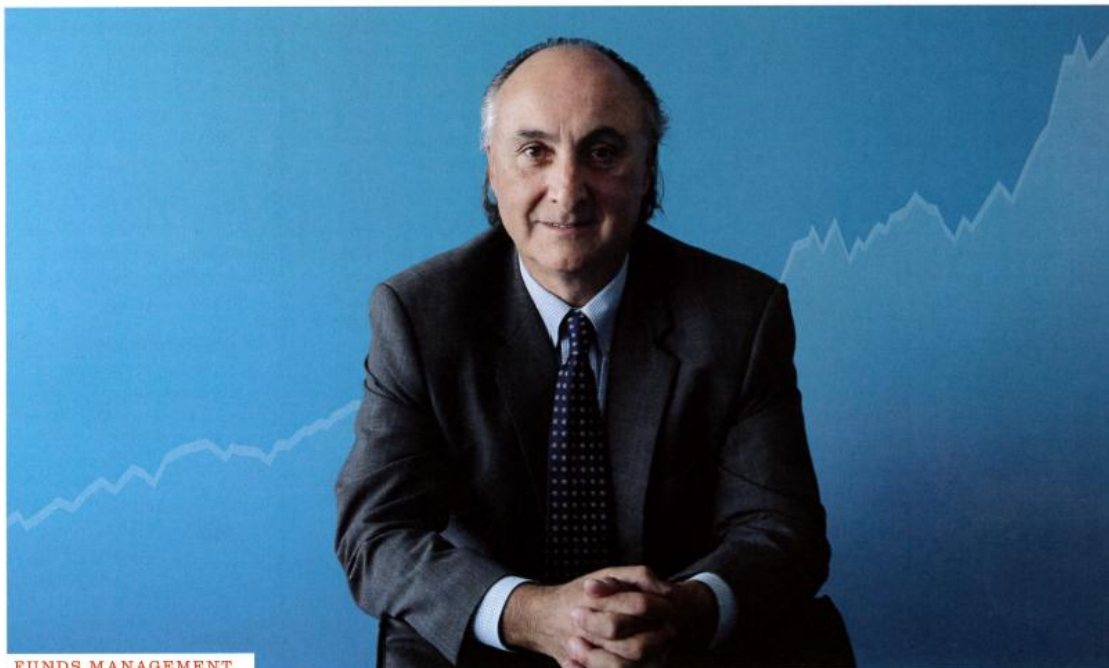


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# THE DEAL

# WEALTH

Ideas for investors



FUNDS MANAGEMENT

## A TASTE FOR QUALITY STREET

Anton Tagliaferro reveals how IML survived the tech-boom madness to make a name for maintaining discipline during market extremes

STORY **GLENDIA KORPORAAL** PHOTOGRAPHY **JAMES CROUCHER**

### How did you get started in investing?

After qualifying as a chartered accountant in Britain, I immigrated to Australia in 1984. I was in my mid-20s and the media was full of stories of Alan Bond, Larry Adler and Robert Holmes a Court and the booming 1980s stockmarket and it drew me in.

### Why did you start Investors Mutual?

I started working in funds management at Prudential Assurance in 1987, then a portfolio manager at Perpetual, County NatWest and then BNP. I got

a bit tired of the bureaucracy and politics of working for large organisations, so I set up my own firm, Investors Mutual (IML), in 1998. It was one of the earliest boutique funds management companies in Australia. I had this dream of creating a very research-driven, true-to-label, value-based funds management company. We now have \$5 billion in funds under management and a team of 11 investment analysts and portfolio managers constantly looking for the right opportunities.

### What's your investment philosophy?

It's based on a strong belief that

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while in the short term a company's share price reflects whatever emotional state the sharemarket is in, over the long term its share price will ultimately reflect the underlying value of the company.

Markets are not fully efficient and there are times when a company's share price will not reflect what we believe to be that company's true underlying value. Such situations often provide the opportunity to build long-term portfolio positions in quality companies at attractive valuations.

### Some of your best investment decisions?

In large-cap stocks, among the best decisions we made was continuing to buy Telstra shares in IML's large-cap funds all the way down to \$2.50 as the Future Fund sold its shares aggressively. We ended up with more than 7 per cent of our portfolio in Telstra at that price — although at current prices of over \$5 we have been taking profits. Another great decision was holding 6 per cent of our portfolio in Amcor through the GFC, particularly after Amcor bought the Alcan assets off Rio Tinto for an excellent price. Both stocks have doubled in the past few years.

In the small-cap space, buying shares in Trident Corporation at 30c, which morphed into Macquarie Goodman and which we exited at close to \$8, as well as Mobile Communications (which owned a free carried interest of 5 per cent in Vodafone), which we bought at about \$1 and sold at close to \$10.

### Worst?

Buying into HIH [Insurance] on the basis that it was "cheap", paid a very good dividend and was led by longstanding management headed by Ray Williams, who had established the company in the 1960s. After buying the shares at over \$1 and holding them for a few years, we eventually sold out at 40c. This actually proved to be a good exit as the company went into liquidation not long after.

### The secret behind the success of Investors Mutual?

Our constant focus and discipline in doing our own in-house research on companies and forming our own opinions on what we believe companies are worth. It is also then crucially important to maintain this discipline in all types of sharemarkets, but especially in market extremes — such as the dotcom boom of 1999 to 2000 where we ignored the

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boom companies of the time such as Ecorp, One.Tel and Davnet — as well as the pre-GFC period, where the likes of Centro, Babcock & Brown and many other highly geared listed infrastructure companies made no sense to us at all.

### Any interesting stories along the way?

In the dotcom boom period, all the "new economy" companies that were making no money whatsoever — such as Ecorp, Solution 6, Davnet and many others — were rising exponentially in value by the week, while many of the long-established quality industrial companies shares that we favoured — dubbed "old-economy" companies — such as Woolworths, AGL and Brambles — were being sold down every day, despite posting record profits and dividends! We kept buying all our favoured "old-economy" stocks as they got cheaper and better value every

day but our performance looked absolutely terrible and kept getting worse as the boom reached new extremes. It was a nightmare!

IML had only been open just over a year and many clients, who took a risk appointing us, were not happy as the boom progressed and our performance looked dreadful. Some abused us and many lost patience and pulled their money out.

I was very worried and feared that IML would go out of business if the tech-boom madness went on for many years. I bought an annual pass to the Sydney Aquarium and at lunchtime I would go to the aquarium, look at the fish and clear my head!

The tech boom ended with a bang in September of 2000 — and all the "new-economy" stocks crashed — many evaporated to nothing — while all the stalwarts such as Woolworths, Brambles, TAB came roaring back into favour. Our performance was suddenly brilliant and as a result we were awarded the Fund Manager of the Year for 2001 and 2002 by *Money Management*. It was a harrowing experience but it proved to be the making of IML. We went from about \$250 million under management to over \$5bn in four years.

### Your view of the markets for 2014?

Given the significant re-ratings that sharemarkets both here and overseas have had, I would expect 2014 to be a much more challenging and volatile year. While there is no doubt that many of the larger economies overseas, such as the US and Europe, seem to have stabilised, this has only occurred thanks to the zero interest rate policy of central banks as well as through the printing of money — otherwise known as quantitative easing. While this very accommodative monetary easing has helped lift investor confidence and seemingly stabilise things, it has also led to the prices of many assets, including many shares, being buoyed to perhaps

levels higher than their natural levels.

### Your favourite stocks?

We have been pretty cautious on the overall sharemarket for a little while now, given quite high valuations and a continued mixed macroeconomic environment. We are very cautious about domestic cyclical stocks as we believe any economic recovery here in Australia is likely to be pretty insipid.

We always prefer stocks that fit our quality criteria of competitive advantage, recurring earnings and sound management that can grow as long as their price is reasonable. Stocks that fit the bill include Woolworths, Shopping Centres Australasia and SkyCity.

### Your view of investment opportunities in Australia versus overseas?

The Australian sharemarket is fairly limited as we do not have a great variety of stocks in many sectors. In addition, in many sectors such as technology and healthcare, there are much bigger and better companies overseas — such as Google and Johnson & Johnson — and we have nothing much like them listed here. Having said this, more and more Australian companies are becoming global leaders in their fields, seeing a growing proportion of their profits being earned offshore. Amcor is one of the largest packaging companies in the world, Orica is the largest explosives company in the world and CSL is one of the largest intravenous immunoglobulin producers in the world.

In addition, the long-term outlook and growth of the Australian economy remain positive thanks to continued population growth. Therefore, for most Australian investors, a decent exposure to a portfolio of good-quality Australian shares as well as selective exposure overseas remains a good mix that should yield reasonable returns over time. 