

800
MILLION

Dollars under management
in June 2008

Telling it straight with investors

A fund manager is frank about how to better invest other people's money

ANDREW MAIN

GRANT Cullens is the director of boutique Sydney-based offshore fund manager Global Value Investors.

Unlike a lot of fund managers, who want to tell you how well everything has been going, he's frank about recent underperformance and what his organisation is doing about it.

What's its background?

Global Value Investors was established in early 2005, initially as an international division of Investors Mutual.

GVI was created just as the Australian overseas retail investment market was blossoming and Roy Chen, the founder, was able to provide an attractive investment proposition of buying good quality, dividend-paying international companies.

Not only was the investment philosophy refreshingly new for domestic investors, but the team was able to produce some great investment return during the first three years.

The impact of these factors resulted in funds under management growing to nearly \$800 million by June 2008.

And then what happened?

In September 2008, the game went on to a different basis.

Industry wide, retail investors withdrew money, and for GVI (from where 100 per cent of our money was sourced) this was compounded by slippage in performance.

Like our competitors, we saw our funds under management decline to the current \$500m, as investors decided that it was safer to have their money in the bank.

Fund managers will tell you about their biggest investment successes. And sure, surprising as it may seem, we have had many.

But I'll start with what went wrong. (And we were by no means alone!)

Our biggest mistake was being too cautious during the 2009-10 recovery.

We held utilities, telecom and pharmaceutical stocks, and didn't have the conviction that the liquidity-fuelled rally would have any longevity.

We were wrong . . . not just a little but a lot. But we took a view.

At GVI we are not index huggers and we are under no illusions that clients pay us to make them money.

To do this we have to make a value judgment and Harry Hindsight was spot-on in buying cyclicals.

We, on the other hand, had to go back to the drawing board. Our risk was too low and investor returns lagged the recovery.

Where to from now?

This year, performance has picked up again as we get back on the pace. We have spent 95 per cent of our time perspiring over our investment process to tweak and improve it.

The result has seen an improvement in our stock selection process and performance.

The full benefits will take time to flow through, but we are confident we are once again on the right track. We have had some impressive stock wins of late with CKI, the Hong Kong-based infrastructure conglomerate. Linde and Daimler have also been standout performers to mention but a few.

What is your investment philosophy?

Getting an idea and sticking with it, in the face of distractions.

Fund management is very much about discipline.

The daily noise of the market adds entertainment but, basically, once

a course of action has been decided upon, you have to be patient as it is played out, or not as the case may be.

Fund managers' reputations are created and destroyed by performance, but relative outperformance doesn't resolve all problems.

I think it's disingenuous to say to an investor: "I only lost you 18 per cent of your money and the market fell 20 per cent." The reality is that a customer's money was lost.

We should not be smug about that type of relative outperformance and we are not index huggers.

What's your allocation policy on sectors and geography?

Being non-benchmarked, we often have big sector or country skews as we are driven by relative and absolute valuation and our stock screening process is agnostic in terms of country bias.

This process is based on combining fundamental factors such as business quality and traditional value, while taking into account a momentum element to avoid the value traps.

Are you looking to open any new funds?

In terms of the future, GVI is in the process of launching a Global Selected Opportunities Fund that will take a thematic approach to building a portfolio.

Unlike the existing fund, it will be able to invest in emerging markets.

We will be leveraging off the existing value process and are cautiously optimistic that the product will be of interest and successful for clients.

Global Value Investors director Grant Cullens

JAMES CROUCHER

FIVE HOT TIPS

- Investment Management is 95 per cent perspiration and 5 per cent inspiration.
- Fund management is about being disciplined in one's investment methodology and getting into a routine, then finding that nugget of an idea (the inspiration).
- The price isn't important, it's the direction that matters. If you buy within 10 per cent of the bottom and sell 10 per cent from the top then you have taken 80 per cent out.
- You can't eat relative performance. Regrettably, the pressure to outperform benchmarks has resulted in closet indexing, which is not something we do at GVI.
- Harry Hindsight is the best fund manager in the world. In fact, my hindsight portfolio has outperformed every year for the past 20 years. If you believe in it . . . buy it. Don't tell me about the one that got away.

