Future Generation: Take Stock Podcast

Wilson Asset Management

Matthew Haupt, Lead Portfolio Manager,

WAM Leaders Fund and WAM Leaders (ASX: WLE)

CAROLINE GURNEY, CEO, FUTURE GENERATION: I'd like to begin by acknowledging the Traditional Owners of the land on which we meet today, and recognise their continuing connection to lands, waters and communities. We pay our respects to Elders past and present.

CAROLINE GURNEY: Hello and welcome to Take Stock, a new podcast by Future Generation. In this series we get a backstage pass into the minds of leading fund managers, and work out how and why they make the stock choices they do. I'm Caroline Gurney, the CEO of Future Generation. We're Australia's first Listed Investment Group to deliver both social and investment returns. And so far we have donated more than $75 million to not-for-profits that improve the lives of young Australians. Today I'm excited to be joined by Matt Haupt of Wilson Asset Management, or WAM as its known. The team behind WAM actually created the Future Generation companies and they continue to be a huge support. In fact Matt's just come on board as one of our pro-bono fund managers, which means he will manage shareholder money for us without charging any management or performance fees. So Matt welcome. And I presume that you knew that you were joining us and there's zero fees?

MATTHEW HAUPT: Yes very much aware of that Caroline, and very happy to be here.

CAROLINE GURNEY: Thank you very much. So reporting season's come to an end now in Australia. And obviously you must be exhausted. But what are the main themes that have actually emerged?

MATTHEW HAUPT: I really think that a clear theme from reporting season is really the focus on cost control. So I mean that sounds quite obvious going into a slowing environment. But the companies that did well on cost, their share prices really went up with it and it's really just a function of good management really addressing issues and taking proactive steps. Versus reactive management were really cutting so a lot of companies miss on obviously costs. And also another highlight was really around the CFOs roles within companies. Obviously at low interest rates or zero interest rates the focus of a good CFO was probably lost over that period. But with rising interest rates or higher interest rates the role of the CFO has come back into focus and you could really see the difference there. Good CFOs extended tenure, locked in low interest rates. Whereas the other ones, the not so good ones really left companies exposed to those movements. So I mean they were two clear highlights from reporting season.

CAROLINE GURNEY: That's really interesting because I mean CFOs have always been a really important part of a company but now for you to actually notice that the quality of the CFO actually reflects on how the company's doing.

MATTHEW HAUPT: I mean I think the CFOs probably felt unloved for a period of time. Obviously post-COVID they were in focus. But we've lived in this environment of low interest rates or zero interest rates for well over a decade before the COVID issues. So yeah their role had largely taken a back seat. But I tell you what the focus this reporting season was huge on that interest line and how they've positioned themselves going forward.

CAROLINE GURNEY: So can you see that trend of CFOs now becoming CEOs as more of a rite of passage?

MATTHEW HAUPT: Well it used to be the rite of passage. So yeah a hundred percent anyone that's done well through this period obviously their worth has gone up and they've become a clear candidate.

CAROLINE GURNEY: So who were the winners and losers?

MATTHEW HAUPT: I think if you look at the banking sector. Obviously it's a big part of the Australian stock market and the economy. They performed pretty well. Like I think the risk within Australia was we were going into this big slow down and there's going to be stress emerging through the households. That clearly has not happened yet which is still I find that a little bit staggering. But all the banks have very benign bad debts. And the arrears have ticked up slightly but there's really no signs of stress in the Australian economy. So I think the Australian banking sector probably did better than feared and you've seen that in the share prices. The ones that suffered were under the government microscope. So obviously Woolworths (ASX: WOW). And they're in an ACCC review at the moment. You've had the energy sector, the gambling sector. Anything hot on the government's heels they suffered a lot so I'd say they were probably the clear standout for reporting season.

CAROLINE GURNEY: And generally what's your market outlook for Australia for the rest of the year?

MATTHEW HAUPT: This changes day by day. So we are at a really critical part. Essentially if we paint the backdrop. The share market has risen on the back of a soft landing. Falling interest rates. With falling interest rates, absolute goldilocks scenario, that's priced into the market. So where to from here? You know if we do thread the needle and actually get this soft landing and we get lower interest rates a hundred percent it could keep going up. It just feels like the risk for rewards now are a little bit tilted towards that scenario where it feels like there is a lot of the forward interest rate expectations to come out of the market if we do go along that path. And you've had a few signs of hawkish data coming out over the last week or two. So you know that's up for debate. And I think that's the big thing is what does the landing look like. We've priced in a soft landing so there is risk to that. And I guess that's my take. So the outlook is highly uncertain. And very path dependent, and there's multiple paths. So highly uncertain environment at the moment.

CAROLINE GURNEY: So you mentioned interest rates numerous times. What do you think will happen? When are you expecting the first cut in Australia?

MATTHEW HAUPT: So I think the first cut will be second half of the year. I think it's going to be, again it's very much of a guesswork at this point in time because the reason why I hesitate is, it's either going to be late in the year or it's going to be quite soon because we've had two really weak job reports in Australia in the last two months. So that's where I'm torn now. You've got inflation expectations picking up globally. But the Australian labour market is a key swing factor here. If that deteriorates for another few months we could actually go early. But my base case is now August-September, around that period I think.

CAROLINE GURNEY: So we're going to come back to you around that time and we'll look at it again. So let's talk about listed investment companies. Obviously I'm a huge fan. But in terms of the LIC sector at the moment it's been a really tough couple of years. But I think there's been a bit of a clear out. And of course some takeover bids. And obviously one by your fund. Explain the rationale there to us and what's your outlook for LICs generally?

MATTHEW HAUPT: Well I think LICs they've very cyclical. They go through periods of discounts and premiums which some people love, some people hate. So at the moment, the way we look at it is generally when there's an alternative form of income, and we're getting that now with cash and term deposits, naturally you think there'd be a bit of shifting of money. So some people are saying this is the death of LICs, they're old, you've got all these new products. Those benefits we talked about premium and discounts actually create opportunity. So other vehicles are always trading at NTA and you're really buying just at the fund level and you get the performance whereas you can actually trade around the fund's performance within the LIC structure. So I don't think it's the death of LICs as some people are calling it. It's very cyclical. And let's just see where LICs are when and if the interest rates are much lower over next two three years because they could go to large premiums.

CAROLINE GURNEY: So you've just agreed to come on as a Future Generation Australia pro-bono fund manager and we are incredibly grateful. Why are you doing this?

MATTHEW HAUPT: You look at the impact Future Generation has had on society and if this wasn't started back in the day, obviously Geoff was instrumental in starting this, and correct me if I'm wrong but we could be into the $70-80 million of donations, and you just think about the impact that it's had in society. And it's a tremendous benefit. A healthier society is a better one for all. So what I can do is donate some of my time, which is doing this job anyway. So for me it's a no brainer just to be involved and try and help and grow that pool of donations to go back into society.

CAROLINE GURNEY: We have 18 fund managers within Future Generation Australia (ASX: FGX). And they've all got different investment styles and strategies. So what do you bring to the table?

MATTHEW HAUPT: What we bring to the table within the WAM Leaders product I think is really around process. And also taking more of a global look on how we apply investment within Australia and a very active role as well. Like we're a very active fund. And we've got that mentality, every day you come to work how can we make money today, rather than buying stocks and waiting for them to re-rate or waiting for a catalyst to drive them up. We do all that but then also every day how do we make the money work as hard as it can. And that's what we strive to do every day. So I think it's that more holistic approach and then that very active component as well if I'm going to drive those returns.

CAROLINE GURNEY: So one of the things that really fascinates me is how you as a fund manager go about selecting a stock. So how do you manage your process, because you were saying before that you're very active, what does that mean?

MATTHEW HAUPT: We could talk for hours here. So let's try to keep it high level. So how do we pick a stock? Essentially it can come from a multitude of factors but generally it's working out where to hunt and where to hunt is formed by talking macro backdrop and a forecast of where we think the economy is going, and then also looking at where is money being directed currently and where could it potentially be directed to in the future. And then also doing the very much bottom up stock picking. So seeing the companies, seeing the management, talking to competitors and then trying to combine them all and the gold scenario is when you have all of them aligning at one point in time but that quite often doesn't happen. So we have a little bit of a contrarian nature in that. So we're always looking for stocks that are unloved and sectors that are unloved. So it's trying to get evidence that there is an inflection point coming up and I mean that's generally how we look at things. We're looking for that inflection point, backed up by data.

CAROLINE GURNEY: And so give us an example of one of your favourite long-term stocks?

MATTHEW HAUPT: Yeah okay this is a tough one. So long-term stock, I say tough one because we have that very short-term mentality on adjusting the portfolio weights, but a couple stood out at this reporting season actually. Treasury Wines (ASX: TWE) and Orora (ASX: ORA). Both in the alcohol sector. So I guess if we touch on Treasury Wines, the one thing with a business is you don't want a business you can replicate easily, and you look at Treasury Wines and you just look at the brands they've got and the vineyards and all the arrangements, you can't replicate that. They've gone through a bit of a tough period with the China tariffs which will be unwound within the next few months, we hope. So they've gone through an incredibly tough period and they've redirected all their volumes. If China does open up they get to push all their volume back through China and then could lift prices. So for me it's long-term. You can't replicate this business. And also in the short-term there is actually positive re-rate opportunity. So that gives you a little bit of both, you've got the short-term and the long-term. So I think ultimately it's down to can you replicate this business, is that hard to do, and if it's hard to do it's generally a good company.

CAROLINE GURNEY: And what's the other stock you were?

MATTHEW HAUPT: Orora was the other one. So Orora they make a lot of the wine bottles and they bought a business in France which makes bottles for like Grey Goose and some of the high end decorative glass. And again they've had two years of double digit volume decline. And they've been growing their EBIT so it just shows you how good management are and all the levers they're pulling. So if they get bottling through this business this looks like a fantastic business. So I mean they're the two that I think over the next five to ten years will be worth a lot more clout.

CAROLINE GURNEY: And is it gut instinct or is it data driven as you mentioned before?

MATTHEW HAUPT: Yeah it's part art, part science. Really the science is around data and fundamentals. But quite often stocks drift around fundamentals. So I mean back at the days of university you thought oh if I could do a spreadsheet in a certain way will I lock all this value up and pick stocks. Like that's totally false. Stocks fluctuate around fundamentals and you need to be aware of what's driving stock prices and quite often it can be from a macro point of view, so liquidity, credit spreads, and then narratives because stock market is by definition a very uncertain environment. So like human nature people like to anchor themselves to things. So in an uncertain world if you can find something which explains something everyone gravitates towards that. So you're always trying to work out what are people gravitating to and what will they gravitate to next. And that will drag you away from fundamentals. So you're always trying to, that's where the art comes into it, what will people think of next and what is the likely next trend people will try and capitalise on, and then over buy basically.

CAROLINE GURNEY: So you just mentioned university. What do you wish you knew then that you know now?

MATTHEW HAUPT: I think it's still around that fundamentals. So fundamentals drive everything. In the stock price it's sort of like a bond where you've got all the cash flows you think oh I'll build this DCF and I'm going to, you know it's a silver bullet, I've built this spreadsheet, now I can buy this stock and no-one else has done it. But the market price is just a reflection on everyone who has done the same process. So it's trying to discover another X. So I guess for me it's, what did I wish I would know, yeah that fundamentals don't drive everything, and there's a whole other aspect to investing.

CAROLINE GURNEY: So when you look at other investors, whether they're mums and dads or the good and the great, do you think they often get fundamentals wrong, or do they have an understanding of them?

MATTHEW HAUPT: I think fundamentals are generally understood. I think it's the greed and the fear which gets people carried away. And it's buying into those narratives which often you see, once it's in the newspaper it's pretty well in the price, and then people start talking about it and it's really just, maybe ignoring the fundamentals. You've got to be aware of the fundamentals but you've got to ignore it to a point. And then there's a point where gravity bites. And I guess it's always that people love the win. It's like at the casino, you know it's the house's money, it's free money, so their risk appetite goes up. Well maybe that's it, risk management is probably the key.

CAROLINE GURNEY: And which investor do you most admire?

MATTHEW HAUPT: Yeah for me it's the global macro guys. So Druckenmiller is always a fan favourite of everyone really. I mean his ability to break things down in their most simplest form. He speaks really well. And then you look at his track record it's just unbelievable. And again that's around risk management, and when you find something be as greedy as hell when you find that opportunity. And I think he learnt a little bit from George Soros around that. I remember listening to him and he used to put bets on and then George goes well how confident are you and he goes very, and then George would like multiple size his bet. So I guess for me they are the most important people that I look up to.

CAROLINE GURNEY: I like to ask this question in terms of what do you read. Where do you get your investment ideas from?

MATTHEW HAUPT: From every source but Twitter is a incredibly valuable resource I find. As long as you can sort through the junk and filter them out. But for me there's some really smart people on there. And it's not really stock ideas, it's just thought process. So in this business it's about information, processing that information. And for me Twitter is a great resource. You get all the news flow, you get people's opinions, industry experts. I think it's a great first place to start. But you know I watch Bloomberg TV all the time and try to avoid CNBC because it's a little bit on the hype side whereas Bloomberg's a lot more fact based. But yeah it's just like everything in life if you want to be good at something you've got to surround yourself with the information at all times and keep reading and you've got to go all in basically.

CAROLINE GURNEY: And what's the best question any budding investor can ask of their companies?

MATTHEW HAUPT: What I always ask is around just run through what was good and what was bad over the last twelve months. And it just opens up the conversation and sort of like instead of having a very direct question it's a very conversational way of opening up a meeting and you get quite a lot out of those questions because it's always what's front of mind of the person. So it's always trying to, and then trying to lead companies I guess. Like you try and present a positive point of view and see if you get pushback. And it's just a bit of game on there of having meetings to see what's front of mind of people. Generally that's what I do.

CAROLINE GURNEY: Matt I really enjoyed this chat and getting an insight into your whole investment process. Thanks so much for your time today. And also thank you in advance for the work you're going to be doing for Future Generation to make sure we can keep on giving. Thank you very much.

MATTHEW HAUPT: Thank you.

CAROLINE GURNEY: We hope you enjoyed today's episode. Please join the Future Generation family, Australia's first listed investment company to provide investment and social returns. We are proud to have given more than $75 million to Australian not-for-profit organisations. You can be part of this and gain investment returns while contributing to improving the lives of young Australians. For more information please visit our website, www.futuregeninvest.com.au.

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Level 26, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000
Future Generation Investment Company Limited ABN 97 063 935 553
Future Generation Global Investment Company Limited ABN 52 606 110 838
W. futuregeninvest.com.au
T. +61 2 9247 9202