

Conservative way forward

Australian-born Peter Meany was always destined to go into fund management and a combination of his dad's job as a mining engineer, school competitions and a first job at Macquarie means infrastructure was always likely to be his investment vehicle of choice

BY GARY CORCORAN

"A lot of funds are a reflection of their manager, so if you get into the person you get a pretty good view of what performance may or may not be like." So says Peter Meany, head of global listed infrastructure securities at First State Investments.

"I have always been very conservative in life in general, in the way I run my own cash. The fund certainly reflects that. The nature of the asset class means you tend to be more conservative anyway; these are assets that do not tend to change from day to day and this is one of their main attractions."

Starting young

For Sydney-based Meany, his move into fund management was a natural

extension of his interest in stocks and stock-picking. At 15 he was already buying and selling stocks – gold mainly as his father was an engineer in the mining industry, so he bought shares in companies he was involved with. In high school, he took part in a market game where he was part of a group that ran a shadow portfolio.

"I do not think I was in the top ten because I did not take enough risk – I tended to buy boring blue-chip stocks that I thought I had some understanding of. The guys who won punted everything on some penny dreadful."

Noise? What noise?

Despite his obvious love of the share market – his favourite movie at the time was *Wall Street* – Meany runs his fund by trying to



ignore a lot of the noise that the market generates.

As he explains: "There is a lot of talk about efficient markets but efficiency can be read a couple of ways. Markets are very efficient at getting information into the price. Whether that is the right information or it has been interpreted in the right way is still very much up for debate.

"ETFs and hedge funds really leverage the fact that markets react far too much on noise rather than fundamentals. What First State does as a house and what our fund attempts to do is look through a lot of

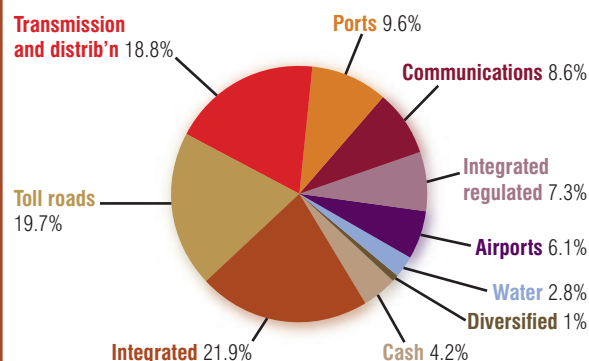
that noise and say markets may be volatile but markets create an opportunity as well."

Meany takes three- or five-year views when it comes to stock selection so he is not permanently wired to a Bloomberg screen, nor does he particularly care what markets did yesterday. His style is very much a structured, bottom-up, high conviction process holding about 40 stocks at any one time in the fund.

"We debate things as a team, talk to management, meet competitors and regulators, consider a view and

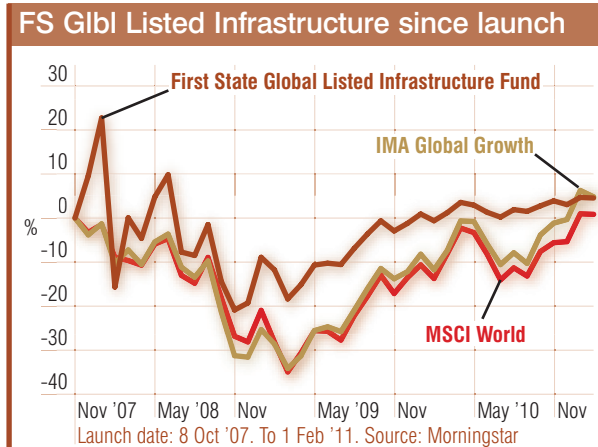
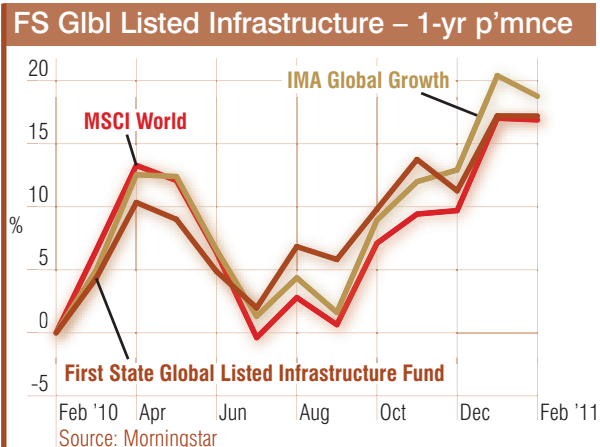
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Sector breakdown



Source: First State Investments

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build a position in a stock over a number of months. We are not traders.”

Being based in Sydney helps as Meany says it probably benefits by being so far away from a lot of this noise. But those who think running an infrastructure fund from Australia makes it easier to take advantage of the infrastructure boom in Asia would be very wrong as he only holds 8.5% in the region.

“It goes back to what we are trying to create. It is a more defensive equity position, a mix of income and steady growth, 10% to 12% total return, low volatility. In that environment if you fill the fund with emerging markets you are not going to get that outcome,” he argues.

Wary of EM

Given his cautious nature, Meany has put a 20% restriction in allocation to emerging markets citing the risk of political intervention, uncertainty around regulation in emerging markets and governance issues. Emerging markets are not cheap and Meany suggests he is not getting compensated on value to warrant any greater exposure than just south of 10%.

At the moment, he

holds 36.5% in Europe ex UK, 29.6% in the US, 12.2% in Japan and 8.9% in the UK. The balance (4.2%) is in cash. What he does invest in is real infrastructure assets, “true to label” as he describes his holdings.

“They are capital intensive, monopoly-type businesses with little competition in their markets offering steady volume and price increases,” he remarks. “We are not a thematic fund in buying anything vaguely related to infrastructure. Some competing funds package up a story and buy some mining, construction, engineering, steel-makers and so on. These are all highly competitive industries, they are low margin and they suck cash. We want to

find businesses that are difficult to replicate.”

Organic growth

Growth, he adds, will be tough for the next few years, so his immediate focus is on companies that are able to generate organic growth which in the world of infrastructure would come from an oil storage business building a few more tanks to store more oil, or an airport building a new terminal, or from new acquisitions.

“In the infrastructure space, we have companies that are running low levels of gearing, or even holding more cash than they need to. They will either put that to work with bolt-on acquisitions or share buy-backs. If they do not do that and

they stay under-gearred, what you will see is a whole series of takeovers.”

Attracting investment

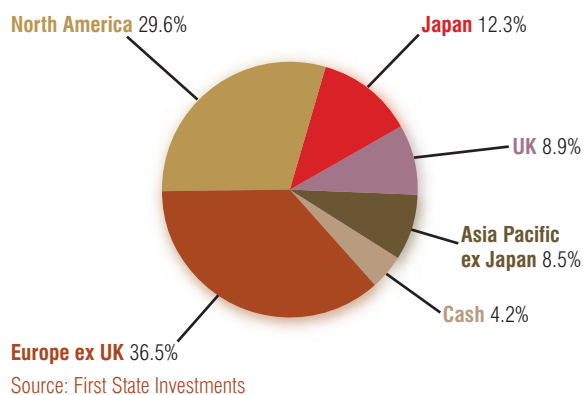
Industry-wide, Meany is seeing huge inflows into infrastructure from institutional investors and sovereign wealth funds. CALPERS, the California state pension scheme, has a 2% allocation, which may seem small potatoes but it is 2% of a \$200bn fund which, with gearing, could generate \$10bn of capital from just one investor.

One happy coincidence of infrastructure is that it is well placed to benefit from rising global inflation.

“The inflation hedge will be critical,” Meany points out. “It will start with, as it has, food and energy prices which in turn will become higher interest costs, and higher wages potentially. Having an inflation hedge, having firms that can pass through price increases will be more and more important.”

The fact he runs a global equity fund means he is exposed to the whims of the market, but as he runs it in his own image the fund will benefit from being conservative, cautious, defensive and able to block out external noise.

Regional breakdown



PA BIOGRAPHY

Meany joined First State in January 2007 as head of global listed infrastructure securities, bringing with him more than a decade of experience in the infrastructure and utilities sectors. At Credit Suisse Equities (Australia), he was responsible for research coverage in these sectors. Prior to Credit Suisse, he was an analyst at Macquarie Equities.