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Ben Graham Centre
for Value Investing

Ben Graham Centre's 2017 Value Investing Conference

April 19, 2017
Fairmont Royal York Hotel
Toronto, Ontario



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.

Conference Organizer and Chair

George Athanassakos, Director, Ben Graham Centre for Value Investing, Ivey Business School





A Message from the Director

I am a firm believer in stock picking. I think stock picking, with the right process and the right temperament, works. Stock pickers, at least the ones I track, in the long run tend to outperform. As a result, the growth in exchange-traded funds, which are investment funds that trade like common stocks and normally “passively” track an index, has been troublesome to me. The number of ETFs listed on the Toronto Stock Exchange has more than doubled since 2011. Pundits forecast these trends to continue, both in terms of asset growth and number of new players entering the marketplace. And the advent of robo-advisers will intensify the shift from active to passive management.

So, is active management doomed? I do not believe so. The more investors use ETFs and robo-advisers, the larger the mispricing of individual securities and the larger the opportunities for active managers – such as value investors – to outperform.

If ETFs and robo-adviser companies become popular enough to attract the majority of investable funds out there, they will distort financial markets. Financial assets will be severely mispriced. Such investment vehicles have low costs simply because they forgo the research and trading that active managers carry out. ETFs or robo-advisers do not determine prices. They simply accept what active investors have arrived at after extensive bottom up research on stocks. Who would analyze stocks and determine their fair prices if everyone owned and traded autopilot investments like ETFs or what robo-advisers peddle? Who would mind the shop? If we eliminate active managers, the financial system cannot exist, as someone needs to make prices informative. Berkshire Hathaway’s Charles Munger agrees. As he has put it, “If you pushed indexation to the very logical extreme you would get preposterous results.”

Additionally, as Lasse Pedersen of AQR Capital Management explains: “If most investors were passive, the liquidity in individual securities would vanish as investors would only trade overall indices,” Mr. Pedersen writes in “Sharpening the Arithmetic of Active Management.” “The collapse of liquidity and the lack of active management would make the process much less informative. When the secondary market is illiquid and uninformative, buying in the primary market becomes much riskier, which in turn raises firms’ cost of finance.”

Active management, therefore, will not disappear. Information collection will continue to be valuable.

And it is not only what is officially indexed that can be a problem, you also have what is unofficially indexed: the closet indexers, which represent an enormous pool of capital. In Canada it’s estimated that about 40 per cent of mutual funds are closet indexers. In the U.S., the figure is much higher. There is going to be a shakeout with many closet indexers exiting the space.

And how about robo-advisers? Are they a threat to active management? And will they survive in their current form? True, computers take the human factor and emotions out of the equation and focus mostly on diversification. But can a diversified portfolio simply run by a committee of robots replicate everything a stock picker can do?

Robo-advisers have no barriers to entry. At the end of the day, most of them will not be profitable and will not be able to stay in business. Banks with superior distribution, trust and brand name will break into the field and eventually wipe many of the smaller players off the



map. But robo-advisers will not disappear as banks will be in this business instead of them. TD, in addition to BMO, have already jumped into the robo-adviser market.

Good active managers will also survive and will still make a good living out of active management. There is plenty of evidence for that.

Marcin Kacperczyk, Clemens Sialm and Lu Zheng published two articles in The Journal of Finance in 2005 and 2007, in which 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. Martijn Cremers and Antti Petajisto, in a 2009 Review of Financial Studies paper, reported that those U.S. funds that deviated significantly from the benchmark portfolio outperformed their benchmarks both before and after expenses.

And in a 2015 study at UCLA titled “Fundamental Analysis Works” co-written by Soehne Bartram and Mark Grinblatt, the authors show that one can earn risk-adjusted returns of up to 9 per cent a year “with rudimentary analysis of the most commonly reported accounting information.” Such abnormal profits are a result of fundamental analysis and taking advantage of market inefficiencies.

Moreover, humans will need guidance that is provided by a human, especially in an environment of increased volatility in the months and years ahead. A slowdown in economic growth around the world, particularly in China, as well as a slowdown in productivity, lower population growth, aging baby boomers, higher taxes and lower government spending will lead to an increase in stock-market volatility. An expensive market and declining earnings growth in an environment of artificially low interest rates that have encouraged leverage both at the individual and corporate level will also contribute to rising volatility, both realized and expected. In this environment, stock pickers, such as value investors, will shine.

I would like to welcome you all to this year’s conference. Thanks to your support of the Centre over the past decade, we’ve built a successful value investing program offering student apprenticeships through the Ivey Value Fund, as well as many successful annual events such as this conference, the stock picking competition, whose 2017 finalists join us today, and the Academic Symposium, to be held next month in London, Ontario.

I am really excited about our panel of professional value investors. 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 themselves are value investors, and know how to create value.

I am also delighted to have as key note speakers at the conference Mr. Tony Fell, Retired Chairman, RBC Capital Markets, and Mr. Will Danoff, Vice-president and Portfolio Manager, Fidelity Investments, who will give us a view of the world which is different from what we are exposed to in our everyday norm.

I would like to thank you all for joining us and hope you have an enjoyable experience at the conference.

George Athanassakos

Director, Ben Graham Centre for Value Investing
Ivey Business School



Panel of Speakers

The Ben Graham Centre's 2017 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

Tony Fell, Retired Chairman, RBC Capital Markets & Former Chief Executive Officer, Dominion Securities, Toronto, Ontario, Canada

Luncheon Keynote Speaker

Will Danoff, Vice-President and Portfolio Manager, Fidelity Investments, Boston, Massachusetts, USA

Panel of Value Investing Professionals

Michael van Biema, Founder & Chief Investment Officer, van Biema Value Partners LLC, New York, New York, USA

Tom Russo, Partner, Gardner Russo & Gardner, Lancaster, Pennsylvania, USA

Mohnish Pabrai, Managing Partner, Pabrai Investment Funds, Irvine, California, USA

Arnold Van Den Berg, Chief Executive Officer & Co-Chief Investment Officer, Century Management, Austin, Texas, USA

Andrew Brenton, Chief Executive Officer & Co-founder, Turtle Creek Asset Management, Toronto, Ontario, Canada

Panel of Corporate Executives

Vernon W. Hill, Chairman & Founder, Metro Bank, London, UK

Isadore Sharp, Chairman & Founder, Four Seasons Hotels and Resorts, Toronto, Ontario, Canada



The Ben Graham Centre's 2017 Value Investing Conference

Morning Agenda

7:45am – 8:30am	Registration & Breakfast
8:30am – 8:45am	Welcoming the Delegates, Introductions and Opening Remarks Dr. George Athanassakos, Director, Ben Graham Centre for Value Investing, Ivey Business School
8:45am – 9:25am	Morning Keynote Speaker Tony Fell – Topic: Building Shareholder Value – Slow and Steady Wins Introduction: Brian Bradstreet, Managing Director, Hamblin Watsa Investment Council Ltd.
9:25am – 12:45pm	Value Investor Panel Presentations and Q&A
9:25am – 9:55am	Michael van Biema – Topic: Portfolio Concentration and Value Investing
9:55am – 10:25am	Tom Russo – Topic: Global Value Equity Investing
10:25am – 10:45am	Coffee Break
10:45am – 11:15am	Mohnish Pabrai – Topic: The Quest for Value
11:15am – 11:45pm	Arnold Van Den Berg – Topic: The Importance of Getting the Worst Case Right
11:45am – 12:15pm	Andrew Brenton – Topic: Digging in the Right Places – How to Find Companies you Might Wish to Own
12:15pm – 12:45pm	Q&A



The Ben Graham Centre's 2017 Value Investing Conference

Afternoon Agenda

12:45pm – 1:15pm	Lunch
1:15pm – 2:15pm	Luncheon Keynote Speaker Will Danoff – Topic: A Growth Manager's Perspective on Value Investing Introduction: Prem Watsa, Chairman and CEO, Fairfax Financial Holdings Ltd.
2:40pm – 4: 30pm	Corporate Executive Panel Presentations and Q&A Topic: Looking for and Creating Shareholder Value – Industry Perspective
2:40pm – 3:20pm	Vernon W. Hill, II – Metro Bank's Perspective
3:20pm – 4:00pm	Isadore Sharp – Four Seasons' Perspective
4:00pm – 4:30pm	Q&A
4:30pm – 4:45pm	Concluding Remarks



Keynote Speakers



Tony Fell

Mr. Fell retired as Chairman of RBC Capital Markets in 2008 and was with that firm and its predecessor, Dominion Securities, for 48 years including 18 years as Chief Executive Officer from 1981 to 1999 and a further 8 years as Chairman. Mr. Fell is currently a Director of Wittington Investments, Limited, Selfridges Group and Canadian Real Estate Investment Trust (CREIT). Mr. Fell previously served as Deputy Chairman of the Royal Bank of Canada, Chairman of the Investment Dealers Association of Canada, Governor of the Toronto Stock Exchange, Director of Loblaw Company and BCE/Bell Canada. He has been active in the community as retired Chair of the Board of Trustees of the University Health Network, past Chairman of the Greater Toronto United Way Campaign, the Princess Margaret Hospital Capital Campaign, the Arthritis Society, a Director of the Duke of Edinburgh's Award Program in Canada and a Governor of St. Andrew's College. Mr. Fell was inducted into the Canadian Business Hall of Fame in 2010, appointed an Officer of the Order of Canada in 2001 and received an Honorary Doctorate from McMaster University in 2001 and from the University of Toronto in 2008 and is a recipient of the Award of Merit from B'Nai Brith Canada.



Will Danoff

Mr. Danoff joined Fidelity as an equity research analyst in 1986, after graduating from the Wharton School of the University of Pennsylvania. He covered the retail industry and managed the Fidelity Select Retailing Portfolio from 1986 to 1989. Mr. Danoff served as the portfolio assistant for the Magellan Fund in 1989 and 1990, before being asked to manage the Fidelity Contrafund in September 1990. Contrafund has more than \$100 billion of assets now, and is the largest solely managed active equity mutual fund in the world. Mr. Danoff launched the Fidelity VIP Contrafund in 1995, grew the fund to \$26 billion, and handed it off to colleagues in 2007. In addition, he started Fidelity Advisor New Insights Fund in 2003, and grew it to \$25 billion. Mr. Danoff started Fidelity Series Opportunistic Insights Fund in 2012, and has grown it to \$6 billion. Morningstar named Mr. Danoff "Domestic Stock Manager of the Year" in 2007.



Panel of Value Investing Professionals



Michael van Biema

Mr. van Biema is the founder of the van Biema Value Partners, LLC. He was on the faculty of Columbia Business School from 1992 to 2004 where he has taught general corporate finance, capital markets, securities analysis, value investing and entrepreneurial finance in both the regular and executive MBA programs. He has also served as director of a multi-year, multimillion-dollar research project into productivity in the service sector funded by the Alfred P. Sloan Foundation. He received his B.A. from Princeton University in Electrical Engineering and his Ph.D. from Columbia University. Before joining the faculty of Columbia Business School he was involved in several startup ventures. Mr. van Biema is the author of numerous publications, including an article in the Harvard Business Review entitled “Managing Productivity in the Service Sector” (Summer 1998), and co-author of the books “Value Investing from Graham to Buffett and Beyond” (Wiley, June 2001), and “Concentrated Investing” (Wiley 2016). He has lectured internationally on value investing.



Thomas Russo

Mr. 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 approach 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. Finally, Mr. Russo is a charter member of the Advisory Board for the Heilbrunn Center for Graham & Dodd Investing at Columbia Business School and a member of Dartmouth College’s President’s Leadership Council.



Mohnish Pabrai

Mr. Pabrai is the Managing Partner of the Pabrai Investment Funds and CEO of Dhandho Holdings Corporation. Since its inception in 1999 with \$1 million in assets under management, Pabrai Investment Funds has grown to over \$460 million in assets under management in 2016. Since inception, the funds have widely outperformed market indices and most investment managers. As of September 30, 2016 Pabrai funds has impressively realized an annualized gain of 13.1%. Pabrai was the Founder/CEO of TransTech, Inc. - an IT consulting and systems integration company. Founded in his home in 1990, Pabrai bootstrapped the company to over \$20 million in revenue when it was sold in 2000. TransTech was recognized as an Inc. 500 company in 1996. He is the author of two books on value investing, *The Dhandho Investor* and *Mosaic: Perspectives on Investing*. He is the Founder and Chairman of the Dakshana Foundation, a project that is focused on providing world-class educational opportunities to economically and socially disadvantaged gifted children worldwide.



Arnold Van Den Berg

Mr. Van Den Berg began his investing career in 1968, at the start of what turned out to be the worst bear market since the Great Depression. While selling mutual funds in the declining market, Arnold became concerned for his clients and noticed that some money managers seemed to suffer fewer losses. He embarked on an exhaustive study, discovering that those who practiced the value investing style pioneered by Benjamin Graham protected their client's capital better and provided more consistent results. While the consensus opinion was to avoid stocks at the bottom of the bear market in 1974, Arnold became convinced of the many great values that were available. He founded Century Management at this time and made Value Investing the cornerstone of Century's practice. Today, he serves as the company's CEO and Co-Chief Investment Officer. Arnold has been profiled in the books *The Great Minds of Investing* and *The World's 99 Greatest Investors: The Secret of Success*. He has also been interviewed by many media outlets including: *Outstanding Investor Digest*, *The Wall Street Journal*, *Outlook Profit Magazine* (India), *Money Manager Review*, *Graham and Doddsville* and *GuruFocus.com*. Arnold has no formal education beyond high school. His rigorous self-study, dedication, and 48 years of industry experience form the foundation of his market knowledge. For over 25 years Arnold has worked side-by-side with son Scott Van Den Berg (Co-Portfolio Manager) and son-in-law Jim Brilliant (Co-Chief Investment Officer and Portfolio Manager). Arnold frequently speaks to middle and high school students about the lessons he learned as a Holocaust survivor. He lives in Austin, Texas with his wife Eileen. They have three children and seven grandchildren.



Andrew Brenton

Mr. Brenton is the CEO and a co-founder of Turtle Creek Asset Management, a Toronto-based independent investment management firm that invests in publicly listed equities. Turtle Creek is focused on long term capital growth for a clientele of high net worth individuals, families and institutions and has an exceptional 15 year investment track record. Previously, Mr. Brenton founded and was the CEO of the private equity subsidiary of The Bank of Nova Scotia where he invested \$300 million in control positions of a dozen Canadian mid-market private companies. In the early 1990's, Mr. Brenton was head of the high technology investment banking practice of Scotia Capital and prior to that, he was a founding member and Managing Director in the firm's mergers and acquisitions practice. Mr. Brenton joined McLeod Young Weir (the predecessor to Scotia Capital) in 1984. Mr. Brenton received his MBA from the Richard Ivey School of Business (University of Western Ontario) in 1984 and his B.Sc. from Mount Allison University in 1980.



Panel of Corporate Executives



Vernon W. Hill, II

Mr. Hill is Chairman and founder of Metro Bank, London, Britain's first new High Street bank in 100+ years. He is a graduate of the Wharton School at the University of Pennsylvania. In 1973, Vernon founded Commerce Bank as a one-branch bank in Metro Philadelphia, with nine staff members and \$1.5 million which grew into a 500 store bank with 15,000 employees, a market capitalization of \$8.5 billion and a 30+ year compound shareholder return of 23%. Vernon and Shirley Hill, and Duffy, their Yorkie, have created Metro Bank and are revolutionizing U.K. banking with a total focus on convenience and service, including 7 day branch banking. Metro Bank has grown to over £10B in assets, in 48 stores with over 2,000 team members and a market value of over \$2.5B. Moneywise has recently named Metro Bank the UK's most trusted financial provider. In 2012, Hill published a book called *Fans! Not Customers* based on the theme of "Creating a Growth Company in a No Growth world".



Isadore Sharp

Mr. Sharp is the Founder and Chairman of Four Seasons Hotels and Resorts, the world's leading luxury hospitality company. He opened the first Four Seasons in Toronto in 1961, and the company now operates nearly 100 luxury hotels, resorts and private residences in the world's best destinations, with more than 60 additional properties at various stages of development across the globe. Mr. Sharp studied architecture and graduated from Ryerson Institute of Technology in 1952. He has been the recipient of many awards and honors such as: Cornell Icon of the Industry Award, Cornell University School of Hotel Administration, 2016; Lifetime Achievement Award, The Canadian Club of Toronto, 2016; Rosanna Caira Lifetime Achievement Award, Hotelier Magazine, 2014. In 2009, He authored a book detailing the history and philosophy of the company entitled *Four Seasons: The Story of a Business Philosophy*.



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