PRESENTER: Ciaran Mulligan is Head of Investment Manager Oversight at the Prudential's Investment Office and he joins me now. Well Ciaran, what exactly have you got oversight over?

CIARAN MULLIGAN: Quite a lot actually. So the team that I'm responsible for oversees over 400 retail and corporate pension funds. In addition to that, we oversee the managers that we employ within the £135bn with profits book at Prudential, so enough to keep us busy.

PRESENTER: And are those all internal managers or have you got some third party in there as well?

CIARAN MULLIGAN: There is a mix. Typically for the with-profits book it is a mixture of internal and external managers. And again within the unit-linked side of the business there is a large emphasis on internal funds, but also a good mix of external funds as well.

PRESENTER: And how would you differentiate your process from some of the other multi-asset providers out there?

CIARAN MULLIGAN: It's a good question, a question I get asked quite a lot, and it's evidence of the performance that the managers that we employ have managed to generate over time. And I think picking managers or assessing managers, like any decision that we make in life, we have to be cognisant of the biases that we have, be they conscious biases or subconscious biases. And what we try to do is not to ignore those biases, but to accept that they're there, and to understand that the decisions that we make are influenced by those biases and to adjust accordingly in terms of our daily process.

PRESENTER: And do you use qualitative and quantitative research, how do you blend the two?

CIARAN MULLIGAN: Again terms that are I think overused a little bit in terms of manager research. Both in their own right very important, quantitative research and qualitative research, but it's the blending, as you say, the actually coming together of the two aspects of research that is the powerful. Quantitative research I think is done throughout the industry, but the interpretation of those

results isn't necessarily done to a high standard. And what we spend a lot of time is actually understanding the quantitative analysis and that frames the qualitative aspects of our work, the qualitative research that we do, allowing us to better spend our time on the key pertinent issues.

PRESENTER: So what are some of the things that you do slightly differently on quant that produces perhaps what you consider to be different and more insightful answers?

CIARAN MULLIGAN: Sure, I think to understand what we do differently I think we need to understand what other people do with quant research. And typically people use quant research as a backward looking measure. Looking at previous performance periods, how managers have done relative to benchmarks. Now we do that, obviously we do, but we try and predict what a manager will do going forward. So we will scenario test different managers in different environments in terms of how they've done previously, and how we expect them to do going forward. For example certain styles come in, come out of favour. We've just come out of a long protected period of value managers being unrewarded for their process, and that's not to say that they're poor managers. But we need to understand those performance in the context of the environment that they performed in, and then looking forward how do we expect them to do in similar environments or in challenging periods.

PRESENTER: But what would you say if someone said well it just sounds like you go around buying underperformance, that's not necessarily going to turn into outperformance later?

CIARAN MULLIGAN: Absolutely not, and I guess what we need to do is re-examine the thesis. If you look at a stock picker, a fund manager, what do they do? Do they pick stocks that have gone down in value, and therefore they are cheap stocks? In some cases they do. But what the successful managers will do is re-examine the thesis. Does the thesis still hold in terms of why I liked that stock? If it does then they should buy those poorly performing stocks, because they represent good value; the very same in picking fund managers. If a fund manager has done poorly you re-examine that thesis, and understand what has generated that performance. Is it a lack of skill? And then you probably will terminate that agreement. If it's not a lack of skill, but you understand the context of that underperformance and the environment that it's been generated

in, you are within your rights to actually increase your allocation to that manager, or reaffirm your buy rating. So it's understanding the context of the underperformance, rather than looking at a bottom performing manager, bottom quartile manager, and therefore realising that that is a sell candidate.

PRESENTER: You're talking about fund managers, but many of the managers you've got at the Prudential are running segregated mandates rather than funds.

CIARAN MULLIGAN: Indeed.

PRESENTER: Why do you like the mandate approach?

CIARAN MULLIGAN: Many reasons, and this is one of the, I think the secrets of the success that the Pru Fund has had over many years. In running segregated mandates we have an element of control. Now when I say control it's control over the design of those mandates. So I can choose the benchmark, I can see what a manager's skillsets are. Certain managers might be extremely good at stock picking. Within a sector they will differentiate between the Amazons and the Apples, the Apples and the Dells very successfully. Other managers might therefore shy away from that, but actually have a really good understanding of what's driving the macroeconomy, and understanding that they need to tilt their portfolio to tech stocks, to financial stocks, given the context of the environment that we're in.

What we can do through our manager selection programme is identify the key skillsets of those managers, and then design those mandates to actually allow that returns or that alpha, the performance over the benchmark to come through in a specific way. Very difficult to do when you're buying stocks or when you're buying funds off the shelf. But in being able to design those mandates I can allocate risk budgets to more skilful managers, and I can actually tilt portfolios in the way that I want to, to benefit from those manager skills.

PRESENTER: Does it ever cause a problem if essentially you're going to a manager saying we think we've got a better way of you running money than you're running money?

CIARAN MULLIGAN: I think that would be a little bit.

PRESENTER: Yes, I was being a little bit, a little unfair in that question.

CIARAN MULLIGAN: Presumptuous of me to say, presumptuous. I think what I would do is work with that manager to understand their skills, and to actually explain to them what best practices are that we've seen elsewhere. In many cases we've actually worked with managers to actually hone their portfolio construction, or their attitude towards risk, and then allocated them a larger slice of the overall multi-asset funds as a result. Now we're never going to redefine what a manager is trying to do, because that manager has to be true to his own thesis, his own philosophy. But what we will do is try and work with those managers to identify skill, and increase the probability of understanding the performance streams going forward.

PRESENTER: But having taken a manager and a mandate onboard, how much time do you then spend looking at the, what they then do with the product, both from return and a risk point of view?

CIARAN MULLIGAN: Most of our time. So the majority of our time would be spent selecting managers, and then understanding how the performance streams are manifesting themselves against our, what we perceive to be likely. And how we do that is many different ways. And going back to the quantitative and the qualitative research, we spend a lot of time looking at the quantitative numbers as they come through, making sure that they're within our tolerances, within our expectations, both from a risk perspective and a performance perspective. And it's key that when they are not that it's then when the qualitative research kicks in to understand why they've deviated away from a pre-set process. So it's a continuous circle if you like, in terms of actually understanding the manager, selecting the manager, and then ensuring that they're performing in line with our expectations.

PRESENTER: You obviously spend a lot of time looking at other managers, where they get it right and get it wrong, how much of your time is spent applying those same techniques to what you yourselves are doing? What have you learned from them?

CIARAN MULLIGAN: I think what we've learned is that we don't get it right all the time. And I think what we've learned is the best way to improve is to understand where we've gone in the past. If I take an example of a poorly

performing manager, it may be that they've had a bad period of markets being against them, or it may be that they have not understood their own risk controls, or their own risks within portfolios. And again within our processes we continue to evolve, we continue to improve our quantitative analysis; we continue to look at different metrics, new systems, new quantitative techniques. And again in our qualitative approach we continue to redefine and reassess what works, what didn't work in terms of our analysing fund managers.

Different managers need different approaches. There's no need for me to go into a manager with a very heavy handed approach, if that manager is then going to swell up and not tell me anything. But in certain cases we need to have a very frank and honest conversation. So understanding what's worked in the past, and then changing our attitudes, and changing our methods going forward is a key evolution of a manager research process.

PRESENTER: And investment is incredibly global, how important is it for you to have managers that aren't all based in the UK, or just up the road in Europe?

CIARAN MULLIGAN: I think it's always been important, but in today's age it's increasingly important. Everything is global, everything is digital, and if we look and see what's driving stock markets, and what's driving manager returns, it is increasingly global economies, global stocks. I think what we've benefited from within Prudential over the years of the life funds are these new ideas. Yes, we'll have ideas that we want to ask managers to run for us, and we have ideas of areas that we want to invest in. But often we will actually have managers come to us and say have we considered this asset class? Now over the last 20/30 years the life funds have benefits from new ideas that managers have come to us, and we've seen on our global travels, on our global reach.

Things like African equities, South African debt, emerging market debt, all things that we have got used to as asset classes, and incorporated into our overall multi-asset portfolios because of that global reach, because of the research that we do. But with these more esoteric asset classes it's very important that we understand the manager's skill set, because all very well having a good idea, but if it's poorly implemented then the returns don't come through the way we would want to, so again understanding those managers, and the manager research programme, vital for the expansion into new areas.

PRESENTER: We have to leave it there. Ciaran Mulligan, thank you.

CIARAN MULLIGAN: Thank you.