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The accidental fund manager who ditched bush for city

Profile John Murray set up Perennial Value because he didn't want to 'die wondering'.

Philip Baker and Vesna Poljak

John Murray had never been so scared. It was the late 1970s and he was standing on Manuka Oval in Canberra waiting to play the Junior All Blacks. As soon as he saw them run onto the ground the five-eighth for the ACT Under-21s knew he was in trouble. "They had these two big second rowers and we got a pummelling. It wasn't a good day to be playing five-eighth when you had a forward pack that was on the back foot all day. I think the score was something like 60 to 10."

For rugby fans, those two second rowers just happened to be twins and Kiwi legends Gary and Alan Whetton.

Gary is widely regarded as one of New Zealand's greatest locks who won 58 caps for the All Blacks between 1981 and 1991 and captained the team 15 times; Alan played in 35 Tests between 1984 and 1991. When Alan made his debut against Australia in 1984 the brothers became the first twins to play for New Zealand at Test level.

Sport was a big part of Murray's life growing up in Canberra, where he eventually completed an accounting degree at the College of Advanced Education, but his rural beginnings also had a big impact on the founder of boutique **Perennial Value Management**.

"I was brought up on the land and I think that brings certain characteristics – it brings independence, it certainly bring resilience. I've got this vivid memory of my father having to sell off 400 breeding cows in a very severe drought in the mid 70s and I've never forgotten the look on his face. He was an innovative farmer, he was very good at what he did, but the weather knocked him around. That was something right out of his control. It's seared in my memory – I've never forgotten it," he recalls.

Murray never intended to get into the funds management business. Living in Sydney and working at Price Waterhouse in 1982, he thought he'd be back in the country in five years time working as a rural financial consultant.

"That was broadly what I thought I'd do without really knowing," he says.

Instead Murray has plied his trade at arguably some of the country's most successful funds managers including Perpetual Investments, where he was head of equities, Maple-Brown Abbott, and Westpac, where he was head of equities for the funds management business before breaking out on his own under the Perennial banner. In truth, the idea had already come to him when he was at Maple-Brown.

"I was 39 and didn't want to die wondering. I felt at the time I wanted to do something myself. I had a young family and quite a few of my friends thought I was mad. The tech boom was going to last forever, value investing was dead, and they all wondered why you'd leave the safe environment of a large financial services company." It's just as well Murray didn't listen to those friends.

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John Murray never planned to be a fund manager. PHOTO: MICHEL O'SULLIVAN

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The accidental fund manager

Perennial Value opened for business on March 28, 1999 with $40 million and now has just over $8 billion under management with two new funds that specialise in small capitalisation stocks and income.

"When I first came into the industry I wasn't to know that a combination of compulsory super and dividend imputation was to grow our industry the way it did. But having said that it's become a lot more competitive over the past few years. I think my budget was over the medium term for [funds under management] to get to the exact number of $810 million I'm not quite sure how we got to that number now, looking back on it, but we would have been thrilled with that," he says.

But anyone thinking of setting up a boutique today might be disappointed with what he has to say.

"People often talk about more rationalisation on the broking side, on the sell side, but I actually think the real rationalisation is going to occur on our side, on the buy side. Our industry is at a key inflection point at the moment ... one of the outcomes of that is there are tremendous cost pressures. Our client base is consolidating, getting bigger, managing more money, so therefore they're demanding that they pay fund managers less in fees."

"There's also the cost impost in terms of compliance and regulatory requirements and that can be an ongoing cost issue. Therefore to cope with that you've got to have a critical level of [funds under management]. I would have thought in this environment you probably want to be running ... at least one to two billion."

As an advocate for the boutique model he hopes the rationalisation does not go too far.

"In any industry where suddenly you get a lot of bees around the honeypot and you get a lot of players very quickly – by default not all of them can survive and we're starting to see a little bit of that happen now."

Murray is 53 and as he calls it, he's not going anywhere. That doesn't mean he's trying to style Perennial Value in his own image. Far from it. For one thing, nearly all the staff share equity in the business as well as personally invest. And though he's a father of three, "I'm not sitting there thinking 'Gee, I want one of my children to take over Perennial Value one day', it's sort of the last thing on my mind really."

His wife has made her feelings on the finance industry clear: "My wife always says it's such an unpleasant industry."

She comes from a family of stock and station agents so it's no surprise to hear the Murrays own a "block of dirt" in southern NSW. "The bad times [in the country], they were bad, so I think we've sort of inherited good strong basic values: integrity, resilience. You've got to have a very strong belief in who you are," Murray says. "But also what you learn is not to get too carried away with who you are and what you've done because you can get knocked over the next day."

Perennial Value's Australian Shares Trust has delivered average annual outperformance of 3.5 percentage points since inception. The Smaller Companies Trust, run by **Grant Oshry**, is a bit younger but has delivered average annual outperformance of 5.8 percentage points since inception in 2002; and the Shares for Income Trust, run by **Stephen Bruce**, has delivered average annual outperformance of 2 percentage points since inception in late 2005.

Mike Crivelli serves as chairman and **Anthony Patterson** as a director. Not long ago several Perennial Value analysts took a course in reading body language to better prepare them for management presentations. "Sometimes it's only marginal, but when you do these things they can all add up over time to make for a more robust investment capability," Murray says.

Perennial Value was in the headlines alongside Ausbil Dexia in 2010 when Kerry Stokes was trying to merge his media and mining equipment interests. But Murray recalls the discussions with the billionaire as if it were any other corporate due diligence activity. "Regardless of who's running the business or what sort of business it is ... we'll do our usual stuff. Trawl through the numbers, ask the hard questions, read every page." Perennial Value's vote became important to get the deal over the line and ultimately Murray supported it. "Looking back now, given what's happened to the resources sector since that period compared with the media sector, there's no doubt in my mind that turned out to be the right decision."

Right now, he sees opportunities in the resources and industrial cyclical sectors. "The ideal stock to buy is one that's offering you a nice running yield, because you don't have to wait for the capital growth. You get paid while you wait, in the form of a dividend."

"In the case of resources – with the exception of Woodside – that's not yet the case ... in large and small caps we've been a net buyer of resources over the last month or so."

He also likes UK-based ASX-listed fund manager Henderson, because "on our numbers it's still trading on a [price-earnings ratio] of under 10 times".

Sims Metal is another one. Murray reckons it's "under-owned [and] on the nose with investors. There's been a change in CEO there so there's uncertainty there at the top". Even so, he sees Sims as having possibly the highest earnings leverage to an improved United States economy than almost any company in the top 200.

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John Murray, Perennial Value

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Left to right: Perennial Value Management's Mike Crivelli, Grant Oshry, Stephen Bruce, John Murray and Anthony Patterson