

Surviving and prospering

Carmignac Gestion has sailed through the crisis largely unharmed. But how reliant is the firm on its eponymous leader, Edouard Carmignac? Angele Spiteri Paris speaks to the man steering the French manager

Edouard Carmignac's lavish office on Place Vendôme in Paris suggests that the crisis has not much affected his burgeoning asset management operation, Carmignac Gestion. The firm has delivered uncompromising performance and has seen assets under management increase.

This fine-featured man has carved out a tremendously successful career, starting out with no assets and very little capital. He now stands firmly at the helm of the French independent investment house he founded in 1989.

"Since November last year we have had record inflows, at a time when the markets were going haywire and the Madoff scandal exploded," says Carmignac.

According to the firm, assets under management were €12.7bn as at 31 December 2007, and €12.6bn as at December 2008. However, the firm says this fall was due to market effects, but it would not supply figures for asset flows.

Carmignac Gestion funds won numerous awards from Morningstar and Lipper in 2008 with most products generating good returns, so there seems little to worry about in terms of whether this firm should perish in this crisis.

In fact, the firm has done more than just survive intact, says Carmignac, and history has shown that it is during and after times of crisis that the firm has thrived.

Most industry experts have nothing but words of flattery and praise for Carmignac Gestion. In the same breath, however, some will express concern that the firm may be heavily reliant on Carmignac's investment intellect.

"Carmignac Gestion is an extraordinary example, very much linked to one man," says one observer, who wished not to be named.

Although his name stands in the business's title, Carmignac knows better than to attribute all of its success during the crisis to his own astute business sense. "To a certain extent our

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success is attributable to our achievements, but also to failures of our competitors," Carmignac says. "As a consequence of the crisis we are getting interest from clients who would have otherwise not approached us."

This is a humble statement from a man who clearly seems to like strong personalities. His desk is flanked by oversized portraits of Chairman Mao Tse Tung and Lenin, but Carmignac says these are there so that he will always remember other people he had to survive much worse situations than navigating their way through difficult financial crises.

Albeit soft-spoken and unassuming, it is hard to miss that Eduoard Carmignac is a force to be reckoned with when it comes to investment. Carmignac Gestion is his brainchild and he ensures the investment culture he has nurtured is maintained.

Over the last 20 years, Carmignac has worked hard to try and create a money-management house with a personal touch and a homogeneous yet dynamic working environment, he says.

"We offer quality of management. They [the fund managers] are a bunch of hard-working individuals from very different cultures – Italian, American, Eastern European, Korean, Scandinavian. These guys have different cultural and academic backgrounds and I have trained most of them so there's a common culture. Also people enjoy working here."

In fact, Carmignac Gestion has very low staff turnover and it has also been said that professionals who left to pursue other prospects returned to work at the firm.

Human touch

One of the major changes this crisis has brought about is that investors are craving a more human touch within money management.

Being small and having to build up a sales network from scratch may have been

challenging, but in the current environment this has served the firm well.

Carmignac says that gathering assets is not the greatest challenge he has faced over the course of his career. “The difficulty for us was not to grow but to achieve a certain visibility vis-à-vis institutional investors.

“Retail investors loved us because we were independent and human. Institutions, on the other hand, were used to dealing with the big houses. In the first ten years of our existence they would tell us that as long as we didn’t have any backing they wouldn’t invest in our products.

“The funny thing is that now they are interested because we don’t have that backing. We’re totally independent and now they want our products.”

Success in the retail market convinced larger investors that the firm’s performance was not just a fluke, but the result of a sustainable investment process.

He adds: “Institutions came in little by little and a little bit gingerly. We were investing in certain areas people had interest in, like emerging markets and commodities.” He explains that it was these “peripheral” products that drove investors to consider taking on Carmignac Gestion as their investment manager.

What really made a difference was the dotcom crash in the early 2000s. “We showed we could handle a crisis. For example, we didn’t lose money in 2002, which was a terrible year for most people,” Carmignac says. “People realised that the notion of absolute return is not a marketing ploy as far as we’re concerned. We’ve been trying to manage risk through liquid instruments and the reason for our success is that the market is slowly evolving towards that.”

Difficulties

Colouring his speech with a smattering of similes, Carmignac talks of the challenges he faced and the ones that still lie ahead.

Discussing last year’s difficulties, he says: “Naturally, we reached a period of systematic risk in September and October last year, and then there wasn’t much we could do. It’s like asking an ice skater to skate on water. He can’t do it.”

About the future, Carmignac says: “This might sound pretentious but our major issue is going to be to manage our growth. We’re having some very sizable inflows and we have to make sure that all the joints of the body remain flexible.”



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Carmignac currently offers a staple suite of products and is not about to act like a sheep and follow trendy rumours of the ‘next big thing’ in investment management, he says.

“We’re always questioning ourselves, wondering whether we should start one fund or another. But I think we’re quite happy as we stand – our aim is to be leaders in areas in which we are, and not to succumb to the marketing ploys about this being the year of China, luxury goods, or what have you,” he says.

The stability of the product offering will mostly benefit the firm’s retail clients, as Carmignac explains: “Individuals are very poor trend-pickers. They will come in at the top of the market and they will lose a fortune because they don’t have the foresight to sell at the right moment. So specialised funds can be traps for clients and we try to avoid that.”

Speaking to Edouard Carmignac, one gets the sense he knows exactly where his clients’ money is and has made an effort to keep the lines of communication open.

“We’ve been as transparent as possible. We show all the shares owned by each fund. This way people can see the errors we’ve made and the success we’ve had. This creates a vested trust between ourselves and our clients,” he says.