



ECP Asset Management

# RESISTING THE URGE TO CONFUSE PRICE WITH VALUE

***Exploring the purchase discipline and investment due diligence required to ensure long-term investment success***

- *The world may change but the economics of a business will always drive its long-term investment return.*
- *What is cheap may not be good and what is good may not be cheap and having excess cash can lead to risk taking you would otherwise not take.*
- *Notwithstanding that you may invest in strong businesses as opposed to fashionable ones there always exists a disconnect between price and value.*



# Price = / = Value

***TO BE A SUCCESSFUL INVESTOR YOU NEED***

- ✓ A purchase discipline to go with your investment due diligence

***Investing is not easy, but people make it harder than it need be***



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# ECPAM Brand Promise

At ECPAM we work with our customers and we promise the following things:

- ✓ We will not speculate to generate excess returns
- ✓ We are buyers of quality businesses
- ✓ We do not diversify to cover up poor due diligence



# **An Investment Process is critical**

In a world of uncertainty and volatility, having a disciplined process is critical

Invest in high quality companies with longer-term growth prospects



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# Investment Philosophy

- ❖ The economics of a business drives long-term investment returns
  - Investing in high quality, growth businesses, that have the ability to generate predictable, above average economic returns will produce superior investment performance over the long-term
- ❖ A disconnect exists between price and value, which requires discipline in the price paid for earnings
  - The combination of purchase discipline, and the appropriate investment due diligence, is crucial to ensuring long-term investment success for our clients



# Market Inefficiencies that can be exploited

A successful investment process is based primarily on two hypotheses about market inefficiencies:

1. On average the market undervalues extremely high quality, capital efficient, organic growth businesses; and
2. The market tends to over-emphasize temporary themes and short-term factors



# Understanding what is “Quality”?

High quality companies have consistent features such as:

- ✓ Competitive advantages
- ✓ High returns on invested capital
- ✓ Consistent long-term revenue growth over cost reduction
- ✓ Low Debt and accruals
- ✓ Reliability of accounting data



# Why quality franchises will outperform

1. Strong competitive advantages produce
  - high sustained ROEs &
  - superior long-term organic growth
2. The combination of these produce growing free cash flows
3. This will in-turn result in superior long-term EPS and DPS growth

Your portfolio might underperform temporarily, but eventually these companies are recognised and perform the best. They won't blow your portfolio up either.



# Filtering Noise

Is it possible to manage external events?

The simple answer is NO

- The smart answer is to use a well defined process that put financial analysis and detailed research to work to find the best companies

What do we as fund managers focus on?

- ✓ Quantitative Financial Metrics
- ✓ Detailed Research
- ✓ Detailed Financial Modelling and
- ✓ Identification of a Sustainable Competitive Advantage

Your holdings should be able to carry *through* this noise



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# Why Our Team Produces Outperformance

## **Common Beliefs**

Our team members all fundamentally believe in our investment philosophy; the economics of a business drives price performance over the long term.

## **Information Advantage**

The investment team spend 95% of their time on fundamental analysis of a focussed universe. A deep understanding of each company ensures we place more weight on our research than management or the markets point of view.

## **We Continually Challenge our Assumptions**

We're always looking to see where we can improve. It is our view that you need to constantly challenge your beliefs and continually question your assumptions. By doing so we look to capture additional insights and information we may have missed initially.

## **Mindfulness**

Our process, while systemised, is not about box ticking. Moving through a process without giving it all of your attention leads to a lack of understanding, and therefore average results. By being passionate about what we do and taking the time to do it right, we're comfortable we're making the right decisions.



# How ECPAM achieves outperformance

1. Proven skill in identifying paradigm shifts
2. Disciplined investment approach, focused on capital preservation
3. Never speculate to generate excess returns
4. Remain buyers of quality businesses and not share traders
5. Believe diversification is a poor substitute for due diligence
6. Have an exceptional investment team schooled in our house methodology



# Summary

1. Price = / = Value
2. Have a purchase discipline to go with your investment due diligence
3. Resist the urge to confuse Price with Value
4. The economics of a business will always drive its long-term investment return
5. What is cheap may not be good and what is good may not be cheap
6. Having excess cash can lead to risk taking you would otherwise not take
7. Even if you invest in a strong – as against “fashionable” – business there will always be a disconnect between price and value.



# Stock discussion & Looking Ahead

A few slides on some interesting stock stories, *ie*:\*

- *IPH Ltd*
- *Reliance Corp*
- *HUB24*
- *Pushpay*
- *Pwr Holdings*
- *Megaport*
- *Netwealth*
- *Domino's*
- *Xero*

*\*nb- This powerpoint presentation has been prepared 1 month out from the session- rather than be wedded to talking about specific stocks we will leave the next few slides fluid for us to talk about interesting stories on the day. Suffice to say these are the type of companies that would be talked about. Note- we may or may not hold these*



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# Who is ECP Asset Management?

## Independent Boutique

- ❖ Long term successful fund manager
- ❖ Near \$1b AUM
- ❖ 100% staff ownership
- ❖ Best people, best systems

## Committed & Aligned Team

- ❖ No turnover in investment team
- ❖ Substantial team product investment
- ❖ Incentive based on performance

## Quality focus

- ❖ Growth oriented
- ❖ Sound competitive advantage
- ❖ Detailed bottom up research

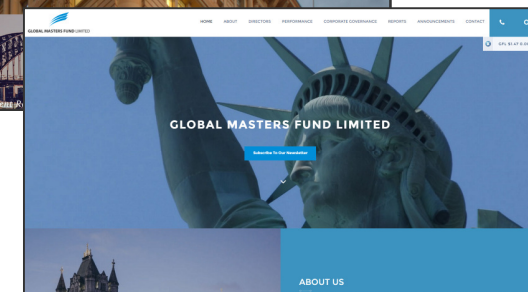
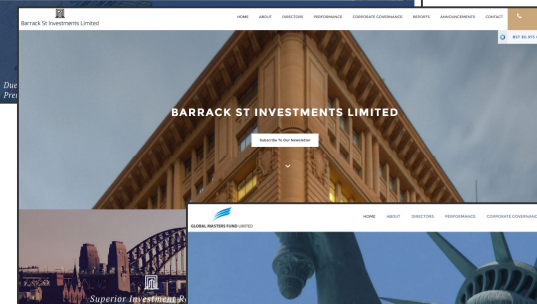
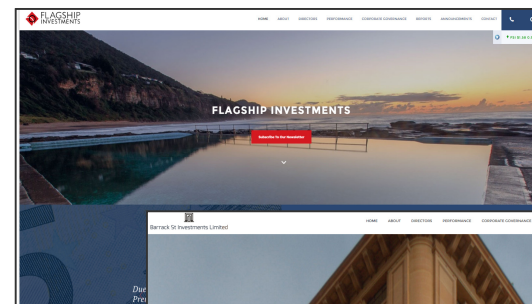
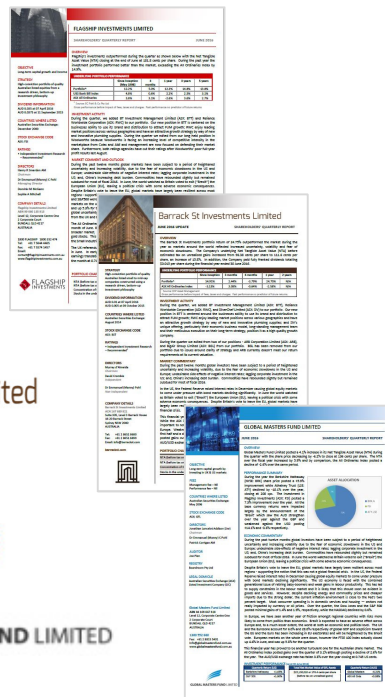
## Benchmark Insensitive

- ❖ Alpha bias
- ❖ Small to mid-cap focus
- ❖ Not benchmark ignorant



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# We also manage 3 x LICs- visit our booth



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# Overview of the LICs

	 <b>FLAGSHIP INVESTMENTS</b>	 <b>Barrack St Investments Limited</b>	 <b>GLOBAL MASTERS FUND LIMITED</b>
<b>ASX Code</b>	ASX: FSI	ASX: BST	ASX: GFL
<b>Universe</b>	Australian Equities	Australian Ex-50 Equities	Global + some Australia
<b>Investments</b>	Any ASX-listed stock	The ex-ASX50 positions of the FSI portfolio	USA: Berkshire Hathaway UK: Athelney Trust
<b># Holdings</b>	28	18	6
<b>LIC listed in</b>	1999	2014	2006
<b>Management Fee</b>	None	1%	None
<b>Performance Fee</b>	15% of > Bank Bills	20% of >8% w HWM	None



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