

This year's best managers believe  
clients are best served by investment teams  
heavy on experience but small in number

2013

# BEST MANAGERS

**YOU'VE NEVER HEARD OF**

**FACED WITH AN ABUNDANCE** of investment service providers—and having few insights into what results will be realized three or five years hence—pension sponsors often make the safe choice: a big firm with substantial history behind it.

But there is a core of consultants and advisers that see a place for investment managers yet to be famous. “We believe there is value to be found in smaller, more nimble managers, who have the drive and research focus that can fade with age and size at larger firms,” notes Mary Choksi, senior managing director and co-founder of Arlington, Virginia-based Strategic Investment Group, a provider of investment outsourcing services to pension plans, endowments and foundations, and other large investors.

*Illustration by Wesley Allsbrook*

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## Huber Capital Management LLC

El Segundo, California

Assets under management as of June 2013: \$2.3 billion

Joe Huber set up a firm of his own in 2007 after successful portfolio management tenures at two large managers, Hotchkis & Wiley and Goldman Sachs Asset Management. This convinced him that value equity management is practiced best on a small scale. "Academic research says that large-cap managers can't outperform their benchmarks, because the equity market is too efficient. I disagree entirely," Huber says. "The fallacy is that 99% of large-cap assets are managed by firms with portfolios over \$10 billion, and their scale forces them to invest only in the largest securities. In my view, the holy grail of bottom-up investing is to have a big universe to pick from. Huge inefficiencies exist in the market, but large managers can't take advantage of them due to the size of their strategies; therefore, they don't have the opportunity to sustainably outperform." Not satisfied with simply beating benchmarks, Huber wants to be the top firm, bar none.

Huber, age 44, applies a highly regimented bottom-up investment process to the universe of U.S. value equities, designed to exploit the market's tendency toward mean reversion—that is, buying companies with weak returns on the cheap in anticipation of improvement. "We invest over a three- to five-year horizon, in companies that have what we call 'good long-term assets'—competitive advantages in their brands, scale and distribution," he explains, adding, "Combined with a decent balance sheet,

which allows time for the reversion to take hold, such companies represent opportunities for quicker success." Portfolios are fairly concentrated, holding between 40 and 50 positions.

The firm's methodology builds in protection against dud stocks through several levels of controls. An initial review identifies value traps—those businesses that look good on the surface but ultimately underperform. A painstaking method for estimating earnings and cash flow deconstructs complex companies into their constituent parts, which Huber believes gives more accurate assessments of earnings, cash flow and profitability than simple extrapolations of the consolidated totals. Huber also maintains, as he puts it, a "red flags" list. "That's a compilation of mistakes that, with 20/20 hindsight, there was some sort of signal before the company blew up."

Lastly, the portfolio is subjected to a diversification check, to ensure that the bottom-up stock selection has left no important sectors of the economy unrepresented. Huber cites the example of precious metals: "At the start of 2011, we realized we had no exposure to gold in the portfolio, after it had gone from \$500 to \$1,000 an ounce. We thought there was very little alpha in large gold mines. Ultimately, we invested in pawn shops, which are retailers but have 70% of their book value in the form of precious metals. They kept up with the mining stocks on the upside but offered us a lot more downside protection than the gold miners."

The firm is owned entirely by employees, with Huber retaining a majority stake. "That enables me to make those decisions that are best for the portfolios and ultimately the clients," he notes. For instance, the Small Cap Value strategy was closed to new clients at assets of \$800 million in April—a time when recent results left prospective clients clamoring to invest. "There was only one reason behind closing the strategy at that point: Generate the best possible product for our clients."

The firm is on its way to Huber's goal of long-term No. 1 standing with its Small Cap Value strategy, which was the top performer in its group in the eVestment universe for the five years ended in June. While that strategy is no longer available to new clients, Huber's Fundamental Large Cap Value product is highly ranked, as well, earning a spot in the top quartile for the three years ended in June, beating the Russell 1000 Value benchmark with annualized excess return of 1.90%. —JK



Joe Huber

### Huber Capital Management LLC

#### Small Cap Value

\$1.0 billion

PERIOD	STRATEGY RETURN	EXCESS RETURN	INFORMATION RATIO
One year	37.55%	12.78%	2.02
Three years	30.47%	13.13%	2.05
Five years	19.67%	11.08%	0.98

For periods ended June 30, 2013

Excess returns calculated vs. the Russell 2000 Value Index

#### Fundamental Large Cap Value

\$1.1 billion

PERIOD	STRATEGY RETURN	EXCESS RETURN	INFORMATION RATIO
One year	18.04%	-0.73%	-0.38
Three years	14.64%	1.90%	0.55
Five years	6.94%	2.09%	0.22

For periods ended June 30, 2013

Excess returns calculated vs. the Russell 2000 Value Index

Source: eVestment

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The Russell 1000 Value Index consists of the large-cap value segment of the U.S. equity universe. Russell 1000 Value Index performance does not reflect any fees, expenses, or taxes. Investors cannot directly invest in the index.

## **HUBER CAPITAL MANAGEMENT**

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