FUTURE OF PORTFOLIOS SERIES

Q&A with Daniel Nicholas

Client Portfolio Manager, Harris Associates

Q: How did Harris Associates come into being?

A: Harris Associates L.P. was founded in 1976 by dedicated investment professionals. The firm was established on the belief that delivering successful investment results for clients requires a consistent investment philosophy, commitment to superior investment research and a high level of customer service. In 1991, we launched our first mutual fund.

Q: Which strategies do you manage?

A: For UK and European investors, we manage four funds: the Harris Associates Global Concentrated Equity Fund, which is an OEIC; and three SICAVS, the Harris Associates US Equity, Concentrated US Equity and Global Equity funds.

All our funds follow a value investment philosophy: we seek out companies that we believe trade in the market at significant discounts to our estimate of their intrinsic value, offer significant profit potential and are run by managers who think and act as owners. While we now manage US and global strategies, we have stuck to what we know best: value investing.

Q: What is your view on passive investing?

A: We do not have anything inherently against passive investing. It does a wonderful job to provide exposure to the market at a very low cost for investors. Many of our clients use our value strategy alongside passive, so we think the

We want our investors to take a longer term perspective to value investing because given the time and opportunity to work, we think that can deliver private-equity-like returns debate between active and passive needs to be redefined. It should not be active versus passive, but rather active versus closet trackers.

Closet trackers are those funds that pose as active, but do not provide investors with an active portfolio because they essentially hug a benchmark. We believe this needs to change. If you are truly active, you should provide that service to investors or else you might not fulfill your fiduciary duty.

While closet trackers may tend to have around 120 stocks in their portfolios, we tend to hold 20 to 40 stocks in our strategies. Therefore, our portfolios don't necessarily look like the benchmark (Active Share 90% or higher) .

Q: Where do you see traditional value strategies working alongside the more alternative products that are gaining popularity?

A: We think we can complement them. Value investing can remain a core part of an investor's overall portfolio and we believe we can deliver absolute, risk-adjusted returns.

While we invest in the public market, we also take a private-equity approach. We meet with approximately 1,500 management teams a year and talk to C-level executives to find out how they plan to allocate capital and steer businesses to be sustainable over the longer term. We take a 360-degree view of the entire supply chain of the business, so we can value them more accurately.

The markets tend to focus on the headlines, but where value investing can really add 'value' is unlocking the disconnect between the fundamentals and the market news. We want our investors to take a longer term perspective to value investing because given the time and opportunity to work, we think that can deliver private-equity-like returns.

Q: How does Harris Associates filter out the market noise and focus on the fundamentals?

A: One of our competitive advantages is that we have an experienced team that has not only been through many different cycles, but has worked together for a long time. The investment team at Harris Associates is set up so that everyone is a generalist.

This approach allows the analysts to seek value in any sector. We believe this unconstrained structure broadens the analysts' perspectives and allows them to assess relative values among companies in different sectors.

About Harris Associates

Track record: Founded in 1976, Harris Associates launched its first mutual fund in 1991.

High conviction: Holding 20-40 stocks, each strategy has an active share of 90% or higher.

Value focus: Harris' four funds adopt a value investment methodology.

360 view: The team takes a 360-degree view of the entire supply chain of the business, so they can value it more accurately.