



Fund management: Never an endgame

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As Avengers: Endgame wipes the floor with every box office record on Earth – and Asgard – there are fund management lessons to be learnt from the world's mightiest heroes and their translation from comic book pages to the big screen.

As I write these lines, Avengers: Endgame has crossed the USD2.5 billion mark in sales, taking a mere 10 days to crush historical titleholder Titanic and with only box-office mammoth Avatar left to pass.

The 22 titles released so far in the Marvel Cinematic Universe (MCU) have collectively crossed the USD21 billion mark, which, by comparison, is just over a third of BlueBay's AuM. While movies and fund management might not seem alike, we believe there are lessons to be learnt from this cinematic success story.

Make the most of the cards you're given

The financial travails of Marvel until the rise of the MCU and the subsequent acquisition by Disney prompted the company to sell the movie rights to its most juicy franchises first.

During the 1980s and 90s, Marvel sold and extended the option to film a Spider-Man movie several times.

After many failed projects, including a high-profile one with James Cameron, Marvel licensed Spider-Man rights to Columbia – with the deal including a non-aggression agreement with MGM, a prior license-holder, which agreed to not pursue Spidey's films in exchange for Columbia not developing 007 films.

From this deal the successful Sam Raimi franchise was born, with the release of Spider-Man in May 2002.

This was not the first major movie to be produced based on Marvel characters. 20th Century Fox had acquired the rights for X-Men – the most successful comic-book franchise in Marvel – in 1994 and produced the Bryan Singer-directed X-Men for release in July 2000.

Fantastic Four also ended up in the fold of 20th Century Fox in another convoluted story when Constantin Films bought the rights in 1986, even producing an unreleased Roger Corman low-budget movie in 1992 so the rights did not lapse. Those rights were sub-licensed to Fox in 2004, and Fantastic Four was released in 2005.

Other characters such as Daredevil, The Punisher and Hulk were also licensed out (indeed, as of today, Marvel can only shoot group movies with Hulk, no standalone titles).

The outcome? You find Marvel having no rights to its two main franchises – X-Men and Spider-Man – nor to its 'first family', the Fantastic Four.

Due to the way the rights work, those cessions came along with a whole library of characters, with Sony having the rights of ancillary Spider-Man characters such as Venom (recently portrayed by Tom Hardy), while Fox holds the license to Deadpool – an X-Men spin-off successfully brought to life by Ryan Reynolds.

With its prize jewels gone, what was Marvel left with?

You've got it...the Avengers.

I was a kid in the heyday of comic-books in 80s and 90s, and no one could care less about the Avengers. Characters like boy scout-ish Captain America and corny Thor did not bode well against the more aggressive characters that the post-Frank Miller grim and gritty times demanded.

And what of Iron Man. Did you like computers and tech in the early 90s? If so, your prospects were pretty much limited to living in your parents' basement.



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In 2006, Jon Favreau was enrolled to direct and Robert Downey Jr to star in Iron Man. Quite a risqué option, as not long before Downey used to be subject to very strict financial covenants in order to provide for insurance in case he relapsed in his addictions (something in common with his Tony Stark persona) and legal issues.

In 2008, Iron Man premiered and transformed a USD186 million budget into USD585 million at the box office.

Some 11 years later, MCU has more than doubled the cumulative – unadjusted – Star Wars box-office takings and more than tripled the Lord of the Rings/Hobbit franchise. Downey Jr is the largest grossing star ever – as well as being drug-free for over 15 years and having received a full pardon by the Governor of California.

Marvel is the most valued entertainment brand and dozens of Oscar-nodded actors – albeit for other films – have been on the MCU payroll at various points in time. It has proven its resolve in making the most of a crummy hand, while the Avengers have beaten not only the box office, but also their enemies.

Here are the lessons we've learnt from the big screen that translate into fund management.

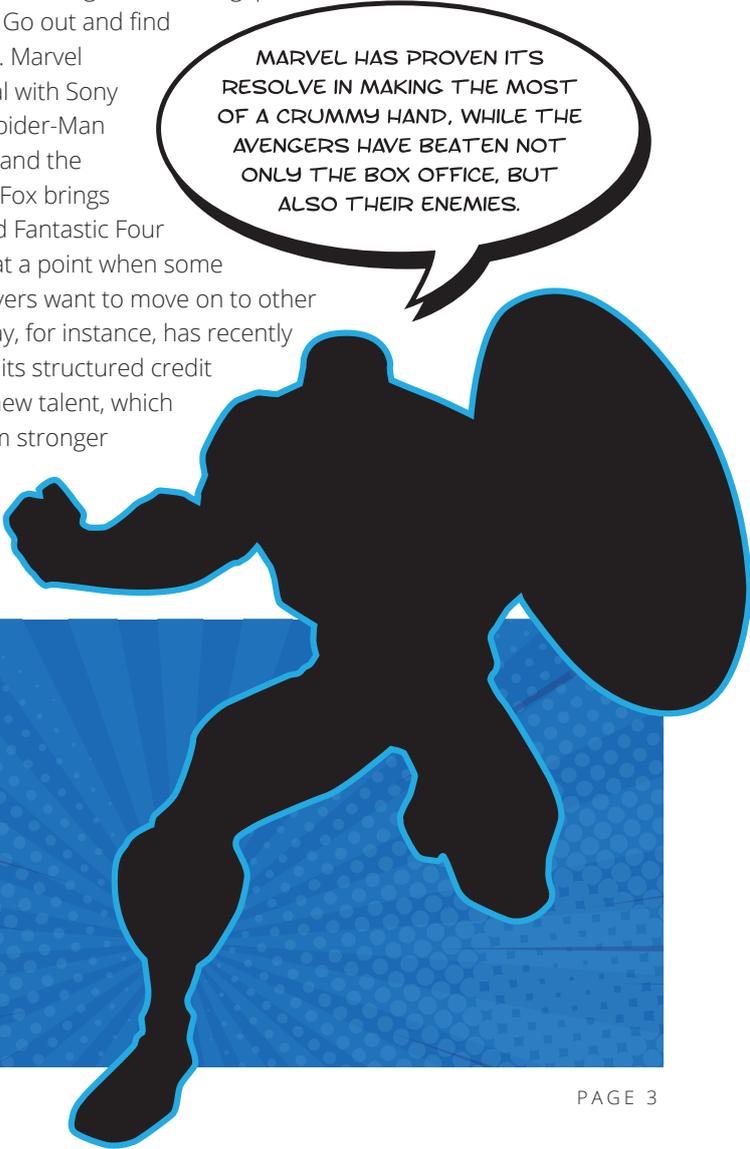
Have a plan

Don't re-invent the wheel every time. The same way Marvel Studio's boss Kevin Feige placed the first single-character films and then went onto bigger movies, adapting to the public response, a manager needs a roadmap.

The market may not be willing to reward certain trades some of the time. Keeping a long-term plan but being tactical around it is essential. You can have a long-term rates view but may want to dial risk up and down depending on the flows. In the same way, the Avengers films have battles and villains at their core, but Marvel discovered that a humorous Thor brought more people to the cinema than a serious Thor and reacted accordingly

Have the right team

- Recruit a combination of experience that can enrich a team, and younger members who can be trained in the techniques that have worked in the past. You can find scores of Oscar-nominated actors in the Marvel movies, but the three Chrises (Evans, Hemsworth and Pratt) were little known when the franchise started yet have grown to become big movie stars in their own right.
- It is also important to have the intellectual honesty to acknowledge where the gaps are in a team. Go out and find that expertise. Marvel reached a deal with Sony to integrate Spider-Man into the saga, and the acquisition of Fox brings the X-Men and Fantastic Four franchises in at a point when some of the key players want to move on to other duties. BlueBay, for instance, has recently strengthened its structured credit division with new talent, which makes the firm stronger overall.



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- Spot complementary talent and create an environment for team members to learn from each other. The Avengers often have to execute several missions at the time, and resources are finite. A manager must make the most of their resources and focus on the objective of generating the best risk-adjusted returns. In the same way you want to send Captain Marvel and Thor to a cosmic battle, you may want to have Polina Kurdyavko and Anthony Kettle with you if you are heading into emerging markets.
- Have the right venues and dialogue forums for teams to learn from their own mistakes and from one other. Assemble a team that is diverse, which can challenge each other and make each other better. That diversity should be complementary, not confrontational. Combine staff with lengthy experience with younger members who can capitalise on lessons learnt. Part of the Avengers story is boy-scout Steve Rogers becoming more hedonistic as Tony Stark – and Tony becoming a bit more like Steve. And that makes the combination better. At BlueBay, we practice Matthew Syed's black-box thinking concept; confronting our mistakes and learnings from them to avoid repeat episodes.

Have the Hulk on your side

- As Marvel made the most of the franchises they had, even after selling the juiciest ones, a manager needs to work within the perimeters at hand. The legislative framework is a living mechanism, but often slow moving. Finding the best ways to produce solutions to respond to client needs within that framework is one of the key responsibilities of the manager.
- Different situations are best tackled with different tools. Just as Hawkeye can pull different arrows from his quiver, a manager can opt for different techniques to make the most of an investment opportunity. Sometimes a manager can place a straight buy-and-hold position, other times, the position has to be traded more tactically around signposts or by using a relative-value construct. At other times, contemplation of the market place can show pockets where the market lacks depth, and the manager can become a liquidity provider when the tide changes and other participants are playing defence.

Whereas fund management cannot rely on the extraordinary moments that often act as lifesavers to our Marvel heroes, the teamwork, clarity of vision and spirit of service are all lessons that the industry can put to use to deliver superior service. Oh, and by having the Hulk on your side...

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