



Forward thinking. Finding value.

## THE MANAGER'S IN DEPTH EVALUATION PROCESS



David Barr, CFA, is Pender's Chief Investment Officer and Portfolio Manager of several of Pender's Funds.

### BACKGROUND

David has a very unique background for someone managing mutual funds. Unlike others, David started his career in private equity investing.

Investing in venture capital allowed David to interact more closely than usual with management in executing the business plan. *"I am a better investor because I have a lot more business experience."*

Importantly, this engrained a particular edge in David. Not only did a potential investment go through a rigorous process of fundamental analysis but, given the illiquid nature of these sectors, it also went through a secondary process – determining how to exit the position and monetize the anticipated growth. Identifying potential M & A targets has become one of David's areas of expertise. *"You're in the boardroom when management is deciding whether to acquire another company, so you really understand the motivation behind buying a company, which gives you an ability to assess what types of companies other people want to buy."*

### VALUE INVESTING

David is a value investor. He believes that investing in a company at a price that is well below intrinsic value decreases risk and positions it for potential long term performance. He refuses to follow the crowds and is driven to find quality at a discount. He also has to be patient. *"Most of my ideas come from companies I've been following for years. Maybe I saw the IPO in 2000 and they're out there today so I have 15 years of due-diligence. So when there is an opportunity to buy a great company at a discount, I have an informational advantage and an understanding of the business others just don't possess, so I can act quickly."*

He breaks his evaluation process into a four pronged approach:

#### Buy Strong Businesses

Digging into competitive advantage is where the majority of the work is done. David looks for sustainable competitive advantages such as a "moat" of barriers to entry, high gross and operating margins. Having screened company financials, he verifies his quantitative findings with qualitative research, talking to a network of competitors, suppliers, management, employees and, most importantly, real customers.

#### Invest in Management Teams

David takes the time to meet with senior management several times over a period of years. The knowledge gained from these meetings allows him to assess the credibility and integrity of the management team and their ability to do what they say they are going to do.

### **Purchase the Stock Cheap**

Having done his due diligence, David already has a very good understanding of what a third party would pay for the entire business: his estimate of the intrinsic value of the company. *“Then it comes down to price. Am I buying this company at a low enough price to really reduce the risk, while embedding a large enough return to compensate us as investors accordingly?”*

### **Look for an Exit**

*“You need to be thinking about how to get out of an investment before you get in. I strongly believe that this is good business practice for any value-based strategy.”*

The two ways David looks for liquidity are:

- i. Through disposition in the public markets as a result of an increased share price, or
- ii. through the sale of a company.

The two key questions to ask when determining whether or not a company will be sold en bloc, are:

- i. Will anyone buy the company?
- ii. Will Management, Directors and / or Shareholders agree to a sale?

Again, by putting in a lot of work into researching a company, David has a very good indication of where the company fits into the competitive landscape. This knowledge indicates whether or not it is an attractive takeover candidate for a competitor or if it is more likely to be acquired by a financial buyer. *“Really focusing on how a company is going to get sold is key to generating strong performance.”*



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**PENDER**

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