

**On The Record with Wayne Peters, Founder of Boutique Funds Manager Peters Macgregor.  
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**What is your funds management background and why did you decide to launch your own fund?**

I ran a chain of retail stores in the '80s and when I sold it I wanted to set up a fund. I discovered Buffet and Graham's philosophy and went from there. I had friends come to me and ask me to invest their money and have gradually built up more clients via referral. I have 25 clients now who each have at least \$ 2 million invested. The largest client has just under \$20 million invested.

But it is only in the last year we have been seeking new clients because our seven-year track record is the proof that our approach works.

**Peters MacGregor targets a long-term annual return of 12 per cent. What has your performance been like so far?**

We aim for 12 per cent over the long-term but a condition of investing with us is it is for at least five years. We have large penalties in the form of high exit fees if anyone wants to withdraw before that time. So far we have not lost any clients or had anyone withdraw their funds. Since 1997 we have had an average compound return of 28.8 per cent, with no negative years and of the 17 companies we have invested in, we have never lost money on an investment.

**What management fees do you charge?**

There is no annual management fee but we do charge 20 per cent of the positive return we achieve for our client. This has been a good feature for our clients because they know that we are confident of achieving out performance and if there is a loss it costs them nothing.

**What is your investment philosophy?**

At the moment we are sitting on six stocks, although we can have up to 15. We have 45 per cent in cash at present because we are just not seeing investment opportunities in the market. If I invest in one new company a year I'm happy because we do not invest in paper, we invest as if we are buying the company. We only invest at a price that is at least 25 per cent below our estimated value range – this is our 'margin of safety' and is critical to long-term high returns. It is also critical to avoiding situation that could lead to loss of capital.

Our circle of competence is relatively small – we invest in retail, property and casualty insurance companies and service industries. This comes down to having a high degree of confidence in future cash flows of the companies.

**Which countries do you invest in?**

We focus on the Australasian and North American markets – our initial research in the US is in the top 3500 companies. We don't restrict ourselves to small or mid caps because we are totally opportunistic. We have a watchlist of 150 companies we are happy to own, as long as we can get them at the right price.

**As a little-known manager, what do you have to offer to potential new clients?**

My clients know that I have got my own wealth invested in the fund. I hold no shares outside my own company, which is often not the case with many managers out there. And a client will not hold shares in a company at levels that are disproportionate to the levels in my own portfolio.

**Will you be able to continue the out performance you have achieved if you start to collect critical mass?**

There is no question that size becomes an anchor over time but we could be significantly larger than we are without any problems.

**When would you opt to sell a stock?**

A portfolio may be sold for a number of reasons. For example if the price exceeds our estimated economic value, or we can improve our price to value ratio substantially by replacing a business selling at full estimated value with another selling at 50 per cent of its estimated value.

Also if the future earnings power of the company is likely to become impaired by threats to the business or if management changes for the negative. Inevitably you have to sell stocks to make a profit.

**You invest in a small number of stocks. Do you share Warren Buffet's belief that diversifying too much leads to disappointing results?**

We won't commit to a new position unless we can invest 5 per cent in a company because any less than that does not impact the performance of the portfolio. I believe in the theory that you should buy a small collection of excellent companies in outstanding industries and have patience. Our philosophy is totally long-term.

There are three key ingredients to running a funds management operation – passion, integrity and discipline. To be a successful manager you have to be very strict about the way you adhere to your philosophy and have the discipline to continue it. Our portfolio is so concentrated that it takes a lot of discipline.

Some people might criticise us for having so much in cash but 'almost' a good buy is not good enough.

**What do you think about the Virgin IPO and would you consider investing in it?**

We do not invest in new ventures. We look for funds that perform over the long-term and if I invested in an airline I couldn't sleep at night. It is quintessentially a commodity business and it suffers from depreciation. Ansett ran into the same issue but the market doesn't understand it.

We wouldn't even invest in Microsoft because Bill Gates admits he doesn't know what the business will look like in five years. Without being able to predict cash flows, you are effectively betting on Bill Gates' ability to generate value.

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