

# JAMES HUNT

James Hunt believes true contrarian investors should be attracted to fear. It's an approach that has reaped rewards for his Tocqueville International Value Fund



performance over five-, 10- and 15-year periods, marking him out in his peer group.

But that is a peer group of other value investors, many of whom also describe themselves as contrarian. So how does Hunt stand out from this crowd?

It comes down to instinct, he says. 'A lot of people say they're a contrarian but they're not. To be contrarian you really have to be attracted to negative situations where people are scared, and to do that, you have to be an independent thinker.'

'You have to be attracted to situations that produce fear. The fact is, most people are afraid. It's essential as a contrarian that you are able to articulate a reason why the reality is better than what the market is perceiving. We are different than many value investors because we only want to buy good businesses. That's how we avoid value traps.'

## JACQUELINE DAVALOS



**J**ames Hunt doesn't take anything at face value. Born and raised in the Big Apple, Hunt is the quintessential New Yorker: discerning, independent and contrarian. These qualities inform both his professional and personal life.

'I've always had an independent streak. I've always asked questions and sought the right answers,' he says.

It's a characteristic that he exhibited even as a child. 'I respected my parents, but just because they said something had to make sense it didn't mean it was right,' he says. 'I've always challenged conventional thinking, getting to the bottom of things.'

That instinct has served him well as lead portfolio manager of the \$1.3 billion Tocqueville International Value Fund, a position he has held since 2001, having joined the firm in 2000. The Fund has posted top-decile long-term

### THINKING SMALL

At a glance, Hunt's resumé reads like those of most successful investors. After graduating from Brown University with a degree in history, he began his career as an equity analyst at Delafield Asset Management, before jumping into a 10-year investment banking career at Lehman Brothers and Warburg Dillon Read.

But his career motivations were anything but conventional. 'I was always thinking internationally. As a kid I would have told you

that I would be a diplomat or a journalist covering foreign affairs,' he says.

Hunt followed his desire for international adventure to Argentina during his eight-year stint at Lehman Brothers, but he never forgot about his investing roots. 'Intuitively and instinctively, investing made sense to me. I expanded my scope by doing corporate finance, but I really learned how to value companies in takeovers. Bringing the real-life mergers and acquisitions experience to investing is an important part of my style,' he says.

The Fund primarily invests in international developed markets and employs a bottom-up, absolute return and benchmark-agnostic approach to portfolio construction, boasting an active share of more than 90% over three-, five-, 10- and 15-year periods.

Unlike its peers, the strategy invests a meaningful portion of the portfolio in smaller companies, with 27% of the fund's holdings in small and mid-sized companies versus the average 16% allocation to these in the Morningstar Foreign Large Blend category.

Hunt says that the Fund has found a sweet spot in companies with a market cap of between \$2 billion and \$15 billion. 'They are below the radar for most sell-side and buy-side shops and that's where our proprietary research can make a difference.'

Historically, the greatest share of the strategy's alpha generation has come from companies in this size category, Hunt explains. 'They have sufficient liquidity to meet our requirements,' he says.

One such company that the Fund currently holds is British technology firm Aveva, which provides engineering and industrial software. Hunt liked the company because it had high market share in a consolidated industry, with high margins and returns on capital. The subscription nature of its business was attractive due to the recurring revenue it provided.

The stock was out of favor with the wider market in 2016 when it fell by 40% due to concerns that the declining oil price would impact the business.

For Hunt, the market misunderstood this relationship. 'Our view was that the value would be recognized either with results remaining resilient or, because it is a unique asset, via a takeover,' he says. This was borne out in 2017 when Aveva was approached by French firm Schneider Electric. The two companies merged earlier this year.

YOU HAVE TO BE ATTRACTED TO SITUATIONS THAT PRODUCE FEAR

**IN IT FOR THE LONG HAUL**

Being contrarian does not always yield such quick wins. It sometimes means being out of step with the market for long periods of time. It's a feeling that most value investors today will know and something they felt even more keenly back in 2000.

'Almost everybody was buying internet stocks and I thought they were incredibly overvalued,' Hunt recalls. 'There was a fairly long period of time when our performance suffered in relative terms because high-growth internet stocks were widely in favor and value was not.'

'Manufacturing companies were particularly out of favor. They weren't sexy enough and nobody was interested. Because all the investment was going into technology, there was a protracted period of underinvestment in areas such as metals production or oil and gas production. As a result, there was tight capacity at the very moment that China was beginning to accelerate its growth.'

During this period, the portfolio was underweight technology stocks. At the height of the bubble in 2000, the Fund held an average of 22% of the portfolio in industrials, versus the benchmark average of 9%.



Hunt wasn't fazed. 'We were focusing more on free cash flow. After internet valuations inflated, value investing was back.' In the years that followed, the fund's performance accelerated and went on to surpass its peers from 2003 onward.

**AGAINST THE TIDE**

With a concentrated portfolio of 54 holdings, Hunt is a long-term investor and enters positions with a three- to five-year time horizon. This private equity mindset translates into a turnover ratio of 22%.

**THE TOCQUEVILLE INTERNATIONAL VALUE FUND HAS PERFORMED STRONGLY DURING HUNT'S TENURE**

DATA TO APRIL 30, 2018 / SOURCE LIPPER



compared with the average peer's 54%.

With an opportunity set that spans geographies and market caps, the Fund has been able to provide excess returns with low risk. Over a five-year period, the Fund has captured 118.9% of the upside and 81.32% of the downside.

Hunt has done this by going where other investors fear to tread. He bought into Brazilian brewing firm AmBev in 2017, at a time when the country was out of favor with most investors due to an economic recession, a corruption scandal and a weak currency. Beer sales had declined for one year for the first time in the company's history, but Hunt was unafraid.

'Sometimes there is a negative sentiment toward a geography. We don't make

investment decisions on that basis, but it's a cue for us to go look for bottom-up ideas. You have to distinguish between the tactical and the strategic. When you're thinking in terms of three to five years, it has to be a meaningful deep change in sentiment versus the month-by-month,' he says.

He concedes that Brazil's recent struggle to gain economic momentum, having staged a brief recovery in 2017, has hurt his stocks there. Even so, he remains upbeat.

'Suddenly we're back in a situation where everything is going wrong,' Hunt says. 'Our positions [in Brazil] have done badly recently, which I'm not happy about, but it means that if you're trying to look for things that make sense from a top-down standpoint, there are good companies that are cheap. Yes, the

currency is oversold and growth has come off its base, but it's still positive.'

**PUSHING BACK**

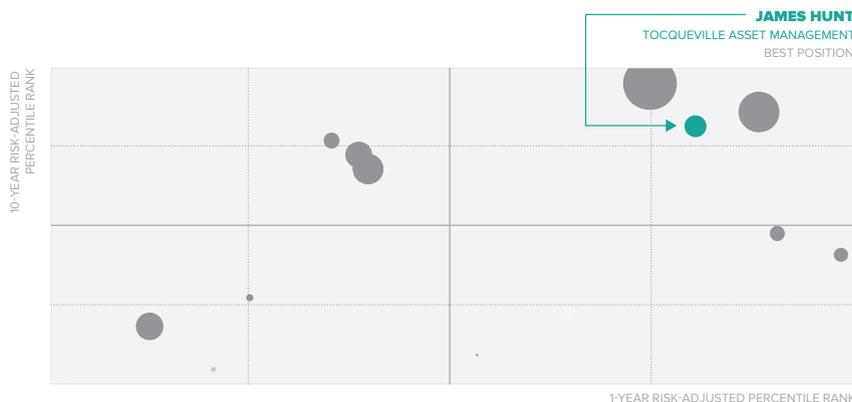
Despite his distinct style and proven experience, Hunt relies on his team. He wants them to be contrarian too, even if it means challenging him.

'They need to be strong-minded and independent-minded,' he says. The four-person analyst team operates as generalists and includes a Tibetan, a Frenchman and a Harvard-trained painter. This diversity is key to idea generation and underpins the team's ability to grasp the contrarian style instinctively, Hunt says.

While Hunt has the final say for investment decisions in collaboration with the investment committee, he welcomes constructive tension. 'They must have a strong point of view, whether it's to convince the team or to provide a basis for debate,' he says. Nothing, it seems, is simply accepted as a fact. ■

**HUNT'S PERFORMANCE HELPS HIM STAND OUT OVER BOTH THE LONG AND THE SHORT TERM**

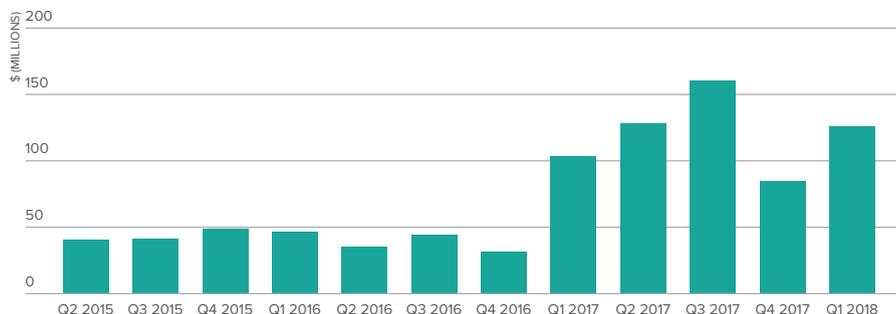
DATA TO APRIL 30, 2018 / SOURCE: CITYWIRE DISCOVERY



The vertical axis shows the 10-year risk-adjusted percentile rank, the horizontal shows one-year risk-adjusted percentile rank. The size of the bubbles shows manager market share. Analysis at April 30, 2018. For more details, contact [discovery@citywireinsight.com](mailto:discovery@citywireinsight.com)

**THE TOCQUEVILLE INTERNATIONAL VALUE FUND HAS LANDED IMPRESSIVE INFLOWS**

DATA TO MARCH 31, 2018 / SOURCE: LIPPER



**VERDICT**



**FRANK TALBOT**  
HEAD OF INVESTMENT RESEARCH, CITYWIRE

Hunt is undeniably a good manager, having demonstrated outstanding performance over multiple cycles. Internationally, there hasn't been the same differential between value and growth strategies as there has been in the US, which makes this portfolio competitive with the very best international growth funds over both the short and the long term.

This has been achieved without picking up any of China's booming big tech firms. While it's hard to argue they are a value play, some managers have opted for them nonetheless.

Hunt also employs a true all-cap philosophy, with large and small stocks welcome in his portfolio. It's certainly worth taking a look at it if you're adding international picks.

## Additional Tocqueville Disclosures

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There are special risks associated with investing in foreign securities, including: the value of foreign currencies may decline relative to the US dollar; a foreign government may expropriate the Fund's assets; differences in accounting methods; and political, social or economic instability in a foreign country in which the Fund invests may cause the value of the Fund's investment to decline. The above listed risks associated with foreign securities are more likely in the securities of companies located in emerging markets.

Fund holdings are subject to change at any time. The average annual total returns and top ten holdings for The Tocqueville International Value Fund for 1, 3, 5 and 10 years are as follows:

### Ending June 30, 2018

Average Annual Rates of Return	
1 Year	3.47%
3 Year	5.58%
5 Year	8.33%
10 Year	5.89%
Gross Annual Fund Operating Expenses	1.54%
Fee Waiver/Expense Reimbursement: <sup>^</sup>	-0.28%
Annual Fund Operating Expenses after Fee Waiver/Expense Reimbursement	1.26%

Top Ten Holdings	
Bayer AG	2.81%
Siemens AG – ADR	2.73%
Sanofi	2.59%
Royal Dutch Shell PLC – Class B – ADR	2.58%
Sopra Steria Group	2.48%
ISS A/S	2.47%
Bureau Veritas SA	2.46%
CRH PLC	2.34%
Applus Services SA	2.33%
Schlumberger, Ltd.	2.31%
<b>Total</b>	<b>25.11%</b>

***The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of the investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain performance data current to the most recent month-end, please call 1.800.697.3863 or visit <http://www.tocquevillefunds.com>***

*The Fund discloses its top ten holdings on the Tocqueville website no earlier than 15 calendar days after the end of each month. References to other mutual funds should not be interpreted as an offer of those securities.*

<sup>^</sup>*The Fund has contractually agreed to not exceed its expense ratio of 1.25% (excluding taxes, interest expense, acquired fund fees and expenses, or extraordinary expenses such as litigation) until 3/1/19. In the absence of these fee waivers, total returns would be lower.*