FINANCIAL REVIEW

- **Chanticleer**

Fundies name their top long-term picks

Volatile markets mean investors need to think well ahead, so we asked six fund managers to do just that.

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After a tumultuous start to 2022 for investors, the best lesson to learn is that trying to time the market when volatility is high is a mug's game.

With this in mind, we turned to some of the stockpickers who provide their services pro bono to Future Generation, the $1 billion ASX group that runs two listed investment companies and donates 1 per cent of its assets each year to charity.

Looking for long-term value makes sense in a volatile market. ***David Rowe***

We had a simple request: give us your top picks from a long-term perspective.

The responses are from three managers supporting Future Generation Australia (which focuses on ASX companies and charities that support children and youth at risk) and three from Future Generation Global (which invests in offshore companies and focuses on charities that support youth mental health).

They tap into some big themes for the market, such as ESG, data and digital.

But let’s start with a pick in a sector where your columnist considers himself something of an expert: french fries.

Nick Markiewicz, portfolio manager at Lanyon Asset Management, plumbed for a New York-listed food processor called **Lamb Weston**, which is America’s largest producer of fries and apparently one of the world’s best.

Lamb Weston’s share price is down 23 per cent in the last 12 months, which Markiewicz says reflects the fact it has been hit with surging input cost inflation that it has not been able to pass on due to the nature of its 12-month contracts.

But large price rises are starting to trickle through, and Lanyon expects costs should moderate in the medium term. “As a result, the impairment to LW’s earnings is likely to be short-lived.“

Why is this a long-term bet? Demand is unlikely to disappear and there are just four dominant fry makers in the US. “This business should be able to compound earnings for decades.”

Mark Nathan, head of fundamental research at the ASX-bound Regal Funds Management, likes one of last year’s big IPOs as his top pick.

Shares in e-conveyancing giant **PEXA** have gone sideways since listing on fears of growing competition in the Australian market, but Nathan is sanguine, arguing its dominant market position leaves it well-placed to take most of the gains in a growing market.

Longer term, he’s excited about two things.

The first is PEXA's entry into the British market, which looks underserved. "Pexa appears to be the only company seeking to build out a full e-conveyancing solution that includes a full end-to-end electronic settlement capability," he says.

PEXA has secured a testing window with the Bank of England for later this year, but Nathan says there are limited opportunities for potential competitors to do testing until 2024 or 2025.

He also says the market is ascribing little value to PEXA's ability to monetise its vast data sets. "Stock exchanges have been successful in doing this, and we are optimistic that PEXA could do the same."

As a takeover battle rages in Australia for junior telco Uniti, Jacob Mitchell at Antipodes is playing a similar theme in the US with his pick, **Frontier Communications**.

The New York-listed company, which emerged from Chapter 11 bankruptcy last year, is aggressively rolling out fibre to the home, which Mitchell says is the only technology that can handle surging US internet traffic.

Antipodes sees close to 100 per cent upside just by valuing the company's existing fibre and copper networks at peer multiples. But the big opportunity is converting the most lucrative residential copper connections – about 6 million households – to fibre in the coming years.

The stock is up 2.45 per cent since listing last May.

At Wilson Asset Management, lead portfolio manager Oscar Oberg is betting on a market favourite.

Maas Group is a vertically integrated construction materials, civil engineering and property development company that is based in Dubbo, NSW, and run by former rugby league player Wes Maas. It's also a fundie favourite, with its shares up more than 40 per cent in the last 12 months.

Construction has been the big driver for the company, and will remain strong as Australia's population flocks to the regions and infrastructure development continues apace.

But Oberg sees property development becoming Maas Group's main earnings driver over the medium to long term.

"Maas Group has over 6000 residential property housing lots and significant commercial property interests held at cost on its balance sheet that, when developed, could potentially achieve a market value close to $1 billion on our estimates," he says.

Oberg says this means that investors are paying only about $300 million for Maas' construction materials and civil engineering business.

WAM believes the share price could more than double in the next three months if Wes and his team can pull off the property development strategy.

The global equities team at Nikko Asset Management is also looking to play the property and construction theme with its pick, New York-listed group **Carlisle Companies**.

The Arizona-based company is ploughing money into its high-margin construction materials division, which makes products that help improve the sustainability of buildings, which account for 30 per cent of the world's carbon footprint.

A good example is its popular roof garden products, which can help slash stormwater runoff and improve the insulation of a building, lifting its energy efficiency.

With regulatory requirements and a flood of government support driving demand, Nikko believes Carlisle can add to its 48 per cent share price gain over the last 12 months.

David Moberley, lead portfolio manager at Paradice Investments, has been keen on **IDP Education** for some time, and isn't losing the faith despite its 15 per cent drop this year.

He says the company, which specialises in English language testing and university student placement services, is battling a long tail of unsophisticated competitors.

As such, it can use a technology advantage to take its market share from high single digits to somewhere in the 20 per cent range inside the next five years in student placement, while there are consolidation opportunities in the English language testing market.

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