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Master of the high-risk venture

Reclusive Wall St banker Steven Gilbert has seen it all. He tells Kevin Morrison the e-future cannot be ignored.

How does one of Wall Street's top fund managers get his investment ideas? By talking to car salesmen on Parramatta Road.

That's what Steven Gilbert, the former right-hand man to George Soros, did on his Sunday afternoon during a recent visit to Australia to attend board meetings at Star City and One.Tel.

"There is no end of what you can learn just by talking to the average small businessman. They are on the forefront," says Gilbert, who heads US private equity firm Gilbert Global, which has investment funds of more than \$2 billion.

"Big businessmen don't necessarily know that much because if you are the vice-president of the XYZ corporation you are worried about managing your boss and your staff.

"Talk to the guy that is responsible for his own P and L [profit and loss]. Talk to the guy that has what is left in the till to feed his family, he is the guy on the cutting edge, he is the guy that knows what is actually going on, he is the guy I like to talk to," said Gilbert in his first media interview in a 30-year investment career.

Gilbert has given his investors returns averaging 38 per cent a year over the past 16 years, making him one of the most respected fund managers in the business, along with Warren Buffett and his former boss, George Soros.

But it is the past five years that have seen the biggest change in the investment business since Gilbert started with Morgan Stanley in the early 1970s.

The most talked about stocks are no longer the traditional US blue chip companies such as General Motors and General Electric. Now all the talk is of the Internet and companies like Microsoft, America Online, Amazon and eBay that are poised to benefit.

"There is no question that the Internet will have a profound effect on almost all forms of commerce in the 21st century,"

says the 52-year-old investor, who started his working life before widespread use of fax machines.

As markets and technologies converge on the Internet, investors will be able to trade 24 hours a day in any stock. But there are some downsides, he warns. "Globalisation of markets has made my life and the lives of many others, one of continuous sleep deprivation."

Star City chairman Richard Warburton said that his fellow director has his own time clock. He jogs along the Sydney Harbour foreshore early in the morning while most of the city sleeps, or participates by phone in a Star City board meeting during Sydney business hours while he is in Paris or New York and it is 2am there.

"I am always amazed at how he keeps up to date with everything and I wonder, does he ever sleep," says Warburton.

Gilbert normally reads local newspapers such as *The Sydney Morning Herald* online, before most people here have had their breakfast.

Gilbert, who is a big investor and user of communications and technology, said the Internet has had profound changes on the investment industry. It has enabled him to monitor his worldwide investments on his Toshiba laptop at any time and anywhere in the world.

Gilbert and 15 colleagues each spend up to three hours a day in e-mail contact, or checking international newspapers, news and analytical services.

They are just abiding by the investment world ethos that information is king and the markets wait for no-one.

"When you see people put \$US1.5 million into eBay and give their investors back \$US2 billion and somebody like me who is happy to give investors back five times their money, you start to think, am I in the wrong business?"

But Gilbert does not really think he is in the wrong business and he aims to maintain his record of 38 per cent annual returns.

However, Gilbert did try his hand in Hollywood in the early 1980s when an investment he took in Lion's Gate Films went the wrong way and he ended up helping to run the studio, write film scripts and

maintain his investment portfolio.

Gilbert later sold the film studio, which made the film *MASH*, but he continues to write scripts for TV under a ghost name and is a member of the Writer's Guild of America.

"I got a very interesting exposure to the motion picture business and it taught me a very good lesson, and that is that the best way to enjoy a movie is by sitting in a theatre with popcorn in your hand."

Gilbert says less than 15 per cent of the 200 films Hollywood produces each year are profitable. Not an attractive investment proposition.

Aside from his time in Hollywood, Gilbert's resume is blue chip. He graduated in economics at Wharton School of Finance at the University of Pennsylvania, did an MBA at Harvard Business School and a doctorate from Harvard Law School. He went into investment banking because all his classmates wanted to be in the business.

In 1978 he sat next to Henry Kravis at a function and what Kravis told him changed his life. Kravis, one of the founders of the US buy-out specialist Kohlberg Kravis Roberts, made famous in the 1980s book *Barbarians At The Gates*, told Gilbert he was in the "bootstrap business".

Gilbert says he thought at first that Kravis was talking about rugged footwear, but Kravis then outlined his plans for KKR, which had set up shop two years earlier to focus on small leveraged buy-outs.

Within a year of his conversation with Kravis, Gilbert left to go into the private equity business investing mainly in private firms. In 1983 he set up Chemical Venture Partners, which is now Chase Capital Partners.

Four years later Gilbert met George Soros for the first time through a friend, Gerry Manolovici, who was at the time macro and emerging markets specialist with Soros's Quantum hedge fund group. Four years after that, in 1991, Gilbert set up Soros Capital, a private equity fund to complement Quantum's hedge fund activities.

"I have always thought that working with George Soros was like being a

physics student and having Albert Einstein sitting in the corner office. You were not about to go in there every time you had a mathematics problem," says Gilbert.

"If your returns were good, he [Soros] just left you alone." Gilbert was mainly left alone, although Soros largely withdrew from his day-to-day investment activities to focus on philanthropy.

"George is clearly one of the great investors of our time but, more importantly, he is certainly one of the greatest philanthropists, and I don't think people realise that George Soros is the philanthropist of last resort and he is willing to take on unpopular issues and is willing to withstand the criticism that comes from doing that."

Gilbert, who also donates part of his wealth to charity, says Soros was accused of making money from landmines when he was looking for technologies to detect and remove landmines.

He gave textbooks to the Russians and the Russians accused him of trying to subvert their children to an American way of thinking.

"His desire is more to do good than it is to be loved. Most philanthropists want to be loved. George just wants to do good with his money."

Last year Gilbert set up his own private equity company, Gilbert Global, with \$2 billion in funds, and strategic partners Frank Russell Company, which consults pension funds with over \$1.5 trillion in assets, and the US institutional investor, the Capital Group of Companies.

Through Soros Capital, Gilbert became involved in the Showboat/Leighton Holdings consortium bid for Sydney Harbour Casino licence against the rival bid from Kerry Packer and US casino operator Circus Circus Enterprises.

Gilbert himself also has a direct interest in the casino.

Gilbert describes the battle with the Packers over the casino licence as a "fight", and quipped that being on the other side of the Packers "is not the best place to be in Australia".

Since then, Gilbert has built up a business relationship with the Packers. He reckons 32-year-old James Packer is "probably the best young executive I have ever known, worldwide bar none. He has an unusual intersection of experience, learning at the foot of the master, having wide-ranging international contacts. He is just very, very good."

As for the master? "Kerry's record speaks for itself."

It was James Packer who introduced Gilbert to One.Tel last December. Gilbert Capital bought \$US30 million (\$45 million) convertible notes in the telecommunications group at a conversion price of \$3.50 a share when many Australian institutions were turning their noses up at One.Tel because of concerns about the company's strategy and profitability.

Gilbert's investment equates to an entry price, after a share split, of about 30c a One.Tel share.

They are now almost four times the price he paid. The company also has added News Corp and Packer's Publishing and Broadcasting to its shareholder list.

Gilbert has also built up a business relationship with fellow One.Tel director Rodney Adler, who remarks that Gilbert is one of the best investors in the business.

"Even if you had half the returns over half the length of time he has been doing for his clients, you would be doing very well," says Adler.

Rodney Adler got to know Gilbert through fellow American and One.Tel investors Stephen Rader and Rudolph Reinfrank, whose investment firm Rader Reinfrank (formerly Coldstream Capital), shares an office with Gilbert Global in Los Angeles.

"One.Tel is very fortunate to have him as a director, he brings incredible experience from the investment world and his international perspective gives us another dimension," says Adler, whose late father Larry was a friend of George Soros when they were both growing up in Hungary.

Gilbert has been coming to Australia regularly for both business and pleasure since 1985 when he looked at investing in the Movie World entertainment complex being planned by Village Roadshow, and was struck by the similarities with and differences from the US.

He says Australia is the only country in the world aside from the US that allows people to succeed without reference to their grandparents.

"I think that is a huge benefit for both countries."

When it comes to investment, there are differences.

"The US market is always buying the future, for some reason the Australian market seems a lot more concerned with the present.

"Dividend payout, meeting consistent earnings projections seem to have much more relevance in Australia than in the US where people are looking to capture new territory and worrying about profitability later.

"Having said that, I am not sure which model is right, and only time will tell, which is the right model," says Gilbert, who has also invested in the unlisted Australian computer manufacturing group Bluegum Technologies.

He says there is also dramatically less shareholder activism in Australia than there is in America.

It is a much more institutionally driven and dominated market, and the relationship between government and business is much thicker and more complicated in Australia than it is in the US.

Besides refusing interviews for 30 years, Gilbert will not have his photo taken. He says this enables him to travel freely around the world without fears for his and his family's safety. There are no pictures of him in any of Star City's annual reports.

He chose to speak to the *Herald* to voice his concerns about Australia's capital gains tax which he believes is restricting the growth of the country's Internet and electronic commerce industries.

"Basically, Australia's e-commerce and Internet industry has migrated to America because of Australia's onerous capital gains tax," Gilbert says.

In recent years Australian entrepreneurs who founded Internet and technology-related businesses such as LookSmart, Hypercom, ResMed and Quokka Sports have moved to the US because of better access to venture capital.

"This is actually a good thing for Americans because we get all your best and brightest and we get all the tax dollars. While Australia loses its best and brightest and gets no tax revenue, it seems quite odd to me that the Government of Australia is being so generous to the people of America."

Gilbert says Australia has all the ingredients that Silicon Valley had to become a high-tech centre -- good communications, a supply of educated professionals, an entrepreneurial mentality, many highly regarded universities to train people for information technology skills, and good weather.

"There is no good reason why Bill Gates couldn't have been an Australian."