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James McDonald
acting chief
investment officer,
Hunter Hall

Finding value among all the noise

An ethically-screened managed fund that outperforms global stockmarkets, the Hunter Hall Value Growth Trust invests for the long term with a conservative approach to capital risk.

Investors should be assured that there will be little change to Hunter Hall's investment expertise and philosophy as it enters the post-Peter Hall era.

Each of Hunter Hall's experienced investment team has worked closely with the funds management veteran and deeply understands the company's direction. Following Peter's departure, the investment team has increased its responsibilities and will maintain Hunter Hall's multi-portfolio manager structure for each of its ethically-screened funds.

Newly appointed interim chief investment officer, James McDonald⁰¹, says the Value Growth Trust (VGT) and the listed investment company Hunter Hall Global Value Limited (HHV) exemplify all of the firms' investment principles and key ideas.

"There are three things that are really important to us. First is the ethical investment strategy – companies producing products or engaging in services that are harmful to society or the environment are excluded from our investment universe," McDonald says.

"Second is the small and mid-cap bias. We've always made our big returns in small and mid-cap stocks and that's really important to us.

"The third one is value – we're trying to buy companies that are trading at a big discount to their intrinsic value. On these points, Peter and I shared the same investment philosophy."

VGT's investment objective is to increase the wealth of its investors by substantially outperforming the global stockmarkets, as benchmarked by the MSCI World Total Return Index. Its investment view is long term without taking significant capital risks.

Since inception in 1994, the Value Growth Trust has outperformed MSCI World by 6.5% per annum and outperformed the All Ordinaries Accumulation Index by 4.0% per annum – as at 31 December 2016.

Who manages the money

As McDonald explains, Hunter Hall's multi-portfolio manager structure means fund performance is not built around one person or idea.

Traditionally Peter Hall managed about 28% of the VGT portfolio and carried its overall investment responsibility. During that time McDonald managed about 25% of portfolio with the remainder generally split between other portfolio managers in sleeves.

McDonald now carries the overall investment responsibility at VGT and Peter's sleeve has been split among five other portfolio managers – creating an exciting opportunity for the investment team.

Over 14 years working together James and Peter were aligned on many aspects of their investment philosophies.

"In common with Peter I've also been a believer of the gold story we have in our portfolio. I'm happy to takeover some of Peter's small Australian gold holdings which were interesting, particularly Blackham Resources and Doray Minerals, which trade on very low multiples. They're low cost producers and they have capacity to greatly increase their production, so they are looking attractive. Others we'll divest and overall the gold weighting will dip in the portfolio, but we'll keep some exposure," McDonald says.

While positive on gold, McDonald is also cautious. The US government is going to increase interest rates which may be a headwind for the gold price in the near term. On the other hand, he says, "I think gold is a wonderful hedge on global uncertainty and we're still only a tweet away from mayhem."

"Having some gold is a good hedge for global uncertainty, especially political uncertainty. Governments around the world still haven't fixed their balance sheets – no one is close to balancing their books and the US deficit is likely to worsen considerably with Trump's stimulus."

As at December 2016, VGT's largest sector allocation was cash, making up 26% of the portfolio. IT (16%) and consumer discretionary stocks (13%) rounded out the top three. In terms of country allocation, the US held 32% and Australia 25%.

McDonald says the most common query from financial advisers is asking about who is managing the money.

"They want to know that their money is in the same hands it has always been in. Our investment team of eight is unchanged but I have assumed the responsibility and overview role. In addition, the Hunter Hall systemic investment approach and process continues."

"More recently there's also been queries about the parent company. Advisers are reading the news and there has been a lot of activity on that front, but the board has formed an Independent Board Committee to assess the strategic options which are available to the parent. What is clear to us at Hunter Hall from these

events is the significant value in the Hunter Hall platform. I am confident the Independent Board Committee will secure an outcome that is in the best interests of shareholders, the business and our stakeholders, particularly advisers and their clients," McDonald says.

Another point of difference at Hunter Hall is the manager's commitment to charitable giving. Five per cent of pre-tax profits are given to charity, distinguishing Hunter Hall from its competitors.

Where value lies

Two investments at the forefront of Hunter Hall's current holdings are life-sciences firm Sirtex and telecom tech business Lumentum.

"Sirtex is very interesting over the next three to five months. They're releasing three major clinical studies between now and the end of June and this has the potential to completely transform the company," McDonald says.

"Were the trials to be unsuccessful, we anticipate the share price would fall materially. We believe this outcome is unlikely. In the event the trials are successful and some sub groups of patients respond well to Sirtex treatment, the shares could double or triple quickly. Unfortunately Sirtex shares are down sharply from \$40 to \$15 over the last 12 months after the company lowered its guidance and the CEO was forced to resign following an insider selling probe. All of this was unfortunate timing. The current years revenue growth rate is quite meaningless compared to the potential from the trials. We used to the recent weakness to add to our position," McDonald says.

Lumentum is a \$2 billion firm spun out of the former telecom technology firm JDS Uniphase – a 90s tech boom darling.

"That company benefits from a duopoly in the manufacturing of optical switches used in Telecom networks. Fundamentally, the optical networks are growing very rapidly because it's much more efficient to transfer data in optics than it is in electrical networks," McDonald says.

"But Lumentum actually also has another interesting angle – which is that Apple is likely to put 3D sensors in the new iPhone in the middle of this year. Two companies have been chosen, and one is Lumentum, to make these 3D sensors.

"There's always a risk Apple doesn't go ahead with the installation but if they proceed that would add hundreds of millions of dollars to Lumentum, a \$900 million revenue type business. That would be transformative for them." **FS**



The quote

Gold is a wonderful hedge on global uncertainty.



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