

Quarterly Stock Commentary - May 2019

Steadfast

Why people matter

What does a mechanic, a carpet salesman and a part-time taxi driver have in common? These are just some of the jobs Robert Kelly had prior to founding Steadfast in 1996. Steadfast provides a range of services to Insurance Brokers and Underwriting Agencies and listed on the ASX in 2013 with a market cap of c\$550m; today it is valued at >\$2.6b. In the past six years, Steadfast has been a core holding of the Celeste Australia Small Companies Fund and a significant reason for our investment has been due to the people who have both created and manage Steadfast.



“People, people, people”, is a statement often heard around the Celeste offices. While some might argue that “figures don’t lie, but liars figure”, we believe the people within an organisation are integral to driving business outcomes, which ultimately deliver investor returns. We therefore spend a significant portion of our time examining the Board of Directors and Senior Management team before making an investment. In particular, we look at their résumés, going back as far as possible to understand their background, motivations and experiences.

When assessing people within a company, we begin with the Board of Directors. This is because the Board are the elected representatives of shareholders and appoint the Chief Executive Officer. We want to try and understand: 1) motivation for being on a particular company’s Board; 2) past experiences add up to as a particular skill set; 3) will they be a genuine voice of independence?; and 4) is there sufficient diversity of backgrounds and skills representative of the company’s customers, suppliers and shareholders?

One of the salient features of the Steadfast Board of Directors is its consistency of composition. In the almost six years since listing, only one Board member has retired, Jonathon Upton, and only one has been appointed, Gai McGrath. While this may not necessarily tick the box of corporate governance advisors, to our minds, the corporate memory that is built up over a cumulative 69 years of Director experience with Steadfast is extremely valuable.

A second feature is the range of experiences across the various members of the Board. While all members have a long history of working in the financial services industry, their experiences are diverse including: accounting, retail banking, general insurance, regulation, and most importantly insurance broking. In our view, this diversity of experience provides a high degree of comfort that the Board is capable of dealing with a range of issues, such as competition, evolution of the regulatory environment, structural change and technological disruption in an effective manner.

When looking at Senior Management, it is most obvious to focus on the CEO and the CFO of a company. While the importance of their roles cannot be understated, it is generally because they are typically the executives who have the most interaction with investors. At Celeste, we are also very interested in the next layer of management, particularly their passion, experience and level of competency.

In the context of Steadfast, the depth and breadth of the Senior Management team is exceedingly strong. At first blush, Steadfast has a dominant and charismatic CEO in Robert Kelly. As a “founder” CEO it is not surprising that he displays these personality traits, but what is of particular value to us is the range of experiences Robert had prior to founding Steadfast. His collective experiences mean that there is little if nothing inside Steadfast that Robert can’t do or doesn’t know about. This creates a high degree of transparency across the organisation as employees can’t hide issues with customers, suppliers, regulators or internal processes.

Of critical importance to us as investors is how Steadfast is placed post Robert’s eventual retirement from the organisation. While Robert has recently committed to a further 3 years, Steadfast does not operate in a vacuum and external forces may see the timing of Robert’s departure change. This is where the depth and breadth of the remaining senior management team comes to the fore. Outside of Robert Kelly, Steadfast’s senior management team in totality would rank in the top decile or perhaps percentile of listed Australian Small Caps. CFO, Stephen Humphries, Head of Underwriting Agencies, Simon Lightbody and Head of Broker Services, Nick Cook, have significant industry experience and importantly a strong track record of execution. So while we know Steadfast’s share price would likely fall if Robert Kelly was to depart unexpectedly, we take a great deal of comfort that the strategy of the company will continue to be carried out by the remaining members of the Senior Management team.

Investors are presented a lot of information about a company, these include annual reports, interim accounts and investor presentations. Typically they have been compiled, filtered and polished by the Board of Directors and Senior Management. Often this information gives a fair representation of a company’s operations, however sometimes the information misrepresents the facts. By assessing the people behind that information, their abilities and motivations, we look to minimise our exposure to the charlatans, spruikers and cheerleaders that abound the share market.

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