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Why care about Mangaung?

It's all about value for top SA investor

CHRIS BARRON

ONE man who will not be losing any sleep over the leadership and policy debates at Mangaung is one of the country's most successful investors, Adrian Clayton.

Clayton, 42, has just resigned as CEO of PSG Asset Management, a business he built and ran for the best part of 12 years. Under his leadership, it consistently earned annual returns of inflation plus 10%.

But the reason he won't be losing sleep over Mangaung or the ANC is not that he has decided to quit investing. He is leaving PSG to run Northstar Asset Management, a business started by a friend, Alexander Otten, who was murdered recently at his West Coast holiday home outside Cape Town.

The reason Clayton is relaxed about Mangaung is that his investment decisions have little to do with the political, economic or social environment. While other investors and analysts agonise over different scenarios and how they might effect the market, the only thing that matters to him is the intrinsic value of the companies he invests in.

"I make very little effort to understand or predict macro factors," he says.

This is not about underestimating their effect, he argues, but about understanding long-term cycles.

"You know economies go through long-term cycles, so you know economies will go through periods of weakness and periods of strength. You just want to find companies that are being priced correctly and hold onto them, because every economy will go through a period of strength again. Instead of trying to assess short-term variables in the economy, which no one can do, rather just buy into businesses at the right price and hang onto them."

The critical factor driving returns is understanding the business — if you can't say what it does in one sentence, don't invest — and its competitive advantage, assessing the management team and trying to understand what it is worth.

"If you get that right, the macro factors have an uncanny way of swinging in your favour over time anyway," he says.

On the subject of management teams, he believes there are "some outstanding" ones in South Africa, but they have yet to be tested.

"To some extent, our companies have been relatively isolated from international competition. It's been a relatively protected environment for management, but they'll be tested in the next decade as more foreign competitors enter the South African market."

He has little doubt this will happen. "South Africa has high profit margins in various industries, and foreigners like that."

Another key aspect of his success is "contrarianism", in other words, going against the flow. When investors dumped local stocks during the 2008 market meltdown, he bought.

■ IN SEARCH OF VALUE: Adrian Clayton, former CEO of PSG Asset Management, says the critical factor driving returns is understanding the business and its competitive advantage

When they started piling in again, he sold and went offshore.

"In 2008, no one wanted local retailers." So he bought them, the likes of Shoprite, Mr Price and Woolworths.

No one knew then that low interest rates and rocketing public-sector wages were about to create loads of disposable income.

Nor, not being in the predictions game, did he.

"We owned lots of them because you could get them on P:Es of between 7 and 8. So you'd only have to wait eight years to get all your money back.

"When we did our numbers, worked out what we thought Mr Price was worth, at that point you could literally make over 40% returns annually."

The performance of the retailers was so spectacular that he got out much sooner than he'd expected. Their profits continued to soar, but he thought they'd become overvalued with P:Es of between 20 and 35.

"I'd rather be owning them when no one likes them. You need a lot of good news from those companies to justify their current pricing."

He sold a rocketing SABMiller for the same reason. As with the retailers, he admits he's been hurting ever since. "You do good things and you do bad things. You have a specific investment approach, but sometimes you kick your heels and wish you'd hung onto some things."

But he's got rich making decisions based on value, not sentiment or short-term predictions, and you don't mess with a winning formula, no matter how tempting.

As he says, if he'd been influenced by predictions about the political environment, he would have had no South African exposure in the first place.

"In typical value-style, we exited most of these things quite early. There's a certain approach we follow and I wouldn't have changed it. I would still have sold those things early."

He describes the continued rise of the JSE as "really uncanny". Parts of it are still reasonably priced but other parts are "going to set people up for failure".

He feels interest rates are so low that a lot of stocks are almost artificially high.

While at PSG, he invested as much offshore as the law allows, which is 25% of his funds. Just as local companies are overvalued, he believes the likes of British retailer Tesco, in which he invested, are considerably undervalued because of the economic problems.

But it's all about cycles, and there'll be a time to buy local retailers again, he says.

Not that he's predicting a crash, just a "de-rating".

He thinks "short-termism has got much worse" over the past 20 years. "I think the industry would be much better off if results were reported every three years or every five years, not every day."

Short-termism is being driven by increasingly fierce competition for clients. "Whenever anyone makes any headway they are so keen to tell the market.

"You have a great year and suddenly there's a Raging Bull award or a Standard & Poor's award. You stand up there and happily collect your prize. But is that really good for the industry? And is it really good for clients?"