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PREMIUM

David Herro has steered the $22.2 billion Oakmark International fund through 5 crises since its inception 28 years ago. The veteran investor shares 3 stocks he's betting on, and the pandemic-related opportunities he's seizing.

Vicky Ge Huang

- **David Herro, a 35-year value investing veteran, has steered the $22.2 billion Oakmark International fund through 5 crises since its inception over 28 years ago.**
- **Herro, who also manages three other billion-dollar funds for Chicago-based Harris Associates, believes the pandemic has created "a huge opportunity" for investors.**
- **In an exclusive interview, he shares where he is finding value and 3 "punished" stocks he is betting on.**

David Herro has seen it all during his 35-year investing career.

For 28 years, he has been at the helm of the $22.2 billion Oakmark International fund, a gold-rated Morningstar fund despite its almost 18% slump in performance year-to-date.

The gold ratings are only reserved for funds that Morningstar analysts "have the most conviction will outperform a relevant index, or most peers, over a market cycle," according to its website.

Since its inception in 1992, the Oakmark International fund has had five such "bumps in the road" which include the 1994 bond market crisis, the 1997 Asian financial crisis, the 2008 financial crisis, and the COVID-19 recession now, Herro said.

"Every one of those bumps, we've recovered quite strong. They become the fuel, the opportunity," he told Business Insider. "When stocks get pushed to unrealistic levels, they tend to come back quite strongly following a big bump. I think investors should look at it more as an opportunity than anything else."

HARRIS ASSOCIATES

David Herro, award-winning fund manager and CIO for international stocks at Harris Associates.

Where Herro is finding opportunities amid COVID-19

The pandemic has inflicted a lot of damage, but it has also created "a huge opportunity" for Herro to pick up bargains — businesses that have been beaten down by the COVID-ravaged economy but are poised to bounce back because of their strong fundamentals.

"The pandemic has caused some things to change structurally," he said, referring to the greater adoption of e-commerce and other online activities. "As a result of the pandemic, what was inevitable over the next decade is probably going to happen over the next two or three years."

"But the market wasn't very good at differentiating what are cyclical changes and what are structural changes," he added. "Any business that was economically sensitive — the materials businesses, the automotive sector, and financial services — got hit very hard. I think these in particular are where the opportunities are today."

For a bona fide value investor, Herro invests in geographies where most opportunities lie based on his valuation criteria. That place right now is continental Europe.

"There was a sovereign debt issue after the financial crisis, there is a whole Brexit situation, a Scottish referendum, the Italian election, Greek crisis: all these things challenged Europe in a way," he explained.

"And because of this macroeconomic uncertainty in Europe, European based companies, which do business all over the world, have been punished."

3 undervalued stocks to bet on

For Herro, who looks for quality businesses that are price impaired because of a short-term, cyclical or a one-up event, these unfairly punished companies are prime bargains for patient investors.

British multinational commodity trading and mining company Glencore is a good example. The stock has been hit hard by the pandemic and was down 29.4% year-to-date.

As the biggest trader for metals and minerals in the world, Glencore also gets about one-third of its profits from non-mining operations. It provides investors safety in the form of "an annuity-like cash flow stream from the trading operation," Herro explained.

"They are one of the lowest-cost producers and the biggest miners of copper in the world. And they also are exposed to nickel, cobalt, and zinc," he said. "When you look at the new energy economy, when you look at batteries and energy storage, when you look at renewable energy, what metals do they need? They need copper, they need cobalt, they need zinc, and they need nickel."

In addition to its competitive advantages and steady cash flow, Glencore's management owns about 20% of the firm, which ticks the box off for shareholder alignment, according to Herro.

"And it's selling at very low valuations, so this is one of the reasons why we really like Glencore," he said.

German automaker Daimler is another company Herro is watching closely. The stock was down 1.7% year-to-date but Herro believes the big gap between Daimler and Tesla, which has gone up over 400% this year, will narrow significantly in two to three years.

He pointed out that Daimler today has an enterprise value of around $50 billion while Tesla's enterprise value is about $425 billion.

"Daimler produces over 2 million vehicles under the badge of Mercedes Benz," he said. "It's the most recognized luxury auto brand and it makes money on every one of these cars it sells. Daimler is also the largest manufacturer of trucks and buses in the world."

"So for $50 billion, you could buy the world's No.1 premium auto brand, over two million cars, and the world's largest truck maker," he said. "For the price of Tesla which is $425 billion, you can buy the leader in electrification but it makes a half a million cars and loses money on every car it makes. In the meantime, in the next two or three years, Mercedes-Benz will have a full suite of luxury electric vehicles."

"So I would much rather pay one-ninth of the price for Mercedes-Benz than Tesla," he said.

Herro also finds bargains in European financials such as Credit Suisse, a Swiss bank where his firm is among the largest shareholders.

He acknowledges that Credit Suisse will have to prove they can still maintain their earnings in weak markets, but he argues that the bank did exactly that over the past three to four years.

"Unfortunately, the CEO was forced out earlier in the year, but the CEO created, reformed, restructured, and de-risked the business," he said, referring to the departure of former CEO Tidjane Thiam, who resigned in February after an executive-level spying scandal.

"And today you have a company that should be able to grow through time their earnings stream in mid-single digits, that trades at half of the book value, that has excess capital, that will be paying a dividend and has paid a dividend," he said. "And it trades just under six times earnings.

"This a very reformed company. And to me, it just gets tarred and feathered with the case of a bad European financial when it's gone through the necessary work to structure and reformulate its business," he said.

Skin in the game

As of Wednesday, the Credit Suisse stock was down 26.6% year-to-date but Herro is confident that the headwinds weighing on the stock will turn around and become tailwinds.

Herro and co-manager Michael Manelli have conveyed their conviction by each putting at least $1 million into the fund, according to Morningstar. The employees and trustees at Harris Associates overall had $400 million invested in Oakmark Funds as of the beginning of the year.

"The largest component of my liquid assets are investments in these funds," he said. "We believe in what we're doing and there's no investment we know better."