Sage Capital's Kelli Meagher knew her career path in year 10. PHOTO: LOUIE DOUVIS

The 'sleep at night' fund that still delivers the goods

Monday fundie Picking the permanent pandemic winners.

Vesna Poljak

A recurring theme of the third-quarter trading updates filtering through the market has been e-commerce darlings turning into one-trick ponies, having failed to meet the street's lofty expectations.

But Sage Capital portfolio manager Kelli Meagher takes a more nuanced approach to assessing the ASX's supposed winners and losers from the coronavirus. A winning trade during COVID-19 has been Fisher & Paykel Healthcare, which Sage began buying as soon as virus numbers in China started to go up at the start of last year.

"Fisher & Paykel have, for example, basically accelerated their growth by three to five years," she says of the dual-listed New Zealand-based healthcare business, which rose to prominence as a maker of respiratory devices.

"They've now got more machines installed that will continue to produce annuity stream revenue for them going forward. There are some COVID winners, but that doesn't mean they're a loser now. There are some that are permanent COVID winners."

Fisher & Paykel Healthcare's full-year results are out on Thursday.

At Sage, stock selection is based on bottom-up fundamentals as well as

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macro top-down ideas. The portfolio tends to reflect a 50-50 representation of fundamental and quant ideas spread over 100 to 120 positions, long and short.

"We don't ever bet the farm on any one short position, for example. We manage our risk really, really tightly," Meagher says.

That performance has been strong: the Sage Capital Equity Plus Fund is ahead 37 per cent after fees over the year to April 30, exceeding its benchmark by 6.2 per cent, and the Sage Capital Absolute Return Fund is ahead 9.9 per cent, exceeding its benchmark by 9.8 per cent.

"I knew what I wanted to do from a very early age," the portfolio manager says.

"I did work experience at a stockbroking firm in year 10 and I just found it so interesting and dynamic and thought: 'Yeah, this is what I want to do'. I moved to Sydney to find a job in the stockmarket so landed my first job at a firm called Leveraged Equities, owned by Ord Minnett."

After switching to private client research, years later she answered an ad in *The Australian Financial Review* for a portfolio analyst position at AMP, "and back then, AMP was the place to work".

"I was really fortunate to work in a team of eight experienced fund managers that I could learn from," says Meagher. "Sean worked at AMP too," she says in reference to Sage's chief investment officer, Sean Fenton. "He was in the quant team, I was in the capital team, but we were very much interlinked."

Meagher would later relocate to London under the Henderson brand, where she gained hedge fund experience, before returning to Sydney. Sage is approaching two years old, and she has been with the team from the outset.

Instead of carving up the market into the standardised index-determined sectors, the portfolio managers look at the market then group stocks by how they tend to react in certain environments. The objective is to allow stock selection to shine, rather than be beholden to big factor rotations.

"It's genuinely absolute return. It's a sleep-at-night sort of fund, because we are able to provide good returns, but because of the way we manage our risk, we're not taking big bets on the market."

The portfolio also has long-term positions that it carries where a stock or a sector is highly desirable.

"We focus very much on understanding how a company makes its money and then being able to identify what information is important, and what's just noise, and carefully monitor any changes," Meagher says.

"That might be anything from a change in industry structure, change in competitive situation, it might be management changes, red flags from insider selling. Just really understanding, watching carefully, for change."

Part of the challenge is trying to understand management, how they think, and how they're incentivised. "We look at long-term incentive structures quite carefully, as well as ESG."

Copper has been a successful portfolio idea in this regard: it's critical to the electrification of vehicles, and Sage has been long on IGO Limited, which has a portfolio of nickel, copper, cobalt and lithium interests.

"There's going to be huge demand for copper with electric vehicles, and the green economy, it just plays into demand for copper. The supply isn't there to meet demand and it takes a really long time to start a copper mine from scratch, and at least two or three years to expand an existing one. We are bullish on the copper price long term, that's for sure," Meagher says.

Sage sold all its travel stocks in February 2020 and bought supermarkets, enabling it to successfully trade the COVID-19 rout. "We bought Fisher & Paykel as soon as we started seeing the numbers in China ticking up every day," Meagher says.

Later in 2020, when the leading vaccine candidates passed their clinical trials, Sage bought Flight Centre and Corporate Travel Management, "and made good money out of that".

"We're still holders of Corporate Travel because it's a beneficiary of business travel returning but also taking share, and a lot of businesses now are focusing on a duty of care." If a business did not invest in managed travel planning before, it is more likely to now, Meagher explains.

"It's not just a reopening trade. The Corporate Travel story has more going for it than just business travel improving, it's actually got this acquisition that's going to drive growth for it going forward." That refers to the 2020 purchase of Travel & Transport, based in Omaha, Nebraska, for which it raised $375 million.

Meagher is not averse to owning something valued on a revenue multiple, but only if she can gain sufficient confidence over other aspects of the business.

"The quality of management, the size of the TAM – the addressable market – we'd look carefully at the positioning within its industry, and is the industry growing, and what's the timeline to profitability? And sometimes, depending on the business model, you want a company to keep investing to grow its market share."

Meeting management is important to Meagher, who is looking forward to the return of research trips. "There's a lot in looking into the whites of someone's eyes and getting a sense of how authentic they are and how transparent they are. I've had generally a good radar."

Also illuminating is access to industry experts and their customers, such as speaking to the doctors who implant hearing restoration devices and evaluate new technology coming to market. "I miss doing all of that and I find that very useful."

Face-to-face meetings are particularly useful for evaluating the quality of initial public offerings, she adds. "IPOs that tend to miss their first prospectus forecast, even though they only made those forecasts a few months ago, is always a red flag to me."

Another flag Meagher has learnt to screen for is management turnover one layer down, often beyond the level that requires market disclosure.

And finally, there is regulation. "I think regulation risk is something that often can get a bit forgotten when a company is heavily reliant on a certain government regulation for its existence." It's necessary to assess whether, as history has sometimes shown, half the profits of a business can be regulated away if a government changes its mind.