

SE intel
 HD **Fallen angels**
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 WC 854 words
 PD 19 September 2014
 SN Financial Review Smart Investor
 SC FRSINV
 ED First
 PG 6
 LA English
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SMART PEOPLE

Experienced and well connected, Ashok Jacob is harnessing market shocks for profit, writes James Frost.

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News Corporation's phone-hacking scandal. BP's Gulf of Mexico **oil** spill. Treasury **Wine**'s repeat profit downgrades. For most investors these events are the stuff of nightmares. For Ashok Jacob they are opportunities. "I call them fallen angels. If you give yourself enough time to hold them through the cycle, you will make money. It doesn't matter how much the market is going up or down."

Jacob is the chief investment officer of Ellerston Capital, a \$3 **billion** fund manager 25 per cent-owned by James Packer and named after the Hunter Valley estate established by the late Kerry Packer.

As he prepares to launch a new listed investment **company**, Ellerston Global Investments, Jacob explains how bad news can create opportunities for cool-headed investors. He cites half a dozen global examples where investors overreacted by selling down quality companies on a missed earnings forecast, management change or threat of litigation.

The savaging BP received as the Deepwater Horizon scandal grew was a classic example. "When BP was struck, the valuation changed by \$US100 **billion**. The stock has since corrected by about \$US60 **billion** and it's still trading at twice the discount to the maximum payout it is liable for," he says. "You just get these amazing buying opportunities. It was exactly the same with News Corporation."

The fund will hold a collection of well-known companies in various stages of rehabilitation and up to 50 per cent cash (although it will typically be around 85 per cent invested). What you won't find is the new breed of US tech stocks Facebook, Twitter or Netflix.

"If you look at the 1999-2000 tech bubble, stocks were trading at around five times revenue. This time they are trading around 10 times. With these types of stocks you can't pick the low," Jacob says.

"You have got to have discipline. You have got to do your homework. You have got to make sure that this is not a falling knife."

The fund will charge a management fee of 75 basis points and an outperformance fee of 15 per cent for returns above the MSCI World Index or in line with fees charged by other successful managers. But don't confuse the strategy with other deep value offerings. "For us, the most important thing is not outperforming the benchmark but providing a positive return. All our funds are focused on providing an absolutely positive return over the medium to long term." Money manager for Pratt and Packer

The absolute return focus is a likely product of a career that has seen Jacob manage money and businesses for the late **billionaires** Richard Pratt and Kerry Packer, neither of whom were known to enjoy losing money.

Like many investment experts, he believes that Australian investors are overexposed to the domestic **equity** market and those who do not adjust their holdings are at risk of underperforming. "We've had lightning strike us three times," he says. "Investors have had a fantastic run in Australian equities thanks to compulsory super, bank dividends and the **China** boom.

"Over the next five to 10 years I suspect overseas markets will outperform or the Australian dollar will underperform, and you only need one of these to go your way to be very happy with your decision to diversify offshore."

The fund is seeking to raise between \$50 **million** and \$100 **million** initially. Those who secure an allocation will be given a loyalty bonus of a free one-for-two option if they hold for more than six months. "I don't want this to be **sold** as a get rich quick scheme. This is a long-term journey," he says. "If you sell it hard you may find half the register thinks it's a get rich quick scheme and that's an almost unpleasant experience."

The targeted size of the fund and the investment horizon addresses a previous foray on the ASX by Ellerston Capital, which fared poorly and was delisted in 2008. Jacob is confident that this time, he has the right formula. "The 25 best ideas in your typical portfolio have nothing to do with mispriced assets," he says. "That's why we are different.

"What we ask is if the fall is overdone, has the market overreacted? What do we think the stock is worth? Then we ask if the stock is worth at least 50 per cent more than the current price."

For investors prepared to **buy** overseas shares directly and with the appetite for turnaround risk, he shares the following tip.

"Another good example taking place right now in the US is with a **company** called Whole Foods Market. It missed earnings and has fallen from \$US70 to \$US39. On a global level there is a stock undergoing that process every other week."

PROFILE

Name

Ashok Jacob

Company

Ellerston Capital

Title

Chairman

CV

Thorney Holdings CIO, 1991-1998;

Consolidated Press Holdings CEO, 1998-2011

Board member Visy and Crown Resorts

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