Low fashion, high durability

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As Thornburg Investment Management's fourth employee, Brian McMahon arrived in Santa Fe in 1984 around the same time as the firm acquired a second-hand fax machine, a survivor from the disastrous presidential campaign of Walter Mondale.

At a presentation at Bear Stearns in New York, where the company's founder, Garrett Thornburg, had been a partner, one wag raised his hand to say you couldn’t get that day's Wall Street Journal all the way down in New Mexico.

“We actually could get that day's Wall Street Journal by 1984, when I went down there, but not much else,” notes McMahon, who now acts as CEO, CIO, and the manager of two funds.

Communication is much improved since then, when McMahon would unlock the doors, make the coffee, handle customer calls and manage money. These days no-one questions why a $90bn (£66.6bn) bottom-up equity and bond manager should be based in New Mexico, or anywhere else.

One of the strengths of a small firm, in which senior management gets its hands dirty, ought to be regular cross-sharing of information to the benefit of all teams and portfolios.

Indeed, communication, particularly within an organisation, is often said to lie at the heart of a successful strategy. “I do think we communicate well, better than average, particularly about what’s going on in the different asset classes,” says McMahon. “We're conscious of the shortcomings of a remote location and having a generalist model, so we have tried to compensate by communicating well and travelling a lot.”

Cross-asset meetings take place all the time, adds McMahon, so emerging markets teams will interact with their US domestic or fixed-income counterparts. “In the last 4-5 months, the bond market globally has got way more interesting. Not as interesting as it will be, but more interesting, so there's more to talk about.”

Much has changed since 1984, of course. Bear Stearns failed in Wall Street's survival-of-the-fittest race, and the Street's old partnership model Stearns failed in Wall Street's survival-of-the-fittest. Not as interesting as it will be, but more interesting, “In the last 4-5 months, the bond market globally has got way more interesting. Not as interesting as it will be, but more interesting, so there’s more to talk about.”

McMahon manages two strategies: equity-income Builder and Global Opportunities funds. “Maybe it’s easier to be different for longer and be more successful at being different if all your friends aren’t in the same business. We don’t have many friends in Santa Fe who are in this business and they tend to be in a different universe”

but it has attempted to construct an investment shop that adds value over the long term. Senior portfolio managers are all partners in the business, as Christian Elsmark, Thornburg's new London-based managing director points out.

Today the 250-plus employees work in a state-of-the-art sustainable building in New Mexico with rooftop gardens. Long employee tenure is a fact the firm is keen to highlight — it claims 45% of employees have been with the firm for more than five years.

How does the firm decide when to add a new capability? “Investment strategy must be durable, not a passing fad,” says McMahon. “There are many things that we have not done that we thought were small niches or things of the moment. There's a lot of fashion in our business. We're low fashion but, hopefully, durable.”

Strategies are added when the firm believes they are incremental to existing ones, and can also help existing teams do a better job. Thornburg’s developing world strategy, for example, is incremental to existing international and global equity strategies, and the firm has been building out its developing world equities team.

In 2011, the firm added UCITS versions of some of its funds, four of which are derived from the US mutual fund model. In all, the firm has nine fixed-income funds, including two strategi-gic bond funds, and seven concentrated equity funds. The equity funds typically manage 35-75 stocks with a broad investment mandate.

McMahon manages two strategies: equity-income and focused global-equity. Why two funds rather than three, or one? “It's been as many as five when I was still doing bond funds and as few as zero when I wasn't a named portfo-lio manager,” he replies.

McMahon says he imparts knowledge to his co-managers and, in time, hands over to them in readiness for another challenge: “My objective is usually to get rid of responsibilities and it’s nice to be able to hand things off.”

As for his time, he spends most of it on the things he owns: “It's not hundreds of stocks, it's three dozen. We try to go deep on the things we own and for the things we don’t own we have as good a communication as possible.”

And when it comes to the relative isolation of New Mexico, is this actually beneficial? “There is enormous pressure to be like everyone else in this industry and there is enormous pressure when you're doing something different because people will question you. There is safety in num-bers and some discomfort in being different.

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