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RICH PICKINGS: The hedge fund factor

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Published 0:07 AM, 18 Sep 2010 Last update 0:00 AM, 18 Sep 2010

There aren't many Australian investors who can move a market like Phil Mathews, the elusive hedge fund manager who owns Mathews Capital Partners.

Last week, on 13 September, shares in struggling chemicals group Nufarm rose sharply on rumours that Mathews had built a 6 per cent stake in the company.

The next day, the *Australian Financial Review* reported Mathews was on the company's register, but wasn't a substantial shareholder. No matter, the mini fuse had been lit: Nufarm's shares rose from $3.52 on 13 September to touch an intra-week high of $4.22, an increase of 19.9 per cent.

It's been a common theme around companies that Mathews and his funds have bought into in recent months.

First it was the gold hopeful Adamus Resources. Mathews became a substantial shareholder in early May, since which the share price has risen 50 per cent. His stake in now worth $16.1 million.

Then it was beleaguered Tasmanian timber giant Gunns, in which Mathews has amassed a $76.5 million stake, making him the second biggest shareholder. Since his first investment in mid May, the company's share price is up 48.8 per cent.

After that came struggling agribusiness company Elders, in which Mathews has built a $34 million stake. In the period since Mathews emerged as a substantial shareholder in late July, the stock is up more than 67 per cent.

Most recently, Mathews bought into gold and copper company Rey Resources, building a stake now worth just over $3 million. He became a substantial shareholder in early September, and the shares are up 50 per cent.

In most of these cases, the shares have soared off very low bases, but the data does suggest something of a Mathews factor – when he buys, others follow.

What's particularly interesting is the question of whether Mathews has stumbled onto a new investment theme. With his investments in Gunns, Elders and Nufarm, there does appear to be a general push towards the agribusiness sector.

One thing is for sure – Mathews, who is worth an estimated $650 million, is unlikely to tell us anything.

Despite being one of the most respected fund managers in the world – Barons and the Australian hedge fund industry have handed him a number of awards in recent years – Mathews is notoriously private.

Even the Mathews Capital Partners website is something of a dead end. The company, which has annual revenue of $352 million according to research firm IBISWorld, promises on its site information on its investment philosophy and the performance on its various funds, but access is denied unless you have been given login details by the company.

Suffice to say, requests for a password – and an interview – did not receive a response.

What we do know is that Mathews, a former chartered accountant and investment banker, takes a big-picture approach to investing, starting out by picking themes or sectors rather individual stocks.

In his last big interviews, both given in 2005 – one for the book 'Masters of the Market' and the other with hedge fund site Eureka Hedge – Mathews reinforced the lesson.

“If you could pick a sector correctly, most of the stocks in that sector would go up,” he said in Masters of the Market.

“To spot trends, we subscribe to various industry trade journals, global newspapers and every available news service,” he told Eureka Hedge.

Once the theme is picked – and this can take a year to research, apparently – Mathews and his team start looking for the right individual stocks.

“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,” he told Eureka Hedge.

Mathews’ other big criteria is spotless financials – and there’s no room to move.

“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 to our process.”

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In the past, Mathews has won big by betting on the financial services theme, underpinned by the steady stream of super money pouring into the Australian economy.

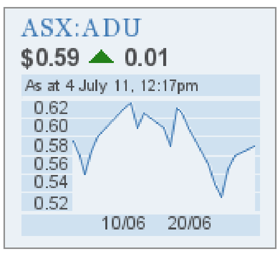
Following that, he punted on the tote gambling sector, and more particularly Aristocrat Leisure, after noticing how Australian governments were hooked on gambling revenue.

However, his really big bet of the past few years has been energy, with a particular focus on oil and gas; investments in Santos and Arrow Energy paid off handsomely.

“Energy is going to be a theme throughout our lifetimes,” he told the *Australian Financial Review* in 2008.

Could agribusiness be Mathews’ next great theme? While Australian agribusiness stocks have struggled in the past few years due the collapse of the Managed Investment Scheme sector, drought and the GFC, the issue of food security has not gone away – as the recent spike in global wheat prices has shown.

If agribusiness is really Mathews’ next target, he does appear to have got in at the bottom of the cycle.



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