

Unorthodox Australian fund manager tests NZ waters

By Rob Stock

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FUND MANAGERS are typically a self-assured group of people. L Wayne Peters, manager of the new Peters MacGregor global equities fund from Macquarie, is perhaps the perfect exemplar of the type.

Peters hopes to become familiar to Kiwi investors as head of the fund, now actively marketed on this side of the Tasman.

A businessman made good with a photography booth chain, Peters carries himself with the stainless steel confidence of a man who has been there, done that.

He became an investor only 14 years ago, after selling out of the photography business for a substantial profit.

Rather than hand the cash to professional fund managers, he wanted to manage his multimillion-dollar fortune for himself and, in the past five years, has put together a track record likely to make other fund managers weep.

Styling himself after famous US investors Benjamin Graham and Warren Buffett, he founded the firm Peters MacGregor in 1999. Aided by a return to favour of good old-fashioned, cash-generative businesses after the technology sharemarket bubble exploded in March 2000, Peters has achieved, he says, an average annual compound gross return of 32.28% for his investors.

So how has he done it?

The fund's most notable feature is that it is not widely spread over a large number and type of companies. Diversity for its own sake is a nonsense to Peters, who claims that, once a portfolio contains eight companies representing the eight main industrial and commercial sectors, it has more than 85% of the benefits of diversification. He therefore won't keep diversifying beyond this.

In the lifetime of his company, Peters boasts he has included only 17 companies in his portfolio and, at any one point, he holds far fewer. Most shares have been American, though New Zealand's Michael Hill and Australia's Freedom Group are local exceptions.

Peters' aim is to buy and hold for the long term, identifying stocks with long-term growth potential that are at least 25% undervalued by the market, according to Peters' measures.

And Peters holds his stocks for a long time. When he buys, he has an investment horizon of around 10 years.

The strategy means he has been dubbed a "value manager", though he disputes the term. "I have never understood the difference between value and growth," he says. "They are terms that provide an excuse to a fund manager when one particular style loses money. Growth is simply a part of value. To suggest that growth is something separate from value is a concept I have always struggled with."

Peters says he is looking for companies with great management, on a definite growth track not recognised by the market.

This means he is picky. In a world flush with companies - there are 3500 alone in the top 55% of the US market by size - Peters can invest in any stock on any of the 23 exchanges on Morgan Stanley's MSCI World Index.

With no trace of irony, Peters says: “I consider it a good year if I find one company I want to invest in.”

Investors would be wrong to see Peters MacGregor as not working hard just because it's not buying and selling stocks on a daily basis. Peters does trade, selling a little when the price of a chosen stock is high, and buying when the market writes it down.

Just how active he can be is shown by the fact that 55% of his portfolio is currently in cash.

The cash position indicates Peters' view that the world's stock markets are overvalued. But the large cash weighting indicates something else: the determination that the fund will not only make money, it will not lose money.

To understand how this concept came to permeate Peters' way of managing investments, you must understand his clients.

Unused to marketing and giving the impression that it's little more than an inconvenience taking him away from managing investments, he has only recently seriously started reaching out to a broader audience in search of new assets to manage.

The reason he is so unused to the limelight lies in his business' foundation in managing money for the very rich, those with a minimum of \$A2 million (\$NZ2.24m) to hand over.

Such people demand growth. More important, they will forgive no losses.

This concept is known as seeking absolute returns - a term most commonly associated with hedge funds.

Peters is bringing that concept to smaller investors, and punters can get in with just \$A2,000 (\$NZ2,240) to this latest fund.

The fund will mirror the portfolios of all his private clients and that in which his own fortune is invested. He says investors should therefore realise he will be feeling the pain in more than just his reputation should the fund fail to deliver the 12% per annum it's aiming at.

For every share investors buy, they also get an option to buy another for \$A1 (\$NZ1.12) at a later stage should they be happy with Peters' performance.