TALKING WITH

Talking adding value in down markets and cycling with Aziz Hamzaogullari, Chief Investment Officer and Founder of the Growth Equity Strategies Team at Loomis, Sayles & Company – part of Natixis Investment Management – and Richard Romer-Lee, managing director at Square Mile

Aziz Hamzaogullari

Chief Investment Officer and Founder of the Growth Equity Strategies Team
Loomis, Sayles & Company - part of Natixis Investment Management

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HOW DID YOU GET INTO INVESTMENT MANAGEMENT?

I studied finance at university in Turkey before moving to the USA to do an MBA, also in finance. I decided on the US because from a market perspective, it was the most established and offered the greatest opportunities. I started in asset management via an internship.

WHO HAS INSPIRED YOU?

A collection of people. My uncle was the one who guided me to this industry and what became my love for investing. He worked in textiles and from the age of 12 I worked for him in the summer holidays. He invested in private businesses – there wasn't an established public market in Turkey at the time – and asked me to translate a company report. I was around 15 years old, but as well as the translation, I did some analysis too. He told me investing would be a great fit for my personality, mindset and passion. As well as my uncle, investors Warren Buffet and John Templeton, and Michael Porter, the academic. The foundation for most of what we know – certainly in investment philosophy and investment process – is based on years of studying investors.

WHAT ARE THE MAIN TENETS OF YOUR INVESTMENT PHILOSOPHY?

We have a long-term, structured approach, which focuses on three key drivers. Firstly, we seek high quality businesses where it is very difficult or impossible for someone else to replicate what they do. That business must have good returns – for at least 10 years in the future – and good management. Since 99% of businesses do not fit this – it's empirical – we are looking at the 1% that do. Secondly, these businesses must have sustainable cash flow growth over the long term. This is also very rare – on a five-year basis under 8% of companies do and on a ten-year basis, under 1% do. Thirdly, we want to buy businesses at a substantial discount to our perception of their intrinsic value. Finding them is very rare – on average we tend to buy only one or two companies each year.

HOW DO YOU DETERMINE VALUE?

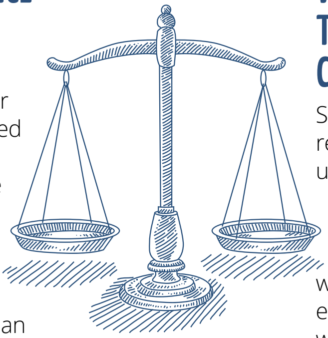
There are so many different ways to value a business – for us it's a by-product of our beliefs and process. There are two particularly important ingredients - time horizon and skill. We invest for the long term, which in turn helps us to determine how to ascribe a value to future cash flows. We started our current portfolios in 2006 and ask ourselves a simple question – what percentage of other managers have held the names we have for the entire period since then? The answer is 2% - the other 98% traded, presumably because they believe they have an information edge that adds value. The evidence is to the contrary. Once you have something that is rare, having a short time horizon restricts the opportunity to get the long-term value from sustainable growth. Growth is a range of outcomes – downside risk is very important. As for skill, it's about understanding the market expectations, the growth and the range of outcomes.

WHAT MAKES A GOOD FUND MANAGER?

You need to be consistent and disciplined. To have the ability to understand risk and a range of outcomes, be humble and understand you will make mistakes. Know what is rare and be very selective. Patience. Hunger for learning – in this profession it should never stop, which is one of the many reasons I love it. Being a good leader and having people skills to build a good investment team around you is a must.

WHAT'S THE SECRET TO GETTING THE RIGHT BALANCE IN A TEAM?

A combination of common attributes and diversity of thought. The former includes a passion for investing – you can't teach or force people to have passion or independent thinking. You need a group of people who work well together but bring different ways of thinking to the same process. We have been fortunate in that we have zero turnover on our team. It is important to bring in new members, so we recruit every two or three years. Newcomers bring fresh perspectives, ideas for improvement and greater intensity. It's like the new player on a sports team turning up to training earlier and leaving later than everyone else - it sets a new benchmark.



WITH SUCH A BIG FRANCHISE IN THE US, WHY ARE YOU SEEKING CLIENTS IN THE UK?

Serving the needs of our investors regardless of their location is important to us. We recognise that there are many long-term investors in the UK which means they may believe in our approach. But we are not afraid to tell them we may not be a good fit for them if their expectations and needs are different to what we offer.

WHAT ARE YOUR THOUGHTS ON UK INVESTORS THAT HAVE GIVEN UP ON ACTIVE INVESTING IN THE US?

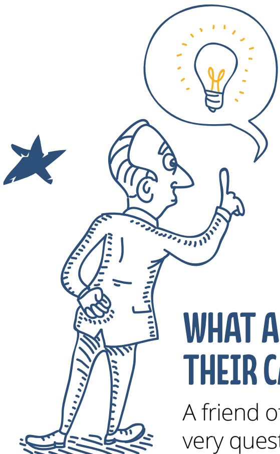
If you look objectively and empirically, in any profession there is the top 1%, top 10%, average and below average. It's no different for investing. If you are selecting a doctor, do you choose one with average performance or the best? The key attributes of active investing are time horizon and active share. If you look back five or six decades, active investors had longer time horizons, evidenced by turnover, and high active share. Over the years they have shrunk, turnovers and trading costs have risen and most people's starting point – the benchmark – is wrong. You need to add value in down markets too. Like selecting the doctor, it requires homework, and it's not easy. My advice is, do the research and find the best. It's interesting that many investment professionals complain about this – yet this is the very essence of their job. Work out why and where you add value. Don't just look at results, it's about philosophy, process, team and what's repeatable.

DOES MANAGING A LONG/SHORT PORTFOLIO HELP THE LONG ONLY STRATEGY?

It's really about completing our analysis. If we think we can identify winners, our analysis is not complete if we don't understand the full picture. If a company is to gain market share, we try to find out at whose expense and why. It helps identify the range of possible outcomes and the potential downside.

WHAT'S THE FOCUS WHEN MEETING THE COMPANIES YOU INVEST IN?

We like management with a very long-term approach – 10 years plus. It's one of the reasons we favour businesses where founders are still present as they tend to be in it for the long haul. We decipher if there's an alignment of interest with management owning stakes in their companies - I have 100% of my equity investments in my funds. We also like to discover if the business has a strong line of strategic thinkers – not just the top executives, but throughout.



WHAT ADVICE WOULD YOU GIVE TO SOMEONE STARTING THEIR CAREER TODAY?

A friend of my 19-year old son in his first year at NYU asked me that very question the other day. I asked him first and foremost; do you have passion for this? Investment management is not just a job, it's a way of life that requires a high level of intensity. It's important to find the right fit. It's such a huge field and there are so many different businesses and approaches with many different roles. Remember, you are competing against lots of good minds so you need to love it. For some it's pressure, for others like me they live for it. I am excited by it every day and expect to for the next 10, 20 or 30 years. I won't stop until either I can't do it or I'm not here.

ARE ESG FACTORS AND RESPONSIBLE INVESTING IMPORTANT IN THE US?

Definitely more so than 5 or 10 years ago and it's now a crucial part of company analysis. We consider it from a long-term, structural perspective. Responsible investing is not a tick-box exercise as there's no way it can be addressed in a formulaic manner. It can't be solved by screens and tools, which come up with different views on the same companies. The key is whether businesses and their practices are genuinely sustainable.

HOW DO YOU RELAX?

I used to be a basketball player but cycling is now my number one. I have a group of like-minded friends and we get on our bikes together as often as we can. We had planned to go to Spain for a week this summer. Instead we are settling for virtual get-togethers.

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Active share indicates the proportion of the portfolio's holdings (by market value) that are different than the benchmark. A higher active share indicates a larger difference between the benchmark and the portfolio.

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