Taking a shine to the gold diggers; MONDAY FUNDIE

Australian Financial Review
April 22, 2024 Monday
Print & First Editions

Section: MARKET WRAP; Pg. 24

Length: 1203 words

Byline: Alex Gluyas

Body

In the eight years since Collins St Asset Management was founded, chief investment officer Vasilios Piperoglou can recall only two occasions when a thematic has presented itself with enough "significant asymmetry" to justify a major investment.

Collins St's value fund was an early backer of uranium, and its holdings in the sector jumped between 400 per cent and 500 per cent over four years. The second was offshore oil services stocks, which surged between 300 per cent and 350 per cent in two-and-a-half years. But Piperoglou is confident that Collins St's latest bet will produce even better returns than both those opportunities.

"With gold stocks, the way the asymmetry is playing out currently, I think there is a greater potential in this than the other two ... we'***re*** seeing the very early signs of the start of a gold bull market," Piperoglou says.

"At some stage, investors are going to get smacked in the face ... there will be a moment within months, not years, where people wake up and these quality small caps will multibag."

A multibagger is every investor's dream - a stock that at least doubles in value. And while the best chance of finding one is at the smaller end of the market, those companies also present the highest risk. But Piperoglou believes the local gold sector is filled with potential multibaggers, and it's only a matter of time before the record gold price flows through to miners.

That is why Collins St has spent the past 12 months undertaking its own due diligence by speaking to management and visiting operations to construct what Piperoglou describes as a portfolio of "some of the best, well-run, well-capitalised, pre-production plays on the ASX".

Among gold sector small caps, the value fund holds Barton Gold, Brightstar ***Resources***, Tesoro Gold, Great Boulder ***Resources***, Meeka Metals and Odyssey Gold. At the larger end of the market, it holds ***Ramelius Resources*** and West Gold ***Resources***.

Indeed, Collins St's $200 million value fund has a long track record of spotting winners, and regularly appears among the best performers in Mercer's investment survey. It was the top-ranked Australian long-only strategy in the five years to December, returning 24 per cent per annum, and also boasted a podium finish on a three-year time horizon. Its strong run of form has continued over the past nine months, with the fund returning 18.6 per cent, net of fees, in the financial year to date, beating the S&P/ASX 200's 7.6 per cent gain over the same period.

Collins St has also reopened its special situation fund, which is targeting the local and international small-cap gold sector following strong demand from clients. The firm believes that miners in North America are also looking cheap, particularly small- and mid-cap companies in Canada and the US.

Much of the value fund's recent performance has been fuelled by an 11 per cent return in December when two of its key holdings - Carnarvon Energy and Link Administration - rallied sharply. While Collins St doesn't typically engage in shareholder activism, the firm played a key role in rolling the board at Carnarvon in December amid frustrations over its handling of its major offshore gas project majority-owned by Santos.

Collins St teamed up with Nero ***Resources*** Fund to raid Carnarvon's share register and force the company to pledge it would not acquire new assets, would cut administrative costs and work with Santos to speed up drilling at the Dorado field in which Carnarvon is a minority owner. The stock rallied nearly 44 per cent in December.

"Usually when we buy a new position, we have no intention of being activist because it's a lot easier to make money being passive," Piperoglou says.

"We were willing on that occasion to throw down the gauntlet of having a pretty public fight, but thankfully it was the quickest coup - within 24 hours they basically resigned."

The value fund also benefited from a 60 per cent surge in Link shares in December following a $1.2 billion buyout offer from Japanese financial services company Mitsubishi UFJ Financial Group. The bid ended a rollercoaster ride for shareholders over the past three years, when four other suitors attempted takeovers.

The disastrous acquisition of a British company in 2017 also dragged Link into the messy collapse of the $7 billion Woodford investment fund, which triggered heavy losses and a complex exit involving the financial regulator. "At times when we do have a significant amount of cash because we don't see much opportunity on the long end, we played what we thought at the time was a low-risk takeover arbitrage," Piperoglou says, referring to its initial investment in Link.

"But that literally blew up in our face, and we were holding a position that halved in value, so we would argue that we got Link's takeover wrong."

Piperoglou admits that Collins St has still lost money on that investment, adding that if the fund hadn't bought shares in Link, its two-year return would be at least 5 per cent higher.

Collins St is also bullish on energy, particularly oil and gas, and believes they will be crucial for decades to come as the world transitions towards renewable energy.

While financial institutions and governments have increasingly shied away from investing in the sector, Piperoglou says that demand for oil and gas remains robust while there is little incentive for new supply.

"It's one of those weird disconnects, with underlying demand still going up every year, but you'***re*** not seeing enough capital expenditure on the supply side," he says. "Those that are willing to participate and just be passive should earn some pretty good double-digit returns."

The value fund holds Beach Energy, but last month trimmed its position in the stock and reallocated that capital to its investment in Carnarvon.

Piperoglou's first exposure to the sharemarket was at the ripe age of 12 years old when his father, a psychiatrist, raided his piggy bank and bought him about $1200 of CSR shares due to its high dividend yield.

Every six months, Piperoglou would study the company's dividend statement while also reading everything he could about Warren Buffett and Berkshire Hathaway, which cemented in his mind that he wanted to run an investment fund.

Piperoglou started investing in year 12, mainly in ***resources*** stocks, but admits he had no idea what he was doing and made plenty of mistakes. His biggest winner was copper and gold miner Oxiana ***Resources***, which he bought at 8¢ and sold at $3.50.

From there, Piperoglou continued to follow financial markets and completed commerce and law degrees at Monash University. With few contacts in the financial services industry, he joined boutique firm Leyland Private Asset Management.

It was there he met Michael Goldberg, a like-minded value investor who also believed in fundamental stock analysis. Over many lunches, the two came to the conclusion that the most efficient way to run a value-style investment house was through a fund structure that was a standalone entity.

After five years at Leyland for Piperoglou and seven years for Goldberg, they established Collins St Asset Management in 2015 and have put their own money into the value fund.

"We live and die by our stock picking ability," Piperoglou says.

Load-Date: April 24, 2024
