ALUMNI INTERVIEW SERIES

As we carry through on our commitment to highlight our strong alumni base in the field of investment management, this issue features an interview with Jake DuBois of Blue Hawk Investment Group. Mr. DuBois is an active alumnus of Darden and we thank him for contributing his time and insights. We hope you enjoy reading! We look forward to highlighting other outstanding alumni in the investment management industry in future editions of *The Advisor*.

Jake DuBois, Darden Class of 2016

Biography: Mr. DuBois is the Founder and Managing Member of the Blue Hawk Fundamental Growth Fund, LP, a long-short hedge fund he founded in 2016. Mr. DuBois has over 11 years of investing experience. Prior to founding Blue Hawk, Mr. DuBois served as the President & CEO of Darden Capital Management, an investment organization that managed $11M of the Darden School's endowment as of the end of his tenure. In the summer of 2015, Mr. DuBois worked as an Analyst at Sirios Capital Management covering the business process outsourcing industry. From 2011 to 2014, Mr. DuBois worked as an associate at T. Rowe Price supporting the large-cap growth team. Mr. DuBois is a graduate of the University of Virginia Darden School of Business (2016) with a concentration in Asset Management and of Emory University School of Arts and Sciences (2008) with a degree in Psychology.

Q: What do you value most from your time in Darden Capital Management (DCM)? Tell me about your specific experience.

A: Darden Capital Management (DCM) was my first opportunity to lead an investment organization, an opportunity I really value. While I had investing experience as an individual contributor prior to Darden, the role of DCM President allowed me to develop confidence leading an investment team and organization, a transition that can be challenging.

My focus was on building out a repeatable and scalable investment process across all of the Funds, one in which each holding had a clear, concise, and idiosyncratic thesis and a price target grounded in a valuation framework. My goal was to create a centralized quality control and risk management framework without stifling the individual creativity of each PM and their respective teams. This balance is a tough one to strike, so it was a great to have an opportunity to practice in this quasi-academic, quasi-practitioner setting.

The other area I really enjoyed was the opportunity to work with the Darden Board of Directors, the ultimate fiduciary for the Funds. Investing publicly and with transparency comes with a territory in the industry so investing an $11 million sleeve (at the time) of the school's endowment and reporting the results to the Board was great preparation towards what I'm doing now. There are not many other places one can get this type of experience. In addition, I made some great relationships as part of this process and am thankful to the Board for the opportunity.

And lastly, I would be remiss if I did not mention how much I enjoyed attending and participating in the weekly meetings of the Cavalier Fund, DCM's long short fund. I learned so much at that conference table, both through the fielding of questions from classmates after pitching different stocks and just listening to others present their ideas and hearing how they think. I worked with some great young investors and developed some lifelong friends.

Q: Why did you decide to start your own firm right out of Darden?

A: I'll do my best to answer this question concisely. At graduation I had 8 years of investing experience and a couple of mentors who were industry veterans telling me I was pretty good at this. So, like any investment I make, I had my investment thesis – that I had a knack for investing. With that premise, I had two options: (1) Join a firm and try to prove myself again, first within the firm and then to the investor community if given the opportunity or (2) Start my own firm and go to market. Well-known pressures within the industry led me to conclude that getting an opportunity to prove my skill as an investor within a firm involved more luck than most people realized. In addition, even if I landed in the right opportunity, I knew from my prior experience that my incentives might not be perfectly aligned - if I'm good and invest well, the firm would capture much of the upside. If not, I would be fired and be looking for a new career.

The solution – go to market and bet on myself. If I'm good (and patient), the market will come to realize over time, and I would capture the upside – not just monetarily, but also around building something that I'm proud of. That's what energized me and got me excited – the prospect of building something great. Alternatively, if I didn't invest well and my original hypothesis proved false, I would be out of a job anyway, just like I would at an existing firm. Furthermore, I've always been very entrepreneurial and non-traditional and thrived in situations in which my back is against the wall. From the outside it may seem like a big jump, but it just made sense to me.

The event that fully pushed me over the final hump was when a prior investing head of one of the prestigious University Endowments guest-lectured in my Portfolio Management class, and I was able to pick his brain about how they look at new firms. He was a wealth of information, and said there are never enough good, young investors striking out on their own and creating the types of firms that he would love to invest in.

I couldn't be happier about the decision. While certainly not the easier path, it has been incredibly rewarding and there is no way I could have learned as much as I have without starting my own firm. It's not for the faint of heart, but I've thoroughly enjoyed the journey thus far.

Q: Can you describe Blue Hawk's investment process and how it's unique? What is your edge?

A: We use a fundamental, bottom up approach to investing. The analysis typically includes an industry analysis generally focusing on competitive forces, competitive positioning, penetration levels, historical growth rates and projected growth rates. The purpose of the analysis is to project what the industry will look like in the future, rather than what it looks like today. We couple the industry analysis with a company level analysis, focusing on the attractiveness of the business model, quality of management (particularly capital allocation track record), financial strength of the business, consistency and visibility of earnings, and free cash flow generation. We form an investment view by overlaying the industry analysis with the company analysis, evaluating the attractiveness of the company's prospects within the context of what the industry will look like in the future. We will typically create a financial model with projections and compare the projections to Wall Street expectations and look at valuation as the final step in the process. Our primary focus is on the long-term prospects of a company when evaluating for a potential investment.

What makes us unique is that we approach investing like business owners and we allocate the majority of our time to identifying and analyzing extraordinary businesses. We are willing to trade short term price volatility for long term wealth creation. Our short book allows us to take bigger bets in times of normalcy and to "back up the truck" in times of distress. We invest in what we know - with a focus on *quality growth* companies and companies undergoing a *product extension* on the long side and *secular decliners* and companies with poor internal controls on the short side. Our niche focus allows us to act with conviction throughout different market cycles, even when these companies may fall out of favor. We have great investors who are critical to our success. And lastly, we are motivated to prove ourselves and so our performance is everything to us creating strong alignment of incentives with our investors.

Q: Can you expand further on that? What do you think really makes you unique?

A: I'll spare you the marketing speak. This industry comes down to depth of analysis, pattern recognition, and discipline and we aim to excel in all three areas, which I believe we have done a pretty good job doing in our first 3 years.

We are at an interesting time in the investing world. With high frequency trading and algorithms, computational finance has largely been commoditized. For this reason, we have found the most value to exist in the 3-5 year time horizon and grounded in qualitative analysis. Shorter time horizons we've found to be filled with too much noise and longer difficult to forecast reliably.

Darden students (and HBS students, sorry) are in luck. The case method is grounded in rigorous qualitative analysis and has a fair amount of overlap with what we do. We spend a lot of our time analyzing and identifying attractive businesses and industries from an investment perspective, using Porter's Five Forces and predicting how the competitive forces within industries will change. The skill comes not in the tools but better execution and superior pattern recognition.

Q: Could you discuss one of your recent investments and why you found the opportunity attractive?

A: Match Group (MTCH) is a stock we're very bullish on and is our biggest holding. Match is the dominant leader in the fast-growing online dating space and own popular brands including Tinder, OKCupid, and Match.com. Some of our best ideas have come from consumer-facing technology stocks with strong secular tailwinds.

We've found that the really big winners, 5-10 baggers, typically are market leaders with competitive moats in industries with large end markets undergoing big shifts in consumer behavior. That's what is going on in the online dating space currently. In 2000, 5% of relationships began online in the US compared to today at 40%[1], and we expect this number to continue to increase. This number is much lower internationally but is starting to increase as the stigma of online dating wears off.

We think investors are too myopic when they look at Tinder and Match as dating businesses. We think social network is a better description based off the network effects, margin profile, and growth opportunities – and we've seen what Facebook stock has done over the last 10 years. With a very strong management team, we think the future is bright for Match Group.

Q: What investing books have had the greatest impact on your investment philosophy?

A: There are so many great books that it's hard to pick just a few. Two of my favorites are Common Stocks and Uncommon Profits by Philip Fisher and One Up on Wall Street by Peter Lynch. I spend a fair amount of time on the behavioral and mental side of investing as well. The Inner Game of Tennis: The Classic Guide to the Mental Side of Peak Performance by W. Timothy Gallwey and Wherever You Go, There You Are by Jon Kabat-Zinn are great reads for any investor.

Q: What characteristics do you think differentiate good investors from bad investors?

A: Great investing over a significant period of time is challenging because it requires managing some very conflicting forces. I'll give an example. I've been fortunate to work with and learn from 3 individuals who had exceptional track records over decades. There's no questioning they are exceptional investors. But I don't think I would ever describe any of them as coming across as overly confident even though you would expect them to be so. Most people assume it's modesty, but I believe there is something deeper going on. Great investing over time in my experience requires the constant adjustment of one's views to incorporate new information – Bayes Theorem I believe is the academic term – and to hold one's views as hypotheses instead of facts. To do this successfully requires the constant questioning of one's views. This insecurity is what fuels the motivation to constantly be in search of new and potentially conflicting information. At the same time, stock market volatility has a way of shaking out weak hands, so investors must maintain firm conviction through market turbulence. Constantly adjusting one's views while maintaining conviction is a very challenging balance to strike and against human nature. The best are able to strike this balance – usually through process and discipline. The book *Superforecasting* by Tetlock and Gardner has some great insight in this area.

Additional examples of competing forces are balancing aggression with patience, adaptability with stubbornness, confidence with humility, etc. I could go on and on.

Q: What advice would you give to Darden students about getting into investment management?

A: I have two pieces of advice. First, one of the wonderful things about being a student is that the professionals in the industries you are trying to join are by and large always open and excited to connect with students so take advantage of it. Reach out to different people in the industry and ask them if they have a few minutes to connect. Then ask them about themselves – their background, how they got in the seat they're in, how they developed their investing style, etc. Now is the best opportunity to do that. You'll gain a lot of great insights about the industry with a secondary benefit of developing a network in a positive, organic way. And second, I believe this is an industry based on mentorship. Wherever you end up, find a great investor and try to learn everything you can from that person. It'll be worth it, trust me.

[1] Source: Disintermediating your friends: How Online Dating in the US displaces other ways of meeting