

Shooting for the NORTHSTAR

Blue Chip speaks to Rory Spangenberg, CIO and Director of Global Equities at Northstar Asset Management, a specialist boutique asset manager investing in South Africa and abroad

Please give us an overview of Northstar and its offerings.

Northstar is a research-led boutique asset manager with a focused offering of domestic and global investment solutions, suitable for clients requiring income, retirement savings or long-term capital growth.

What makes Northstar different from other asset managers?

Northstar has an obsessive focus on fundamental research, which provides differentiated insights, builds conviction and over time translates to superior performance. Our size means that we provide a credible and competitive investment offering, combined with exceptional and personalised levels of client service.

What are Northstar’s principles?

Our core principle is “closer to the truth”. This, in essence, refers to Northstar having an obsession for research which guides independent thought and is key to outperforming peers over the long term. Our investment in research skills rivals that of the larger managers. Northstar focuses on being led by investment rather than size and thus can nimbly navigate markets. Furthermore, our principles include growing our clients’ capital while managing risks, to always act honestly and provide excellent client service.



What is Northstar’s investment philosophy?

Our mantra is to hold long-term exposure to quality assets where value exceeds price. In practice, this means that we seek to invest in a relatively small group of companies, which exhibit a strategic competitive advantage, evident in superior and sustainable return on capital and free cash flow measures.

**Rory Spangenberg, CIO,
Northstar Asset Management**

What is your investment process?

The departure point of our process is a quantitative screen and relative ranking of companies based on various return on capital, free cash flow, earnings quality, and balance sheet criteria. Over time we have found that advantaged companies exhibit a high degree of stability and persistency in these measures, enabling us to settle on a master list of companies meeting our fundamental criteria. Our initial analysis would be aimed at ensuring data integrity and to develop an understanding of the valuation opportunity.

Our fundamental process follows a four-pillar approach, aimed at understanding industry landscape and a company’s competitive position, the source, and durability of any competitive advantage, the sustainability of a company’s business practices, and the track record and strategy adopted by the management team, as well as the alignment of their incentives with ours, as minority shareholders. We combine this qualitative assessment of business fundamentals with a long-term, scenario-driven, proprietary valuation, which directly informs portfolio construction and position sizing.

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Please provide an overview of your equity investment focus.

We consider bottom-up stock selection to be our core skill and the team has a long and successful track record and hit rate in both domestic and global equity.

Identifying, analysing, and valuing companies for potential inclusion in our portfolios is, however, only half the job. We think a real differentiator of the Northstar equity process is our scenario and probability-based valuation framework and the ability this affords us to optimise portfolios for both return and risk.

A stock offering a high Base Case return may be significantly less attractive than a lower return alternative if a higher probability exists of its Bear Case becoming a reality. Equally, a pre-investment Bull Case scenario (to avoid narrative creep) typically results in longer holding periods and lower turnover and avoids the risk inherent in continuously having to find new ideas. ■