

Future Generation
Conversations with Future Generation Podcast
Episode 9 – David Paradise

LOUISE WALSH: Welcome to Conversations with Future Generation. I'm Louise Walsh, 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 David Paradise. David is the Founder and Managing Director of Paradise Investment Management and has over 35 years of experience in equity investments. Paradise Investment Management invests in equities around the world, with offices in Australia and the US. It has approximately \$15 billion under management. He was awarded an Order of Australia for service to the community through philanthropy and investment management. He is currently a board member of Future Generation Australia, Chairman of the Taronga Foundation and GO Foundation Investment Committee. David is a man of many passions, including sport, the arts, environment, education and humanitarian causes. Welcome, David.

DAVID PARADICE: Thank you very much for having me.

LOUISE WALSH: Firstly, the life of David Paradise is a big topic. We've only got so much time this morning, but let's start with an easy one. What are your top three tips for investing?

DAVID PARADICE: It's difficult to put it into top three picks, but I suppose when I'm looking at a company investing and it's a passion for me, investing and just talking about how well companies are run, the focus is business strength, I suppose you could say, and management of that business. As they all say, you can put average management into a business and they'll generally wreck the business; but you put good management into an

idea and they'll make it work. Earnings and cashflow and the fundamental operations of that business and the dynamics of that business. In short, it's management, business strength and earnings cashflow.

LOUISE WALSH: Where would you invest your money today, Australia, Asia or global if you had to put it into only one of those three.

DAVID PARADICE: I suppose just in the current environment, the view at the moment, it's a hard one. Interest rates are probably the lowest point they've been historically. Some areas are negative interest rates. That has been an effect on valuations and where people put their money. You've got a stock market that's going up quite strongly, you've got fundamental change in the way businesses operate; in other words, COVID-19 has forced a lot of people online. So, you've brought forward technology and development technology a lot over many, many, many years. For example, e-commerce over March and April went up 10%. It took ten years to get that, prior to that. And it's taken eight weeks to happen this year. That's had a fundamental change on technology and combined with COVID-19, you've had this massive increase in what they call growth stocks, technology stocks. However, there's been a significant amount of money at the moment being spent by various governments around the world on stimulus packages, to the JobKeeper, the JobSeeker, things like that, that have been spent in Australia and also spent overseas. What this is creating is a pretty strong, robust economy. Australia at the moment has been benefiting from having a strict regime when it comes to handling COVID-19, the economy is freeing up, and you've got this massive stimulus package behind it, so you're getting a strong economy; whereas opposed to America at the current time, although there are a lot of big technology companies over there. The valuations are becoming quite full on some of those, but if the economy starts turning, then maybe some of these kind of cyclical stocks, value stocks that have been left behind because of low interest rates, may start to turn around. In the short-term, it's probably safer to buy some of those particular value stocks, but also it is

interesting. I think the currency, if you get a strong economy in Australia, you may get an increase in interest rates – it's hard to see that at the moment, but if the economy keeps on going like it is, it may happen where you might get employment, that'll increase interest rates. Whereas in the US, it probably looks a bit more difficult because they haven't been as strict with COVID-19, and so you would think that if rates stay down in America but start increasing in Australia, plus you get a strong iron ore price, it will lead to strength in the Aussie dollar.

LOUISE WALSH: Going around the world as you've done for so many years doing meetings with companies and analysing stocks, what do you think is the key to success for a particular company?

DAVID PARADICE: I think realistic vision and expectations. Under-promise and over-deliver is very significant. When I talk about realistic vision and expectations, it does come down to the company management and a company which has a guy at the helm who can see a vision, but it's a realistic vision. I've seen a lot of people come and see me and they've got these visions, but they're just unrealistic, and that comes because management aren't great at being able to pick out the vision and what can really happen. A lot of that is to do with lateral thinking and judging the tide of various economies. For example, Jeff Bezos many years ago decided that the internet was going to be a big thing for distribution and he's built a massive business around that. That's a vision. That was a realistic vision, and no-one expected that thing to happen as it's happened and he's over-delivered, I'm sure.

LOUISE WALSH: Great example of a big vision and then delivering on it. Just related to that, just to give you a little bit of a curly question, what's the best lie you've heard from a company CEO or senior executive? You don't obviously need to name names! I bet you've seen a few in your time.

DAVID PARADICE: Not sure whether it's a lie; maybe it is actually. I do remember, this is quite a long time ago. In early 2000, the market was moving up pretty much like it was at the moment. A lot of the technology stocks in Australia were moving up and you might remember that back in 2000, you had things like Open Telecommunications, for example, which was capitalised at over a billion dollars, ended up going broke. There were numerous carcasses in subsequent years of small technology companies that were being valued on overseas technology companies that ended up going broke because they couldn't reach expectations and because they were basically, on the overall scheme, a tiny company, they just couldn't fund the growth that was necessary to justify the valuation that was being paid. I remember one company, a technology company, talking to me. It was about March, the June year-end was coming up, and I said 'have you got an idea about what you're going to make?' We went through all the various revenue generations and the lines, the cost lines and all that, and it came out at what I thought looked like a number. Then I looked at the broking reports and I looked at the brokers. Say it was a billion-dollar company at the time, and I think there was an expectation of zero profit from one broker, about \$75 million from another broker, and \$150 million from another broker, for a profit report three months away. You think that company management would've been able to determine. And the number I worked out was totally different to that. What that highlighted to me, all these differing answers said to me that the company was not across what they were doing and they weren't able to articulate clearly what they were doing to the marketplace, because we were having these differing answers around the marketplace as to what they were going to make. Further, I could tell by talking to him that he was saying a lot of things that I wanted to hear, and that was because I think he was probably hiding a business which was in decline. In the end, that company did end up going broke.

LOUISE WALSH: You strike me as an incredibly curious person. Where did you get that trait from?

DAVID PARADICE: I come from one of six. I was never handed a lot of stuff on a plate. I always had to make my own way. I did grow up in the country and I spent much time inside. I think it just made me curious about the environment around me. I've also travelled quite a lot. I just find business and the way businesses work is just something that I love. But I think it's come from – I'm just thinking about my siblings; I better be careful!

LOUISE WALSH: They'll be listening!

DAVID PARADICE: I've got five of them! Actually, all of them are very worldly and they look outside. They're interested in what's going on around them. I think that in our business here, I try to employ people that have an interest, that are interested in what's going on around them and can talk about worldly things. For me, talking to people like that increases my curiosity.

LOUISE WALSH: There's a lot of money that can be made in this funds management industry, as we know. How do you keep motivating your team? Obviously, it's not just about money. How does that all work at your end?

DAVID PARADICE: It's absolutely not about money. I think that's why we've done reasonably well, because it's about delivering returns for our clients. Without returns for our clients, we don't have a business. It's about doing that over a long period of time. Sure, everybody in the business has done okay, done reasonably well. But it's interesting, all of us are still turning up, starting at 7:00am in the morning, all the senior money manager guys, and wherever you go, we just love chatting about it. Many years ago, this is between school and university, I went and was driving a wheat harvester up in Quirindi. You go to the pub after and have your drinks, and they'd always talk about the headers. They're passionate about their headers. When I'm in Scone in the Hunter Valley, which is a horse place, you go to the pub and have a chat and they're all passionate about their horses. When I'm with

these blokes here, if we're having a drink on a Friday afternoon or whatever it is, or having a cup of tea, it's all about stocks. Everything is about stocks! They're passionate about stocks and these guys aren't doing it for their money. They're doing it, 1) because they want to be competitive and they want to win, and 2) because they're passionate about what they do.

LOUISE WALSH: Totally. I suppose it gets in the blood. It's almost like part of the DNA. I see that here. I work out of the office of Wilson Asset Management and it's very similar. I see that amongst the investment team. It's a joy for them to talk about it.

DAVID PARADICE: It's funny, every now and then I do a lot of timewasting. In fact, I remember going out with our small cap guys to see a company – this is quite a few years ago – and we were at the elevator. I started joking around with the CEO, just making a few jokes; we'd finished the meeting. Ritchie and Adam could see that we were moving into the area of timewasting and so they just left! [laughter] I'm not going to hang around with this old bloke having jokes that aren't really funny but he thinks are funny!

LOUISE WALSH: Fantastic! On another note, what's your take at the moment on COVID-19 and its impact? When do you think you'll be getting a vaccine shot?

DAVID PARADICE: I think I'll probably get a vaccine as soon as it's safe to get a vaccine! And I will be getting a vaccine. I do travel a bit from here to America and here to the UK. I'm obviously not keen to get COVID-19 and I'm keen to protect myself as much as I can, so I'm keen to have a vaccine and trust that the work has been done on it. I do think that COVID-19 has brought forward a lot of technology and, on a positive note, it's actually made people stay at home and be with their families more often. For example, Australia, there's obviously not a lot of travelling overseas by people, so people are beginning to have holidays at home and find areas along the coast or country that they hadn't seen before because they were always going overseas. Those overseas dollars, that money was supposed to be going

overseas, is obviously being spent here. There are positives in that respect. It's also brought forward, as I said before, technology and the use of technology. That's efficient in many, many ways. I think a lot of people nowadays will continue to do Zoom calls or come into the office, but they will continue to do Zoom calls. That takes a lot of time from travelling and that time can be spent with the family or can be spent with work. Generally, if you're at home, it's going to be spent with the family, so I think there's a massive benefit. I'm a big one on family and having a balanced life. I do think technology, the phone and things like that, has enabled us to be able to juggle work and family life. Further, I feel that, as I said before, the stimulus packages around the world and especially Australia have basically helped us bridge the gap of the recession and basically kickstarted the economy again. I see it just in the streets of Sydney nowadays. It's such a pleasure to be able to feel that when you go anywhere, you're safe. That's creating economic stimulus and growth, whereas in America, it's kind of like a rolling lockdown. They're not locked down; that's the problem. It's so massive over there and they are not watching what they do. But for Australia, I think the government has handled it well, generally. Now you've got the stimulus package and everybody is going back to work, or generally. I know that there are a lot of hospitality people who can't find people because they're doing quite well off their JobKeeper, but that will finish in March and things will be back to normal.

LOUISE WALSH: I reckon we all get at least one lucky break in life. Some people are fortunate that they get many, while some get few, unfortunately. What's your biggest break that you've had?

DAVID PARADICE: We manage money for many of the pension funds in Australia. When I started in January 2000, I left where I was working. I was working at ING Mercantile Mutual. I left there and I went and saw a consultant that used to bank with us at ING. I went around the corner and I said to them 'I've left and will you support me?' They said 'no, we won't support you!' I remember walking out and I think I was making \$112,000 a year when I left,

or something like that, and I had a lot of debt from my house; it wasn't great. But JANA Investment Advisers, which is John A. Nolan & Associates, the consultant, were keen to support us, did a lot of work on the way. My staff and I had quite a good track record over five years of significant performance at ING. I was able to win their support and then they put me in touch with their clients and REST, the Retail Employees Superannuation Trust, have been a great support of our business. I think it's winning the support of those guys that have continued to be successful in their own right, because I suppose they support young blokes or me; or I was younger then.

LOUISE WALSH: Very good. As a contrast, is there one regret in life that stands out? What did you learn from it?

DAVID PARADICE: It's a hard one because I don't like conflictual situations and I try to manage my way through those situations and probably kick things down the road a bit and stress out on those particular issues. But then maybe if I'd been a bit harder and tougher and a bit firmer, maybe I wouldn't have been able to have built the business that we have now. I do have a regret in some respects about not being a conflict guy, sometimes kicking an issue down the road and deferring a decision.

LOUISE WALSH: I wouldn't beat yourself up too much about that! I reckon there'd be quite a few people around town that share that one with you. What do you think about often that you haven't actioned, or not yet?

DAVID PARADICE: Not really. I think there are some times when I sit there and think should I do it or should I not do it? I always think I should generally do something, make something happen. We set up a small cap product, and mid cap, large cap products here, we've set up a global small and mid cap out of Denver, we've set up an emerging markets fund out of San Francisco. I'm looking at doing something out of the UK in a global all cap

equities product. Over that period of time, there are various teams that I've come across, especially in the global equities product, that maybe I should've pounced on. But they're big decisions which you need to think through enough, and I think it's maybe not jumping on some of those opportunities. Many years ago, I was offered a shareholding – years ago – a shareholding in Channel 10. I didn't have enough money to be able to do it or be able to share it with someone; I didn't know anybody around at that point in time to be able to do that. I think those guys ended up making 20 times their money or something like that, over a short period of time. That's not regret. It's probably regret that I didn't have any money! The missed opportunity!

LOUISE WALSH: Things would be different today. On another note, you have certainly had some serious health scares, including, I gather, two cancer bouts. I also gather you've got half a kidney. Why do you keep doing what you do? Did those scares make you reassess things and change any of your focus?

DAVID PARADICE: That's a really good question. I feel it did make me focus a bit more. I'm still a bit of a stress-head. My Mum calls me a bee in a bottle. I am quite a busy kind of guy. I do try to chill-out a bit, but I enjoy what I do. I don't like the travelling and that's probably a bit of a regret. But then I do enjoy the rough and tumble of business and learning new things every day and talking to people about how businesses operate, and operating this business as well. I suppose since those times, I've probably been a bit more balanced. Up until those times, so I actually have had three bouts of cancer. I had prostate and then I lost 20% of the other kidney, so I've got 80% of one. But I have learned to try and get a much more balanced life. I love being with my family and I love being with my friends, and I love having a laugh, not taking life so seriously and not trying to make every single post a winner. Lose on some things and win on some things. But as long as I don't beat myself up when I'm losing on one thing and as long as I've still got my health and my family and my friends and the business, then yes, life is not too bad.

LOUISE WALSH: On an even more personal note, I know you've got an adopted daughter. I read it took, I believe, five years for the adoption to take place. That's incredible persistence. I'm guessing it must've been a frustrating process. Can you share with us some more about that one?

DAVID PARADICE: I have two sons, who are now 21 and 24. My adopted 11-year-old girl, Sabine, is now 11, so it was 11 years ago that we did that. The boys would've been 10 and 13. Yes, it took probably seven years, so we thought we would've had at a point in time a seven, 10 and a 13-year-old, which would be more closely aged. But yes, it took a long time. It was interesting. There were probably ten couples that started down this process and my wife had always wanted to adopt and she was quite keen and I was quite keen. There are probably a lot of people born in this world, and our idea was we could adopt one and take less pressure. If everybody does their own little bit in the world, that's a good thing. Yes, I'm very passionate about, as you know, the environmental side of things. I think if everybody does their bit, everybody recycles a bit and does this, then it does help the world. It did take us a long time. I do remember we knew we were close to hearing about it, and I flew up to Hong Kong for a meeting. I literally landed, went to the hotel and then I got a call saying you've been selected for this child, you need to get the documents signed. I rang up and told my wife, and the documents probably could have been signed over a couple of days or we had to get them done sooner. Anyway, next thing I know, I'm getting back in a taxi and flying back down, straightaway! [laughter] I literally landed and she said, no, you're not going to go to that conference! Come back!

LOUISE WALSH: Well, that's about the balance in life, isn't it?

DAVID PARADICE: Okay, fair enough! It has been a wonderful, wonderful experience. She's a beautiful human being. It's been one of the best things that we've ever done in our lives.

LOUISE WALSH: I know it also must've been a life highlight last year when you met the Queen, of all people, after you won that big polo tournament in the UK. Can you tell us what it was like meeting Her Royal Highness?

DAVID PARADICE: It was a bit of a funny story. I was over there doing some work, because I'm looking at doing this global equity thing, and I thought on the weekends I may as well play polo. I got a call and we put together this team. We went in and we lost the first two games. We were about to be knocked out of the tournament and then we just managed to start winning. We were kind of like the Jamaican bob-sled team, where we were a low-budget team and nobody had any expectations! I was playing with the two best English players and a really good Argentinian player. After we lost the second game and we thought we were going to play the third game and get robbed again, I could see them looking at each other, thinking why the heck have we agreed to play with this bloke? We were just very fortunate that things just seemed to work for us. We ended up winning the whole tournament. We were a low-budget team and we won against the high-budget team. It was just a really nice story because the guy who's the captain of the team, James Harper, is a really down-to-earth kind of guy. He really puts an effort in. He comes from very humble beginnings, so it was really pleasing to win it and to win it for him. He's a really good guy. She said to me when I got the Cup, 'so, where's Scone?' I said 'oh, it's in Australia'. 'Oh yes'. And she said 'has an Australian won this before?' and I said 'no'. She said 'I think it's been going for 60 years'. I said 'yes, that's right'. Then she said 'so, are you allowed to take the Cup?' She'd just given it to me. I said 'I don't know, but I'm going to try and do it!'

LOUISE WALSH: I bet you are! Not leaving it in the UK, you've got to come back and show everyone!

DAVID PARADICE: We were having a laugh. At that point in time, all the cameras starting going. Anyway, the next day I actually came back to Australia, and I actually did take the Cup. It's a massive Cup and I took it in my carry-on. Yes, it was a couple of weeks later and I left because there was an article that came out in Polo whatever it is magazine, and I was on the front cover with the Queen! I go through the x-ray machine and there's this massive Cup in my bag. I got pulled aside – what the heck, what's this? I didn't say anything, I just had the magazine, because I knew I'd have a problem. I just pulled out the magazine with me and the Queen!

LOUISE WALSH: Priceless!

DAVID PARADICE: The guy just goes 'straight through! No problem, straight through!' [laughter]

LOUISE WALSH: Because we've got this elite sporting star with us! We've not heard of this guy, but here he is! Funny.

DAVID PARADICE: It's a weird sport because I'm actually not that great at it, but I did play with some of the best people in the world. It's really been a good lesson for me about respect, sportsmanship, team, teamwork, and that a good team is much better than a team of champions. Yes, against all odds, we managed to do well. It was because there was respect and the team had a culture of respect for each other. Polo does have a lot of wealthy people that play and they do come along with their egos. They treat people appallingly, some of the time. I don't do that and it's all about respect and doing the right thing, and being passionate and giving back to others and to individuals and then your team.

LOUISE WALSH: Fantastic. Sounds like you did a Steve Bradbury!

DAVID PARADICE: [laughter] We were the Jamaican bob-sled team at the beginning, and then we were the Steven Bradbury at the end!

LOUISE WALSH: Exactly! Well done. Finally, because it's been a great chat, outside of the world of investing, what have you been reading or watching or listening of late that you'd recommend to anyone listening?

DAVID PARADICE: I've been reading a book called *It's Your Ship*. It's a book by a Captain in the US Navy, called Michael Abrashoff. It's a really good leadership book actually. I think anybody who's involved with business, it's worth looking at. This guy took over a ship that was a Navy ship that was not doing that well. He managed to be able to incentivise all the crew and basically have them feel ownership of the ship. It's a big issue that everybody has. I think we've done well in this business because at the end of the day, everybody wants to feel responsible that they've added value. They want to feel accountable and they want to feel appreciated. They want to feel ownership in the success of something. Most people don't want to go to work and just do a mundane job and not do the right thing. This book is all about empowering individuals within, empowering the seamen in the ship, empowering people, giving them accountability, making them feel good, making them feel that they're doing the right thing. It's a really good book when it comes to leadership.

LOUISE WALSH: My husband happens to be ex-Australian Navy and he's a big sailor. I'm definitely going to buy it for him, because it sounds like it's right up his alley. I know exactly what you're talking about.

DAVID PARADICE: My Dad is 94 and his mind is still great, but he can't see very well. Mum's 90. My Dad had that book read to him recently. He was in Navy back in 1945 and he thought it was fantastic.

LOUISE WALSH: David, thank you for joining us today. Magnificent conversation, really enjoyed it. It is the final podcast in season one of *Conversations with Future Generation*. I want to thank you. I also want to thank you for your fabulous pro bono support as a fund manager for both Future Generation Australia and Future Generation Global and of course, for being on the board of Future Generation Australia as well. Thank you. I sincerely mean that. Your contribution is absolutely over and above to make these companies so successful.

DAVID PARADICE: This is not a Dorothy Dix; I can't remember actually the number. Since we started, how much is it now that you've been able to give away?

LOUISE WALSH: It's incredible. We've been going now for six years and we've actually donated up until now \$41.2 million to youth at risk and mental health charities, in just six years. It's an incredible privilege to do the role and to work with people like you. Thank you. And thank you everyone for listening. I look forward to bringing you the second season of our podcast series in 2021. Thank you, and have a lovely break over the summer.

DAVID PARADICE: Thank you.