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Ben Graham Centre
for Value Investing

The Ben Graham Centre's 2013 Value Investing Conference

April 10, 2013

7:45 am – 5:00 pm

Fairmont Royal York Hotel, Toronto



IMPROVING LONG RUN INVESTMENT PERFORMANCE

www.bengrahaminvesting.ca





Mission of the Conference

- to promote the tenets of value investing as pioneered by Benjamin Graham;
- to expose conference participants to the various value investing methods used by practitioners;
- to encourage and support academic research and study in the area of value investing.

The conference will provide a forum to explain, discuss and debate the principles, practices and various applications of value investing from a global context.

Corporate executives will offer an industry perspective of how to look for value creating opportunities and how to create value.





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Morning Agenda

7:45am – 8:25am	Registration & Coffee
8:25am – 8:40am	Welcoming the Delegates, Introductions and Opening Remarks Dr. George Athanassakos, Ben Graham Chair in Value Investing, Richard Ivey School of Business
8:40am – 9:20am	Morning Key Note Speaker Gary Shilling – Topic: Investment strategies for a changing world
9:20am – 11:35pm	Value Investor Panel Presentations and Q&A
9:20am – 9:50am	Tom Russo – Topic: “Global value” equity investments
9:50am – 10:20am	Tim McElvaine – Topic: Value investing without Pepto Bismol
10:20am – 10:35am	Coffee Break
10:35am – 11:05am	Robert Robotti – Topic: Has contrarian investing become conventional?
11:05am – 11:35pm	Francis Chou – Topic: Bonds vs. stocks in a value portfolio
11:35am – 12:00am	Thorsten Heins – Topic: Beyond smartphones – The future of mobile computing
12:00pm – 12:40pm	Q&A



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Afternoon Agenda

12:40pm – 2:00pm	Luncheon Keynote Speaker Jeremy Grantham – Topic: Living at the intersection of 3 crises – Energy, food and climate Introduction: Prem Watsa, Chairman and CEO, Fairfax Financial Holdings Ltd
2:05pm – 4:20pm	Corporate Executive Panel Presentations and Q&A Topic: Looking for and creating shareholder value – Industry perspective
2:05pm – 2:30pm	Richie Boucher – Bank of Ireland Group perspective
2:30pm – 2:55pm	Chris Fowler – Canadian Western Bank perspective
2:55pm – 3:20pm	Terrence Leon – Leon's Furniture Limited perspective
3:20pm – 3:45pm	Madhavan Menon – Thomas Cook (India) Limited perspective
3:45pm – 4:20pm	Q&A
4:20pm – 4:30pm	Concluding Remarks



Panel of Speakers

The Ben Graham Centre's 2013 Value Investing Conference offers a panel of speakers with a proven record of success in the field of value investing and the corporate sector. Featured speakers participating at the conference, in the order they will speak, are:

MORNING KEYNOTE SPEAKER

Gary Shilling, President, A. Gary Shilling & Co., Inc.

LUNCHEON KEYNOTE SPEAKER

Jeremy Grantham, Co-founder and Chief Investment Strategist, Grantham Mayo Van Otterloo (GMO)

VALUE INVESTING PROFESSIONALS

Tom Russo, Partner, Gardner Russo & Gardner

Tim McElvaine, Founder and President, McElvaine Investment Management Ltd.

Robert Robotti, Founder and CIO, Robotti & Company Advisors LLC.

Francis Chou, President, Chou Associates Management Inc.

CORPORATE EXECUTIVES

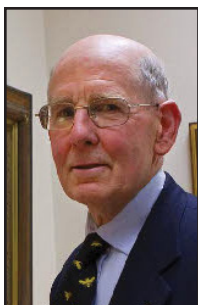
Thorsten Heins, President & CEO, BlackBerry

Richie Boucher, Chief Executive Officer, Bank of Ireland Group

Chris Fowler, President & CEO, Canadian Western Bank

Terrence Leon, President & CEO, Leon's Furniture Limited

Madhavan Menon, Managing Director, Thomas Cook (India) Limited



A. Gary Shilling

Dr. Shilling is President of A. Gary Shilling & Co., Inc., economic consultants, and publisher of *INSIGHT*, a monthly report of economic forecasts and investment strategy. He has also been a *Forbes* magazine columnist since 1983 and writes the “Financial Strategy” column. He is a member of The *Nihon Keizai Shimbun* Board of Economists and a columnist for *The Christian Science Monitor* and *Bloomberg View*, and on *Investment Advisor* magazine’s panel of investment strategists. He graduated from Amherst College AB in Physics, magna cum laude, Phi Beta Kappa, and earned his MA and Ph.D. in economics at Stanford University. While on the West Coast, he served on the staffs of the Federal Reserve Bank of San Francisco and the Bank of America. Before establishing his own firm in 1978, Dr. Shilling was Senior Vice President and Chief Economist of White, Weld & Co. Earlier he set up the Economics Department at Merrill Lynch, at age 29, and served as the firm’s first chief economist. Prior to Merrill Lynch, he was with Standard Oil Co. NJ (now ExxonMobil). Twice, the *Institutional Investor* magazine ranked Dr. Shilling as Wall Street’s top economist and *Futures Magazine* rated him the country’s number one Commodity Trading Advisor. In 2003, *MoneySense Magazine*, named him the third best stock market forecaster in the world, right behind Warren Buffett. Dr. Shilling’s new, best-selling book, *The Age of Deleveraging: Investment strategies for a decade of slow growth and deflation* was published by John Wiley & Sons in late 2010.



Jeremy Grantham

Mr. Grantham is the co-founder of Grantham Mayo and Van Otterloo (GMO), which he co-founded GMO in 1977, and is a member of GMO’s Asset Allocation team, serving as the firm’s chief investment strategist. Prior to GMO’s founding, Mr. Grantham was co-founder of Batterymarch Financial Management in 1969 where he recommended commercial indexing in 1971, one of several claims to being first. He began his investment career as an economist with Royal Dutch Shell. He is a member of the GMO Board of Directors and has also served on the investment boards of several non-profit organizations. Mr. Grantham has been featured in *Forbes*, *Barron’s* and *Business Week* and is routinely quoted by the financial press. He earned his undergraduate degree from the University of Sheffield (U.K.) and an MBA from Harvard Business School.



Thomas A. Russo

Russo is a partner at Gardner Russo & Gardner, which he joined in 1989. Eugene Gardner, Thomas Russo and Eugene Gardner, Jr., as partners, each manage individual separate accounts and share investment approaches and strategies. Mr. Russo oversees \$4 billion through separately managed accounts and partnerships. Mr. Russo's investment philosophy emphasizes return on invested capital, principally through equity investments.

His approach to stock selection stresses two main points: value and price. Mr. Russo's investment approach is focused on a small number of industries in which companies have historically proven to be able to generate sustainable amounts of net free cash flow. This fairly narrow approach reflects his training and discipline at the Sequoia Fund in New York, where he worked from 1984 to 1988. Mr. Russo's goal is one of an absolute return rather than a relative return, and he continues his long-term investment objective of compounding assets between 10 and 20 percent per year without great turnover. Mr. Russo is also General Partner of Semper Vic Partners, L.P., and Semper Vic Partners (Q.P.), L.P., limited partnerships whose combined investments exceed \$1 billion, along with overseeing substantially more funds through separate accounts for individuals, trusts, and endowments. He is a graduate of Dartmouth College (B.A., 1977), and Stanford Business and Law Schools (JD/MBA, 1984) and member of the California Bar Association and Board of Visitors for Stanford Law School.



Tim McElvaine

Mr. McElvaine is the founder and President of McElvaine Investment Management Ltd. which manages The McElvaine Investment Trust, a mutual fund established in 1996. Tim developed his value-oriented philosophy during his 12-year career with Peter Cundill & Associates Ltd. where, amongst other capacities, he served as Manager of the Cundill Security Fund (1992-99), Co-Manager of the Cundill Value Fund (1998-2003) and Chief Investment Officer (1998-2003). Tim has been active on the boards

of a number of publicly listed companies including Rainmaker Entertainment (formerly Chairman, currently a director), Sun-Rype Products and Humpty Dumpty Snack Foods. Tim is a member of the Board of the University of Victoria Foundation and Board of Governors, Glenlyon Norfolk School. Tim is both a CA and CFA. Kate and Tim live in Victoria BC and have 6 children.



Robert Robotti

Mr. Robotti is the founder and CIO of Robotti & Company Advisors LLC, a registered investment adviser, and president of Robotti & Company LLC, a registered broker-dealer. He started his career as an accountant and CPA, and served as CFO of Gabelli & Company. Building on his exposure to other prominent value investors, Bob founded Robotti & Company in 1983. The firm's success over time has been due to his and his team's ability to identify companies trading at a significant discount to intrinsic value. While investing across a wide range of industries, Bob has been particularly active in the energy industry for his entire career. Bob currently serves on the boards of Panhandle Oil & Gas Inc. (NYSE:PHX) and Pulse Seismic Inc. (TSX:PSD). He was a member of the Securities and Exchange Commission's Advisory Committee on Smaller Public Companies, established to examine the impact of Sarbanes-Oxley Act and other aspects of the federal securities law. Bob graduated from Bucknell University and holds an MBA from Pace University.



Francis Chou

Mr. Chou is the President of the Toronto-based Chou Associates Management Inc. Mr. Chou, a CFA, ended his formal education at Grade 12. While working as a technician for a phone company in 1981, he started an investment club that would later become the Associates fund. Mr. Chou has operated two of the country's most successful funds, Chou Associates Fund and Chou RRSP fund, for the last 20 years. In 2005, the Canadian Investment Award named him the fund manager of the decade. His approach is to "find bargains and maintain discipline; if you cannot find bargains stay in cash". Currently, Mr. Chou manages more than \$650 million for investors in his firm and runs the best performing bond fund in North America according to a Wall Street Journal article.



Thorsten Heins

Mr. Heins is the President and CEO of BlackBerry, a position to which he was appointed in January 2012. Since then, Thorsten has led the company through the biggest transformation in its history. He has overseen the global launch and rollout of the BlackBerry 10 platform, delivered on a plan that saved more than \$1 billion in operating costs and appointed a new executive team. Thorsten previously served as Chief Operating Officer, Product Engineering, overseeing the BlackBerry Smartphone portfolio world-wide. Prior to joining BlackBerry in 2007, Thorsten held several positions in the wireless arena including the Chief Technology Officer of Siemens' Communications Division and several general management positions in Hardware and Software businesses. Thorsten holds a master's degree in Science and Physics from the University of Hannover in Germany. Thorsten also serves as a member of the Board of Directors for the Canadian German Chamber of Industry and Commerce Inc.



Richie Boucher

Mr. Boucher was appointed Chief Executive Officer of Bank of Ireland Group in February 2009 and has lead the Group through a major recapitalisation, restructuring and rationalisation process maintaining the Bank in private ownership with its core-franchises intact. He was Chief Executive of Bank of Ireland Group's Retail Division from January 2006 to February 2009 having previously spent two years as Chief Executive – Corporate Banking at Bank of Ireland Group. Prior to joining Bank of Ireland Group in December 2003 Richie held a senior position in the Corporate Division of Royal Bank of Scotland in London having gained extensive experience before that in Retail and in Corporate Banking with the Nat West Group and its Irish Subsidiary Ulster Bank. Richie was born in and educated in Southern Africa and obtained his primary University Degree (a BA Mod Econ Honours) from Trinity College Dublin. He is a past President of both the Irish Banking Federation and the Institute of Bankers in Ireland.



Chris Fowler

Mr. Fowler became President and Chief Executive Officer of Canadian Western Bank (CWB Group) in March 2013, concurrent with his election to the Board of Directors and his appointment as Chair of CWB Group's Executive Committee. Prior to this appointment, Mr. Fowler served as President and Chief Operating Officer, where he was primarily responsible for banking operations and credit risk management. Mr. Fowler started his career

in commercial and corporate banking in 1985 with Continental Bank of Canada, which was subsequently acquired by Lloyds Bank Canada and then by HSBC Bank Canada. He joined CWB Group in 1991 to assist in building the Bank's commercial loan portfolio in Vancouver. In 1995, Mr. Fowler moved to Edmonton to join the credit risk management group, where he held progressively senior positions. He was appointed to Executive Vice President, Banking, in 2008, and has also been responsible for the development and implementation of CWB Group's strategic plan. Mr. Fowler has a Master of Arts Degree in Economics from the University of British Columbia.



Terrence Leon

Mr. Leon is the President & CEO of Leon's Furniture Limited. Mr. Leon is a graduate of the University of Western Ontario's King's College and Western's Law School. He was called to the Bar in 1978 and has been a Member of the Law Society of Upper Canada since then. Prior to becoming CEO of the company in May 2005, Mr. Leon held various positions within Leon's, and appointed Corporate Counsel in 1984, Vice President, C.F.O. and Secretary of Leon's Furniture Limited in 1989 (a publicly

traded Canadian Corporation) and President of Leon's Furniture Limited on May 13, 2002. He is married to Mari Josette McCann and together have four children.



Madhavan Menon

Mr. Menon is the Managing Director of Thomas Cook (India) Limited, India's largest integrated travel and travel related services company. He joined Thomas Cook in 2000 as the Executive Director, responsible for the Foreign Exchange business and stepped up to the position of Managing Director in 2006. In his capacity as the Managing Director, Mr. Menon is a Member on the Board of Thomas Cook (India) Ltd and holds Directorship in the various subsidiary companies of the company. He

holds Directorships in four Indian subsidiaries – Travel Corporation (India) Ltd, Thomas Cook Insurance Services (India) Ltd, Thomas Cook Tours Ltd and Indian Horizon Travel & Tours Ltd. He is also a Director on four Thomas Cook Mauritius subsidiary companies. Mr. Menon has a varied background having commenced his career in Grindlays Bank and subsequently worked in Citibank, Emirates Bank and in the Financial Services Division of the Aditya Birla Group like Birla Global Finance Limited and Birla Sun Life Asset Management Company. Mr. Menon completed his MBA from George Washington University, undergraduate degree from American University of Beirut and schooling at the Cathedral and John Cannon School. He has also participated at the Executive Management Program at Harvard University and INSEAD during his tenure with Thomas Cook. Mr. Menon is a Trustee at PRIDE, a leading NGO (Non-governmental Organization) involved in Health Care in Tribal Areas.



A Message from The Director

Active portfolio management has over the years received a lot of negative publicity from academic studies and ETF providers who argue that active portfolios underperform the market.

But these claims refer to the average performance of active funds, in general, and compare that with market indexes. Of course, the average fund is difficult to beat the market. This is because the average portfolio manager rather than doing the right thing, he is concerned more about losing his job and/or losing funds under management. As a result, he gravitates towards index funds or becomes a closet indexer by over diversifying. It is not that active portfolio managers lack stock picking abilities, but it is rather institutional forces that encourage them to over diversify making them impossible to beat the market.

It is true that the last two bear markets have been difficult for everyone. The macro environment created a lot of uncertainty and threw a wrench in portfolio managers' investments. And it will continue to be a source of anxiety for investors in the future. In fact, it may be more so than in the past as stock markets are going to be increasingly volatile given a slowdown in productivity growth, increases in taxes and declines in government spending, coupled with eventually higher inflation and rising interest rates.

In my opinion, the only way to make money in this environment is to be an active portfolio manager and a disciplined and patient stock picker – like a value investor. I believe that valuing individual securities and having a concentrated portfolio has been, and will continue to be, worthwhile.

Academia, of course, has paid little attention to stock picking, especially since the advent of Modern Portfolio Theory in 1952, but this is changing.

But do not take my word for it – let's look at the evidence.

Early academic research defined value investing as investing in low P/E or P/B stocks, referred to as value stocks, whereas the high P/E or P/B stocks were referred to as growth stocks. Such research showed that value stocks (low P/E or P/B stocks) outperform growth stocks (high P/E or P/B stocks) in Canada, in the US and Global markets by between 6% and 13%, on average, per year over a number of different time periods ending in 2011. They outperform when the markets go down and when they go up, and in good and bad times and when news is good and when it is bad. And they do all this without having higher risk, as measured by beta or standard deviation or adverse states of the world.

More recent academic research, better focused on what value investors do, also showed that value investing works. Kacperczyk, Sialm, and Zheng and Kaperczyk and Seru, in two papers published in the Journal of Finance in 2005 and 2007, respectively examined whether skilled managers exist. The researchers studied about 1,700 actively managed U.S. funds from 1984-1999 and 1993-2002.



They found that the more concentrated a fund was – in other words, the less diversified – the better it did. The outperformance resulted from selecting the right sectors or stocks, not from market timing. Value investing is all about concentrating a portfolio to a few selected truly undervalued stocks. And for Keynes, who switched from being a top down strategist to a bottom up stock picker after 1929, “The right method in investment is to put fairly large sums into enterprises which one thinks one knows something about...”, something that Warren Buffett echoes.

Cremers and Petajisto, in a 2009 Review of Financial Studies paper, introducing a new measure of active portfolio management, referred to as Active Share (i.e., the share of portfolio holdings that differ from the benchmark index holdings), found that between 1968 and 2001 U.S. funds that deviated significantly from the benchmark portfolio outperformed their benchmarks both before and after expenses. Value investing is all about deviating from benchmarks as their low correlations with benchmarks signify. As Sir John Templeton used to say “it is impossible to produce a superior performance unless you do something different from the majority”.

In a 2011 Journal of Investing paper, in the first direct study of the value investing process, I examined whether value investors add value over and above a simple rule that dictates they invest only in stocks with low P/E and low P/B ratios. Using Canadian data, I found that value investors do add value, in the sense that their process of selecting truly undervalued stocks produced significantly positive excess returns over and above the naive approach of simply selecting stocks with low P/E and low P/B ratios. The average annual outperformance between 1985 and 1998 was 1.10 per cent, while between 1999 and 2007 was 13.20 per cent.

Finally, a 2012 working paper entitled “On Diversification” by Jacobsen and De Roon, using U.S. data from 1926-2011, concludes that “it is difficult to reject stock picking in favour of holding a diversified benchmark portfolio.”

I am really excited about our panel of professional value investors today. They are a living testament to what I have described and will tell us how they put what I detailed above into practice in their own portfolios. Same holds for our panel of corporate executives, who will discuss how they look for and create value for their shareholders. As investors, we all want to buy companies that create value and these are well run companies with executives who know how to create value.

I am also delighted to have Dr. Shilling and Mr. Grantham speak at the conference as they will give us the bigger picture and a view different from the widely held consensus that everyone tramps in the street these days.

George Athanassakos

Director, Ben Graham Centre for Value Investing
Richard Ivey School of Business



Specific questions presenters will address at the conference

- How do they define and manage risk?
- How do they make overall portfolio decisions and determine asset allocations?
- What stocks would they buy in a deflationary vs. inflationary environment? Can they name some?
- Does the economy and macro risks matter now more than before?
- Do they hedge? Why yes, why not? How?
- Do they have a “magic formula” for investing success?
- How do they generate investment ideas?
- How did the volatility of the recent financial crisis affect their investment process, and have they changed their approach in any way as a result of the experience?
- How concentrated is their investment portfolio, do they use leverage, and what is their view of short selling?
- How do they find value creating companies and what creates value?

Presenters will take participants through actual investment decisions (from their own current holdings), including decisions to purchase securities, how large a position to take, and decisions not to purchase securities.

Time will be allowed at the end of the presentations for open-ended questions.



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