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Image 1 of 2
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As Treasury Group's managing director, David Cooper, contemplates the $1 trillion-plus investment management industry he is confident his group's incubator business of boutique fund managers will be at the forefront of an expected tripling of assets in the next decade.

Its history goes back to 2001 when it did its first deal with Anton Tagliaferro, whose Investors Mutual was running about $300 million of funds. Cooper and Rodney Green had both been with Perpetual Investments and formed a strategy of an investment house being driven (and controlled) by investment people, a trend that began with Maple-Brown Abbott and Platinum Capital.

The kernel of Investors Mutual (which now has $5.4 billion under management) became the model for Treasury's hub approach, offering all the back office and operational support for an investment boutique, with fund managers needing only to provide the investment expertise.

Then came Orion Asset Management ($4.1 billion under management), which grew from the ideas of ex-Credit Suisse chief investment officer Tim Ryan. "I think we learned as we went," Cooper says. To that was added another small operation, Confluence, run by Campbell Boag.

In the past two years, Treasury has formed its three international managers – Global Value Investors, Treasury Asia Asset Management and RARE, a global listed infrastructure manager. In addition, the group floated Premium Investors, a listed investment company.

Cooper says Treasury hadn't aimed at assembling a particular mix of investment styles in reaching its June 30 size of $10.1 billion of funds under management. He says 80 to 90 per cent of the plan depends on the people. Rather than having a view on asset classes, he asks: "Where's the talent, the skill and the experience?"

"You can tell the moment you meet them," he says of those people with 10 to 15 years' investment experience. "They know exactly what's going on and they know exactly how they are going to invest."

Treasury's second test for a new boutique is to look at the investment philosophy and process – and make sure it understands it. "Then we just look for a market for it. So if there is a deep enough market, then we get quite interested."

Cooper says there are signs that others are imitating the model. "In two years' time they will be doing what you're doing now, so ... it's competitive. That's the fun part."

All the boutiques are 50 per cent or less owned by Treasury, and Cooper says it is a partner in their business, not a parent company. "They (the investment managers) drive the direction; they then take it and run. We don't get in their way."

Cooper, in fact, wonders how directors of large groups with a range of financial services including funds management cope with the challenges. "We're flat out doing this."

Last year Treasury sold its stake in Armytage Private, which was a

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mixture of corporate advice and, initially, some stockbroking, describing it as a non-core part of the business strategy which represented less than 2 per cent of group earnings.

The group's current assets are split between retail platforms and wealthy clients and institutions. He says the 15 pooled investment products in the group will be increased by six planned new funds in the first six months of 2007.

The three international managers are poised to expand. Global Value's retail inflows are running at about $1 million a day from the major platforms and it is now making profits. Treasury Asia under Peter Satori has had very good performance and been given mandates by a WestLB/Mellon joint venture and Telstra Super, with a couple more in the pipeline.

Cooper says the past year has been a time of consolidation and building resources, making the business ready for the next stage of growth. He says Treasury always has a couple of ideas on the drawing board. "There's never been a month where something new hasn't popped up," he says, though the board has been disciplined enough to do one good deal every one to three years rather than try to do 10 deals a year.

He says it is determined not to strain capacity and may do one new deal over the next 12 months – "and the one better be good".

Treasury's chairman, Melbourne funds management personality Mike Fitzpatrick, said at the annual meeting recently that the group had the structure and resources in place to capitalise on opportunities and ensure the group can move swiftly.

Cooper says Treasury, with a relatively small market capitalisation of less than $300 million, isn't under any pressure to take its $10 billion of funds under management to $20 billion or $25 billion. "It's fun being small to medium."

Cooper says his impression, after talking to overseas investors, is that Australia is the last country to go back to investing in Asia, and he got plenty of comments after starting

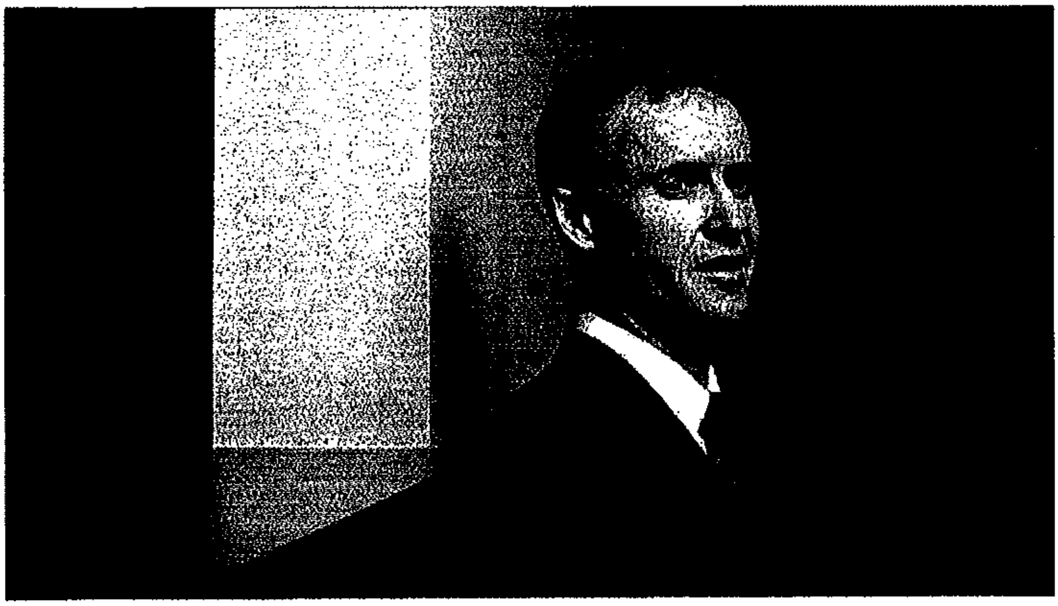
Treasury Asia, such as "Australians don't invest in Asia".

He says American money is pouring into Asia. The Treasury Asia fund has been put on the MLC platform (which initially had a major win by making Kerr Neilsen's Platinum fund available) and "suddenly the phone is ringing from planners".

Cooper says that with China becoming a larger importer of goods from Japan than America, its savings are going through the roof, "And you think, 'It's going to be hard to stop this'. "

He says new technology has been a boost for the group in setting up new funds like Orion because of the ability to buy information through suppliers like Bloomberg and DataStream, which enables it to screen stocks.

The other change in the industry, he says, is that a junior analyst or dealer can now have a long career without having to change companies every few years. "Now, if you're good enough, you've got a career.



David Cooper . . . 'Investment managers drive the direction – we don't get in their way'.