

# Hedge Fund Alert

THE WEEKLY UPDATE ON FUND MANAGEMENT INTELLIGENCE

## Vulcan Veterans Debut With Three Funds

A new firm led by a pair of **Vulcan Value Partners** alumni that combines traditional value investing with artificial intelligence began accepting outside capital July 1.

Phoenix-based **Saguaro Capital** launched with \$10 million in personal capital and friends and family money for the debut of three capacity-constrained hedge funds. Each will follow a fundamental value strategy with one investing in companies of all sizes, one in large companies and one in small and midsize companies.

Saguaro started trading its all-cap strategy via the Saguaro All Cap Partners Fund with internal capital April 1, while the Saguaro Large Cap Partners Fund and Saguaro SMID Partners Fund went live July 1. All three strategies target five to 20 companies globally.

Saguaro, founded in 2021, follows an “ultra-long-term” fundamental value strategy, taking positions primarily in publicly traded companies. The firm aims to differentiate itself by enhancing its fundamental, bottom-up research with machine learning – something that Saguaro chief investment officer and co-founder **Jim Falbe** spearheaded at Vulcan.

“We’re value investors through and through, but we’re modern value investors,” said **John Collier**, Saguaro’s co-founder and director of investor relations. “The key is that we’re the fusion of both classic value-investing discipline and then this hypermodern technology that we’ve now had about six years of experience [at Vulcan] developing to become even better fundamental human analysts.”

With its proprietary AI technology, the firm has set a goal to analyze “every public company in the world, every day” in search of opportunities to buy shares at once-in-a-decade discounts and hold onto them.

“It’s not just quantitative numbers screening,” Falbe said. “We can teach it what a competitive advantage is using natural language processing. ... We can build those concepts into a machine and it can screen for that in the quarterly earnings calls, [SEC forms] 10-Qs, 10-Ks, etc. And it creates a much more robust picture of a great business versus a terrible business than what you get from a traditional screening tool.”

The firm also will apply an options overlay to enter and exit positions, with automated buy and sell decisions to eliminate behavioral forces and generate yield.

Saguaro is offering investor-friendly terms, such as a commitment to reducing management fees as the firm’s assets under management grow and an anchor share class and founder share class with reduced management and incentive fees.

The firm is targeting double-digit returns above inflation over a full market cycle and promising to donate 10% of profits to charitable causes.

The Large Cap vehicle is focused on businesses with market capitalization of \$20 billion or more. Saguaro will limit its capacity to \$5 billion. The Large Cap and SMID Cap fund, which focuses on companies with market capitalizations below \$20 billion, are set up as Section 3(c)(7) funds aimed at institutional investors. The SMID Cap vehicle’s capacity is capped at \$1.5 billion.

The All Cap fund, meanwhile, is designated as a Section 3(c)(1) fund open to accredited investors and has a \$3 billion capacity.

“We are strictly going to be capacity constrained. It’s not about trying to get as big as possible and gather assets. We really want to be paid to perform,” Falbe said. “That’s why we have the capacity constraints. And that’s why in all of our funds we’re attempting to drive that management fee down as we scale. We just desperately want to do it the right way.”

The three strategies have flexibility to invest up to 20% of assets in private equity, while limited partners can opt in or out.

Saguaro is led by Collier and Falbe, who named the firm after the hardy, slow-growing saguaro cactus native to the Sonoran Desert. With them are research analyst **Bryan Tsiao**, a former Vulcan associate analyst; **Tyler Thomas**, a **University of Alabama** Ph.D. candidate and former Vulcan data scientist now heading up Saguaro’s data science group; and director of operations **Emily Cranton**. **Bruce Donnellan**, a founding member and principal at Vulcan until his retirement in 2019, has signed on as a strategic advisor and serves on Saguaro’s research team.

Vulcan, based in Birmingham, Ala., has \$18.5 billion of gross assets.

Before co-founding Saguaro, Falbe was a principal and portfolio manager at Vulcan, where he worked from 2013 to May 2021. He previously was an equity analyst at **Schacht Value Investors**, following five years of humanitarian work in Zarqa, Jordan.

Collier had been a principal and relationship manager at Vulcan for more than eight years and previously was a portfolio manager at Birmingham-based **Regions Wealth Management**. Collier also leads the **Rucker Collier Foundation**, a non-profit he co-founded with his wife in honor of their 6-year-old son, **Rucker**, who died in 2020, and to find a cure for sclerosing epithelioid fibrosarcoma. ■