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Hedge Fund News, Events & Awards

Hedge Fund Monthly

Interview with Philip Mathews, Founder and Managing Director of Mathews Capital

Eurekahedge

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Philip Mathews has over 18 years' experience as a fund manager, research analyst and stock broker both in London and Sydney. Philip has a proven track record of over 12 years as chief investment director of two private unlisted funds, which have ranked in the top 1% of hedge fund performance globally. Both funds have multiplied their unit values in excess of 60 times over this period.

The Sabre Fund is an absolute return fund investing in mainly Australian and international listed securities. The portfolio consists of largely listed securities, however, other possible investments may include derivatives, commodities, fixed interest, short selling, leverage and foreign exchange.

The Sabre Fund was established in April of 2002 and currently has net assets approaching A$150 million.

1. *Your fund was up over 154% through December YTD. How have you achieved these returns in a year where low volatilities have kept hedge fund returns relatively flat?*

   The Sabre Fund adopts a non-benchmark or strict strategy single strategy approach to investment. The manager instead chooses the approach, which is expected to yield the highest potential returns in the upcoming period, and avoids the problem of over-crowded styles, which have become populist and consequently less profitable. We also believe in a more focused portfolio holding a smaller number of our best investment opportunities, which we believe, actually ultimately lowers the portfolio risk as we become more intimately acquainted with all our investments. A more volatile fund than the average is however created but this is more than compensated for by superior long-term returns.

   In 2004, a number of our strategies tended to work at the same time, which created the solid returns experienced. The returns however are not substantially different to what we have experienced at times in the past.

2. *To what factors — i.e. strategy, market developments — can you attribute the performance in 2004 being three times as high as in 2003?*

   2003 was a year born from the turmoil of September 11, 2002 and all the uncertainties that resulted. Looking back, that turmoil probably created some of the opportunities in at least a decade. 2004 was a year that we saw equity pricing better reflect valuation than for the previous period.

3. *You conduct thorough inspection of companies in addition to a top-down analysis. On a micro level, what do you look for in your company meetings/visits and how do you achieve superior bottom-up research?*

   We are looking for companies that reflect trends that our research has revealed to offer potential sustained rewards for investors. In particular we are vigilant for changes in these trends as they may occur.

   When we visit a company, we are looking for confirmation that the company does reflect any trend our research has revealed. Often we find a rising tide lifts all boats and that laggard performers may have the most upside. We are very vigilant as to whether the company is able to deliver on its business plan and as to the credibility of the people entrusted with decision making. It is absolutely essential that the company delivers the expected results.

4. *Regarding financial statements, how do you weight various ratios (i.e. profitability, liquidity, turnover) and valuation measures (free cash flow, book value, earnings)?*

   Free cash availability is the most important financial measurement and we are totally focused on the price we are paying for it. With regards to financial statements - we will not invest in any country or company where we cannot be certain the numbers are correctly represented. China worries us in this respect and we won't invest there for that reason. If we find that we have made a mistake in this regard and for some reason management or the financials lose credibility, we would look to liquidate our investment. Mistake correction is vital

Industry News

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Trade of The Month: Commodity Indexes
Translating Islamic Finance into Japanese Legal Concepts

to our process.

5. *What criteria do you employ to screen industries or read the macro environment?*

   As described above, we look for trend both on a micro and macro level. The macro level is determined by demographic, the micro by shorter-term factors such as corporate and private spending patterns. To spot trends, we subscribe to various industry trade journals, global newspapers and every available news service.

6. *On the Australian market: what are the reasons and potential impact of the historically high cash positions of Australian domestic institutional investors?*

   The high cash position of institutions is a major factor underpinning the market. When combined with the higher-than-global dividend yields (which are generally tax free for Australian corporates) and decade-low interest rates, valuations are strongly underpinned. Cash levels are high due to significant cash inflows derived from the countries superannuation system where up to 9% of an employees wage is diverted to superannuation. Historically high corporate buybacks have contributed to cash levels.

7. *What impact will the relocation of Newscorp likely have on the domestic market?*

   Financials will assume a higher weighting rising up to 35% of the market total. This probably means that the market may become more interest rate sensitive in the future.

8. *Do you think that the Australian market is pricing in too much of the strong earnings news given some recent negative economic data, such as the account deficit, retails sales and housing financing?*

   The market has had an amazing run and will find sustaining momentum from here increasingly difficult. That said, support is gained from high fund cash levels, dividend levels and low interest rates. With the building sector softening in 2005, a significant 2004 driver will not be present in 2005.

9. *Over the long term, will Australia's record current account deficit pose a threat to economic stability?*

   Australia has always run a high deficit. However this does not appear to pose a threat as Australia is a young growth country with an expanding population.

10. *Your fund maintains a flexible approach to investment vehicles and strategies. How do you see your asset allocation and distribution of strategies shifting as the fund matures?*

    We may increase the number of larger investment opportunities which we participate in or increase our sectorial investment approach more than in the past. Sectorial investments appear to perform as well generally as individual stocks can do. The key once again is to understand trends.

11. *Tell us a bit about the Tomahawk Fund ready for release in early January 2005.*

    The Tomahawk Fund will emulate the successful strategy we have used over the last 12 years but is aimed at international investors who are disadvantaged by investing in a fund such as Sabre due to its Australian resident status. We expect the Tomahawk portfolio to resemble that of Sabre over time and invest in a range of international investment opportunities that match our strict requirements.

12. *What are your future travel plans to meet with prospective investors?*

    We are looking to conduct a road show in March for prospective investors in Europe and Asia. In addition we have been approached to speak at a number of conferences in coming months.

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