



AGAINST THE GRAIN

*Kerr Neilson, managing director,
Platinum Asset Management*

Billionaire fund manager Kerr Neilson shares some of his secrets of success with Mark Smith, proving it pays to take a contrarian approach to life.

The Neilson family certainly isn't afraid to go against conventional wisdom.

Kerr Neilson's funds management business, Platinum Asset Management, is a firm favourite of Australian investors because it does precisely that.

Neilson, along with business partner and Platinum co-founder Andrew Clifford, go searching for companies that are out-of-favour with the rest of the investment community, snapping up businesses with compelling long-term growth prospects at bargain prices.

It's an approach that has led to exceptional performance over the long-term. The \$9.6 billion Platinum International Fund has returned 13.1% per annum since it was conceived 19 years ago. That compares to 5.5% per annum from the MSCI AC World Net Index in Australian dollar terms.

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Hunting rare game

While the approach has brought a huge amount of success – Neilson’s net worth was estimated at US\$3 billion in *Forbes*’ latest rebalancing of its World’s Billionaires list – it seems that a love and a passion for investing, rather than money, is what drives him on.

“Investing is like passive hunting. It’s great fun! So the key here is that you’re always trying to outrun the competition, you’re always trying to find a new angle on something,” he says. “The more you see, the more you think you can see. You build on your past experiences. It’s a cumulative effect. You always want to learn more.”

Reflecting on more than three decades in the game, Neilson says one of the changes in the industry has been the erosion of the information advantage enjoyed by investment professionals and the sheer level of competition that has arisen as a result.

“When we started, what stood out was that everyone was very regional, very parochial. They look at engineers but they’d stick to European engineers or American engineers. They never did the cross comparisons and that gave us a nice edge. That was the big difference, now everyone looks at everything from a global perspective or pretty much does,” he says.

South African-born Neilson learned very early in his career the huge advantage to be gained from getting away from the crowds. When he first visited Indonesia, there were just six stocks available to foreign investors but the country still proved fruitful hunting ground.

He also remembers being the only foreign investor in Peru in the 1980s at a time when the Marxist revolutionary group, the Sendero

Luminoso, was trying to overthrow the administration.

“I was buying some really nice companies, big national brands, for 10% of sales – not of profits. It was a fantastic opportunity,” he beams.

Those early wins helped cement his investment philosophy but, as is to be expected when investing in equities, the market has thrown up some difficult times as well.

“The bad times I suppose were not the crashes but the periods subsequent to the crashes. They are always difficult because you never know where there is going to be an after shock.

“Our experience is that we never take enough aggression after the case because it is not our money. We’re always conscious of loss and that does hold one back a bit.

“We’re quite good at anticipating overexposure so in the run up to the big runs such as the 1987 crash, the tech bubble and the most recent financial crisis, we’re good at identifying those and moving away.”

It is this ability to recognise when to take risk off the table that holds Neilson in good stead with investors to this day, but he acknowledges that grazing away from the herd can make some investors nervous from time to time.

“We’re living in a different world because most of the time we are ignoring the headlines. Our problem is that we’re always a bit bewildered that people need assurance so we’ve got to improve on that. We’ve got to get out to the advisers and then say look we hear what’s troubling you, but here is why we don’t think it’s real.”





The quote

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Family values

Neilson's wife, Judith, shares her husband's contrarian approach when she seeks out work for inclusion in the White Rabbit, the family-owned gallery dedicated to the works of 21st century Chinese artists in the inner Sydney suburb of Chippendale.

The collection aims to show how contemporary art has evolved in China since 2000 and Judith is unafraid of selecting unknown artists to do it.

Neilson's financial support of the gallery has been substantial but more warming is the obvious admiration he has for his wife's work.

"She has a remarkably good eye. Because she's an artist, she actually understands what she is looking at. She's totally uninterested in the financial aspect of what she buys so she does tend to be guided by excellence rather than by hero worship of whatever artist of the day. That can be very dangerous because you can end up with a very boring collection which may prove to be very transient," he explains.

"She spends a lot of money – and I say that in support – because that allows her to be as aggressive as she likes to get the pieces she thinks matter.

Neilson says this approach, much like his investment philosophy, often puts her ahead of big industry players because she goes directly to China and has an agent that helps her secure the works.

"She's not in that invidious position of having to go through a committee. Yes it is her judgment, but I'd rather have that than a camel with a short neck and long tail."

"The artists love her because unknown artists are getting a crack at the whip. The collectors who are in it for financial gain always want external endorsement before they buy the stuff. She just identifies serious people trying to do something worthwhile and she supports them."

Aside from their work with the White Rabbit, the Neilsons are also enthusiastic supporters of the wider Arts community. They sponsor the Biennale, as well as the State's other main galleries: the Art Gallery of New South Wales and the Museum of Contemporary Art.

Neilson says he is looking forward to contributing to arts and community projects in a big way this year through his philanthropic trust, the Neilson Foundation. The Foundation is required to distribute 5% of its capital each year and with global equities soaring in 2013, thanks in part to a substantial fall in the Australian dollar, there is plenty of firepower to call on to make a big difference this year.

The Foundation divides its work between contributions to the Arts and the wider community.

"The Arts are important because in many instances they don't get the support they need and without the creative side you diminish society. But on the other hand there is a practical need for people to be fed and treated," Neilson says.

Into the future

Neilson's ambitions for Platinum include bringing his proven investment strategy to a wider market and he believes there's appetite for managers who have a slightly different view of the world.

"We have the great advantage that people are looking for those who are not necessarily based in the US. It's nice to have someone who is not so tied into that American newsflow and is more Asian-centric in their outlook. That's attracted interest in us from some big American funds."

On these shores too Neilson has identified an opportunity within the burgeoning self-managed super fund (SMSF) market, buoyed

by the gradual acceptance among local investors that their home bias is perhaps a little too strong.

"We're trying to encourage more Australian money to go abroad because we've just had the best terms of trade we're likely to have for a long time,"

Neilson questions why anyone would want all their money in one country. Though he cites the often quoted statistic that the Australian equity market represents just 2% of global capitalisation, the case for looking internationally runs deeper than that.

China, Brazil, Russia and India make up less than 1% of the MSCI World Index while the US accounts for 49%.

"What we keep asking people is do you think that of all the value added in the next five and ten years, half of it is going to come from the States? I don't think so."

"We look at SMSFs and they've been very slow to come to the party, we're surprised as it should be the opposite because they're nimble. They don't have to have a whole committee meeting."

In this regard Platinum has made it possible for retail investors to set up a regular investment plan for as little as \$200 per month. The aim is to allow people to enter the market slowly and allow dollar cost averaging to smooth the return outcome.

In fitting with the White Rabbit gallery, Neilson believes China presents an excellent investment opportunity for anyone with a long-term horizon, though he does recognise that the economy is undergoing a transformation.

"We're buying stuff in China, which is now seen as a much slower economy by those who are paying attention and not listening to the [Beijing-controlled] newspapers. You can see it from imports, you can see it with trade with its counterparts, you can see it from electricity usage – it's not growing at anything like 7.5% in our view.

"Even though it's slowing, the market is selling at less than 1.1 of book and at P/E of less than 10. Now the country's still going to grow and it will become more consumer-orientated so we're pretty excited."

Platinum is also positive on the path of the India economy and is finding plenty of value opportunities in South East Asia. Selective opportunities in Russia and Brazil are also proving fruitful.

Neilson is expressing his view that the US market is currently overvalued through shorts on the small-cap Russell 2000 index.

Those in the investment community are often a cynical bunch and Neilson's age and wealth lead many to question how long he'll remain at the helm of Platinum.

The man himself dismisses the idea, insisting he'll continue to steer the ship for as long as he can make a difference.

"Relevance is the key. I'll go on as long as I'm relevant and I'm relevant at the moment. There's no secret code in that. I don't have any plans to leave this business," he says.

He also has the continued support of the team around him; including Platinum co-founder Andrew Clifford, who has his own unique way of delivering words of encouragement.

"He's a shocker. He just says 'If George Soros is still going well at 90 and Buffett is still going then what's wrong with you, Kerr?! Keep going!'" **FS**



Watch Kerr Neilson's interview with Financial Standard on www.fsitv.com



The quote

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