# Peace is with MIR as it goes into orbit

**Portfolio**
Barrie Dunstan

When Michael Triguboff sold his interest in the Lazard Asset Management investment operation in August 2002, he says he wasn't interested in setting up just another value-based equity funds management business.

But then he had two lunches with investment academic Ron Bird and leading asset consultant Ray King, first in September 2002 and then in February 2003, where they discussed the idea of establishing a unique investment manager.

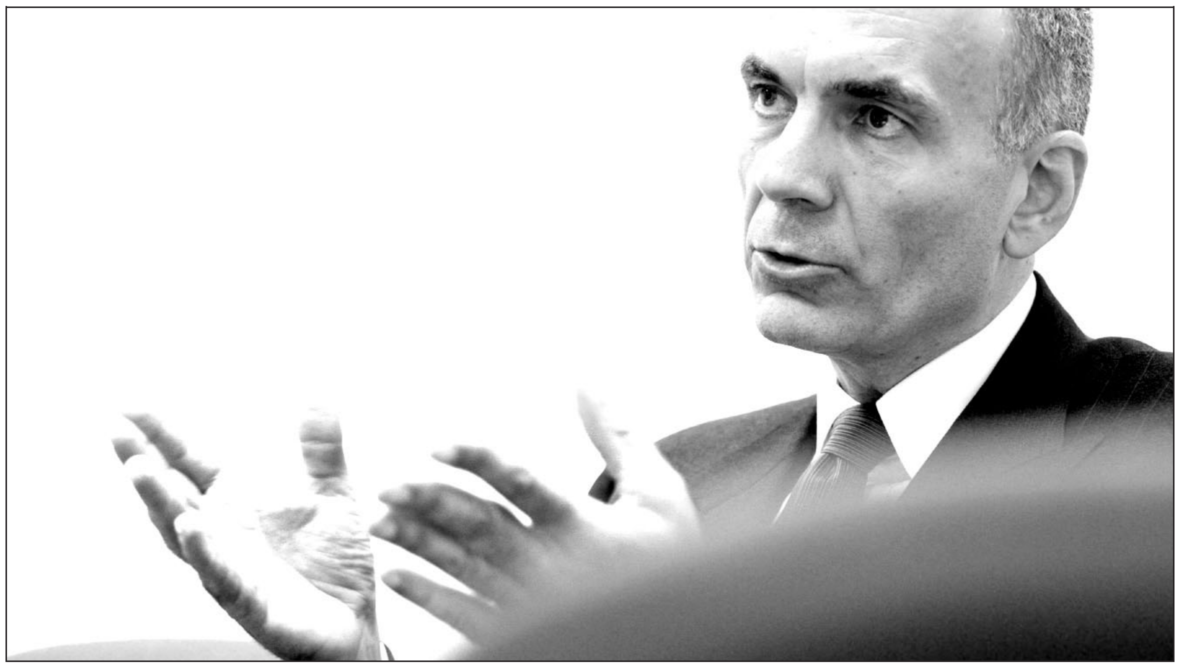
These meetings were the genesis of MIR Investment Management which, after less than a year's operation, has about $200 million of wholesale money and is the current hot performer in surveys of equity managers.

For the three months to September, MIR popped up as a clear No. 1 in the Mercer survey of Australian share managers with a return of 13 per cent — more than double the median manager's return of 6 per cent.

And, since it began managing money at the start of 2004, Triguboff says to the end of October it has returned 33.5 per cent on its wholesale Australian equity portfolio, 14.6 per cent above the benchmark S&P/ASX 200.

MIR (pronounced meer) isn't an acronym but the Russian word for ''peace and the world'' which also was the name of a Russian space craft. It means much the same as ''shalom'' says the Tel Aviv-born Triguboff who is the nephew of the Meriton property group legend Harry Triguboff.

Between them, the three founders have broad investment experience. Triguboff (the managing director) was with Lazard and had experience in New York (including working for George Soros). Bird (the chief strategist) is a working academic who spent time with Towers Perrin, Westpac, and GMO Australia. King (chair of an internal advisory council) is a man who has seen and



Michael Triguboff's investment fund shares its name with a Russian space craft. Photo: GABRIELE CHAROTTE

advised hundreds of fund managers as a leading asset consultant with Sovereign Investment Research.

With this background MIR has brought academic investment research into its operations to produce the best possible approach and has put together both quantitative and qualitative approaches to investment.

But Triguboff also wanted to start with a clean sheet of paper and form a manager that focused simply on getting the best returns for investors without worrying about business risk.

''With the vast majority of fund managers, business risk is paramount to investment risk,'' he says. ''Business risk is putting the interests of the business in front of the business of investors — and that's one of the main rationales behind benchmark hugging.''

And, he says, if you ask a fund manager would they put their own money into that portfolio, if they are honest, they generally will say no.

To serve the clients best, Triguboff says, ''we thought you needed to be a high-octane manager'' — that is running portfolios with a higher than usual tracking error (effectively, volatility compared with the benchmark) and which aimed to add value above the benchmark.

In Australia, equity managers have relatively low tracking errors. At the top quartile of active managers in the Mercer survey, the average tracking error is less than 2.5 per cent. ''That's very hard to justify [charging] active fees,'' he says.

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MIR wanted to stay in the mainstream and asked consultants for their ''pain threshold'' on tracking error, which turned out to be around 7 per cent for large capitalisation companies and 9 per cent for small caps.

So the group goes for high conviction portfolios of only about 30 stocks and won't hold any because of a benchmark weighting. ''We have to believe in the stock,'' Triguboff says.

MIR aimed to put together a star team of 11 professionals rather than hire a star manager. He says ''Ron Bird would say there are probably less than a dozen [stars] in the world and none of them in Australia'' — people such as Peter Lynch, Warren Buffett or George Soros.

Then, as students of academic research, the founders decided on the value approach to picking stocks, using quantitative screening processes for MIR's best quant picks. But the group runs these past the qualitative process for a second check to weed out those stocks that are ''value traps'' — those that research shows, can hobble a value manager's performance.

Research has shown that about 55 per cent of stocks typically held in a value portfolio underperform the market over an extended holding period. Lots of fund managers know these foibles, he says, ''and they should do something about it''.

With value portfolios, apart from those stocks that rise quickly and reward investors, there are two other types of cheap stocks — those stocks which eventually rise but only long after they were identified and those stocks where the performance never improves.

MIR's process aims to avoid the stocks in the last two categories because they tend to produce a drag on the gains from the more successful value stocks.

The first qualitative move is to use a market sentiment screen that delays buying apparently cheap stocks while market opinion is strongly biased against them — to avoid the worst impact of buying too early and to increase its ''hit rate''.

The second approach is more revolutionary and probably unique to MIR: a qualitative review decides what stocks on the list of about 40 should not be included in the final 30 stocks on grounds such as not believing in the sustainability of the business.

The trick, Triguboff says, is to combine the two colloquially-termed quant and qual processes, with Brett McElwee (ex-GMO and Russell) heading the quants and Owen Evans (ex-UBS) the chief investment officer heading the quals. Normally, the two approaches don't mesh well in one operation but he says careful selection of staff who are committed to the value approach has worked.

Part of the quals approach involves a panel of experienced corporate and investment people selected for their knowledge of various industries. This industry advisory council is chaired by King, who is a shareholder but not a director of MIR. It contains names such as Harry Triguboff; ex-SBC Australia's Patrick Allaway; Glenn Barnes of Baycorp and formerly NAB; Trevor Bourne (chief executive of Tenix and ex-managing director of Brambles), Barry Catchlove formerly at Mayne Nickless and former CSR managing director Peter Kirby.

# US faces battle over weakening greenback

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The Australian dollar jumped to a nine-month high of US78.43¢ amid growing concerns that local exporters and companies with off-shore earnings will suffer.

Speaking in London on Wednesday night, ahead of this weekend's G20 meeting in Germany, Mr Snow repeated the US government's strong dollar policy.

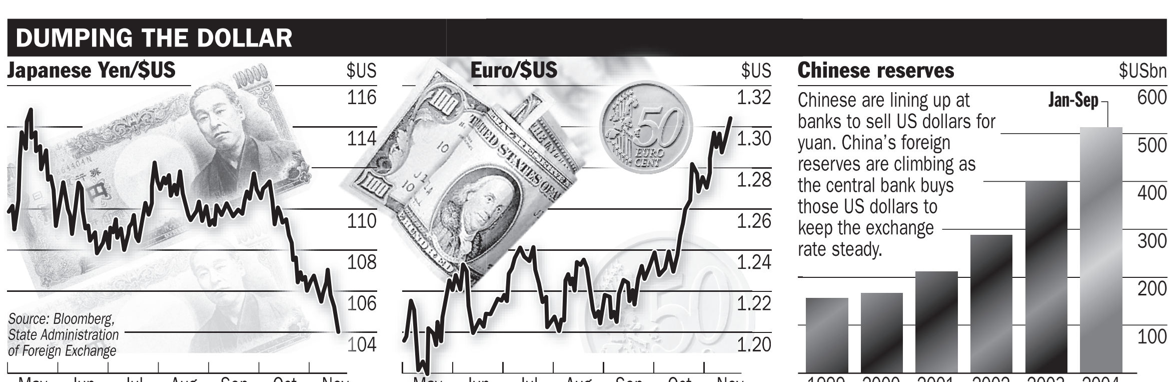
''Nobody has ever devalued their way to prosperity,'' he said. However, he made other remarks that signalled the US does not intend to intervene in support of the $US. Traders saw this as a green light to sell the US dollar.

He also said that the US current account deficit was a ''shared responsibility'' and that America's trading partners needed to grow more rapidly.

To date, Asian central banks have been active buyers of US dollars to stem the rapid rise of their own currencies and to protect their exports.

But there are early signs that Asia is trimming back its purchases in part because of the falling US dollar, which erodes the value of its foreign-exchange reserves.

The US would prefer Asian countries to spend more and stop buying US dollars that are invested in US bonds. That has kept US interest




rates artificially low, which has supported consumer spending but spurred more borrowing by indebted US households.

Also, the US government will put pressure on China to revalue the yuan when President Bush meets Chinese President Hu Jintao at the Asia-Pacific Economic Co-operation forum in Santiago this weekend. China's currency is pegged to the US dollar, so the fall is making its exports more attractive.

The ongoing failure of the US dollar boosts the chance of disaster scenarios that would have severe effects on the global trading system.

It could also kick-start a bitter squabbling match among countries, as central banks across Asia try to limit the degree to which their exchange rates appreciate by printing and selling their own currencies in exchange for US dollars.

The Bush administration has been cajoling Chinese authorities to remove, or revalue, the yuan's peg to the US dollar for more than a year. Mr Snow, who last month said dealing with China was like ''financial diplomacy'', upped the ante on Wednesday (US time).

''[China has] embraced the idea of moving to flexibility. They say they need a little time to get their financial architecture in order ... We're saying, good, let's get on with it.''

Mr Snow dismissed suggestions that the US would intervene in foreign-exchange markets.

''I think the history of efforts to impose non-market valuations on currencies has at best been unrewarding and chequered.''

The last significant intervention in the foreign-exchange market by the Federal Reserve Bank was a decade ago.

''We believe in open, competitive currency markets. We think the world functions best with free trade and free capital flows,'' Mr Snow said. His comments did little to support the dollar, particularly since he indicated that the G20 meeting in Berlin would not present a communique aimed at helping the US dollar.

The US economy is growing at a robust 3.5 per cent pace, sucking in imports particularly from China. Export levels are suffering because demand in America's biggest market, Europe, is weak. As a result, the trade deficit this year will tally more than $550 billion or nearly 6 per cent of GDP.

National savings in America are very low, and to fund the trade deficit, America borrows money offshore. As the trade deficit rises, so does the debt level. Net foreign liabilities are about 23 per cent of total output.

The combination of high debt and few signs that the Bush administration will address the problem is starting to worry investors, pushing the value of the greenback lower.

While other economies, such as Australia, have run large external deficits as a per cent of gross domestic product, the massive size of the US deficit is worrisome. Some market watchers believe that if it were not the world's reserve currency, the US dollar would have already tumbled much further.

The euro, sterling and Canadian dollar are bearing the brunt of the sell-off because Japanese authorities have intervened to prop up the yen, while the Chinese yuan is pegged to the US dollar.

On a trade weighted basis, the slide of the greenback has been gentler, but that means the euro has strengthened more than it would have done if the yen and yuan were freely floating.

Germany currently chairs the G20.