FINANCIAL REVIEW

Fear factor: earth, wind and financial markets

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ST Wong is an SES volunteer and will be on call on Christmas Day. **Pat Scala**

By Vesna Poljak

For a fund manager, ST Wong has a unique perspective on risk. That's because in his own time Wong is a volunteer member of the SES, or state emergency service, in Victoria.

"It's no different from funds management. It's all about being prepared for emergencies or a crisis," he says. Being a volunteer member entails working in teams of four, rotating every four weeks, on call from 7pm to 7am in the event of a flood, earthquake or any other event that poses a danger to the community.

"You can't predict an event – storms, whatever – we don't know the probability. We can make observations but a lot of it is about being prepared for that event."

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The same goes for rising interest rates and the bull market, he says.

"The funny thing though is that most big events are dominated by fear and confusion, so there's probably no event which is similar." The next financial crisis "will be different from the last one".

Unfiltered snapshot

It was the call of volunteerism that drew Wong to the SES, but he has found getting to know fellow SES members gives him an unfiltered snapshot on life outside the equity market.

"The SES in many communities are diverse entities," he says. "As a fund manager it gives me a feel for what the grassroots is all about, what's happening in the economy and socially."

Wong, who is the joint chief investment officer at Prime Value, started out as a credit analyst and spent most of his career in Asia, and mostly Malaysia. When the Asian financial crisis hit he was a sell-side banks analyst and back then, south-east Asia was a major market for international investors.

"The light bulb turned on as to how come so many of us so-called experts missed the financial crisis."

That was the catalyst of his interest in funds management. "I spent a lot of time researching companies and I felt there must be another page to this story, I'm probably missing what well-run companies are."

There was another motivation for making the transition to the buy side. At the time he was working for BZW, and almost the only incoming calls the office received were wrong numbers.

So Wong went to Melbourne to pursue an MBA and encountered Professor Ian Harper, who was a senior lecturer at the time. "I got a lot from Ian, he communicates really well," the fund manager says.

Highly effective

Wong deflects interest in his MBA ("as an acronym it's probably overplayed") but what he took away from studying was how Australian banks are regulated and their ability to withstand crisis. He also believes the role of the banks' marketing strategies over decades is underestimated in that they have been highly effective.

"I think the royal commission as it is will not affect banks significantly because it is a well-regulated sector, the regulators are top class." He is disappointed, however, in the big four's retreat from international markets.

"I get that in the sense the CEOs are making the banks simpler, more efficient, and that's certainly required. They're making the banks much more nimble. There's a long way to go, by the way. They're by no means nimble. If you talk to people who work in banks today it's still quite a lumbering giant."

Macquarie the better investment

Macquarie Group is the better investment today, precisely because its reputation as the millionaires' factory is outdated, Wong argues.

"It's no longer the silver donut as we knew it, five years ago, it's all about investment banking and capital markets. Today, if you didn't realise, the driver for Macquarie is literally funds management. It's been an evolution that's slipped by many in my view."

An emphasis on funds management reduces regulatory risk, has lower capital

requirements and "indicates a changing cost base".

"You know how we call Mac bank the millionaires' factory, like literally, it's filled with investment bankers trucking millions out the door every year?"

That is changing, and as the cost base lowers "that will be positive", Wong says.

"It's still a market creature, so it will fluctuate where markets are concerned," but equally, Macquarie's capacity to acquire opportunistically is strong.

"That's the mark of the management I want to back. We're looking for management to be capital allocators, buy well, and it's no different to buying Aussie properties at the peak of the financial crisis. The point is, being counter-cyclical, and the fundamental fact is this, for me, capital and cashflow and balance sheet is really crucial. Without these three factors I saw a lot of companies keel over and die in the financial crisis."

In industrials, he says CSL and Orora have shown similar instincts.

"People drive the company and very often, how well the company is managed is reflected in how the balance sheet and cashflows are managed. But it's a hard thing to do."

Wong got the markets bug growing up in Malaysia and watching traders.

"One of Mark Twain's best quotes is in any gold rush you buy the people who sell the picks and shovels. These are the guys just creaming it, just making money. The fact is in developing nations, middleman traders, Jardine Fleming, the East India Company, these are the guys who literally work on cashflows moving goods.

Taking few risks

"You're making revenues but at the same time paying out costs of goods sold, taking as few risks as possible."

Being able to invest in Asian stocks, Wong sees Japan as a sensible play on outbound China tourism.

"The Chinese love Japanese culture. They don't have the best relationships but Japan is a major destination for Chinese tourists. You'll find Japan will have a number of exposures with hospitality themes."

He follows the Hong Kong-listed L'Occitane International, where he has observed that consumers are no longer willing to pay for organics, and AAC Technologies, which makes components for smartphones.

L'Occitane "is so passionate about the product, they believe in it".

Capital preservation

A pick-and-shovel type stock is Hong Kong-listed Nexteer, which makes electronic steering systems for cars and is specifically leveraged to demand for SUVs.

"Why limit ourselves to the Australian markets? Themes are not bound by geographies."

However, the $1 billion-plus Prime Value is not a value investor, preferring to be

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governed by capital preservation with a portfolio of 20 to 30 stocks.

"Australia has been punishing companies for investing," Wong says, pointing to CSL's experience. But he's encouraged that more companies are reinvesting and sees that as a feature of the equity market in 2018.

"Dial back about 10 years, the whole investment into HPV has yielded significant results [for CSL]," he says. "They've got quite a few irons in the fire which is positive, because they've got all this cashflow, they can fund this. Turning around the acquisition in the US is one of them. I think they'll get it right in time."