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"5 Questions" with Huber Capital Management's Joseph Huber

By Editorial Staff

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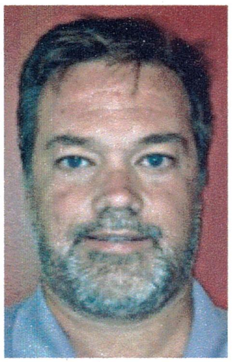

Joseph Huber is CEO and CIO at **Huber Capital Management**. He is the latest participant in *IMMP*'s "5 Questions."

IMMP: Huber Capital Management, a value-based investment manager, has been around since 2007. Can you run down your past career and investment process that has proved to help garner success at the Los Angeles-based firm?

Huber: I started my career in 1994 and spent most of my early years with **Goldman Sachs Asset Management** in New York, as an analyst and portfolio manager on the U.S. Value team. By 1999, I concluded that the market surge fueled by technology and telecom stocks was not sustainable, and I was looking for a change of scenery. I headed west to Los Angeles to become the Director of Research at **Hotchkis & Wiley**, which was part of **Merrill Lynch Asset Management**. Here, I was given the opportunity to design and implement my own investment discipline. Prior to my tenure at Hotchkis & Wiley I worked within a very research-focused process driven by fundamental analysis. It's a good framework, but I came to realize that the key missing ingredient was behavioral psychology, and no one else was applying a process like the one I envisioned. First, humans make cognitive decision flaws, and consistently repeat them, so I aimed to construct a process that married fundamental analysis with behavioral psychology. Secondly, to me, the holy grail of the bottom-up stock picking process is having flexibility. Flexibility means you can be liquid in your securities and are able to invest in 100% of the index. The process I developed at Hotchkis & Wiley worked very well, and our strong performance attracted a large inflow of assets. I believe asset growth, however, can become an impediment to delivering strong performance, so I was faced with a decision. I knew I had developed a unique and proven process, but in order to have the best opportunity to generate out-performance, the strategies had to have size limits.

So, in 2007 I founded Huber Capital Management, where I had control over asset management and made the final decision as to the appropriate asset level in which to cap a given strategy. For example, early last year we decided to close our Small Cap Value strategy at a time when investors were clamoring to invest more money. It was simply what was best for our clients, and that is our first priority. Our investors expect us to do the very best job we can for them, so we'll do what is necessary to meet that expectation. Since our firm's inception, we've set a goal for every one of our strategies to be number one across an entire market cycle. As of Dec. 31, 2013, each of our strategies with a record of at least five years is either number one in their respective category or very close to it over that time period. We don't follow the traditional goal of money managers that says 'let's beat the benchmark and we'll be successful,' because, if you think about it logically, the benchmark is simply a .500 proposition. The Yankees don't aspire to be 81-81 every year and the Patriots aren't satisfied with 8-8, so I don't know why our industry should make a benchmark the measure of success.

IMMP: Huber Capital Management has more than $3.9 billion in total assets under management. Can you describe the client base of your firm?

Huber: Approximately 90% of our business is institutional and about 10% is in our own mutual fund family. The goal of closing a strategy is to avoid the Type-1 error: getting so big that we fail. If you recall from Statistics 101, when you try to minimize a Type-1 error, you introduce a Type-2 error, which in our case is the assets that naturally leave over time for reasons other than performance. So, while we hope to have a stable annuity when we close a strategy, we instead risk ending up with a declining annuity. In response, we attempt to ensure the firm has a good mix across defined benefit and defined contribution assets. For example, when a mutual fund client invests $15,000 every single year in his or her 401(k) account, it should offset the natural outflow from the defined benefit business.

IMMP: Does Huber Capital Management believe it needs to capture the retail 'money on the sidelines' in order to fuel future and sustained growth?

Huber: The retail environment has not been a big focus area for us. We have specifically avoided the wirehouses as distribution channels because we don't view them as a source of long-term assets. We want people to buy our process, which ultimately drives performance. We don't want people to blindly buy our past performance and hope it continues, because every manager, bar none, has been shown to have periods of underperformance. If you understand that it's the process you are buying, you can live through the periods of underperformance, rather than prematurely abandon ship. Since we have limited capacity, we pay particular attention to our client base, focusing on defined benefit and defined contribution plans and not on the sideline money that attempts to time the market. We're not market timers. We don't believe we're smart enough to do that, and we don't believe they are either.

IMMP: We've covered Huber Capital's prior mandate wins at the **Sacramento County Employees' Retirement System** (SCERS) and the **Massachusetts Pension Reserves Investment Management** (PRIM) Board. Can you disclose what strategies have begun to pick up steam recently among other institutional investors?

Huber: In addition to Large Cap Value, our only other strategy really open right now is SMID Cap Value, which we launched in October 2011 and has delivered strong results. Assets in our SMID Cap Value strategy are still low, but there is a lot of interest as its composition has about an 80% overlap with our Small Cap Value strategy, which we closed this past May. So, investors are able to get a flavor of our Small Cap Value strategy by investing in SMID Cap Value.

IMMP: In June 2013, **Erik Peterson**, a **California Institute of Technology** alumni, joined Huber Capital as an equity analyst. Is the firm growing?

Huber: We have a deep team of veteran portfolio managers, whose average age and industry experience is around 45 and 15, respectively. We continue to build redundancy in the organization, which means building up the next generation of staff. We hope they can make that transition for us. We've reached the point where we can teach and train people, and experience has shown it's usually about two years from the point they join the firm when we hit break-even on our ROI. It's like any business, during your first two years you thought you knew what you were doing, and two years later you look back and you think, 'man, I didn't know anything.' We're trying to teach and train them the right way. For certain positions, I don't like to hire people with experience, which is a little different than most people. I've always found it easier to train somebody than to re-train somebody. I like to hire the athlete and then teach them how to catch. That's what we did with Erik, who is an extremely smart kid. He's trained in applied mathematics, but not finance. We can train him on the latter; he's smart enough to learn it.

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