



November 2020

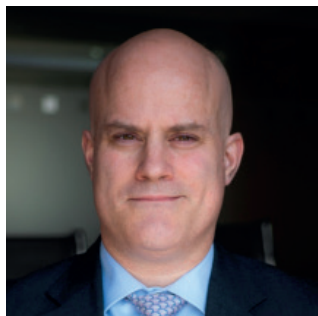
# ESCHLER EMERGING MANAGER SYMPOSIUM



Eschler Asset Management LLP



DERBYSTREET



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### What's your background?

I grew up in the United States but began my career as an analyst at Goldman Sachs in Frankfurt Germany in 1995. I then spent eight years at Morgan Stanley in London and Milan, latterly running a global institutional team in London. The front row seat for the late 1990s boom and the early 2000s bust got me interested in market cycles as well as value investing. I landed my first job on the buy-side in early 2008 as a senior analyst with Indus Capital, a long/short equity hedge fund founded by former Soros partners. I set up Eschler in 2009 and have been focused full-time since 2017 on building out our team, infrastructure and trackrecord.

### What's Eschler's investment strategy?

The Eschler strategy is concentrated, long-biased and long-term. I analyse market, regime and industry cycles to prioritise where to spend time on bottom up research and to assist with portfolio construction. I spend most of my time, however, on bottom up research of individual businesses that share key traits including: strong balance sheet, attractive normalised return on capital and owner/operator alignment with shareholders. The objective is to purchase businesses in the public market at double-digit normalised cash flow yields and that offer attractive risk/reward. This approach has recently led toward out-of-favour areas with deep value characteristics and attractive risk-reward across a more cyclical universe. The strategy is currently invested in natural resources (including precious metals) and multi-industry deep value holdings which are a generational opportunity in my view. While the portfolio is unconventional, its resulting low correlation with the stock market and peers adds genuine diversification to multi-asset portfolios.

### What's the most meaningful mistake you've made, and what did you learn from it?

My mistake takes us back five years to 2015 when I became impatient and shifted into a couple smaller market cap ideas that seemed like they could produce greater upside than what I already owned. Right after I bought them, both of these securities started to fall almost immediately, and I kept buying more to maintain the position size as a percentage of the fund. Long story short, both securities were on their way to zero and I lost a lot of money on each holding. So what happened? First, I failed to properly incorporate what I could lose into the probabilities so the positions were larger than they should have been based on risk vs reward analysis. Second, I kept buying as the shares fell to keep my percentage position size because I wasn't working with any risk limits in terms of maximum loss per holding. Third, in both cases I invested in companies that had commodity exposure and bad balance sheets and

that combination ended up being toxic. Remember, 2015 was when energy stocks, and value stocks more broadly, fell apart. Needless to say, I've now developed a thorough risk framework both at the single stock and portfolio level to ensure I won't make the above mistakes again.

### What's a high conviction idea you have right now?

The active management industry is an interesting place to look for opportunities. First, it's important to emphasise not all active managers are created equal. There are several large index-plus type of active managers that could be in big trouble. But some smaller, more boutique oriented firms are doing well and have a combination of better distribution than others, or better diversification, or good returns with a high active share, all of which is leading to mostly positive net flows despite a tough backdrop. An active manager with stable to rising net flows is an attractive, asset light business model that can grow and pay out its cash flow along the way. Second, valuation is attractive - the market has decided that active management is in terminal decline and there are many listed businesses trading at mid-teens free cash flow yields. Third, in terms of a catalyst, the industry is starting to consolidate which could be an important catalyst. BEN paid a 25% premium for LM last Spring; Trian is pushing JNS and IVZ to merge etc. If you look at private market valuations, Morgan Stanley just paid 14x trailing 5-year average EBITDA for Eaton Vance. I think it was a 40% premium. If you apply a more modest 10x EBITDA to some of the better-placed managers like Pzena Asset Management (PZN), the shares could double or more and would still be well off their 5-year highs.

### What does your strategy offer investors?

The trackrecord shows a proven ability to deliver strong returns over time with below average correlation to other long-short funds and the broader stockmarket. The strategy also shows an attractive risk/reward ratio - the strategy has made more money on winning investments than it's lost on losing investments. So the overall track record shows this favourable risk/reward skew. More qualitatively, the strategy offers expertise in and exposure to investments in natural resources and the smaller company value segment, both areas which appear ripe for a massive cyclical inflection at some point. Not least, there is good alignment, all of my liquid net worth is in the strategy. As a firm we also enjoy independent ownership. All of which keeps agency costs low for investors.



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## Christian Putz

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### What's your background?

I hold an MBA from the University of Innsbruck as well as a Master's in International Business Administration and Economics. I began investing in 1997, at the age of 17, with €5,000. After graduation, I worked for MAN Group across multiple divisions, including FoHFs, VC, and Credit. These experiences gave me a deep understanding of the credit market during panics. In 2009 I moved to Moscow and landed a job at investment firm Kazimir Partners managing their Eastern European L/S Equity fund. This experience was difficult yet rewarding. From 2011 to early 2016, the Russian market lost about 75% of its value. During this period, the market lost 20% of its value 7 times over two months. I learned how to preserve capital, and it shaped my philosophy of setting up an investment system that works across a full market cycle, not just the bull market. In 2015, I left Kazimir Partners and set up ARR Investment Partners with a global mandate.

### What's ARR's investment strategy?

ARR's investment strategy focuses on capital preservation in selloffs and generating high returns during strong market trends. These aims are achieved through top-down and bottom-up analysis. The top-down analysis helps us to avoid capital loss during severe market corrections. Our bottom-up analysis focuses on investment opportunities with low correlations, common factors, and predictive power. We created our proprietary portfolio and risk management system PARIS, which begets an analytical edge and creates a robust and repeatable investment process. We also have a behavioral edge as our unconstrained mandate allows us to focus on the best risk-reward opportunities. PARIS informs us about various risks we are taking and enables us to align our market view with the implied portfolio view. PARIS screens an investable universe of 3000+ liquid stocks to provide us with daily investment ideas. We analyze the recommended ideas to understand their drivers and talk to management if necessary. The resulting portfolio consists of high conviction long and short positions. The overall portfolio risks are managed using sector or index ETFs and futures.

### What's the most meaningful mistake you've made, and what did you learn from it?

Repeating the same trading mistakes. I did not have a system to improve on my mistakes. It is difficult for one to realize and correct his own bias, so it was important to build a process that improves mistakes. Our PARIS system records all our trades with many features ranging from rationale to emotional status. Then we conclude after analyzing these historical trades and put alerts in our live

monitor to remind ourselves. Simultaneously, we form second opinions of our trades and exposures through back tested signals. We compare our own idea with the objective second opinion to ensure we are not affected by bias.

### What's a high conviction idea you have right now?

S&T is a mid-cap company on the TecDAX Index. It provides IT services, as well as Internet-of-Things (IoT) and embedded solutions. S&T has a low valuation relative to its US peers. It experienced 8 years of consecutive growth and has successfully expanded through acquisitions. S&T was not negatively impacted by the Covid crisis and expects to double its revenue by 2023. It was recently sold off after an analyst report pointed to exaggerated numbers. We analyzed the reported figures, talked to IR immediately, and concluded that the accusation was not justified. It is a good buying opportunity as S&T has high demand growth and a proven track record. It was sold off for the wrong reasons and has a massive upside at its current valuation.

### What does your strategy offer investors?

Firstly, we are adroit short-sellers, evinced by our performance during multiple market selloffs. For instance, when the market was down 30% this March, we profited 18%. I benefited from my Russian market experience, where I learned how to handle difficult environments. Secondly, we pursue a 'quantamental' approach by quantifying and automating as much as possible. We break down the investment process and optimize each step. For example, we devised a formula to calculate optimal position sizing and use its recommendations to manage our portfolio.



## Mark Walker



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### What's your background?

I have 15 years of financial and business analysis experience, in corporate finance, sell side research and global generalist buy-side roles. My more institutional experience has left me with the opinion that the asset management industry does a bad job at creating value for the owners of capital, due to chronic misalignment of interests. By addressing this from scratch, using a partnership model, one can tip the odds in our favour of achieving a better outcome, without the requirement to rely on IQ advantage and the hubris that often creates. Tollymore is that effort to create value for long term partners, to solve the problems of perpetual investors.

### What's Tollymore's investment strategy?

The strategy is to exploit a time arbitrage in public equity markets by investing in companies capable of increasing their intrinsic values through their own efforts. In doing so we seek to avoid permanent capital loss by mitigating business, balance sheet and valuation risk. In my experience, few managers execute this long-term philosophy, due to the absence of independent thought, epistemic humility, and patience. The ingredients required to be able to make decisions in accordance with these attributes are a long time horizon, the right environment, the right temperament, and the right investment partners. I believe that there are major obstacles to achieving these qualities for most asset managers, including short termism, incentive structures, poor alignment and overconfidence.

### What's the most meaningful mistake you've made, and what did you learn from it?

I used to believe that buying companies that have attractive long-term prospects but which are facing short term, but surmountable, business problems was an attractive source of superior investment results. This may still be the case, but my investment history has demonstrated an inability to consistently profit from this. The investments we made into TripAdvisor and Grubhub were, with hindsight, bets on a revision of fundamental business progress that did not materialise. In both cases there exist winner take most potential economic outcomes, with demonstrable barriers to entry and an owner-operator business ethos. Yet in both cases it was our misassumption that a monopolistic outcome was not necessary for outsized value creation. This was a philosophically inconsistent premise. The continued ownership of these businesses despite stagnant business performance implies a broader lesson - being a long-term investor still means quitting when you are wrong.

### What's a high conviction idea you have right now?

Farfetch is a global luxury digital marketplace for brands, retailers, and consumers. We like to find businesses with symbiotic value chains and FTCH exists because of a compelling consumer and supplier proposition. Given consumers' preference for shopping in a multi-brand environment, brands have a choice to either partner with a vertically integrated retailer, or a marketplace. The clear preference for marketplace partnership is a function of unit economics and control. Brands enjoy a significantly higher gross margin by partnering with a marketplace vs. a retailer. And they are able to control the visual representation and pricing of their products, which helps to preserve brand integrity. FTCH does not compete with any other large luxury marketplace. If the same pattern of disruption happening in music, travel and communication, then the leading player will be a platform, not a retailer or a brand.

### What sets your strategy apart?

Tollymore offers some benefits to some investors. The partnership will only be appropriate for a minority of investors. But we are aligned with long term capital owners in several ways: very high insider ownership; fee structures that ensure that capital owners receive a significant majority of alpha; a capacity constraint that protects capital weighted returns; and a promise to reinvest Tollymore's operating leverage into better resourcing and/or lower fees.





## Richard Simmons

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### What is your background?

I had an unconventional path to investment management. I originally trained as a lending banker, my core skill was credit analysis and I evaluated business plans, meeting perhaps hundreds of companies and entrepreneurs. Some industries turned out to be naturally more difficult. Hotels and retailers have few barriers to entry, are inherently competitive and tend to low returns on capital; another example is suppliers to large customers with very little negotiating power. Investing was really a personal interest. I found inspiration in Warren Buffett, attempted to reverse engineer what Buffett had done and wrote a book about it. Investing was completely absorbing. Soon I had clients.

### What is Derby Street's investment strategy?

I've been managing money since 2001 and two Cayman funds – long only UK and European equities - since 2013. The strategy is value, buying investments at a significant discount to future cash flows. We are not relative value investors but rather what we term Modern Value investors. There are three types of value strategies we pursue: a) liquidations; b) discounted assets; and c) high quality businesses. We've invested into about 15 liquidation situations which are quoted companies with a mandate to sell their assets, and typically when these work out they produce a high IRR, lowly correlated to the broader market. Discounted assets are companies with a valuable portfolio of assets such as property or a collection of PE assets. We aim to invest at a significant discount, often as much as 50%, and the returns materialize through a combination of continuing NAV per share growth and a closing of the discount. We target over 15% p.a. from these companies. Finally, the largest strategy is high quality companies, where we may stay invested for decades and we believe we can earn over 20% p.a. compounded. We wait for a combination of the right price and business circumstances. Our investees are themselves patient and are often led by their founders or succeeding generations. We were able to make decisions very quickly during the turmoil around Brexit, when prices were temporarily deranged, and in the first virus lockdown. We prefer businesses with net cash to provide further stability. We run fairly concentrated portfolios, where our top positions could be close to 10% and our portfolios don't resemble the indices. We don't have exposure to certain industries, such as banking, oil and gas, or insurance. We like asset management. We have had high returns from Impax and Premier Milton, which have growth, asset light balance sheets, lots of cash on hand, and have occasionally been available at bargain prices. The first and the third strategies have been the most return generating and the second strategy serves as a lower risk cushion.

### What's the most meaningful mistake you've made, and what did you learn from it?

I've made lots of mistakes but mostly would happily make them again – or similar ones. In most instances, there wasn't necessarily a problem with the thesis, but something didn't work out in that particular case. A mistake that we learned from: we bought a business called Mercia. We bought at a reasonable discount to the three parts – a portfolio of venture capital investments, cash, and a small operating business. At the price we paid it was difficult to lose money. After a few months I realized there wasn't enough upside. For someone with a Buffett philosophy it's easy to get seduced by the idea of not losing money rather than focus on the upside. We sold it at a price close to what we paid. We had better ideas and it was worth realising our mistake and deploying the capital where it could do more good.

### What's a high conviction idea you have right now?

We followed Naked Wines for a few years before investing in it this year. I like the energy of the business. It is online only, in the UK, US and Australia. It has a wonderful business model – some customers become subscribers and pay money upfront and some buy wine before it's grown to secure discounts. This produces negative working capital, allowing the company to grow rapidly from internal financing. It should grow by over 60% this year. It has a profitable subscription base but loses money on marketing programmes to attract first orders. Taken together the business breaks even. The future profit from subscribers is estimated at four and a half times the cost of customer acquisition. We paid an enterprise value of about eleven times taxed subscriber operating profit and the total market opportunity is massively bigger than current turnover.

### What sets your strategy apart?

We patiently select from a subset of the market that we deem as low risk by investing in businesses that are undervalued and growing but don't have high leverage. Both funds have operated for seven years and the UK fund has outperformed its index by 32% and the European fund by 100%. In our managed accounts we have invested in several companies for well over a decade. The funds are not large (firm AUM £34m) and we have plenty of ideas to absorb fresh capital.

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