



## ***The Intelligent Investor—June 2018***

### **Due Diligence**

In this month's commentary we wanted to take you through an example of a due diligence meeting to illustrate the incredible access and information that goes into the Auctus proprietary investment process. This process is what allows us to formulate QUALITATIVE information into our already rigorous QUANTITATIVE analysis. This additional information is what helps set our firm and our process apart from others. We take investment manager selection to another level.

### **Trip to Perkins**

We currently hold a substantial position in JanusHenderson Mid Cap Value (formerly Perkins Mid Cap Value) which is co-managed by Tom Perkins (95'), Kevin Preloger (13') and Justin Tugman (15'). Earlier this year, JanusHenderson announced that Tom Perkins would roll off portfolio duties for this fund in June of this year and officially retire at year-end. Tom is in his 70s and works out of the San Francisco offices while most of the firm is in Chicago. We also know that Tom has not been very hands in the day to day management of the strategy in a couple of years. However, Tom is the founder of both the firm and the strategy, so a full day of due diligence was more than appropriate.

Many firms that do this same level of research set up "group" due diligence meetings and while group meetings can be very beneficial we have found the agendas aren't completely customized and time with managers is shared. For this meeting, I arranged a full, personalized day with the team at Perkins. They were gracious hosts and arranged an entire day of meetings with Kevin, Justin, and their team of analysts and provided a tour of their trading floor and operations. In an effort to maximize efficiency and limit time away from the office this meeting was a same-day trip which always makes for a busy but productive day. We mention all of this to emphasize how our extensive due diligence is a vital part of being a steward of your money and is critical to our process.

## **Takeaways**

### **Valerie Newman, Client Portfolio Manager**

I started my day meeting with Valerie Newman, the Client Portfolio Manager, who joined Perkins in 2007. Valerie has her CFA (Chartered Financial Analyst) designation and is true asset to the Perkins team. She walked me through the Perkins process again and took me through some real-life examples of the “idea” lifecycle; from initial analyst idea, to implementation into the portfolio by one of the portfolio managers.

### **Kevin Preloger, Lead Portfolio Manager**

Next up was Kevin Preloger, one of the lead Portfolio Managers on Mid Cap Value. Kevin has been a co-PM since 2013 and has also been a co-PM on Large Cap Value since 2006. He joined Perkins in 2002 as a research analyst covering the Financial sector. Kevin provided insights as to how the analysts present ideas and how he makes the decision to pursue the idea, table the idea for a later time, or permanently eliminate the idea. He explained that if he likes the thesis presented he will then begin his own research and due diligence including company visits, management team meetings, and financial and valuation research. After this, if he still likes the idea he will ask the trading team to “quietly” add the idea into the portfolio with strict price requirements so as not to tip off the market. This implementation process can take weeks if not months. During this time the managers can thoughtfully decide whether or not to hold the position. I appreciated Kevin’s insights and his commitment to such thorough due diligence.

### **Patrick Schott, Director of Research**

Patrick Schott, the firm’s Director of Research, met with me over a working lunch. Patrick joined Perkins in 2004 as a research analyst covering industrial, manufacturing and transportation companies. He attended the prestigious Booth School of Business at the University of Chicago for his MBA and previously worked for Strong Asset Management. Patrick discussed how the firm values research and explained what makes the Perkins team such prudent investors of shareholder money. We discussed research budgets, management team visits, onsite visits, and how their proprietary research efforts separate them from the herd. The main theme here was that the Perkins Investment Template (PIT) was applied the same way through every sector and by every analyst. This creates a repeatable and predictable process in which analysts cover stocks, one of our Auctus criteria for an investment manager.

## Trading Operations Tour

After lunch I toured the trading operations floor and chatted with the traders and operations team that help make sure the Perkins engine runs smoothly. I also met with some of the individual analysts covering various sectors. One that stuck out was the technology analyst that had a “tube” TV that must have been 20 years old. He kept old technology around his office to remind him of how quickly technology becomes obsolete despite being in working order. I promised him if they continue to outperform I would make sure he got a TV from this decade!

## Conclusion

Overall, the trip was incredibly successful and reaffirmed our conviction in the strategy. As we’ve mentioned this is a critical part of our proprietary investment process. These visits and this work is what helps separate our process from the crowds, and while clients may not always see it, it is this extra level of due diligence that allows us to create superior outcomes.

*Sincerely,*

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