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Ben Graham Centre
for Value Investing

Ben Graham Centre's 2018 Value Investing Conference

April 25, 2018
Osgoode Ballroom
Sheraton Centre 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, I find proclamations in media reports such as that “Active managers trail benchmarks in 2016” frustrating and worrisome. Even more worrisome is the fact that according to a story in Wall Street Journal, about 82% of all active US funds trailed their benchmarks over the last 15 years. The numbers are similar in Canada, as well. No wonder the number of ETFs listed on the Toronto Stock Exchange has more than doubled since 2011.

Why is it almost impossible for reported numbers to show that active managers beat benchmarks? But beyond that, what may make it actually difficult for active managers to outperform benchmarks?

With regards to the first question, the S&P Indices Versus Active Funds (SPIVA) reports, on which the Investment Executive and the Wall Street Journal based their reporting, do not compare apples with apples. They group together closet indexers as well as narrowly focused funds, and given that about 40% of mutual funds in Canada and the US are closet indexers, the numbers are biased against showing an outperformance of active managers. That is almost half of the Universe of mutual funds, being closet indexers, will never outperform their benchmarks; in fact, after fees they will underperform.

Why so many mutual funds are closet indexers? Conflicts prevent portfolio managers from doing the right thing, as their key priority is to not lose their job and not lose funds under management, and so the safest thing for them to do is to herd and gravitate towards the index; they become closet indexers. **It is such behavior that prevents them from outperforming.**

If, however, one looks at funds which invest in concentrated portfolios and/or deviate significantly from benchmarks, these funds tend to outperform according to recent academic studies. For example, 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. Finally, a study at UCLA, titled “Fundamental Analysis Works” co-written by Soehnke Bartram and Mark Grinblatt, shows 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.”

In other words, fund managers underperform the index not because they lack stock picking abilities but rather because institutional factors force them to over-diversify.

With regards to the second question, active managers have difficulty outperforming in a rapidly rising market – the one we have witnessed over the last 10 years. This is mostly because active managers hold large amounts of cash, especially as the market gets more



and more expensive, which makes them underperform in a rapidly rising market. Whereas the index is always fully invested. In a down, flat or mildly rising markets, however, active managers have easier time outperforming, such as in the 60's and 70's.

Additionally, the S&P 500 Index is a hard competitor to beat to start with. This is because normally (and regularly) problem companies are replaced in the Index with companies with better financials and performance. For example, many of NASDAQ leaders in the late 90's and early 2000s that drove the market sharply higher and then tanked no longer exist in any index. In other words, active managers always compete with the best group of companies that the index contains. And more importantly active managers have to beat this "best-stocks" Index after fees and after all other costs associated with running an active fund.

So let's be fair and give credit where credit is due and stop this active manager bashing. Active management is not doomed. Good active managers will survive and will keep making a good living out of active management, 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 and lower government spending will lead to an increase in stock-market volatility. An expensive market 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, active managers, 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 2018 finalists join us today, and the Academic Symposium, to be held next month in Toronto, 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. William McMorrow, Chairman and CEO, Kennedy Wilson Holdings and Mr. Mason Hawkins, Chairman and CEO, Southeastern Asset Management, 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 2018 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

William McMorrow, Chairman and CEO, Kennedy Wilson Holdings Inc., Beverly Hills, CA, USA

Luncheon Keynote Speaker

Mason Hawkins, Chairman and CEO, Southeastern Asset Management Inc., Memphis, TN, USA

Panel of Value Investing Professionals

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

John Phelan, Co-Managing Partner and Co-Founder of MSD Capital, L.P., New York, NY, USA

Elizabeth Lilly, Founder & President, Crocus Hill Partners, St. Paul, MN, USA

Alan MacDonald, Senior Vice President and Portfolio Manager, Burgundy Asset Management Ltd., Toronto, ON, Canada

Jan Hummel, Managing Director and CIO, Paradigm Capital Value Fund, Munich, Germany

Panel of Corporate Executives

David Sokol, Chairman & Chief Executive Officer, Teton Capital, LLC, Jackson Hole, WY, USA

Puneet Dalmia, Managing Director, Dalmia Bharat Group, New Delhi, India

Nirmal Jain, Founder and Chairman, India Infoline (IIFL) Holdings Ltd., Mumbai, India

Ramesh S. Damani, Chairman, Avenue Supermarts Ltd., Mumbai, India



The Ben Graham Centre's 2018 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 William McMorrow – Taking the Long View: Lessons Learned from 30 Years of Real Estate Value Investing Introduction: Roger Lace, President, Hamblin Watsa Investment Counsel Ltd.
9:25am – 12:45pm	Value Investor Panel Presentations and Q&A
9:25am – 9:55am	Mohnish Pabrai – Compounding is the 8th Wonder of the World
9:55am – 10:25am	John Phelan – Portfolio Management the MSD Way
10:25am – 10:45am	Coffee Break
10:45am – 11:15am	Elizabeth Lilly – Small and Microcap Stocks: The Last Undiscovered Frontier for Alpha
11:15am – 11:45am	Allan MacDonald – Finding Great Investment Opportunities in New Business Models
11:45am – 12:15pm	Jan Hummel – The Future of Active Value Investing
12:15pm – 12:45pm	Q&A



The Ben Graham Centre's 2018 Value Investing Conference

Afternoon Agenda

12:45pm – 1:15pm	Lunch
1:15pm – 2:15pm	Luncheon Keynote Speaker Mason Hawkins – Long Term, Concentrated and Engaged Value Investing Introduction: Prem Watsa, Chairman and CEO, Fairfax Financial Holdings Ltd
2:40pm – 4: 40pm	Corporate Executive Panel Presentations and Q&A
	Insights in the Global Container Shipping Industry: The Case of Seaspam
2:40pm – 3:05pm	David Sokol – Teton Capital's Perspective
	Insights in Finding Value-Creating Opportunities: The Case of India
3:05pm – 3:30pm	Puneet Dalmia – Dalmia Bharat Group's Perspective
3:30pm – 3:55pm	Nirmal Jain – India Infoline Holdings' Perspective
3:55pm – 4:20pm	Ramesh S. Damani – Avenue Supermarts' Perspective
4:20pm – 4:40pm	Q&A
4:40pm – 4:45pm	Concluding Remarks



Keynote Speakers



William McMorrow

Mr. William (Bill) McMorrow is chairman and CEO of Kennedy Wilson, which he acquired in 1988 and has subsequently grown into a leading global real estate investment platform. Kennedy Wilson has offices in 25 different markets throughout the United States, United Kingdom, Ireland, Spain, Jersey and Japan with \$18 billion of assets under management across the property spectrum. In 2015, he was honored by the Ireland Chamber of Commerce in the United States with the Sir Michael Smurfit Business Achievement Award for his years of leadership and his contributions to Ireland, and in May 2017 he was a recipient of the Ellis Island Medal of Honor. Mr. McMorrow is involved in many charities, including Chrysalis, Navy SEAL Foundation, and City of Hope, which honored him in 2014 at its Spirit of Life Celebration. He received his Bachelor of Science degree in Business as well as his MBA from the University of Southern California, where he serves as a Trustee. He is also on the Executive Board of the USC Lusk Center for Real Estate and endowed the William J. McMorrow Global Real Estate Program at the USC Marshall School of Business. Mr. McMorrow's other philanthropic interests include supporting Loyola High School, which honored him with the Cahalan Award for Distinguished Alumni in 2010 and where he serves on the Loyola High School Board of Regents.



Mason Hawkins

Mr. Mason Hawkins is the Chairman and CEO of Southeastern Asset Management, Inc., a \$20 billion global investment management firm he founded in 1975. Headquartered in Memphis with offices in London, Singapore and Sydney, Southeastern is the investment advisor to the Longleaf Partners family of mutual and UCITS funds, 130 separate institutional accounts and three investment partnerships. Mason and his partners are renowned for having most successfully employed a disciplined, concentrated and engaged long-term value approach to equity investing. Mr. Hawkins is a recognized leader in the investment industry and has been the recipient of numerous honors throughout his career. He received Institutional Investor's Lifetime Achievement Award in 2005. Morningstar named him and Co-Portfolio Manager, Staley Cates, Domestic Equity Fund Manager of the Year in 2006 and, in 2007, Foundation & Endowment Money Management awarded him their Equity Manager of the Year award. David Swensen of Yale University in Winning the Active Management Game wrote, "Southeastern Asset Management exemplifies every fundamentally important, investor-friendly characteristic conducive to active management success." Mason graduated from the University of Florida in 1970, completed his MBA from the University of Georgia in 1971 and is a Chartered Financial Analyst.



Panel of Value Investing Professionals



Mohnish Pabrai

Mr. Mohnish 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.



John Phelan

Mr. John Phelan is the Co-Managing Partner and Co-Founder of MSD Capital, L.P., the private investment firm for Michael Dell, the founder and CEO of Dell Inc. John is also the Co-Managing Partner of MSDC Management, L.P. Prior to forming MSD, John was a Principal for seven years at ESL Partners, a Greenwich, Connecticut-based investment firm. At ESL, John was responsible for ESL's Special Situation and Distressed Investments and helped grow the firm from \$50 million to over \$2 billion in assets under management. John received his M.B.A. from Harvard Business School, and graduated Phi Beta Kappa, cum laude with distinction from S.M.U. with a B.A. in Economics and Political Science. John holds a General Course degree with an emphasis in Economics and International Relations from the London School of Economics. He is on the Board of Trustees at the Whitney Museum of American Art, the Aspen Art Museum (Co-President) and Cold Spring Harbor Laboratory (Chairman of the Investment Committee). He is also involved with his respective alma maters and currently serves on the Deans Advisory Board for the Harvard Business School, the Investment Committee for the S.M.U. Endowment, and the North American Advisory Board for the London School of Economics.



Elizabeth Lilly

Ms. Elizabeth (Beth) Lilly is the Founder and President of Crocus Hill Partners, formed in April 2017. From 2002-2017 Beth was a Senior Vice President and Portfolio Manager at GAMCO Investors and was a portfolio manager of the \$1.0 Billion Teton Westwood Mighty Mites Fund as well as being a member of the Value Portfolio Management Team. Beth began her career at Goldman Sachs in 1985 in New York. In 1988, she joined Fund American Companies in Greenwich, CT where she worked as an analyst under the tutelage of Bob Bruce and Warren Buffett learning the merits of Value Investing. In 1997, Beth co-founded the investment firm Woodland Partners which focused on investing in small capitalization stocks. In 2002, Woodland Partners was acquired by GAMCO Investors. Beth received a BA in Economics from Hobart/William Smith College where she graduated with High Honors. She received her CFA designation in 1989.



Allan MacDonald

Mr. Allan MacDonald is the Senior Vice President and Portfolio Manager of Burgundy Asset Management, Ltd. From an early age, Allan was fascinated by business. To him, financial statements weren't just numbers on a page, they represented the pulse of a corporation. Through those statements you could see the evolution of a company. Why did some businesses thrive, while others withered? This question always captivated Allan. He has been pursuing his passion of investing in public equities for the past 27 years. During his career, he has had the opportunity to meet some of the greatest business people. He considers having access to these visionaries – many of whom started with nothing and went on to create billion-dollar companies – one of the most rewarding parts of his job.

Jan Hummel

Mr. Jan Hummel is a Swedish national residing in Munich, Germany. He holds an MSc degree from the Stockholm School of Economics and an MBA degree from the Harvard Business School. He is the founding partner of Paradigm Capital AG, a private investment company, and CIO of the Paradigm Capital Value Fund. Prior to HBS, he was an associate at Booz, Allen & Hamilton in London. Subsequently, he was an investment banker with Merrill Lynch in New York and London. Mr. Hummel then spent 12 years making private equity investments in Germany and the Nordic countries. He was a principal in more than 15 private equity transactions. Four of these resulted in Stock Exchange listings and the remaining in trade sales. In 2007, Mr. Hummel co-founded the Paradigm Capital Value Fund with Prof. Bruce Greenwald and Mario Gabelli and assumed his role as the fund's CIO. He is a member of the Swedish Economics Society, a Conventor of the Peutingen Collegium, Munich, and the former Treasurer of the Harvard Club Munich.



Panel of Corporate Executives



David Sokol

Mr. Sokol has founded three companies in his career to date, taken three companies public and as Chairman and CEO of MidAmerican Energy Holdings Company; he sold the company to Berkshire Hathaway, Inc. in 2000. Mr. Sokol continued with Berkshire Hathaway, Inc., until he retired in March, 2011 in order to manage his family business investments. Mr. Sokol currently is the Chairman of Seaspan, Corporation, sits on two corporate boards and is a member of the executive committee of the board of directors of the Horatio Alger Association of Distinguished Americans. Sokol's business philosophy, based upon vision, strategy and six operating principles is described in a book he authored in 2008, *Pleased But Not Satisfied*. It is a simple business model with a definite focus on developing future leaders. Teton Capital, LLC is headquartered in Jackson Hole, Wyoming and is a family holding company which oversees investments in the banking, manufacturing, consumer products, energy, real estate and technology businesses.



Puneet Dalmia

Mr. Puneet Dalmia has been the driving force behind the exponential growth witnessed by the Dalmia Bharat Group since he took over the reins in 2007. In the last decade the Group's sales have grown at a CAGR of 19% to over Rs.10,000 Cr (~USD 1.5 Bn) and the market cap has grown to over Rs.25,000 Cr (~USD 4 Bn). Prior to leading Dalmia Bharat, Puneet co-founded JobsAhead.com in 1999, one of the few successful dotcom companies. JobsAhead had a market share of close to 50% before it was sold to world's leading e-recruitment firm Monster.com for Rs.400 million. Puneet serves on FICCI's Executive Committee Chairs the manufacturing committee. He has served on the Advisory Board Member of NSRCEL (NS Raghavan Center for Entrepreneurship), IIM Bangalore and on the board of Young Presidents' Organization Delhi Chapter. He has keen interest in education and serves as a Founder and Trustee of Ashoka University & a board member of Central Square Foundation (CSF). A gold-medalist MBA from the Indian Institute of Management, Bangalore, Puneet holds a B. Tech degree from the prestigious Indian Institute of Technology, Delhi.



Nirmal Jain


Mr. Nirmal Jain, Founder and Chairman of IIFL Group, is a first generation entrepreneur, who is credited with building one of the largest financial services groups in India in just about two decades. He is a PGDM (Post Graduate Diploma in Management) from IIM, Ahmedabad, a rank holder Chartered Accountant and a Cost Accountant. Today, IIFL has a market capitalization of over Rs 19,000 crores and is backed by marquee global investors like Fairfax Group, private equity major General Atlantic and UK government's private equity fund - CDC Group. IIFL Group has a customer base of four million across 8 countries. The NBFC operation has over 1,100 branches mostly in smaller towns and rural locations. The wealth business manages and advises over Rs 120,000 crores of assets and has over 10,000 wealthiest families as clients. IIFL Institutional Equities caters to over 300 global funds.



Ramesh S. Damani

Mr. Ramesh S. Damani is a Member of the Bombay Stock Exchange (BSE). A graduate of H. R. College, Mumbai, he did his MBA from California State University, Northridge. He has been a Broker, at the BSE, since 1989. He serves as the Chairman of Avenue Supermarts Ltd (known as D-Mart) and also serves on the Board of APTECH Ltd as an independent director. He has hosted a number of shows for CNBC-TV18, among them, Wizards of Dalal Street, Oriental & Occidental, RD 360 and A Fresh Breeze. He is a frequent commentator on financial issues on various business channels. Married, to

Ruchi, with one son.



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