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Accidental activist who passes the asset test

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Geoff Wilson's long-held policy has been to buy into overlooked small to medium-sized listed stocks with growth potential, but recently he adjusted his focus. Picture: Alan Pryke

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"EQUITY is forever," declares Geoff Wilson. "With debt, you can get paid back. But you can't assume you can ever sell your shares."

That's the homespun but tested view of the former industrial stock analyst who founded Wilson Asset Management in 1997 and more recently has found himself accidentally playing the role of corporate activist.

Wilson, whose long-held policy has been to buy into overlooked small to medium-sized listed stocks with growth potential, has recently had a couple of high-profile stoushes over the direction of smaller companies that never fitted his model in the first place: John Kinghorn's RHG and Melbourne Group Signature Capital.

So how did that happen? "We love to buy a dollar for 80c. Even better, 50," he says, laughing.

By way of explanation, he says that while about 30 per cent of his WAM Capital fund is made up of those carefully researched small-cap industrials, and about 32 per cent is usually held in cash, the balance of about 38 per cent is "market-driven". In other words, it's opportunistic and the approach seems to work. The closed-end Listed Investment Company that he founded in 1999 is now worth about \$166 million.

He says he got WAM Capital into RHG, the rump of the old RAMS Home Loans, at 13c a share in December 2008.

"We were aware of the business and I've got enormous respect for John Kinghorn as a businessman," says Wilson in his office in Macquarie Street, Sydney. He says he disagreed with Kinghorn's proposal last year to

delist the company, which is effectively a mortgage book in run-off, and although Wilson did not have the required 5 per cent holding to call an extraordinary general meeting, others backed his call.

"They all wanted someone to stop it being delisted, and they all wanted to support whoever stood up, but they didn't want it to be them," he says wryly. "We didn't want to do it and it cost between \$50,000 and \$100,000 by the time we'd paid the lawyers."

Fast forward to Friday morning of last week, where Kinghorn stood down as a director of the company he founded, still firmly listed and firmly prospering. After seeing his two nominees of WAM Capital voted on to the board -- Paul Jensen and Gabriel Radzynski -- Wilson stood up at the company's AGM and thanked his old sparring partner Kinghorn for adding so much value for shareholders, and repeated his respect for the outgoing chairman.

How much value? Since last year's difference of views, which resulted in the company remaining listed and a special dividend to shareholders of 79c a share being declared, RHG has paid out a whopping 89c in fully franked dividends, with another 6c due as an early Christmas present on December 16. That adds up to a bit more than seven times Wilson's in-price and his WAM Capital is still on board with a holding of more than 4 per cent.

The share price moves dramatically with dividend payments, since the policy is to pay out all free cash, and it last traded at 47.5c after running as high as \$1.30 before the big dividend. The outgoing chairman told the AGM that the worst-case scenario in a run-off was further fully franked payments of 50c, with a more likely total of 70c.

And Signature Capital? It takes a while to get Wilson off the topic of RHG, unsurprisingly, and he admits it has not been such a happy experience. He says it was a Melbourne-based hedge fund manager which, as he stood up and told its AGM, had lost \$130m of shareholders' funds, or 67 per cent of assets, since it listed. It had originally been called HFA Accelerator Plus.

"They raised \$190m and successfully turned it into \$60m," Wilson says, adding that it had what he called a "flawed" business model that involved paying out too much in fees to other hedge fund managers.

WAM Capital has 13.4 per cent of the stock and is the third biggest shareholder, but as with RHG it bought in well after things started to go south.

"We saw it as a discount asset play, trading at a 30 per cent discount to assets, when we bought in in April 2007," Wilson says.

After he recently put up a requisition for an EGM and proposed a three-man slate of alternative directors, Wilson had the startling experience of watching the board effectively hand control of the company to Multiplex heir Andrew Roberts' ARM group, which had picked up a significant share placement and an 8 per cent discount to the company's net tangible asset value.

So Wilson's locked into Signature on a voyage to who knows where, but he didn't get where he is by not knowing where he's been.

"We'll probably make about 20 per cent on our money in WAM Capital, and our WAM Active fund will make about 40 per cent," he says, noting that an original buyback proposal from the board earlier this year to buy out shareholders was lifted from 20 per cent of shareholdings at 92 per cent of NTA, to 75 per cent of shareholdings at 98 per cent of NTA, after pressure from shareholdings such as his.

And Wilson is not planning on changing his style. Unlike many people who grumble about LICs suffering from discounts to NTA, he says he likes the closed-end listed investment company structure so much that three of his four funds have it.

"The problem with managed funds is twofold, because the managers can't control the flow of funds in or out," he says. "When things are going well, cash comes flooding in and they find themselves paying too much for

assets they may well not want to buy. But then when the market goes the other way, the redemptions mean that they have to raise cash and sell assets they know are underpriced.

"Merrill Lynch did some research in the US which found that LICs or closed-end funds outperformed mutual funds, as they call them there, by approximately 1.5 per cent a year over the long term."
