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Face to Face: Christopher C. Davis

His work is a calling

Christopher C. Davis, a money management executive, is very serious about his chosen profession and helping clients

By Douglas Appell

Doug Goodman

When Christopher C. Davis talks about money management, the one-time theology student sounds as if he's discussing a calling, employing words that reflect cultural choices. Money management, he insists, is a profession, not a business. Employees who talk to gatekeepers or investment consultants about Davis Selected Advisers LP's investment strategies are "representatives," not salesmen. The third in a line of respected value investors — father Shelby Moore Cullom Davis launched Davis Advisors just more than 40 years ago, while grandfather Shelby Cullom Davis made, and gave away, a personal fortune investing in financial stocks — Mr. Davis says his New York-based investment team has delivered above-benchmark returns for every rolling 10-year period since 1969 by adapting and learning from mistakes.

Clients have stuck with the firm through the recent global financial crisis, he said, even as investments in stocks such as American International Group Inc. hurt three-year numbers for its domestic strategies. With quality U.S. large-cap stocks offering incredible value at present, Mr. Davis urges any client who might leave to stay in equities.

SNAPSHOT:
Christopher C. Davis

- **Current position:** portfolio manager and chairman, Davis Advisors
- **Assets:** $71.3 billion as of Dec. 31, 2010
- **Employees:** 227 as of March 28
- **Age:** 45
- **Education:** Master's degree (with honors) in philosophy and theology from The University of St. Andrews
- **Personal:** Married, three children
- **Interests:** Travel, reading, sailing and swimming

You're in New York. Why is your headquarters in Tucson? I've always felt that investment firms can get into trouble when they lose their investment culture. They go from being a profession to a business — a huge difference. In a profession you're providing a service to a client, and you measure success based on client outcomes. So you can't tell who's a good doctor by (that doctor's) tax return, or who's a good lawyer or teacher. I think in investing, firms often begin as a profession, and they end as a business. The culture deteriorates. They become marketing machines. And so we decided to always have the operations side of the firm headquartered somewhere else — to keep the investment culture a boutique, even as the firm needed to grow in terms of people to service accounts and so on. So we (in New York) think of ourselves as having 30 people, vs. 200. The senior research team is about 14.

Did the launch of international and global products force you to bulk up the team? No. We eliminated geography from our research analyst description in 1994. Over the years, more and more we had non-U.S. securities in our core portfolio. Then, six or seven years ago, we had some clients come and say, "Look, we're interested in the non-U.S. part of what you do." We said, "well, we think we have the team, we have the experience, we think it's culturally in sync with what we do." So we broke out first global, and then international. Today, we have $12 billion in non-U.S. investments; that separated-out effort probably has $400 million under management.

The client who asked about a non-U.S. mandate was an institutional investor? Originally, it was somebody that came in through the (mutual) fund side. We've always seen the relationship between the way we manage mutual funds and the way we service institutional clients as very similar. We've always had an institutional class of shares. So, in international and global, the first offering was in the form of a mutual fund, but the institutional accounts came fairly close in. It's sort of a blurred line for us. Our focus is on running money.

Are you set up to compete for defined benefit clients? Yes, I think we do a very good job there. We have people here in New York whose focus is on their knowledge of what we do. Their job is not to sell a product; it's to provide information to an informed fiduciary. We call them representatives. The most important measure that we've had historically has been rolling 10-year results. People often look at trailing results, how's your trailing 1, 3, 5, 10 years. They're really looking at the same data, sliced a few different ways. We've outperformed in every rolling 10-year period since 1969. That matters a lot to us because it shows an ability to adapt. That orientation really resonates in the institutional market, particularly in the global institutional market.

Your investment approach may have institutional appeal, but Davis Advisors is seen as a mutual fund firm. We've had wonderful institutional clients that have been with us for 15, 20 years, but (yes) the perception is that it's a mutual fund place.

When we talk in 10 years, will that still be the case? I don't think so. It's always going to be a focused, specialist place, but (there'll be) an evolution from what was viewed as a domestic mutual fund to a global investment firm, specializing in a particular way of investing, which I'll call (a) fundamental, research-driven, long-term orientation. One strong goal I have over the next 10 years is making it clear that this is a team here. I remember my father said to me once, you know, T. Rowe Price was a man — somebody my father and grandfather knew — but we don't think of it that way. We think of it as a firm … that stands for something. We feel very strongly in that transition, from Davis as a person or a fund, to being a firm that stands for something. It's already happened internally, but it's not happened in terms of the outside view of us.

How does Davis Advisors compensate people? One of the peculiar things we do in terms of incentive systems — one of the largest components of compensation — (is that) we make an investment in the funds in the name of the individual analysts, individual team members, and that investment vests after five years, only if we beat the indices.

Is that in lieu of a bonus? We do have cash bonuses, but the biggest part of compensation will tend to be over (rolling) five-year periods as these vest. We want them building their wealth as shareholders. We think that alignment is important (and) it's been very effective. It's also effective in who it weeds out. We interview people all the time (and) a lot say, "well, I'm not going to wait five years." Well, that is very powerful for us — almost a filter on how they think. That's one of the reasons, in our outreach to clients, we're very concerned about getting the right sort of clients. We want their investment horizon to match our goals. A mismatch is not good for anybody.

Then you're picky in whom you take money from? Well … I would say "yes." There are definitely clients where we've said we think this is going to be an uncomfortable fit … for a happy, long-term relationship.

When the sky fell in 2008, did you find that mutual selection between Davis and its clients worked out well? One of the things I'm most grateful for is the way our clients stuck with us in 2008. Our results were well below our standards and expectations in the core domestic part of what we do … and they did stay in. Our net client redemptions were maybe 4% to 6%. At a time when accounts were down 35% to 40%, that was pretty incredible. There was a lot of patience.

Are investors becoming more willing to look beyond a spate of recent underperformance? It's very difficult to hire a manager that's underperformed for three to five years. It's so contrary to human nature. If (institutional investors) simply eliminated as (their) criteria trailing data and only looked at rolling data, I think (they would see) a huge improvement. ■

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