

Pies r us

High-conviction manager seeks more friends

A new NZ boutique manager entered the fray last December. David Chaplin talks to the brains behind Pie Funds.

Great name, Pie Funds, and it's one that a relative newcomer to the investment management game has managed to secure for his just-launched boutique venture.

Mike Taylor, head and co-founder of Pie Funds, says he was surprised the name was still available when he decided turn his part-time portfolio management enterprise into a full-blown business last July.

Taylor, who was creating "bespoke debt solutions" as part of Bank of Scotland's team in New Zealand for the last two years, registered the Pie Funds name in July 2007 and by December the company's first product, the Pie Australasian Growth Fund, was up and running.

It was a fast turn-around but Taylor says he has "high goals" and was keen to transform his quasi-funds management operation – he has been running share portfolios for family and friends over several years – into a real business.

"I already had a reasonable client base of family and friends prior to launching Pie Funds [who have rolled their investments into the product] and have a good performance record," he says.

Taylor says his Australasian share portfolio, created using a proprietary 18-factor screening system, returned an average 38.4% pa over 2006 and 2007.

The arrival of the Portfolio Investment Entity (PIE) tax regime last July has obviously sparked the launch of Taylor's fund, and just as obviously provided the inspiration for its name.

Although he has never worked officially in a funds management capacity, Taylor says the screening system was developed over eight years of personal trading.

His background on institutional trading desks both here and in the UK have also provided Taylor with an understanding of markets.

Taylor's equity partner in Pie Funds, Richard Avery-Wright (currently head of contracts for difference (CFDs) and institutional broking at MF Global in Sydney) also keeps a close eye on how the group's investments are implemented.

As well as Avery-Wright, Taylor has signed up New Zealand business identities Roger Kerr (principal of Asia-Pacific Risk Management – not to be confused with his Business Roundtable namesake) and Mike Henry, who has built and sold several insurance firms.

Taylor's challenge now is to sell the message to the wider market and explain the group's investment philosophy – which is essentially a small-cap Australasian shares play.

He says the small-cap equity market remains a lucrative hunting ground for boutique managers who are prepared to do the groundwork. According to Taylor, he has put some 200 Australasian shares through the Pie selection process but in keeping with its 'high-concentration, high-conviction' motif only 10 shares are currently in the portfolio – of which a single New Zealand company, Abano, made the grade.

In its prospectus Pie Funds says it will act quickly to sell down shares that fail to keep in line with the selection criteria – for example, if a profit warning is issued.

The prospectus also says it will focus on companies with proven earnings rather than growth start-ups and mixes up a metaphor to make the point: "The early bird may catch the worm, but it's the second mouse that gets the cheese."

Presently, PIE also is 35% cash but that's down from its 55% cash position in January. Taylor says the fund can also use portfolio hedging tools such as exchange-traded derivatives and CFDs, but mainly "as a way to reduce volatility rather than enhance performance".



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– Mike Taylor

Fund name	Pie Australasian Growth Fund
Fund size	Approximately \$5m
Fees	1% Management. 10% Performance (subject to high water)
Minimum investment	\$5,000
Legal structure	Unit Trust (PIE)
Benchmark	No Benchmark
Performance history	New fund
MER	n/a
Ratings	Not Rated

TOP 10 HOLDINGS		
	STOCK NAME	STOCK WEIGHT
1	PBP.asx	n/a
2	ABA.nzx	n/a
3	FGE.asx	n/a
4	IPX.asx	n/a
5	BVA.asx	n/a
6	CQU.asx	n/a
7	IMD.asx	n/a
8	DWS.asx	n/a
9	CSV.asx	n/a
10	ASZ.asx	n/a
	CASH	35%

While Taylor is confident of his theory he knows it's one thing to look after money for family and friends and quite another to convince strangers to hand over their money.

He says Pie will be out talking to independent financial advisers in about six months, and by then there should be a performance story to tell as well as a great name to tout.

What are the objectives of the fund?

To provide our clients with above average investment returns, low volatility and competitive fees.

What can the fund invest in?

Target investment – small, to medium-sized growth companies.

Predominantly New Zealand and Australian listed companies, including IPOs.

International listed companies, including IPOs.

How do you research investments for the fund?

My first port of call is always to crunch the numbers and check if an investment stacks up fundamentally. We have a unique scorecard-based system, where each potential investment opportunity is rigorously analysed for its possible inclusion in the Pie Portfolio.

I also place a high level of importance on management. I like to speak with, and where possible meet management, before making a long-term investment.

It seems to be a crowded market for boutique funds in New Zealand right now and we've just seen a long-established one, Walker Capital, fail. What makes you think Pie Funds has a greater chance of success?

There is always space in any industry for a top performer. Pie has a different investment strategy to Walker and many of the other funds. Success is ultimately a function of performance and service. Being a boutique manager we have very personalised service and if our performance is good, we will continue to attract investors.

Our investment philosophy is simple, uncomplicated and based on finding value in growth-oriented companies. Pie Funds is a high-conviction fund manager. Our aim is to provide

investors with capital growth by investing in a concentrated portfolio of hand-picked listed smaller companies.

You're also launching into very choppy market conditions and while it might provide buying opportunities for professional investors, it also scares off many of your potential customers. How do you deal with this conundrum?

Essentially, patience. The market is a pendulum at times, and if we perform – more investment money will flow.

At Pie our philosophy is to 'buy from pessimists and sell to optimists'. Choppy markets provide ideal opportunities to buy into quality stocks. Unlike long-only equity funds, we have an adaptable hedging strategy to cope with market volatility, which includes flexible asset allocation (we currently have 35% in cash). Our risk management strategy includes a very active style of investing. We try not to suffer failure and if something goes wrong or a profit warning is issued we sell or reduce.

Our performance to date is better than the overall markets we invest in and most other small cap managers over the same time period. **A**

Stock story: PBP (ASX) – Probiotec

Probiotec is a manufacturer, marketer and distributor of a diverse, high quality range of prescription and over-the-counter pharmaceuticals, complementary medicines and specialty ingredients.

We forecast high earnings growth for PBP (50%+ for FY08). The stock trades on a forecast FY08 p/e of about 7x. A large portion of its revenue is contracted and it also operates in the high margin OTC pharmaceuticals and complementary medicines. I was impressed with management and they have a good track record. PBP has a market cap of A\$62m and is not followed by the wider investment community (ie. it's under the radar). Overall, I rate PBP very highly.