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## How Much Should Your Fund Manager Tell You?

Last week we published our [August monthly report](#). In short, we've had a cracking year.

Up 22% to the end of August, 10% per annum for the past two years and a healthy 4% per year ahead of the index since inception.

The message back to us, though, has been one of concern. We've had one redemption because the Fund is 'too risky' and a request from a long-time investor to 'stop cocking things up'. Good advice, for sure. But much more difficult in practice than in theory.

The reactions are a consequence of us disclosing a loss on the Gunns FORESTS, a convertible note.

We bought the FORESTS in January of this year on the basis that a \$150m capital raising and placement to Richard Chandler was going to make the convertible notes substantially more secure. The notes also contain a complicated conversion-into-equity mechanism that meant, for each \$100 invested, you were going to end up with substantially more ordinary shares if you bought the convertible notes than if you bought the ordinaries directly. We bought some at \$40 and sold a few at \$65, but got stuck with the vast majority of the position when Chandler pulled the pin. Neither Gunns nor the FORESTS have traded again and it now seems they will never trade again.

Yes, it's a 'cock up'. We lost our investors money. But it's what we do. We have made substantial amounts of money out of securities that *could* have gone the same way. BEPPAs for a start. Alinta Energy to second it. And ING Real Estate Community Living Group (now **Ingenia**) for final confirmation. We made more than 100% out of all of them, yet there was a chance with each, at the time of acquisition, that they could have been worth zero. We look for situations where the potential reward more than compensates for the risk, we manage our portfolio position accordingly, and we let the mathematics of probability work out in our favour over time.

The question is not whether we should be doing this type of investment. It is a space where we can clearly add value. The question is whether we should be telling you about it.

You might appreciate the level of disclosure. But that doesn't mean it's benefitting you or us.

One of the reasons people give us money to invest is so that they don't have to deal with the stress. In *Thinking Fast and Slow*, Daniel Kahneman's summary of a life's research into human irrationality, he shows that we feel the pain of losses twice as much as we benefit from a commensurate gain. By telling you about our losses as well as the gains, you can end up with a net negative emotional response despite a positive overall return. That's not a great outcome. Why not just wrap it up in one and deliver you the number?

We could just tell you the positive news. Standard industry practice really. But it's going to look a bit weird when UXC is up 17%, IFN is up 36% and the unit price has barely increased. You don't have to be [Peter Higgs](#) to work out something has gone wrong.

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I haven't reached a firm conclusion on this so am seeking your input. Currently, we have \$55m under management in two funds we manage. Almost all of the growth is coming from performance. To grow it to the \$150m we want invested in ASX listed stocks, we will need to distribute beyond the Intelligent Investor family. That's not my preference, but a fact of life.

If the level of disclosure is causing problems in our little world, how will it go down on the outside? In this case at least, perhaps less really is more.