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Barbara Ann Bernard is the founder, Chief Executive Officer and Chief Investment Officer of Wincrest Capital. Barbara spoke with the editors of the Ben Graham Centre's Newsletter about her journey to becoming a value investor, the importance of mentorship and the changing landscape of asset management.

Can you describe your journey to becoming an investor?

I was always an intellectually curious kid. I grew up in the Bahamas, and we didn't have a T.V., so I spent my days reading and playing sports. I was always curious about learning about companies and their managers, especially understanding what made them tick. Every day after school I would take a daily newspaper to my neighbour, who was a liquidator, and I would ask him to explain the concepts I didn't understand. My parents were lawyers, so I didn't bother asking them.

In the Bahamas you could either become a lifeguard or work in the offshore finance industry, but I was really interested in business. I read a book called "Rich Dad, Poor Dad" at a very young age and enjoyed it. It led me to knock on the door of a bank called Deltec and ask for a summer job. The CIO had approved initially, but when I showed up for my first day he had completely forgot about the arrangement. He then explained that they were laying people off and couldn't employ me. I was young, I didn't have a cellphone in those days, and couldn't drive. I had been dropped off at 9:00AM on a Monday morning, and couldn't return home easily. So instead, I walked up the hill to Templeton to ask them for a job. I explained that I didn't need to be paid, but just wanted to learn.

That's how I got my foot in the door at Templeton. At the time, John Templeton was writing a book about the laws of life with the help of an essay competition. My first job was to collate all the essays, make sure all the graders had a copy, and help organize the process. At the end of the summer, I was introduced to the Chief Investment Officer at Templeton. His name was Mark Holowesko, and he was running the two largest mutual funds in the world at the time: the Templeton Growth Fund and the Foreign Fund. I later became Mark's intern and returned every summer.

In my penultimate year of study at the London School of Economics (LSE), Mark suggested I apply to work at Goldman Sachs. He recommended the firm for its ability to train well, and I conveniently knew Goldman pretty well by that time.

At LSE, I Chaired the Business Society. As the largest society on campus, we were able to put together a thick book of students' CVs to share with companies like Ernst and Young, Goldman and Morgan Stanley. Basically, we sold this book to all the big Wall Street, accounting and consulting firms, who were trying to recruit LSE graduates. We quickly noticed that the firms loved our students, so we would invite the firms to host recruitment series, which is how I became acquainted with Goldman.

I then did a summer investment banking internship at Goldman, which really was a good learning experience. After my analyst program there, I joined Deutsche Bank, and with one M.D., helped build their London hedge fund business.

Mark later called me to say that he was spinning out of Templeton and asked whether I would join him as an analyst. Naturally, I said yes. I worked with Mark for just shy of ten years, which was an amazing journey - I grew so much during that period.

How have mentors influenced your journey to becoming an investor?

Ever since my meetings with the liquidator in the Bahamas, mentors were critical in my journey. I truly believe that you can't become what you can't see. To have someone take you under their wing and give you the gift of their time is a very formative experience. I've been really blessed in having had tremendous mentors through my career. Mark Holowesko and David Zobel, the M.D. I worked most closely with at Deutsche Bank, were my two biggest mentors. Having mentors with vastly different personalities was extremely helpful for me.

Mark taught me everything I know about value investing. He shared a piece of advice that really stuck with me which was to "wait for the slow, fat pitch." He meant that as an investor you look at investment opportunities all day, but you don't have to swing at all of them. When I was leaving, I thanked Mark and said, "You taught me everything I know," to which he responded, "I didn't, you taught yourself."

He was right. Mark really gave me enough rope to teach myself. Back when he started training me, he would have me research stocks he was interested in, and I would have no idea that he knew everything about the companies. The whole process was his way of testing my learning.

Over time I started to find and craft my own ideas. For example, I was very keen on using LBO models for valuations, from my experiences in M&A. When I evaluate a company, I imagine I'm buying the entire company, not just a share. Furthermore, the characteristics that make for a good LBO candidate tend to make for good investments. Mark appreciated this practice; he helped me recognize that it was my edge as an investor.

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David was incredible with people, and he taught me the power of authenticity. You couldn't help but like David. He is so genuine. His style makes everyone want to give him their best, from his analysts to his clients.

Learning from Mark and David shaped the investor I am today. I highly encourage mentorship and for individuals to actively seek it out.

Why are there so few women in the industry? What can we do change this situation?

Now you're really pulling at my heartstrings. Women and minority-owned firms manage 1.3% of the assets in the industry, despite their consistent industry outperformance. Naturally, we would imagine that better performance results in growing AUM, but for some reason, that's not the case. It's not that female fund managers are not trying – they manage 3% of all funds by number of funds, but only 1.3% of total industry AUM. The problem is that these firms have great performance but are having difficulty getting to scale. As a result, their investors are reaping high returns, but the owners/managers are losing money because the fixed operating costs are higher than the fees their subscale assets under management generate.

90% of AUM today is concentrated with 10% of managers. What I find so preposterous is that 90% of this capital is invested in the same managers, but all of these investors are expecting above average results. They then say that hedge funds aren't doing well. That's not true! There is great performance with cognitively diverse managers for example. But because these managers are smaller, large institutional investors simply cannot invest in them.

By virtue of being smaller, there are many disadvantages for managers. Prime brokers, for example, are incentivized to focus their capital introduction efforts on their larger fund clients because they generate higher levels of commissions for them. Even audit costs spread over a smaller level of AUM disproportionately disadvantage the returns of smaller managers. I've been spending a lot of time thinking about whether these are excuses or brick walls we can knock down.

Last year I started a conference for women in value investing, the first of its kind. I invited service providers, allocators, and investment managers, in order to better understand all stakeholder's pain points. The allocators aren't prejudiced, they just have rules and the point of hosting these conversations is to better understand what these rules are.

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Since 2008 the cost of operating an asset manager has consistently gone up. The minimum viable AUM required to run a fund is increasing alongside the costs of administration and regulation. As a result, the barriers to entering the industry are also going up. How does a smaller fund market themselves to potential investors, versus a big name like Blackrock? I wrote a whitepaper last month on the idea of building a platform for smaller funds to share fixed costs in operations and distribution. By doing so, I think that we can decrease the minimum viable AUM required to run a fund. In long/short land, as it currently stands, the minimum viable AUM required is $150 million. I truly think that we can reduce it by 50% to $75 million, which would make it easier for managers to operate profitably. By consolidating these functions, we could also build a trusted brand with the visibility that smaller funds currently lack. It's an exciting time to be in this space, because there is a lot of room for disruption.

My advice for aspiring female investors is to treat your first jobs as an apprenticeship. One can't become an investor overnight; it takes years of experience. Find the best mentor you can and be as open minded towards their teachings as possible. Working at the best firm under a bad boss is not a great job. The inverse would be better; find the best mentor that you can.

There are easier careers, but investing is a very rewarding one, especially for the intellectually curious. Investing is one of the few fields that allows you to study for a living. I always say that if I've had a boring day, it's my fault because there is no limit to what you can learn about a company or country. The job is a nightmare for perfectionists, because you're never done learning.

What do you think about the tradeoffs in growing Wincrest's AUM?

That's a great question. I want to be proud of our returns, not our AUM. It's disappointing that people in the industry seem to care more about size than performance. Scale does help to attract top talent, reach profitable operations and afford access to valuable research materials, but the trade-off can be missing out on the best small or mid cap investments because they could not be a meaningful position size for your Fund. Finding the sweet spot size-wise is a balancing act and takes discipline. I don't want to get infinitely big - there is a cap in my mind.

How do you weigh the benefits and drawbacks of being a generalist?

Working under Mark, I had the chance to explore so many different sectors and regions which made me a real generalist.

As a biotech investor, you really need to have a niche area of expertise, which is why I don't touch biotech. Investors with science backgrounds, for example, do have advantages in those investments. However, for industries like airlines, retail and timber that don't require niche expertise, I think being a generalist offers a better-rounded perspective. Being a generalist also allows you to be flexible when good opportunities arise. Similarly, investing with a global mandate allows you to pivot to wherever the best opportunity is

You stated that "the lifecycle of companies are shorter today than they have been in the past". Can you explain what you think has caused this change?

Technology has really sped up the pace of innovation, change and disruption. You see it in so many industries, like energy, retail, food and music. Economic moats are being challenged.

For example, retail banks used to think about growing their physical presence as an asset. Today, I'd argue that owning branches is more of a liability, and online challenger banks are nimbler in a way that the incumbents may not be. As a result, the incumbents are paying premiums to buy into new business models in an attempt to adapt to changing demands. The problem is that incumbents are purchasing or developing solutions at the periphery of their business, and it is exceptionally hard to change the core.

It's a great time to be a disruptor, because incumbents are on the defensive and are willing to pay premiums to adapt quickly. We find a strong relationship in our shorts between debt, denial and disruption when it comes to incumbents. That trifecta excites us short investors.

Are there any industries that you think are NOT ripe for disruption?

One that comes to mind is airlines. Obviously, planes are still the most efficient way to travel, and airlines are still hugely reliant on these assets.

Some other businesses might also not be disruptable, like toilet paper companies - not too many substitutes there. I don't believe that there are many in-disruptable business models though, and that is what makes investing so interesting. Our world is constantly changing, and we have to stay informed. We can't fall asleep at the wheel.

How do you source new opportunities or focus on what industry you want to invest in?

I've been called a 'real-world investor' because I travel a lot and am always observing. Generally, I prefer taxis to the underground, because I enjoy analyzing consumer shopping behaviors in metropolitan areas.

However, I did find inspiration underground once. We invested in an Israeli tattoo removal company. I read about the company through an advertisement in the tube in London. Supposedly the technology advertised offered the cheapest, fastest way to remove tattoos. That seemed like a company with a large addressable market, and a customer base willing to pay a premium to erase old mistakes. The advertisement led me on a hunt for the company that made the technology.

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Another example is from when I went to my audiologist. I was really upset to hear that the cost of a hearing aid was $4,000, and at that price, I figured that that product has to be disrupted eventually. Afterwards, on a plane I saw an advertisement that offered hearing aids for $199, with free returns. So, I did some research into the quality difference between the hearing aids and found that they were pretty similar. The whole experience indicated that hearing aid companies are likely to be disrupted.

There are three companies that sell 90% of hearing aids and when I met with the companies, they were very reluctant to admit that cheaper suppliers pose a threat to their business models. Later I saw that Bose, Apple and Samsung had all filed a patent for their hearing aid designs. All this is to say that there is disruption brewing on the horizon, and the three big companies are still trading at all-time high multiples

Your research process involves direct interaction with the companies you are interested in. What characteristics do you look for in the management team of a potential investment?

On the long side, I try to ascertain an alignment of interests.

I try to understand if managers act in the same way that I would if I owned 100% of the business. I want to make sure that the managers and I share mutual values. Of the companies we hold, 80% are still operated and owned by their founders.

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For example, I think owning a large shoe company in India, where shoe ownership is currently low at 1.6 pairs per person, is a great idea. But, I'm probably not the best qualified person to set up a shoe company, especially not in India. Instead, I try to find A+ CEOs who are. In one case I found a family who's been in the shoe-making industry for decades, owns 20% of their company, has 20% of the overall market cap in cash, and is growing sales by 20% a year.

Ultimately, what you're looking for is an alignment of interests with management that generates return on equity higher than their cost of capital. I love when you can find companies with a dominant market share and some sort of moat, because I want to invest in businesses that will be around for a while. I like mispriced, but I don't like mismanaged. Sometimes value investing will lure you into mismanaged businesses because they are cheap, but often those sorts of businesses are cheap for good reason. Ultimately, value investing always comes down to asking oneself 'does this company deserve to be cheap?'

There are two dominant online travel companies in India: MakeMyTrip and Yatra. MakeMyTrip is significantly larger, and we once held a position in it. Eventually an analyst argued for selling MakeMyTrip and buying Yatra, because it was relatively cheaper. We owned Yatra briefly until the company's management team acted in a way that we felt disadvantaged minority shareholders. That triggered our exit from the position.

About a year later, Yatra was bid for. The analyst was rubbing it in my face, and I explained that the deal hadn't yet closed, and it still was not validation that the company was sound. Even selling at a discount to the offer price, I decided that we were not going to be investing. Those are the sort of principle-based decisions you have to make as an investor.

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When dealing with management in emerging markets, how do you consider cultural differences?

Investing in emerging markets is really fun, but it is necessary to see the businesses in person. I went to visit one of our best performers last year in Johannesburg, and they picked me up from the airport. They hadn't seen an investor in years and took the time to tour me around their sites and introduce me to multiple layers of management. The company required, for safety reasons, that every worker took a breathalyzer every morning. They even made me take the test and sit through their safety videos.

You can learn a lot more about a company when you take the time to see it. For example, that experience in Johannesburg spoke to the business's safety standards and management's principles. Neither of those things are something you can read about in an annual report. What was most important to me as an investor is that I could feel comfortable investing with that management, despite our distance.

How do you think about impact investing?

I don't think that the notion of considering all stakeholders is revolutionary, sustainable businesses have always been acting in all stakeholders' interests. It's worth asking, who wants to invest in unsustainable companies? Why? If an investor has a long-term view, their investments, by nature, have to be sustainable. The business won't be there in 25 years if management doesn't think sustainably. Family-owned companies have always been better at acting sustainably because they manage their businesses for future generations. Quarterly reporting and investing are really where the problems lie.

You have previously mentioned that measurement is a deterrent to the adoption of ESG-focused investing. How do you think we can overcome this barrier?

That's an interesting question. The largest shareholders of companies today are passive investors. And most passive assets are with BlackRock, Vanguard, and State Street. Blackrock will publicly take stances in their active portfolio, but that represents the minority of their assets because most of their assets are passive. They need to be nudged to exercise their proxy votes on the passive portfolio too. That's probably the most impactful thing they could do.

Now, these passive manager's fees are so low that it is not their business model to have their employees acting like active managers in their passive portfolio. The only way this will change is if their investors put pressure on them. But that will take time, and we should applaud them for taking the initiative in their active portfolios.

We want to open it up on any other thoughts you may have. Is there any final advice you would recommend as we explore careers in value investing?

I'm very biased, but I think it's the best career in the world. It's such an interesting time in this industry because public investors have been underperforming. Is there a role for you? There always will be. The skillset you learn as an investor is phenomenal, whether you're applying it in the public or private markets. I personally love that you are studying value investing because we are a dying breed. I think we might be coming to an inflection point. Both in terms of valuation and in terms of active and passive management. I look at the valuation differences between emerging markets and developed markets for example and they're at extremes. There is always something to do, and that's what's so interesting about it.