

Conversations with Future Generation Podcast

Episode Six

Peter Morgan

L Welcome to Conversations with Future Generation. I'm Louise Walsh, the CEO of the Impact Investing Companies Future Generation Australia and Future Generation Global. In this series we explore the worlds of investing, philanthropy, mental health and supporting children and youth at risk with amazing Australians who are leading the way. Joining us today is Peter Morgan, a former doyen of the funds management industry in Australia. Peter was the Head of Equities at Perpetual in the 1990's and then went on to set up his own funds management firm 452 Capital in 2002. He made a name for himself for performance and as a large shareholder who was willing to be outspoken about the companies in which he invested. He was a ferocious agitator against established Boards and management. He's been out of the game for about ten years now and these days is a private investor who has emerged as a powerful voice for independent investors. Peter happens to be also an investor in Future Generation. It's lovely to have the opportunity talk with you today Peter and welcome.

P Okay Louise.

L Good now first question Peter as a bit of an icebreaker. Who's been your biggest inspiration and why?

P I think to break that up there's probably been four inspirational periods in my career or in my life starting with my parents in the sense that they had me very early. My Dad was 22 and my Mum was 18. And at the time they didn't have a lot of money. They were renting almost everything including a TV and a house and the like. But they became successful and I don't know where it started it but as I watched them succeed from basically nothing to

being successful in real estate and the like it sort of caught onto me and I wanted to be successful as I matured and got older. And so it was a bit of the cat's in the cradle as the song goes sort of thought process. And then having not been the smartest kid at school but scraped into university, and this might sound a little bit bizarre but it does make a little bit of sense when you talk about markets later on, I went to university. Battled my way through it but while I was there I took a job in the race track with a big bookmaker in the early Eighties. And if people remember that time the race track had two and hundred fifty three hundred bookies still operating and I was working for one of the biggest. And I stayed there three year. But one of the jobs I had there was on the second day I started I was told to go and work with one of the professional punters that was relaying information about what was happening in the markets or in the betting ring back to the bookie. And I'll never forget on the second day on the job it was a Saturday at Rosehill and I'd been standing with this professional punter for the whole day and we got to race seven I can remember the race course announcer saying that Sprayit as one the seventh starting at fifty to one. And as I was standing with the professional punter people were walking past saying, well done Garry, well done Garry and I was trying out to work out why the hell they were saying that. And then Garry turned to me and he said Pete go and collect these betting tickets and I went off and I don't know what it was but it was probably a hundred thousand dollars and back in those days it was a lot of money and the point of that was that I'd stood there all day watching markets and I was a little bit interested in it but I hadn't seen this guy place a bet and it sort of taught me to pay attention as to what was going on in the marketplace and to be a little bit streetwise. And then when I left university I did chartered accounting and became qualified, but was getting a little bit bored with it and in doing that I took a job at BT Australia in the mid-Eighties and BT Australia at that time was in its gung ho days. It was just a terrific to place work. Guys like Chris Corrigan, Gillian Broadbent was there, Rob Ferguson was there. But underneath them there was a whole group of young people that were taking on the big banks and the life officers at the time and being quite novel and entrepreneurial in their approach. And I was just the internal auditor going around to these

young guys and I sort of thought to myself the financial markets are sort of interesting I'd love to find the next BT. BT had matured at that stage and there wasn't much of a chance for me. So I took a job then from that into stockbroking and then one of my clients, and this is in '87, one of my clients during that period was Perpetual. And I'd got that account basically because it was a small client and I'd been given that and that led me to meeting the Perpetuals guys, ie. Anton Tagliaferro and a few others, and they asked me to go up there. And the final stage or the second last stage and probably the whole influential base that I was brought up with was that when I walked into Perpetual we were left with a portfolio of about seventy million dollars in an industrial share fund that was made up of forty stocks. Thirty of those stocks weren't covered by the marketplace because they were old traditional companies that didn't have a lot of turnover but they were great companies. And that led us to go and look at those companies and explore those companies in our own right and that sort of developed the foundation for what then I based my future investing career on. And finally the other influential factor it was a competitor influence and that came from a guy called Greg Perry at First State and as we grew at Perpetual he was not only a worthy competitor but one of the best competitors that I've seen in the marketplace or investors that I've seen in the marketplace. So if you put all those things together it was an inspiration early on to be successful. It was learning about markets at the race track. It was stumbling into financial services via BT, getting to Perpetual and then being left with a portfolio of stocks that no-one was covering that forced us to get out and look at them. And finally there was a competitive influence from someone that I respected in the marketplace.

L Fascinating. I love the bookmaking addition in there as well. So it certainly adds a bit of colour.

P Well the similarities it's amazing. It's amazing Louise when I think back on it. The similarities between the marketplace or the race track and the share market there are similarities there. It's hurdle at times. I think even Charlie Munger said it once that the pari-

mutuel the TAB is similar to the share market in the sense that there's all this information that's available to punters and the prices are set but the prices may not necessarily be right.

L Now look I know you probably get asked this question quite a bit but what are your three lessons for investing if we simplify it right down?

P Yeah if I had to narrow it down and again I think it's coming from what I believe that investing is more an art than a science although there's some science in it. But one of the most important things is for an investor to be patient. It's all too easy to sell too early or sell too late for want of a better word. There's a lots of hurdle behaviour in markets. And it's important to know where the herd is in terms of euphoria and in terms of pessimism. And if you can get a feel for that, you want to be there at the right time not at the wrong time. And probably the third thing to round that out is the importance of fundamentals, which includes understanding accounting, understanding the company you're investing in, and also what you're paying for a company in terms of potential value. And I think as Peter Lynch has said in his book *One Up on Wall Street* it's also important when you're valuing a company to break it down to understand what type of company it is. And it may well be an asset play, it may well be a growth company. It may be a cyclical company as in a mining stock or it may just be a turn around. But it's important to know what are the dynamics that will value that company based on those breakup classifications.

L Now look I'm guessing you probably find this current period quite fascinating with your background and your interest. And this current period is it similar to other periods you've invested through? I mean especially with the irrational exuberance on some stocks and indices. What's your view on all of this?

P If I go back through my career Louise there's probably been four distinct points where markets have done unusual things. The first of those was in 1987. And I'd started in

stockbroking in June '87 and the share markets collapsed in October '87 and overnight they'd lost twenty percent of their value. And in Australia the main reason for that is that the entrepreneurs, whether they be Alan Bond or Christopher Skase and the like, had borrowed too much money and the markets collapsed and because they were invested in share market assets they suffered the hardest. And that was more a one off overnight sort of event. The second one maybe the one you're referring to was 2001 which was termed the dot com boom. But there's a difference between that when you look back at it. At that period of time the internet was relatively immature as were the companies that were operating in it. And companies like Amazon, to a lesser extent Microsoft or even Apple, were fundamentally different to what they are today but underneath them there was a whole heap of other companies whether it be Pets.com or whatever that were trading on promise rather than what they were actually going to achieve. And if you contrast that to where we are today with the technology boom in the US the companies are somewhat more mature and they've developed themselves. For example Amazon is now well established and the like where it wasn't in 2001. But the valuations are a lot harder to justify in terms of what you're paying for the companies themselves now that they are mature and they are earning money. So it's somewhat different. And the other period that I went through was 2007-2008 when the GFC occurred and that was basically financial engineering with speculation tied to debt and interest rates. So it was somewhat different. But I think the other thing to remember is we're in an environment where no-one's really dealt with a pandemic in a major way in financial markets as they are today. And if I was just to go back six months to March this year I've never seen the markets as volatile as they were in March where they down twelve percent one night and up eight percent the next night and that went on for a good two weeks or ten days in trading days and I've never seen anything like that. But where we are today I think the biggest concerns I've got with regards to the market is that we've still got a lot of the stimulus to unwind, not only in Australia but globally. But in the US we've got this phenomenon where stocks, and they're very big stocks, they're going up the equivalent in one night of some of our biggest stocks in terms of market value in one night here in

Australia ie the market value of say Woolworths I think Walmart went up the other night the total market value of Woolworths in one night and a company like Apple is now worth as much as the whole of the United Kingdom top one hundred stocks. And companies like Tesla ...

L Racy.

P ... are racing around like there's no tomorrow. A lot of the market today seems to me to be trading on news and not fundamentals. I mean if an announcement's made that one of them is doing something or they're going to go into this or they're going to into that it's bouncing the stock around five or six percent not based upon the fundamentals but basically based upon the news flow which is a dangerous sign. And as I said I think, I'm not quite sure we are, it's very hard, no-one rings a bell at the top, but I think we are getting closer to midnight in terms of where the US market is.

L And how has managing money changed I mean over the years. I mean given today the access to information and the increasing use of technology. I mean do you think it's easier or harder today to outperform?

P Depends how you define. Now that I'm managing my own money for my own wealth the first port of call for myself Louise not being a fund manager is to preserve capital and not lose it. When you're a fund manager you're investing against rightly or wrongly against a benchmark or an index and you can still lose other people's money but you can outperform an index and over time maybe be rewarded for that outperformance but the underlying investors lost. So there's a major difference between what I'm doing now and what I was doing in the past. But having said that when I started in the finance industry in 1987 I can still remember that every night we'd send off a telex to London telling London what had happened in the Australian market via a telex operator, sending that information off, and

obviously today you can go on the internet or go on Twitter or whatever and you're getting a constant feed of information that's breaking minute by minute. And it's a lot more faster and direct. But then you're starting to crossover into that sort of trading mentality which becomes dangerous because it's very hard for a billion dollar company let alone a trillion dollar company to navigate itself on an information flow in five minutes and that's what markets are basically and potentially come down to. But the underlying way you should invest hasn't changed and I do believe in that.

L And have you needed to change how you run money in the last ten years or so?

P I went back through my career Louise you know as I said at the start when I started at Perpetual and walked into Perpetual with a few others there was seventy million dollars in the industrial share fund. And when I left Perpetual I left having managed up to seven billion dollars in money. And then I was at 452 we got up to nine billion dollars in money. And I'm obviously not managing anywhere that now on my own. And the problem with managing, you know funds management to a large extent, again getting back to the race horse or the race track analogy, it's like a race horse in a race. Weight ie money for a fund manager will slow the fund manager down because they can only invest in a smaller number of stocks because they're getting bigger and if you think about it if I'm managing nine billion dollars of money and I want to put one percent of that in a stock well that's ninety million dollars I've got to get into a company and if you flip that back the other way if you want to limit yourself to taking five percent or ten percent of the company for liquidity reasons it takes you into the top. It basically means you can only invest in the top fifty or the top twenty-five stocks depending on your size to get a bang for your buck. Whereas if I'm managing money, the seventy million dollars when we were at Perpetual we could invest in all these great old companies and run with them and grow with them and all that sort of stuff. So there are some subtle differences as you get bigger in terms of managing money.

L As one of the great value investors that you are I mean would you mind sharing what are you buying now, stock picks?

P Oh look firstly as I said I am a little bit cautious with regards to the US markets. And there's not a lot of visibility as to a lot of the stimulus Jobkeeper and the like in Australia winding off and the banks have still got a reasonable amount of mortgages out there that have been deferred or put in temporary suspension at the moment. But having said that the type of companies that I'm looking at at the moment, and again I think it's important to say if I'm doing a good job or any investor's doing a good job they're only going to get seven out of ten right if they're doing a very good job sometimes and I think I've heard Geoff say this sat different times if you're getting five out of ten right you're doing well. But the type of companies that I'm looking at at the moment, Reef Casino for example I'm watching quite closely. It's a casino operator up in Queensland. It's not earning any money at the moment basically because, well it's earning money now but it wasn't up until the end of June because of the pandemic suspensions and the like. As you alluded to at the start I have got some positions in some of these LICs basically because they are trading or have been trading at substantial discounts to asset backing. And when I say substantial some of them at times have ranged between fifteen and twenty percent. And that's sort of quite a conservative approach in terms of investing in the sense that there's always a possibility that that discount with shrink. And you're already starting to see that. Paul Moore with his two vehicles has put in place a five percent buyback. The Antipodes guys headed up with Chris Cuffe I think as Chairman have put in a structure where they're going to try and shrink the discount if it stays there over the next two years. And Ashok at Ellerston has done the same sort of thing. So what I'm saying is that if you've get a twenty percent discount there you're buying a dollar of asset backing for eighty cents. And if you can have confidence in the managers and I do have confidence in those guys and I've got a position in Wilsons Global with the lady there running that that's doing a very good job I think they're not a bad place to be in the marketplace. And this may sound a little bit controversial I am looking quite closely at a

couple of the coal stocks, such as New Hope. Oil stocks such as Woodside. And Alumina on the aluminium side. But as I said I'm looking at these. I'm taking small positions with them at the moment. But you asked me where I am that's where I am. But I do stress if anyone's going to invest in anything they should be seeking advice if they don't understand what they're doing.

L Absolutely. Love the disclaimer. And how important is considering the macro economic backdrop and the central bank actions for investing today versus in the past? I mean is that a key factor?

P We've come out of the GFC and that's over a decade ago and for more than a decade now we've had basically the central banks cornering the interest rate market. And so the recession that was announced yesterday to some extent is completely different to the recession that I went through in the early Nineties and the central bank ie the RBA could cut interest rates of around about fifteen percent down to seven or whatever they ended up at and build confidence that way. Today we've gone into a recession and I know it may well be a short recession because of what happens if the pandemic clears, it may not be but it may be. But the central bank positioning is such that not only here domestically but globally interest rates and the bang for the buck you can get from cutting interest rates is not there. And as I said whereas the Reserve Bank in the early Nineties could cut from fifteen percent and cut quite hard and build confidence that way they're basically out of the picture today because they've got rates so low. Now there's a lot of talk at the moment about modern monetary theory and quantitative easing and all that sort of thing. Not only I don't think that's been proved to be successful anywhere in the world but the other important thing is it's never been unwound. So talking about the recession if you want to get dramatic about it that we had reported yesterday the important factor as we're seeing and it started quite quickly with regards the pandemic is going to be the fiscal response of governments. But I'm still of

the view that it's still early days in terms of playing itself out and there's still a lot that needs to be unwound and those dynamics have to play themselves out.

L Just changing tack a little bit here. I mean what was it like leaving funds management after you had such a rock star status in the industry?

P Well firstly rock star is a terrible word and calling someone a rock star, and I mean this in the nicest possible way, ninety-nine point nine percent of the time the good days are gone. And to some extent that was true with myself Louise. I mean we got to the stage and I'd got to the stage that I was running so much money that it was like flogging a horse that was carrying a lot of weight. But there was another dynamic that played out in me leaving and that was I was misdiagnosed with terminal cancer and one thing led to another. But having gone through all that with regards to the diagnosis of cancer and that sort of thing it opened my eyes to money is not everything. I had made a reasonable amount of money, a lot more than most people will ever earn in their lifetime and it gave me the opportunity to do other things and enjoy life a lot more and as they say smell the breeze. And I don't mean that in a flippant sense I mean, I just mean in it the sense that I'm just very happy at the moment. It's obviously a pain in the neck that the pandemic's going on, that you can't travel. It's a lot worse in Melbourne. It's a lot worse in a lot of other places around the world. But I've spent a lot of time travelling in the last ten years. I've spent a lot of time going to concerts and that sort of stuff. But I've always had an interest in the marketplace and I'm still tracking it on a day to day night to night basis so. And I'm lucky like that. Like a lot of other people that retire whether it be they've been working in a bank or a chemical factory they don't have that luxury.

L And when you were in the game, because I work out of the office at Wilson Asset Management so I work alongside the investment team and obviously with all these fund

managers that are involved with us, I mean how did you switch off? Like that's what I found, it's fascinating watching the investment team work. It's hard isn't it?

P I don't think you ever switch off Louise. And I actually have trouble switching off now although I've got better at doing it. But again that's what I'm trying to stress you can over micro manage an investment or a position. But it's always interested me. I never thought of it as a nine to five job. It was more like a sport to me in some ways. And I still think it is for Geoff or David Paradise or Anton or whoever or even the young guys that are coming through and girls that are coming through now. It's a sport more than a job. And that's part and parcel of why you like it. I mean when we started at Perpetual it was never about money because Perpetual was a staid old trustee house. There were no bonuses paid in the first couple of years. We walked into something at a time. We were going through the recession we had to have for want of a better word and we just found a job that we loved and I was very lucky. I still think back on those early days at Perpetual. We had a lot of fun. Like we were going out to companies, visiting companies, companies that brokers weren't going to and with different guys and girls one or two of us together and it was just honestly a lot of fun and there was a lot of funny times as well.

L Now look is funds management a career you'd suggest to your son and daughter to enter today? I mean I know when I was growing up right I never, like I'm fifty-five, I mean I'd never heard of the industry until I was in my forties. I mean you know I studied law. But it was all about being a doctor, a lawyer or an accountant. I knew a bit about broking but I certainly didn't have much idea about that industry.

P Well I think it's important not to try and guide your children in the sense that, and again going back to that example I was just giving you, when I fell into Perpetual and when Anton fell into Perpetual and when David Paradise fell into what he's done and Greg Perry started at First State everyone in 1990-91 wanted to be a stockbroker. There was no funds

management industry. Basically a lot of us got the jobs in funds management because no-one else wanted them. And then at the same time as that was occurring superannuation, and the markets had been de-regulated mainly by Paul Keating, superannuation was getting underway. And an industry that hadn't been really thought about as a career to any great extent proved to be a fertile hunting ground. Whereas back in 1990-91 there was probably twenty fund managers in Australia, today I reckon there's probably a thousand just operating in Australian equities if you just go by the unknown names there. It's become a lot more competitive. Superannuation, whereas it was under a hundred billion dollars when I started, across Australia it's now almost three trillion dollars. And that has meant much the same for a fund manager in the sense that as the big super funds like Australian Super and the like have gone from nothing to a hundred and fifty billion or close to two hundred billion now, I can remember when Australian Super was three billion dollars, they've had to put more and more money offshore, more and more money into infrastructure, and that's also come at a time when the number of companies listed in Australia has or the number of good companies listed in Australia and also globally has fallen away. I don't want to tell anyone not to go into funds management or not to go into investing but just keep in mind it is somewhat different. And I don't think you should really ever do anything to a large extent to chase money. Money is important, you've got to pay yourself and you've got to survive and that sort of thing, but if you're doing something for all the wrong reasons it can lead to trouble. And again if you look at lot of the university courses at the moment, whereas business was never really taught, accounting was taught and economics was taught a bit when I was there, they've now become main strain subjects. I just think it's changed a lot. I'm not against it it's just changed a lot. And I think there's also other opportunities out there at the moment for kids or whatever. And it's usually where people aren't. It's somewhere that's new or novel. I mean technology in Australia, medicine in Australia, engineering in Australia, even languages into Asia are somewhat not really talked about or not really developed as much as they should be. And that's probably where the opportunities are. But

again it's up to the individual person to be motivated and to back themselves I think if they really want to have a good go at it.

L What's amazed me is how few females you see in the industry as well. I mean I remember at WAM I think they had an analyst.

P Well I'll probably I don't know I'll probably get into trouble for saying this but. When we were at 452 and when I'd set up 452 and I was there I can remember that we had, I think there was eleven of us there and seven, and it was never a driver, it was never anything like that, seven of them were female.

L Awesome.

P And it was quite, I sort of liked in the sense that it was somewhat different but it was never based upon, it was never based upon sex. But I will say this Louise and one of the reasons I saw it firsthand is the responses, and I hope I don't get into trouble, I hope I'm saying this right, when a male talks to a female is somewhat different when it's a broker context or an investing context. And you can sort of, there's different dynamics that play out and they can often be to the advantage of the person that's employing the female or whatever. On a dealing desk I often saw, I hope this comes out right, I often saw male competitors open up a lot more to female dealers and the like than they would otherwise.

L Fascinating.

P And I don't want that to sound bad or anything I'm just saying it's a different dynamic. A dynamic of advantage rather than anything else. And it gets back to what I've tried to articulate before. And it was never intentional but you could see the advantages of it coming in terms for want of a better word because of diversity even though it wasn't intentional. It

was a distinct advantage. We had researchers coming in asking us basically the question that you've just asked, why were we employing so many females and it was never intentional. It was just the way it worked. It worked really well. It really worked well. It was different and it's like a lot of things if you're different you do get an advantage from it. And it was never intentional.

L You are one of the best followers on Twitter. And it's interesting a few people have told me that. And I'm now following you myself. I mean who are the favourite people you follow on Twitter and why? And why are you so active on Twitter?

P If I go back to start getting involved on Twitter, and I never thought I'd be having this conversation with anyone, but when I first did it I'd left funds management and obviously social media was growing and technology was growing and I'd never really been exposed to technology when I was running money at Perpetual to any large extent. And there wasn't many and there still isn't a lot of technology companies of any credibility listed in Australia. There's some but there's not a lot. And I sort of wanted just to try and get some involvement with regards to social media. I tried Snapchat and I tried Facebook for about five minutes or five seconds and the same with LinkedIn. And I just got involved with it and sort of grew with it a little bit. And it's opened me up to a sort of a very good flow of information. I think it's well-known that it can be like being a traffic jam with cars banked up everywhere and there's road rage going on everywhere to a large extent if that's the right comparison so it can get ugly. But the information flow is quite good. And you can also learn stuff just in terms of psychology with regards to people and the way they think, whether they be an economist, whether they be a fund manager that's on there, whether they be an investor that's on there, or whether they be a politician that's on there.

L Donald Trump hey.

P It's not only Trump. I mean there's a fair few Australian politicians there.

L I know. I know. Malcolm Turnbull.

P If you just watch the dynamics you can read a lot into them. But it's not only them it's everyone. But the main important thing is it's been an information, and I didn't expect it I was just trying to learn a little bit about social media operates, but I do find it interesting in terms of the information flow. It's introduced me into some of the bigger tech people in the US in terms of the people that write on tech, the people that analyse tech and the like, and also some of the economists and analysts, financial analysts overseas. And I just find it interesting. I've often thought about just giving it up at times and it can be addictive but I enjoy it in the sense that it's teaching me something.

L Yeah.

P Is probably the best way of putting it.

L Okay.

P And I honestly believe that. I honestly think the information flow is very good.

L Yeah alright.

P But then again I'm probably a weird person. I think if you're going to be a fund manager or an investor you do have to be a little bit different to others.

L No I definitely get that. And what about just finally anything interesting you've read of late, fiction or non-fiction, that you recommend?

P Again getting back, I buy a lot of books bulk books Louise. I mean again working from home for want of a better word I'm getting a lot of stuff coming in from Amazon whether it's a book or magazines but one thing I have done is I've subscribed to all the major newspapers in the world whether they be the Wall Street Journal or the New York Times or Washington Post, the Nikkei. I'm interested in the dynamics, we haven't really talked about it but I think there's a couple of things that are missing in the market in terms of negativity at the moment, I think the Chinese Australian relationship still has to play itself out and I think that's been underrated to a large extent, and also things like tourism and the like are going to have to play themselves out in this marketplace, and it's just not the pandemic clearing that has to clear but it's things like that have to occur as we go forward.

L Well look thank you Peter. I mean huge thanks for joining us today. I mean it's been a real pleasure to chat with you and to get your insights into the world of investing and certainly beyond that. And I love talking with people who've had an adventurous career and who've been a true leader in their field and certainly who call a spade a spade and you certainly I think meet all of that criteria so thank you. And I'm looking forward to the seventh edition of *Conversations with Future Generation* which will be released in October. So thank you again and stay safe and goodbye for now.

P Thank you Louise. Have fun. Bye bye.

L Thanks Peter. Bye.