Institutional Investor

Former First Eagle Investment Management Star Breaks Out on His Own

By Gary M. Stern

CIO Abhay Deshpande founded Centerstone Investors with the goal to manage a smaller pool of assets.

Most investment managers whose offices dot Union Square in Manhattan don't frequent the Old Town Bar for lunch. A former turn-of-the-century speakeasy, Old Town — with its marble bar and tin ceilings — is too scruffy to suit most financial honchos, more "Cheers" than refined stalwarts like Gramercy Tavern or Blue Water Grill.

Abhay Deshpande, founder and chief investment officer of recently opened Centerstone Investors, isn't most investment managers — and thus could be found at Old Town for an early-November lunch.

"I can't wear a tie here," the 46-year-old tells his dining companion. "It's my Omaha" — a reference to the hometown of Warren Buffett, one of his value investing heroes. Casual in dress and informal in manner, Deshpande wears a classic blue blazer and a gingham shirt, looking more sporty advertising exec than stuffy investment manager.

Indeed, most days he grabs lunch from an empanada or Asian taco truck. Colleagues describe his culinary taste as ranging "from white truffle dinners to Taco Bell," he admits. At Old Town he orders a ham and Swiss.

Raised in Kentucky, Deshpande attended the University of Louisville on a free ride, the result of his chemical engineer dad's place on the faculty. Though his parents urged him to pursue medicine or engineering, he "wasn't wired that way"; instead, he majored in finance and found his calling.

Until recently, a 15-year career at First Eagle Investment Management had Deshpande sitting pretty. As portfolio manager, he co-managed the bulk of the firm's $100 billion worth of funds — a figure up approximately $98 billion since his first day. Revered and well paid, he could have coasted for years. But he wanted to strike out on his own.

In his opening letter to investors, he described how his two mutual funds — Centerstone Investors Fund and Centerstone International Fund — are dedicated to "uncovering value in companies and helping clients achieve their goals." He could have played it safe and started a hedge fund, reaping higher fees, but balked at that scenario. "Most hedge funds aren't worth the price they charge," he says. "I never agreed with the compensation or expense model they charge."

PHOTO CREDIT: ABHAY DESHPANDE, FOUNDER AND CHIEF INVESTMENT OFFICER OF CENTERSTONE INVESTORS (TIMOTHY FADEK/BLOOMBERG).

Centerstone is owned by its 11 employees, six of whom are former First Eagle staffers. Hence the firm "won't be influenced by a third party that will change the approach." The assets he now manages are a sliver of what he formerly oversaw: As of November, Centerstone Investors managed $42 million in assets; and Centerstone International, $17 million.

Still, it is early days, and Deshpande is happy swimming in shallower waters. His goal was to "manage a smaller pool of assets," he claims — a phrase that is admittedly voiced more often than it is meant. However, he notes correctly, Buffett "had better returns when he was smaller. As he got larger and larger, returns got diluted."

Deshpande characterizes his investment philosophy as establishing "long-term equity like with less risk, through a variety of instruments, including high-yield bonds," and he seeks companies with "strong balance sheets, business model durability, and management teams with a good track record of capital allocation" — the mantra he shares with CNBC or any financial reporter who asks. At the two mutual funds, the bulk of investors are "middle class and above, with many financial advisers and high-net-worth individuals." There is also an institutional share class.

Devoted to minimizing risks, Deshpande says he avoids investing in three types of mistakes: highly leveraged businesses, at-risk business models, and management teams that counter shareholder interest. He eschews bank stocks, finding them overleveraged, a habit that helped First Eagle during the 2008 financial crisis. He avoided Enron because "their management team was crackpots."

Gold is the international fund's biggest holding, which Deshpande says serves as a diversifier and an "added insurance policy in the event something unexpected happens." So far, only 70 percent of the fund is invested. The other fund's largest holding is Schneider Electric — a "low-voltage company that prevents people from getting electrocuted," he quips.

Deshpande resides in SoHo with his wife — it was she, not he, who named the company Centerstone. The brand suggests "the center piece of a diamond ring, the most valuable part of the diamond," he explains. Two years from today, he envisions Centerstone as "the most valuable piece of someone's portfolio, the rock, the stability." Achieving such status would require a repeat of his First Eagle success — not guaranteed, but perhaps a better bet than running into a competitor at the Old Town at lunchtime. •

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