PM Spotlight: Focusing on Value to Invest Through the Cycle

Bryant VanCronkhite, CFA, CPA

From his early days as a CPA, **Bryant VanCronkhite** has been interested in what gives companies an edge over their competitors. As co-head of the Special Global Equity team at Allspring, he seeks to exploit market inefficiencies using a strategy based on a CPA's knowledge and approach to analyzing financial statements.

Q: YOU HAVE A SOMEWHAT NONTRADITIONAL BACKGROUND FOR A PORTFOLIO MANAGER. HOW HAS YOUR CAREER EVOLVED?

A: My original ambitions were to become a chief financial officer and help run a business. I always loved the idea of making decisions that influence business outcomes, and I really enjoyed studying accounting in college. So, after completing my undergraduate and master's degrees in accounting, I passed the CPA exam and joined the accounting industry. That experience made me realize the work wasn't as enriching as I thought it would be.

I also picked stocks when I was in college. Investing in stocks intrigued me and motivated me to learn more, and that naturally opened a path to portfolio management. I joined Strong Capital Management, an Allspring predecessor, in the accounting department and quickly navigated my way to an investment team.

That was in 2004, and I've been with the organization and on the same team ever since. Our team has built a process that reflects my early passion of understanding how companies make decisions and create value. It all came full circle—but in a way I didn't fully anticipate.

Q: HOW DOES THAT ACCOUNTING EXPERIENCE INFLUENCE THE WAY YOU VIEW RISK AND OPPORTUNITIES?

A: Our team's philosophy is grounded in accounting fundamentals that drive investment outperformance. We use a company's balance sheet to quantify the potential future value creation if the company were to optimize the capital structure over our multi-year holding period. It's a forward-looking view. The market, on the other hand, is narrowly focused on the company's income statement, which is a backward-looking financial statement.

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Starting with the company's asset base, we characterize its competitive advantage and paint a picture of how management could use their available balance sheet capacity to improve or grow the cash-flow-generating power of the business. We quantify the value of these potential changes and determine to what degree the market is mispricing this potential. Owning companies with flexibility to make choices they want to make when they want to make them provides confidence in the path and potential of the business over the long term. They have the ability to buy when others are selling, grow when others are shrinking, or make dividends when others are cutting. Companies are exposed to a lot of things beyond their control that are impactful, like economic growth, interest rates, geopolitical tensions, and tariffs. What companies do control is how they use their capital and the decisions they make based on their capital structure. We know that will affect their value over the next one to three years.

Q: WHAT'S YOUR APPROACH TO MANAGING A TEAM?

A: We hold a few key principals in hiring for the team, including risk awareness. It's critical in our business to be able to identify and admit when you're wrong. We also look for people who thrive within a collaborative framework—we're not searching for the lone wolves or rock star portfolio managers. We know we're better together as a team.

In terms of managing the team, I try to maintain an over-resourced and redundant asset base. We want to have more people than we need and have overlap in responsibilities to ensure stability and depth. By building in redundancies across the team, I minimize the risk that we erode our ability to deliver on our goals. So, for every portfolio we manage, we have numerous portfolio managers who understand the securities, the process, and the client base. That redundancy ensures there's always someone to deliver on a task or exploit an opportunity without missing a beat. If we lose someone, the rest of the team will continue to generate new ideas.

It's the same for our analysts, where we have three to six people covering each sector, collaborating, and creating a global view. They each cover roughly 50 stocks, which we believe creates the perfect equilibrium between breadth and depth at the individual and team levels. We spend a lot of time identifying individual team member strengths and career objectives. That's what champion sports teams have in common. The best NBA team isn't built with the top five centers or only the best point guards. Everyone has a role—no one is any more or less important than the others.

Q: WHY DID YOU CHOOSE A VALUE STYLE OF INVESTING?

A: I grew up with the lesson to appreciate the value of things as opposed to the cost of things. It was really an unwritten rule of life, and I think the same is true with investing. Markets, on the other hand, often conflate price and value. Our style of value investing is to identify and own companies at a time when the market underappreciates the value that can be created as the company puts their balance sheet flexibility to work through acquisitions, with internal investments, or by returning capital to shareholders. These are the elements they control, and we have confidence in our ability to understand and predict these outcomes. We want companies that are focused on controlling their own destiny. It's not the old adage of buying low price-to-earnings multiples and selling the stock once the multiple mean reverts. The drivers of that outcome so often are outside the control of the company and the investor, whereas a company compounding value through individual decisions is completely controllable.

Q: DOES THE MORE VOLATILE MARKET ENVIRONMENT MEAN MORE OPPORTUNITIES FOR VALUE INVESTORS?

A: Volatility creates a lot of fear and confusion in the market. Our style of investing is made to take advantage of market inefficiencies that arise from volatility. Instead of trying to time the market—when will rates go down, when will the market bottom out—we focus on what companies are doing to drive unique value creation. Today, our conversations with company management teams are focused on how they plan to invest through this phase of the cycle, not around it. Companies that possess balance sheet flexibility will not only provide stability for investors during tough economic periods, they'll also create the freedom to play offense while peers play defense. This is one of the most powerful frameworks to drive cycle-over-cycle growth across industries.

We see a lot of opportunity today, including markets cast aside during the tremendous performance run by the Magnificent Seven and other U.S. large-cap growth companies. The value universes and small- and mid-cap stocks are providing attractive entry points today. Non-U.S. developed market stocks are also interesting, where headwinds have flipped to tailwinds for many countries. As long-term investors, we know every phase of a cycle will end at some point, and we want to lean into our time-tested investment process to allow us to navigate it deftly and without emotion.

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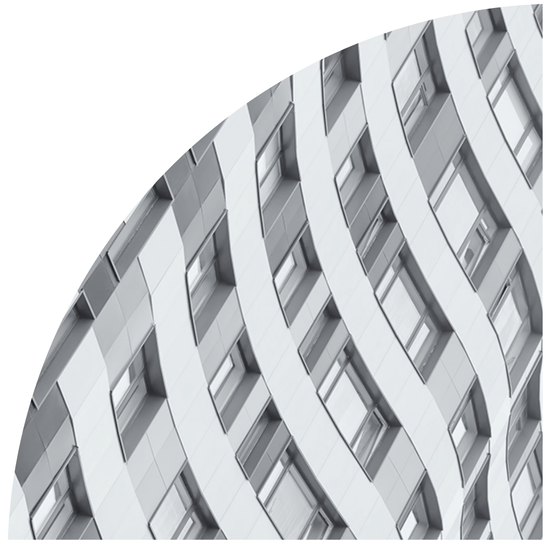

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