMA) qualification. Distribution, IT and HR graduates will be encouraged to pursue qualifications which are relevant to their roles.

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Opportunities: We have Graduate and Summer Internship opportunities for 2015 across our business, including Investment, Distribution (Sales & Marketing), Infrastructure (including areas such as IT, Finance, Compliance and Human Resources) and Wealth Management.

What we are looking for: In academic terms, we are looking for people who are on course for a 1st or 2:1 in any discipline. However, your personal qualities are equally important. Schroders’ working culture is built around passion, innovation, integrity, excellence and teamwork and we look to our graduate trainees to reflect these values in everything they do.

KEY FACTS
Salary: Competitive
Benefits/Perks: 25 days holiday, healthcare, generous pension plan and many more
Number of Graduate vacancies (UK): 20
Number of Graduate vacancies (Non UK): 5
Number of employees: 3,500
Locations: 27
Internship: Yes – Summer 2015
Degree sought: Any
Apply: www.schroders.com/graduates
Application deadlines:
Graduates: November 2014 (check website for specific dates)
Internship: December 2014 (check website for specific dates)

CONTACT DETAILS
Address: Schroder Investment Management Ltd, 31 Gresham Street, London EC2V 7QA
Phone: 020 7658 2275
Website: www.schroders.com/graduates
Email: graduates@schroders.com

*Source: Schroders, all data as at 31 March 2014.
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- Financial Times

“Thanks to Vault, the truth about work is just a tap of your keyboard away.”
- The Telegraph

“The best place on the Web to prepare for a job search.”
- Money

“A killer app.”
- The New York Times

“Vault has a wealth of information about major employers and job-seeking strategies as well as comments from workers about their experiences at specific companies.”
- The Washington Post
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Introduction

Do you enjoy following the financial markets, whether reading the Financial Times, watching Bloomberg or checking stock prices on the internet? Do you want to earn good money? If so, you may find a career in investment management appealing.

Investment management, also known as asset management, is pretty much what it sounds like: a client gives money to an asset manager, who then invests it to meet the client’s objectives. In other words, investment management seeks to grow capital and generate income for individuals and institutional investors alike. The potential clients of an asset manager can vary widely. Asset managers who work for mutual funds, for example, manage money for retail clients, while asset managers at investment banks often invest money for institutional investors like companies or municipalities (often for pools of money like pension funds). Asset managers can also work for hedge funds, which combine outside capital with capital contributed by the partners of the fund, and invest the money using complex and sometimes risky techniques, attempting to receive extraordinary gains.

Asset managers buy their stocks, bonds and other financial products from salespeople at investment banks, who are on what is called the “sell-side.” (Asset managers are on the “buy-side.”) Because they make commissions on every trade they facilitate, salespeople provide information (research, ideas) to asset managers, in an effort to get the asset managers to trade through them. For this reason, salespeople often shower asset managers with perks like sports tickets and expensive dinners at fancy restaurants. Asset management basically boils down to this: researching and analyzing potential investments, and deciding where exactly to allocate funds.

Investment Management vs. Asset Management

The terms investment management and asset management are interchangeable. They refer to the same practice, the professional management of assets through investment. Investment management is used more when referring to the activity or career (i.e., “I’m an investment manager” or “That firm is gaining a lot of business in investment management”), whereas asset management is used more with reference to the industry itself (i.e., “The asset management industry”).

In recent years global financial services companies and investment banks made efforts to grow their asset management businesses. That’s because investment managers’ fees are based on the amount of money they’re given to invest—so as long as they have clients, they’ll make money for the bank. This fee-based arrangement stands in contrast to businesses like mergers and acquisitions advisory, which can be highly variable depending on market conditions. But even the relatively stable asset management industry felt the impact of the 2008 and 2009 global recession: jittery investors, frozen credit markets, the collapse of several major banks and proposed regulatory overhauls meant uncertainty for everyone in finance. Some firms that were battered by the recession—including the investment bank Credit Suisse and insurance giant AIG—put their asset management divisions up for sale, spinning them off to raise capital to cover losses in other divisions. To be sure, the effects of the worldwide financial crisis are far from over. Many of the world’s largest investment banks, including Goldman Sachs, Morgan Stanley, Credit Suisse, Barclays and UBS, have had to significantly scale
back their operations and staff due to financial regulation, higher capital requirements, and weakening equity and debt markets in the crisis’s wake. In fact, from 2011 through the first half of 2014, many of the world’s largest banks announced job cuts, with some, such as HSBC, Bank of America, Credit Suisse, JPMorgan Chase and Barclays, announcing thousands upon thousands of cuts.

These job losses only underlined the recent volatility of the world’s markets, which had also been rocked by some major debt crises, particularly those occurring in Greece and the US. In 2010, Greece, on the verge of defaulting on its national debt, received a multibillion-dollar bailout package from the International Monetary Fund. Meanwhile, the country proposed rather severe austerity measures (spending cuts and tax increases) that were protested by thousands of Greeks. As a result of the crisis, many of the world’s largest financial institutions that held Greek bonds were adversely affected, having had to write off billions of dollars in loans to the country.

By the spring of 2012, the situation in Greece had worsened to the point that many economists believed it was likely that the country would default on its debt and leave the euro zone, meaning Greece would return to its former currency, the drachma. The economies of Portugal, Italy and Ireland (among others) were also severely battered. Both Portugal and Italy saw their debt downgraded by Standard & Poor’s in early 2012. And in France, whose debt also experienced a downgrade from AAA to AA+, a series of austerity measures and a rising unemployment rate led to the historic ouster of its conservative President Nicolas Sarkozy in May 2012. In Sarkozy’s place, France elected the socialist Francois Hollande—the first socialist president elected in the country in nearly two decades. After the vote, Reuters noted that Sarkozy “was the 11th euro zone leader in succession to be swept from power since the currency bloc’s debt crisis began in 2009.”

And across the Atlantic, the US, which had served as the epicenter of the worldwide financial crisis of 2008, faced a debt crisis of its own in 2011. The country, deep in debt, was in danger of default, as well as in danger of its credit rating being lowered. Ultimately, after a month-long and very heated debate that divided the country, the US House of Representatives and US Senate voted to raise the nation’s debt ceiling and enact a plan to reduce spending over the next decade. Although the vote meant that the US avoided defaulting, it underscored the fact that the US economy was still in disarray, and Standard & Poor’s agreed, downgrading US debt from AAA to AA+ in 2011.

Of course, since the worldwide financial crisis of 2008, financial regulation has taken center stage in the US as well as in Europe. In the US, the much publicized and debated Dodd-Frank Act was enacted in 2010. The act, the most significant piece of financial regulation in the US since the 1930s, increased restrictions on hedge funds and private equity investing, and increased transparency in derivatives trading and regulation of credit agencies. In addition, the so-called Volcker Rule portion of the act more or less prohibited banking institutions from engaging in proprietary trading—that is, trading their own accounts—which was largely seen as one of the main causes of the financial crisis of 2008. As a result, firms like Goldman Sachs and Morgan Stanley were forced to break off their proprietary trading units in 2010 and 2011, significantly altering the landscape of the worldwide investment management industry.

An increased focus on regulation has also meant new regulatory bodies. In 2009 the EU announced the creation of three new financial regulatory agencies. And in 2010 the UK announced the abolishment of the more than 25-year-old Financial Services Authority (FSA), creating, in its place,
the Financial Conduct Authority and Prudential Regulation Authority. Among other things, the new regulatory system hopes to better protect investors by making investment management advice and transaction charges more transparent. It also aims to more closely police banks and better prepare for (and prevent) any future financial crises.

Since the end of 2012, most European nations’ economies, as well as the United States’ economy, have for the most part rebounded. In 2013, European stock markets had their best year since 1997, and talk of the breakup of the eurozone has largely quieted; in the US, stock markets had their best year since 1997, as the S&P 500 rose 30 per cent. Meanwhile, in Asia, Japan’s Nikkei index rose more than 50 percent in 2013. However, by May 2014, stock markets across most of the world had fallen, and most of the economies in the eurozone were still struggling. Still, most industry observers agree that, today, most nations have put the worst of the financial crises of 2007 and 2008 behind them.

What all this means is that, although there is a lot of uncertainty in the world’s financial markets and among its top financial services firms, it is sure to be an exciting and interesting time to work in finance—and, in particular, in the investment management industry.

The Vault Career Guide to Investment Management will serve as an insider’s guide for careers in the industry. It will provide you with the knowledge to appropriately target your career search and a framework to handle the most challenging interviews. It will also break down the many different career positions that are available to both undergraduate and graduate students.

HISTORY

The beginnings of a separate industry

The process of managing money has been around for approximately 140 years. At its outset, investment management was relationship-based. Assignments to manage assets grew out of relationships that banks and insurance companies already had with institutions—primarily companies or municipal organisations with employee pension funds—that had funds to invest.

These asset managers were chosen in an unstructured way, with assignments growing out of pre-existing relationships rather than through a formal request for proposal and bidding process. The actual practice of investment management was also unstructured. Asset managers might simply pick 50 stocks they thought were good investments as there was nowhere near as much analysis on managing risk or organising a fund around a specific category or style. Historically, managed assets were primarily pension funds. Traditional and alternative asset classes such as retail funds, hedge funds and private equity had yet to mature.

The rise of the retail fund

Historians cite the closed-end investment companies launched in the Netherlands by King William I during 1822 as the first retail funds, while others point to a Dutch merchant named Adriaan van Ketwich whose investment trust, created in 1774, may have inspired the idea. The Boston Personal Property Trust, formed in 1893, was the first closed-end fund in the US.
The first modern mutual fund was created in 1924, when three Boston securities executives pooled their money for investment. Retail funds were normally used by financially sophisticated investors who paid a lot of attention to their investments. They really came to prominence in the early- to mid-1980s, when mutual fund investment hit new highs and investors reaped impressive returns. During this time, investor sophistication increased with the advent of modern portfolio theory and asset management firms began heavily marketing retail funds as a safe and smart investment tool, pitching to individual investors the virtues of diversification and other benefits of investing in retail funds.

Modern Portfolio Theory

Modern Portfolio Theory (MPT) was born in 1952, when University of Chicago economics student Harry Markowitz published his doctoral thesis, “Portfolio Selection,” in the Journal of Finance. Markowitz, who won the Nobel Prize for economics in 1990 for his research and its far-reaching effects, provided the framework for what is now known as Modern Portfolio Theory. MPT quantifies the benefits of diversification, looking at how investors create portfolios in order to optimise market risk against expected returns. Assuming all investors are risk averse, Markowitz proposed that when choosing a security to add to their portfolio, investors should not base their decision on the amount of risk an individual security has, but rather on how that security contributes to the overall risk of the portfolio. To do this, Markowitz considered how securities move in relation to one another under similar circumstances. This is called “correlation,” which measures how much two securities fluctuate in price relative to each other. Taking this into account investors can create “efficient portfolios,” ones with the highest expected returns for a given level of risk.

Traditional vs. alternative asset managers

By the early 1970s, the investment management industry had begun to mature as retail funds and other asset classes gained prominence. The dominant theme over the past decade has been the proliferation of alternative asset managers. It is necessary to make the distinction between traditional asset managers and alternative asset managers. Traditional asset managers, such as retail funds, are highly regulated entities that are governed by strict laws. In the UK, the Financial Services Authority (FSA) is the principal governing body, and its rules are designed to protect investors and limit unnecessary risk-taking. Traditional asset managers have defined investment mandates that determine what types of securities and strategies they can pursue in a given portfolio. These strategies are discussed in detail in further chapters.

Alternative asset managers include assets classes such as hedge funds, private equity and venture capital. For much of their existence, the hallmark of these investment vehicles was light (or nonexistent) regulatory constraints and their freedom to operate without defined investment strategies or transparent risk tolerances. As a result, these asset classes evolved almost without correlation to the broad stock and bond markets, and sought to provide “alpha” returns in a variety of economic situations. Hedge funds, for example, are high-risk money managers that borrow money to invest in a multitude of stocks,
bonds and derivatives. They use a large equity base to borrow more capital and therefore multiply returns through leveraging. Alternative investments can be extremely lucrative, but they are also extremely risky, so individual investors who wish to join this high-flying world must be “accredited”—in other words, they need to have sufficient net worth, typically six figures and up, to invest. Recently pension funds have become major investors in hedge funds, hoping to reap the same outsized returns as other high-net-worth investors.

Europe holds its own

The United States is the world’s leading country when it comes to assets under management with about 50 per cent of the world’s assets under management. But the UK has recently grown to join the US as a major market for fund management. At the close of 2007, before the worst of the credit crisis struck, UK fund managers were responsible for a record £4.1 trillion. For all of Europe, assets under management totalled €13.6 trillion at the end of 2007. This figure dropped to around €10.7 trillion by the end of 2008, but rose to €14 trillion by the end of 2011.

Unsettled times

How did the credit crunch hurt the asset management industry? First and foremost, the lack of credit meant a lack of leverage for fund managers, which reduced the size of the bets they could make and thereby lowered returns. Spinoffs, sales and downsizing at major investment banks made an additional impact on those banks’ asset management divisions. Ironically, the fact that some asset management divisions performed well despite the crisis made them more likely to be sold, because banks knew they’d be attractive on the market.

As an example, Citigroup sold its own asset management division in 2005. But as one of the hardest-hit banks in the credit crisis, Citi was forced to continue divesting units that weren’t part of its traditional banking businesses, so in 2009 it sold its entire stake in Japanese asset manager Nikko Asset Management. The trend continued in Europe: Barclays put its successful asset management division, Barclays Global Investors, up for sale in order to streamline itself and boost capital ratios, and the beleaguered Commerzbank sold its Swiss asset management unit to Liechtenstein-based asset manager LGT Group. “Focussing on core banking activity” was the name of the game for battered banks around the world.

Different kinds of deals

Consolidation in the asset management industry is hardly a recent development. In the last two decades, over 150 firms have merged or combined forces; American investment management giant BlackRock owes much of its clout to acquisitions, including its purchases of State Street Research Management, Merrill Lynch Investment Managers, Quellos Capital and R3 Capital Management, all deals that closed between 2005 and early 2009. And in June 2009, BlackRock announced that it would pay $13.5 billion for Barclays Global Investors, a transaction that made BlackRock the biggest money manager in the world (as of April 2014, BlackRock had $4.4 trillion in assets under management). One month later Crédit Agricole and Société Générale unveiled a deal to combine their asset management operations into a single entity, which controlled €591 billion of assets at closing and became Europe’s fourth-largest asset manager.
Mergers and acquisitions in the asset management industry were hot during 2007, with plenty of takeovers by private equity firms and lucrative sales of hedge fund assets. In fact, over a dozen transactions in 2007 were valued at $1 billion or more. However, in 2008 just three deals fetched such high prices, and disclosed deal value was just $16.1 billion, compared to $52.1 billion in 2007. And no wonder: almost two-thirds of the transactions in the second half of 2008 were related to divestitures, evidence of sellers’ distress and the need to offer units at fire sale prices. In another shift, investment banks and insurance companies—major buyers of asset management firms in the late 1990s and early 2000s—became sellers, unloading their purchases to private equity buyers or entering into strategic partnerships to form pure-play asset managers.

In 2009, the deals kept coming and, overall, for the year, $4 billion in assets under management changed hands, either as part of acquisitions or divestitures.

In 2010, global deals in the asset management industry saw a slight increase versus 2009, but M&A deals slowed significantly in 2011. In fact, according to a report published in February 2012 by PricewaterhouseCoopers, which closely analyzes the asset management industry, “Volatile markets, increased regulatory and economic uncertainty, decreasing availability of debt funding, and differences in valuations between buyers concerned with overpaying and sellers reluctant to accept lower prices made 2011 the least active and lucrative year for mergers and acquisitions in the global asset management industry since 2006.” However, 2011 did see a few large deals, including Henderson Group’s $584 million acquisition of British firm Gartmore Investment Management, and Investementaktiebolaget Latour’s $576 million acquisition of Swedish firm Saekl AB. PwC also noted in its report that “potential divestiture of asset management divisions by European banks, continuing improvement in valuations and stronger interest from buyers are likely to make 2012 a better year.”

Bigger, not necessarily better

Big firms in the index tracking business have limited costs. However, being too big and trying to beat the market can be a disadvantage. The bigger a portfolio is, the more likely it is to resemble the market. That is why there has been a rise in the number of “boutique managers,” smaller firms that concentrate on niche markets and try not to get too big in order to keep returns high.

This proved to be the case. According to Sandler O’Neill’s Asset Manager Transaction Review, investment management M&A deals rose 6.8 per cent in 2012; the total assets under management that changed hands equaled $1.5 trillion. The reasons for the rise included improving stock markets, the fear of rising taxes and finance firms selling off non-core units. Three of the largest deals of the year in the investment management sector were Janus Capital Group’s $153 billion sale of a minority stake to Dai-ichi Life Insurance, Société Générale’s $127 billion sale of TCW Group to the Carlyle Group and TCW management, and Bridgewater Associates’ $112.4 billion sale of a minority stake to the
Texas Teacher Retirement System. In all, 143 deals were announced during 2012; total deal volume for the year was $8.5 billion.

In 2013, the number of deals increased to 146, while total deal volume rose to $13.2 billion. Some of the largest deals of 2013 included BlackRock buying Credit Suisse’s ETF business, Schroders purchasing Cazenove Capital, and Credit Suisse acquiring Morgan Stanley’s European and Middle East wealth management business.

The world is watching

The second half of 2008 saw unprecedented government intervention in the financial sector. The US Federal Reserve bailed out investment bank Bear Stearns and engineered a hasty sale to JPMorgan Chase; amidst controversy that has yet to settle, American authorities later allowed Lehman Brothers to collapse, and the remains of Lehman’s businesses were snapped up by several international buyers. In the UK, more than €47 billion was poured into a bank bailout plan. Among the largest recipients of funds were Lloyds TSB, HBOS plc and the Royal Bank of Scotland; Lloyds and HBOS were subsequently combined to form the Lloyds Banking Group. Similar stories played out in France, Germany and Italy. These capital infusions came with strings attached, like increased lending requirements, new leverage rules and limits on executive compensation and bonuses.

Indeed, the lasting legacy of the world financial crisis may be tougher regulations and heightened scrutiny of executive compensation. Hedge fund owners, alternative asset managers and investment bankers have been criticised for taking home millions, if not billions, while others scrape by on unemployment benefits and food stamps. (Those financiers who made their windfalls by shorting the subprime junk that created the crisis have drawn extra ire.) In 2009, the UK’s Financial Services Authority drafted new codes designed to minimise what it calls “excessive” risk-taking by tying compensation to risk management. The codes touched on everything from makeup of remuneration committees to mandatory annual reports on pay and performance measurement. In 2010 it was announced that the UK’s Financial Services Authority would be replaced by two new regulatory agencies—the Financial Conduct Authority and the Prudential Regulation Authority. The Bank of England would also takeover some of the regulatory duties of the FSA.

And in the third quarter 2012, new regulation went into effect in Europe that altered the manner in which trades are executed in the world’s $700 trillion over-the-counter (OTC) derivatives market. In the past, the OTC derivatives market was largely self-regulated; the aim of new regulation is to increase transparency and liquidity and decrease risk, thus mitigating the likelihood that trading in OTC derivatives will quickly strain the health of financial firms like it did during the financial crisis of 2008. To that end, new regulation mandates that trades be cleared through central clearing counterparties, thus making OTC derivatives more like exchange-traded financial instruments.

Perhaps underscoring the need for such regulation, in the second quarter of 2012 it was revealed that a London-based trader with JPMorgan Chase (the trader was nicknamed “The London Whale” by the media) had placed a massive bet in the credit derivatives market, leading to the loss of more than $5 billion. In the aftermath of the revelation of the loss, JPMorgan Chase’s market capitalisation fell by $14 billion. Jamie Dimon, the CEO of JPMorgan Chase, had previously been an outspoken opponent of much of the new securities regulation in the US, fervently lobbying
against the Dodd-Frank Act’s so-called Volcker Rule, which limits banks’ ability to trade their own capital. But after the London Whale controversy, Dimon lessened his criticism of new securities regulation, even going as far as saying, in one public speech, “I don’t disagree with the intent of the Volcker Rule.”

Pension reform, controversy and opportunities

Throughout Europe, pension reform has become a politically explosive topic—one that’s being watched closely by banks in London, Frankfurt and New York, not to mention millions of workers across the continent. The problem, quite simply, is that Europe’s population is getting older. Projections suggest that in 2030 there will be 24 million more people aged 55 to 64 than there was in 2005. Meanwhile, the number of people aged 15 to 64, the so-called working age population, is expected to decrease by 20.8 million over the same period of time. Finland’s ratio of pensioners to workers is the highest in Europe: it will reach 41 per cent by 2025.

Pension schemes in Europe follow a “pay-as-you-go” arrangement, which means that money paid into the retirement system by today’s workers is immediately transferred to today’s retirees. As the ratio of pensioners to workers increases, there will be greater burden on workers to pay for their retirements. Governments in Western and Eastern Europe are taking two key steps to address this problem: first, they’re gradually raising the minimum retirement age. Second—and more importantly, from an investment manager’s point of view—they are shifting responsibility to private investment plans, instead of state-run pension schemes. At the same time, many nations are increasing the requirements for defined benefit contributions. While these changes have prompted union strikes and street protests in some countries, they present opportunities for investment managers in Europe, who are now marketing a variety of investment options to younger workers.

There’s always tomorrow

As long as there are assets and investors who desire yields, whether from risky short-term ventures or more secure long-term investments, there will be an asset management industry. And though the global economy may be edging its way toward a recovery, the effects of the economic crisis will be felt for some time. Credit is neither as cheap nor as plentiful as it was before the crunch, and many investors have sharply reduced tolerance for risk and exposure to volatile equities.

In a way, however, the grim headlines of 2008 and early 2009 helped prove the value of reputable, skilled investment management professionals. As European pension funds reported record deficits, more and more workers turned to private investment plans to secure their futures. Disgraced American financier Bernie Madoff brought the phrase “Ponzi scheme” to breakfast tables around the world, as details of his $50 billion swindle were uncovered by US authorities. Tragically, many of Madoff’s victims lost their life savings—and pulling hedge funds under regulatory control is now a priority for the United States and Europe. Given the amount of suspicion in the media and in public opinion, investment management firms that can establish themselves as trustworthy financial guides will be able to distinguish themselves.

As part of Europe’s financial services industry, asset management has become increasingly important. London is now one of the world’s top centres for international fund management, and Europe holds approximately one-third of the world’s investment fund assets.
Convergence

The European asset management sector has recently experienced massive convergence between traditional and alternative investment styles. Hedge funds, private equity funds and traditional asset managers are competing increasingly closely as the lines between the asset classes become blurred. Investors increasingly understand how to invest and which investments could generate higher returns in a regulated environment. Regulators have realised this and are now offering traditional asset managers new flexibility as long as investors remain protected.

The search for the alpha has aided the process. Traditional asset managers have been buying hedge fund boutiques for some time. But now the difference between these businesses and their core investment strategies are disappearing. Long-only managers are also using regulatory devices such as UCITS III (and soon, UCITS IV) to offer hedge fund products for retail investors and other products to widen the choice for their institutional investors.

Meanwhile, alternative asset managers are reaching a wider audience among investors through regulated fund vehicles and eschewing offshore domiciles of the Caribbean and the British Isles for EU member states, such as Luxembourg. Even the staid European pension fund industry holds approximately 20 per cent of its assets in alternatives, including hedge funds, private equity and real estate funds, according to the Alternative Investment Management Association (AIMA), the global hedge fund association.

**UCITS**

UCITS, Undertakings for Collective Investment In Transferable Securities, is a European Directive first enacted in 1985 by the European Commission. The main point of UCITS is to enable funds to be “passported” to other EU countries and sold with minimum interventions by national governments and regulators. Indeed, international regulatory barriers have been eroded by UCITS, accelerating the development of the cross-border funds market. UCITS III, enabled in 2002, provides increased investment flexibility by expanding the investments in which a fund can take positions.

Next up: UCITS IV, which has been approved by the European Parliament and took effect in 2011. UCITS IV will simplify administrative requirements for cross-border distributed funds, and will give management companies a passport to manage funds across borders without having to go through a service provider in the fund’s domicile. Because of these and other enhancements, the new directive is expected to increase the number of small funds that merge into mega-funds capable of cross-border distribution. At the same time, UCITS IV aims to strengthen existing regulations with provisions for greater transparency to investors and required disclosures by funds.

There is convergence among alternative assets, too. Private equity houses and hedge funds are frequently adopting similar investment strategies. Cheap credit, low volatility and rising equity markets encouraged hedge funds to enter the private equity market until the credit crisis blew up. More strategically, hedge
funds are increasingly ring-fencing capital for illiquid investments, similar to those made by private equity. Recently they have deployed these investments up and down the capital structure, including second lien and mezzanine debt products. Private equity houses have acquired undervalued assets and businesses through public market deals. Many experts suggest this could lead to further growth in “hybrid” alternative investment firms. We will expand upon this in more detail in Chapter 2.

Back and forth between bonds and equities

Bonds are safe and equities are risky, or so the theory goes. Experienced fund managers know the real trick is to maintain diversified portfolios, spreading risk between stocks and bonds. If the recent economic crisis taught us anything, it’s that even safe bets aren’t necessarily safe. Still, in times of uncertainty investment assets tend to flow into bonds. That’s precisely what happened in the UK during the 1970s, when stagflation ran rampant and equities were performing poorly. These conditions sent investors flocking to secure bonds like government debt.

The advent of high-performing tech stocks in the early- and mid-1990s made equities more attractive, but then the dot-com bubble burst and ruined the party. According to some estimates, pension funds moved £40 billion out of equities and into bonds in 2004 alone. A brief shift back to equities was spurred by weakening bond yields and economic growth until the credit crisis set investors running back to high-quality debt, like investment grade corporate and government bonds.

Eye on exchange traded funds

As the name implies, exchange traded funds are bought and sold on stock exchanges, and some say they are undermining the traditional business model of asset management. One thing’s for certain, ETFs have grown exponentially in recent years: from September 2008 to May 2009, almost 49 billion ETF shares changed hands each month. For the same period in 2007 to 2008, ETF volume averaged just 20.5 billion shares per month. According to industry estimates, ETF assets will reach $3.8 trillion by 2016. As of March 2014, global assets under management in ETFs totalled $2.45 trillion, up more than 15 per cent since mid-2013.

Remarkably, the burgeoning ETF market is less than two decades old. These instruments were invented as open-end index funds that are like mutual funds in many ways; underlying the ETF is a bundle of assets and securities in which investors hold an interest. The difference is that stakes in an ETF are easy to buy and sell through a retail broker—buy now, sell tomorrow, repeat. Lately more complex ETFs have made their way to the market. These include hedge fund ETFs and leveraged ETFs, which seek higher-than-standard returns by relying on futures options, swaps and other exotic derivatives. In spring and summer 2009, leveraged ETFs were the subject of regulatory scrutiny, as the US Financial Industry Regulatory Authority issued warnings that leveraged ETFs might be too risky for retail customers.

More than just investment

More than ever asset management companies are focusing on more than just investing. Business decisions such as marketing and distribution, global growth and technology integration are becoming increasingly important factors in the success of investment management firms. While this guide will focus mainly on developing a career on the investment side of the investment management industry,
we will also spend some time discussing the growing alternative career opportunities relating to these “non-investment” business issues.

**INVESTMENT MANAGEMENT VS. INVESTMENT BANKING**

Investment management provides a relatively stable career when compared to some other financial services jobs, relying on not just the infusion of new cash into funds but the task of managing money already in the system. Institutions such as Spain’s BBVA Asset Management or Scotland’s Aberdeen Asset Management are paid a set fee from their clients as a per centage of assets under management, so they will continue to profit simply by managing money. There’s no doubt that downward cycles in the global economy can disrupt fees that involve performance incentives, especially when the downswing is as severe and systemic as the recent crisis. Plus, when investors get spooked there may be fewer new assets to manage. But generally speaking the asset management business is less cyclical than its financial cousins like investment banking.

Consider the hallmarks of investment banking: IPOs and mergers and acquisitions. When times are good, there’s a lot of money to be made in these activities. But when the deal pipeline slows down because of economic conditions, transaction fees simply don’t materialise. That means bankers get laid off, or I-banks freeze hiring, or both. These swings in fortune can happen very quickly, as we saw in 2007. During the first half of the year deals were booming and I-bankers were flush with cash, perks and bonuses. Then the credit crunch hit, and pink slips flew: over 225,000 financial services professionals lost their jobs in 2008, many of them investment bankers. The I-bankers who remained were initially faced with significantly smaller paycheques. According to London’s Centre for Economics and Business Research (CEBR), bankers in the City received a total of approximately £4.6 billion in bonuses at the close of 2008. But that figure rose to £6 billion for 2009. And for the 12-month period ending April 2010, bonuses rose to £7.3 billion. However, for the year ending April 2011, bonuses slipped to £6.7 billion. This didn’t mean that bankers made less money; due to the media and regulatory focus on bonuses, banks increased salaries (by about 7 per cent) while cutting back on bonuses.

Perhaps this is what led the former chief executive of the Financial Services Authority to speak out against the City’s bankers in April 2012. Hector Sants, after his last speech as the head of the FSA, told the Guardian, “If I had been a senior bank executive in the last three or four years I would have taken a different view about individual pay levels than many, but not all, of the banks did. I think that would have been a very good signal, which would be part of the restoration of trust.” The trust Sants alluded to was that between financial services executives and shareholders in financial services firms, a trust that had been broken in the fallout of the financial crises of 2008. Sants went on to criticise executives of leading financial firms, asking, “Should there not be some level of expectation that people entrusted with the leadership of financial services organisations ultimately are driven by the desire to ‘do the right thing’? It’s called integrity and it is what we all, as users of financial services, expect of the leaders of the sector.” In June 2012, Sants relinquished his post as head of the FSA.

Unlike the salaries and bonuses of investment banking professionals, analysts and associates at investment management firms benefit from the fact that assets are always being invested, even in bad times. Investment management firms also tend to have a diverse client base that includes pension funds, insurance companies, banks, mutual funds and high-net-worth individuals, and portfolio managers can make money for their clients in a number of ways. Obviously, they want to play the
market and make returns, by investing in a lucrative IPO, for example. But even if there are fewer IPOs taking place, managers can still make gains with smart plays in other asset classes, or by investing existing capital in various portfolios. A bear market may force portfolio managers to be extra-cautious in their investments, but they will always have choices. Meanwhile, their I-banker friends will either have capital-raising and advisory assignments ... or they won’t.

As one staffer in the operational department of a major asset management firm says, “Investment bankers normally only have a single-stream of customers and are doing the same thing day in day out. Also, the sell-side is driven by the requirements of the buy-side.” The link between investment bankers to investment managers might be symbiotic, to some extent, but those managing money have more options to guarantee their survival.

Hours
The investment management industry tends to have a work load that varies. Working at a mutual or hedge fund typically means hours dictated by when the market opens and closes, and in many cases balances out to a fairly normal schedule. Land a job at a private equity firm and the story may differ; the salary is bigger, but the work hours are longer. Smaller private equity players still require their staff to work 60 to 70 hours a week. Still, they don’t compare to the hours put in by investment bankers.

Investment bankers are known for working extremely long hours—around 90 to 100 per week on average (or about 16 hours per day during a six-day workweek and 14 hours per day during a seven-day workweek). Some industry participants admit to working in the office all weekend and sleeping under their desks two or three nights a week. Graduates often look to work in the investment banking industry for as short a time as possible, so they can retire early or move on to something they enjoy more. Many see investment banking as a stepping stone to working in private equity or a hedge fund. Because of the long hours and stressful nature of the job, attrition rates are high and burnout is not uncommon.

Insiders argue about whether investment banking is more social than investment management, despite the latter’s shorter workweeks. As an investment banker you usually have a group of other analysts or associates working alongside you. You’re also enduring those gruelling hours together, which can lead to a certain sense of camaraderie. When there is downtime, I-bankers often use it to build relationships that lead to social interaction outside of work. In investment management, you might be the only associate. Private equity and hedge funds, in particular, tend to be smaller than investment banks and don’t require as many analysts and associates to do the work. Particularly at a very small firm, this means the average day can seem isolated and lonely, though investment management analysts at the bigger banks claim this isn’t the case in larger workplaces.

Pay
Working at a hedge fund or private equity firm is traditionally more lucrative than investment banking, although such firms very rarely employ university leavers. At a private equity firm you will make roughly as much a year as post-MBA associates at banks make—significantly more than you’d make as an analyst.
Hedge fund pay varies widely between funds, and many investment management companies have trimmed pay in response to recent economic conditions. But, as a rule of thumb, the norm—which can mean different things at different firms, these days—is around £70,000 for those coming in directly from banking, plus a bonus that will take you to around £100,000 to £150,000, very similar to private equity associates. This is much more than what you could get as a third-year investment banking analyst, and is about on par with what post-MBA associates at investment banks make. The gap between salaries becomes increasingly obvious in the upper echelons. Some hedge fund partners, albeit not representative of the industry as a whole, earn £1 billion or £2 billion a year, more than the CEOs of even the biggest investment banks.

Graduates who join asset managers straight out of university may initially take home less than their investment banking counterparts. The average starting salary of graduates in the asset management industry is around £35,000, according to one HR manager at an investment management firm, whereas graduates in investment banking start on a median of £40,000 to £45,000. However, you move up the pay hierarchy with bigger leaps at asset management firms, and often in less stressful environments. And it’s important to keep in mind that compensation and pay structure may differ from company to company; one investment management insider said that the pay and bonus offered at her firm was exactly the same as what was offered at an investment bank where she’d previously worked.
Chapter 1: Buy-Side vs. Sell-Side
Chapter 2: Investment Styles
Chapter 3: Financial Research Breakdown
Chapter 4: The Clients of Asset Managers
Buy-Side vs. Sell-Side

Chapter 1

If you’ve ever spoken with investment professionals, you’ve probably heard them talk about the “buy-side” and the “sell-side.” What do these terms mean, what are the differences in the job functions and how do the two sides interact with one another?

What’s the difference?

The buy-side refers to the asset managers who represent individual and institutional investors. The buy-side purchases investment products (such as stocks, bonds and derivatives) on behalf of their clients with the goal of increasing its assets. This chapter will take a brief look at the types of jobs on each “side.” The rest of the book will look at the buy-side in detail. There are several different career options on both the sell-side and buy-side; the guide will go through these in the following paragraphs.

In contrast, the sell-side refers to the functions of an investment bank. Specifically, this includes investment bankers, traders and research analysts. Sell-side professionals issue, recommend, trade and “sell” securities to the investors on the buy-side. The sell-side can be thought of primarily as a facilitator of buy-side investments; the sell-side makes money not through a growth in value of the investment, but through fees and commissions for these facilitating services.

JOBS ON THE SELL-SIDE

Sell-side firms, such as JPMorgan and Morgan Stanley, offer graduates the opportunity to join structured training programmes culminating in placements with various divisions such as investment banking, sales and trading or equity research. Because of a relatively larger number of job assignments, the sell-side employs more recent university graduates than the buy-side. For instance, many large investment banks hire annually upwards of 100 graduated MBAs and university graduates to begin as bankers and research analysts. Training programmes differ across most institutions.

There are two primary career paths for recent undergraduates in a sell-side firm: sales and trading, and investment banking. Both equity and fixed income research typically fall under the sales and trading umbrella, although some banks break out the research entirely on their own.

Positions in sell-side research

The primary position for those interested in investment management on the sell-side will be in either equity or fixed income research. Research professionals analyse company and industry statistics, predict earnings and cash flows, determine appropriate valuations and recommend investments to buy-side clients. Typically, graduates work as junior analysts for senior industry research analysts. Individuals hired from business schools, however, generally start as research analysts working directly with the senior analyst.

Sell-side research associates spend the majority of their day gathering industry data, populating investment models and preparing the foundations of company and industry reports. Over time, they
typically garner more responsibilities, such as attending industry events and investor presentations, and running various financial analyses.

Sell-side research associate-analysts build investment models, assist in generating investment recommendations, write company and industry reports, and help to communicate recommendations to buy-side clients. Over time, the associate-analyst may often pick up coverage of additional stocks (often small or mid cap), using the analyst as a mentor.

Positions in investment banking

Investment banking professionals assist companies in raising capital and exploring various financial alternatives. (Professionals in I-banking are called analysts if they are university graduates and associates if they are MBA graduates.) Some of the most common transactions that investment bankers work on are initial public offerings (IPOs) and company mergers and acquisitions (M&A). Typically, analysts and associates work between 80 and 100 hours per week preparing presentations and financial models for banking clients. Undergraduate students have the opportunity to enter into “analyst” training programmes whereas MBA graduates have the opportunity to enter into “associate” training programmes. After training they are placed into either industry groups, such as media, financial services, or industrials, or into product groups, such as M&A, equity capital markets or debt capital markets.

Investment banking vs. investment management

As discussed earlier, there are several differences between the two careers. The primary difference is that investment bankers work in the primary markets, structuring and issuing various securities, whereas investment managers work in the secondary markets, making decisions on which securities to invest in. For more information on investment banking, please see the Vault Career Guide to Investment Banking.

JOBS ON THE BUY-SIDE

Buy-side firms are structured in a far less formal manner than sell-side firms. Consequently, career paths are more flexible and job descriptions vary more from one firm to another. This presents the opportunity for very intelligent and successful individuals to be promoted at a very young age. In general, buy-side firms have a three-segment professional staff consisting of:

- Portfolio managers who invest money on behalf of their clients
- Research analysts who provide portfolio managers with potential investment recommendations and, in some cases, invest money in their respective sectors
- Account and product managers who manage client relationships and distribute the investment products to individual and institutional investors
- Operation staff who carry out back-office roles, ranging from systems developers to risk analysts
When beginning your career on the buy-side, you typically will start as an analyst, or in one of these aforementioned four areas.

Professional Positions in Asset Management

**Structure: Buy-side vs. sell-side**

In general, investment management companies are less structured than most other types of finance firms, including investment banks, commercial banks and accounting firms. As Andrew McKinlay, an analyst at BlackRock, says, “The firm is very horizontal, there’s no real strict hierarchy”. As a result, investment management positions have less defined job descriptions than positions at other types of finance firms. For example, investment banking typically has a three-year analyst program for university graduates, moving on to a three-year associate programme (or perhaps a direct role for MBA recruits), and then promotions to vice president and managing director. Investment management careers have a less rigid hierarchy and there is usually no formal training programme, besides qualifications such as the investment management certificate (IMC) and chartered financial analyst (CFA) award. Job descriptions for similar roles in the investment management industry differ from firm to firm, and only the largest firms in asset management have all of the positions described in this book. That said, when interviewing, you should ask your interviewer to clarify exact job responsibilities. By doing so, you’ll not only gain insight into the position, you’ll also sound informed about the (lack of) structure in the industry.

**Positions for university graduates**

When starting out, most graduates find themselves at the lowest rung of the ladder—associate. That means you’re typically specializing in one specific area, and providing information on very specific areas of the financial world. After three or four years, associates can work their way up to an analyst title. Once that is achieved, your work is a bit broader and requires managing money (or providing research) for a wide spectrum of asset class.

At some firms, undergraduates with nonbusiness educational backgrounds can start as research assistants and work their way to an associate promotion. Both positions offer great opportunities to learn the nuances and fundamentals of the business by working directly with senior analysts and portfolio managers. And, at some firms, research assistants and associates are given their own equities to cover (so if you’re interested in more responsibility at the outset of your career, make sure to find out which firms offer this).

Research/investment analysts can cover a broad range of activities and disciplines, which can vary according to the nature of the employer. Typically, research analysts will be sorted by the type of security: equity or fixed income. Sometimes they can focus on a region, such as South Africa. Others focus on an industry, such as real estate. Normally, analysts maintain investment models, gather industry and company information, assess risks and help devise recommendations. Investment research analysts support senior research analysts (often called associates) who focus on particular areas of investment (for example, a number of companies in an industry), rather than specific investment funds. An analyst often has a set of companies to research and develop in-depth knowledge of, to make informed recommendations to fund managers. These are usually in a specific industrial sector such as retail or utilities, or a specific geographical area, such as Europe or the Mideast Gulf.
Portfolio manager assistants screen for potential investments, monitor portfolio characteristics and assist in client relations. Portfolio manager assistants offer support to portfolio managers, who typically oversee specific investment funds (for example, a specific mutual fund or pension fund).

Research assistants perform both administrative functions as well as those duties of a research associate. Tasks include answering the phone, scheduling meetings, listening to earnings conference calls if the associate or analyst is too busy and data analysis. Over time, if the assistant shows aptitude and ambition for research, more responsibility can be thrown his/her way. This can often lead to a promotion to research analyst.

Another less travelled route for graduates is to join a marketing and sales department as either an account manager or a product manager.

Account managers assist in creating portfolio review presentations, developing promotional presentations for potential new clients and answering requests for proposals (RFPs) issued by institutions seeking to hire new investment managers. They are also in charge of managing and servicing existing clients, who might threaten to pull their money out. The role is traditionally more sales and marketing than investing, and involves a lot of wining and dining the potential clients on the company card. As the saying goes, it's a hard life! They also meet investment consultants and play a role in developing new products.

Product managers serve as liaison between the portfolio manager, account manager and client. They typically have greater in-depth knowledge of the particular product’s (i.e., stock mutual fund) strategy and investment focus. Product associates often seek new assets to put into their fund and have a strong understanding of both the fund’s investment performance and external markets.

Account and product management has become increasingly critical in the investment management industry. This path is an outstanding alternative for those interested in the industry, but not driven by investing money.

Another increasingly common route for graduates to get into the industry is operations. Operational staff do everything from working in IT to settling and reporting trades, project management and customer service. Front-office operational staff are often business-minded and knowledgeable about financial markets. Back-office staff can be more technically gifted but less business savvy. As regulations have recently tightened, graduates are hired more often in risk and compliance divisions as members of the operations teams. Jobs in operational departments, such as risk, can be quite similar to an investment analyst position in terms of research and report writing. In a risk team, however, there will probably be more number crunching.

Risk analysts are responsible for ensuring fund managers know what their exposure and risk is in various areas. They monitor the trade managers that are making and any news/events that could affect these trades. A significant part of the job is crunching numbers and feeding them back to fund managers.

Systems developers carry out a wide range of tasks depending on the department in which they work. Those in back-office positions can be responsible for the performance and maintenance of one or more computer systems. In bigger firms, each developer will usually be assigned one system. Developers in innovation and architecture groups will normally be responsible for isolating
and investigating new technologies that may aid business. They will pitch these technologies to their clients, normally within the company, who will decide whether or not they will be adopted.

Business analysts facilitate interaction between the front-office business staff and back-office technical staff. Often from an IT background, they will be responsible for finding new systems and monitoring and maintaining existing system performance. They will also make process changes as required. The role requires a great deal of liaising with other departments to keep up-to-date. In the words of one business analyst, the role “is to build a bridge between the business and technology side of a firm. You can relate to the techies and their jargon and at the same time, translate it into understandable language for the business side.”

Positions for MBA graduates

Recent MBA graduates or working professionals with considerable investment experience typically enter the industry as investment research analysts. They are usually assigned a small industry to cover, giving them an opportunity to get their feet wet.

Research/portfolio analysts provide insight and investment recommendations to portfolio managers. The typical day includes listening to company management conference calls, attending industry conferences, building investment models, developing industry trends and benchmarking a company’s progress to its peers.

Success as a research analyst will lead to advancement to larger industries and ultimately to the role of portfolio manager (a large percentage of portfolio managers traverse through the ranks as research analysts).

What are the differences between buy-side and sell-side jobs?

On the surface, the roles of buy-side and sell-side analysts sound remarkably similar. However, the day-to-day jobs are quite different. Sell-side analysts not only generate investment recommendations, they also need to market their ideas. This involves publishing elaborate and lengthy investment reports and meeting with their buy-side clients. In contrast, the buy-side analyst focuses entirely on investment analysis. Also, the buy-side analyst works directly with portfolio managers at the same firm, making it easier to focus on the relevant components of the analysis. The sell-side analyst is writing not for a specific team of professionals, but for the buy-side industry as a whole.

Despite these differences in responsibilities, professionals in both positions develop similar skill sets. In fact, sell-side research and investment banking positions are the most popular training grounds for finance professionals who eventually switch to the buy-side.

How do the buy-side and sell-side interact?

Sell-side firms earn a trading fee every time securities (bonds or stocks) are bought or sold in a buy-side firm’s portfolio. Because portfolio trades can generate sizeable commissions, sell-side firms (investment banks) have an incentive to develop relationships with asset managers. Through institutional salespeople, investment banks provide asset managers with services such as analyst recommendations and access to firm-sponsored IPOs and debt offerings.
COMPENSATION

In general, compensation in asset management is a combination of base salary and bonus. As you move up in the organisation to senior portfolio manager or senior account and product management official, your pay becomes more heavily weighted toward bonuses. Senior portfolio manager pay is somewhat contingent upon relative investment fund performance, size of the fund managed, new assets invested in the fund and overall firm performance. Senior account and product management compensation is weighted toward new account generation and the attrition level of existing accounts.

The typical starting salary for entry-level graduates in research positions is around £38,000 in London and Edinburgh with bonuses of 20 per cent, depending on economic factors. Base salaries are slightly less in the rest of Europe and the UK. After five to eight years salaries can rise to as high as £100,000 with bonuses of 40 per cent, again depending on circumstances—bonuses of 40 to 100 per cent are possible, but they may be lower if the firm has not fared well. Typical salaries at senior levels can be approximately £100,000 to £130,000 with bonuses of 50 to 100 per cent. Product and account managers usually earn slightly less than their research counterparts. However, marketers in some funds can receive a bonus of 20 per cent on the fees earned for the money they bring in. This means massive bonuses, on the verge of £1 million, are distinctly possible at top-performing funds. Even those who start in back-office operational positions can earn around £38,000 a year if based in London.

Aside from job title, there are two other factors that have a major impact on the amount and type of compensation received. First factor is the type of asset management firm—traditional or alternative? Retail funds offer steady compensation and job security, whereas hedge funds offer the potential for high compensation with minimal job security (and, these days, the risk of pay restrictions imposed by financial authorities). Second factor is the structure of the asset management firm—public or private? Public retail funds and hedge funds can offer employees stock options or restricted stock. Many asset management firms are private, so they can offer their senior personnel direct equity interests in their companies. This can be highly lucrative, as many firms pay out a significant portion of their annual earnings to their equity partners.
“Investment style” is often a loosely used term in the industry and is a reference to how a portfolio is managed. These styles are typically classified in one of three ways:

- The type of security (i.e., stocks vs. bonds)
- The risk characteristics of the investments (i.e., growth vs. value stock or Treasury vs. “junk” bonds)
- The manner in which the portfolio is constructed (i.e., active vs. passive funds)

It is important to note that all of these styles are relevant to the different client types covered in the previous chapter (mutual fund, institutional and high-net-worth investing).

THE DRIVE FOR DIVERSIFICATION

Over the last 20 years the industry has been forced to mature by the desires of its client base. As investors have become increasingly sophisticated they have tapped multiple investment styles to diversify their wealth.

Typically, investors (whether individual or institutional) allocate various portions of their assets to different investment styles. Rather than focus all their assets on one asset class, or one investment style, investors spread their investments over a variety of products and classes. The style of a portfolio, such as a mutual fund, is clearly indicated through its name and marketing materials so investors know what to expect from it. Adherence to the styles marketed is more heavily scrutinised by institutional and pension fund customers than by mutual fund customers. Institutional investors monitor their funds every day to make sure that the asset manager is investing as they said they would. Imagine the overall wealth of an individual or institution as a pie. Think of each slice as investing in a different portfolio of securities; this is what’s called diversification. In the following pages, we will describe each investment style classification.

TYPES OF SECURITY

Type of security is the most straightforward category of investment style. For the most part, portfolios invest in either equity or debt. Some funds enable portfolio managers to invest in both, whereas other funds focus on other types of securities, such as convertible bonds. For the purpose of this analysis, we will focus on straightforward stocks and bonds.

Stocks

Equity portfolios invest in the stock of public companies. This means the portfolios are purchasing a share of the company—they are actually becoming owners of the company and, as a result, directly benefit if it performs well. Equity investors may reap these benefits in the form of dividends (the distribution of profits to shareholders), or simply through an increase in share price.
Bonds

Fixed income portfolios invest in bonds, a different type of security than stocks. Bonds can be thought of as loans issued by such organisations as companies or municipalities: they are often referred to as debt. Like loans, bonds have a fixed term of existence and pay a fixed rate of return. For example, a company may issue a five-year bond that pays a 7 per cent annual return. This company is then under a contractual obligation to pay this interest amount to bondholders, as well as return the original amount at the end of the term. Although bondholders aren’t “owners” of the bond issuer in the same way that equity shareholders are, they maintain a claim on its assets as creditors. If a company cannot pay its bond obligations, bondholders may take control of its assets (in the same way that a bank can repossess your car if you don’t make your payments). Lenders further up the capital structure normally find it easier to redeem assets of the company. Institutions such as banks will normally be reimbursed before individual bond holders.

Although bonds have fixed rates of return, their actual prices fluctuate in the securities market just as stock prices do. (Just as there is a stock market where investors buy and sell stocks, there is a bond market where investors buy and sell bonds.) In the case of bonds, investors are willing to pay more or less for debt depending on how likely they think it is that the bond issuer will be able to pay its obligations.

Derivatives

In recent years derivatives have become a major part of the European asset management industry. Major asset management firms have implemented systems to enable the widespread use of derivatives as an investment and risk management tool. Simply put, a derivative is any financial instrument whose payoffs are derived from the value of an underlying variable at a time in the future—hence the name. Types of derivatives include options, warrants and futures. Stock and index options are widely used by professional investors to hedge their share portfolios. Index options allow investors to gain wider exposure to the market rather than just single securities. Derivatives are also a risk management tool: depending on how they are used and how leveraged they are, they can either increase or reduce the risk of an investment. The derivatives market received a lot of attention in 2008, most of it negative. The US government was forced to spend $85 billion bailing out global insurance giant American International Group (AIG), which was crippled by losses on credit default swaps (CDSs), a type of derivative.

RISK CHARACTERISTICS OF INVESTMENTS

Types of stocks and their risk profiles

Most equity portfolios are classified in two ways:

- By size, or market capitalisation, of the companies whose stocks are invested in by the portfolios
- By risk profile or valuation of the stocks
Market capitalisation of investments

The market capitalisation (also known as “market cap”) of a company refers to the company’s total value according to the stock market. It is the product of the company’s current stock price and the number of shares outstanding. For example, a company with a stock price of £10 and 10 million outstanding shares has a market cap of £100 million.

Companies (and their stocks) are usually categorised as small-, mid- or large capitalisation. Most equity portfolios focus on one type, but some invest across market capitalisation. Examples of large cap companies can be found on the FTSE 100 index, whereas indices such as the FTSE Small Cap Index or the Hoare Govett Smaller Companies Index list the small caps.

Whereas there is no real answer and definitions vary, small capitalisation typically means any company worth less than £1 billion. Mid-caps usually have a market value in the £250 million to £2 billion range, whereas large-caps can be valued anywhere from £2 billion upwards. As would be expected, large capitalisation stocks primarily constitute well-established companies with long standing track records. Although this is generally true, the tremendous growth of new technology companies over the past decade has propelled many fledgling companies into the ranks of large-capitalisation. For instance, Google has a market-capitalisation of around $149 billion and is one of the largest companies in the world. In the same way, small and medium capitalisation stocks not only include new or under-recognised companies, but also sometimes include established firms that have struggled recently and have seen their market caps fall. Recently, fund investing in new capitalisation categories has emerged: for example, the “micro-cap” (under £150 million) and “mega-cap” (over £35 billion) funds, each with the stated objective of investing in very small or very large companies.

Risk profiles: “value” vs. “growth” investing

Equity portfolios invest in either “value” or “growth” stocks. These terms are also tied in with expected risk: a “growth” stock can provide higher returns and more risk. There are many ways that investors define these styles, but most explanations focus on valuation. Value stocks can be characterised as relatively well-established, high-dividend paying companies with low price-to-earnings and price-to-book ratios. Essentially, they are “diamonds in the rough” that typically have undervalued assets and earnings potential.

Growth stocks (or “glamour” stocks) have the potential to expand at rates that exceed their respective industries or market. These companies have above average revenue and earnings growth and their stocks trade at high price-to-earnings and price-to-book ratios. Technology companies such as Google and Apple are good examples of traditional growth stocks.

Many variations of growth and value portfolios exist in the marketplace today. For instance, “aggressive growth” portfolios invest in companies that are growing rapidly through innovation or new industry developments. These investments are relatively speculative and offer higher returns with higher risk. Many biotechnology companies and new internet stocks in the late 1990s would have been classified as aggressive growth. Another classification is a “core stock” portfolio, which is a middle ground that blends investment in both growth and value stocks.
Putting it together

There are many combinations of size and style variations and equally as many portfolios and investment products. For example, you have your choice of investing in small-cap growth stock portfolios, mid-cap value stock portfolios or large-cap core stock portfolios. (Or you can invest in small-cap value stock portfolios, mid-cap growth stock portfolios, and so on.)

Investors often refer to the nine boxes of investment styles to categorise different portfolios. Mutual fund rating agencies usually categorise funds by this diagram. For example, a large cap value fund would primarily invest in companies with capitalisations around £35 billion and P/E ratios that are below the market average. Examples of each type of strategy (along with the ticker symbol) are listed in the boxes.

<table>
<thead>
<tr>
<th>Types of Investment Strategies</th>
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<tr>
<td>Value</td>
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<tr>
<td>Large</td>
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<tr>
<td>Dodge and Cox Stock (DODGX)</td>
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<tr>
<td>Mid</td>
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<td>Janus Mid Cap Value (JMCVX)</td>
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<td>Small</td>
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<td>Goldman Sachs Small Cap Value (GSSMX)</td>
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<td>Longleaf Partners (LLPFX)</td>
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<td>Fidelity Low Priced Stock (FLPSX)</td>
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<td>Growth Fund of America (AGTHX)</td>
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<td>T. Rowe Price Mid Cap Growth SHS (RPMGX)</td>
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<td>AIM Small Cap Growth (GTSAX)</td>
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We should note that the nine boxes are only a very generic way of categorising funds. Retail funds have created many different strategies over the years, which means categorising them is very difficult. We just briefly discussed the “aggressive growth” style, but another example would be the GARP style (growth at a reasonable price).

In general, the smaller the company (small-cap stocks), the riskier its stock is considered. This is because large companies are usually older and better established, so it’s easier to make predictions
as they have more historical financial data from which analysts can base predictions. However, with higher risk comes the potential for higher returns, so many investors don’t mind putting their money in small-caps. Sometimes this strategy pays off: in 2007 small-caps in the UK outperformed large-caps for the fifth consecutive year, according to the Hoare Govett Smaller Companies (HGSC) Index. But small-caps were especially vulnerable to the economic woes of 2008, and fell to historic lows. For full-year 2008 the HGSC gave returns of -39.6 per cent, 9.6 percentage points below the FTSE All-Share. More recently, small-caps have been outperforming large-caps once again. In 2012, the Numis Smaller Companies Index (the new name of the HGSC) put up a total return of 30 per cent, while the FTSE All Share had a return of 12 per cent.

Growth stocks are also considered riskier, as investments in those stocks are bets on continued rapid growth (reflected in the high price-to-earnings ratio of these stocks). The biggest risk in investing in these stocks is the potential decline in the rate of revenue or earnings growth. If investors become worried that growth in one of these stocks will slow, it is not uncommon to see the stock drop by 20 per cent or more in one day.

TYPES OF BONDS AND THEIR RISK PROFILES

Just like stock portfolios, fixed income (bond) portfolios vary in their focus. There are various types of bonds. The most common way to classify them is as follows:

- Government and supranational bonds
- Investment-grade corporate bonds
- High-yield corporate bonds
- Yearlings

Government bond portfolios invest in the debt issues from national treasuries or other government agencies. These investments tend to have low risk and low returns because of the financial stability of national governments. In the UK, bonds are also known as gilts: this comes from the bonds being very low risk, or “gilt-edged”. Supranational bonds are issued by institutions such as the European Investment Bank (EIB) and the World Bank. As with government bonds, they have very low risk.

Investment-grade corporate bond portfolios invest in the debt issued by companies with high credit standings. These credit ratings are issued by rating companies like Standard & Poor’s. They rate debt based on the likelihood that a company will meet the interest obligations of the debt. The returns and risks of these investments vary along this rating spectrum. Many corporate bond portfolios invest in company debt that ranges the entire continuum of high-grade debt.

In contrast to investment grade debt, high-yield corporate debt, also called “junk bonds”, is the debt issued by smaller, unproven, or high-risk companies. Consequently, the risk and expected rates of return are higher. (Junk, or high-yield, is defined as a bond with a Standard & Poor’s ratings below BBB.

Yearlings invest in the debt issued by local authorities and agencies, such as public school systems. The favourable tax treatment on these types of investments makes them a favourite of tax-sensitive investors. Yields also tend to be higher than for central government bonds as the risk is considered greater.
Other types of bonds include index-linked bonds. The capital redemption of this type of bond is linked to the rate of inflation. As a result, index-linked bonds are more popular in times of high inflation. Convertible bonds are also quite popular with investors. These bonds can be exchanged for shares or other securities, usually with the company that issued the bond.

Investment managers also manage bond portfolios that mix together the different types of bonds. Indeed, hybrids of all kinds exist. Typically, though, if you have a lot of money, a better way to diversify is to invest in a fund made up of one type of bond. If, for example, you've got £100 million to invest, you're likely to give £10 million to the best yearling fund manager, £10 million to the best corporate bond fund manager, etc., rather than invest all $100 million in a hybrid.

### Investment decisions

Just as with equity portfolios, there are a myriad of fixed income portfolio types. Although the ratings issued by agencies like Moody’s and Standard & Poor’s provide investment managers with a guideline and starting point for determining the risk of a bond, managers also form independent opinions on risk, and make investment decisions based on whether they feel they have a good chance of receiving the promised payments.

The easiest way to see this is to consider a junk bond. When a high-risk company (as measured by its credit rating) issues bonds, it must promise a high rate of return to compensate investors for their increased risk. An individual asset manager, however, through analysis of the company and its industry, may believe that the company has a good chance of performing well. The manager would likely then decide that the company’s debt is a good investment.

### Additional categories

Asset management firms also organise and market funds in categories that we have not discussed. Firms also market funds based on industries (health care stock funds) and even politics, such as firms with strong corporate responsibility records or environmentally friendly funds.

### Recent developments

Because of the proliferation of alternative investment products (such as hedge funds and private equity), traditional asset managers have started to compete with these new styles. Most retail funds are governed by their specific mandates, which often preclude the manager from shorting stocks (or betting they will decline in value). However, several traditional asset managers have created traditional mutual fund products that enable the portfolio manager to short stocks. The one thing to note about these funds is that although the mandate provides the ability to short-sell, the fund is under no obligation to do so. One analyst working for a long/short product stated, “we haven’t been short a stock in over a year.”

Perhaps the most recent development is the advent of the 130/30 funds. This type of mandate stipulates that the portfolio must be 30 per cent short and use those “borrowed” funds to purchase an additional 30 per cent of stocks, making the long position 130 per cent.
Some fund managers have launched active “high alpha” funds that aim to outperform the market without resorting to hedge funds’ “risky tactics”. When it works, it works: for example, Schroders’ UK Alpha Plus fund, launched in July 2002, grew over 40 per cent by March 2005 and beat index returns in 2005, 2006 and 2007. Like many funds, however, UK Alpha Plus took a beating in 2008, posting -36.5 per cent returns. Since then, the fund has risen significantly. Over the five-year period ending May 21, 2014, it rose nearly 110 per cent.

**ALPHA VS. BETA AND EXOTIC BETA**

Asset managers used to claim all returns were down to them. But indexes have changed that. Fund managers should always be outperforming indexes. Beta is, simply, the amount of return that can be explained by factors such as rising indexes or strong economic growth. The alpha, which all managers search for, is the bit of return that cannot be attributed to outside factors. In essence, fund managers see the alpha as their brilliance. Managers in traditionally “higher risk” funds, such as hedge funds, claim to always obtain the alpha. The search for the alpha returns has led to the “exotic beta”, of which there are two types. One “exotic beta” refers to investment in “exotic” assets such as shipping freight, wine and even footballers using normal strategies. Another is applying “exotic” strategies to “normal” securities with new trading styles to find new arbitrages in traditional markets.

**Defined contribution vs. defined benefit**

There’s also the debate over how Europeans plan for retirement. Beyond just playing the markets to make some money, investors planning for the long term are confronted with some tough choices—relying on pensions versus a more hands-on approach. There’s been a sharp rise in retirement costs as life expectancy continues to rise. Costs and benefits for retirees were once calculated by us not living much past the average retirement age of 65. Advances in medicine, and health awareness, means those in the Eurozone are living much past their life expectancy. And that’s left investment management firms with a new niche, and companies in a quandary about how to dole out pensions.

Investment management firms are now catering to workers about how to take care of their retirement. Employers once relied on defined benefits to determine how much workers were paid in retirement, and that was determined by years of service calculated by salary. That has proven insufficient. Now, employers are encouraging workers to take on more responsibility for managing their own retirement.

For instance, an employer that used to contribute 15 per cent of a worker’s salary into a traditional defined-benefit (DB) plan might instead put 10 per cent into a defined-contribution (DC) plan. At the same time, they might throw in a salary increase that could be put into the DC plan. The net effect: the worker’s pension contribution increases from 15 per cent of salary to 20 per cent. As a result, employees began shopping for investment management firms with strong retirement plans. The end? Not quite.

The global recession proved devastating to pension plans as markets swooned and portfolios lost value. What’s more, workers facing layoffs or reduced work hours cut back on pension savings and plan contributions: according to a survey by the Pension, a major UK private pension provider, one in 10 workers cut back on contributions or halted them completely between 2004 and 2009. All told,
pension savings in the UK fell 11 per cent in 2008 and lump sum pension investments dropped by 28 per cent. “Many [workers] are simply concentrating on surviving the downturn rather than making long-term commitments,” Lowland Financial adviser Graeme Mitchell told Scottish newspaper The Herald in 2009. “And any spare cash they have got is being used to reduce debts on credit cards, and mortgages, etc. On top of that there is a general disenchantment with pensions which is not always justified but completely understandable.”

In order to restore savings, the UK government unveiled a plan, which took effect in October 2012, that automatically enrolls employees in so-called “Personal Accounts”. Under this scheme, 4 per cent of employee salaries will be deducted from their paycheques and contributed to the account, and employers will have to contribute another 3 per cent. Tax breaks will result in another 1 per cent of salary that can be invested in the accounts, which will in turn be invested in various investment funds.

RISK ANALYTICS

Risk in the economy

Financial risk can never be eliminated completely, so much of an investment manager’s job focusses on measuring, monitoring and minimising it. Broadly speaking, there are two types of economic risk that can impact an investment manager’s work: systemic risks and specific risks. The former are threats to the entire financial system or large chunks of it; the latter are market risks that affect individual portfolios or individual assets in portfolios. Specific risks include capital risk, which is the loss of the initial investment, and currency risk, which is a loss precipitated by exchange rate swings. British investors who held lots of dollar-denominated assets, for instance, lost portfolio value when the dollar declined in 2008. Legal risk and compliance risk may not seem like financial concerns at first, but they’re still risks that can damage asset value—picture a company whose stock plummets because the CEO is arrested for breaking the law.

No matter how conscientious investment managers are, however, they cannot protect portfolios from systemic risk. For the most part, it’s up to central banks and governments to guard the financial system against collapse, a task that has become increasingly complicated. Systemic problems can cause widespread damage through a domino effect, as one financial institution’s woes trigger a catastrophe for other others halfway around the globe, touching off waves of investor panic. Systemic risks rise as financial institutions become more interconnected and as they become more highly leveraged.

The subprime mortgage crisis offers a recent example of systemic risks. When the US housing bubble burst and people began defaulting on their home loans, mortgages and mortgage-backed securities (especially those built on subprime mortgages) shed value, leaving many overleveraged institutions without the capacity to cover their losses. Complex instruments like credit default swaps that were intended to protect banks from the risk of creditors’ defaulting actually compounded the problem, as institutions that were supposed to pay this insurance lacked resources to do so. This phenomenon, known as counterparty risk, meant that everyone holding such contracts feared that the party on the other side of the contract might be on the verge of default. The result? Global panic, frozen credit markets, loss of liquidity and, ultimately, pricey bailout plans.
How investment managers handle risk

A basic principle of investing states that the higher the potential return, the greater the potential risk involved, hence the safety and relatively low rates of return that characterise government bonds. For investment managers, the first step is to identify clients’ goals ("growth" or "value," for example) and their risk tolerance. An elderly pensioner looking for consistent income will have one type of risk profile, a hotshot media mogul who enjoys a gamble will have another. It’s important to note that investors, on the whole, became dramatically more risk averse in 2008 and 2009. The markets’ poor performance chipped away at portfolio values, and a steady stream of bad economic news fuelled investor pessimism. Of course, down markets mean opportunities for those willing to take them.

Once investment managers understand their clients’ goals and risk preferences, they must analyse the risks in their portfolios. One of the most commonly used risk metrics is Value at Risk (VaR), which uses statistics and probability data to quantify the likelihood of losses over a specified time period. Asset managers, bankers and risk managers have come to appreciate VaR because it can be applied to many different types of assets, and because its results can be aggregated to provide a snapshot of risk throughout an entire firm. Risk control doesn’t end with the manager-client relationship, however. Investment management professionals must also understand the regulatory frameworks that govern their business and comply with regulators’ requirements.

The FSA and European risk regulation

Investment management firms in the UK are regulated by the Financial Services Authority (FSA), which oversees more than 29,000 financial services companies and provides guidance for risk management. The FSA’s responsibilities have grown since its creation in 2000; in 2004 it was granted authority to regulate mortgage companies, and in 2005 it was given oversight of the insurance industry. One of the FSA’s goals is to manage and moderate risk in the system. To do so, it watches firms for regulatory compliance and measures risk in two ways: impact (how bad would it be if Firm A collapsed?) and probability (what are the odds of Firm A collapsing?). Firms that present higher risks to the system receive greater scrutiny. In order to determine how much risk any one firm might involve, the FSA applies a framework known as ARROW: the Advanced Risk-Responsive Operating frameWork (‘ARROF’ wouldn’t be as memorable). The ARROW framework was overhauled in 2006, so now the FSA uses an improved version dubbed ARROW II.

The FSA employs relationship managers and supervisory teams who are responsible for the actual work of risk assessment: checking to make sure firms file required notifications, poring over financial disclosures and investigating any irregularities. For medium- to high-risk firms, the FSA will issue customized risk mitigation guidelines. In the case of high-risk firms, investigators go even further, making regular site visits and scheduling meetings with senior management. Small firms and those deemed ‘low-risk’ typically do not require a risk mitigation plan from the FSA. They simply submit necessary disclosures and financial data, all of which is analysed by FSA experts. If warning flags arise in a specific firm, group of firms or industry, the FSA will organise a more thorough investigation.

Until recently, Europe’s risk regulation was left in the hands of individual nations, and different countries took different approaches to identifying, monitoring and addressing risks in their financial systems. The rise of the European Union brought calls for a unified, pan-European risk management system, something
the UK—in an effort to protect the FSA's authority—contested. But the global financial crisis added a sense of urgency to these discussions, so in summer 2009 the European Commission announced it would overhaul the EU's financial sector by establishing a London-based European Banking Authority, as well as a European Securities Authority in Paris and a European Insurance Authority in Frankfurt. These plans were finalised in late 2009, but the UK won one compromise: the new regulators will not be able to interfere with member nations' fiscal sovereignty.

PORTFOLIO CONSTRUCTION

All portfolios, whether stocks or bonds, are compared to benchmarks to gauge their performance; indices or peer group statistics are used to monitor each fund's success. Standard indices for equity portfolios include the FTSE 100 and All-Share Index. For bonds, popular benchmarks include the UK Gilts 2 Year. These indices are composed of representative stocks or bonds. They function as a general barometer for the performance of a particular portion of the market they are designed to measure.

As composites, the indices can be thought of as similar to polls: a polling firm that seeks to understand what a certain population thinks about an issue will ask representatives of that cross-section of the population. Similarly, a stock or bond benchmark that seeks to measure a certain portion of the market will simply compile the values of representative stocks or bonds.

Portfolio construction refers to the manner in which securities are selected and then weighted in the overall mix of the portfolio with respect to these indices. Portfolio construction is a fairly recent phenomenon, and has been driven by the advent of modern portfolio theory (MPT).

Passive investors or index trackers

Passive funds, also called index trackers, have been around for about 30 years. They select a portfolio of assets whose value will track that of a financial index. Investors in index trackers are classified as passive investors, and investment managers who manage index funds are often called “indexers”. These funds are continually tinkered with to ensure that they match the performance of the index. For equities, the FTSE 100 is the benchmark that is most commonly indexed.

Active investors

Active funds buy and sell financial products in an attempt to outperform the rest of the market. They rely on research, forecasts and judgment to decide what securities to buy, hold and sell.

Active portfolios adhere to their own investment discipline and investment managers invest in what they think are the best stocks or bonds. They are then compared, for performance purposes only, to the preselected index that best represents their style. For instance, many large-capitalisation active value portfolios are compared to the FTSE. (It is important to note that although active portfolios are still compared to indices, they are not designed specifically to mimic these indices. This is just to assess their performance.)
Alternative methods

Variations of active and passive portfolios are present throughout the marketplace. There are enhanced index funds that closely examine the benchmark before making an investment. These portfolios mimic the overall characteristics of the benchmark and make small bets that differentiate the portfolio from its index. Another type of popular portfolio construction method is sector investing. This is essentially a portfolio that is comprised of companies that operate in the same industry. Common sector portfolios include technology, health care, biotechnology and financial services.

**Variations of Active and Passive Portfolios**

**Return Potential**

**Risk**

**U.S. Fixed Income**
- High Yield
- Convertibles
- Core
- Index Neutral
- Intermediate
- Stable Value
- Enhanced Cash

**Global Balanced**
- U.S. All Asset Classes

**U.S. Active Equity**
- Small-Cap Value
- Small-Cap Core
- Small-Cap Growth
- Mid-Cap Value
- Mid-Cap Core
- Mid-Cap Growth
- Large-Cap Value
- Large-Cap Core
- Large-Cap Growth

**U.S. Passive Equity**
- Small-Cap Core
- Mid-Cap Core
- Large-Cap Value
- Large-Cap Core
- Large-Cap Growth

**International**
- Equity:
  - All Global
  - Emerging Markets
  - Pacific Basin
  - Europe
  - Small-Cap
  - Large-Cap

**Fixed Income**
- All Global
- Emerging Markets
- High Yield

**Balanced – Equity & Fixed Income**
- Market Neutral
- Enhanced Index

**HOW IS THIS RELEVANT TO MY JOB SEARCH?**

If you are beginning your job search in the investment management industry, you need to begin thinking about what investment styles strike you as most interesting. Although many of the styles overlap, and being overly specific might limit you, understanding the differences can help in targeting companies you want to work for.

Don’t be concerned that your choice of employer will pigeonhole you. Whereas you should try to find a position with a firm whose investment style most interests you, you can always switch gears into a different investment style after you have some experience. Initially, it is best to be in an environment where you can learn about investing in general.
However, when you target your career search, you should be informed of the firm's particular investment style. Although large asset managers invest across a multitude of styles, other firms may only specialise in one style. It is always important to have knowledge of these nuances. This will definitely benefit you during interviews, because passion and knowledge about the industry always wins valuable points with recruiters.
Financial Research Breakdown

Chapter 3

Up until now this Guide has discussed research as one of the primary entry points into the asset management industry. What exactly is research and what are the different types? How does it differ if you are working for a traditional or alternative asset manager? This chapter will provide several distinctions between types of research, breaking it down by style, capital structure and firm. Whereas the focus of the guide will be on fundamental equity and fixed income (debt) research, it will also discuss other types of research as well as the functional roles analysts play at different types of firms.

RESEARCH STYLES

Thus far we have mostly referred to fundamental research—the analysis of a company, financial statements and company and industry trends to predict stock movement. However, there are several other types of research that asset managers conduct across many different types of products. These include quantitative research and technical research.

Fundamental research

Fundamental research takes a dive into a company’s financial statement as well as industry trends to extrapolate investment decisions. There is no clear-cut way to conduct fundamental research but it normally includes building detailed financial models that project items such as revenue, earnings, cash flow and debt balance. Some asset managers may focus solely on earnings growth, whereas others may focus on returns on invested capital (ROIC). It is important for the candidate to understand the firm's investment philosophy. This can usually be achieved by doing research on the company’s website. It is important to note that although some firms have clear-cut investment philosophies, others may not.

Aside from building a financial model, the fundamental research analyst will read through company FSA filings, talk to company management and sell-side analysts and visit company facilities to get a complete perspective of the potential investment. How analysts go about this often differ. Some researchers feel comfortable with only the resources at their desk—their computer, internet and phone—whereas others refuse to make investment decisions without face-to-face management meetings and visiting the manufacturing facilities.

Fundamental analysts will also conduct industry research and determine how each company will gain or lose from their findings. For example, a fundamental analyst covering the defence industry will want to make projections on how fast the UK defence budget may grow. Questions the analyst may ask himself or herself are: at what rate should I expect the UK defence budget to grow? Is the absolute level of spending sustainable? Which companies should benefit from the growth? Will it be companies that make fighter planes or companies that make aircraft carriers that benefit?

Quantitative research

Quantitative research is built on algorithms and statistical models that seek to extrapolate value from various market discrepancies or inefficiencies. The key difference between fundamental and quantitative research is where the analyst puts in the work. The majority of work for a quantitative analyst rests within choosing the parameters, inputs and screens for the computer generated model.
These models can take on a multitude of forms. For example, a simple model that seeks to take advantage of price discrepancies in the FTSE 100 may split the 100 stocks between those that are “undervalued”, as determined by a low price-to-book multiple, from those that are “overvalued”, as determined by a high price-to-book multiple. The quantitative analyst would build a model that would screen for these parameters and would buy (or go long) the undervalued stocks and simultaneously sell (or short) the overvalued stocks. In reality, quantitative models are more complex than this and often screen for thousands of securities across a multitude of exchanges. Therefore, it is no surprise that those who work in this field often have PhDs in subjects such as maths and physics.

Technical research

Technical research is the practice of using charts and technical indicators to predict future prices. Technical indicators include price, volume and moving averages. Technical analysts are sometimes known as “chartists” because they study the patterns in technical indicator charts to detect future price movements. Over time technical analysts try to identify patterns and discrepancies in these charts and use this knowledge to place trades. Whereas fundamental analysts believe the underlying fundamentals (revenue, earnings or cash flow) of a company can predict future stock prices, technical analysts believe technical indicators can predict future stock prices. The skill set for technical research is very different from that of fundamental research. Some technical analysts rely solely on their eyes to spot trading opportunities, whereas others use complex mathematical indicators to identify market imbalances.

CAPITAL STRUCTURE: EQUITY VS. FIXED INCOME

Across the buy-side and sell-side, fundamental analysts often focus on either equities or fixed income (debt). What are the differences between a fundamental equity and fixed income investor? The differences primarily lie within the fundamental financial analysis and breadth of coverage.

Fundamentals affect equity prices and bond prices in similar fashions. If a company is generating strong revenue and earnings growth, improving its balance sheet and gaining market share in its industry, both its stock and bond prices will likely increase over time. Most equity analysts and stock investors are focussed on net income per share or earnings per share (EPS), as this represents the amount a company earns and has available per share of common stock. Another factor that concerns equity investors is how management deploys its excess cash. Analysts are constantly looking for earnings accretion, or the ability to increase earnings per share. If company management uses excess cash to make smart acquisitions or repurchase its own stock, equity investors are generally pleased as the transaction increases EPS.

For fixed income analysts and bond investors, the emphasis is not necessarily on earnings but more so on “earnings before interest and taxes” or EBIT. Bond holders are primarily focused on receiving interest payments and the return of principal. Therefore, they often follow the income statement up until the point where interest is paid. Another key focus for fixed income investors is the amount of debt (or leverage) a company has on its balance sheet. Because debt holders have claim to a firm’s assets, the more debt there is, the less of a claim each debt holder may have on a given amount of assets. Fixed income analysts and investors are often focussed on two metrics—the leverage ratio (debt/EBITDA) and interest coverage ratio (EBITDA/interest expense). EBITDA stands for earnings before interest and taxes depreciation and amortisation; it is generally used as a proxy for cash flow. Fixed income analysts like
a decreasing leverage ratio as it signifies less debt on the balance sheet and a greater ability to repay it, and they also like an increasing interest coverage ratio as it signifies the greater ability to service the outstanding debt.

Breadth of coverage refers to the amount of companies and securities an analyst covers. Most companies usually issue only one type of equity security but could have several pieces of debt outstanding. The fixed income analyst usually would cover all of these debt instruments, each of which may have separate and distinct provisions that could alter their individual performances. Additionally, a company may have convertible bonds that can be exchanged for equity, which the fixed income analyst would typically cover.

Sell-side equity analysts typically cover between 15 to 20 stocks and are expected to know even the most minutiae of details about each company. Buy-side equity analysts typically follow 40 to 70 companies. If a buy-side analyst makes a sizable investment in a certain stock, they are expected to know just as much, if not more, detail than their sell-side counterpart.

Although coverage for equity analysts is typically broken down into industry subsectors (for example, airlines would be a subsector of the transportation industry), fixed income analysts often cover the entire industry (which could be over 100 companies). So, whereas there can be several equity analysts covering the transportation industry, there may only be one fixed income analyst. Debt markets are often less liquid than equity markets and do not trade on small pieces of information. Therefore, the fixed income analyst does not need to know as much detail about each particular company. However, should a buy-side fixed income analyst make a sizable investment in a company, it would not be surprising for them to know as much detail as an equity analyst.

RESEARCH ROLES: TRADITIONAL VS. ALTERNATIVE ASSET MANAGERS

Although fundamental analysts generally perform the same function regardless of the type of firm, the role can be slightly different and mainly driven by the investment time horizon.

Traditional asset managers often hire analysts and put them in charge of becoming “experts” in certain industries. Achieving this status takes years of diligent research and the traditional asset managers are often patient with their analysts as they build up their industry knowledge. The research process for a particular company could take months before an investment is made. However, as both analysts and clients are typically long-term investors, they are very patient and often will wait years to capitalise on certain themes.

Alternative asset managers typically have a shorter time horizon as their clients depend on positive returns every year. They often do not have the luxury of waiting several years for investments to “pay off” as do traditional asset managers. Therefore, analysts at hedge funds often have to act quickly and decisively. They are not always categorised by industry but may cover several industries (and are then referred to as “generalists”). Sometimes a portfolio manager at a hedge fund may tell his analyst to research a particular industry in the morning and get back to him with the best investments by the afternoon. The day is often intense. One hedge fund analyst remarked, “I spent the early morning looking at airline stocks, the afternoon looking at retail stocks and finished the day looking at credit card processors.”
The Clients of Asset Managers

As you can see from our initial discussion, the structure of the asset management industry can seem a bit complicated. Don’t worry—the next two chapters will explain how buy-side firms operate so you can easily understand how they fit together.

Specifically, we’ll discuss:

1. The clients that investment management firms serve
2. The investment styles used by these firms

Armed with this knowledge, you’ll be ready to organise your career search in a targeted and effective manner.

Different types of clients

Typically, asset management firms are categorised according to the kind of clients they serve. Clients generally fall into one of three categories: 1) mutual funds (or retail), 2) institutional investors, or 3) high-net-worth individuals. Some firms specialise in one of the three components, but most participate in all three. Asset management firms usually assemble these three areas as distinct and separate divisions within the company.

It is critical to understand these differences as job descriptions vary depending on the client type. For instance, a portfolio manager for high-net-worth individuals has an inherently different focus than one representing institutional clients. A marketing professional working for a mutual fund has a vastly different job than one handling pensions for an investment management firm. Later in this guide we will discuss how positions differ across the main organising features of the industry (client types and investment styles). For now, we’ll begin our discussion of the industry by examining different client types.

RETAIL FUNDS

Retail funds are investment vehicles for individual investors who are typically below the status of high net worth. Retail funds are also sometimes known as the retail division of asset management firms. They account for around a fifth of the assets managed in Europe. There are some interesting differences between the European and American mutual fund markets: There are over 32,000 mutual funds in Europe, and just about 9,000 in the United States. However, American mutual funds tend to be much larger than their European counterparts—the US mutual fund industry has about $15 trillion in assets under management, while European mutual funds manage around $9.3 trillion.

Retail funds are structured so that each investor owns a share of the fund; investors do not maintain separate portfolios, but rather pool their money together. Their appeal can generally be attributed to the ease of investing through them and the relatively small contribution needed to diversify investments. In the past 10 years retail funds have become an increasingly integral part of the asset management industry. They generally constitute a large portion of a firm’s assets under management (AUM) and ultimate profitability.
There are two ways that retail funds are sold to the individuals that invest in them: through third-party brokers or “fund supermarkets” and direct to customer. The size and breadth of the asset management company typically dictates whether one or two methods are used.

**Third-party brokers and “fund supermarkets”**

The concept of a fund supermarket was established in the United States over ten years ago and arrived in Europe by 2000. The concept is quite simple: brokerage firms or so-called fund supermarkets are pitching investment products managed by a diverse set of investment management firms. Then, in 1999, emerged UK fund supermarket FundsDirect. The company, once owned by insurance giant Prudential PLC and internet bank Egg PLC, began to offer a menu of investment products managed by other investment firms. Today, FundsDirect says it offers 1,900 funds from over 100 individual fund managers. Schroders, which maintains a securities services relationship with America’s JPMorgan Chase & Co., also offers a variety of investments managed by rival firms to its customers.

But the rise of the fund supermarkets has forced conventional brokerage firms to open up their offerings to include more than a few select partners. It has also influenced the way retail funds market themselves. Previously, funds marketed to brokers expected brokers to push their products to individual investors. Now mutual fund companies must appeal directly to the investors themselves (which is why you see so much advertising for companies like Fidelity and Vanguard).

The biggest difference between the European model for a fund supermarket and in the US is age. Third-party brokers and fund supermarkets in Europe tend to market themselves to younger investors, many trying to mimic plans such as America’s 401(k). In the US, these plans tend to be tailored to older investors who are trying to manage money before retirement.

**Direct to customer**

Through an internal sales force, each asset management company offers clients access to the firm’s entire suite of retail funds. This type of sales force is very expensive to maintain, but some companies have been extremely successful with this method. Prior to the rise of brokers and fund supermarkets, direct to customer was the primary vehicle for investment in many retail funds.

**INSTITUTIONAL INVESTORS**

Institutional investors are very different from their mutual fund brethren. These clients represent large pools of assets for government pension funds, corporate pension funds, endowments and foundations. Institutional investors are also referred to in the industry as “sophisticated investors” and are usually represented by corporate treasurers, CFOs and pension boards. Estimates suggest they represent almost three-quarters of the assets under management (AUM) in Europe. In the UK, about 79 per cent of assets are managed on behalf of institutional investors, primarily corporate pension funds and insurance companies.
More conservative

Given their fiduciary responsibility to the people whose retirement assets they manage, institutional clients tend to be more conservative and diversified than retail funds. Unlike investors in retail funds, institutional clients have separately managed portfolios that, at a minimum, exceed £8 million. Also unlike retail funds, they are all exempt from capital gains and investment income.

Institutional clients hold enormous sums of capital they must allocate to meet the needs of the beneficiaries of retirement assets. Consequently, the representatives hire multiple institutional asset managers across the full range of investment styles (these styles, such as growth stocks and value stocks, will be detailed in the next chapter).

Method of selection

Given the high level of responsibility associated with managing portfolios of these sizes, pension funds use a rigorous process for asset manager selection. In turn, asset management companies have built considerable marketing and sales departments to cater to institutional clients. The selection process typically works as follows:

- An institution, say a pension fund, issues a request-for-proposal (an RFP), announcing that it is searching for new investment managers in a particular style or asset class.
- Asset management companies respond to the RFP, elaborating on their history, products, services and credentials.
- Investment consultants are hired by the pension fund to help sort through the RFPs and narrow the list of firms to three to five finalists.
- The finalists meet in person with the pension fund’s representatives and further due diligence is performed before the winner is selected.

Because of the sophistication of this process, there are many interesting professional jobs in the institutional sales, marketing and relationship management functions. If you are interested in the investment business, but don’t necessarily want to participate in analysing and selecting portfolio investments, these are career paths that you may wish to pursue.

In the mutual fund world individuals tend to select funds based on recent performance records and brand recognition. Institutions tend to select asset managers under a much more stringent and analytical process. Specifically, they use the following criterion: 1) superior performance record compared to competition, 2) length of investment track record, 3) continuity of the existing core investment team and 4) consistency in adhering to a specific investment style and discipline.

HIGH NET WORTH

High-net-worth individuals represent a small but powerful client type. Individual wealth creation and financial sophistication over the past decade has driven asset managers to focus heavily on this area.
Of course, even some ultra-wealthy investors were impacted by the turmoil of 2008. According to the 2008 Merrill Lynch/Capgemini World Wealth Report, the number of people who qualified as HNW individuals fell nearly 15 per cent from 2007, and HNW wealth fell 19.5 per cent to $32.8 trillion. Geographically speaking, high-net-worth individuals in the United States, Japan and Germany made up 54 per cent of the global HNW population in 2008, and for the first time, China’s HNW population became the world’s fourth-largest, beating the UK.

More recently, according to the 2013 RBC Wealth Management/Capgemini World Wealth Report, the number of people who qualify as HNW individuals increased 9.2 per cent during 2012 to 12 million, and HNW wealth rose 10 per cent to $46.2 trillion. By the end of 2012, North America made up 30.2 per cent of the world’s HNW people, while Asia-Pacific made up 30.4 per cent and Europe made up 26.5 per cent.

What is high net worth?

What is a high-net-worth investor? Definitions differ, but a good rule of thumb is an individual with minimum investable assets of £10 million. These investors are typically taxable (like retail funds but unlike institutional investors), but their portfolio accounts are managed separately (unlike retail funds, but like institutional investors).

High-net-worth individuals also require high levels of client service as they may not necessarily be the savviest investors. Those considering entering this side of the market should be prepared to be as interested in client relationship management as in portfolio management, although the full force of client relations is borne not by a portfolio manager but a sell-side salesperson in a firm’s private client services (PCS) or private wealth management (PWM) division.

In reality there are two classes of high-net-worth clients: those in the £1 million and above range and those in the £250,000 to £1 million range. Those with £1 million and above to invest receive customised and separately managed portfolios, whereas those in the lower bracket do not. This second class does receive much more personal attention from their PCS salesperson than they would from a traditional retail broker. But, unlike the £1 million and above range, this second group’s portfolio management is derived from cookie cutter products and strategies. Still, this service is performed by a portfolio manager devoted to high-net-worth clients, and assets aren’t actually lumped into a large fund as they would be in a mutual fund.

High-net-worth investors also often use the institutions that manage their assets for other financial services, such as estate planning or tax work.

Clients and consultants

An investment management firm’s sales force typically sells high-net-worth services in one of two ways: either directly to wealthy individuals or to third parties called investment consultants who work for wealthy individuals. The first method is fairly straightforward. An investment manager’s sales force, the PCS unit, pitches services directly to the individuals with the money. In the second method, a firm’s internal sales force does not directly pitch to those with the money, but rather pitches to the representatives, often called investment consultants, of high-net-worth clients. In general investments, consultants play a much smaller role in the high-net-worth area than in the institutional
side; only extremely wealthy individuals will enlist investment consultant firms to help them decide which investment manager to hire.

The Investment Consultant

Not to be confused with retail brokers, investment consultants are third-party firms enlisted by institutional investors, and, to a lesser extent, by high-net-worth individuals, to aid in the following: devising appropriate asset allocations, selecting investment managers to fulfil these allocations and monitoring the chosen investment managers’ services. An investment consultant might be hired by a client to assist on one or all of these functions depending on certain variables, such as the client’s size and internal resources.

As an example of the part that investment consultants play in the investment management game, let’s say BA’s pension fund is looking to invest £20 million in a certain investment style (say, large cap value equities). BA hires an investment consulting firm to help it find a large cap value manager. This investment consultant will go out and search for the best managers in the sector and, one month later, will come back to BA with three recommendations. BA will review the three firms and then pick one. After BA makes its decision and the £20 million is handed over to the chosen investment manager, the investment consultant might also monitor that manager’s investment decisions.

True intermediaries, investment consultants have become increasingly important in the past 10 years as a result of a rise in the number of different investment products.
Chapter 5: Targeting Your Job Search
Chapter 6: Who Are the Asset Management Employers?
Targeting Your Job Search

Chapter 5

GETTING THE INTERVIEW

Once you understand the different types of firms, components of the business and the types of positions available, you can begin to target your search. In this chapter, we'll focus on the different types of firms, what they look for, and their hiring processes.

Investment management is open to any degree discipline, although a 2:1 is required. However, some of the major firms may prefer a degree in the following disciplines:

- Mathematics
- Statistics
- Economics
- Accounting

That said, many graduates with humanities degrees enter the industry but many complete a master's in a more related discipline to bolster their chances. A lot of the new hires in the industry have postgraduate qualifications. Perhaps this alludes to a more competitive job market, or maybe postgraduate qualifications are increasingly required. According to one graduate at a large investment management firm, a postgraduate degree is an “implicit requirement”. Pre-entry experience isn’t necessary, but it can be beneficial. Desire to work in the industry is a massive plus for recruiters, and any work experience within the financial services industry helps display this.

Similarly, reading financial press or running a shadow portfolio of securities will demonstrate your interest. According to one insider, reading financial press widely and thoroughly is absolutely essential in building acumen and conveying interest, and is the one area in which most graduates are found to be lacking. Graduates and recruiters in the industry concur that, whereas talent is required, an interest in the industry is one of the most important things.

Potential candidates will need to show evidence of the following:

- The ability to work under pressure and to meet deadlines (e.g., to produce reports)
- Numeracy and analytical skills
- Excellent communication skills
- Self-confidence and ambition
- An interest in current affairs and an appreciation of their impact on financial markets
- Language skills can also be useful, and many new recruits have degrees in a foreign language.
- Although computer literacy is essential, it can be acquired during training.

Most major investment banks use summer internships to pre-select graduate recruits. Competition for these is often more intense than for graduate vacancies as there are fewer placements. Closing dates for entry to investment banks, stockbrokers and specialist fund management companies (also known as investment management and asset management) can be as early as the October of your final year, and, rarely, later than the following January. Some companies, particularly the big investment banks, run structured graduate training programmes and annually recruit for them. Others may offer trainee positions as and when they are required.
After the initial telephone interview candidates will have to complete online verbal and numerical psychometric testing. Those who are selected will attend an interview, normally with an HR manager and manager or senior analyst.

The interview

Aside from understanding the industry and firms, cracking the interview is the most important step in landing the job. Here this guide will explore the most common questions asked of candidates during job interviews. The questions are segmented into three types: background, analytical/quantitative and personality/fit.

Precursor to the interview

The first basic tenet for anyone seeking to enter the investment management industry is a fluid understanding of the financial markets. You should be conversant on the market’s performance and current drivers. On a very simplistic level, you should be able to answer the following questions:

- At what level is the FTSE 100?
- What has performed better over the last five years, value or growth stocks?
- Where is the price of gold and oil?
- What factors drove the market to increase or decrease in any particular day?

For specialty firms, your focus should be aligned with their strategy. For example, if you were interviewing at a firm focused on international equities, general knowledge of current exchange rates would be a requirement. The answers to these questions can be found by reading *The Wall Street Journal* and *Financial Times* on a regular basis or visiting financial websites.

**PREPARING FOR THE INTERVIEW**

It is common for candidates to underestimate the importance of preparation for an interview. Interviewers are smart, well prepared and likely to be interviewing many candidates for very few positions. If you do not have any knowledge of the financial markets, they will find out. Investment managers are very picky about the people they hire. It is not uncommon to have very senior portfolio managers or analysts conduct the first-round interviews. Second interviews can be conducted by company CEOs. Therefore, the time spent getting ready for the interview may separate the candidates that get the job from those who don’t.

Interview preparation should start with an investigation of the company. Do your research on the firm’s history, business strategy, operating structure and financial performance. You do not need to have contacts at the company to gather this information. Some great resources include the news and company websites, annual reports, sell-side analyst reports, business newspapers and magazines, and industry publications such as *Institutional Investor, Pensions & Investments, Bloomberg* magazine and *The Journal of Portfolio Management*, as well as your careers service. Articulating to and showing the interviewer that you know about the company help exhibit your passion about the position and the diligence in your preparation.
Next you need to plan how to position yourself during the interview. Think of an interview as a sales presentation in which the product you are marketing is yourself. You need to establish the points of your background and character that will make you the ideal candidate for the job. To accomplish this, we suggest the following:

• Know every detail on your resume
• Prepare answers to the common questions detailed below
• Expect the unexpected
• Practise repeatedly

Background Questions

1. What was your most significant accomplishment to date?

It is important when answering this question to focus on an accomplishment that highlights the skills needed to be successful in the specific position for which you are applying. For instance, when interviewing for an investment research associate or analyst position, mention an accomplishment that required keen quantitative skills, problem solving ability and success as a team member. Be sure when answering this question that you provide tangible and measurable results to your accomplishment. For example, “… as a result, the company increased revenue by 10 per cent,” or “… as a result, the portfolio’s performance exceeded its benchmark.”

2. Tell me about a recent professional experience when you had to convince someone to accept your idea?

The interviewer wants to know how effective you are at articulating your recommendations and in defending your opinions. This is an important part of being an investment professional. A great way to answer this question is to state whom you were trying to convince and why they opposed your point of view. Then highlight how you overcame this. For example: “… I supported my analysis by outlining and measuring the potential risks associated with the project. By clearly comparing the strengths and the weaknesses of the project, my boss saw the merit of investing in the business.” Finish your example with measurable and tangible results.

3. What was the most important thing you learned in your last job and why did you leave?

For those just graduating school this question is less likely, but for others it is quite common. When answering this question be positive, even if the story did not end happily. Think about how you can link the skills learned in your last job, to the relevant talents needed for the new desired position.

4. Why are you interested in the “buy-side” instead of the “sell-side”?

This question is often asked to gauge your knowledge of the differences between the two sides of the business. Most interviewers are not looking for a specific answer, but rather a reasonable rationale. Acceptable answers might include references to closer interaction with portfolio managers, more input into the investment decisions and dedicated focus on performing investment analysis (instead of marketing and writing investment reports).
Analytical and Quantitative Questions

The level of difficulty of analytical interview questions depends on the level of position you are interviewing for. Analytical questions will generally be about stock recommendations and valuation, the economy or financial accounting. New graduates might not be expected to know such questions as most firms will have a month or so of intensive financial training. This helps to bring graduates from humanities backgrounds up to the required standard.

Stock and bond recommendations and valuation questions

1. How do you go about valuing a company?

There are two generally acceptable answers to this question. The first is using a discounted cash flow (DCF) approach, and the second is to use a comparable financial multiple analysis. Be sure you know the differences between each and why most analysts don’t use a DCF approach in valuing companies. Mainly, they argue it is very difficult to predict accurate discount rates and terminal values for the company. (In the next section we will outline these two ways of valuing companies.)

Analysts compare their own valuation of a company to the current stock market valuation. If analysts’ valuation of the company is greater than the stock market value, then they would typically recommend its purchase. Industry analysts typically use a relative valuation approach. This approach compares multiples, such as P/E and EV/EBITDA, among companies in the same industry. Industry analysts use relative valuation to determine stocks in an industry that appear cheap or expensive relative to each other.

2. Tell me about a stock that you think would be a good investment today.

This question is known as the “stock pitch”. You should be prepared to discuss at least one stock during this interview. For those of you interviewing with traditional asset managers, it will likely be a stock pick that you expect to perform well over the long run. However, if you are interviewing at a hedge fund, you may be asked to pitch a stock that will perform well over the next quarter or two; you may also even be asked to pitch a short-idea (a stock you expect to decline).

The interviewer is not interested in your investment opinion, but rather your ability to present a well organised approach. The interviewer, most likely, will want you to keep your stock pitch brief (five minutes). Hit the highlights quickly and focus on being persuasive. In many cases the interviewer will let you present for several minutes then interject with questions along the way. The steps listed below will assist in preparing a well-articulated thesis for any company:

1. Overview of the company and its competitive position
   - Identify major products and highlight their current market share and growth rates (this also includes market cap and revenue to provide the interviewer some background information).
   - Competitive advantages (i.e., brand equity, first to market, strong management team, substantial free cash flow, innovative product development and strong customer service)
2. Industry analysis
   - Number of competitors
   - Growth of the market, i.e., impact of external factors such as the economy, news and customer demand

3. Analysis of the company’s future prospects (new products, etc.)
   - Analyse management’s growth strategy
   - Identify business drivers
   - Does the company have the correct product mix to match future customer demand?
   - Will earnings grow through cost controls, price increases, or unit sales increase?

4. Investment risks: it is important to quantify the things that can go wrong when determining a proper value for the company.
   - Sensitivity to macroeconomic conditions
   - Management succession
   - Regulatory changes
   - Changing operating input prices

5. Recent financial performance: stocks go up and down based on their performance versus expectations. For instance, if investors expect 25 per cent earnings growth and the company only produces 23 per cent, the stock price will most likely fall.
   - Highlight company earnings and sales growth vs. the industry and expectations.
   - Measure the progress of operating margins.
   - Indicate market share gains.
   - Identify any aspects that differentiate your opinion from the market’s (i.e., if sell-side analysts expect EPS growth of 10 per cent and you expect 20 per cent, say why).

6. Financial valuation of the company (relative to industry comparables)
   - Please see the “valuing a company” section of this book.
   - Steps 1 to 5 are incorporated into the financial predictions used for valuing the company.

7. Summarise your investment recommendation.

Some companies may ask for a full, written investment report, so preparing this type of analysis in a written form may be a good idea. The key factor to note is that this is not a consulting project or a company bibliography. The stock pitch should be concise and to the point, hitting only the key drivers that will dictate future stock performance. Quantify any points you are making whenever possible. For example, instead of stating that a company’s competitive advantage is the patent protection of its product mix, you should state that 75 per cent of all products sold carry a patent that prevents competition.
3. A client in the 28 per cent tax-bracket has a choice between a tax-free yearling yielding 7 per cent and a corporate bond yielding 8.5 per cent. Which should he choose? What would the yield have to be on the corporate bond in order to be equivalent to the tax-free bond?

You have to compare the instruments on the same basis to decide. Because the yearling bond is tax-free, you have to find the after-tax yield of the corporate bond and compare it.

Take the corporate bond first and consider a one-year period for simplicity. Suppose the client invested £1,000 and earned 8.5 per cent. Of this 28 per cent will be taxed, so the client’s gain is $(1-t)y£1000 = (1-0.28)0.085*£1,000 = 61.2$. This is equivalent to a tax-free yield of 6.12 per cent. So, as the yield of the tax-free bond is greater than the after-tax yield of the corporate bond, the client should choose the yearling.

To determine the yield that will give parity between the corporate bond and the yearling, use the formula “after tax yield on corporate = tax free rate” or, $(1-t)y_{	ext{corp}} = y_{	ext{tax-free}}$, then $y_{	ext{corp}} = y_{	ext{tax-free}}/(1-t)$. For this example the yield on the corporate bond would have to be $0.07/(1-0.28) = 9.722$ per cent to be equivalent to the tax-free bond. If corporate bond yields are lower than 9.722 per cent, choose the yearling; otherwise, choose the corporate bond as the higher yield will offset the cost of the tax.

4. What would be a good instrument to use to hedge a portfolio of preferred stock?

As preferred stock is similar to bonds that never mature (perpetual bonds), the best hedging instrument would be a long-maturity, risk-free instrument such as a T-bond option based on long-term treasuries.

5. If you are buying corporate bonds, which is more speculative: A, Aa, Baa or B?

B is the most speculative of these ratings.

6. If a client purchases a 6 per cent, £1,000 bond selling at a yield to maturity of 7 per cent, what is the amount of the semiannual interest payment?

Yield is unimportant here. It is the coupon payment, 6 per cent of £1,000 each year is £60 or £30 every six months. Don’t get confused if the interviewer adds extra information to the question.

7. How can you reduce the risk of a portfolio?

You add instruments for diversification. Hopefully these instruments are not well correlated with each other, so overall they reduce risk. For equities, theoretically, you need about 30 different stocks for efficient diversification. There are many forms of risk: credit risk, liquidity risk, country risk, market risk, firm-specific risk and so on. You can also include hedging instruments: for example, if you own a particular equity, you could put options on it.

8. What is a warrant? Do warrants affect a firm’s financial ratios such as ROE?

A warrant is a security similar to an option on a stock, except a warrant usually has a longer life (time until it expires) than a call. Warrants may often be attached to issues of preferred stock or bonds to make the issue more attractive to investors, because warrants offer the opportunity for some participation in stock appreciation. When the warrant is exercised, the owner pays the stated strike
price in exchange for new shares of common stock. All other things equal, whenever a company’s number of common shares outstanding increases, measures such as ROE and EPS should decrease, because the shareholders’ ownership is diluted.

Economic Questions

1. **What economic indicators do you think have the greatest impact on the stock/bond markets?**

There are many good answers to this question, but the best approach is to discuss economic factors that are currently having an impact on the market. The interviewer wants to know that you are well informed on current market dynamics.

You should read several leading financial periodicals prior to any interview, such as *The Wall Street Journal*, the *Financial Times* and *The Economist*. Articles in these magazines will provide you with the current economic influences on the market.

In general you should know that investment analysts pay close attention to weekly, monthly and quarterly economic reports. Announcements of these economic indicators have major impact on equity and bond market performance. The most heavily watched economic reports include:

- **Consumer price index**: measures inflation
- **Unemployment**: company labour costs and profitability are driven by the level of employment in the market.
- **Gross Domestic Product (GDP)**: measures the growth of the entire domestic economy. Analysts use GDP to forecast the sales levels and profitability growth rates of companies.
- **Unit labour costs**: measures the productivity level of workers

Well-prepared interviewees will know the current level, past trends and future expectations of each of these indicators.

2. **Discuss trends in the industry that you previously worked in.**

This question is designed to gauge your ability to think strategically. In essence, the interviewer is asking, can you identify the:

- **Strengths and weaknesses of the industry**
- **Level of competition**
- **Regulatory changes**
- **Impact of economic changes**
- **New innovations**
- **Industry threats**

The key points of this exercise are usually summed up in a SWOT analysis, which breaks down a company’s strengths, weaknesses, opportunities and threats.
Financial Accounting Questions

1. What is free cash flow?

It measures the cash available after adjusting for capital expenditures. Popular uses of free cash flow are dividends, stock buybacks, acquisitions and investing in new business developments.

Free cash flow is computed from the following financial statement line items:

Net Income
+ Depreciation and amortization
+ Year-over-year changes in deferred taxes
- Year-over-year change in net working capital (current assets – current liabilities)
= Cash Flow from Operations
  - Capital Expenditures
  = Free Cash Flow

2. How do you calculate weighted average cost of capital (WACC)?

Essentially, it is the average cost of obtaining capital from all sources of financing (debt and equity stakeholders). Before determining the weighted average, you must first determine the borrowing rate of each form of financing. Equity cost of capital is found by using CAPM, which is computed as follows:

Cost of Equity = \( R_f + [B\times(R_m - R_f)] \)

Where:

\( R_f \) = Risk Free Rate of the market (t-bills)
\( B \) = Beta of the stock
\( R_m \) = Historical stock market return

Debt cost of capital (current yield) is often estimated as the company’s after-tax interest expense divided by its book value for long-term debt.

Once the cost of equity and debt are computed, a weighted average is used to determine the company’s WACC. The company’s market capitalization is used for the equity portion, whereas the market value of the company’s bonds is used for the debt allocation.

For example, assume that the company’s cost of equity was computed as 14 per cent (using CAPM), the cost of debt was computed as 9 per cent, and the tax rate is 35 per cent. And assume that the stock market valuation of the company was £10 billion and the market value of the debt was £5 billion. Therefore, the percentage of equity financing would be equal to \( [£10\text{ billion} / (£10\text{ billion} + £5\text{ billion})] \), or 66.7 per cent. Debt financing would account for 33.3 per cent of the overall financing, \( [£5\text{ billion} / (£10\text{ billion} + £5\text{ billion})] \). Therefore the WACC is:
WACC = \[\text{Weight of Equity} \times \text{Cost of Equity} + \text{Weight of Debt} \times \text{After-Tax Cost of Debt}\]

or

\[
WACC = [66.7 \text{ per cent} \times 14 \text{ per cent}] + [33.3 \text{ per cent} \times 9 \text{ per cent} \times (1-.35)] = 11.28 \text{ per cent}
\]

**Personality/Fit Questions**

1. **Where do you see yourself in five years?**

   This question is designed to test the career focus of candidates. When answering this question be certain to have reasonable goals that are well aligned with the firm you are interviewing with. For example, if you were interviewing with a firm that emphasizes a team portfolio management process, you would not want to describe your aspirations for being a star at the firm. You should also note that employees of many traditional asset managers end up staying at the firm for the duration of their career. While you can take comfort in the high level of career satisfaction this statistic suggests, also realise that if you are a career switcher or your resume shows multiple jobs, you should be prepared to show commitment to your future career.

2. **What is your greatest reservation about working in asset management?**

   This is one of those negative questions that you have to be very careful in answering. In essence, the interviewer is asking for your weaknesses. Be certain that your answer does not highlight a fundamental flaw that would be detrimental to your success in the position you are interviewing for. For example, “… I am not really good with numbers” or “I don't ever want to work on the weekends.”

3. **What are you most proud of?**

   This is a great place to talk about extracurricular activities or personal interests. This helps the interviewer get to know you better. Be prepared to share interesting anecdotes that show a passion for the activities you have pursued. This is also a great place to highlight your abilities as a leader.

   Although the initial interview is very tough, it’s not the end of the road at most firms (although some will only perform two interviews as the whole recruitment process). Investment management is highly competitive, and as a result, the hiring process is extensive. After the interview candidates will be asked to attend an assessment centre where they will complete various exercises including more tests and a group fund management exercise. In the group fund management exercise a group of candidates will be asked to act like fund managers, to respond to economic developments by adapting their portfolio. Before the assessment centre you may be given a week to prepare on a company and will have to write about this company under test conditions on the day. The final round will normally include another interview with senior personnel as well as a presentation on a topic related to fund management. At some firms, such as Henderson, there will also be an interview with the CEO.
WHAT THEY WANT

Because it’s difficult for some undergraduates to enter asset management through the front door, several slide into the industry through the side. Although there’s no common professional background that defines asset management success (and, in fact, diverse backgrounds are great benefits to investment management companies), lateral hires typically come from jobs in I-banking or management consulting, or from respected FTSE 250 corporations.

In investment banking and accounting you’ll gain quantitative knowledge such as company valuation and financial statement analyses similar to that used in asset management. Investment managers also like candidates with management consulting, especially strategic consulting, backgrounds, because consultants have usually obtained the skill to quickly immerse themselves in and learn about an industry. Marketing research professionals from large corporations are also highly regarded in asset management, because they have expertise in learning about different companies and how they compete in the marketplace.

WHERE DO YOU FIT?

Before embarking on your job search, you must ask yourself the following questions: Do I want to go into equity or fixed income? Am I interested in growth investing or value investing? What investment style suits me? What kind of research do I want to do? What size of firm do I want? Where do I want to live? Answering all these questions will not only allow you to narrow down what could be an extremely exhaustive search, but will also help you at interview time, because firms will definitely ask you, “Why us?”
Who are the Asset Management Employers?

Chapter 6

A BASIC BREAKDOWN: LARGE GENERALIST FIRMS VS. SPECIALIST FIRMS

Large generalist firms

As we discussed earlier the industry has gone through dramatic changes over the last 20 years. Consolidation and globalisation have transformed the industry from its fragmented “specialist” structure. Today, asset management is part of nearly every financial services firm, both in Europe and abroad. For the sake of simplicity, we have assigned asset managers to five general categories, and listed a few examples in each platform.

<table>
<thead>
<tr>
<th>Category</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure investment management company</td>
<td>Fidelity, Baillie Gifford</td>
</tr>
<tr>
<td>Divisions of investment bank/former investment bank</td>
<td>Morgan Stanley Asset Management, JPMorgan Asset Management</td>
</tr>
<tr>
<td>Division of global commercial bank</td>
<td>Deutsche Bank Asset Management</td>
</tr>
<tr>
<td>Division of insurance company</td>
<td>Legal &amp; General</td>
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</tbody>
</table>

As you can see, most of the large investment management firms are actually divisions of broader financial services companies. However, in many cases, the asset management divisions are run as entirely separate autonomous entities. In other cases, the parent predicates the culture and focus of the business. As you explore career options in the industry, do your homework about the firm’s structure and understand how the division operates.

Specialist firms

Although the industry has shifted somewhat away from specialist firms, their role continues to be in demand because of the specific expertise they can provide. These firms are located throughout Europe and have relatively smaller staffs and vastly different cultures. As we have already said, sometimes smaller firms have the benefit of higher returns whereas companies with bigger portfolios can end up mimicking indices.

Generally, the smaller firms do not actively recruit. This means it’s up to you to target each firm, research its specialty, and contact them directly.
A CLOSER LOOK: HIRING PROCESS PROS AND CONS

The investment industry is a vast one encompassing thousands of firms and tens of thousands of investment groups within corporations, unions, foundations, schools and government institutions. How can you determine whether a particular firm is the right one for you to join? First, you must understand the kinds of firms within the business and how they tend to hire.

Tier 1 complexes

Tier 1 complexes are mutual fund families that offer a complete or nearly complete range of products. They serve significant numbers of retail, institutional and high-net-worth customers, and will have at least £70 billion under management. These firms, such as Fidelity, are well known throughout the industry.

Hiring

These firms hire primarily through recruiting at top MBA programmes or raiding other firms. Some will hire BA candidates, but typically only from a top university. Inexperienced hires will be brought on as junior research analysts.

Pros

- Great exit opportunities
- High pay
- Superior access to companies and sell-side analysts
- Firms’ diverse product lines insulate against downturn in your industry
- Extensive travel required

Cons

- Bureaucracy
- Internal politics
- Extensive travel required

Top-tier boutiques

Top-tier boutiques are firms that specialise in a particular flavour of instrument, industry sector or style. They are nationally or internationally recognised for their expertise in that specialty. A top-tier boutique will have between £3 billion to £70 billion under management.

Hiring

Top-tier boutiques hire in a similar fashion to gold-plated megaplexes. However, if their specialty is currently out of favour, an especially persistent but atypical candidate can sometimes obtain a position at a top-tier boutique.
Pros

• Exit opportunities, both at graduate schools and within the industry
• Superior access to companies and sell-side analysts
• High pay

Cons

• Occasional lack of support staff
• Extensive travel required.

Tier 2 complexes

Tier 2 complexes are large fund complexes that have a complete or nearly complete product line. However, they are not regarded as highly as tier 1 complexes or top-tier boutiques. They will often be attached to a bank (whether commercial or investment), insurance company or other financial conglomerate. Tier 2 megaplexes will serve mainly retail and high-net-worth clients.

Hiring

Tier 2 complexes are often scattered in their hiring—hiring internally, recruiting at the undergraduate level at local universities and at the graduate level at both local and top-20 universities.

Pros

• Superior access to companies and sell-side analysts
• Firms’ diverse product lines insulate against downturn in your industry
• Good pay

Cons

• Bureaucracy
• Internal politics
• Extensive travel required.

Old-line firms

Old-line firms are firms that often were started in the 1930s (or even before). They are generally value/fixed-income shops and focus on capital preservation. They will have a mix of old-money, very high-net-worth clients and local institutions.

Hiring

OLFs hire at top-10 MBA programs. Occasionally, they may also hire laterals from other (value-oriented) firms.

Pros

• Exit opportunities, both at graduate schools and within the industry
• Superior access to companies and sell-side analysts
• Good pay
• Stable firms, positive (though conservative) cultures
Cons

- Bureaucracy
- Firm’s stodgy philosophy may not appeal to you.
- Firm expects you to stay with them for many years and structures pay and advancement accordingly.

Universities, foundations and pension plans

These are (generally) tax-exempt pools of money. In most cases, the great majority of assets are outsourced to various outside top firms. The investment staff at these institutions select and monitor these outside managers. Small portions of the assets can be managed internally.

Hiring

The top-tier institutions prefer to hire MBA graduates who have spent a number of years (post-MBA) at a premier buy-side or sell-side firm, but who would like to reduce their working hours.

Pros

- Exit opportunities, both at graduate schools and within the industry
- High job security
- Great benefits
- Less stressful environment and culture

Cons

- Bureaucracy
- Focus is on asset allocation and monitoring, not in-house management.
- Relatively low pay
- Difficult to get active management jobs because of lack of experience

Insurance companies

Insurance companies often manage extraordinarily large sums of money and are the largest asset managers in the UK. This money is derived from policy payments and set aside against potential claims. Insurance companies have historically invested mainly in high-grade, fixed-income instruments.

Hiring

Insurance companies generally hire investment staff from local universities. Historically, insurance companies have been unable to attract many candidates from top university MBA programmes. Insurance firms will hire at both the MBA and BA levels.

Pros

- High job security
- Great benefits
- Less stressful environment and culture
• Willing to hire non-Ivy candidates
• Good learning environment

Cons
• Bureaucracy
• Focus is on high-grade, fixed-income.
• Low pay
• Low prestige
• Extremely conservative investment styles

Hedge funds
Five years ago, obtaining a job at a hedge fund would have required navigating through a labyrinth of networks and connections to meet the right people. However, as hedge funds have become much larger, recruiting has become more formal and closely tracks a similar process to retail funds and investment advisory firms. Hedge fund jobs are not necessarily more prestigious than other opportunities available. More importantly, the industry generally does not truly distinguish between a hedge fund specialising in, say, energy and a mutual fund that does so. Each fund will be judged according to performance, size, reputation and quality of personnel.

IS THIS FIRM RIGHT FOR ME?
Unlike most other industries, the investment management industry encompasses literally thousands of firms, most of which either do not advertise themselves or are even legally barred from doing so (hedge funds, for example). Much of the time you are dealing with a job search in which your potential future employers are unknown entities to you. So what sources and criteria should you use when evaluating a potential employer?

1. Firm website: Staff bios
One of the most helpful portions of an investment management firm’s website is the staff profiles. This is the premier consideration in evaluating a firm. If the staff are good, you will likely have, at minimum, a reasonable experience there. If the staff are weak or poor, you will likely have a subpar experience there.

How to evaluate staff profiles: Two things to look at are the staff’s experience and education. At minimum, all principals should have significant experience at top, recognisable buy-side or sell-side operations. Also, most or all of the principals should have degrees (both undergraduate and graduate) from top universities. If some of the principals have non-buy-side experience, it should be at a recognised company or institution. Most of the firm’s analysts should have similar backgrounds as well (though, obviously, less experience in terms of years and positions held).

Big warning signs include: 1) None (or few) of the principals has significant experience at a top firm. 2) None (or few) of the principals has a graduate degree from a top university. 3) Analysts have weak academic and/or work backgrounds. No full analyst should have less than three years’ experience. 4) Any signs of nepotism. 5) Lists of degrees from unrecognisable universities and/or work experience at unrecognisable firms. 6) Missing periods in bios.
2. Assets under management

If the firm’s website does not tell you how much money the firm manages, this information should be obtainable from the internet. For a hedge fund, £150 million under management is a good general mark of a fund with a healthy amount of money under management. For regular buy-side firms, firms with significantly less than £300 million should be viewed cautiously.

The investment management business is one where you derive your profits from the amount of money you manage. Hedge funds also gain a portion of the profits they achieve. Any good manager with significant experience at a top firm can walk out the door with commitments of, at a minimum, £70 million. Some have walked out with commitments of £350 million to £1 billion. Therefore, a firm that cannot break the £150 million mark just does not have the needed staff to be able to compete.

3. Whose money do they manage?

You want to join the smartest firm you can. How can you tell whether a firm is smart and able to grow? Evaluate the firm’s clientele. The smartest clients in the business are the university endowments, large foundations, certain smart corporate pension plans and some funds of funds (a mutual or hedge fund that invests in other mutual or hedge funds). Not only do these institutions have fine internal staffs with large budgets to investigate potential managers, but they are advised by numerous consulting firms that also research money managers. Not only will these institutions generally select top-rate managers but, if these managers perform, the institutions have much larger amounts to give them. It is a serious negative if the firm has not been able to attract any of these investors. It means either the staff do not have the level of experience and education to gain these institutions’ trust, or their product and/or investment strategies are unappealing, ill-formed or incomprehensible.

The remaining potential client bases are retail and high-net-worth investors. Those with retail investment clientele run retail funds; those that cater to high-net-worth individuals run individual accounts.

How do you find out about the firm’s clientele? Ask them! You can also check manager announcements on the internet (when a public pension plan puts money with a new manager, this information is published).

You should target firms that best fit your ideal working environment. The best resources for learning this information are company websites and through networking with employees from the respective firms. (For more information, check out Vault’s insider company profiles and message boards.)
Chapter 7: Portfolio Management
Chapter 8: Investment Research
Chapter 9: Marketing/Sales and Operations
Chapter 10: Days in the Life
As we discussed in Chapter 1, asset management firms are organised into three segments: portfolio management, investment research and marketing/sales and operations. Following is a diagram that explains this structure. As you can see from the diagram, both portfolio management as well as account/product management serve the client (whether they are individuals, institutions or high-net-worth investors). Alternatively, investment research falls under portfolio management, indicating its support of the investment process. Whereas this represents a traditional hierarchy, asset managers can have varying structures. In many cases, the research analyst can also report directly to the client if he/she has money management responsibilities. An example of this would be Fidelity’s “Select” funds in which the industry analysts manage money directly in their industries of expertise. In the following sections, we will describe the three segments and the jobs associated with each.
Portfolio Management

This is the science of making decisions about investment, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance. It is, in essence, the business end of the industry, the department that pulls the trigger. There are four jobs that typically fall under this component of the firm: portfolio managers, portfolio analysts (or associate portfolio managers), portfolio manager assistants and, at some firms, portfolio implementers. University graduates often fill portfolio assistant positions, whereas individuals with many years of investment experience hold associate and senior portfolio manager assignments. Portfolio implementers can be hired straight from undergraduate degrees. MBAs are not hired as portfolio managers right out of business school, unless they have a lot of experience. Typically, MBAs who wish to pursue a career in portfolio management join investment management firms in their investment research divisions. After several years in research, MBAs will then have a choice: either stay in research or leverage their research experience to move into an associate portfolio manager position or broaden their experience by covering additional sectors.

SENIOR PORTFOLIO MANAGER

Portfolio managers are responsible for establishing an investment strategy, selecting appropriate investments and allocating each investment properly. Every day, portfolio managers are presented with investment ideas from internal buy-side analysts and sell-side analysts from investment banks. It is their job to sift through the relevant information and use their judgment to buy and sell securities. Throughout each day, they read reports, talk to company managers and monitor industry and economic trends looking for the right company and time to invest the portfolio's capital.

The selection of investments must adhere to the style of the portfolio. For instance, a large-capitalisation growth manager might be screening for only companies that have a market-capitalization in excess of £10 billion and earnings growth characteristics that exceed its industry average. Therefore, the portfolio manager would not even consider a £500 million utility stock, with a 6 per cent dividend yield.

Once investment opportunities are recognised, portfolio managers must decide what percentage of their portfolio to allocate to the respective security. This decision is based on the mandate of the portfolio—active or passive—and the risk expectation of the overall portfolio. For example, riskier portfolios invest in a small number of securities and take large “bets”. These are often referred to as “concentrated” funds. Alternatively, diversified portfolios may invest in over 100 securities to spread the risk of any one holding.

Portfolio managers also spend time meeting with their clients to review investment strategy and performance results. Whereas account and product management professionals lead this process, portfolio managers are often an integral part of client discussions. In the mutual fund world, portfolio managers do not spend time talking to individual customers, but they are often called on to present at sales conferences and at product road shows. However, institutional and high-net-worth portfolio managers have fewer clients, and they only meet with them one to two times a year.

Portfolio managers are the most seasoned investment professionals in the firm. Typically, people with at least seven to 10 years of investment experience occupy these positions, and most have either an MBA and/or a CFA qualification.
ASSOCIATE PORTFOLIO MANAGER

The associate portfolio manager position requires a CFA, MBA or considerable investment experience. Typically, the job is filled by successful research analysts who have at least three to five years of analyst experience. Larger firms may also recruit MBAs to fit this role straight out of business school. The job is very similar to that of the senior portfolio manager with one main exception: associates interact less with clients than senior managers do. Associate portfolio managers usually are assigned smaller, less sophisticated portfolios to manage or serve as lieutenants on large, complicated portfolios.

The role of the associate portfolio manager differs depending on which segment of the market is being served—mutual fund, institutional or high net worth. For instance, associate portfolio managers at many mutual fund firms will either act as the lead investor on a sector fund or as second-in-command on a large diversified fund. Depending on the firm, an associate could also act as a lead on a sector fund and as second-in-command on a diversified fund at the same time. Alternatively, on the institutional side, associate portfolio managers typically apprentice with seasoned portfolio managers on the largest and most complicated portfolios. After they have succeeded in that role, the firm will assign them smaller institutional accounts to manage on their own.

Although there is no defined career track, successful associate portfolio managers could be promoted to senior portfolio managers within three to five years depending on the associate’s track record.

<table>
<thead>
<tr>
<th>Associate portfolio manager pros and cons</th>
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</thead>
<tbody>
<tr>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>Great position in which to showcase your investment talent</td>
</tr>
<tr>
<td>Clearest path to running the big-time portfolios</td>
</tr>
<tr>
<td>Autonomy and creative independence</td>
</tr>
<tr>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>Always being graded on investment decisions</td>
</tr>
<tr>
<td>Competitive, high level of scrutiny</td>
</tr>
<tr>
<td>Limited client interaction</td>
</tr>
<tr>
<td>High degree of focus, smaller accounts or sector funds</td>
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</table>

PORTFOLIO MANAGER ANALYST

In general, portfolio manager analysts screen for potential investments, monitor portfolio characteristics and assist in client relations. Analysts typically spend two to four years in this role before returning to business school or migrating to a role in the investment research department.

This position varies among the firms in the industry and also differs depending on which segment of the firm you work in—mutual fund, institutional or high net worth. For instance, high-net-worth portfolio analysts spend more time working with clients, whereas institutional analysts spend more time monitoring and analysing portfolios. Regardless, the general assignment focuses on supporting the portfolio manager.
Portfolio manager analysts are often instrumental in the process of screening for potential investments. Using the general strategy of the investment products such as market-capitalisation, earnings growth, valuation multiples or industry, the analyst screens all available stocks in the market to identify the smaller list that meets the portfolio’s criteria. The screened list for an active portfolio varies but typically ranges between 100 and 300 securities. Portfolio manager assistants then gather additional research for the portfolio manager to begin the process of fundamentally analysing the potential investment.

Once investments are made, portfolio manager analysts are responsible for monitoring the reconciliation of the trades. In this role, they work with the operations staff to assure that the portfolio is properly updated and performance records are accurate. Most firms have separate operations departments that reconcile trades and produce monthly client reports. However, many of the smaller firms require their portfolio analysts to perform the operations function as well. You should be aware of this and clarify the exact job responsibilities when applying and interviewing for the job.

Portfolio analysts also participate in the process of client service, although the proportion of time spent in this area depends on the client type being served. For instance, an analyst to a mutual fund portfolio manager would spend very little time on client service. Institutional and high-net-worth portfolio managers have fewer clients and they meet with them one to two times a year. Intermittently, their clients require vast and detailed investment reports and market commentaries. Whereas marketing helps prepare these formal presentations, the portfolio manager analyst plays a crucial role in collecting economic and market data for investment commentary and portfolio analysis sections of the report.

The position requires a person who understands capital markets, is capable of meeting deadlines and enjoys working on multiple projects simultaneously. The downside is that the reporting and operational components of the job have a quick learning curve and then become repetitive. Furthermore, it is not the best place to learn how to really value companies. Rather you are being exposed to the years of experience that the portfolio manager possesses. Most importantly, portfolio manager analysts receive the benefit of seeing a broad picture of investing money across several industries, whereas research analysts typically get exposure to one component or sector. All in all, in the right setting, the position is a great introduction to asset management and a worthwhile apprenticeship to pursue.

### Portfolio manager analyst pros and cons

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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</thead>
<tbody>
<tr>
<td>Broad exposure to various industries</td>
<td>No expertise in a single industry</td>
</tr>
<tr>
<td>Reasonable working hours</td>
<td>Less formal training process</td>
</tr>
<tr>
<td>Direct exposure to the portfolio managers</td>
<td>Some operations work</td>
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<tr>
<td></td>
<td>Repetitive assignments</td>
</tr>
</tbody>
</table>
PORTFOLIO IMPLEMENTERS

This position varies depending on which firm you work at. Portfolio implementers assist fund managers in their day-to-day trading. They keep an eye on capital markets to see how funds are affected and check the cash levels of a fund. If cash levels are too low or too high they will liaise with the fund manager to see what he or she would like to do. They also advise managers on corporate actions, such as companies paying dividends, and liaise with the trading desk if the manager wants to reinvest. Portfolio implementers also ensure the positions of funds are in strategic alignment.

The role requires an understanding of capital markets, and many new hires in this type of role have economics-related degrees. Most also have to pass the IMC. It also requires excellent communication skills: fund managers are extremely busy so portfolio implementers need to be able to articulate themselves concisely, and extract any information they need effectively.

<table>
<thead>
<tr>
<th>Portfolio implementer pros and cons</th>
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<tbody>
<tr>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>Frequent and direct exposure to fund managers and how a fund is run</td>
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<tr>
<td>Good working hours</td>
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<td>Varied assignments</td>
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The investment research segment is responsible for generating recommendations to portfolio managers on companies and industries they follow. Similar to the portfolio management segment there are several positions in the research hierarchy including analyst and, depending on the firm, associate.

On the sell-side, senior analysts typically have three to five years of post-MBA research experience or six to 10 years of post-university experience (if an MBA was not pursued). On the buy-side MBA graduates typically occupy the analyst position. The research associate-analyst is typically a sell-side position. These positions are usually occupied for several years or until the candidate is deemed capable of covering his own sector. Both buy-side and sell-side firms employ university graduates as research analysts. It is typically a two- to three-year program that can lead to a more senior position or result in the associate returning to business school.

**SENIOR RESEARCH ANALYST**

Senior research analysts are investment experts in their given industry focus. An equity analyst covers stocks; a fixed income analyst covers bonds (often simplified to debt).

Their role is to predict the investment potential of the companies in their sector. Take an equity analyst covering technology companies, including Apple, for example. The analyst would be responsible for predicting Apple’s future earnings and cash flow, and comparing the fair value of Apple to the expectations of the stock market. To do this, the analyst would build a financial model that included all of the potential variables to derive Apple’s earnings and appropriate value (e.g., sales growth, business costs, as well as research and development).

A fixed income analyst focusing on telecom, for example, might be looking at a new high-yield corporate bond issued by an incumbent. The main thing the analyst will be looking for is the company’s ability to pay off that loan—the amount of the bond. The analyst will look at historical cash flows, project future cash flows and look at other debt obligations that might be more senior to the new bond. This will tell the analyst the likelihood that the bond will be paid.

Analysts spend a considerable amount of time attending industry conferences, meeting with company management and analysing industry supply and demand trends to derive business forecasts. Sell-side analysts follow around 15 to 25 companies and must be an expert on each, whereas buy-side analysts typically follow even more companies.

An important part of a senior research analyst’s job is to convey his or her recommendations to the portfolio management teams. Therefore, a senior analyst spends considerable time presenting to portfolio managers and issuing investment reports. Because of this, a senior research analyst must be articulate and persuasive in his or her convictions to earn respect within the firm.

Senior research analysts typically have served as investment research associates for three to five years, post MBA or CFA, before assuming their positions. If successful in their role, many senior analysts move into portfolio management roles later in their careers.
INVESTMENT RESEARCH ASSOCIATE-ANALYST

This is the role for most MBAs or those with equivalent experience. It is typically a sell-side position but some larger buy-side firms employ the position as well. Essentially, associate-analysts have the same responsibilities as senior research analysts with one exception: associate-analysts are given smaller industries to follow. Typically for the buy-side, the industry assigned to an associate-analyst is a component of a broader sector that is already being analysed by a senior analyst. For instance, an associate-analyst might be assigned HMOs and work closely with the senior analyst in charge of insurance companies. As stated above, the more likely scenario is for the MBA to enter the buy-side as the senior analyst. On the sell-side the associate-analyst will typically work under the senior analyst for several years before branching off on his own to cover a subsector.

The associate-analysts create investment recommendations in the same manner as senior analysts. In general they spend several weeks familiarising themselves with their industry by reading industry papers, journals and textbooks, and attending industry conferences. A large percentage of their time is spent monitoring industry and company trends to predict financial results for the company. Therefore, associate-analysts are constantly speaking with management, customers and suppliers to gauge the current status of the company they are analysing. Armed with financial models and fundamental company analysis, they develop investment recommendations that they distribute to the senior analyst or firm’s portfolio managers (on the buy-side).

One of the greatest challenges for new associate-analysts is the steepness of the learning curve. Senior analysts and portfolio managers do not have the patience or the luxury to allow analysts to be uninformed or consistently incorrect. New associate-analysts work extremely hard building trust with their superiors.

Obviously, financial acumen and quantitative skills are a must for associate-analysts, but communication skills are also critical. Associate-analysts need to be able to clearly and persuasively communicate their investment recommendations. They must also be able to respond to detailed inquiries from portfolio managers that challenge their ideas, something that requires strong tact and a great deal of patience. Furthermore, associate-analysts need to be energetic, diligent and intellectually curious.

<table>
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<tr>
<th>Investment research associate-analyst pros and cons</th>
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<tbody>
<tr>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>Autonomy and creative independence</td>
</tr>
<tr>
<td>High level of responsibility</td>
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<tr>
<td>Pays well</td>
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<tr>
<td><strong>Cons</strong></td>
</tr>
<tr>
<td>Steep learning curve</td>
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<tr>
<td>Always being graded (on your recommendations)</td>
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<tr>
<td>Difficult to earn respect from portfolio managers</td>
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INVESTMENT RESEARCH ASSOCIATE

Investment research associates work with senior research analysts (or in some cases, associate-analytics) to help in developing investment recommendations for portfolio managers. University graduates will typically spend two to three years as analysts before graduating to this role.

The investment research associates are responsible for helping to monitor the industry and changes within companies covered in the industry, and to update financial models accordingly. Associates collect data for industry data services, company conference calls and surveys. For instance, in the previous Apple Computer example, the associate would be collecting data about consumer demand and input prices for semiconductors. Additionally, the associate provides support to the senior analyst in the construction of recommendation reports sent out to the portfolio managers. Specifically, the associate updates charts and modifies numerical sections of the report.

Although some of the work is routine and the hours are long, associates are sitting next to, and learning from, the intellectual capital of the firm. If you work for a good senior analyst he will teach you the ropes, including the intangibles behind analysing companies, financial valuation and industry knowledge.

The role of investment research associate requires a high level of quantitative knowledge. Primarily, a basic working knowledge of accounting, financial markets, financial analysis and statistics is needed for this position. Aside from a strong quantitative background, research associates need to be detail-oriented, analytical problem solvers, diligent and superior communicators. Generally, firms are looking for finance or accounting degrees, but engineers and science majors are also coveted.

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<tr>
<th>Investment research associate pros and cons</th>
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<tr>
<td><strong>Pros</strong></td>
</tr>
<tr>
<td>Great quantitative experience</td>
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<tr>
<td>Most portfolio managers were once in research.</td>
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<tr>
<td>Gain industry expertise</td>
</tr>
<tr>
<td>Pays well</td>
</tr>
<tr>
<td>Typically a collegial environment</td>
</tr>
<tr>
<td>Top performers are promoted without going to business school.</td>
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ALTERNATIVE ENTRY POINTS

Don’t give up if one of the positions discussed above isn’t available for you—these are difficult jobs to get. If you are having no luck getting positions with portfolio management or investment research teams, there are many other alternatives to pursue that will better position you to reapply with only a year or two of additional experience. Below are descriptions of some of the best options to consider.

1. Account and product management assistants:
Because sales and marketing professionals are typically required to be fluent in all of the investment products, these positions create a great opportunity to learn about the various investment styles that clients demand. This area is also a great career opportunity for those interested in asset management but don’t want to be the investment decision maker (more about this later). If your goal is to use sales and marketing as a stepping stone to the investment side, make a point to network early on with investment professionals, prove yourself at your current job before you make it known that you want to make the switch and work toward developing the quantitative skills needed for the investment positions.

2. Sell-side investment research:
Many buy-side investment professionals come from the sell-side. It is a great place to learn to do analysis, generate financial models and construct investment reports. The quantitative skills and knowledge of the overall investment business makes former sell-side people desirable to asset management firms.

3. Investment consulting:
These are the firms that advise institutions and high-net-worth investors on appropriate diversification strategies and which asset managers to hire. At the entry level you will assist on manager searches and data collection for multiple investment styles. It is a good introduction to the different firms and the dynamics of the industry as a whole.

4. Take the chartered financial analyst (CFA) exam:
This is a three-part exam that tests your knowledge in financial accounting, statistics, investment analysis, economics and ethics, among other subjects. The exam is offered in December and June for Level I and in June for Levels II and III. The CFA is becoming a standard for the industry and many people begin the process prior to even entering the industry. It is not a prerequisite to getting an investment job, but working toward achieving it can certainly give you a leg up on your peers, especially pre-MBA candidates, as it shows commitment and dedication to a career in the investment industry.
Increasingly, as the industry grows and matures, investment management companies are focusing more on professional marketing and sales as a point of differentiation—especially on the institutional side of the business. Traditionally, marketing and sales were more or less an afterthought, and a lot of the marketing and sales work was performed by investment professionals. As the industry has grown, a new breed of investment professional has been born to actively pursue these roles: they are known as account managers and product managers and they serve the sales and marketing functions in investment management firms. Below is a broad description of the positions that exist in the institutional marketing and sales segment.

ACCOUNT AND PRODUCT MANAGERS

Account and product managers are responsible for identifying new clients, presenting the firm’s investment capabilities to new and existing clients, solidifying new relationships, servicing existing clients and acting as liaisons between the product and the client. As was previously discussed, institutional clients are demanding. Portfolio managers used to serve many of these roles. However, clients became more sophisticated and demanding, and often turn to investment consultants to conduct significant due diligence. To keep portfolio managers focused on picking stocks and bonds, the advent for roles to meet these client needs has risen.

The search process for being selected to manage an institution’s assets is rigorous and lengthy; it could take up to several years. Asset managers make several presentations, and institutions conduct extensive due diligence. Once an investment management firm is hired, the account and product managers serve in a client relationship capacity. In this role, they arrange semiannual portfolio reviews, prepare presentations and assure that the proper reporting procedures are followed. Furthermore, managers work to broaden client relationships by introducing institutions to additional investment products offered by the firm. To do this, account managers must be constantly aware of their clients’ needs. They do this by reading current news about their clients and meeting with them on a regular basis. Additionally, product managers educate themselves on the various products that clients might be interested in. This is where the product managers come in: After account managers identify a client’s product need, product managers will determine how best to present the product to the client. They typically have a greater in-depth knowledge of the product’s strategy, performance and holdings than account managers and can articulate this to the client.

Account and product managers are MBA graduates or those with equivalent experience. Increasingly, many of these managers are acquiring CFA degrees as client sophistication has increased.
PRODUCT MANAGEMENT ASSOCIATES

Product management associates assist in creating portfolio review presentations and in developing promotional presentations for potential new clients. They analyse the current market, focusing on investor demand and trends. They often analyse competing products and develop marketing tools to promote and differentiate their particular product. Product management associates are traditionally segmented by investment product type such as equity or fixed income. Some product managers focus on only one specific product type such as a large-cap equity portfolio or short-duration bond portfolio.

Product management associates are typically MBA graduates. They often work with college graduates who serve as analysts on the product management team.

ACCOUNT MANAGEMENT ASSOCIATES

Account management associates assist in answering request for proposals (RFPs) issued by institutions seeking to hire new investment managers. Additionally, associates assist senior client servicing officials in maintaining and expanding client relationships. Account management associates are traditionally segmented by client type—public pension funds, corporate pension funds, endowments and foundations.

Account management associates are typically MBA graduates. They often work with college graduates who serve as analysts on the account management team.

MARKETING SPECIALISTS

Marketing specialists are typically postgraduates, not necessarily with finance-related degrees. They are responsible for marketing different products to potential clients, as well as being a point of contact for current clients. A large part of the job involves formulating presentations to give to potential clients, as well as maintaining the accuracy of presented data.

According to a marketing specialist at Schroders, “To succeed in this role you have to be commercially aware. Understanding what is happening in the markets and how this relates to the products we offer and how they are sold is crucial. Attention to detail is also very important—both to our clients and to regulators.”
### Account, product management associates and marketing specialist pros and cons

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<tr>
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<th>Pros</th>
<th>Cons</th>
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<tr>
<td></td>
<td>Broad knowledge of all of the investment products in the marketplace</td>
<td>Difficult to jump to the investment side</td>
</tr>
<tr>
<td></td>
<td>Great professional atmosphere for people that like the industry, but don't want to be the investment decision maker</td>
<td>Limited focus on building quantitative skills</td>
</tr>
<tr>
<td></td>
<td>Less hierarchical career path than the investment side</td>
<td>Repetitive assignments</td>
</tr>
<tr>
<td></td>
<td>More entry-level jobs than the investment side</td>
<td>Too many presentations</td>
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<td></td>
<td>Lots of client interaction</td>
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### BUSINESS ANALYST

A business analyst is the meeting point for the front-of-house and back-office staff. A large part of the role involves understanding the needs of the front-of-house staff and implementing this on the technical side. They may process changes, maintain existing trading systems and investigate other systems that could be of benefit to the organisation. As a result due diligence is also a major part of the job. If the business side wants something implemented, the business analyst will investigate the risks and pitfalls involved.

### RISK ANALYST

The risk analyst position is perhaps closest to the stereotypical role of asset management employees as number crunchers. A risk analyst will look at the organisation’s trades, what is happening in the market and ascertain the associated risk and exposure. This involves crunching a lot of numbers to see whether or not investments might work. Deal risk analysts will evaluate risk levels and price them into a deal structure; in essence, ensuring the fund doesn’t pay over the odds for a deal that may encounter some problems. Risk analysts, normally employed in portfolio analysis, will normally focus on one industry or sector, such as real estate.
SYSTEMS DEVELOPER

The role of systems developer varies greatly depending on the department they are employed in. Systems developers in one department may be responsible for the maintenance of one system specifically assigned to them. They ensure the system is running smoothly, fix any errors and look for any updates or developments. In another department, such as architecture and innovations groups that most big firms have, they may analyse a variety of new systems and technologies to find anything they think could aid the business. They will then carry out a “proof of concept” project, comparing the new systems and technologies with existing ones.

### Business analyst, risk analyst and systems developer pros and cons

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
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<tbody>
<tr>
<td>Really get to understand the components of the business and how they interact</td>
<td>Not as well paid as some front-office and research positions</td>
</tr>
<tr>
<td>Opportunity to move around within back-office and operational positions</td>
<td>Steep learning curve getting to know how all different departments interact</td>
</tr>
<tr>
<td>More relaxed than front-of-house positions, with shorter hours</td>
<td>Prioritising a variety of simultaneous tasks can be tough</td>
</tr>
<tr>
<td>Client interaction</td>
<td>Can prove difficult (but not impossible) to move to front-of-office business positions</td>
</tr>
<tr>
<td>Constantly dealing with new issues</td>
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Days in the Life

Chapter 10

In this chapter, we take a look at some “typical” days in the life of the investment management professionals with whom we spoke.

INVESTMENT ANALYST AT BAILLIE GIFFORD

Name of Employee: Sophie Earnshaw
Name of Employer: Baillie Gifford
Location (city): Edinburgh
Title: Investment Manager
Department/Division: Emerging Markets
Number of Years at Firm: Four years
Number of Years in Current Role: Less than one year
Degree(s): Masters in English Literature, MPhil in Eighteenth Century and Romantic Literature

Q&A

What is your role?
I am currently working as an analyst in the Emerging Markets team. My primary areas of coverage include China and ASEAN. I am tasked with carrying out research on companies which operate in these regions, drawing conclusions from this research, and presenting my recommendations to the team and to the firm’s other analysts and investment managers. This research can either be about existing emerging market holdings or new potential buy ideas.

What is the best thing about your job?
The best thing about my job is that I am continually learning! As part of my research, I may end up delving into the competitive dynamics of the auto market in China, technological trends in large-sized batteries for energy storage, or economic or political developments in the region.

What is the most challenging thing about your job?
Given that we are investing on a 5 year time horizon, the lag between my stock recommendation and the outcome of that recommendation is significant. This lack of timely feedback makes it difficult to learn from one’s mistakes and to monitor one’s progress.

What are the typical education requirements?
Baillie Gifford requires that you have a degree in order to join the graduate investment program but is not prescriptive as to the discipline. Our investors come from a wide variety of backgrounds, which I think is definitely a positive as it allows for well rounded, well informed debates and decision making.

How relevant is your education for the role?
My arts background has helped me hone my analytical and research skills, both of which are critical to investment analysis. As part of my degree, I developed the ability to sift through large quantities of...
A day in my life at Baillie Gifford

7:00 a.m.: Get ready and leave for the office about 7:45 a.m. I walk to work and usually arrive around 8:15 a.m.

8:15 a.m.: Eat breakfast, get a coffee from the canteen, check emails. My first task of the day is to check up on major news flow in emerging markets. I tend to get my company specific news from Reuters Knowledge and Bloomberg. We have a weekly news meeting where significant news flow from the team is collated and discussed.

9:30 a.m.: The majority of my day is spent working on company-specific research reports. This involves background reading on the company, working through the financial reports, thinking about the growth opportunity, the company’s competitive advantage or lack thereof, management and how they are incentivized, and finally valuation. My information sources typically include speaking to management, competitors, suppliers, customers, industry experts, and reading trade journals and blogs. Another important source of information is my colleagues at Baillie Gifford who have a myriad of experience and knowledge on a wide variety of subjects and companies.

12:30 p.m.: Eat lunch. I’ll either eat at my desk or go out for lunch with colleagues.

2:00 p.m.: Most of my afternoon is spent continuing company-specific research. In addition, I may present stock recommendations to the team at our weekly stock discussion meeting or to other teams within the firm. I may also take a meeting with company management at our Baillie Gifford offices. These meetings normally take an hour.

6:00 p.m.: Most nights I manage to finish at 6 p.m. I then go kickboxing!

Any advice for graduates looking at a career in investment management?

Be willing to construct an argument as part of the interview process and defend that argument when put under pressure. In this career, there are very few ‘right’ answers. Read widely, be inquisitive, and willing to learn!

What is your favourite perk?

Having the freedom to set my own agenda, excellent work life balance (no all nighters!), a non-hierarchical working environment...
INVESTMENT ANALYST AT BLACKROCK

Name of Employee: Catherine Elmore
Name of Employer: BlackRock
Location (city): London
Title: Fixed Income Analyst
Department/Division: Investments
Number of Years at Firm: 2 years
Number of Years in Current Role: 2 years
Degree(s): BSc Actuarial Science

Q&A

What is your role?
I work within the Investments group at BlackRock. My department, International Fixed Income (IFI), is responsible for investing in Fixed Income securities for BlackRock’s Institutional and Retail clients; we have over $350bn of assets under management. My role varies and includes working closely with Portfolio Managers and our Client Services teams, having a deep understanding of the Fixed Income markets and global economies so as to communicate with our clients on current market conditions and the resulting impact on their portfolios. I am also involved with preparing pitches for new Fixed Income business, as well as assisting senior members of the team with meetings with existing Fixed Income clients.

What is the best thing about your job?
The best aspect of my job is the variety; every day is different and comes with exciting new challenges. Working on the trading floor provides a stimulating and fast-paced environment in which to work, and one I thoroughly enjoy. I am involved with a wide range of markets, from developed through to emerging economies. I have the opportunity to work closely with senior investors and to hear their views on the markets. This range and exposure allows me the opportunity to enhance my knowledge and add value to my team by contributing my own views to discussions.

What is the most challenging thing about your job?
For me, understanding the complexity of the financial markets can feel like a steep learning curve at first. However, this challenge has allowed me to continually improve by reading research and keeping up to date with the latest economic news. BlackRock encourages and cultivates an inquisitive culture where team members are willing and happy to help with any questions.

What are the typical education requirements?
For the vast majority of IFI roles, an excellent academic background is expected but no ‘set’ of subjects are looked for—in fact BlackRock actively seeks diversity and encourages applications from a range of disciplines, universities and backgrounds. Creating teams comprised of different backgrounds is important to the success of the teams, here. Development continues when you join; the completion of the Investment Management Certificate is mandatory and many of the analysts complete the CFA Institute qualification once in the role, this is on top of internal training opportunities.
How relevant is your education for the role?

Concepts learned at university gave me a good base from which to build upon joining BlackRock, furthermore an understanding of economics can be helpful. However, Blackrock’s analyst program provides extensive training, and completion of the Investment Management Certificate, coupled with on-the-job training has been key in understanding the role. What I learned is important, but what I learned about how to learn is what helps me in my career—so having a passion about your subject, whatever it is, is very important.

A day in my life at BlackRock—Retail (Client Businesses)

8.15: Arrive at the office.

Every morning I review the market open and any relevant news. When working with clients it is important to keep track of market movements and the impact that developments may have on strategies recommended to clients.

I also review the agenda for the day; client meetings, conference calls, internal meetings and key clients that I want to contact throughout the day (to follow up on prior conversations, discuss business and explore any potential new opportunities).

Once all the prep work is done, it’s time to get started!

9.30: Every Monday morning we meet as a team to discuss last week’s activity and set a plan and strategy for the upcoming week. Typically we share agendas, success stories, any issues outstanding, progress on strategic initiatives and draft a list of action points to complete throughout the week.

10.30: By this time we are good to go. I tend to prefer client meetings in the morning as it allows me to have the afternoon to follow up and catch up on incoming queries. I typically meet with clients for 1-2 hrs and cover a range on topics; from updates on their current positions with us to discussions around markets and specific opportunities.

12.30: Time to head back to the office, quick lunch and catch up on email traffic.

13.30: Work through incoming queries, prioritizing and moving these towards resolution/completion. I will also review trades and analyze trends for the day.

14.30: Time to call clients! The next two hours will be spent calling clients, following up on discussions, catching up on business and discussing new opportunities. It is important to remain vocal and close to clients, nurturing and building relationships. An integral part of building relationships is through regular contact & personal communication.

16.30: Catch up on inbound queries throughout the afternoon and work through emails to follow up on conversations/opportunities.

18.45: Prepare for the next day.

19.00: Leave the office in time to catch up with friends, grab a bite or play some sport.
Any advice for graduates looking at a career in at BlackRock?

For those considering a career in investment management, I would advise keeping up to date with global economic and political events. I would also suggest gaining some relevant work experience in the financial industry and if possible, in investment management; this will be invaluable in determining which area is of interest. Investment Management is very different to other areas of Finance, such as Banking or Private Equity—they require different skills and are different environments, so it is important you know what you are applying for and genuinely want it.

What is your favourite perk?

BlackRock’s analyst program begins with an induction at the firm’s headquarters in New York. During the time in New York, BlackRock’s founders spoke to the analyst class; it was inspiring to hear from the people who built the firm and are still shaping it today. Furthermore, meeting the other analysts has meant that I know people in many areas of the firm which has been hugely helpful in gaining a better understanding of the wider business.

There is a culture of communication and innovation in our team; we are encouraged to speak up and be proud of what we do. The environment I work in is a very lively and enjoyable one.

EUROPEAN SALES AND MARKETING GRADUATE AT FIDELITY WORLDWIDE INVESTMENT

Name of Employee: Hayley Atkin
Name of Employer: Fidelity Worldwide Investment
Location (city): London
Title: Associate
Department/Division: European Real Estate
Number of Years at Firm: 1-1/2 years
Number of Years in Current Role: 6 weeks
Degree(s): BA (Hons) French and Business Studies

Q&A

What is your role?

I am currently in my third rotation of the two-and-a-half year European Sales and Marketing graduate programme. My first rotation was a marketing role in the UK Personal Investing team and I was fortunate to join the team at a very exciting time as they were just about to embark on a major business relaunch. I worked in high profile projects with senior management, giving me exposure to many different areas of the company. Following the relaunch, my role focused on managing marketing campaigns and driving forward new business propositions. I spent my second rotation in Fidelity’s Frankfurt office working in the Product and Market team. This role was significantly different to my first, not only was I working in a different country and market, I was also much closer to the investment side of the company and worked across the wholesale, retail and institutional channels. I supported many large-scale projects where I worked closely with other Continental European teams, helped launch a new fund, coordinated sales training and organized Fidelity’s biggest sales event of the year.
where over 200 employees from 12 different markets attended. I recently joined the European Real Estate team based in London. I work in a combined sales and marketing role, which involves preparing materials for client meetings, responding to RFPs, supporting sales pitches and responding to client requests. I also work closely with the Real Estate Operations and Research teams by supporting them with any on-going projects.

**What is the best thing about your job?**

The best thing has to be the flexibility to work across a range of markets and business areas. In just over a year of working at Fidelity, I have worked across 5 areas of business, in 3 roles and in 2 different markets. Through working in such varied roles, you have the opportunity to meet interesting people across the business and work in a range of different projects.

**What is the most challenging thing about your job?**

Changing roles every year to 6 months is the most challenging element of the programme. Every role you start is significantly different to your previous rotation and you are expected to get up to speed quickly. I found this especially challenging when I first joined the Product and Market team in Frankfurt, I had to adjust to a new language and culture as well as take on a new role. However I believe this challenge is crucial to my development and overcoming it is an asset going forward.

### A day in my life at Fidelity Worldwide Investment

- **8.30:** I tend to arrive before 9 as I like to have my breakfast and coffee whilst catching up on emails.

- **9.00 – 11.00:** Add latest property opportunities in our database. Once a week we will review the latest opportunities as a team to understand those that are of interest and what is going on in the market.

- **11.00 – 12.30:** Answer any requests from our institutional team. Most of the time, they are looking for our latest performance data to update clients.

- **12.30 – 13.30:** Lunch. I usually use this time to catch up on my IMC revision or if the weather is good I will go on a run!

- **13.30 – 17.00:** I spend my afternoons focusing on client presentations and RFPs or preparing for pitches. This type of work usually involves gathering data from various sources. Every presentation is different depending on the client or consultant, most of the time the presentations focus on our funds and performance, in other instances they focus purely on the Real Estate market.

- **17.00 – 18.00:** Work through emails to follow up on conversations and prepare for the next day.

- **18.00:** Time to leave the office and catch up with friends or head to the gym.
What are the typical education requirements?
You should have or be on target for a 2:1 degree. Previous work experience is very important and the ability to speak several European languages puts you at a clear advantage. Fidelity also encourages you to complete some foundation level qualifications soon after you join. I am currently in the process of completing my IMC and have the opportunity to do the CFA.

How relevant is your education for the role?
Fidelity takes on graduates with a range of backgrounds and degrees. I did not study finance and did not feel in any way disadvantaged by it. I believe by not having much of a financial background, I was able to bring fresh ideas and different thinking to the various roles I have done.

Any advice for graduates looking at a career in sales and marketing at Fidelity?
You need to be ambitious and always be willing to go that extra mile. Adaptability and flexibility are also key assets as well as the ability to build strong relationships.

What is your favourite perk?
The opportunity to live and work in a different country. I had a fantastic 6 months living in Frankfurt, I was able to meet many new people as well as discover a new city and culture.

INVESTMENT GRADUATE, M&G INVESTMENT MANAGEMENT LTD

Name of Employee: Daniela Cociorba
Name of Employer: M&G Investment Management Ltd
Location (city): London
Title: Investment Graduate
Department/Division: Rotational Programme
Number of Years at Firm: 1 year
Degree(s): MSc (Distinction) Finance and Investments, BSc (Distinction) International Business Administration, Rotterdam School of Management, Erasmus University

Q&A

What is your role?
The Investment Graduate scheme lasts between 12–18 months, during which the graduates rotate across various business areas, including Fixed Income, Equities, Prudential Capital and PMG. My first rotations, each lasting 10 weeks, were in Equities (Corporate Governance) and Prudential Capital (Principal Finance). Following these, I am now rotating in the Debt Restructuring team within Fixed Income. I am involved in both the origination and execution of two different deals. This largely includes in-depth due diligence of a companies’ fundamentals and its industry, with the purpose of understanding the reason of what brought the company to a distress. I then incorporate those in the projections of the company’s future operational and financial performance after restructuring.
How did you first decide to enter your industry?
From the early stage of my university studies I knew that I would like to pursue a career in finance. I knew that I was particularly interested in the areas of Investment Management and Investment Banking. Having done internships in both Investment Banking and Investment Management I have developed a preference towards Investment Management. I was attracted to it because of the breadth of knowledge that you are exposed to, significant responsibility from the early stages, and the unique involvement in the business world you get as an investor, while being able to maintain a healthy work-life balance at the same time.

What are the typical education requirements?
M&G requires that a candidate has a minimum 2:1 degree or equivalent, and a minimum of 300/340 UCAS points or equivalent (scheme dependent). The candidate does not necessarily need to come from a relevant academic background; M&G employs people from very diverse disciplines. In addition to the minimum educational requirement, the genuine interest in the asset management industry and financial markets is of crucial importance.

A day in my life at M&G Investment Management Ltd

7.00: Wake up and get ready to leave at about 8.00.

8.30: Arrive at the office and grab breakfast from the office canteen. I start the day by checking emails and reading the news.

9.00 – 12.30: The schedule of the day differs for every rotation. But what all of the rotations have in common is that you usually work on several projects in the same time, which requires managing time efficiently. Also, the day would generally look different depending on whether there is a live deal happening at the moment or the team is in the process of searching for a new deal. If the team is the period between deals, most of the day will involve the search for potential deals through research and internal discussions. When we are in the middle of the deal, most of the time is dedicated to its analysis and implementation. At the moment, I start my day in Debt Restructuring team by performing due diligence and financial modelling of the deals we are currently involved in. This usually involves an in-depth analysis of the company, its market, its past financial performance, and its future financial projections.

12.30 – 13.30: I usually grab lunch at the canteen with the other graduates.

13.30 – 18.00: Most of the deal related calls and meetings are happening in the afternoon. Also in the afternoon, I spend some time working on another project, which involves the analysis of the fund performance and the projections of its cash flows.

18.00: I usually manage to finish around 18:00. Currently, in preparation for the CFA Level I examination, I stay at work for a couple more hours (till 20.00 – 20.30) to study.
How relevant is your education for the role?

I believe that my degrees in International Business Administration and Finance and Investments provided me with the necessary theoretical background required for a role in Investment Management. Industry practices, however, may differ from academic theories taught in the university. Therefore, in my opinion, it is the on-the-job training and peer support that helps graduates succeed at their roles at M&G. In addition, M&G provides graduates with comprehensive five week training at the beginning of the scheme, which focuses both on soft skills and on understanding of the relevant technical concepts.

What skills are important for success?

In my opinion, the most important success factor at M&G is being passionate about your role and enjoying the job that you are doing. In other words, it is important to be curious about the financial markets and be eager to learn. Having strong analytical and problem solving skills helps in learning the new concepts at a faster pace. At M&G, you need to be able to see the “big picture”, but also take smaller details in consideration, which greatly contributes to the quality of the work that you produce. Lastly, the ability to carry out the work independently is becoming particularly useful during the busy periods.

What is the best thing about your job?

The rotations within the Investment Graduate scheme provide me with a great opportunity to gain in-depth exposure to different departments at M&G Investments. What I find especially exciting about the rotational program is the feeling of involvement in the team from the first very day driven by the responsibilities given to you. In addition to that, building up a network of contacts at such an early stage of the career is a very valuable benefit that you get before settling in a permanent role. And, undoubtedly, the people here are what make M&G a very attractive place to work for. From junior to senior, they are very approachable, supportive, always open for questions and ready to help.

What is the most challenging thing about your job?

Starting a new rotation every 10 weeks feels like starting a new job, which involves getting to know new team members, and learning new concepts and operational principles. Although this is what makes the Graduate Scheme unique, those transitions might require some effort, especially in the beginning of the rotation. Moreover, while rotating across different departments, you gain exposure to many different industries. Most of the industries have their unique characteristics, metrics and specific details that graduates need to have a good understanding of. Overall, however, these challenges are what make the work at M&G so diverse, dynamic, and with a very steep learning curve.

What is your favourite perk?

What I especially like about my job at M&G is the significant exposure to and interaction with senior professionals (both from M&G and from the companies that we invest in) at such an early stage of my career. Although the work requires concentration and time commitment, M&G offers a very good work-life balance, which leaves evenings and weekends free for hobbies. Regular team lunches/dinners are another great thing about M&G, which gives a really good opportunity to get to know your team members in an informal environment.
COMMERCIAL MANAGEMENT GRADUATE, M&G INVESTMENT MANAGEMENT LTD

Name of Employee: Davide Andaloro
Name of Employer: M&G Investment Management Ltd
Location (city): London
Title: Commercial Graduate
Department/Division: Rotational Programme
Number of Years at Firm: 1 year
Degree(s): MSc (Distinction) in Economics and Management of Innovation and Technology, MSc (Distinction) in Management of Innovation and Business Development

Q&A

What is your role?

The Commercial Management scheme lasts between 12 to 18 months and involves a series of three month placements. I am currently rotating in the Strategy team, within M&G Retail. After completing the first six weeks of intensive training graduates rotate through the following business areas: Equities, Retail, Group Operations, Fixed Income and Prudential Capital.

How did you first decide to enter your industry?

In my view, we are experiencing the most interesting years in the asset management industry to date. I believe that there have been more changes within the industry in the past few years than in the previous 20. Change spurs learning. What’s more, the industry is becoming more and more important for the future of all of us. It is extremely interesting to see how fast the industry is evolving and it is exciting to be an active part of this change. Investors' behavioural patterns are adjusting to the economic and market climate. More volatile markets can contribute to more unpredictable fund sales and higher concentration of sales flows in a narrower array of funds. From a regulatory standpoint, there is the need to increase transparency and communication requirements to help investors make more informed decisions. Asset management companies like M&G are called to cope with all these challenges and many more, and this constitutes, to my eyes, a powerful driver to work in this industry.

What are the typical education requirements?

At M&G we have people joining us from very diverse disciplines, however what unites them all is an interest in the asset management industry.

Additionally, the ideal candidate for M&G will have:

- Minimum 2:1 degree or equivalent (or an expectation thereof).
- Minimum of 300 UCAS points or equivalent (best three grades only).

How relevant is your education for the role?

My economics background has provided me with analytical and research skills, which are incredibly useful for my day to day activities. Furthermore my previous experiences as a research assistant and a consultant have certainly been beneficial.
A day in my life at M&G Investment Management Ltd

7.15: Wake up, eat some breakfast and get ready to leave at about 8.00.

8.30: I usually walk to work and normally manage to arrive around 8.30. After grabbing a coffee from the canteen, I start my day by checking e-mails and reading the news.

9.00 – 12.30: There is no routine here and the activities are generally varied and rotation specific to some extent. I personally think that this is an extremely interesting feature of the programme as it helps to develop multitasking skills from day one. On a daily basis, I generally spend a substantial amount of time in meetings, either with other teams inside M&G or occasionally with external clients. Besides meetings, I usually carry out activities like market analysis, competitor analysis, fund and data analysis, study industry trends and write presentations; often on behalf of senior managers.

12.30 – 13.30: Lunch time. I generally grab some food from the canteen and tend to eat at my desk while catching up with emails, news or the activities I started in the morning. In relatively “relaxed” days I eat with my team or with other colleagues, sometimes outside, and when the weather is nice we tend to eat by the river side, only one minute walk from the office.

13.30 – 17.30: In the afternoon, I usually spend my time between meeting rooms and my desk, where I keep working on the projects I have been assigned to.

17.30 – 18.00: I usually tend to spend this time catching up with emails and just before leaving I always write a draft of my “to do list” for the following day. I normally manage to finish around 18.00 - 18.30, so I have a lot of time to enjoy after work. Before going back home to rest I like to do some sport or to catch up with friends.

What skills are important for success?

I do not believe in an easy recipe for success. In general, I believe that flexibility, problem solving skills and attention to detail are three of the most important ingredients. Quality is also important, and that is what differentiates a good job from a truly excellent one. Finally, because quality is often time consuming, time management skills are also vital. It is a long journey to get there!

What is the best thing about your job?

I personally think that the best thing about this rotation programme is the enormous learning opportunity that it brings. By working with different teams and divisions you develop a great understanding of the business from all angles. Furthermore it allows you to build a great network of contacts throughout the organisation.

What is the most challenging thing about your job?

It is certainly not easy to have to “settle down” every two-three months. While starting a new rotation is undoubtedly one of the main benefits of the programme, it also requires a great deal of mental
flexibility: new division, new colleagues, new work and new dynamics. Furthermore, graduates need to make a genuine contribution to their teams from a very early stage. All this is challenging, but for those who enjoy challenges, I can assure you that this is fun as well.

**What is your favourite perk?**

M&G’s corporate culture is extremely friendly. It is very easy to make new contacts and to strengthen your network. Although this may sound like a cliché, everyone is very supportive and keen to help, no matter how senior.

**ANALYST AT SCHRODERS**

**Name of Employee:** Michael Devereux  
**Name of Employer:** Schroder Investment Management  
**Location (city):** London  
**Title:** Graduate trainee  
**Department/Division:** Multi-Asset  
**Number of Years at Firm:** 2  
**Number of Years in Current Role:** 2  
**Degree(s):** BSc Economics, UCL and MSc Finance, Imperial College Business School

**Q&A**

**What is your role?**

I work as a graduate trainee within the multi-asset investment team.

**How did you first decide to enter your industry?**

I did a summer internship in the equity research division of an investment bank; during my time there I was disappointed with the short-term nature and partiality of research conducted there. Joining the asset management industry allows me to conduct investment research but in a more impartial, meaningful manner.

**What is the best thing about your job?**

Every day brings different news and different investment ideas to properly challenge your thinking, and I very much enjoy working in an environment with very intelligent, yet friendly people.

**What is the most challenging thing about your job?**

The fact that all our investment ideas are based on speculation about the future, so you have to make a decision with no guarantee that things will work out as you hope they will.

**What are the typical education requirements?**

At least a 2:1 from a top university. Subject choices vary but numerical skills are important.

**How relevant is your education for the role?**

Economics has definitely helped me in developing a framework to understand what is happening in the global economy. It is difficult to link together disparate events that seemingly have no relation, and
economics allows me to try and piece together chains of events that impact asset prices. The masters in finance was educational in helping me understand financial theory and learning about different aspects of the industry.

**What skills and/or experience are important for success?**

Tenacity is definitely required to understand what is going on in financial markets and conduct thorough analyses; often the answer is not quite one thing or the other, but a combination of factors. An open mind would be useful as often you will find many differing opinions on the same topic, and you can’t just reject each idea before thinking it through! I would also say strong communication skills are helpful in getting your point across effectively to colleagues and to be able to argue an investment case.

**What is the typical career path in your industry?**

Usually a graduate trainee like me will have to make a decision at some point; whether to stay being a research analyst or become a portfolio manager. A portfolio manager is a big step up from just researching investment ideas, as you will be directly responsible for clients’ money which is a whole different world! On the other hand staying as a research analyst you will be able to focus on just generating actionable strategies for the portfolio managers.

**What is your favourite part of your job?**

I get a lot of time to read sell-side research and conduct my own side projects to test ideas (which is nice as I try to develop an independent viewpoint), but I also get the opportunity to interact with people inside and outside the firm frequently, which keeps things lively.

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**A day in my life at Schroders**

**6.45 a.m.:** Wake up.

**8.00 a.m.:** Walk into the office, log-in to my PC and open up Microsoft Outlook and Bloomberg. Check what happened in various financial markets overnight, various portfolios that the team runs and read various bits of broker research/news.

**8.45 a.m.:** Grab breakfast from the canteen.

**9.00 a.m.:** My work can be fairly ad-hoc; sometimes there are sell-side research analyst calls or presentations which I attend, or there are ideas that portfolio managers are interested in that I will work on. If there is no work from the portfolio managers I get started on my own projects.

**12.00 p.m.:** Pop out for a quick lunch with someone on the grad programme or in my team.

**12.30 p.m.:** Read the FT, catch-up with colleagues in the economics team and work on various projects/do meetings as part of the various research teams in multi-asset.

**6.00 p.m.:** After work I’ll head to the gym or go for drinks with friends/colleagues.
What is your least favourite part of your job?

When you don’t understand an idea, due to its complexity or specialisation it’s not always possible to ask someone for help; sometimes you just have to figure things out on your own!

Any advice for graduates looking at a career in investment management?

Make sure you really understand what being on the buy-side is like; too often people don’t see a distinction between buy-side and sell-side when in fact asset managers operate quite differently from bankers in mergers & acquisitions or sales & trading.

What is your favourite perk?

Free gym in the office is a big plus! Good work/life balance also is a great benefit and colleagues here are incredibly friendly.

ANALYST AT SCHRODERS

Name of Employee: Katie Green
Name of Employer: Schroders
Location (city): London
Title: Graduate trainee analyst—UK Strategic Solutions
Department/Division: Institutional sales and marketing (Distribution)
Number of Years at Firm: 2
Number of Years in Current Role: 2
Degree(s): BSc Economics and Philosophy, London School of Economics and Political Science

Q&A

What is your role?

I am a graduate trainee analyst in the UK Strategic Solutions team, which is part of Institutional sales & marketing.

How did you first decide to enter your industry?

Schroders came to give a presentation at my university. Asset management was an area I had not considered before, but after completing a summer internship at the company, I decided to apply for the graduate programme.

What is the best thing about your job?

Seeing the end result. Whether working on market analysis or a client presentation, I can always see the value in the work I’m doing. The work is extremely varied but my team is very supportive and colleagues always have time to chat things through if I’m unsure.

The graduate programme also gives you a great network. We see each other regularly in our CFA classes and also for lunch or drinks outside work.
What is the most challenging thing about your job?
My team devises solutions for a wide range of clients, so the work we do is always different and each client presents a new challenge. The answer is never obvious; problem-solving and thinking outside the box is essential.

We also study for the CFA exams whilst working, so juggling work on the desk and revision can sometimes be difficult.

What are the typical education requirements?
Most graduate schemes require a 2.1 or above. Graduates come from a variety of different degree disciplines and we are given excellent training in investment throughout the programme, so a finance-related degree is not essential.

How relevant is your education for the role?
Although the subject matter is different, the skills I built up at university are extremely relevant. Numerical skills are crucial for the analysis my team does. However, we also produce a number of research papers, so I found having an element of essay writing in my degree very useful.

What skills and/or experience are important for success?
Interpersonal skills and being able to work with others is key, no matter where you work in the business. Internships and other work experience can also provide a good insight into the industry, whilst helping you build up professional skills that will be invaluable in your future career.

What is the typical career path in your industry?
Graduates at Schroders are given a fast-track induction to the investment management industry. Studying for IMC and CFA exams is a great academic grounding while being placed in a team straight away lets you get involved from day one.

In Distribution (sales & marketing), people come from a variety of career backgrounds so there is almost no typical career path. The graduate scheme is a great spring board and the qualifications and skills are a sound base for any career path which you’re passionate about.

What is your favourite part of your job?
Working with a huge range of people. Distribution is a client-focused function so being a ‘people person’ is key in building strong internal and external relationships. You have to be able to see the client’s point of view as well as Schroders’.

What is your least favourite part of your job?
Revision time can be stressful but other Graduate trainees are in the same boat so there’s always someone to moan to.

Any advice for graduates looking at a career in investment management?
Be open-minded. Many graduates think a career in investment management means working on an investment desk but there are a whole host of different roles including sales, business development, finance or HR. Think about your strengths and remember that other skills, such as communication and problem solving, can be just as important as academic qualifications.
What is your favourite perk?

The work/life balance—I work with a great group of people and everyone knows when to work hard and when to head to the pub.

A day in my life at Schroders

7.00 a.m.: Wake up.

8.15 a.m.: Arrive at my desk. I usually use this time to check emails and organise my work for the day.

9.30 a.m.: Team meeting. We have regular meetings to go over our work flow. This keeps everyone in the loop and gives anyone a chance to flag issues and bounce ideas off the team.

10.00 a.m.: Modelling and analysis. I like to do any numerical work in the mornings when I’m fresh. We often use Bloomberg and our Excel models to help devise strategies for our clients.

11.00 a.m.: Catch-up. I have monthly catch-ups with a few people around the business, particularly on the investment desks. In Distribution, it’s important for us to be aware of the ideas and issues in Investment so we’re all on the same page.

12.30 p.m.: Lunch time. I tend to grab lunch with some of my fellow graduates. We all keep in touch and regularly go for lunch or post-work drinks.

2.00 p.m.: Presentation. As part of my development, I often do presentations to my team and others as a way of working on my client presentation skills. This might be on developments in the market or a piece of research I’ve been doing.

3.00 p.m.: Research. I’m usually working on at least one academic paper that my team produce. I have to spend time researching and writing these and will then talk through with the rest of my team to get feedback and a different perspective.

6.00 p.m.: I usually look over tomorrow’s meetings before heading out for a drink with friends.
Glossary
Valuing a Company
Glossary

GLOSSARY OF TERMS

**Active investor:** Uses available information and forecasting techniques to seek a better performance than a portfolio that is simply diversified broadly.

**Asset:** Economic resources owned by a firm that are likely to produce future economic benefits and are measurable with a reasonable degree of certainty. Examples include cash, accounts receivable and inventory.

**Balance sheet:** States the firm’s assets and how they are financed. Includes sections on assets, liabilities and shareholder’s equity.

**Buy-side:** The asset management firms that represent individuals and institutional investors.

**Capital expenditures:** Expenditures to acquire long-term assets.

**CFA exam:** A three-part exam that tests your knowledge in financial accounting, statistics, investment analysis, economic, ethics, etc. The exam is offered in June (and December for Level I) and is taken over the course of three years.

**Close-end investment funds:** A closed-end fund is an investment company that is publicly traded. It raises a fixed amount of capital through an initial public offering. The fund is then structured, listed and traded like a stock on a stock exchange.

**Cost of capital:** Opportunity cost of funds invested in a business; the rate of return that rational owners require an asset to earn before they will devote that asset to a particular purpose. Analysts often measure the cost of capital by taking a weighted average of a firm’s debt and various equity securities.

**Depreciation:** The reduction in the book or market value of an asset. It is also the portion of an investment that can be deducted from taxable income. For example, a piece of equipment’s value is depreciated each year as its useful life declines.

**Ding:** Not getting the job. The call you get after the interview that says, “Thank you, but …”

**Dividend:** Payment by a company to its stockholders.

**Exchange traded fund:** A portfolio that can be bought on the stock exchange and costs much less than a traditional investment management firm.

**Fixed income:** The opposite of equity. Fixed income investors invest in the bonds (or debt) of a government or corporation.

**Growth stock:** Characterised as industry leaders that investors believe will continue to prosper and exceed expectations. These companies have above average revenue and earnings growth and their stocks trade at high price-to-earnings and price-to-book ratios. Technology and telecommunications companies such as Microsoft and Cisco are good examples of traditional growth stocks.
**Hedge fund:** These funds are managed by aggressive investment managers, using strategies such as leverage, long, short and derivative positions in both domestic and international markets. The goal is to generate high returns, regardless of how long they hold on to a stock.

**Income statement:** Describes the company’s operating performance over a period of time.

**Initial public offering (IPO):** A company’s first public issue of common stock.

**Liability:** Economic obligations of a firm arising from benefits received in the past that are required to be met with a reasonable degree of certainty and within a reasonably well-defined period of time. Examples include accounts payable and salaries payable.

**Market capitalisation:** A company’s value assigned by the stock market. It is the product of the current stock price and the shares outstanding in the market. Investment products are often classified by the level of market capitalisation that they invest in (i.e., large-capitalisation funds typically only buy stocks with greater than $1.5 billion in market capitalisation).

**Mutual/retail fund:** A retail fund comprised of stocks is sold to investors through banks and brokerages, and is registered with regulators.

**Mutual fund “supermarkets”:** Made popular by Charles Schwab. It is a common distribution source that offers hundreds of different mutual fund products to individual investors.

**Passive investor:** Relies on diversification to match the performance of some stock market index. Because a passive portfolio strategy involves matching some stock market index, this strategy is commonly referred to as indexing.

**Present value:** Discounted value of future cash flows.

**Private Equity:** Investment companies that conduct buyouts of public companies to take them private. The plan is to delist them, reorganise, and bring them public again after they have been reorganised.

**Request for proposal (RFP):** Statement issued by institutions (i.e., pension funds or corporate retirement plans) when they are looking to hire a new investment manager. Typically details the style of money management required and the types of credentials needed.

**Sell-side:** The functions of an investment bank, which includes investment bankers, traders and research analysts. These sell-side professionals issue, recommend, trade and “sell” securities to the investors on the “buy-side”.

**Shareholder’s equity:** The difference between a firm’s net assets and its liabilities.

**Specialty firms:** Firms that focus on one type of investment management style, product or client type.

**Statement of cash flows:** Summarises the cash movement of a company over a period of time.

**Value stock:** Characterised as relatively well-established, high-dividend-paying companies with low price-to-earnings and price-to-book ratios. Essentially, they are “diamonds in the rough” that typically have undervalued assets and earnings potential.

**Venture capital:** Private firms that throw money behind startup firms and small businesses that promise strong growth potential. These firms also provide technical expertise and managerial experience.
Valuing a Company

In this section, the book will take a look at the most common ways of assigning a market value to a company, also called valuation techniques.

RATIO ANALYSIS

Equity analysts commonly use financial ratios as a way to value the stock of a company. Specifically, they use ratios to analyse a company’s past and present performance and predict future financial results. Generally, ratios are evaluated as a time series over the last few years, as a comparison against other industry competitors or as a comparison against benchmarks. Ratios are derived from line items on a company’s financial statements (balance sheet, income statement and statement of cash flows). Below are some common valuation measures used in evaluating companies in multiple industries.

### Price Multiples:

<table>
<thead>
<tr>
<th>Ratio Type</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price-to-Earnings</td>
<td>Current stock price / Earnings per share</td>
</tr>
<tr>
<td>Price-to-Book</td>
<td>Current stock price / [Assets – liabilities]</td>
</tr>
<tr>
<td>Price-to-Sales</td>
<td>Current stock price / Sales revenue</td>
</tr>
<tr>
<td>Price-to-Cash flow</td>
<td>Current stock price / Operating cash flow</td>
</tr>
</tbody>
</table>

### Profitability Ratios:

<table>
<thead>
<tr>
<th>Ratio Type</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on sales</td>
<td>Net Income / Sales</td>
</tr>
<tr>
<td>Gross margins</td>
<td>[Sales - Cost of Goods Sold] / Sales</td>
</tr>
<tr>
<td>Return on assets (ROA)</td>
<td>Net Income / Average of the last two years’ assets</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>Net income / Average of the last two years’ total shareholders’ equity</td>
</tr>
</tbody>
</table>
Valuing a Company

DISCOUNTED CASH FLOW (DCF) ANALYSIS

The DCF analysis has many variations, but it is simply a valuation exercise of projecting the cash flows of the company into the future (typically five to seven years) and then discounting them to the present value using the company’s WACC. This type of analysis is commonly taught in business schools and academic texts, but is not broadly used in industry. Many proponents argue that predicting terminal cash flow value and an appropriate discount rate are highly subjective and exposed to vast error. However, the concepts of a DCF analysis are often used in some form to evaluate investments. The following is a simplified approach to doing a discounted free cash flow analysis. Keep in mind this is a general outline and does not include many of the more detailed nuances of the analysis.

Step 1:
Calculate free cash flow for five to seven years in the future. Analysis is based on the financial projections made on the pro forma (predicted) balance sheet and income statement.

### Balance Sheet Ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset turnover</td>
<td>Sales / Average of the last two years’ assets</td>
</tr>
<tr>
<td>Accounts receivable (AR) turnover</td>
<td>Sales / Average of the last two years’ AR</td>
</tr>
<tr>
<td>Inventory turnover</td>
<td>Cost of goods sold/Average of the last two years’ inventory</td>
</tr>
<tr>
<td>Accounts payable turnover</td>
<td>This year’s inventory purchases / Average of the last two years’ accounts payable</td>
</tr>
</tbody>
</table>

### Solvency Ratios:

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to capital</td>
<td>Total debt / Total capital (total debt + preferred stock + equity)</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>Total debt / Total shareholders’ equity</td>
</tr>
</tbody>
</table>
Calculating free cash flow

Net income

+ Depreciation and amortisation expenses
+ Year-over-year changes in deferred taxes
- Year-over-year change in net working capital (current assets – current liabilities)

= Cash flow from operations

- Capital expenditures

= Free cash flow

Step 2:

Determine the terminal value of free cash flows of the company when projections become too distant in the future to predict. In essence, you are assigning a constant growth rate for the company beyond the years that you can reasonably predict (typically five to seven years).

Terminal Value = last year of projected free cash flows * (1+growth rate)

[The growth rate is usually based on the rate of inflation].

Step 3:

Discount each year’s projected cash flow and the terminal value to the present time using the company’s WACC (the weighted average of the company’s cost of debt and the cost of equity).

Example of discounting five years of free cash flows

Year 1 Projected free cash flow / (1 + WACC)
+ Year 2 Projected free cash flow / (1 + WACC)^2
+ Year 3 Projected free cash flow / (1 + WACC)^3
+ Year 4 Projected free cash flow / (1 + WACC)^4
+ Year 5 Projected free cash flow / (1 + WACC)^5
+ Terminal value / (1+WACC)^5

= Total present discounted cash flow value
Step 4:

The discounted cash flow value is often referred to as the intrinsic value of the company. Analysts compare this intrinsic value to the stock market value of the company to determine whether the stock is over- or undervalued.

If, Intrinsic Value > Stock Market Value, then the stock is undervalued (buy)

If, Intrinsic Value < Stock Market Value, then the stock is overvalued (sell)

(For greater detail on valuation including more formulas, sample questions and examples of the DCF analysis, see the Vault Guide to the Finance Interviews, the Vault Guide to Advanced and Quantitative Finance Interviews and the Vault Finance Interviews Practice Guidebook.)
Adam Epstein began his career in investment management as a sell-side equity analyst with a major New York City investment bank. He was responsible for generating buy and sell recommendations, publishing research reports and communicating investment ideas with buy-side clients. He most recently worked in Boston as a buy-side equity analyst for one of the world’s largest asset management firms. As an industry analyst, he was responsible for generating both long and short investment ideas to portfolio managers. Mr. Epstein is a graduate of the University of Michigan (BA), University of California, Santa Barbara (MA), and UCLA Anderson School of Management (MBA).

Colin Richardson is an experienced financial journalist and market reporter. He graduated from The University of Liverpool with an MA in labour history after gaining an undergraduate degree in history and politics. After university, Mr. Richardson started his journalism career in Birmingham, before moving to a highly respected international energy pricing and reporting firm in London. He now writes from his spiritual home of Liverpool.

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