THE AUSTRALIAN
DECEMBER 23, 2020

Cut-price mid-caps on a roll as valuations kept in check: Bell

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Ned Bell says his firm is well-positioned to benefit from a rebound in relative valuations of small and mid-cap names, healthcare and consumer staples stocks in 2021. Picture: Hollie Adams/The Australian

The chief investment officer of the $2.5bn global equity manager Bell Asset Management says he is optimistic about the outlook for international small and mid-cap stocks in the year ahead, as valuations have been kept in check by the absence of big passive funds from the sector.

Ned Bell, who in November marked his 20th anniversary with Bell Asset Management, says while COVID-19 had brought forward three to four years of growth for big tech stocks, it had also “signed the death warrant of a lot of businesses in secular decline”.

“For example: the big department stores in the US and the cruise ship operators. That has a way to play out. And the banks in the US, like here, have been holding back on foreclosing on a number of businesses. That will be a real challenge for

But Bell says where his firm was getting most optimistic was in the small and mid-cap stocks space, which represents very little of most portfolios.

“Collectively these companies have lagged by 3.5 per cent for the past three years. There are no ETFs, no passive funds. You haven’t had this forced buying so you have this lag. For example (US chocolate makers) Yeti Holdings and Hershey — they are growing their revenue at 10 per cent and earnings by 15 per cent,” he says.

Small and mid-cap equities had a strong performance period during November as the MSCI World SMID Cap Index rose by 9.41 per cent.

While the Bell Global Emerging Companies Fund rose by only 5.78 per cent for the month, its relative longer-term performance has remained strong, with the fund outperforming the index by 8.7 per cent on a calendar-year-to-date basis and by 6.55 per cent per annum over three years.

Bell’s mid-caps strategy has accounted for 35 per cent of the alpha in the firm’s core strategy over the past 18 years.

Bell says his firm was well-¬positioned to benefit from a rebound in relative valuations of small and mid-cap names, healthcare and consumer staples stocks in 2021.

Before the COVID-19 pandemic hit, Bell and his eight-person team were conducting 500 research engagements a year during the course of 14 overseas trips.

He says in the post-COVID-19 world he would “resume wearing out shoe leather but it will be a balance”.

“We were doing 14 big trips a year. It might come back to seven or eight. But our engagement will be really big. When you are on the road, it is about how you focus your time,” he says.

“I put a lot of value on meeting the CEO. Part of it even just comes down to body language. When you ask them what’s exciting about their business and they lean forward with enthusiasm, you know you’re on to something.”

Bell has been a long-time observer of the tech sector, having worked in funds management in San Francisco during the years of the dotcom boom. He first bought a stake in Apple in 2005, when it was trading at $4.50 a share, although he sold down the fund’s interest in February this year because of valuation reasons.

Bell Asset Management has also been the responsible entity for American billionaire hedge fund manager Ray Dalio’s Bridgewater Associates’ funds in Australia since 2003, a product of Dalio’s friendship with Bell’s legendary stockbroker father, Colin.

Colin, his brother Andrew and Bell Financial Group managing director Alas¬tair Provan have also long owned Australian Food and Agriculture Company, which has been investing in agriculture since the 1970s.

Better known by its trading name, Burrabogie Pastoral Company, AF&A runs merino sheep on the famous Wanganella and Poll Boonoke merino studs in southwestern NSW. It also runs a Hereford cattle herd.

“My old man has been very active in the rural industry for a long time. What he has done, and he did this in the late 90s, was buying those properties three years into a drought, which was a great contrarian value investor play.

“To have that courage to go in and make those investments when they are almost at their worst and take that really long-term view was pretty amazing. And that really rings true to how I go about investing,” says Ned Bell, who has just turned 47.

“Dad has always been a long-term investor and always had that view of having good timing. He has always taken a long-term view and put resources into the businesses. Those are probably some of the biggest lessons I have taken from him: having the courage to take that view over five, 10, 15 years. He and Alastair have been great business builders. They don’t give up after five years, they really put the shoulder to the wheel over long periods.”

Ned Bell’s mother Carolyn passed away after a battle with cancer when he was only 12.

“She had been sick for a while. It is one of those experiences you unfortunately go through but you push on, you have to pick yourself up and keep going,” he says, noting he and his father grew closer.

All of the Bell family are now investors in Bell Asset Management, including Colin.

Not once does Ned Bell say he has ever received a phone call from an irate family member about an investment that has gone wrong. “There is pressure there but there is a lot of support,” he says. “The family are incredibly supportive of the business and its potential.”