



## Focus on value pays off for Montaka

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With artists like Maroon 5, Vivendi's Universal Music Group has scale that's hard for competitors to match, says Montaka's Christopher Demasi.

Chris Demasi wants to redefine the concept of value investing.

“If you pigeonhole yourself to this statistical and historical definition of value, and you become too religious about it, you are doomed to follow that mantra that value doesn't work. You leave a lot of alpha on the table,” said the Montaka Global Access Fund portfolio manager, a speaker at Friday's Sohn Hearts & Minds conference in Melbourne.

Value investing involves finding quality shares that are undervalued by the stockmarket. The concept has been out of favour in recent years amid the big global shift into index funds with lower levels of volatility.

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The Montaka long-short fund was established three years ago and takes its name from the double star Mintaka in Orion's Belt (representing the fund's dual strategies and because the star is visible in both hemispheres, with Montaka having offices in Sydney and New York).

Montaka spurns the traditional price-earnings multiple approach to value investing.

“It is such an outdated definition of value, looking for low price to book, or low PE multiples. That is not how we view value investing,” Demasi says. “We view it as buying a stock that has very low expectations placed on it. When you look at it through that lens, then I think value investing has been successful.”

“We are led by expectations so we are an ‘expectations first’ manager. We reverse-engineer everything. We will take the share price and look at what that is telling us about the market’s expectations of the business. We then look at how conservative those expectations are. We will only buy stocks where there is a low level of expectation priced in.”

The strategy is working.

Montaka has returned 8.5 per cent per annum, net of fees, since inception in 2015.

The return was generated with an average net exposure to the market of 46 per cent.

By comparison, the MSCI World Total Return Index with a level of market risk (or “beta”) would have returned 5.5 per cent a year over the same period.



Montaka’s long strategy, which runs a concentrated portfolio of about 24 stocks, mirrors that of the long-only Montgomery Global Fund.

Demasi sees the current bout of global sharemarket volatility as another opportunity.

“Selectively, we were towards the end of October adding to some of our long exposures (like Chinese e-commerce platform Alibaba). We have also selectively taken some risk off, reducing our net exposure to the market to below 40 per cent,” Demasi says.

“That has given us the firepower over the past three to four weeks to add to positions we like where we see value and value emerging. The volatility and the sell-off means better opportunities. That is the silver lining.”

One of Montaka’s favoured stocks is French media conglomerate Vivendi, which Demasi says has been under-appreciated by the market.

“The incremental profit margins baked into the current share price are far too low,” he says.

Vivendi operates businesses in France, Europe and the US, including the Universal Music Group and Canal+ pay-TV group.

“When you cut through the noisy portfolio of assets they have, The jewel in the crown is Universal Music Group, the world’s largest recording label. It can’t be recreated by competitors. Vivendi owns content,” Demasi says.

As digital takes off, he expects Universal's margins will continue to increase because of the power they have in dealing with music streaming platforms.

Demasi previously worked as a senior member of the Lowy Family Group's portfolio management team in New York.

He says his time with LFG taught him the importance of buying quality businesses that will be winners in the long term.

"That is what they buy in their portfolio. They, like us, also run a concentrated book," he says.

"We believe a lot of diversification makes little sense. Little diversification makes a lot of sense."

**DAMON KITNEY, VICTORIAN BUSINESS EDITOR**

Damon Kitney has spent two decades in financial journalism, including 16 years at The Australian Financial Review in a variety of writing and editing roles in Sydney, Melbourne, Canberra and Perth, including 5 ... [Read more](#)

