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Laister's lessons from a life reeling in small caps

Monday fundie Big isn't necessarily better for this portfolio manager.

Vesna Poljak

Bill Laister has been in funds management since 1989, getting a taste for investing in the most rambunctious environs of the analogue age.

The Contango Asset Management senior portfolio manager started out as an operator on the trading floor, or as he puts it, "one of the guys that was screaming at the chalkies". For the Liverpool-born, Townsville-raised son of an orthopaedic surgeon it was a dazzling initiation. "If the trading floor was still there today, I'd still be there. You really work for yourself, you work the floor from 10 til 12 then you go to lunch and you come back and you do the same thing til 4 o'clock and you go home. It was a great place to learn the industry, speak to clients and make money. We were running house accounts for the brokers we were working for.

"To be honest, it was incredibly inefficient. It wasn't the best way to find out, for example, if National Mutual put on 20 million of BHP to sell, they would have no idea what happened to that order until the end of the day."

These days the fund manager and mad fisherman ("anything you can

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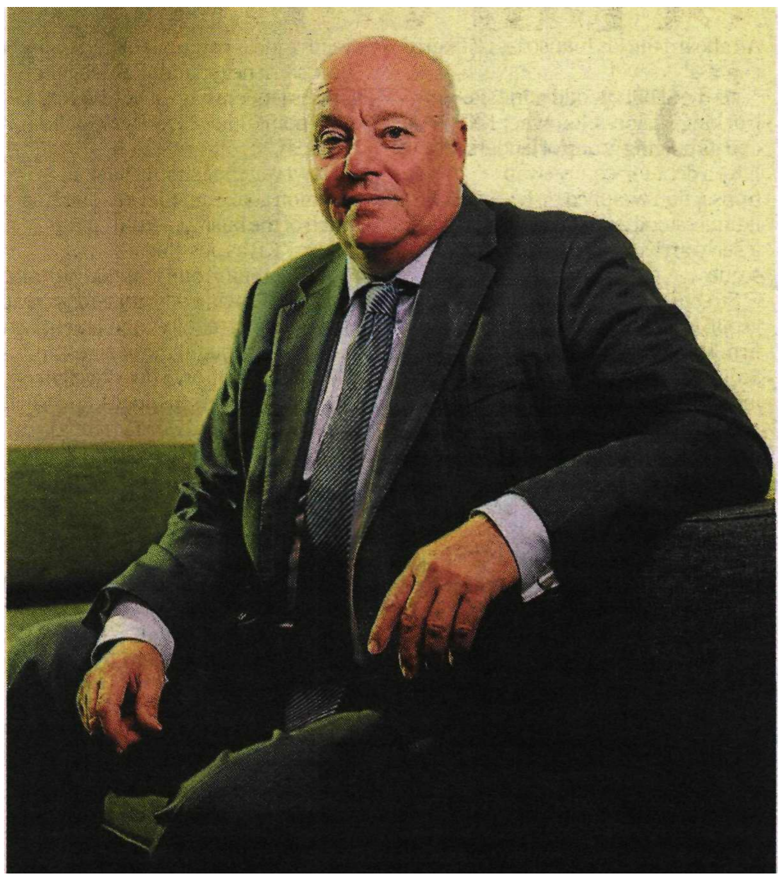

Contango's Bill Laister says it is very important to understand where companies are going and who is driving the company. PHOTO: WAYNE TAYLOR

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catch and eat") is devoted to small caps where he thinks it is easier to add value than in large cap investing.

The portfolio follows 65 to 70 stocks ideally from $30 million to $150 million in size. One of those is EML Payments, a provider of prepaid cards which Laister says had a "very strong result" last month on some contract wins.

"It's a very smart idea," he says. "They clip the ticket and a lot of their revenue comes from breakage. If you get a gift card and you don't spend that money that breakage figure goes back to them. People who end up with $1.50 to $2 on a card, you chuck it away."

A deal with casino group Caesars Entertainment to service its massive loyalty program has been underappreciated by the market, the fund manager argues. "They're taking over a process that was very paper orientated and Caesars is now offering their customers a prepaid card. If you go and spend anywhere within the casino itself you will receive a credit. It can essentially be offered to all the other casinos globally."

EML has also inked agreements with Sportsbet and McMillan Shakespeare. "There's many, many applications. It's one of these businesses we think has enormous potential."

Some of that won't become apparent in the profit and loss statement until next year, he says.

Laister reflects that the recent first-half earnings season was probably a little better than the annual general meeting season, a few bizarre share price reactions notwithstanding. "When you try and relate it back to what the results are trying to tell us, the economy here is looking a little bit better than what we thought," he says.

The standout was resources where higher commodity prices and lower costs combined. Contango has just bought back in to Mount Gibson Iron with an eye to its Koolan Island interests. Laister owned Mount Gibson until 2008 and had to sell it when the iron ore boom pushed it into the ASX top 100, a fortunate problem in hindsight.

With the latest rally, "it becomes economically viable for Mount Gibson to get back into Koolan Island. At this stage they haven't announced they're going to do it but we think the opportunity is there." At its earnings update, the company said it would conclude its evaluation in the March quarter.

Webjet is also in the portfolio; "the result was very good but the stock didn't do that well".

Laister, 55, joined Contango in 1999 with a group of colleagues from HSBC Asset Management – originally Wardley – where he was head of Australasian equities.

"A lot of banks have a go at funds management and it's not an easy way to make money for banks," he recalls.

"The person that I always talk about as someone that was influential to me was really Paul Morgan," the "Morgan" of Morgans Stockbroking. "I think I was the number 12 person to start at Paul Morgan. It is a very, very successful broking firm. Unfortunately he passed away but Paul was an entrepreneur and he taught me to have a go and take risks." He cites Russell McCrory as another influence and "you've got to put in my darling wife".

Asked to share some lessons of investing, Laister names two. "As soon as a company starts to profit downgrade and you can't understand the reasons and the CEO can't explain them, then be very concerned.

"One [profit downgrade] normally leads to three, to four, so you've really got to be absolutely 100 per cent sure. You have to physically and concisely understand whether it's a structural issue or whether it's a short-term reason.

"In some cases the company may not want to explain to you what's happened. We take downgrades very seriously. The ones that have cost us the most money is where we have misread it and it's more of a structural issue."

His other advice? "The adage of buying the dip works some of the time and not all of the time. The ones where you buy the dip can actually cost you more."

He argues that fund managers should be scrutinised too. "One of the things you need within an investment team is longevity in the team. At the end of the day they need to have made a lot of mistakes in their investment life." Key Contango staff are locked up between five and seven years and have forgone bonuses in favour of equity following a management buyout backed by James Packer.

"You need to have the passion to be portfolio managers, you need to have people that are prepared to get out. Last year we saw just under 1300 companies, that is face-to-face meetings."

Contango observed the boom-bust in baby formula that has decimated some small cap managers' performance closely but from a safe distance. "We actually bought a little company called Clover, they own the technology which takes the omega-3 and puts it into the powder. They benefited from the volume uplift which occurred from the popularity of infant formula."

The fund manager bought into the hot Bellamy's float and "unfortunately the reasons why Bellamy's fell over is the reason why we sold it, to be honest we could never really understand what their business model was. We ran away to be honest.

"It's very important to understand where companies are going and who is that person driving the company."

As soon as a company starts to profit downgrade and you can't understand the reasons and the CEO can't explain them, then be very concerned.
Bill Laister, Contango

Bill Laister says 'buying the dip' only works some of the time. PHOTO: WAYNE TAYLOR