

# EMERGING MANAGERS

## TRADING COSTS: A SIZEABLE COMPETITIVE ADVANTAGE

A CASE STUDY

July 2008

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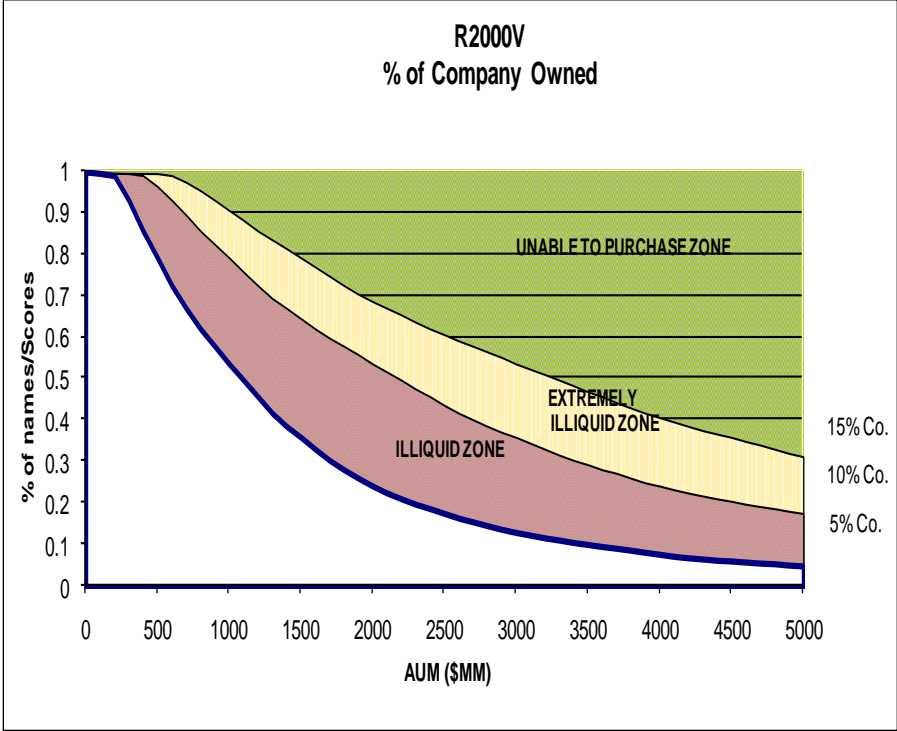
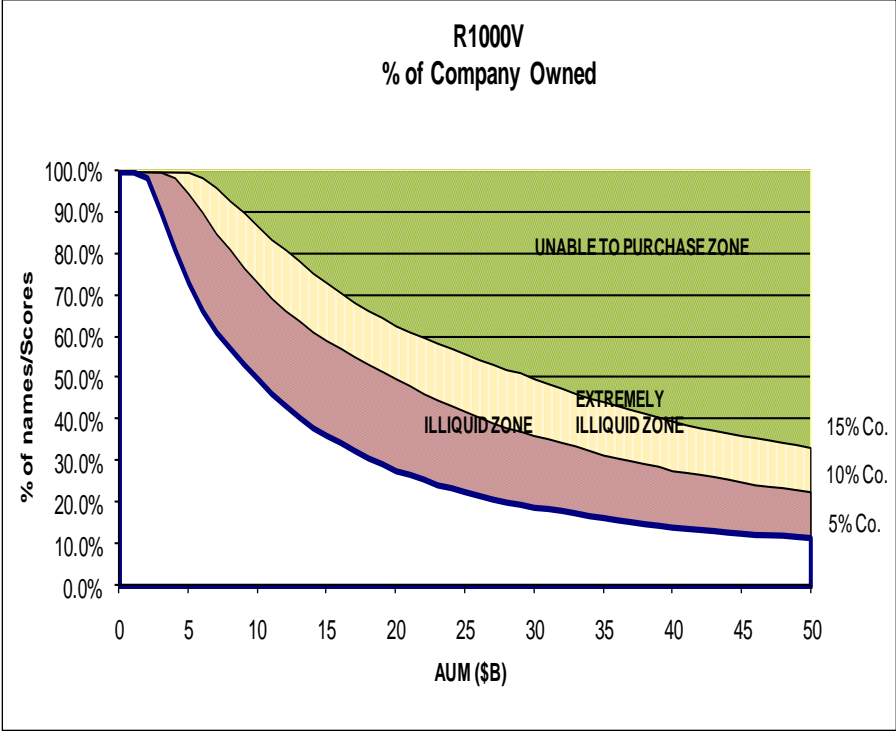
# Huber Capital Management Values

- 10) **Bigger is not necessarily better.**
- 9) **Act with honesty and integrity. Be straightforward always.**
- 8) **Be innovative, creative, and flexible.**
- 7) **Admit mistakes. Learn from them and don't repeat them.**
- 6) **Work hard. Your competitors are trying to catch up.**
- 5) **Treat others as you would like to be treated.**
- 4) **Remember that you have the onus of investing for the well being of others.**
- 3) **Fight complacency. Your past successes are in the past.**
- 2) **The best investing styles are timeless, not timely.**
- 1) **Clients come first. Think of them and you will always win.**

# COSTS OF TRADING

		<u>Effect on Performance</u>
• Commissions	→ How much do I have to pay?	Low
• Market Impact Cost	→ How much does it cost me to get in and out of a security?	Significant
• Opportunity Cost	→ How much of the investible universe can I invest in?	High

# Limited Assets Under Management IS a Competitive Advantage



# CASE STUDY

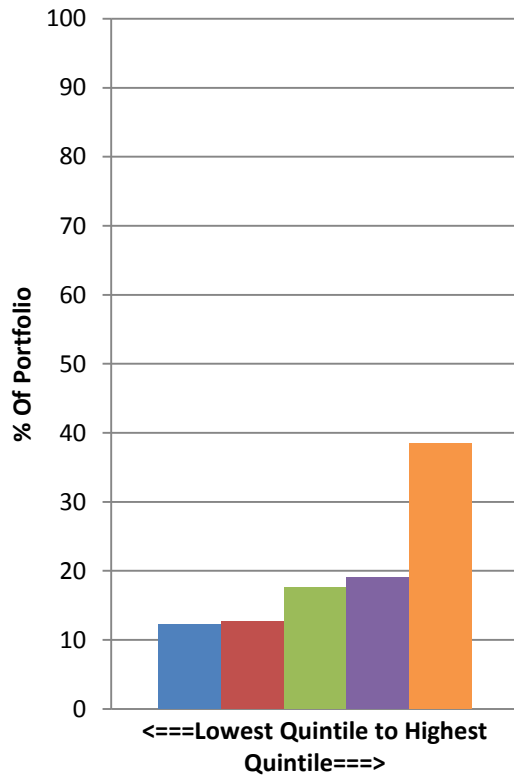
	<u>Firm A</u>	<u>Firm B</u>	<u>Firm C</u>	<u>Firm D</u>
Assets Under Management	\$ 0 B	\$ 5 B	\$ 20 B	\$ 50 B
Invested Positions	50	50	50	50
Annual Portfolio Turnover	50%	50%	50%	50%
Time to Invest Positions	2 Weeks	2 Weeks	2 Weeks	2 Weeks
Average Commission Rate	2¢/Share	2¢/Share	2¢/Share	2¢/Share
Investible Universe	R1000V	R1000V	R1000V	R1000V

# TRADING COSTS

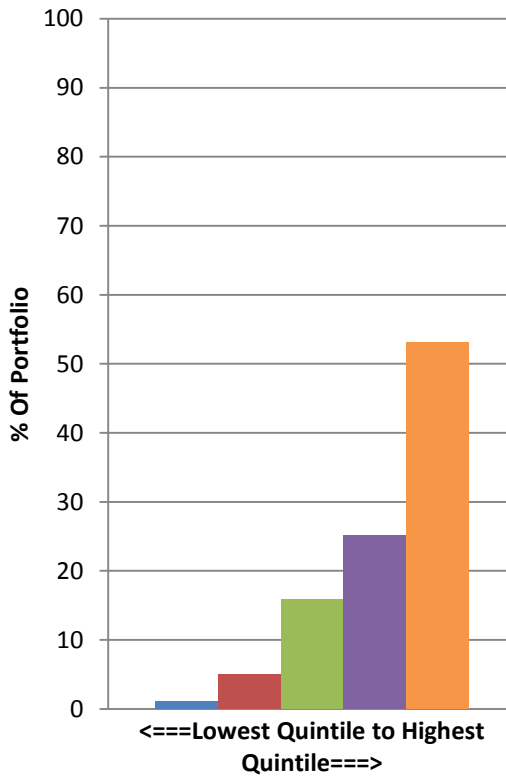
	<u>Firm A</u>	<u>Firm B</u>	<u>Firm C</u>	<u>Firm D</u>
Commissions	16 bps	16 bps	16 bps	16 bps
Market Impact	<u>15 bps</u>	<u>90 bps</u>	<u>155 bps</u>	<u>195 bps</u>
Total	31 bps	106 bps	171 bps	211 bps
Percentage of Index Investible	100%	100%	60%	30%
Opportunity Cost	Zero	Zero	Significant	Very Significant

# Ability to Invest Across the R1000V Index

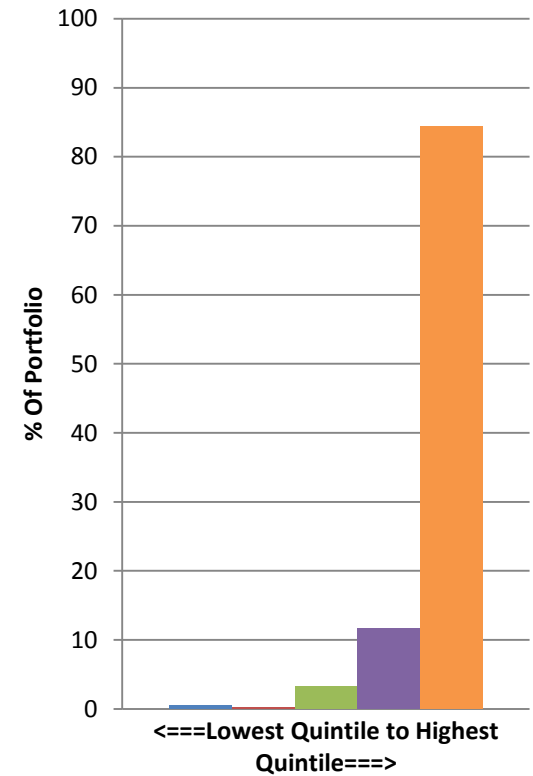
## Market Cap Distribution of Target Portfolio



## Market Cap Distribution of HWCIX



## Market Cap Distribution of DODGX



# CONCLUSION

- Established (large) asset management firms are charging an extra 180 basis points in fees annually through higher trading costs.
- Established (large) asset management firms are only able to invest in 30% of their benchmark.

**Is the “safety” of investing with an established (large) manager worth an extra 180 basis points in fees annually and an inability to invest in 70% of their index?**



# The Best of Both Worlds

	HEDGE FUNDS	TRADITIONAL RIAs	HUBER CAPITAL
High Investment Flexibility	X		X
100% Employee Owned	X		X
Extreme Motivation	X		X
Experienced Team	X	X	X
Stability		X	X
Low Fee Structure		X	X
Past Performance Success		X	X
Overcapitalized Balance Sheet		X	X
Tax Efficient		X	X
Institutional Operational Platform		X	X

# NOTES

## **General Information About Huber Capital Management LLC**

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## ***Defined Terms***

“% of Company Owned” means a portfolio’s beneficial ownership of a particular issuer.

“AUM” means assets under management.

“Extremely Illiquid” means difficult to dispose of the security without influencing the stock price to the extreme detriment of the performance return of the portfolio.

“HWCIX” refers to the Hotchkis and Wiley Core Value I Fund.

“DODGX” refers to the Dodge & Cox Stock Fund.

“Illiquid” means that it would be difficult to dispose of the security without influencing the stock price to the detriment of the performance return of the portfolio.

“Quintiles” refer to the applicable market capitalization ranges (0-20%, 20-40%, 40-60%, 60-80%, 80-100%) of the R1000V.

“R1000V” means the Russell 1000 Value Index, which consists of the large-cap value segment of the U.S. equity universe.

“R2000V” means the Russell 2000 Value Index, which consists of the small-cap value segment of the U.S. equity universe.

“Scores” means the percentage of the investible universe at which a full investment can be made at differing percentages of the company ownership (such as, less than 5%, 5% to 10%, 10% to 15%, and greater than 15%). Note that if partial investments can be made, the score reflects the partial weight.

“Unable to Purchase” means those securities that, because of market capitalization, liquidity, trading volume and other security-specific characteristics, the portfolio would be extremely adverse to purchasing due to the risks associated with trying to eventually dispose of the security

### ***Relevant Notes By Page***

#### **Page 3: “Costs of Trading”**

*Source:* proprietary model created by Huber Capital Management LLC that analyzes certain characteristics of the securities contained within the R1000V during the period from January 1, 2006 to December 31, 2006.

#### **Page 4: “Limited Assets Under Management IS a Competitive Advantage”**

*Source:* proprietary model created by Huber Capital Management LLC that analyzes certain characteristics of the securities contained within the R1000V and R2000V, during 2006.

#### **Page 5: “Case Study”**

“Average Commission Rate” assumes that share price will not vary based on the market capitalization of the stock.

#### **Page 6: “Trading Costs”**

“Percentage of Index Investible” for each hypothetical Firm corresponds to percentages presented in the “R1000V” graph on page 4.

*Source:* proprietary model created by Huber Capital Management LLC that analyzes certain characteristics of the securities contained within the R1000V, during the year 2006.

#### **Page 7: “Ability to Invest Across the R1000V Index”**

These tables are for illustrative purposes only; they are not intended as investment advice. The Funds referenced above were selected by Huber Capital Management, LLC as representative samples of funds with certain economic characteristics and are listed for comparison purposes only. Other comparably sized funds may have different economic characteristics. The market capitalization ranges will vary from time to time.

*Source:* HWCIX Graph: Bloomberg, data as of June 30, 2007.

DODGX Graph: Bloomberg, data as of June 30, 2007.