The perfect number for a start up fund manager August 2020

Davin Hood started up the Cor Capital Fund with Tom Rachcoff in 2012, in the wake of the global financial crisis. The idea was to simply focus on what they were good at.

Eight years and $110 million in funds under management later and the fund manager's approach has weathered the current storm well and offers advisers and their clients an opportunity to invest in an easy to understand alternative strategy. He spoke to Industry Moves about why the current 60/40 approach to portfolio design isn't working and hiring changes he would make if he could turn back time.

Do you think investors (particularly retail investors) understand the benefits of alternative investments in this current market cycle?

Most investors understand the role alternatives are supposed to play in their portfolio but it would be fair to say many strategies have failed to meet expectations in recent times. Given, as a group, there is relative opaqueness, complexity, and extra cost, it is no surprise that many retail investors steer clear.

But, there are a broad range of alternative investments to choose from, and lots of innovation. So, it may take specialist advice or extra research to understand the differences and access the specific benefits, but we believe they exist.

One lesson perhaps from 2020 so far is that the best performing 'so called' alternatives during a bull market in equities may not hold up when conditions change. Matching a strategy's track record to the role you want it to play in your portfolio is important.

For how long do you think the current market situation will prevail?

The current market situation doesn't match the economic situation, and central banks and governments are doing everything they can to bridge the gap. This process won't be quick or smooth and will likely have unintended consequences.

We are in an unfortunate ‘new normal’, and the risks for financial markets are to the downside.

You mention that traditional 60/40 type portfolios will face significant risk, do you think traditional portfolio design needs a complete rethink?

Yes I do, because with yields so low, traditional diversification approaches will not be as effective. Barbell-type portfolio structures, including complementary alternatives and active risk management, will achieve better outcomes. The challenge is that they require more work to oversee.

It’s been nearly eight years since you started up Cor Capital, do you enjoy running a boutique fund manager compared to working for larger institutions?

Working for a large global institution has its benefits. But my co-portfolio Manager, Tom Rachcoff, and I prefer running a more focussed business where our fund strategy is a pure reflection of our philosophy and experience.

Being able to make quick decisions is also a competitive advantage of being in a focussed team.

We wanted something that reflected us, we’ve never expanded beyond the main fund [but] we might do that if someone wanted more risk.

Was it difficult to get it up and running?

Getting up and running in a regulated industry was time consuming, but we had significant operating capital on day one and very supportive seed investors. We got our own AFSL and really already knew who our counterparties, such as custodians and brokers, would be. On the first day we had about a third of the assets under management we expected, but it grew from there. We started as a wholesale fund and then became a Registered MIS a couple of years later.

The fund is evenly allocated between equities, fixed interest, precious metals and cash, how has it performed?

We held up well through this recent correction. We’ve got a really good long-term three, five, seven-year track record. We persist and we learn and we’ve been around for a long time.

If you could turn back time, what advice would you give yourself?

To start Cor Capital with a few more people on the team. Rather than two maybe six, you can get really tired trying to get these things running just with a couple of you. Ten is probably too many and two or three is probably too little.

Also, never hold off on implementing identified strategy enhancements.

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