

AA-rated PM shares his greatest investment lesson

Paul Whitburn's time at RECM taught him crucial lessons, such as avoiding buying into stocks with negative momentum.

BY **JUSTIN BROWN**

Rozendal Partners' co-founder and portfolio manager [Paul Whitburn](#)'s greatest and most enduring investment lesson is about businesses that always lose money for investors.

And he vows not to forget it anytime soon.

'Poor businesses combined with poor management always lead to the same outcome – loss of money. That has stuck with me,' he told Citywire South Africa.

'The biggest mistake value investors make is selling the winners too soon and adding to the losers. When something drops quickly, you suddenly think – [you have] great value. But what's happening is you as a value investor are long negative momentum, which can be an absolute killer,' he said.

He and Rozendal co-founder [Wilhelm Hertzog](#) learned this lesson in 2015 and 2016 while working together at RECM. The firm faced significant outflows due to a decision to go long on resource companies, which resulted in underperformance.

'That was essentially at the bottom of the mining and resource market globally. But we [RECM] were underperforming by ourselves while the rest of the market was happily generating great returns. That put us under tremendous pressure,' Whitburn (pictured below) added.



'It was not only the outside world fighting RECM. Internally, there were discussions and arguments about how the business should be run between portfolio managers and owners of the business.'

The events at RECM taught him to ignore noise, emotions, and particular behaviours and to do the right thing.

'Even if that meant me getting fired from my job. I put the client's outcome first,' he said.

'We've [Whitburn and Hertzog] adjusted all our philosophy [in the wake of their departure from RECM] and process to encapsulate momentum within our value philosophy. We don't like to be put into a box – we are fundamental bottom-up valuation investors,' he said.

He said value investing has critical aspects: patience and avoiding behavioural or emotional biases that could hurt performance.

He said he and Hertzog became business partners essentially because they behave well during times of duress.

'When we set up Rozendal, we set up a business that could allow us to be patient. We did not want to fall into behavioural traps and ensured we had permanent capital [from friends and family],' Whitburn said.

'They were [the] funders of the business and have a stake in our business. We know we have the assets over the long term, and we can buy back the equity in the business over time.'

Seven-year view

Rozendal invested with a seven-year view, said Whitburn. 'We are also substantially invested in the funds with our clients. We don't have any personal account trading outside the business.'

Rozendal's assets under management (AUM) are about R2.8bn. It has two essential products: the R1.8bn Rozendal Worldwide Flexible Prescient Qualified Investor Hedge fund and the \$56m (R1bn) Rozendal Global fund domiciled in Guernsey. The R756m [Rozendal Global Prescient](#) feeder fund feeds into the Rozendal Global fund.

Whitburn and Hertzog studied together at Stellenbosch University and worked together at RECM. In 2017, they set up Rozendal, which has five staff members. Whitburn said he and Hertzog manage the company's portfolios on a 50/50 multi-counsellor approach.

'We'll probably look to hire one or two analysts, but we'd like to keep the team as small and tight as possible,' Whitburn said.

Dabbling in investments since he was 12, he 'spent a lot of time during school holidays at the old JSE working for stockbrokers as a boy Friday'.

He studied accounting at Stellenbosch University before going to London for a few years.

'I returned [to South Africa] and did my postgraduate in finance and portfolio management at the University of Cape Town. I later completed my chartered financial analyst level one and two.'

BlueAlpha Investment Management

Whitburn, along with two others, started what is today known as BlueAlpha Investment Management in 2003. That business was initially called Blue Bay Asset Manager. He said he enjoyed being an entrepreneur.

'While at Blue Alpha, I did an executive course on value investing at Columbia University in New York. I sold my stake in the business and joined RECM in about 2011,' he added.

He enjoyed researching and understanding companies and travelling worldwide to conduct investment research. He began following the value investing philosophy because it is a proven

strategy for generating alpha over the long term.

He enjoys managing money from Cape Town, which is not part of the 'rat wheel' found in major financial centres like New York, Hong Kong or London.

'It's never appealed to me. I've always wanted to be out of the madding crowd and the noise. At Rozendal, we do our own research. It keeps you independent and maintains your clarity,' he said.

Challenging outlook

South Africa's implementation of the two-pot system would harm the asset management sector, said Whitburn.

'That will cause some selling and hardship for poor people. Most savers in South Africa aren't prepared for retirement. I think two-pot will make things even worse.

'I don't think many people are honest with their clients. I believe most people should invest most of their money in indexation. It's cheap. Most fund managers don't outperform the index,' he added.

But Whitburn said there was space for 'very active asset managers' who invest away from the benchmark.

'That's where we sit. The guys that will get hurt are those that essentially mimic the index itself and charge the 1% fee. That part of the market will move towards indexation, for sure.

'But you may have 20-30% of the market, with clients who will genuinely look for tracking error,' he said.

Rozendal planned to grow its business and continue with its performance track record.

'We've generated about just over 3% alpha in our hedge funds since inception in 2017. Our global fund is slightly ahead of the benchmark. We want like-minded investors to invest alongside us.'

He said he will never forget where he grew up in Benoni on the Gauteng's East Rand.

'A blue-collar town. I'm here to live my best life and keen to remain grounded,' he added.

Outside asset management, Whitburn is married with three young sons. He enjoys the outdoors, including mountain biking, road cycling, golf, and surfing. He has completed several Absa Cape Epics, which he said he particularly enjoyed as it took him out of his comfort zone.

He said he mainly enjoys reading books about investments and businesses but also reads biographies about well-known CEOs or businesspeople. Whitburn likes to watch documentary movies.

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Paul Whitburn



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