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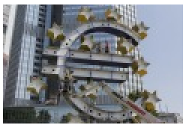
How Malcolm Turnbull invests

Malcolm Turnbull has gone passive. **Peter Rae**



by **James Frost**

Last month, Smart Investor's editor James Frost got a rare insight into how our 29th Prime Minister invests his money.

Kerry Packer was content to get one Alan Bond in his lifetime, but federal minister Malcolm Turnbull is optimistic about getting a second OzEmail.

"Obviously not while I'm in politics but it's always possible," he said of the 1994 investment in a fledgling internet services provider that reportedly netted him $60 million from an initial $500,000 outlay.

While the deal that saw Packer sell the Nine Network to Bond for $1 billion only to buy it back for a pittance has passed into legend, Turnbull's OzEmail windfall is no less impressive when you consider the risks of early-stage technology investment.

The Minister of Communications is no longer an active player in the high-stakes games of venture capital and private equity; after all, he does have Australia's largest-ever infrastructure project to manage.

However, the unique combination of his background and responsibility for the national broadband network (NBN) affords him perspective on opportunities in the sector – a sector poised to grow with the successful deployment of the NBN.

Turnbull says there is no reason why Australia can't produce the next Uber ridesharing app or social-networking phenomenon like Facebook (founded in 2004, Facebook has a market cap of US$276 billion or more than BHP and Commonwealth Bank combined).

"One of the reasons in my view as to why there hasn't been more venture capital equity available [in Australia] is because there haven't been enough successes."

More recently the signs have been encouraging. Turnbull points to examples such as Graeme Wood's Wotif.com and Matt Barrie's Freelancer.com as proof that we can produce businesses and opportunities of an internationally significant scale.

"When I was in business I did best out of start-ups" he says. "But OzEmail was a long time ago ... I can't live off my OzEmail laurels forever."

Despite an obvious skill in identifying opportunities, and an impressive fortune – estimated by *BRW*'s Rich 200 as $186 million in 2010 – his responsibilities today demand he mitigate potential conflicts by avoiding most forms of direct investing.

"I don't have private equity investments any longer because a) I'm in Parliament and b) I don't have the time," he said. "Since I've been in Parliament my investments are rather limited. It's all there on the record. It's very boring and passive."

At *AFR Smart Investor* however we would choose to respectfully disagree. The private investment portfolio of the former barrister and successful banker is endlessly fascinating for anyone who has more than a passing interest in investment.

Featuring a blend of blue-ribbon property, billionaire fund managers and passive exposures to big picture themes, it's a well-diversified collection of growth assets with a handful of defensive plays thrown in for good measure.

Turnbull is reluctant to talk about it in great detail, crediting the design to his US based adviser. He is quick to mention the active role of his wife, Lucy Turnbull, a well known backer of IT and biotechnology companies.

"When I talk about myself, Lucy and I work very much as a team."

It was his wife who added a double-fronted terrace in Paddington to the portfolio as recently as August last year for $2.8 million.

The pair's property holdings are dotted across Potts Point and Point Piper, extending to Canberra and the Hunter Valley, topped off with a New York apartment.

A PERFECT BLEND

But it is Turnbull's equity market exposures – an intriguing mix of highly regarded hedge funds combined with passive exchange-traded funds or ETFs – that proves the most revealing.

First, there are the ETFs such as the SPDR S&P 500 that are available on the ASX to anyone for just 5.5 basis points and provide access to some of the biggest companies in the world, including Apple, Microsoft and Berkshire Hathaway.

Midway through 2014 Turnbull added Vanguard's Information Technology ETF, which contains many of the same big technology names – Apple, Google, Facebook – but in much higher proportions than the S&P 500.

Combined with these holdings are three more exotic ETFs that play on the global search for yield: the iShares High Yield Corporate Bond ETF, the Vanguard Dividend Appreciation ETF and the Dow Jones Composite Global Yield ETF.

Which brings us to the actively managed funds. An eclectic mix of Wall Street rock stars and under-the-radar money managers, Turnbull's exposures range from vanilla resources strategies to obscure twice-geared hedge funds.

The list of funds is long and includes those run by billionaire Michael Dell's investment arm MSD Partners, superstar bond investor Jeffrey Gundlach's Doubleline Capital and the Brazilian investment firm 3G, which recently teamed up with Warren Buffett for the $US45 billion ($61 billion) merger of Heinz and Kraft.

The one obvious theme that does not appear to get a run is a direct exposure to China.

"I think every investment has exposure to China," he says. "Have I made a decision to have or not have an exposure to China? No. But you could buy the index and you've got exposure to China. China is a huge part of the global economy."

Although never a professional portfolio manager, in 2002 Turnbull was a key backer of a wealth management start-up that became Centric Wealth and had assets under advice of more than $5 billion at its peak.

Even back then it was obvious to Turnbull that the conflicted business model that saw advisers get rich off upfront and trailing commissions was unsustainable.

"One of the key elements of that business was that the adviser would be paid on a fee-for-service basis. They would not be getting commissions or trails or anything from the funds in which they invested, and that was a key philosophy."

Asked if he views investing as a discipline like jogging or an intellectual puzzle to be solved, he says it is a mix of both, seeing both risk and opportunity in the current bout of volatility.

"That's what makes investing interesting" he says. "Improving your returns while keeping risks within acceptable parameters."