

This fund is trouncing the S&P 500 by focusing on international stocks

By Alex Harring
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A fund once led by an investing great known for finding opportunities in distressed assets is beating the market — but with a somewhat different focus.

The Third Avenue Value Fund (TVFVX) outperformed the S&P 500 in 2022, rising 11.2% while the broad-market index shed 19.4%. The fund's total return, which includes dividends, showed an even better year, ending up 17.1%.

It's crushing the S&P 500 once again in 2023 — with the fund's price up 15% versus the index's roughly 5.4% gain — as the market enters its third month of what's shaping up to be another volatile year.



The fund, which has a fee of 1.45% and minimum initial investment of \$2,500 for its investor class, moved increasingly away from distressed assets as a low interest rate environment chilled the market. Instead, the three-decade-old fund's leadership is searching around the globe for cheap assets that others have overlooked.

“If you're a contrarian and an opportunistic investor, the bigger and wider your investment universe where your mandate is, the better,” said Matt Fine, the fund's portfolio manager since 2017.

“You need to be sifting through situations where people have become very pessimistic or fearful and are essentially running in the other direction,” he said. His job? Finding “the assets that have durable, or even increasing value, and find those businesses inside of companies that are financed well enough so that they can endure whatever difficulties they're going through.”

‘Go where the opportunities are’

Fine said that can happen by looking at both country and industry trends.

On the country level, he said his team has had eyes on the United Kingdom since it exited the European Union in 2020 in a move dubbed “Brexit,” given the resulting deterioration to companies in the country and the British pound sterling.

It can also happen within an industry. Fine points to copper, as an example, noting how it's gotten increasingly more in demand while simultaneously more scarce.

Capstone Copper, a Vancouver-based coal mining company traded on the Toronto Stock Exchange, is the fourth biggest of the fund's 32 total holdings, accounting for about 5% at the end of 2022. The stock lost 11.5% in 2022, before surging just over 40% in 2023.

TOP 10 HOLDINGS

TICKER AND EXCHANGE ↓	HOLDING ↓	SIZE OF HOLDING AT THE END OF 2022 (%) ↓
NYSE:TDW	Tidewater	6.6
NYSE:HCC	Warrior Met Coal	5.8
DUBLIN:BIRG	Bank of Ireland Group	5.8
TSX:CS	Capstone Copper	5
OSLO:SUBC	Subsea 7	4.7
LON:SFOR	S4 Capital	4.7
XETR:BMW	Bayerische Motoren Werke	4.6
NYSE:DB	Deutsche Bank	4.3
SEHK:1	CK Hutchison	3.1
BIT:BZU	Buzzi Unicem	2.8

Source: Third Avenue Value Fund

International markets have grown increasingly attractive over the past year as investors frustrated with the down year for U.S. stocks and bonds and surging dollar looked elsewhere for safety. But international equities also come with unique risks, such as war or natural disaster, which can affect assets based in these typically smaller markets.

Companies based in the U.S. accounted for under a quarter of the total portfolio at the end of 2022. Germany followed at slightly over 12%. The United Kingdom, Canada and Singapore rounded out the top five countries with single-digit percentiles.

Within the U.S., Fine said the firm's aversion to high growth as deep value, long-term investors has helped power outperformance as technology stocks tumbled last year. The tech-heavy Nasdaq Composite lost 33.1% in 2022 as investors in U.S. equities rotated out of growth names due to their historically poor performance during periods with elevated interest rates.

“In my view, the fact that a lot of mega-cap, super-expensive, growth-oriented companies have declined in value doesn’t really change the aggregate landscape with the opportunity set in my mind,” he said. “Those were not things of interest to us in the first place, and they still aren’t.”

Meanwhile, the U.S. companies the firm has hedged bets on have run circles around the broader market. Tidewater, the New York Stock Exchange-listed offshore energy company, gained 244% in 2022 and is up 34% this year.

COUNTRIES WITH THE MOST INVESTMENTS

COUNTRY ↕	SHARE OF HOLDINGS AT THE END OF 2022 (%) ↕
UNITED STATES	23.6
GERMANY	12.3
UNITED KINGDOM	9.8
CANADA	9.7
SINGAPORE	5.8

Source: Third Avenue Value Fund

The fund resorts to holding cash in a market where it sees few opportunities. While the amount of cash rose between the third and fourth quarters of 2022, Fine said that was the result of trimming outperforming assets and not because his team saw a lack of investment opportunities. He said those proceeds will likely be invested back into equities they see as fitting the fund’s mandate in the near future.

Fine said his team is ultimately looking for assets that they see are cheap regardless of which country they are in. But he said his team typically finds more attractive opportunities outside the U.S., which has contributed in part to the fund’s move away from U.S. equities over time.

He said those opportunities are typically not in companies with large market caps. The fund had just over 40% and 30% of its holdings in small- and mid-cap companies, respectively, at the end of 2022. That’s compared to 27.9% in large-cap equities. Less than 1% of its holdings were micro-cap companies.

“You want to be able to go where the opportunities are,” he said. “What that requires, I think, is experience and to be able to be globally opportunistic. Experience really helps, so doing this across developed and emerging markets globally for 23 years makes a big difference.”

‘We can compete’

Part of that also stems from the changing of the guard and the shifting U.S. economic backdrop.

Fine joined the firm fresh out of Hamilton College, but knew he wanted to be an investor long before. “I was at times the kid in my parents’ basement, on the computer, trading stocks, not having a clue what I was doing,” he said.

He started his career in the late 1990s and watched the dot-com bubble implode as the new century began. Fine said the U.S. stock market’s moves over the past year feel eerily similar.

“There’s an expression that history rhymes but doesn’t repeat,” Fine said. “This is as close to a repeat as I ever thought I would see.”

“We’re experiencing the downdraft of something extremely similar to that, where people just got carried away and there’s just not a lot of fundamental analysis being done,” he added. “There’s not a lot of valuation work being done. People haven’t seemed to care for a long period of time until recently what they pay for security prices, and what you pay has an enormous impact on what your return is going to be.”

When Fine joined the firm as a new hire, he was advised to get close to Marty Whitman, the founder and co-chief investment officer of Third Avenue Management who was known earlier for his work in the distressed and restructuring space.

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— Matt Fine PORTFOLIO MANAGER

Fine was able to work under Whitman and eventually take over the value fund, which is one of the first the company created, in 2017, a year before Whitman died. Investors who put \$10,000 into the fund at its inception in 1990 would have seen \$240,552 at the end of 2022, amounting to an annualized return of about 10.4%, according to the company.

Over the last decade, Fine said the fund has moved increasingly away from the distressed market as the era of lower interest rates cooled investing opportunities in the space. But now, at a time when interest rates are once again rising, Fine said the fund will likely stay focused on its current global mandate rather than returning to what was its founding manager's bread and butter.

He sees his team's focus — focusing on smaller-capitalization, out-of-favor, global equities paired with a contrarian approach and long-term, value-focused view — as unique in a time of increasing indexation and focus on growth stocks.

“There has been ... a huge swath of global public equity markets left uncovered, left to people like us, and it hasn't been in recent years particularly competitive, which is why we've been able to succeed from a returns perspective the way that we have,” he said. “I think we're very good at that. I think we can compete.”