Anton Tagliaferro on how the dot com bust was the making of Investors Mutual

Anton Tagliaferro sometimes contemplates value investing while watching the fish at the Sydney aquarium. **Fiona Morris**

by Vesna Poljak

It was the year 2000 and Investors Mutual, Anton Tagliaferro's then two-year-old boutique funds manager, did not own any tech stocks despite it being the height of the dotcom boom.

"It was a very difficult time, the first two to three years," he recalls. Nobody was interested in earnings or dividends. "We didn't have many clients, but a number of people were questioning whether we knew what we were doing because everybody wanted to talk about the new economy."

Today, he believes that discipline was "our making".

When his convictions were tested, Tagliaferro would wander down to the Sydney aquarium to contemplate value investing and watch the fish. In September 2001, he was quoted saying that 95 per cent of Australian tech floats would not be around in two years' time. "I underestimated it, I think," he says now.

Last week, Natixis acquired a majority stake in Investors Mutual, valuing the funds manager at $300 million. Tagliaferro retains more than 20 per cent of the business, which has $9 billion in assets under management, after selling some of his stake to the French group.

Although he hasn't visited the aquarium for a while, he thinks we are living in extraordinary times. Interest rates are still at crisis settings but global growth is "not too bad". As to how far away the next correction is, he says it's "anybody's guess".

"When I do some investment talks, clients or an adviser will come up to me and say 'Jeez, you're saying almost exactly the same thing as when I saw you last time'. My answer to that is always the same: what would you like me to do as an investment manager? Change the story every year or two?

"This is what we believe, this is what we do. It doesn't matter if it's the technology boom or mining boom or whatever the latest fad or popular sector is. This is what we do, it's looking for good quality industrials with good management at the right price."

Value traps

It's not just bubbles that he thinks investors need to safely navigate. The greater danger may lie in value traps. "One's got to be careful if a stock has cut its earnings that it's not the start of a structural change or continued downgrades to come. I think that's one thing we're very aware of these days."

The biggest change he has seen in market behaviour over the past 15 years is high frequency, momentum and quant strategies creating higher event volatility in specific stocks, even though overall volatility appears low at an index level.

"Over 50 per cent of the volume on a day-to-day basis is done by people or things that don't know what they're buying or selling, they don't know what the underlying company does," he says.

"Is that a cyclical thing? Yeah I think some of it is. The next correction will sort out the people who are holding good stocks at the right price and people who are just holding stocks because they're popular."

Tagliaferro started the industrial share fund at Perpetual in 1989, as a $50 million strategy. He was named one of the world's 99 greatest investors by Swedish business author and hedge fund manager Magnus Angenfelt in 2013, one of four Australians documented in his book on the subject (Kerr Neilson, Sir Michael Hintze and the late Robert Maple-Brown were also cited).

"There's nothing better than having a win, you pick a stock and it does well, that is a great feeling," he says.

Investors Mutual is not having a champagne quarter because of the rally in resources stocks, but Tagliaferro advocates for patience. "Buying good quality companies with good management at the right price will always hit the mark."

With respect to activism, Investors Mutual's tactics are more discreet. "We're not believers in standing up at an AGM and grandstanding and making a big scene, we don't think that's the right venue for it," he says. But the firm will engage with boards directly.

'It's quite tough'

One day Tagliaferro might write a book about his investment adventures. "I've got a lot of stories," he promises, in fact a publisher had once approached him.

"People are more informed these days although unfortunately I think they're bombarded with often very low-quality information," he says. "When I was at Perpetual there was a correction, I think it was the situation in Russia and I remember the Dow fell heavily. We came in early that day to make sure the fax machine was ready to go to send out 1000 faxes and it took half the morning to get out our view on what was happening in the market."

Asked if Investors Mutual ever considered a float, Tagliaferro says yes, but not seriously.

"Being a listed fund manager puts different pressures on you to perform in the short term. To be honest it was not something we considered very seriously for very long. It is a difficult business to have listed because your FUM [funds under management] does move depending on the market, the level of the market does have an impact on your profitability, plus the level of flows, plus any client redemptions."

Linked to Natixis, Investors Mutual is now in the company of massive investment managers like Loomis Sayles and Harris Associates.

As someone who has observed the composition of the Australian market change over 30 years, it's not just Solution 6, Ecorp and One.Tel that have disappeared from the ASX. "We used to have at least two brewers not that long ago," today there are no listed brewers in Australia, and even in gold stocks there is a lot of air between the large ones and the juniors," he notes.

"You look at our index, we've got 30-odd per cent in banks, 20-odd per cent in resources related companies and again, the banks are struggling to grow and resource stocks are enjoying the recent spike in the iron ore price."

For the rest of the market: "There are a lot of sectors that traditionally you could invest in relatively safely which have been under threat," pointing to telcos, supermarkets and wagering.

"I think it's quite tough."