Perpetual

FLAGSHIP INVESTMENT FUND SHOWS BENEFITS OF ACTIVE MANAGEMENT

PERPETUAL ASSET MANAGEMENT
07/07/2021

Perpetual Portfolio Manager Anthony Aboud on why investing in sustainable business models, companies generating cash flow and excellent management teams have been key to the Industrial Share Fund’s success.

Take us through the fund’s back story?

The Industrial Share Fund is one of Australia's longest running unit trusts. It has first records back in 1966, but the performance has been judged from 1976, a year close to home for me. It was the year I was born. One feature of the Industrial Share Fund is the fact it has survived for more than five decades. You have seen so many investment funds and portfolio managers come and go in that period, seen speculative fads come and go, yet it's survived over that period. Not only has it survived, it's thrived. A thousand dollars invested in 1976 to April 2021 would have given you $288,000. I know active investment is not trendy at the moment, but this shows how valuable active management can be. The Industrial Share Fund, by its name, invests in ASX-listed companies, but it does not invest in resources companies. It can invest in financial services, telecommunications, tourism, other service industries, but doesn't invest in resources companies. That's what makes it unique amongst the Perpetual universe.

Can you take us through any fund changes and recent performance?

I recently became the sole portfolio manager after I was a co-portfolio manager. There is very little change in the overall portfolio. The idea here is to have more conviction and more representation of our conviction ideas within the portfolio. The Industrial Share Fund has performed very strongly relative to the index over the last 12 months coming out of this crisis. It's not unusual for the Industrial Share Fund to do very well coming out of a crisis, whether it be 1987, whether it be the ‘Tech Bubble’ or the GFC. Why is that the case? Well, typically we don't participate in bubbles because we don't chase speculative fads. We don't chase companies where there's big-talking CEOs and excess leverage. That's just not our style. We do focus on companies where there is a sustainable business model with a conservative balance sheet and a great management team. Those companies tend to perform very well on the other side of any crisis. We have had a good 12 months as the market has shifted its focus on fundamentals over speculation and we expect that to continue.

Do you see the shift to value continuing?

I like framing the debate as momentum versus fundamental value because growth versus value makes the implication that we as value managers, don't like growth. We do. But what we have seen over the last decade is that momentum has been extremely strong. What I mean by that, is that the best trade, which has worked for everyone, has been by structurally growing companies with big-talking CEOs at any price and sell anything which is not growing at any price. That's actually made it quite tough for fundamental value investors like ourselves.

We see this beginning to change as we are starting to see interest rates tick up again, and the economy starting to tick up again. That means that growth is no longer scarce. It also means a change in how the market thinks about long duration assets – and what I mean by long duration assets are those companies which might not be making any money today but looking to make money in 15 years. In a zero-interest-rate world, they're worth a lot, but in a world where interest rates are starting to increase, they start to sell off. That's not what we're invested in. We're invested in sustainable business models, companies which are generating cash flow with a very good management team.

What stocks do you like at the moment?

One thing we think is going to happen over the next 12 to 18 months is people are going to start buying more experiences rather than things. And when people start buying experiences, we think that once the travel bubbles open, it's going to be quite a bit of a boom. We've got investments within Event. We have been invested in Event for a long time. Qantas, which we only just bought in the capital raising last year, and Crown Casino are companies which we think will do very well from a reopening perspective.

Other sectors which interest us; we think the financial sector does quite well in a rising rate environment with increasing inflation. We think credit growth is going to increase and companies like insurers and banks are going to start making money off the asset side of their balance sheet. The last one is some of these more heavy industrial companies, which have had 10 or 15 tough years, but you have seen consolidation in this space and once we start seeing economic activity bounce back, the demand / supply dynamics look really attractive. Companies like BlueScope or Fletcher Building, or even Qube Logistics are companies which we were invested in as well.

Find out more about Perpetual's Industrial Share Fund.