Interview Series

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AN INTERVIEW WITH JON CHRISTIANSEN, CFA®

DIVIDEND GROWTH PORTFOLIO MANAGER

SENIOR ANALYST - INDUSTRIALS

JOINED CRAWFORD IN 2013

Interviewer: How has your prior experience prepared you for your role at Crawford?

Jon Christiansen, CFA®: Before I joined Crawford, I spent nine years working at one of the world's largest fundamental research driven investment firms. There, I had the opportunity to learn from dozens of accomplished investment professionals who were navigating specific company research and portfolio management decisions, and I had the chance to interact with the management teams of hundreds of different companies. Additionally, during this period, I completed an MBA at the University of Maryland and earned the CFA® designation. This broad and deep investment exposure, along with the ability that I had to work closely with a large-cap strategy with an investment objective similar to that of Crawford's Dividend Growth strategy, provided both the technical professional training and the investment mindset that I needed to be able to work effectively toward meeting the investment objectives of Crawford's Dividend Growth strategy.

I: How would you describe your investment philosophy/approach?

JC: I am a quality-at-a-reasonable-price investor. What I mean by that is I search for above-average or superior-quality companies on an absolute basis, rather than relative to their peers or sector. With that being said, I look for companies that can be owned at reasonable relative valuations, or prices that are either in line with or below their historical valuations. However, I'll add that owning a company at a "higher than historical" valuation can be justified if and when quality has improved from the past. In my opinion, high-quality companies are those with sustainable, solid growth in high-profit businesses and shareholder-friendly management teams. These factors can be observed through metrics that examine free cash flow growth and stability, but also through scrutinizing management teams' capital allocation policies. I am always looking for businesses that allocate capital prudently in their dividend payments, balance sheet maintenance, and reinvestments back into their business models.

I: How might your specific approach differ from that of other value investors?

JC: Frankly, most investors who think in terms of a quality construct probably oversimplify the market into high- or low-quality companies. In reality, most companies are going to be clustered near what could be considered average in terms of quality. On the other hand, most traditional value investors rely on absolute valuations to define investment return potential and risk mitigation, but they often underappreciate the less-predictable nature of these businesses. This, in turn, reduces the reliability of the financial estimates that serve as the very basis for those valuation estimates. I use a "quality over price" equation to define value, thinking about what the cost should be to purchase ownership in a company relative to the quality of that company.

I: What is a principle that you have implemented in the Dividend Growth portfolio that has possibly been overlooked by other investors?

JC: In our portfolio, we hold a strong focus on free cash flow persistence. We feel that most of the stocks that we've bought in recent years generate solid cash flow with favorable growth outlooks. There is great value in the compounding nature of steady cash flow and the resources that it can provide for a business. However, this is underappreciated by most investors. I'd attribute that to the fact that many investors have relatively short investment horizons, preferring to chase what are perceived to be high-growth opportunities. Our actively managed approach to quality investing dampens risks while increasing exposure to a collection of stocks with high profit margins and high free cash flow consistency. These are companies that have proven, collectively, to generate attractive returns over time, and are poised to continue doing so in the future.

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I: What defines value and growth in the large-cap space?

JC: Historically, growth and value have been defined along cyclical lines. This divide is now being widened to near-all-time extremes with an emerging battleground between secular winners and losers. Traditional growth investors often have a tendency to overpay for stocks because they overestimate the magnitude and/or duration of a high-growth period. At Crawford, we focus our research efforts on identification and long-term ownership, not of the fastest-growth companies, but rather, of what we consider to be consistent growers. These companies that we prefer to own are less vulnerable to changes in the economic climate and over-optimism of aggressive growth, both of which can lead to rapid valuation deterioration. We also lean more on relative valuation as a risk-mitigation tool. This is because more narrowly defined absolute valuation approaches can be incompatible with our commitment to remaining fully invested and might, over time, skew our investment portfolio toward lower-quality stocks, given the high correlation between low absolute valuation and investor perceptions of unfavorable business attractiveness.

I: The relative returns of the Dividend Growth strategy have been quite strong since you took over as strategy director. What do you attribute this to?

JC: There are several factors that have empowered our team to generate favorable returns with reduced volatility in recent years. Specifically, we've added three additional, highly experienced analysts as well as matured in our sector knowledge, enhanced our analytical framework, and focused even more sharply on owning consistent growth companies. As sector specialists diligently conducting fundamental research on large, medium, and smaller-sized dividend-paying companies, there are continuous opportunities to detect industry trends more clearly than others. As our knowledge base deepens over time, our competitive advantage expands. Leveraging our fundamentally driven and long-term-oriented research process, we also developed a Total Shareholder Return (TSR) framework to refine our ability to compare the investment attractiveness of holdings and candidates over a three-plus-year time horizon. TSRs are updated and scrutinized by the team on a quarterly basis. We feel that these additional resources have enabled us to optimize portfolio decision-making in alignment with our quality-at-attractive-valuations investment philosophy. Lastly, we've gradually moderated our exposure to cyclically sensitive names in favor of secular growers, an investment tilt which has benefited investment returns in the slow-growth economic environment over this period.