

Interview with Amit Wadhwaney: Co-Founder and Portfolio Manager, Moerus Capital Management

by Devesh Shah (This interview originally appeared in the March 2023 issue of Mutual Fund Observer.)



Recently, I had a long chat with Amit Wadhwaney, the founder of Moerus Capital Management and the adviser to [Moerus Worldwide Value Fund](#) (“the fund”). He is a very thoughtful and seasoned investor. Here are some of his thoughts on his fund and his stock picking style. I’ve presented a summary of my notes rather than an actual Q&A, but the flavor of their investing style will hopefully come through.



Amit Wadhwaney

History and training

Mr. Wadhwaney is broadly educated. He earned a Bachelor of Science in chemical engineering from the University of Minnesota, then both a Bachelor of Arts and a Master’s in Economics from Concordia University, Montreal. He followed those with an M.B.A. from the University of Chicago.

His career began as a business analyst at Domtar, a Canadian forest products company, then at the Canadian brokerage Bunting Warburg, studying...well, the forest products industry. He earned a position as a securities analyst and then Director of Research at M.J. Whitman LLC, a New York-based broker-dealer. Mr. Whitman founded Third Avenue Management, where Amit worked from 1990–2014. In his time at the firm he was responsible for both hedge funds (Third Avenue Global Value Fund, LP and the Third Avenue Emerging Markets Fund, LP), and a US mutual fund (Third Avenue International Value). Amid what might be politely described as “considerable turmoil at Third Avenue,” Mr. Wadhwaney left to found Moerus Capital Management.

Mandate at Moerus

The mandate is to run an unconstrained, global portfolio. That means US, developed international, and emerging market stocks. Wadhwaney recognizes investor sensitivity to what feel like high fund expenses. He shared three reflections on that concern. First, it’s a small fund, and he has expenses to pay. Second, nearly 98% of the fund’s assets are in the fund’s lower expense institutional share class. Finally, effective on March 31, 2023, the adviser imposed new expense caps at 1.25% for institutional and 1.50% for Class N shares.

Moerus currently has about 34 holdings, with Tidewater being the biggest position.

Wadhwaney says that Moerus is at one end of the value chain. A number of their peers have disappeared, and some have diminished. The business of value investing had to stretch very hard to justify their existence. Moerus are not great story tellers, but they know how to buy businesses that are able to fix themselves, and they buy these businesses at good prices. That's their Edge.

Why Global? Why not just buy US companies for international exposure?

1. Cheapness is hard to find in the USA.
2. There are businesses—business models or monopolies—abroad that you will not find in the US.

How do you think about risk?

When they think of what can hurt the business of the stocks they buy, they look at:

1. FX Asset-liability mismatch
2. Nature of debt structure
3. Sensitivity to inflation

Thus, they are macro aware. But macro does not determine their stock picking. They are not sitting around trying to guess the level of interest rates, central bank policy, or commodity prices. They try to be in good neighborhoods and try to buy beaten up and depressed stocks. They understand that the time to fixing a beaten-up stock is quite variable. Unlike bonds, stocks have an indeterminate payoff date.

What's a Moerus?

No. It is not a lovely English folk step dance. That's "Morris," likely a corruption of "Moorish," if you care.

Moerus is the Classical Latin word for a city's defensive walls, which protected a city and its inhabitants from risks, both predicted and unforeseen. Mr. Wadhwaney says, "we seek to populate our portfolios with compaines that have a moerus—strength, staying power, and wherewithal—to withstand a variety of risks."

Recent performance

2020 was a bad year for the fund, down 10%. They bounced back in 2021, up a solid 18%. But they did even better in 2022. The fund was up 6% when the markets were down 15-20%.

What changed in 2021 and especially, 2022, compared to 2020?

According to Mr. Wadhwaney, nothing changed. Let's take the case of three stocks in which they were invested.

STOCK 1 Tidewater

Tidewater, an offshore oil exploration and drilling company, is one of their largest holdings bought 3-4 years ago. They bought when it emerged from bankruptcy with a clean balance sheet. Then in 2020, oil went to a negative price. Stock went from \$20 to \$4. The company was financially solid and well set up to deal with it. Because of its great balance sheet, it is a preferred counterparty to the biggies like Exxon and Amerada Hess, who want

strong service providers in the North Sea. The stock came back in a very big way. Tidewater was not an oil bet. It was a bet on a financially strong company that was built to survive in low oil price regime, and thrived when oil prices went higher.

Moerus Worldwide Value, performance as of February 2023

	APR ¹	MAXDD ²	STDEV ³	DSDEV ⁴	Ulcer Index ⁵	Sharpe Ratio ⁶	Sortino Ratio ⁷	Martin Ratio ⁸	MFO Rating ⁹	APR vs Peer ¹⁰	APR Rating ¹¹
5 Year	1.80	-47.16%	24.34%	17.76%	19.69	0.02	0.03	0.02	2	-2.3	2
3 Year	10.24	-35.27	28.97	21.00	14.17	0.32	0.45	0.66	4	3.5	4
1 Year	14.65	-17.74	24.68	16.93	8.98	0.50	0.73	1.37	5	22.8	5

Data from Lipper Global Datafeed, calculations courtesy of the MFO Premium analytics.

- Annualized Percent Return (APR)** is a fund's annualized average rate of total return each year over period evaluated.
- Maximum Drawdown (MAXDD)** measures the percentage of greatest reduction in fund value below its previous maximum over period evaluated.
- Standard Deviation (STDEV)** is a measure of fund volatility. It indicates the average percentage variation above or below average return a fund has experienced in a year's time over the evaluation period.
- Downside Deviation (DSDEV)**, a measure of fund's downward volatility. It measures a fund's return below the risk-free rate of return, which is the 90-day T-Bill rate.
- Ulcer Index**, is a third measure of fund volatility and the most direct measure of a fund's bouts with declining (and uncomfortable, hence its name) performance. It measures both magnitude and duration of drawdowns in value.
- Sharpe Ratio** is the most widely cited measure of risk adjusted return; it is the ratio of the fund's annualized excess return divided by its standard deviation.
- Sortino Ratio** is a measure of risk adjusted return comparing annualized return to the amount of downside volatility (DSDEV).
- Martin Ratio**, like Sharpe and Sortino, measures excess return, relative to its typical drawdown.
- MFO Rating** ranks a fund's performance based on risk adjusted return, specifically Martin Ratio, relative to other funds in same investment category over same evaluation period.
- APR vs. Peer** is the difference in annualized percent return between the fund and its Lipper global small-to mid-cap peer group.
- APR Rating** represents quintile ranking of a fund's APR within category across specified evaluation period. "5" is represents the top 20%.

Moerus excels at finding improving businesses and buying at good prices. That is their Edge.

STOCK 2 UniCredit

UniCredit, an Italian banking group, is another example. When interest rates were low, all kinds of financial companies—banks and insurance companies—were impacted. Moerus bought UniCredit because such low level of interest rates was unintuitive to them. UniCredit did a massive equity issuance and jettisoned a lot of bad debt. Internally, it continued to fix the business and balance sheet. The bank sold a unit to Amundi, a European asset manager. Improvements were happening and the company was all set to declare dividends and buybacks, when all of a sudden, the pandemic hit. Banks, UniCredit including, cratered. Moerus bought more of the stock. After the pandemic, UniCredit came out much stronger due to all of its internal fixing. Recently, the ECB has allowed UniCredit to conduct buybacks. Now, the stock is doing great.

STOCK 3 Standard Chartered Bank

Standard Chartered Bank (Stanchart) is a very big bank operating in Asia. The previous CEO was involved in reckless lending. To win capital markets business from Indian promoters and Indian companies, the bank extended these promoters unsecured loans. This led to predictable disaster. Bill Winters was hired from JP Morgan and started cleaning up. While 2020 was a tough year for the bank, the capital internally was building up. Rising interest rates and internal self-help have gone a long way to help Stanchart's stock price.

They are not chasing growth. They are looking for a margin of safety in investments, an art that is now lost in an age of Zero Day Trading Options.



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Bottom Line: learning from his embrace of Astoria, Queens

Wadhwaney came to New York in 1991 and determined Manhattan real estate prices were too high. Once a value investor, always a value investor. He went to Astoria, liked what he saw, and still lives in that part of Queens. “I like the space and access to fresh produce, and the cost of living is much better.”

That tells an investor everything they want to know about Moerus. They are not chasing growth. They are looking for a margin of safety in investments, an art that is now lost in an age of Zero Day Trading Options. Don’t ask if Moerus is a good fund. Ask if you are the right investor to be invested in Moerus. If the frequency matches, it’s hard to not make money over a long period.

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Trailing Returns (as of September 30, 2024)	Year to Date	One Year	Three Years	Five Years	Since Inception ¹
Moerus Worldwide Value Fund (Inst.)	18.46%	30.81%	17.62%	12.72%	8.97%
MSCI All Country World Index ex USA (Net) ²	14.21%	25.35%	4.14%	7.59%	7.48%
MSCI All Country World Index (Net) ³	18.66%	31.76%	8.09%	12.19%	11.39%

Gross Expense Ratios: Class Inst.: 1.72%; Class N: 1.97%

Net Expense Ratios: Class Inst.: 1.25%; Class N: 1.50%

1. Inception date of the Moerus Worldwide Value Fund is June 1, 2016.
2. The MSCI All Country World Index ex USA (Net) is an unmanaged index consisting of 46 country indices comprised of 23 developed markets (excluding the US) and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Index is shown solely for comparison purposes and the underlying holdings of the Index may differ significantly from the portfolio. The Index is a trademark of MSCI Inc. and is not available for direct investment.
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Moerus Capital Management (“Moerus”), as registered investment adviser of the Moerus Worldwide Value Fund, has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March 31, 2025, to ensure that total annual fund operating expenses after fee waiver and/or reimbursement (exclusive of any taxes, brokerage fees and commissions, borrowing costs, acquired fund fees and expenses, fees and expenses associated with investments in other collective investment vehicles or derivative instruments, or extraordinary expenses such as litigation) will not exceed 1.25% for Institutional Class Shares.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original cost. Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced. For performance current to the most recent month-end, please call 1-844-MOERUS1.

Current and future portfolio holdings are subject to change and risk.

Top ten holdings as of 9/30/24 as a % of the Fund’s net assets: Hong Kong Exchanges and Clearing Ltd (4.11%), Grupo Financiero Galicia SA (3.67%), Dundee Corp (3.55%), Jefferies Financial Group Inc (3.41%), Companhia Brasileira de Distribuicao SA (3.26%), Wheaton Precious Metals Corp (3.18%), Hammerson PLC (3.08%), Douglas Elliman Inc (3.06%), ESR Group Ltd (3.03%), and Cromwell Property Group (2.99%).

Click here for a current Fund factsheet: www.moeruscap.com/literature/.

Risk Disclosure:

Investing in Mutual Funds involves risks including the possible loss of principal and there can be no assurance that any investment will achieve its objectives. International and, in particular, emerging country and frontier market investing involves increased risk and volatility due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. Value investing involves the risk that an investment made in undervalued securities may not appreciate in value as anticipated or remain undervalued for long periods of time.

You should carefully consider the Moerus Worldwide Value Fund’s investment objectives, risks, charges, and expenses carefully before you invest. This and other important information about the Funds are contained in the prospectus, which can be obtained by calling 1-844-MOERUS1 or visiting www.moeruscap.com. The prospectus should be read carefully before investing.

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