



# The Huginn Fund Owner's Manual

Written and continuously  
updated by the fund manager,  
James Wilson.

## Introduction

This is aimed at prospective and current investors who want a simple summary of what to expect from The Huginn Fund.

My intention is that when you finish reading this short document, you will broadly understand the framework I am using to strive for investment excellence.

Like any good investor, I intend to learn and improve. My framework is certainly not perfect, and if I can muster the self-awareness and humility required, then the owner's manual will shift slightly over the years. I will maintain previous versions of the document and track the changes so those interested can see the lessons feed through to the mental models I employ.

It is my hope that this document piques the interest of the right kind of long-term thoughtful investors. Please get in touch if this framework chimes with you. We have lots of resources to share about the journey with Huginn.

Ultimately, I want to give investors a fair account of how I think and act. Investor longevity is a key ingredient to the fund's performance, and I can only achieve this through transparency throughout the client journey.

## The Investment Framework

At the most fundamental level I am looking for mispriced assets with a large margin of safety. The larger the better.

I define risk as the probability of permanent loss of capital, not volatility. Therefore, the larger the margin of safety, the lower the probability of loss/risk and the higher the prospective returns.

I am agnostic about what any man-made benchmark might be constituted of, and I believe the benefits of diversification turn into drawbacks beyond 10-15 holdings. Investors should expect the fund to be highly concentrated in the best ideas that have the largest margins of safety and highest prospective returns.

These investments can take any form, but I tend to focus on the equity of publicly traded companies. Whilst I do have the structure to consider all asset classes, I think there is a large benefit to the liquidity and investor protections provided to public shareholders.

Furthermore, the opportunity set of global public equities is so enormous and varied that it will take more than a life's work to identify every possible investment candidate. History would also suggest that the equity markets are the best long-term choice for



compound returns. I am looking for the highest risk adjusted returns and so it makes sense to spend most of my time looking at global equities.

With this focus in mind, the next important facet of my investment framework pertains to the selection of companies as investments. A good shortcut to how I think about company analysis is by dividing it into Business, Leadership and Price.

## Business

I invest with a very long-term mindset. The best companies are the ones you never have to sell. They just keep compounding away with high rates of return and reinforcing their competitive edge over many generations. These are the types of companies I hope to find and hold on to because mathematically, over the very long term, the shareholder return will converge to the return on capital the company achieves.

These companies will also normally have exhibited high and enduring returns on capital throughout their history. I classify high as 15%+ and a long period as multiple economic cycles. A careful study is needed to understand what has produced the high returns on capital and whether those conditions will persist. Ideally, out of this study will emerge a rationale that explains the companies' ability to protect and enhance their returns on capital. This is often referred to as the 'economic moat' when it is something quite tangible or a competitive edge if it pertains to something more intangible, like consistent operational excellence.

I tend not to conform to the strict rhetoric in most business textbooks when thinking about what makes a business good or bad. I strive to be an empiricist. I look first for the business experiments that provide strong evidence for the presence of excellent returns on capital, and then attempt to understand why, if it is possible. It is useful to be able to search the areas that others ignore. As a result, investors should expect to see many esoteric and counterintuitive examples of excellent businesses in the Huginn Fund.

## Leadership

Whilst management can be neatly detached as a category for analysis, I rarely think about business and management separately anymore. I also don't look for managers – I look for good leadership.

When I inspect the track record of a business for high and enduring



returns on capital, it is likely there are an innumerable amount of decision points for leaders along the way that could have led to much worse, or much better outcomes for shareholders.

A business might have a core engine that generates excellent returns on capital, but bad leaders can turn that into a poor result for shareholders through bad capital allocation. Equally, bad leaders can turn the culture in a company into a tool that further hampers the result for shareholders (or vice-versa for good leaders).

If I need to assume the history of a business is a good guide to the future, then the quality of the business outcome must go hand in hand with the continuing leadership whom curated the track record. It is the leadership that decide whether to improve/destroy any competitive edge or economic moat. It is also up to leaders whether to optimise shareholder value or some other selfish variable with the economic value the business creates.

I have tended to find the most suitable business and leadership combinations come from founder/owner operated situations. 'Skin in the game' is always key when thinking about incentives, but when a leader also sees their business as a masterpiece/legacy they are continuing to curate in a way that thrives even after they have gone, you get some special outcomes for shareholders.

These leaders care about the business deeply. Charlie Munger calls them fanatics. The passion and consistency they exhibit tends to foster a remarkable culture all the way down to the lowest rungs of the organisational ladder.

Continuing deeply committed leadership and culture often leads to excellent business performance paired with smart capital allocation. This in turn also tends to lead to competitive strengths that grow over time.

I look for demonstrably excellent, aligned leaders that want to stick around for the long term and create a business strong enough to persist indefinitely.

## Price

The most logical and mathematically sound way to ascertain the value of an enterprise is to calculate the net present value of the free cash it will generate over its lifetime. However, the main drawback with this type of 'discounted cash flow analysis' is that it depends on my ability to predict the future - which is very difficult.



In theory, valuation is a numerate discipline, but in practise, it is an imprecise art.

Whilst I do have a point estimate of 'intrinsic value' for each of our investments, the valuation process is more about scoping out the range of outcomes I think are most feasible.

The range I concentrate on starts with the worst feasible scenario. In its most simple form, this is often a liquidation value for a business i.e. the cash shareholders would collect if we closed down the business and sold off all the assets. However, each valuation exercise is different and there are many types of worst feasible scenarios.

My first hurdle for valuation demands a price at or below what I think a business is worth in the worst feasible scenario. I want to start an investment with the premise that it is unlikely we will lose money.

The next part of the range for consideration is the most likely outcome for the business. This produces the intrinsic value. I won't pay more than half of intrinsic value.

Therefore, when I make an investment, it is my aim that we will at least get our money back if it goes wrong, but I also expect to at least double our money if it goes according to forecast.

Often these price-to-valuation opportunities arise because of some sort of short-term issue for a business. It normally takes a few years for other investors to see the long-term value I believe I have identified. Embedded in the investment decision is the assumption that it may take up to 5 years for the market to appraise the investment in the same way as I have. On average, if our investments double over 5 years, this should provide Huginn investors with a 15% compound return. History would suggest this level of return should exceed most equity benchmarks over the long run, even accounting for mistakes.

These valuation disciplines are extremely important to the outcome for investors. Wonderful business and management combinations rarely trade at attractive prices. It takes a great deal of discipline to patiently wait for the right price, if it ever appears.

I stand on the shoulders of investment giants. Very little of my philosophy and the way I describe it will be new to those that follow the best long-term investors of our time. A great deal of it comes

## Investment Framework Summary



from the way I have learned the craft at Phoenix over the last decade while applying the DREAM framework.

My investment philosophy and approach to business selection is best summed up by a phrase coined by Warren Buffett and Charlie Munger:

‘It is difficult to pay a wonderful price if the business and its leaders are not also wonderful’.

Warren Buffett and Charlie Munger

## James Wilson

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