

## Velocity's 500 per cent in five years

PUBLISHED: 18 Apr 2011 PRINT EDITION: 18 Apr 2011

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A fund that returns 513 per cent in less than five years might sound far-fetched but that is the performance of the Velocity Fund run by boutique firm Mathews Capital Partners.

Since its inception on July 1, 2006 until the end of March this year, the fund has delivered an accumulated return of 513.72 per cent net of fees, dwarfing the S&P/ASX300 Accumulation Index's 17.41 per cent gain in the same period.

With \$103 million under management, current sector positions include a 42 per cent weighting to coal, 29 per cent to gold, 16 per cent to industrials, and 12 per cent to property with the rest in base metals, energy stocks, crude oil futures and options.

"In physics, velocity refers to speed and direction and part of our investment thinking is that when things change, we're able to," says the fund's chief investment officer Ben Henri.



Velocity's Ben Henri . . . 'when things change, we're able to'. **Photo: Louise Kennerley**

The fund holds between 30 and 40 stocks but can invest half its capital in just five names, making it one of the most concentrated funds in the market. "Part of our philosophy is to do a lot of company meetings on a regular basis to maintain a pretty tight surveillance of our key stories," says Henri, giving Bathurst Resources as an example of a stock the company has followed since it was 18¢ in May last year.

"We've been checking on the company's progress on average once a month and that includes a two-day visit to the project in New Zealand," says Henri, who notes the team of five have had at least 500 company meetings in the past year.

Velocity's index is agnostic and focuses on key thematic, currently coal, gold and energy. After completing extensive analysis to generate an in-house outlook for the coal price, which includes regularly meeting management of coal companies, Henri became significantly more bullish, providing conviction to invest in coal stocks.

"If you're an ordinary long-only fund manager and you're excited about coal or a stock like Centennial Coal, you might overweight it by 50 basis points versus the index but for us, we owned over 5 per cent of the company, which is our definition of overweight," he says.

Velocity still plays the coal theme, with investments in explorers with a \$50 million market cap right through to multibillion-dollar market capped producers, with coal stocks held including Coal & Allied Industries, Aston Resources, Carabella Resources and Ray Resources.

Though specifying the fund is not a coal fund or a resource fund, Henri says he explains the theme to clients with the help of the saying, "Why do people rob banks? Because that's where the money is."

"If we're in the middle of a multi-year coal boom, there's no point investing in things like healthcare stocks . . . coal is where the action is so that's where we want to be to make money for the investors in the fund, which include myself, Phil Mathews and the staff here."

Mathews Capital staff own 15 per cent of the funds under management, seeding the initial \$750,000 amount in 2006, and Henri says most of his personal wealth is tied to the fund, creating alignment.

With a minimum investment of \$250,000, other investors include high net worth individuals, self-managed super funds, family offices, investment trusts and selected institutional investors, all of whom have an investment horizon of three to five years and a tolerance for monthly returns that may show a high degree of variability against the broader equity market.

"Three years ago there would have been quite limited coal exposure in the fund; there was a lot more coal seam energy exposure because that was the part of the market making good returns for investors," he says.

He admits Mathews Capital has had a reputation for successfully investing in coal seam methane stocks, naming Arrow Energy and Pure Energy as two big victories. The fund began buying Pure Energy at 50¢ a share, selling out to its takeover by BG Group at \$8.25 a share.

"We had a meaningful holding in it because we knew how much it could go up in the coal seam bull market and were vindicated when Arrow Energy and BG battled to the death in a takeover battle," Henri says.

Relaying more recent success, March's performance meant a ninth successive gain, helping the fund maintain its track record of 700 per cent of months with positive returns since inception.

Henri says in 2010, the fund delivered a return net of fees of 38 per cent, while the benchmark index, including dividends, added just 2 per cent. "The right stocks for us last year, which we put a good percentage of capital into, were Arrow Energy and Centennial Coal which were taken over at significant premiums as well as Intrepid Mining and Bathurst Resources, which are still in the fund."

In 2010, Intrepid Mining rose 593.1 per cent while Bathurst Resources rose 670.12 per cent. Other gold interests include Catalpa Resources, Saracen Mineral Holdings, Noble Mineral Resources and Newcrest Mining.

"Even though Newcrest is a large cap, it still offers really exciting upside, strong production growth, leverage to copper and a great exploration track record," says Henri, noting the larger a stock's market cap, the less competitive advantage one has due to significantly more parties trying to uncover hidden value in the same stock. He says the fund has interests in the listed property sector including stakes in FKP Property Group, GPT Group and Devine.

Prior to 2009, the fund had minimal involvement with REITs and were not hurt when the sector was decimated during the financial crisis. "We got interested in the sector because sentiment towards it was so unloved, stocks had gone from trading at healthy premiums to NTAs to significant discounts even though they'd gone through recapitalisation events, changes in strategic direction and management, and they were still paying out reasonable dividends," he says.

Henri identified that there was a trade in watching stocks narrow from 40 per cent discounts to NTA to trading at a possible future premium when investors realise that property prices are not continuing to fall.

Among industrials, Velocity likes Watpac and NRW Holdings, which has brought significant returns in the past few years.

"We owned NRW from its float but it fell to a low of 13¢ in the GFC, giving it a prospective price-earnings of 1, but we didn't get stopped out and followed our philosophy of communicating with management, getting an understanding of the company, and tripled the position in the 20¢ to 40¢ range and it closed at \$3.01."

Henri justifies the fund's 300 per cent turnover by noting it includes shorting, but also short-term trades.

Coy about the future, but with conviction in the present, he says, "In a couple of years I don't know what the next exciting theme is but having 500 company meetings could help dig that up."

The Australian Financial Review

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