00:00:00:04 - 00:00:32:00
HOST
Welcome to the People Property Place podcast. Today we are joined by Hugo Llewelyn, a serial entrepreneur and founder of B Corp business New Cool Capital Management. Nucor is a specialist investor in social infrastructure real estate in the UK, and it invests in assets that are integral to societies needs. The business was founded with the belief that capital managers can provide strong returns for investors and intentionally create a positive impact for people and the planet.

00:00:32:02 - 00:00:55:16
HOST
Hugo is answerable to all new core stakeholders for managing the business and its investment strategy, including achieving the objectives of each of its separate account and commingled fund clients. Prior to New Call, Hugo was a co-founder and head of investment for Tigo Real Estate Investors, which was set up in 2004 and sold to Cornerstone Real Estate Advisors, now bearings, in 2010.

00:00:55:18 - 00:00:57:15
HOST
Hugo, welcome to the podcast.

00:00:57:20 - 00:00:59:00
GUEST
Thank you Matt. Very good to be here.

00:00:59:03 - 00:01:22:15
HOST
Not at all. Well, you've got an absolutely fascinating background, and I'm really keen to understand, how you balance, good profitable real estate investment management while creating social value. And personally, what led you to to focus on that? But before we get into the new core and the journey and your story, there a question that I ask everyone on the podcast is how and why did you get into, to real estate?

00:01:22:17 - 00:01:56:04
GUEST
Great. Thank you. And a good question. Well, back in 1994, I, graduated from Oxford University, with a degree in classics. And, other than either becoming a classics teacher or perhaps going into the civil service, it was, you know, it's I had to do something else say. And I was thinking about either investment or law as a career, and and I decided on investment and then I then I looked at where my cohort were off to, from Oxford, and it was mostly, listed equity or listed debt.

00:01:56:04 - 00:02:24:06
GUEST
So bond funds and very few were going into real estate. So I thought, well, I'll do that. They that helped me. There that'll be an interesting place to go. And they're all cleverer than me, so they can go do something else. So, so that so I went and did a, MSC at reading, where actually I met my current chairman, Andrew Baum, who have been friends ever since and who is very always very bemused to tell people that he failed me on my first investment exam for at reading.

00:02:24:06 - 00:02:33:04
GUEST
But, for me for being a bit slack and, and thinking and, you know, and, but it's, he's now my chairman, so we've, we've recovered that.

00:02:33:05 - 00:02:33:23
HOST
We've gone full circle.

00:02:33:23 - 00:03:00:22
GUEST
Yeah, exactly. And, and then I went, having done my MSC in real estate, went off to Chesterton, which is now, no longer a commercial surveying firm and, breaking into its parts. And, did my RCS, and then, as soon as I could, I got out of Gestione and went to work for Legal and General and got myself into the world of investment fund management, which is where I've been since.

00:03:00:24 - 00:03:03:12
HOST
So did you have any family in real estate or.

00:03:03:13 - 00:03:03:24
GUEST
No.

00:03:04:02 - 00:03:10:17
HOST
No. So no real context outside of, just looking at things to do?

00:03:10:19 - 00:03:53:16
GUEST
No. My, my, I think I was I had an interest in the change process in buildings that you could take a building that had been a prison, and then it was a hotel and there was a nice sort of irony and interesting social story to, how buildings could get reused for different uses as society changed. And, that's about the only link, thinking back to my teens and early 20s that that made me really interested in it, but then this but but it was but it's I have never regretted, that decision and and and here we are now, 20, 25, 30 years later and, and, at New York Capital.

00:03:53:16 - 00:04:07:11
HOST
So still plugging away. Yeah. So you did the, you did the, you know, controlled the well-trodden path in terms of going getting your OPC at one of the surveying practices. Yeah. Why didn't you stay in surveying and why did you make the move to the fund management world? I think that.

00:04:07:11 - 00:04:39:06
GUEST
The, the property, these surveyors, whatever, one, so to speak, in the, in the hub of the big wheel of capital in real estate. And obviously there's a very important role and much needed. But you when you were doing that, you didn't really see what happened after deal had been done or how the owner financed the deal or what happened to the tenants thereafter, or did they make any money out of the deal or what was it useful as an asset or whatever?

00:04:39:08 - 00:05:00:14
GUEST
And so I the only route really, to get into investment in those days was via the the graduate training scheme. You know, that that the big surveying firms put out there. So that was that's what I did. But as, but as soon as I could, I went to work for a guy called Steven Mundy and Stuart Anderson, legal general, as a base.

00:05:00:16 - 00:05:24:24
GUEST
Interesting. And, intelligent man and, and and, and got given a lot of responsibility there early on working on the legal and general life fund and, I, and if we sort of advance the story a bit after a couple of years there, energy was selling off all their small assets. And, so I went to Steven and said, look, Steven, we're

mad selling off you, you know, selling off really nice sort of small assets just because they're small.

00:05:25:02 - 00:05:48:18
GUEST
Why don't we put them all into a pool, put some debt against them. Energy can release the money. And, I'll run it and, you know, get a bonus based on, you know, the performance of the of the vehicle. But that was about energy life and wanted to do at the time. And so I then said, I realize I've got to understand about corporate finance as much as sort of direct equity investment into real estate.

00:05:48:20 - 00:06:09:13
GUEST
So I went off to work for a wonderful man, sadly no longer with us, called Chris Nicole at, Hook Point and did a couple of years, a whole point, and whole point was it was a, M&A corporate finance business. And that really taught me all about the listed real estate market. So the REIT market, I hadn't actually, evolved at that point.

00:06:09:13 - 00:06:32:19
GUEST
So the listed property company market, about, lending and debt and all the, you know, M&A, corporate purchases, all the funny games that goes on there. And the biggest lesson, of course, it teaches you is that if you are, working with corporate finance advisors, if you if you know how to work with them, well, they can achieve your objectives very well.

00:06:32:24 - 00:06:58:21
GUEST
If you don't know how to manage corporate finance advisors, they can cost you a lot of money. So and we've seen the stats of a lot of M&A transactions destroying value in companies. So it was an excellent, lesson. And I think all my early jobs and I got a few were all about learning the trade and and which now comes to a point in my current business which one has a reasonable amount of, experience in, in doing it.

00:06:58:23 - 00:07:19:03
GUEST
So I've Joe. So I worked with Chris for a couple of years and, and he was really a great mentor for me because he showed that you could be extremely professional at the same time as being extremely irreverent. And he had no time for the sort of puffed up, subtle city, you know, sort of bigwig, wild grandee world.

00:07:19:09 - 00:07:42:20
GUEST
But my goodness, he was a brilliant advisor and his clients really loved him. So, so he and he became a great friend as well, and actually subsequently was involved with, Nucor as well as non-executive director of 1 or 2 of our funds, before he died. So, so say one sort of on one's journey, one picks up some great friends, great mentors and, and a lot of experience.

00:07:43:00 - 00:07:48:03
HOST
Yeah, yeah, I was gonna say you clearly, at that stage in your career, you really prioritized learning over earnings.

00:07:48:05 - 00:07:49:10
GUEST
Yes, exactly.

00:07:49:11 - 00:08:13:24

HOST
And, yeah, values of relationships and networks and. Yeah, going from surveying to fund management to looking at your skill set and going, actually, how can I add another string to my bow? And kind of moving to the corporate finance? Well, I guess, you know, given that you went to Oxford, you have a very academic income growing up, you kind of more more technically minded, or did you have to work quite hard in terms of modeling and, getting your head around that financing piece?

00:08:13:24 - 00:08:39:23
GUEST
I've got to get into your brain. I think I really I really like words, I like structure, I like how I like what things mean, and that's natural. And I've always been good at remembering information. So in that world where exams were the primary factor, and I'll give you an example, my, my Greek translation exam in my finals was basically all about Thucydides.

00:08:39:23 - 00:08:59:17
GUEST
He wrote, but a long set of books about the Peloponnese wars and obviously an ancient Greek. And I was useless. Agree. So I read a whole lot in English and and remembered the structure so that when I came to do the exam and I thought, right, that's book six, chapter three, I think, what the hell happened then?

00:08:59:22 - 00:09:12:13
GUEST
And then sort of remembered and then you then they got it. So, so yeah, I think, I wasn't, I didn't, I was academic in the way that some very clever, classes, but one had, techniques to.

00:09:12:14 - 00:09:13:17
HOST
Craft it, use.

00:09:13:17 - 00:09:17:17
GUEST
Your, usable intellect. When did had to to get there in the right way.

00:09:17:17 - 00:09:22:18
HOST
So did you have to work quite hard when it came to modeling and mathematics and, underwriting?

00:09:22:20 - 00:09:45:08
GUEST
Yeah, I like deals. I've always loved masters. Okay. And I love I love pure maths, I love, I love high numbers interact and how, how beautiful and symmetrical numbers are and, and that's okay. So I'm actually married to a maths teacher as well. So, and so, so yeah. And math is, is a very important part of, of investment, obviously.

00:09:45:14 - 00:10:18:24
GUEST
I think that it's a combination of maths and and, and calculation, but also sort of gut feel as well as an, as we know, I mean, a lot of people just go on gut feel but actually the numbers day not. And here's his bit of advice to anyone listening who wants it, which is that if you're writing a if you're doing an Excel spreadsheet to work out the expected total return of an investment, the first iteration you do of that is almost certainly the one that happens.

00:10:18:24 - 00:10:40:01
GUEST
And now you. So you put it in the numbers. You think you're going to buy this for this price. And and then

you think, oh gosh, it's only getting a 5% total return. So that is then stop and zero. We're not paying that price of paying a lower price. But because what people do is say, well, we'll just tweak the rental quite a bit and then we'll tweak the exit yield and we'll end up with a, with a number that comes out a ten or something.

00:10:40:01 - 00:10:54:01
GUEST
So we can it and of course, that's you're any sort of kidding yourself. So, so that combination of good, good technique and numbers and, and and, and gut feel is, is, I think, the way to, to run money.

00:10:54:03 - 00:11:00:21
HOST
So after a little bit of time, at what point you moved back into the fund manager institutional world. Yeah. At Aberdeen.

00:11:00:21 - 00:11:23:13
GUEST
Right. Yeah. That's right. I had a brief stint at Aberdeen with Ian Reid and Charles Weekes and a number of others and, and, then Aberdeen Property Investors was being sold by Aberdeen Asset Management. They'd got into trouble with their split capital trust situation and they needed to shore up their balance sheet. So it was agreed that we'd hive off API into a listed business on its own.

00:11:23:18 - 00:11:56:05
GUEST
But also Martin Gilbert, who ran a Aberdeen, ran a trade sale process as well. Fair enough. And actually, I came to a point where, the API was going to be sold to British Land. Our Swedish colleagues didn't like it very much, bit of bit of, fractious ness went on and, and in the end, Ian Charles and I decided that we would leave Aberdeen and go and set up again because it was 2004 and 2003, and we thought we can we there's plenty of capital around.

00:11:56:08 - 00:12:02:14
GUEST
We know what we're doing. And, so, so off we went and set up to get rid of state investors in in April 2004.

00:12:02:17 - 00:12:18:15
HOST
So just before we come on to that, for those that weren't around in the real estate world in 2003, 2004, can you just talk to me about the institutional world and fund management world and the capital management world? Yeah, yeah, just be useful to kind of context, compared to today where we get on to maybe the new call.

00:12:18:15 - 00:12:41:14
GUEST
Absolutely. No, I think is very relevant. And, and there was a lot of cash around. But as it turned out, it was the beginning of the a lot of cash that was credit driven. So the all the capital markets were lining up to lend on loans, on loans. And then so you heard about, you know, CDOs and clouds and clay Squareds and everything else.

00:12:41:19 - 00:13:08:13
GUEST
The whole market, was pushing money into real estate and assets with cash flows to then securitize to sell off different products to their investor base. So, but as a result, it meant we went with it. We went from 0 in 2000 and 4 to 2.5 billion under management by 2007. And we raised we had a Nordic retail fund that we raised in the beginning.

00:13:08:13 - 00:13:32:20
GUEST
In 2007, we raised €600 million in four months or something. I mean, just just a staggering times, obviously all unsustainable. And when you look at the capital structures behind the capital and led to some serious, problems after Lehman's went down. But yeah, back in 2003, it was a yeah, everyone was excited. Real estate was back on form.

00:13:32:20 - 00:13:51:21
GUEST
You know, you remember there's a sort of tech bubble. And in one so a single days in London you'd be in, you'd be at a dinner party and, and there would be someone who just set up a tech firm and we you made that first 10 million or something, and you're sitting there and they're getting you work for Aberdeen sort of asset management or something.

00:13:51:21 - 00:14:26:08
GUEST
You know Aberdeen property investors and and I really was, was your property was that sort of thing. Or can you kind of have a look at my train or something. Yeah. So we were really the sort of pork cousins of of all the people in the tech world. But the tech bubble burst and, and I think actually as cynic as it's sort of indirect result of September 11th, of 911, the, the, the real estate world actually came back because people went back into more traditional value assets like sort of trade value, add value equities and traditional real estate.

00:14:26:10 - 00:14:35:15
GUEST
And so that triggered a, a real surge between 2002 and 2008, in the real estate world. So pretty Guy was born into that.

00:14:35:20 - 00:14:43:23
HOST
And, and was the capital. You obviously spoke about the capital. You know, different strategy was was predominantly defined benefit capital at that stage or.

00:14:43:24 - 00:15:16:00
GUEST
Yes, in terms of the pension schemes. Yeah. Most pension schemes were still defined benefit. I think some people were realizing that DC might be a safer way forward, given the companies as sponsors of the pension schemes were, were reliable for it. And, but the world had moved on from all the mirror group and, and the, you know, that the Maxwell, scandals and, but yeah, that shift was beginning, but it was but it was DB schemes and DB schemes, obviously very so keen on real estate as an asset class.

00:15:16:06 - 00:15:41:16
GUEST
So there was plenty of capital around, but there was. But you didn't need plenty of equity capital because in 2004 or 5, six, you know, by about 2006, the banks and the high street lenders were there was a rule of thumb you could borrow, 90% loan to value at 90 basis points over base rate, and they would do it in nine days.

00:15:41:18 - 00:16:08:18
GUEST
So that is and in some cases, some banks were doing it almost without any documentation. So that is what the sort of high pitch that the banking sector got to it at that time. And, and of course, it drove an unbelievable gambling environment where you bought an asset. Well, hopefully not us, but a lot of people did, you know, and you bought an asset and then you thought you could turn it around in three minutes

and set it on to the next people.

00:16:08:22 - 00:16:28:16
GUEST
And they were borrowing money. So when the, when the music stopped there, obviously a lot of equity was destroyed and a lot of junior debt was destroyed. Actually, a lot of senior debt was destroyed as well. So, and it was only not completely destroyed because of QE and banks being bailed out. Perhaps we can talk about that in a minute because this it's relevant.

00:16:28:17 - 00:16:40:15
HOST
Yes. Come, come full circle. So, you said, protect. So, why why did you set it up? And what was the kind of the, the risk cost personally at that stage of doing it.

00:16:40:17 - 00:17:08:07
GUEST
So, so a potato, which means I protect in that in and there was some usefulness of my degree. And also means I put a hedge round as well. And Charles and Ian were experts at the whole property derivatives market. So we issued, with Barclays Capital, some, some, picks, property index certificates, and that was it, which is a proxy for IPG in the market, a really interesting investment.

00:17:08:09 - 00:17:41:04
GUEST
But the reason we set it up is because we were all business minded but entrepreneurial as well. And there are very few business managers in real estate investment. Very and very few people do who go about setting up a capital management businesses in real estate. A lot of people fall into those roles. Either they're investors or surveyors who suddenly end up at the top of the tree, or they are, people who work for a bank in the bank shelves.

00:17:41:04 - 00:18:19:18
GUEST
They're private equity businesses. And you see some good examples of that in 2006 seven, you know, HSBC, for example, you know, sold to their management all of their teams, or their businesses as well. So, so say creating a real estate asset management business is not easy. Ian was very good at it. And he and he had gone to Aberdeen City and read and he'd gone to Aberdeen and from Barclays and set about trying to put together a lot of different, sort of smaller businesses into one to build up an API platform.

00:18:19:20 - 00:18:45:22
GUEST
So when we all left in 2003, it that's Gill was there. Charlie Weeks who you might know who he's just recently stepped down as head of Barings Europe and Asia, is a super person. He was our head of business development, and I and I headed up the investment side and, and, and oversaw our deployment of our capital and the debt, financing it and everything else.

00:18:46:03 - 00:19:10:18
GUEST
So, so we had, we had the skills. We got very lucky with, some guys from EBS Wealth Management, who had just been, taken in by EBS to deploy about 10 billion into real estate because they had a massive wealth management fund that didn't have any exposure. And this was 2003 four. So they appointed us as a UK separate account manager to run that.

00:19:10:20 - 00:19:35:00
GUEST
So that was just amazing. We issued quite a big tick, issuance, which paid us a very nice fee that gave us the working capital and and then and on we went and then we, we built up various funds and clients. And

I think we had nine funds and clients by 2007. Wow. 2008. So it was, it was, it was pretty, pretty fast thing for sure.

00:19:35:02 - 00:19:39:15
HOST
And what was the what was the strategy from a real estate perspective at that stage?

00:19:39:18 - 00:20:09:23
GUEST
It was a generalist commercial real estate strategy. So we are in retail and industrial, which with the skills of some of the team, we recruited and a few offices, but not many. And looking back, it would that business wouldn't work. Now because, I think cap, you know, institutional capital either wants real scale or, or specialism like a single track.

00:20:09:23 - 00:20:32:12
GUEST
Yeah. No control infrastructure for us. Exactly. And so to get to 2.5 billion of generalist assets and we started off in the UK and then we moved out into Europe, I think it was a, I think it was that sort of top of the market time in terms of there was so much money that you could earn reasonable fees from, from, from having a very general strategy, just being in real estate.

00:20:32:16 - 00:20:58:08
GUEST
And there was capital that wasn't in real estate that liked us and wanted our skills. So, but I but that I think and as I look back at the good days, there were a lot of very good points about it, and we had a lot of fun and had made some good friends amongst our investors and our staff and, and the partners and the and there were a lot of mistakes that we made, which are for example, having of a nine funds, two were highly levered going into 2008.

00:20:58:13 - 00:21:21:17
GUEST
So all the equity was lost on those. One was open ended. So we scrabbled around and and managed to merge it with Threadneedle Street, but just right at the time of of Lehman's, which was which was a, a big job, but we got it done and and threads took it on. So we, we resigned as the manager of it.

00:21:21:21 - 00:21:40:19
GUEST
But if you have an open ended fund and half your equity wants to go and half your equity says, don't you dare sell it to the bottom of the market, you've and you've got. And we had 30%, 40% gearing in that fund. So the you sell your good assets to pay back your investors, then you leave the bad assets with all the debt you have.

00:21:40:19 - 00:22:03:22
GUEST
Stock and threads had a very good shape. But in those days, and they, had lots of cash in the JP, but they were unlevered, so they were able to take over our fund, which was about 100 million in size, and offer redemptions to those who wanted redemptions and, and, and offered shares to those who wanted to stay and pay down the debt.

00:22:03:24 - 00:22:35:21
GUEST
And that was go well then then we got one year's management fee or something for resigning and we and it was the happiest lot of investors I've ever seen because you know and you can look now all the open ended fund redemptions that are all around us. And it's a impossible situation unless you do something like that or and and and and it's always comes back to this issue in fund management, you know, should

there be open ended funds in real estate, you know, and it's, you know, it's people have different views on it.

00:22:35:23 - 00:22:42:18
GUEST
You know, I think history tells us that they're not open ended when markets are in a poor state.

00:22:42:20 - 00:22:53:19
HOST
So you ended up, selling the business to Cornerstone Real Estate Advisors, which is now Barings, in 2010. Can you just talk to me about how that came about and why you decided to exit?

00:22:53:20 - 00:23:21:15
GUEST
Yeah, absolutely. So, the three main partners, Ian, Charles, myself, had about 60% of the business between us. Ian, 30. Charlie and I had about 15, maybe a tiny bit more. And we had a banker, Peter Smethwick. Great. Who's who's the Norwegian? So my favorite, style of investor. Just this, straight, toff, very nice people.

00:23:21:15 - 00:23:52:14
GUEST
And they, they get it and they, they were a great backer for us. So they had about 30 and then the rest of the management team had about ten. And, we had got through, we had the Lehman shock. And that was in the black hole in Q4 2000 and, eight. And we had so then we, had to decide what to do because, most of our capital was coming from fund the funds managers, they were running open ended models into closed ended funds like ours.

00:23:52:14 - 00:24:12:03
GUEST
So they were having redemptions out of the door of their fund of funds. And all of our time base had gone. Also our track record, it would take a had having been, you know, we went from I measured it from 2006 to 2010 to that five year period. It came out at naught all together. So we we went sort of six, seven, eight and a half way up, up above a then down.

00:24:12:03 - 00:24:31:23
GUEST
And then it seems like all that work for no return and two funds that lost all the equity. Luckily most of the funds were low or unlevered, but but it was a time of great, capital loss in, in real assets. So, we had a short term problem, which was how do you keep the business going?

00:24:32:00 - 00:24:57:19
GUEST
And we got a great staff. A clear platform, a well-run platform. And the answer to that was MassMutual. A for the fourth biggest life insurer in America, coming over, and saying right now that the markets have crashed, we want to put a billion into Europe, but rather than us appoint a separate account manager, pay them, you know, 50 bits.

00:24:57:19 - 00:25:32:18
GUEST
Yeah. We want to be buy you and then we'll put that money through the again platform. It'll get called Barings or Cornerstone whatever. And then but all the stuff it didn't have any European staff didn't have a European offices. So the whole architecture of the game, it carried on the, the other investors were really happy because it was clear that then there would be fees coming in, which meant the staff would stay and their and their money would be looked after in the funds that they were in, which obviously, in tough times, you've got to stick with, a fund rather than leave and do something else.

00:25:32:20 - 00:25:59:17
GUEST
And, the and they paid us, a total of about sort of 15 to £20 million for the platform, which we were very pleased with at the time. I'm about £2 million, out of it, pretax. And, and it was a happy result and I think it, it solved a lot of issues about the succession of the business, and, and all of that.

00:25:59:19 - 00:26:22:03
GUEST
And it also meant that, you know, it was in tough times, I think, you know, everyone quite likes a big investor. There might be more bureaucracy and, and, you know, paperwork and, and, and, just be able to answer to but, you know, there's, you know, you know, that, MassMutual and Barings for management is a huge in a business that carries on.

00:26:22:03 - 00:26:47:21
GUEST
So and, and that's worth a lot, I think, in, in those tough times when new people have young families and, you know, and all of that. So, so that was a great so there were lots of very good experiences that day ago. And the and the learnings for me were don't go wide into Europe, into markets where there and people who are much better investing than you because as a UK manager, you'll you'll get a get second best.

00:26:47:21 - 00:27:09:06
GUEST
The locals know where the best deals are. And then also control your capital management side of it because we had some relationships where we weren't in charge of capital raising. So and those where it would have been a good time to raise capital after 2008 nine chose not to sort of raise capital because they thought it's too risky.

00:27:09:08 - 00:27:37:08
GUEST
So that's fair enough. It's their decision. But, and then I think, leverage as well, which is that, you know, volatility and your leverage creates a lot of volatility. It might increase very it might improve your returns in the in the short term. But if you have high leverage getting over a market cliff and let's just say 2223 is a market cliff, you've got an existential problem in your business.

00:27:37:08 - 00:27:56:05
GUEST
And so as you'll you'll be pleased to hear, Nucor is net cash. And we've got almost no leverage in the business really that. Yeah. Yeah. Very much say because well let's come onto the Nucor bit in a minute. But just to finish off ago. So amazing times. Great business did made a bit of money out of it.

00:27:56:09 - 00:28:16:19
GUEST
But made a lot of good friends and learned a huge amount. And actually the the cornerstone business was run by a guy called Dave Riley at the time and who I got on with extremely well. And he, always had a phrase, which is that, you know, property wasn't about location, location, location. It was people, capital locations.

00:28:16:20 - 00:28:42:18
GUEST
So quite similar to what you're getting at in your, in your podcast title and. Yeah. Property or capital. Yeah. Capital funds, property. They're pretty much the same. So, and it's and it's so true. You can't. Yeah. You might have the best location, you might have good property, but if you've got the wrong people running it, that's, that's going to come there and, and the same, you know, you can good people can get you out of

holes with bad property if you're in them.

00:28:42:21 - 00:29:15:24
GUEST
So the combination of those three is, is really key. And he was another mentor for me as well. Dave. More serious than Chris Nichol. But but running a fairly big, you know, sort of American driven fund management business. And he's, he's subsequently retired, as well. But I then, I then worked for about 18 months for cornerstone and then after my handcuffs were sort of, handcuffed, I was able to then resign and get new core capital again.

00:29:16:01 - 00:29:36:01
HOST
So you made you said you made a show of £2 million. Is that. Yeah. Allocated straight to a nice, nice property in the countryside. And, you know, a couple of nice holidays or. Yeah. What was, you know, a bit of a break. Does it sound like quite a quite a stressful few years. Yeah. What did you kind of do with, with the money, what was, you know, how did New Core kind of come around.

00:29:36:01 - 00:30:01:03
GUEST
So in 2011 I was 40 and, I wasn't married, and I didn't have any major, commitments. And so and I had this idea about NewCo capital, which was that social infrastructure and the real estate later, it was a critical part, a core part of society's needs. It was new to the institutional mainstream, hence new core about.

00:30:01:03 - 00:30:27:01
GUEST
And not many people were doing it. And and it seemed to me that it had tailwinds. Government was stopping the need was there. You couldn't you couldn't do it on the internet. And, and that there were continuing headwinds for retail, offices, etc.. And so it was I was I, cornerstone didn't want to go into these areas.

00:30:27:01 - 00:30:44:19
GUEST
They wanted to stay in offices and industrial, which they did. And, so for me, it was right, okay, that all of them can set up new core. And I had so I had the working capital get the business gang, and I had enough money to put into the first fund to get some other people to invest in as well.

00:30:44:19 - 00:30:59:01
GUEST
So a bit of co-invest. So it was actually the first year no one was interested in social infrastructure in 2007. So in 2012 when we did our first fund, it was like £2 million raised and it was 1 million of mine. So it was it was a, it was, it was it's a.

00:30:59:01 - 00:30:59:11
HOST
Lot of hard.

00:30:59:11 - 00:31:31:14
GUEST
Money. Yeah, yeah. That's right. So if you, if you took your 5 million into the thing and put it back and you went back to 2011, did it, then you know, you definitely be having a few nice holidays and, and, and relaxing. No. If you, if money was your key objective. So, so yeah. So there was but as a result, an absolutely brilliant asset class to be in because we set about creating a hub, a new core that what that understood all of the market dynamics of this area of real estate.

00:31:31:16 - 00:31:41:02
HOST
And just just to be clear. So social infrastructure, correct me if I'm wrong, is education, healthcare, sciences, roadside and transport, storage and waste management. Yeah. Is that right? Just in terms of.

00:31:41:04 - 00:31:41:13
GUEST
So we.

00:31:41:13 - 00:31:43:02
HOST
Know you would classify.

00:31:43:02 - 00:32:15:15
GUEST
It. Yeah. So we would define we would define social infrastructure as the the products and services that society needs to function on a daily basis. So that is things like education, health care, waste management, funeral services, pathology, some storage uses and so on. And, and, and for us, the they they're all asset backed but essentially and we wanted to own the freehold assets leased to operators working in those areas.

00:32:15:20 - 00:32:39:12
GUEST
And that's what we've done ever since. There are other ways of getting social infrastructure return risk exposure. You can own equity and you could be you could buy Southern Cross like Blackstone did. And you know, when they bought it, it was in pretty much unlevered, asset owning, care home company. When they sold it, it was a highly leveraged, system.

00:32:39:14 - 00:33:07:03
GUEST
Okay. Which got listed and, and the prop K that had a load of other debts against it as well. So and so there were investors when Blackstone sold who were taking leveraged debt, who were taking leveraged equity, taking leveraged property. So there are lots of ways that you can you can get your exposure. For us, it's very clear we want to own the real estate that on a freehold or long leasehold basis, that we lease to operators in those areas.

00:33:07:05 - 00:33:36:23
GUEST
Motorway service operators, funeral services operators, clinical healthcare, whatever it is. And but with the underlying thread that what they do is needed by society, it's often under provided by local authorities and the housebuilders who work with them. Because if you've got a massive housebuilding project of 5000 houses, the social infrastructure might be 5% of the total value of that.

00:33:37:03 - 00:33:53:00
GUEST
So the housebuilders don't care about it, so it gets forgotten. And but that's great for us because we come along and provide it and the demand is there. And then from, from, from service users and the and the demand is there for that from the tenants who we work with.

00:33:53:02 - 00:34:07:11
HOST
So you put your money right, you know, you raise them, you put your money into the kind of the fund you have raised, a couple of other million quid, you kind of built a team, you got your kind of your strategy and your your resource. How did the business evolve and what did those early days look like?

00:34:07:11 - 00:34:29:14
GUEST
Yeah, absolutely. Well, we're now up to about 500 million of assets in the management. And the fifth fund we raised is 190 million of equity from institutional investors. So a long way from number one. But the what we did at the early days, we took on, a separate account, clients, that was a family property company that had some fairly traditional assets.

00:34:29:16 - 00:34:48:04
GUEST
And we and we'd sold them out of those and put them into some, some long term and, fairly core and interesting social infrastructure, real estate. And that and that client relationship continues now. And a few years later, actually, we took on another one as well. So that so that gave us enough income to sort of pay me a salary.

00:34:48:10 - 00:35:24:12
GUEST
Recruit Harry savory, who came in right at the beginning, is now a CIA and, and, and a significant partner in the business and, to, and, and to sort of keep the wheels running. But as always, if you had 500 million back then, you would you would have had the most amazing product. And then we got by the time we got to this place where bond yields were just artificially low, all core real estate was getting overpriced because it was just linked to, you know, people were taking a, you know, bonds it one and a half, take three on that.

00:35:24:12 - 00:36:04:03
GUEST
So we'll take a 5% IRR and we'll pay 2%. Therefore, for an industrial property in London and said that now that we've had the bond spike, we're back into a dislocated market where it, where it's really the whole core part of social infrastructure is very interesting. Again. So but so we had to manage our way through the, the, the bit between 2012 and 2022, growing the business bit by bit, smallish funds only by 2017 when we raised on 2018 when we raised from four, which was about 85 million, did we get, to any sort of scale from a commingled fund?

00:36:04:04 - 00:36:23:11
GUEST
And only really now, when we were having raised 195, has it got to a proper scale where we can really execute. And actually we're now raising another core fund as well. So it it was a very slow process, but and it was also a slow process because I was determined that we were going to stick to social infrastructure.

00:36:23:15 - 00:36:55:03
GUEST
We could have taken on office mandates or mandates or all sorts of other, things. We could have taken on mandates and de fees and, and fund managers go wrong when they take, you know, 15, 20 basis point fees just to get scale, in my view, because you can't service it properly. And also, I was very keen that we would manage capital for like minded investors and which has led us naturally to things look to people like so local government pension schemes.

00:36:55:03 - 00:37:21:06
GUEST
But that's not easy to to, to get into and and I did want to get to Europe as well. So we, we put some constraints on the business that meant that we didn't spiral like vertigo has to 2.5 billion with lots of leverage. And we got to the point at the end of last year where we were about 500 million, a lot of dry powder, more cash than debt.

00:37:21:08 - 00:37:39:24

GUEST
And I think our total debt across the whole book is about 70 million out of 500. Well, and I think and, and, and, and all of that, that other than 7 million is fixed and, and that 7 million said to me, it's supposed to be paid off as well. So say completely different. But I said to myself how to take it out.

00:37:39:24 - 00:38:02:02
GUEST
And after that, after the financial crisis, if I don't none from that whole five, six year experience, amazing experience, but then learn from it. I shouldn't be running a fund manager business, so I did learn from it and I'm still running if I manage a business. But now the decade ahead has got a whole raft of new interesting challenges and constraints.

00:38:02:02 - 00:38:05:01
HOST
But it gives you focus and a thesis.

00:38:05:01 - 00:38:05:07
GUEST
Yeah.

00:38:05:10 - 00:38:12:04
HOST
And, I guess you say no an awful lot, but when something comes up, it's pretty big. Big? Yes.

00:38:12:06 - 00:38:40:23
GUEST
It's easy to, you know, it's easy to just accept money from any investors, because you're getting fees from it. And, and I think managers should look a little bit more carefully. Everyone says KYC. It's a hackneyed phrase. No, your client, but my God, it's the most important, thing. You know, and, and and and is your client base consistent with your ESG and impact statement, for example?

00:38:41:00 - 00:39:16:12
GUEST
You know, people everyone has to make up their own mind on these things. But for Nucor, we really firmly kept to, a, a very tight architecture in the business that I think makes it a sustainable business. And, and sustainability. Sustainability is not just about having future proofed buildings a sustainable for managing businesses, having a business that that functions through or cycles, that looks after all its stakeholders, and, and is doing something useful, managing capital in a useful way for the long term.

00:39:16:14 - 00:39:24:07
GUEST
So so yeah. So I'm, I'm pleased that the, the lessons from UK are embedded in the new core business.

00:39:24:09 - 00:39:28:14
HOST
Can you talk to me about what you mean by an asymmetric return profile?

00:39:28:16 - 00:39:59:18
GUEST
Yeah. So trying to, buying a property is essentially about buying an asset and, getting a negative free options. Okay. So if you, by an asset, it is at its market value for industrial and you get planning consent to turn it into student housing, and you double the value for it, that is, that is an asymmetrical return because you bought it for market price.

00:39:59:20 - 00:40:17:12

GUEST
Sure. If you dig get you're planning and you sell it, you might get the same price or a bit necessarily, but pretty much what you started with and but let's say your downside is there for a 0% return on your money. But you're upside is two x, and over a couple of years. So sort of 50% IRR or something.

00:40:17:14 - 00:40:50:05
GUEST
And the and that is because you bought something which had an option embedded into it, the optionality of taking it through for student or for some other use. And you didn't have to pay for that option. So the converse of that is buying an industrial property at the, at the, at the price that that the consented student scheme would have for the land and saying, oh, well, we want to do students, we're just going to pay out for this because we know it'll get consent for student.

00:40:50:07 - 00:41:11:04
GUEST
Now then you've paid twice the price that you should have paid. And guess what? It doesn't get its consent and you've lost half your money when you set it for the original industrial price, and you've had a lot of sort of hassle on the way through. So that's there. That's the asymmetry of returns. And then every investment we're looking for, we're looking for optionality.

00:41:11:04 - 00:41:35:11
GUEST
So you might have an asset which is leased to a tenant. And and you think that if the tenant goes bust, you can get it at a higher level. That's great because that's not usually included in, in the price. If, if you are, expert about, you know, the levels of rent for that sort of asset, you then and again, the optionality gets carved away as you take these are listed buildings.

00:41:35:11 - 00:42:05:08
GUEST
That's taking away optionality. The green belt, same, long leasehold properties, horizontal interests, freehold assets or least leases with covenants over them all these things take away your options in favor of someone else. So ideally for me, buying assets where you don't have any of that, you buy the nice and clean and then you can get through to the outside through a sensible business plan over time.

00:42:05:10 - 00:42:30:21
GUEST
That's that's our thesis of investment. And there's a rule of thumb in our portfolio that we wouldn't mind any more tenants going past because they, in the case of all the funds, the the tenants have put more money into our buildings often than we do buying the buildings. We'll buy something vacant and then release it to our tenant at a nice low rent, and they will, and they'll put a load of money in as tenants improvements.

00:42:31:00 - 00:43:00:15
GUEST
So even if they go past, someone will then come and pay us market rent for that, that improve building. So we still make a decent return on what we're doing. But then going back to sustainability and the rent is at a sustainable level. The building has been sorted out and looks nice and is environmentally future proofed. So you're getting through these, the sort of the key points of what is a sustainable investment and that's very important as well.

00:43:00:17 - 00:43:04:00
GUEST
And alongside that asymmetrical risk return.

00:43:04:02 - 00:43:12:16

HOST
What type of, you know, lot sizes and ticket sizes do you typically. Right. And where are the locations in terms of the properties that you typically buy as well?

00:43:12:16 - 00:43:36:00
GUEST
Yeah. So where of 2 to 20 million is are UK and probably sort of 5 to 15 is our sweet spot. But we would go bigger now. For the right to we just bid on something in the 20s. And main area geographically is the East London and then heading out to Bristol and Bath.

00:43:36:02 - 00:44:02:13
GUEST
And that's because those are markets we know. Well, they're close to our office. So if we're dealing with architects or planners or taking tenants around or whatever, we're we're only an hour or two from the building. I will say have a, strong sense, which again, is lesson from the days is which is that there are much better property investors than me up in Manchester or in Leeds or in Edinburgh and who know the market backwards.

00:44:02:13 - 00:44:23:08
GUEST
So, I prefer to really get to know a local geographical area. And which, which we, the investment team has done. And then, you know, the agents, they're, you know, the local authorities, you get really good deal. Say from what's going on, you've got a good understanding of a lot of the land and that's work for us.

00:44:23:08 - 00:44:44:14
GUEST
And, you know, we're not trying to be, you know, you know, 50 billion or something with, natural next stage of the growth and to get up to about a billion. But you know that you can there's 1 billion pounds worth of real estate within, you know, half a mile radius of our office easily. So. So you don't have to go, you know, off to the Scilly Isles or something to, to find it.

00:44:44:14 - 00:44:47:00
GUEST
Yeah. Okay.

00:44:47:02 - 00:45:09:10
HOST
You you came a B core, a couple of years ago, one of the first, vessel managers to do so. And I also read that your management platform is carbon neutral. And you have a foundation as well, which is responsible for distributing at least 10% of the profits to charity. And you and your employees can volunteer up to 10% of their time.

00:45:09:12 - 00:45:27:20
HOST
And you've also donated 600,000 pounds, to a number of charities since 2011. Can you just talk to me a little bit about, values and principles and where that fits in and why you're so committed to, going so far, with this as well?

00:45:27:22 - 00:46:14:05
GUEST
The beacon, certification is great. It is just that, an external certification so that the real test, I think, is, you know, when you come into our business, it is there that balance of, you know, looking after all your stakeholders and, and I hope there is an I hope, you know, think that there is as well, because we try hard, but it's the principle is that if if you look after your different stakeholders and that is your investors, obviously your tenants in your buildings, your staff who work for you, your suppliers who are, who are

doing hopefully a good job supplying you with advice, services, legal services, whatever.

00:46:14:07 - 00:46:41:06
GUEST
And, the communities that in which your buildings sit and your, an environment as well. So trying to not build lots of new buildings because there's just more, you know, the carbon and material into the atmosphere and the environment. Try and repurpose buildings, for useful uses, futureproof them, try and get your tenants to reduce their utilities wastage.

00:46:41:08 - 00:47:08:14
GUEST
Understand what the carbon emissions are, all of these things, if you try, if you do them in a balanced way and for a long term purpose, then your shareholders will benefit much more in the long term than, than than they would. And the proof of the pudding is just absolutely there now, which is that Nico is in a strong position for the next decade because of everything we've done on that basis that I've just described.

00:47:08:16 - 00:47:32:08
GUEST
And, and we are and we've got an excited team, we've got capital to invest and we're and we're looking forward. So many fund managers at the moment will have significant legacy issues. You know, just look at anyone who's got a value add office fund anywhere in Europe. I mean, they've lost all their equity. So how do you go and how do you go and tell us is that how do you raise your next fund?

00:47:32:10 - 00:48:00:10
GUEST
You can't. So, it's, it's and I again, I don't like it very much. It sounds really sort of holier than than is definitely not meant to be, but I, I have felt since the financial crisis unbelievably strongly that capital needs to be managed in a different way to the sort of short term plutocratic model of the 2000s and, you know, potato, everyone.

00:48:00:10 - 00:48:26:09
GUEST
We were all we were all doing that until 2009. And look what happened. The whole world blew up and governments saved fund managers and banks because, yeah, well, for whatever reason, that's a whole separate podcast. But but but it was wrong. And and so then we had QE and then at some point QE had to be unwound.

00:48:26:11 - 00:48:54:04
GUEST
And as QE was going to unwind, it was going to be inflationary. So you could see these economic things coming through. And to keep managing capital, using lots of leverage. And and a and the most, the biggest sin, pretending that long term inflation and a liquidity premium, ie the gilt should be at 1.5% was just crazy.

00:48:54:06 - 00:49:26:10
GUEST
So and, and but but most of our managers have fallen into that trap. So we sit here in 23 with, a lot of equity capital destroyed in real estate. And, a lot of, platforms thinking what to do. And, and, and I hope that as a result, institutional investors will make their fund managers behave in a different way in the future because, oh, it's just these on their money.

00:49:26:13 - 00:49:43:23
GUEST
When we get to the next half cycle or full cycle again. Now, ironically, obviously now is probably the time to to level up and do short term because you're going to get into the dislocation and get out the other side.

So there'll be managers selling that story. But I think, you know, capital management is a very long term business.

00:49:44:00 - 00:50:10:00
GUEST
And, and and you talk about DC and DB pension funds, you know, they everyone wants long term exposure to sustainable assets. And I think wrap this into what into the into sustainability. For me there are four tiers of sustainability. So asset level have assets that are sensible, rents that are functional that the tenants have got, you know, lots of people to serve in the community.

00:50:10:02 - 00:50:41:14
GUEST
That's your asset level, fund level, onshore, low gearing, long term structures, sensible fees, all the rest of it. Funds pay the tax properly. That's number two. Sustainability. Then my third tier sustainability is the manager. How does the manager behave being a because one way of expressing it but really just courteous common sense not greedy well behaved managers.

00:50:41:16 - 00:51:02:04
GUEST
And and you know that that's who should win capital from investors. And then my fourth tier of sustainability is what are the principals who own these private equity real estate businesses, private equity equity businesses whatever. What do they do with their money. So in answer your question, I would never buy a yacht or a third house or a second home.

00:51:02:04 - 00:51:28:03
GUEST
You got to have one house is fine, thanks. But it you know, you've got to use a decent chunk of your own money to help solve these twin crises. We've got a climate crisis, and we've got a social justice crisis. And, and and I don't understand how anyone who is rich at the moment isn't using their money to, try and help out in those two areas.

00:51:28:03 - 00:51:45:22
GUEST
And then what's the point in saving up a load of money if the planet isn't will net the planet over here? But humanity might not be here in 25 years time. I was just crazy, isn't that? I mean, why it's. And yet unbelievably intelligent people keep hoarding money for themselves and they take it offshore so they don't pay the tax.

00:51:45:22 - 00:52:10:09
GUEST
So the governments, you know, the UK governments tax position is awful. So so that so those are my four tiers of sustainability. Principles manager fund assets put them all together. And that I think is the ecosystem that capital should be managed by. Unfortunately it it where whales or fund managers, are doing that.

00:52:10:11 - 00:52:28:04
HOST
Does that because there's too many handicaps in place or they don't know how to do it. Or is it, is it a point of they're just not going to be able to raise capital if they don't do it? And actually it plays into your hands really nicely, being very genuine in terms of the kind of the vehicle and the and the proposition that you offer.

00:52:28:06 - 00:52:52:16
GUEST
Well, it's human nature, isn't it? You know, that, that, that, that how people behave. It's what people

learned from the last sort of 15, 20 years of, of markets. But and, and, you know, to be fair to all people running for major businesses, governments, bail them out and said, you fucked up in seizing my language in 2009.

00:52:52:16 - 00:53:23:17
GUEST
Don't worry, we're going to bail you out with QE. And they did and and said, well, fine, we just carry on then. And that is absolutely going to reap a whirlwind because there's no bailout from the current position of where UK, US governments are doing. Yeah. Hi. Gilt yields, just repricing risk assets throughout the world and also making it incredibly expensive for governments to fund their debt.

00:53:23:19 - 00:53:58:22
GUEST
And and of course, if you're paying in the case of the UK government, 20, 30 billion a year more in interest, that's 2030 billion a year less for schools and healthcare and social care. Looking after the poor areas of society. So, so say we've, we are in a very, very tough economic decade ahead and, and and of course, then that leads to, nationalism and protectionism and all of these things that we haven't had to live through in our lifetimes really date.

00:53:58:23 - 00:54:15:00
GUEST
But of course, we've seen the rise of, of, of, of, of populist politicians and so on, so, so the whole thing is neat and, you know, and it all comes back to capital management in the end. And that's why I think capital management needs to be done differently.

00:54:15:02 - 00:54:32:23
HOST
Can you talk to me a little bit about, assembling a building high performing team because you've had a very stable, team for a long time. And people who might not know the new core business. Can you just tell me who's in your business and how you how you've gone about kind of incentivizing and retaining and, you know, hiring, frankly, as well?

00:54:33:03 - 00:54:54:12
GUEST
Well, if you're watching this team, I don't really mean it, but, I have got a great team. So, the first thing to say is that, new course management and, and I own about 52% of the business just under. And, and the rest of the equity, we've given away to, members of the team.

00:54:54:12 - 00:55:18:01
GUEST
So I've got my CIA. I won't give the exact numbers they've got, but they've my CIO and my CEO have both got very material stakes out of that remaining 48. My chairman, Andrew Baum, it's got a, 10% stake in the business. So he's very much engaged in what we're doing. And we have, in total nine partners in the business, who are actually employees.

00:55:18:01 - 00:55:42:17
GUEST
So we play we pay employers, employees, National Insurance on their salaries. And that's an important point. But they have an ownership stake as well. And, by spreading the equity in the business, we've got a much better business in terms of alignment. And motivation and, and, and longevity of staff because you reward the people you want to keep.

00:55:42:19 - 00:56:02:10
GUEST
And obviously, if they leave to go and work for a competitor, I like you to lose that equity because it's a

sort of good leave a bad lever provision. And and, and so it does all the right things and, and as it relates to Harry savory, Misha's been with me, he since six months after the business got going.

00:56:02:13 - 00:56:32:02
GUEST
So write me a letter. And, and you said, can you set it up? Are you looking for, an assistant on the investment side? And, and so he's, been with the business over ten years now. Neil sako Asia has been with me about eight years, and, and again, as a material equity holder, Kate Sandal, who's, sustainability director, is, we're really pleased Kate joined us.

00:56:32:02 - 00:57:11:04
GUEST
She joined us about two years ago, and she had been, the director of lab, which is the, the charity behind the beacon movement. And, she actually went to work for another firm for a few months, having left being a lab and wasn't really enjoying it. And and I was having a coffee with her. So, we got her to become, director of sustainability here, and that's been, she's just done so strong on policy and on the sort of common sense so that, courtesy around sustainability, she's had to learn a lot about real estate, because a large part of that role in it, at least a third, if not

00:57:11:04 - 00:57:44:01
GUEST
more, is about environmental, you know, future proofing and about measuring your carbon. Emissions and, and all of that. So which really comes from a property and asset management side, not from a, sort of sustainability policy side, but that's great. So, yeah. And, and, and that and that really is the but the, but the strength of the business has been in, in giving away equity, subject to people hitting targets, of course, and doing what they're meant to be doing.

00:57:44:06 - 00:57:59:05
GUEST
But once they've got the equity, they're, they're really engaged in the business. And, you know, you're not worrying every day that they might go off and might be someone else. Well, they might, but, I think we're hopefully big enough now to, to, to sort of be over that sort of hump.

00:57:59:07 - 00:58:04:24
HOST
You mentioned your, in the process of raising your sick funds. How much are you looking to raise your sick fund?

00:58:05:00 - 00:58:25:17
GUEST
So this is a core fund. It'll be a flagship core fund of 375 million of equity, from probably local government pension schemes and other corporate pension schemes. UK functional real estate leased to social infrastructure operators. So yeah, it's, we're going out now. It's, it's it's obviously a market that not that many people are raising capital into.

00:58:25:20 - 00:59:06:14
GUEST
But there is a tailwind, which is because the sectors performed very well through the sort of, the the trashing of the capital markets in Q4 last year. And, and we're still delivering decent returns. It's, I think we've got a good chance of raising it. And because the sorts of asset you are aiming, you can when you get an opportunity at a lease event, or just by working with the tenant, you can improve those buildings for social infrastructure uses, see if you're improving social infrastructure that I think sensibly counts as positive social impact.

00:59:06:18 - 00:59:33:07

GUEST
You know, in the it's most obvious case, we buy a vacant building, convert it into a special educational needs school. And this it and 120 children are being taught there a year later. That's a very easy journey to measure what you had to start with. And, and that that's 120 new places for season. And all done in a way where, where you're making a sense of return for the fund tenants have a sensible rent.

00:59:33:09 - 00:59:53:23
GUEST
And also if you're refurbishing a building, hopefully you're insulating it and putting in, you know, the sort of air source heat pumps and, and solar on the roof and all that to try and reduce the, the fossil fuel output and the cost of it. So, so it's a good so it's so, so I think those tailwinds are there.

00:59:54:00 - 01:00:23:11
GUEST
And also I think investors are looking at well saying if we get strong and continuing inflation, which person I think is quite likely, what do you invest in to protect your purchasing power of your capital? Because if you bought a ten year bond at just sub 5% yield, now, you, could get locked in to a scenario where inflation runs at eight 9% and you lose a lot of capital value on your bond.

01:00:23:13 - 01:00:49:11
GUEST
If you wanted to sell it in the secondary market. So, and then obviously we know the travails of traditional real estate offices in particular, going through their sort of, you know, shopping center moment, should we say, and, so, so there are limited places to own real assets, which should perform through a tough economic environment.

01:00:49:13 - 01:01:08:01
HOST
As we draw to a close, a question that I ask anyone that comes on the podcast is that you had 500 million pounds worth of capital. Who are the people? What property? In which place would you look to deploy? That capital. Take your three, seven, five, six fund out of it. How and who would you go about deploying that?

01:01:08:01 - 01:01:25:01
GUEST
Yeah. Well, absolutely. You know, you can't say sort of motorway service areas and veterinary practices and all that, which is which one we love to. But instead of trying to do that anyway. So I, so I, I'm, I gave this thought on that and I thought, I hope you wouldn't mind if I slightly bend your rules bad.

01:01:25:05 - 01:01:34:09
GUEST
Which is that I'm mean, if I could take your 500 million and go back to 1792, right. All right, so we have in 1792.

01:01:34:11 - 01:01:37:14
HOST
How much is it worth if we go all the way back? It was 1792.

01:01:37:15 - 01:01:38:04
GUEST
It's 500.

01:01:38:04 - 01:01:39:20
HOST
Million. You're hopeless. Okay, fine.

01:01:39:20 - 01:01:42:09
GUEST
Yeah. And they were. Maybe it's time. Maybe it's about £50.

01:01:42:09 - 01:01:44:08
HOST
Yeah. Time value of, exactly.

01:01:44:08 - 01:02:16:04
GUEST
But. So there we have, the Duke Sutherland. He is, he owns that pretty much the whole of, of Sutherland and, and he is kicking off, all his, tenants and, and, taxman, which is the name of this sort of of the, of the so licensees, doing their local farming around the Highlands and, and really letting the whole of the Highlands to, big tenant farmers who cheap got much more hardy.

01:02:16:07 - 01:02:37:15
GUEST
So, so we're going to see the whole of Sutherland getting deforested and, and, and and turn it into a desert, basically. And, so I was thinking about this and that, which is that we would go on to do Sutherland and, who, who was doing it because he wanted the money. And I think for 500 million he would sell.

01:02:37:17 - 01:03:16:05
GUEST
And and his agent was a guy called James Locke, who, was probably the most hated man in Scotland as a result. But he was clearly an unbelievably good land manager because he managed that sort of sheer act through the Highland Clearances, all these poor people, and off they went to the coast and, and say, we're going to use James to not do that, but to manage the Highlands in a, in a, in a much more, sensible way, keep the Scots pine, keep the biodiversity and, and it's going to have an interesting impact as well because I heard of, you know, as looking at your previous podcast and someone else was talking about

01:03:16:05 - 01:03:44:14
GUEST
afforestation or, or stopping deforestation, which is great, but this one has because of course, what happened is when you had the Highland Clearances in 1792, on to the 1830s, you had this massive emigration of Scottish people, to America and the and one of the outputs of that is that a Scottish person which America and spawned a populist president.

01:03:44:16 - 01:04:06:16
GUEST
And I was wondering if maybe if we changed history back in 1792, that that might not have happened and maybe we would we would be in a sort of slightly different, framework now, as they say. And you tread on a butterfly back in prehistoric times and, and it changes the world, today. So, so that's that's my 500 million bio file.

01:04:06:17 - 01:04:17:11
GUEST
Sutherland. Keep it as a wilderness. And, and let the people who live there continue living there. And and and James Locke will be remembered as a nicer person for it.

01:04:17:13 - 01:04:25:17
HOST
And if we were to, do it in today's context, who and how and where would you look at it?

01:04:25:20 - 01:04:59:05

GUEST
Say, then they all right, say, can we can we, can we work with the Belizean government or another sort of coral reef government to, to protect, say that actually Belize has done an interesting thing. It did a blue bond, which was that it refinanced some of its very expensive national debt through the American philanthropic Foundation that charged it a much lower interest rate on that, to ask for a portion of it in return for the Belizean government protecting and enhancing its barrier reef.

01:04:59:08 - 01:05:29:04
GUEST
So the Belize Barrier Reef is the second biggest barrier reef in the world. It's the most healthy, it's 40% healthy, so 60% bleached. So it's say it's been a poor condition, but these but deploying capital into land based initiatives that can, change our ecosystem stem for, for the better. I think that's what we have to do with our money so that again and and guess what?

01:05:29:04 - 01:05:52:13
GUEST
You know, that is good business sense as well, because the interest rate that the foundation is getting on their money is, is about 5% instead of say, 15%. But the positive impact that that has and it makes Belize a, more choice for any country reduces that sort of social, a sort of friction in the country. And, and it's a better investment for the investors.

01:05:52:19 - 01:06:14:02
GUEST
So I, I believe strongly that, we need to use the capital that we have in, in ways that, that, that don't just make a financial return, but actually have long term benefit to solve either that climate crisis or that big social divide that's been growing since 2008.

01:06:14:04 - 01:06:32:16
HOST
Well, look, if, if Harry, saver is interviewing anybody to join his investment team and ask the old, interview question that I've asked you, I think you've, you've shared a couple of insights in terms of maybe how people could navigate that question in terms of where they would deploy the capital to get on to the next stage of the interview process.

01:06:32:16 - 01:06:51:19
HOST
But, Hugo, you've had a fascinating career, very interesting background, lots of learnings that you've clearly taken and, thought long and hard about, but then clearly actions. And I'm really excited to see what you and the rest of the team go on to, to do in this rather challenging investment management landscape.

01:06:51:21 - 01:06:52:23
GUEST
Thanks, Matt. Thanks for having me.

01:06:53:04 - 01:06:54:22
HOST
Not at all. All the best.

01:06:54:24 - 01:06:55:06
GUEST
Thank you.