Goldman Sachs Exchanges: Great Investors

Man Group CEO Luke Ellis on hedge funds, quantitative strategies

and lessons in leadership

Luke Ellis, CEO, Man Group

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John Storey: Welcome back to another special edition of Goldman Sachs Exchanges Great Investors. I'm John Storey from the Goldman Sachs Global Banking & Markets business. And I'm your host for today's episode.

Today, I am delighted to speak with Luke Ellis, the CEO of Man Group, the world's largest listed hedge fund manager. Since Luke took the helm as CEO in 2016, Man Group's assets under management have almost doubled to around $150 billion. Earlier this year, Luke announced he'll be retiring from the firm. And President Robyn Grew will be stepping in as CEO in September. We'll be discussing Luke's career, what he's learned as a CEO, and also his perspectives in the hedge fund industry, as well as his views on the markets and trends shopping the global economy. Luke, welcome to the program.

Luke Ellis: Hi John. Nice to be here.

John Storey: Fantastic. So, let's start with a bit of an overview of Man Group for our listeners because it is quite unique origins. The company actually started as a barrel maker in 1783 and has evolved into a self-described technology empowered active investment manager. So, Luke, what does Man Group look like today?

Luke Ellis: Today it looks nothing like the barrel maker of 240 years ago. But it is nice to have a 240-year history. Today, we're a broad active asset manager. As you talked about, 150 billion. We are relative to other people a lot more hedge fund. So, it's not all hedge fund, but we are one of the two or three largest hedge fund platforms. At the same time, we're much more quantitative than most people. So, it's 70 to 80 percent quant, 20 to 30 percent discretionary. And really, the simple way to think about it is we think of ourselves as an alpha factory. Our job is to generate as much added value as we can. And then deliver it to our clients.

John Storey: You've overseen a period of pretty extraordinary growth and transformation from Man Group. Can you walk us through your thought process as you took the helm and what your intentions were for the firm?

Luke Ellis: The intentions for the firm are always about delivering for clients. Asset management is at heart a pretty simple business. But if you don't deliver for clients, it doesn't work. So, everything has been focused around how do we deliver for clients.

In the end, clients have 100 when they give it to you. And they want more than 100 back when they get it back at the other end. The end savers who represent where all the money comes from, what they care about is making sure that they get positive returns in the life of their investment. And so, what we've really focused on in the business is how do we deliver that, and deliver it in scale?

Our main client base is large pension funds and sovereign wealth funds around the world. And their problems are in big size. It's really great to find a very clever strategy that makes a million dollars. But honestly, it doesn't really make any difference to a pension fund that's running $50 billion. It's important that you can both generate added value and do it in scale. And so, the whole design of the firm is how do we deliver alpha in scale?

John Storey: And you have managed to outperform the industry on both asset and profit growth. So, can you unpack for us what drove that specifically for Man?

Luke Ellis: Sure. I think of asset management as a simple triangle. And that's where we've tried to excel. So, the first part of it is about delivering returns. Delivering alpha. And so, we generate multiple billions of dollars of alpha every year. We generate outperformance every year. And that is the raw material and we've been able to both generate very good returns over time, but also do it in bigger size over time. So, that-- that-- more dollars of alpha because that's what the client's really after.

If you deliver returns, the second thing is you've got to have good relationships. And so, one of the things I did at the beginning when I took over was to really focus on how did we think about what we were doing for clients? And so, rather than saying I've got this product, let me flog it to you. It was much more to think what is it you own today?

What is it you're trying to achieve? What is it you're happy with? Not happy with? And how do we think to build a solution that gets you nearer to your investment goals?

And building up in relationships, but particularly in solutions. And all of our growth in the last seven years has come from our solutions business. Which is about giving clients rather than the standard product, giving them the thing that fits their jigsaw puzzle.

And then the profits comes by also being very cost conscious. We managed to do seven years of growing the business without basically growing the cost base at all.

John Storey: From 2016 to 2023, that's quite some time. As you joined the firm at the helm, what were the key learnings that you picked up as you were growing the firm?

Luke Ellis: All of these businesses are essentially about people. But also, about embracing technology. So, when I started, what I try to do is to make sure that I could identify the best people to focus on to build the best culture we could have. Basically, people do their best work when they enjoy coming to work. And it sounds simple, but if you can make people enjoy coming to work every day, they do their best work. You get the most out of them.

As a CEO, you've got a hire the best people. You've got to keep the best people. But you also want them to be as productive as possible. So, we really majored on getting the culture right so that people could feel empowered and that they could get a real buzz out of coming to work. That's the first part of it.

The second thing is as doing a podcast like this is demonstration, the worked is being transformed by technology every day. No reason asset management is different than anything else. Every industry in the world's been transformed by technology. And so, we invested very aggressively, very early. That's why we're much more quantitative business than discretionary. But also, we use technology everywhere in the firm to try to make sure we can do things smarter, quicker, better, thereby you can lead on the process.

John Storey: You've had great success in growing your quantitative strategies that you just referenced now. If you were to try and pinpoint what was the key factor behind that success, what would it be? And then if you'd also just pivot to on the go forward, where do you see the growth opportunities for Man?

Luke Ellis: So, I think that why we've been successful in quant, we've been willing to invest in it. That's clearly very important. One of the things of quant is when you have a discretionary process, it can be a very good thing. But you basically have to go through the same process every day to make sure what you did yesterday is still valid. 80 - 90 percent of your effort goes into repeating the same thing. Only ten or 20 percent of your time goes into new resources.

In a quant process, if you get it right, really the amount of time you need to spend on the existing strategies is very small. Fiddling with an existing strategy is actually a very bad thing to do in quant. They're either working, or you want to degear them and start again. Fiddling with them basically is just reacting to recent information.

And so, we built all of the process of analyzing how existing models are doing into the systems itself. So, then the research people spend 90 percent of their time on new things. That means you can really build a lot of new and interesting models. Ten years ago, we might have had half a dozen models in the firm. Today, we might have 700 models in the firm. And that is a way of continually you can get more data sets. That's great. More technology. But it does take the smart people to think how to use them.

John Storey: There's a consistent theme here from you of growing exceptional human capital as well as outstanding technology to facilitate your investment process.

Luke Ellis: Yeah. That is exactly what it all comes down to. I think when you have a strategy for a firm, you ought to be able to encapsulate it in a couple of very simple thoughts. Those are our simple thoughts. It's then the execution that has to be brilliant to make sure you get the growth.

And you asked about the opportunity to grow. Look, we do a lot of different things. There might be hundreds of models. There are maybe 100 different investment [UNINTEL] across the firm. There are lots of things we don't do because we haven't found either a quant process or a discretionary team where we can really add value. We keep looking to add new people, new teams, new businesses into the firm.

We've looked to do organic research as well, finding new alpha sources. Because the more alpha you can generate, the more demand there is from clients. But the client demand for alpha is way more than the ability to produce it. So, the challenge is producing it.

John Storey: Let's take a step back and just talk about the broader hedge fund industry. You've been doing this for a long time. How have the competitive landscape evolved?

Luke Ellis: So, I've been in, effectively, the hedge fund industry for 25 years, maybe 30. Originally, when I started there weren't that many hedge funds around. And even knowing the name of the top 200 hedge funds was hard work.

As the performance was good, that led to an explosion in the number of hedge funds. And you go back 20 years ago, there really were somewhere in the 8 to 10,000 number. And anybody could start up a fund. And it felt like an incredibly level playing field.

What's happened over the last decade, and I think technology is the driver of it, is that the bigger players have been getting bigger. And the ability of people to start up new funds has really shrunk. And there is an ever-increasing concentration of the alpha, the assets, and the good people in a smaller and smaller group.

John Storey: So, scale becomes an imperative.

Luke Ellis: So, scale becomes an imperative. And I think, again, when you look at any technology driven industry, investment banking's a great example. I'm old. When I started in investment banking, I could name 150 investment banks. Honestly, spending your time trying to name the seventh and eighth investment bank now is a waste of time. Right? It's a very concentrated industry. And it's because you guys have to spend billions of dollars a year on tech.

Asset management is going to same way. And hedge fund management alpha production is going the same way. And so, the people who are really investing in the infrastructure are generating better performance that enables them to hire better people. That enables them to go and recruit more people. That enables them to get better performance. And you get into if you're inside that moat, a virtuous circle.

Now, the moat is contracting. Right? And so, there are less and less people. And so, the concentration of the buying power in the industry has really changed over the last 20 years. And I think that is an inevitable move we're going.

So, within the largest players, you have these things that are sometimes called multi managers, sometimes called platform businesses. In effect, that's what Man is, right? We have a lot of different strategies within a single platform. But mostly when people think about multi managers, they think of a Millennium, a Citadel, where there's a single fund and everybody gets one offering for clients. You can have this fund, or you can have the same fund. What we try to do is to offer solutions, a variety of products that fit people. But it's the same platform idea. And there has been an inevitable, inexorable march going that way.

John Storey: We recently authored a report on the incredible growth of these multimanager hedge funds. And extraordinary, in the last six years, the multimanager funds have grown their assets by about 170 percent with the remainder of the industry just growing around 14 percent. What do you think the issues, the speed bumps that are going to arise from this exceptional growth of the multimanagers in such a short period of time will be?

Luke Ellis: So, the talent is not inexhaustible. There is a limited amount of talent. There's a limited amount of strategies that can be applied. And so, the best of the multimanager platforms, both best of the platform businesses which we think of ourselves as one of those, can generate good returns and can afford to pay through fees so that the PMs get sensible rewards, and the clients get decent returns.

I think the Achilles heel of the growth of this is there are too many people trying to chase what looks like a very attractive thing. But there just isn't room for that many people. And so, then people are layering on cost upon cost on the clients. And not generating enough basic return in order to that that's a decent outcome for the client.

So, I think over time, because the top four or five have been very capacity constrained, people have gone to second, third, fourth tier providers. And I think they're not going to be able to generate the returns clients expect. And so, I think clients will have a disappointing outcome there.

The other potential sort of thing I always worry about. So, maybe we're all children of our experiences. But having seen what a significant change in the availability of leverage did to the hedge fund business in '08, if there's a significant change in the availability of leverage this time around, the multistrats who use, by far, the most leverage would be where it was an issue. The leverage provision, as I said, the number of real investment banks today is limited. So, the leverage provision is concentrated in, frankly, the best run, best managed global investment banks.

It's less likely that one of those players runs into a significant problem. But regulation could restrict everybody. And that would create a problem in and of itself.

John Storey:I'm going to pivot to markets and macro trends. Let's talk about what you think of as the theme of the 2010s. And what will be the theme of the 2020s for investing?

Luke Ellis: So, for the [UNINTEL] asset owners, the 2010s will go down in history as the easiest environment they've ever seen. The reality, we can get into all sorts of clever strategies and so on and so forth, but the reality is in the 2010, you just had to buy anything. It didn't matter what you bought. The more of it you bought, the better it was. It's really interesting. When you look at vol adjusted returns of bonds, stocks, tech stocks, they all end up at reasonably the same thing. You just had to buy a lot of them if it's bonds. You had to buy less of them if it was tech stocks because they're more volatile. But on a risk adjusted basis, buying anything worked. And any time there was a dip in the price, you just bought more of it.

When you look back in history, that's a unique environment. It only happened in the 2010s. And it was driven by a combination of we had no inflation. With no inflation we had no economic uncertainty. So, things were very predictive. Which means less and less risk premium needed. Central banks were printing money, putting rates down to zero and more. And so, you had lower and lower interest rates. Less and less need for a risk premium.

Multiples got higher. Buy. Buy. Buy. It was a great time to be an asset owner.

The trouble is inflation got out of the bag. And inflation is one of those things which is once it's out, it's really hard to put back in a bag. And the 2020s, we have inflation now. I think we can all accept that transitory was the wrong word to use for it. You know? So, the question is, do central banks and governments have sort of political and emotional will to really get rid of inflation? I don't think so.

We can say, look, the Fed's raised rates significantly. Well, okay, because they were nothing to begin with. And now, that's sort of, call it, 5 percent. Yeah, that's a significant raise. But at the same time, 5 percent's not a high rate by historic terms. Remember, Volcker got to 20. But really importantly, the US has run a deficit this year, fiscal deficit of, what 8 percent? And it's looking at something similar next year. In order to dampen inflation down, you need both the government to run restrictive fiscal policy and the central bank to run restrictive monetary policy. And it causes pain getting rid of inflation. There isn't a way of getting rid of inflation with no pain. I'm afraid that just doesn't exist when you do the maths.

Inflation is always volatile. So, go back into the 2010s, every inflation estimate was correct. But the one I think's amazing is you look at the payroll numbers. And we used to think if a non-farm payroll number turned out to be 5 or 10,000 different than the estimates, that was a massive miss. So, every one of those the last 14 numbers for non-farm payrolls has missed by a material percentage.

John Storey: Big change.

Luke Ellis: Right? We're in a world of economic volatility and uncertainty. This is where we remember that there aren't rules in economics. There are assumptions. There are presumptions. There are some lead and lag effects. But we don't really know how they work. So, when you get inflation, you get economic uncertainty. That will create a mixture of acceleration and break from central banks. It'll create the same thing from governments. It'll create different behavior by different central banks, different governments. That will create lots of dispersion, both at the macro level and at the micro level. And that's a very different investing environment than the 2010s.

John Storey: Which is a great opportunity set for Man Group.

Luke Ellis: It's a great opportunity set for active managers with skill. So, I read lots of stuff about there is an active management, on average, under performed. Just take the classic long only stuff. In the 2010s, it all underperformed. It's all going to outperform in this environment.

I don't think it's all going to outperform. It's impossible to outperform if there's no dispersion. If all stocks go up or down together, being long one and short another one or overweight one and underweight another doesn't add any value because they all go up and down together. So, no dispersion, doesn't matter whether you've got skill, you don't make any alpha.

When there's dispersion, if you pick the one that outperforms and you're short the one that underperforms, rock and roll, you make very good returns. But it takes skill to do that. And so, I still think you're going to see most active long only managers underperform. But the ones that have skill will outperform by a significant amount.

In a similar way, not all hedge funds are going to make money. But the ones with skill can make significantly higher returns in this environment than they possibly could in the 2010s.

John Storey: So, as we have pivoted from a low-rate environment to, obviously, a higher rate environment in most recent times, how has the conversation changed with your investor base?

Luke Ellis: The expected return, the target return is clearly drifting up. In the five years up until 2022, if you offered people a 5 percent return on a pretty consistent way, they thought that was magic. Today, obviously, you can get that out of T bills. So, it doesn't look very magic now. The question of how long it lasts? But actually, I think quite a long time.

And with inflation where it is, 5 percent nominal return isn't actually exciting. It isn't beating inflation. And so, the target returns are definitely drifting up. But so, they should. And so should the expected returns you get with skill.

John Storey: Let's pivot to the regional bank stresses that we saw earlier in the year. They have subsided somewhat, or at least for now, do you think we're out of the woods there? Or do you think there'll be longer term economic and investment implications?

Luke Ellis: I definitely don't think we're out of the woods. Look, I think you've got a couple things going on. As I said, in order to actually get inflation down to a consistent 2 percent in the US, the Fed is going to have to raise rates to a point where things break. That's the only way you damp demand down.

Now, the transmission mechanism in the housing market is much less effective than it used to be. Right? People have got long-term mortgages with a 2 percent coupon. They're just not moving. They're not going to prepay those mortgages to move to one at a 6, 7, 8 percent. But they're not hurt by the higher rate. an awful lot of companies pushed their borrowing out a significant distance and went into fixed rate borrowing. So, they're not particularly affected.

So, the Fed is going to have to keep turning the screw. One of the places that you could see it starting to affect is the asset liability management in a number of the regional banks. The sort of smaller banks, whichever way you want to call them, lots of them aren't particularly regional, is not particularly smart. They had a lot more deposits than they had places to put the money because there wasn't much loan demand. And in fact, even in the loan demand now, the direct lending space that's built up within the sort of private markets or alternative assets is doing a better job of the lending to small/mid cap companies than the sort of regional banks have been doing. So, their business model is really challenged.

And the capital charges are going to go up after the need of government to bail them out. Which is effectively what happened. And so, they're getting a squeeze from all directions. I think that's going to mean we will see a lot less of those regional banks in existence in two- or three-years' time.

It can be a car crash. Or it can be a slow-motion balloon with the air going out. Probably more likely the second. But probably going to feel a few moments where it feels a bit scary.

John Storey: You've spent a lot of time in Japan and investing in Japan. It has reemerged on the global stage for investors. Can you talk to us how you're thinking about that market right now? And perhaps, vis-à-vis, your thoughts on China as a comparison?

Luke Ellis: I've loved Japan as a country. I first went there in '85. My first job was working for the Japanese. And I've loved it ever since. So, it's nearly 40 years. I think it's a brilliant country.

Through reasonably all of that time, it's been a terrible place to invest. And I actually bought JGBs and levered them up and rolled down the yield curve, which actually has worked very well as a strategy, but almost all macro people were short JGBs though. For almost all that time, it's been a horrible place to invest.

It feels really quite different at the moment, has done for a couple of years now. So, everywhere else, the reemergence of inflation is an unpleasant experience because we all remember the damage inflation can do to an economy.

John Storey: Japan, it's welcome.

Luke Ellis: In Japan, they're absolutely delighted. They had 30 years without any inflation. It is incredible. People talk about the lost decade. Remember the lost decade was the '90s. And then they lost the 2000s. And then the 2010s. And then 2020. So, 30 years of a loss period. And I was in Japan a few weeks ago, spent time with the central bank and with the sort of senior people in most of the banks. And it's very clear that they're going to keep monetary policy extremely loose by any standards. Not just for a month or two beyond where others might think. But really through next year's wage [UNINTEL].

They got wage increases this year for the first time in forever. With no inflation, nobody's had a sort of annual wage increase forever in Japan. And they got them this year in the large companies because the government twisted arms and the big companies gave people wage rises. And certainly, when we gave our people wage rises, salary rises, they all looked a bit confused and was like, "What is this for?" It's what happens when you get inflation.

But the smaller companies in Japan didn't do wage increases in the same way last year. The central bank and the government is terrified that if they don't keep monetary policy loose, they don't let inflation build up, there won't be wage rises next year. And so, they're going to keep monetary policy loose.

Now, I think that will lead to an inflationary boom. That's really good for equity investing. You have to be very careful on the currency. Right? But for equity investing, equities respond to nominal growth. And I think nominal growth is going to be very exciting. And then on top of that, you have this question of the moves to try to get better use of capital in Japan, which if that plays out, we'll also benefit.

John Storey: So, you've heard it here people. Japan's back.

Luke Ellis: Japan's back. And look, the thing in China, China is an amazing economy in terms of the growth. But if you look at beta returns over the last 30 years, they've been nothing. They're nothing because the Chinese government, it says it on the tin, it's the Central

Communist Party. It's not a capitalist party. Right? They don't believe in capitalism. And therefore, why should there be a return to beta of just providing the capital for investment? And there never has been.

It's a very good trading market. So, there are moments you want to be long it. There are moments you want to be short it. There are names you want to be long and short. Alpha is really available in China. But not beta.

John Storey: Okay. In this type of environment, what investing strategies are you seeing the most interest in from your client base?

Luke Ellis: We do a lot of different things. And I always try not to have a favorite child. We wrote an academic research paper back in the beginning of '21 which talked about what strategies work in an inflationary environment. And it was before anybody was thinking inflation was either going to be enough to count as transitory, never mind stuck. And it's ended up being the most read research paper on all sorts of different things because people are suddenly going, oh my God, we're in inflationary times.

The top strategy is commodities. But you have to get your timing right on commodities. It's not a buy and hold strategy. And the second-best performing strategy in inflationary times is trend following. And I would say that, wouldn't I, because it's what's Man is best at in the world. But history says it works. And it does seem to have worked.

John Storey: We'd be completely remiss not to touch on the impact of AI. So, I'd love to get your thoughts on that. And also, how you potentially integrate that inside Man Group.

Luke Ellis: So, we started doing research on AI strategies for trading markets ten years ago. They've been in active use in real client portfolios for, I think it's, eight years. So, this is not a new thing for us.

Clearly, the speed with which you can process things has improved at an incredibly rapid rate. And that means you can do more things with AI. Let's call them machine learning techniques because I don't really think any of it's intelligent. And I'll come back to why that's important.

It's incredibly good for processing words. So, all of the research papers produced by the banks, if you sit and try and read that yourself, it's impossible. It's literally, physically impossible. Even if you have an army of 1,000 people, you couldn't read all of the research produced by all of the banks. Never mind actually have time to think about what it means.

You can use an AI to do that and machine learning technique, natural language processing pulls in all of those words. Processes it. And extracts the information you want to do. So, we do that very actively. It's a great way of getting quick insights so you can then look for what's really important.

And that's where the sort of ChatGPT, we have ManGPT. Those things, they're really good at processing words.

But one of the things of these systems, and this is why I don't think they're intelligent, is they always think there's an answer. So, if you ask ChatGPT who's the greatest French poet, it will give you an answer for who the greatest French poet is. I pick that, not because I know who's a good or a bad French poet, but because it's a question you cannot possibly have an answer to. You can talk about all sorts of people who were well regarded or not, but are they the greatest? Who knows?

When you look at financial markets data, there is sometimes information in there. But the vast majority of financial market data is noise. The vast majority of movements are not because there's some great insight to be extracted from it. It's noise. When you build traditional styles of algorithms, one of the things that's really important is rejecting things. So, we reward a researcher just as much for looking at a data set, doing analyst and saying, "There isn't alpha here," as we do for doing the research and saying, "There is alpha." But an AI, because it's not intelligent, it's a machine, it's a process, it always finds an answer.

So, you give it any data set, it will always find a strategy it thinks will make money in the future. If there's alpha in there, that's really exciting. If on the other hand, it's just a random set of data, it's just done a data mining exercise. And so, there are a lot of things where we use it. And a lot of places we've worked out it doesn't work well for that.

John Storey: Let's go back in a time capsule. What sparked Luke Ellis' interest in finance? How'd you get started in the industry as well?

Luke Ellis: So, it's traditional at this point to say I didn't really mean to come into finance. I just tripped in. And I know you have one of those stories.

For me, I learnt to play cards when I was two or three and basically went who went to bed when was decided by who won at cards. And so, I started loving patterns of numbers from a very early age. And then my grandfather, who was an entertaining rogue taught me to bet on the horses when I was about five. And he insisted I did it properly. Right? You had to read form. You had to understand the breeding. It was like you had to do it statistically, not just because you liked the name or something.

And then I was about six and we were watching, and there were only two or three horses in the race. I can't remember exactly. And I worked out looking at the numbers that the bookies were going to win whichever horse won. All of the horses were odds on. And just like, hang on, that means the bookies always won.

And I looked at him and said, "Hey, that's not fair. The bookies always win." And he said, "Yeah, that's how it works. The bookies always win." And so, I laughed and said, "I want to be a bookie when I grow older." And he said, "We like to call that 'working in the city.'" And so, that's why I came to work in the city.

John Storey: Learnings from your childhood that have helped you in your investing career?

Luke Ellis: Well, as I said, playing with cards and numbers is good for patterns. But the other thing, my mother, my sister, my brother-in-law, my brother in a slightly different way are all psychiatrists or psychologists, clinical psychologists. And so, how to read people and understand people is something that I-- we had to do psychometric tests at sort of breakfast in the morning as it was somebody's homework. And so, the ability to read people I learned early. And I think that's really important in working through financial markets. And the other people who are great to employ are people who've lived in hyper inflation. I remember we had some Brazilian and Argentinean guys who'd grown up in the hyper inflation there. And boy, they were so good at understanding risk and numbers.

John Storey: Earlier in your career, you spent about a decade building a hedge fund of funds business. Just for our listeners, can you describe what that is? And also, what you learned from that experience?

Luke Ellis: Sure. I mean, very simply, it's putting a portfolio of hedge funds together to give somebody a target return. And what I learnt from it is you have to think about portfolio construction very differently in beta space than alpha space. So, the traditional way of thinking about portfolio construction is equities, bonds, some balance between those, which geographic type of equities. That's beta space. Beta space you can build a balanced portfolio, or you can make some forward-looking bets. It's hard to make forward looking bets, but it's perfectly possible if you do it well. And you can add a lot of value.

It doesn't work in the same way in alpha space. So, the point about alpha strategies is they're not driven by growth in a particular country, which is what betas are driven by. And so, the dynamics of them are quite different. And certainly, what we spend a lot of time trying to predict where there would be good alpha next year. Would it finally be a good year for distressed investing? Everyone's saying that again now. Would it be a good time for stock picking in Japan?

What we found is you couldn't predict where there would be alpha. And so, rather than trying to predict where there would be alpha and then trying to find a manager that did that, we worked out what you should do is to look at as many managers as possible and find the one that had a repeatable source of alpha. They don't make money every year. But they had a repeatable source of alpha. And then you combine them together in a portfolio where they're different, and the sum of the parts ends up being much better than the individual.

That is the way that I've found to run a funder fund. But it's also the way I've thought about the portfolio at Man. And it's, as we talked about earlier, how the multistrats work.

John Storey: You took a break in your career from 2007 to 2010 when you were recruited to join Man Group.

Taking a break's not something that's very common in your industry. How did that sabbatical help you in your CEO role?

Luke Ellis: So, it helped me in two big ways. One, so, I was an unemotional participant in the financial crisis. So, I was helping people, giving some advice, consulting, whatever you want to call it, during that period. But I didn't own a business. I wasn't in charge of a business. And so, all the scars and the early aging that happened to people who lived through the financial crisis I didn't have. So, it gave me greater longevity than I would have had if I'd lived through that.

The second thing is it gave me a great chance to build a relationship with my kids who, at the time were, call it, 11 to 15. It's a great time to be around kids. They're interesting and fun and they haven't yet got to the point where they don't want parents around. And that's really stood me in good stead for longer and has meant, again, it gives me balance in life.

John Storey: Very good. So, diversity and inclusion are really important issues in the financial industry. They're also issues that you've consistently promoted throughout your career as well. Can you unpack how you achieve that in your process at Man Group? And also, just how you think the finance industry can continue to make progress in that area.

Luke Ellis: It's amazing when I look back on the way the city was 40 years ago when I joined to how it is today. And so, the good news is things have improved a lot. The bad news is, yeah, there's still further to go.

It would have been unimaginable when I first came into the city, or frankly even 20 years ago, halfway through my career, to think of a firm being run by a gay woman and having a female chair, which is what Man now has. And a brilliant thing is now it happened, and nobody blinked an eye. Best qualified people got the job. Nobody even worried for a second. That is a microcosm of what we need to get into every decision in the city.

It used to be that everybody asked you what school you went to. And if you didn't give a good answer on the school, they wouldn't listen to you. I went to a comprehensive school in the UK. That would never have been possible for the CEO of a big firm to do that. So, we're making good progress. But there is further to go.

I think what's important is firstly you treat everybody equally. That sounds obvious. But people often don't. Secondly, you create an environment where everybody feels comfortable to be themselves. And thirdly, you accept nothing from people who behave badly. There is no amount of P&L one person can generate that should be enough to offset them behaving badly. And if you have zero tolerance for bad behavior, it's amazing how you don't get any bad behavior. But you have to have zero tolerance. You can't let people off.

And I think it's a version of that thing that I don't know whether it really did change New York, but the idea that it was no broken windows, no graffiti was by having no tolerance of the little things was how sort of New York was turned around in the '80s. Some version of that. You should have no tolerance for any bad behavior, however small it is.

And then you have to make incremental things. You have to recognize they're incremental. There is no one, if only we did this suddenly the city would be 50 percent women, 50 percent men and whatever the appropriate racial profile is and so on and so forth. You have to do lots of things which move the dial forward. So, whether it's providing, pushing promotional opportunity on women in the organization because they tend to hang back relative to men pushing forward. Whether it's about providing returner programs which we do. Whether it's about, I know you had a cool idea about sponsoring kids at school.

From all of these things, can make, you know, in a firm Man's size, each one of those ideas might change four or five people. And we're 1,700 people. So, if you want to move the firm 200 people, 300 people in the right direction, it's a lot of four or fives. But I think it's much better to do a lot of four or fives than it is to try to think if only I could think of the one 300 person. Because otherwise, people don't do the four or fives. And they never find the 300.

John Storey: Yeah, well said. As I mentioned at the start, you announced your retirement from Man Group. So, as you look back on this great period for you as being CEO, what are the accomplishments that stand out most to you that you're proud of?

Luke Ellis: So, look, as you mentioned earlier, it's been a very good period for Man. We've had very good growth. We've delivered very good returns to our clients and our shareholders. You know, that's the objective thing. But those are outputs.

What I really care about are the things that you can actually control. And that's about getting, as we talked about earlier, getting the best people in the firm. Getting the right culture in the firm. And one of the bits of that, I've always loved identifying people far down in the organization or in dead end corners or whatever. And we're sort of valued by our own people as well as I am on other things. And yes, you promote superstars. But actually, it's identifying the people other people don't see as a super star, that's one of the things that I feel like I enjoy the most. And when I look at the management team that I'm passing onto at Man, the whole management team is made up of people that I identified somewhere down in the organization somewhere along the way and promoted through.

I think the other bit which I have to touch wood for, I think a really important part of being a CEO of a public company, look, if it's your own company, it's your own business, it's different. Right? You can do it as long as you want to do it. If you're a CEO of a public company, this firm's been around 240 years. God knows whether it'll be around another 240 years. I don't know what the world will look like then. My job was to run it as well as I could when I had it. But to make sure that I pass it on so that it will continue the success.

And we can all think of CEOs we've seen who either stayed on too long or didn't groom a successor so that there was a big hole when they passed it on, or they created some drama that when there was a transition in leadership. And that's bad for the clients. It's bad for the employees. It's bad for the shareholders. And so, actually, with the benefit of hindsight, I think the thing I'm proudest of is that, and I'm touching wood because we haven't completely finished it, but we've been able to do a transition at a point where people didn't see it coming. But my successor is ready. Spent a long time making sure she was ready to take over. Making sure that the team around her is able to deliver just as much as it's done before so they're not going to miss me going.

Hopefully, before I started to be underperforming. And smooth transition is the best thing one can do.

John Storey: You should be proud because you've done it really well.

Luke Ellis: Thank you.

John Storey: I would like to close with a lightning round here, Luke. So, let's do that. What was your very first investment?

Luke Ellis: A pack of cards. As I talked about, I like playing cards. And I paid my way through high school by winning at cards.

John Storey: Which investor do you admire the most?

Luke Ellis: I think if it's not Chesie [?] because he's a friend of both of ours, it might be Louis Bacon because he's really had to reinvent himself a lot of times over the last 40 years. He's been doing this a long time. And has had to change the way he thinks about risk. And has managed to do that and generate returns pretty consistently.

John Storey: That's Louis Bacon of Moore Capital.

Luke Ellis: Yes.

John Storey: Your biggest mentor?

Luke Ellis: So, it was my boss at J.P. Morgan was a man called Ramon de Oliveira. And he said one thing when I started reporting to him, which is he said, look, his job was to keep the organization from interfering in what I did. As long as I didn't get him in trouble, he would make me look good. And he basically said just no surprises, but otherwise, he thought his job was to make me look good. I thought that was the best form of leadership you could imagine. And it stayed with me ever since.

John Storey: The best piece of investment advice you can give to our listeners that you wish someone had told you when you were younger? Or just advice in general.

Luke Ellis: Well, I was going to say, well the investment advice somebody wrote on the board of my first week and I didn't take it seriously enough, which was the trend is your friend. It was true then. And it's still true.

John Storey: The book you've read recently that resonated with you? Or that you enjoyed the most?

Luke Ellis: I haven't quite finished it. But I'm reading a book about Japanese history called *The Japanese History Through Twenty Lives*. And it's just amazing seeing sort of snapshots of the way that country has developed over time and how advanced it was compared to the West back in the sort of ancient days.

John Storey: Finally, I know you have many interests beyond investing. Rugby. Wine. Philanthropy. Just to name a few. What are you most looking forward to doing in your, I'm going to call it your second sabbatical because retirement isn't a word that I associate with you.

Luke Ellis: I hope this one's for real. So, I'm probably most looking forward to drinking my wine. But I have to be most careful about not drinking too much wine. I am the chairman of Greenhouse Sports which is a fantastic charity that I--

John Storey: Fantastic charity.

Luke Ellis: …Believe very strongly in. And you and some of your colleagues at Goldman have been nice enough to be supporters of. And I'm looking forward to having more time to help them because through that we help a lot of kids in the UK. And that's a great thing to do.

And the nature of doing these jobs is your partner, your wife, has to put up with an awful lot of, I was going to say something I'm not supposed to say on a podcast. They have to take a second seat to work. Work has to come first when you're a CEO of a public company. You know, I'm looking forward to spending a lot more time with her and making sure that she gets to choose what we do more of the time.

John Storey: Luke, it's been such a pleasure to speak with you. Thank you so much for giving us your time.

Luke Ellis: Real pleasure, John. Thank you.

John Storey: And thank you all for listening to this special episode of Goldman Sachs Exchanges Great Investors. This podcast was recorded on June 30th, 2023.

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