

Energy, resources drive Velocity

Co-investment by staff gives this fund's clients a sense of security

ANDREW MAIN

ROB Duke is the head of fund distribution at Mathews Capital Partners, a Sydney absolute return fund manager set up in 2001 by Philip Mathews with a particular focus at present on the resources and energy stocks sectors.

It didn't do any harm at all in recent years when Mathews was reported to have made huge gains on major investments in Arrow Energy, Centennial Coal, Pure Energy, not to mention trading oil and commodity futures. To judge from the fact that he's still working, there must still be some outstanding investment opportunities on the horizon and he never comments, but there was no argument when Mathews Capital's Velocity Fund reported returns of 463.90 per cent between inception in July 2006 and August 31 this year.

What sort of sectors does your fund invest in?

Any sectors. We stay focused on investing in sectors that provide the most potential for us to make money for our clients and ourselves in the medium to long term. It is not by accident that the fund has been consistently invested in the best performing sectors on the ASX during the past five years.

The sharemarket has a tendency not to fully understand or factor in the impact of macroeconomic, or industry level changes. Specifically, we are interested in changes that will have sustainable, long-term impact on the investments that we hold. Focusing on, a) where the most change is taking place or, b) where market consensus has wrongly estimated change by a wide margin, results in a small number, usually three or four, of investment themes that present the greatest opportunity for long-term capital appreciation with the least risk of loss of capital.

We focus on deep analysis of each theme and we still believe the most attractive investment opportunities for the fund exist in the energy and resources sectors. The manager actively uses short instruments to manage the



JAMES CROUCHER

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ROB DUKE

much does your fund and your overall business have under management?

Based in Sydney with 10 full-time staff, Mathews Capital has in excess of \$1.5bn (as at June 30) on behalf of a variety of high-net-worth individuals, private companies, trusts, superannuation funds and selected institutional clients. Mathews Capital remains index-agnostic with a focus on delivering absolute returns via a high-conviction and disciplined investment approach that has produced strong out-performance in the medium to long term. Mathews Capital's successful investment process is based on creative, detailed and original hands-on research.

A significant portion of Mathews Capital's funds under management is owned by staff and related entities. This level of co-investment at Mathews Capital is something that differentiates us from many of our peers. Every day we come to work, we are working for both our clients and ourselves. Many of our investors take comfort from this level of co-investment, where our interests are so strongly aligned with our investors.

Do you believe the sectors you like are undervalued at present and, if so, why?

While many sectors appear undervalued by traditional measures, we still believe that the energy and resources sectors will provide the most upside for our investors across the medium term. In our view, the fundamentals for these sectors at a macro level remain compelling. Sub-sectors including mining services, coking coal, thermal coal, base metals and precious metals remain a focus for the fund.

How has your fund performed since inception and in recent years?

When compared with the broader equity market, the Mathews Capital Velocity Fund continues to deliver positive returns through a wide variety of economic and financial market conditions supporting the managers'

established investment strategy and processes. The fund has produced positive returns every year since inception, including during the GFC, when in calendar year 2008 the fund returned almost 9 per cent (after all fees) with the broader market (ASX300 Accumulation Index) down about 37 per cent for the same period. Since inception in July 2006, the fund has delivered, to August 31 this year, an annualised return of 39.76 per cent with a total return of 463.90 per cent.

What have been some of its best and worst investments?

We've had both but the dollar value of gains across the life of the fund has been almost three times the value of losses. For every dollar of research capital we are investing, we are producing three times the amount of winning dollars than losing dollars, further validating the quality of the firm's research process. In 2008, Macarthur Coal and Nexus Energy produced the biggest losses for the fund. Profitable investments for the fund have included Arrow Energy, Pure Energy, Centennial Coal, Bathurst Resources and Intrepid Mines. Importantly, the fund has been long equities overall for more than five years and produced positive returns to investors in a period where the broader market had gone sideways, or down. This must be the best test of a manager's research process.

Do you plan to launch any new funds in the short term?

Not immediately. With assets under management of \$105 million, the Velocity Fund has a significant amount of capacity under its present investment strategy. We are continuing to receive strong interest in the fund from both investors and intermediaries. This December, Mathews Capital is planning to launch a Cayman-domiciled fund to accommodate offshore investors interested in the Velocity strategy.

What's the minimum investment your fund will accept?

The Velocity Fund is at present open to wholesale investors for a minimum investment of \$250,000. From next month, we are planning to make the fund more accessible via product disclosure statement to investors with a minimum investment amount of \$100,000.

FIVE TOP TIPS

- Thematics matter most. Identifying the key investment themes should be the main priority in the research process.
- Market consensus is wrong more often than not.
- Run a concentrated portfolio and allocate most of your capital to your best investment ideas. Then watch these ideas closely.
- The most appropriate measure of investment risk is loss of invested capital and the biggest contributor to a loss of capital is often paying too much for an investment.
- Remain flexible, so when the fundamentals of an investment or market have changed you can respond accordingly.

portfolio downside risk. During periods of high market volatility, including the global financial crisis, the manager successfully protected investors' capital. In 2008, shorting made a very significant contribution to the fund profit and loss, with Velocity producing a positive return of almost 9 per cent when the ASX300 Accumulation Index was down almost 39 per cent.

What's the history of your business?

Mathews Capital Partners Pty Ltd was established by Philip Mathews in March 2001. With more than two decades of investment markets experience, he is widely regarded as one of Australia's leading absolute return fund managers. Ben Henri, chief investment officer of the Velocity Fund, has worked with Philip Mathews since 1999. Henri has been responsible for the Velocity Fund since its inception in July 2006.

How many staff do you have and how