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Loomis Sayles equity star reveals childhood trick to his success

Michelle Abrego / 17 January, 2017

While most fund managers get their start on a trading desk, Citywire AA-rated Aziz Hamzaogullari got his start by analyzing Turkish companies when he was just 13 years old.

Hamzaogullari, who was born and raised in Turkey, got his first taste of investing on a summer job with his uncle who ran the family textile business and was an avid investor in local private businesses.

'He was the person who gave me the idea that I should become an investor in the long term,' the now Boston-based Loomis Sayles equities manager says.

'He would take me to all his meetings and I learnt how he evaluated businesses and what he paid attention to. He didn't know it but he was doing what was taught in textbooks in business school.'

Hamzaogullari's appreciation for learning the drivers of a business is apparent in the private equity approach he takes to the many equity portfolios he runs. This includes the recently launched $154 million offshore growth strategy, which mirrors the firm's US-domiciled $4.4 billion large-cap growth mutual fund called Loomis Sayles Growth fund.

The way most US investors get interested in investing is through stock markets. More specifically, looking at charts, price-earnings ratios and other ratios without realizing that a stock is part ownership in a real business,' he explains. 'I truly learned it through a private equity perspective because there was no stock market in Turkey at the time,' he says.

Prior to his time at Loomis Sayles, Hamzaogullari took on and overhauled the Evergreen Large Company Growth fund in mid-2006. It's there he laid down the foundation of the strategy and the team that later followed him over to Loomis Sayles in 2010.

His team of six dedicated analysts, all of which have been trained and mentored by Hamzaogullari, manage over $30 billion in total assets. In addition to US large-cap growth, they also manage US all-cap growth and global growth strategies, all of which are active equity strategies that apply the same philosophy and process: using bottom-up research structured around quality, growth and valuation.

Over five years to the end of October 2016, Y-shares of the Loomis Sayles Growth fund returned 109.17% in contrast with its benchmark, the Russell 1000 Growth TR, which returned 89.62% over the same period. This US-domiciled version was soft-closed in November 2016.

Trump triviality

We speak days after Donald Trump's victory, when investors are still deciphering what opportunities his scattered agenda will create. Hamzaogullari, however, plays it cool, barely making a move while the markets sell off and subsequently go on a shopping spree.

'If you go back and look at history and compare the initial investor reactions to presidential elections based on what they think might happen to what happens afterward, it's not the best way to invest,' he says.

It's not the only example, he says, but when President Obama won his first term in 2008, all anyone was talking about was, 'what might happen to pharmaceuticals and healthcare businesses?'

The biotechnology and pharmaceuticals sectors were some of the best performing over the past six to seven years.

'It's a very reactive way of investing,' Hamzaogullari says. 'The reason we're so selective is because we want to invest in businesses that regardless of who is elected, regardless of what the economic growth rate is, regardless of what is happening around the globe, whatever the drivers of that business are, that they are so strong, so overwhelming, they overcome all other factors.'

Chain gain

The way he finds those 'unique, difficult-to-replicate' business models that have sustainable competitive advantages is through value chain analysis.

Through value chain analysis his team goes through the ecosystem of a company looking at suppliers, customers and competitors. It's a two to three month process.

It is how he decided to invest in Amazon in June 2006 and why he kept buying it for a 20% discount in a period where around a quarter of its shares were shortened by other investors.

Hamzaogullari says 10 years ago people still saw Amazon as an online sales company that sold books and CDs, and fixated on the transition to e-books. He saw it as an ecommerce company that could penetrate a $13 trillion retail market.

Today, ecommerce makes up about 7% of the $15 trillion global retail market. Amazon represents about 21% of ecommerce retail, which he believes will continue to grow.

'Do not use short-term feedback to determine the long-term picture,' he says. 'If you do that you will be mistaken because it's not consistent. There will be quarters where a company will not grow at or be below potential, but the only way you're going to understand the potential is to fundamentally ask the question: how big is the market?'

He also has faith in the leadership of Jeff Bezos. He likes businesses that are still run by their founders. Those businesses make up 45% of his portfolio.

Once the team does the value chain analysis, companies sit on a 150-strong waitlist that is monitored by the team until the reward-risk profile for purchasing shares is worth it.

Looking through the value chain can also lead to new discoveries.

In 2013, when the team was reviewing the beverage industry, due to the fund's holding in Coca-Cola, they stumbled upon Monster Beverage.

Along with Red Bull, Monster, the energy drinks brand, were gaining market share over Coca-Cola and Pepsi as energy drinks became more popular. As they looked into Monster Hamzaogullari found that the brand had been built up over grass-roots marketing and had developed loyal followings, something the former brands had failed to do.

The team dug further: 'If you asked owners of convenience stores, they'd tell you that energy drinks are the most profitable segment of their store. If you talked to bottlers they considered them the best bang for their buck.'

'There would have been no quantitative screen that would have told us to look at Monster,' Hamzaogullari says. 'It was out of favor, sales were struggling and if we were just looking through simple screens we wouldn't have found it.'

He believes Monster is one of the best businesses in the beverage industry, based on strong cash flow and growth opportunities as its distribution partnership with Coca-Cola, which bought a 17% stake in the company in 2015, will give it a chance to scale up its international business.

Long-haul holdings

Last year, 2015, was one of the quieter ones, only buying into one new company and dropping two.

Over the past 11 months, his fund has only had two new additions, biopharmaceutical business Regeneron and Deere, a company that manufactures and distributes equipment used in agriculture, construction, forestry and turf care.

Hamzaogullari makes the call to drop a holding only when it reaches intrinsic value, his team has made a mistake in its investment thesis or they find better reward-to-risk opportunities elsewhere.

He has also sold two companies this year: home improvement giant, Lowes, because it reached intrinsic value, and ARM Holdings, a semiconductor intellectual property (IP) supplier, after Softbank Group Corporation's all-cash acquisition of the company.

The portfolio has no exposure to stocks in the telecommunication and utilities sectors, which he puts down to the fact that there are no companies in those areas that are attractive enough.

'We avoid low-quality businesses. This is crucial as a low-quality company typically will not be able to defend its business model and therefore, both perceived growth and associated value may prove to be elusive.'

His fixation with finding the true drivers of a business' future growth is not limited to a nine-to-five job.

When asked if there are any market concerns keeping him up late at night, he says: 'When you love what you do and it's the thing you enjoy the most, it becomes a 24/7 endeavor, not because you are stressed with anxiety but because you constantly strive to do your best and enjoy it.

'So when I'm awake late at night it is because I'm reading and learning about a business.'

What started off as a summer translating documents for his uncle Cahit Dodanli ignited a curiosity in analyzing companies that Hamzaogullari now considers a true passion. He says if he had to choose an alternate profession, he'd be teaching investing at a university.

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