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Ben Graham Centre
for Value Investing

Ben Graham Centre's 2020 Value Investing Conference

"In Celebration of Ben Graham in a World that
Questions Value Investing"

April 15, 2020
Fairmont Royal York
Canadian Room
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. Therefore, I find articles published in the popular press and blogs arguing that value investing is dead disturbing, to say the least. The authors of these writings substantiate their claim by providing evidence that picking cheap stocks, meaning stocks with low price/earnings (P/E) or price-to-book (P/B), has been ineffective since the onset of the great Recession. They show, for example, that since August 2007, US value stocks had a total return of 120% vs. 235% return for the so-called growth stocks. The MSCI world growth index returned 140%, almost double the MSCI world value index, over the same period. And it is not just since 2007. A recent study by Merrill Lynch, for example, indicates that the cheapest stocks in the US based on P/B averaged 2.3% over the last five years, whereas the most expensive stocks based on P/B enjoyed an 8.5% return over the same period.

What is going on? Is value investing dead or not? It all depends on how one defines value and growth investing. Investors widely use the terms value stocks and growth stocks, but many do not know what they mean. Academic researchers sort stocks by P/E, P/B or other valuation metrics, and form a number of portfolios from the sorted stocks. They call the lowest P/E stocks “value stocks” and the highest P/E stocks “growth stocks”. While academicians do not know which stocks from the value group value investors will eventually buy, they do know that value investors mostly choose stocks from the lowest P/E group and avoid stocks from the highest P/E group. ETFs only roughly adhere to this rule.

But value investing is more than that. Many investors believe that the only thing value investors do is sort stocks by P/E and invest in the lowest P/E stocks, which cannot be furthest from the truth. Sorting by P/E (or other metrics) is only the first step in the value investing process. Next, value investors value each of the lowest P/E stocks to find their intrinsic value. Finally, they compare the intrinsic value of each stock to the market price. If the stock price is less than the intrinsic value by at least the so-called “margin of safety” (normally around 33% of the intrinsic value), the stock is considered truly undervalued and is worth investing in.

Having said that, however, even buying from the low P/E group of stocks is not true for all value investors. The deep value Ben Graham-style value investors do, but the Buffett-like investors do not necessarily. But let's leave this discussion for another time and focus on what most of this discussion has revolved around, namely, the Ben Graham-style value investing.

Returning to the ETF comparisons: Value ETFs do not meet the value requirements for either value investors or academics. How is this so? As indicated above, (Ben Graham-style) value investors start their analysis with a search process to identify possibly undervalued stocks. This involves looking for stocks which are neglected and/or undesirable. Neglected are stocks that are small cap, have low analyst coverage and low liquidity. Undesirable are stocks with low growth opportunities, low P/E ratio and low P/B.

Value investing is all about finding undervalued stocks, and these tend to be stocks that are smaller, and with low analyst following, and low P/E and P/B. However, this is not how ETFs are structured, as they need stocks that are larger and with a lot of liquidity. These tend not to be potentially or truly undervalued stocks. And the results bear this out.

Moreover, P/Es and P/Bs are a function of interest rates. As rates currently converge towards zero, the P/Es and P/Bs of all stocks rise significantly above historical levels. In this setting, companies with very low P/Es and P/Bs tend to be bad companies and investing in them by definition leads to underperformance. My research has demonstrated this clearly.



At the same time, P/Es and P/Bs are also a function of the growth rate of earnings going forward. This relationship can be found in a mathematical formula derived from the equity valuation model taught at every university. Companies have low (high) multiples because markets expect low (high) earnings growth. However, the way growth comes into the mathematical formula implies that high multiple firms are expected to sustain high growth forever; vice versa for low multiple firms. The markets tend to be over-optimistic about growth for high multiple firms and over-pessimistic about growth for low multiple firms. Moreover, growth stocks' optimistic growth rate assumption interacts with current record-low interest rates. Such interaction benefits growth stocks the most, as their future growth opportunities look very high in present value terms. As a result, particularly in the current interest rate environment, investors tend to overvalue (and overpay for) high multiple firms and undervalue low multiple firms. Hence, the growth stocks' higher returns.

Which leads to an interesting conjecture: What if we are, for the foreseeable future, in a low inflation, low interest rate environment, what does this mean for an investing strategy that "naively" considers only low P/E (or P/B)? Fortunately, this is not what value investors do. The process they follow goes beyond "naively" investing in low P/E (or P/B) stocks. They invest in these stocks only if they meet a predetermined margin of safety requirement. Therefore, I have a problem with these writings. They perpetuate a misunderstanding of what value investing is. Value investors indeed buy from the low P/E and/or low P/B stocks, but they do not buy all such stocks as stocks can have a low P/E (or P/B) simply because they are bad stocks.

I would like to welcome you all to this year's Conference. Thanks to your support of the Centre over the past fifteen years, 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 Conferences, Symposiums, Stock Picking Competitions, whose 2020 finalists join us today, and value investing Seminars with this year's Seminar to be held in Toronto from July 27 to 31.

Normally, we do not have a theme for the Conference. We made an exception this year in light of all the recent criticisms of value investing and the inferences that "this time it is different". The theme is "In Celebration of Ben Graham in a World that Questions Value Investing". We proudly welcome our panel of professional value investors who will speak about value investing around the world and who are a living testament of what I have described. They will tell us how they put what I detailed above into practice in their own portfolios in a global setting. We will not have the usual CEO panel this year, but instead, to emphasize our Conference theme, we will celebrate Tweedy, Browne Company's 100-year anniversary (1920-2020) with a speech by William H. Browne, the company's Managing Director. His presentation will be followed by a Q&A session with the company's executives conducted by Jeff Stacey. If a company such as Tweedy, Browne has survived for such a long time period, and over many business and market cycles, then value investing is not and will never be dead. I am excited to be part of this celebration and am looking forward to hearing Tweedy, Browne executives tell us how the company has done it.

I am also delighted to have as keynote speakers at the Conference James Grant, Howard Marks and H. Lawrence Culp, Jr. who will give us a view of the world that 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 2020 Value Investing Conference offers a panel of speakers with a proven record of success in the field of value investing. Featured speakers participating at the Conference are:

Morning Keynote Speaker

James Grant, Financial Journalist and Historian, Founder and Editor of Grant's Interest Rate Observer, New York, NY, USA

Luncheon Keynote Speaker

Howard Marks, Co-Chairman, Oaktree Capital Management, L.P., Los Angeles, CA, USA

Afternoon Keynote Speaker

H. Lawrence Culp, Jr., Chairman and CEO, General Electric Co, Boston, MA, USA

Panel of Value Investing Professionals

Dianne K. McKeever, Chief Investment Officer, Managing Member and Co-Founder, Ides Capital Management LP, New York, NY, USA

Francisco García Paramés, Chairman and CIO, Cobas Asset Management, Madrid, Spain

Evan Vanderveer, Managing Partner, Vanshap Capital, Arlington, VA, USA

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

Guy Gottfried, Founder & Managing Director, Rational Investment Group, LP, Boston, MA, USA

Tweedy, Browne Company LLC Panel

William H. Browne, Managing Director, Tweedy, Browne Company LLC, Stamford, CT, USA

Conversation with Tweedy, Browne Company Executives

Moderator: Jeffrey D. Stacey, Chairman and Chief Executive Officer, Stacey Muirhead Capital Management, Waterloo, ON, Canada

Executives:

John D. Spears, Managing Director, Tweedy, Browne Company LLC, Stamford, CT, USA

Robert Q. Wyckoff, Jr., Managing Director, Tweedy, Browne Company LLC, Stamford, CT, USA

Thomas H. Shrager, Managing Director, Tweedy, Browne Company LLC, Stamford, CT, USA



The Ben Graham Centre's 2020 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 – 9:15am	Morning Keynote Speaker James Grant – “Sometimes You Have a Bad Decade” Introduction: T.B.D.
9:15pm – 9:25pm	Q&A
9:25am – 12:45pm	Value Investor Panel Presentations and Q&A
9:25am – 9:55am	Dianne K. McKeever – Value <u>S</u> Investing: ESG Frameworks that Minimize Risks and Maximize Returns
9:55am – 10:25am	Francisco García Paramés – Some Stocks (Mostly European) Ben Graham Would Love
10:25am – 10:45am	Coffee Break
10:45am – 11:15am	Evan Vanderveer – Investing in Capital Constrained Markets
11:15am – 11:45am	Mohnish Pabrai – From Ben Graham to Phil Fisher
11:45am – 12:15pm	Guy Gottfried – Topic T.B.D.
12:15pm – 12:45pm	Panel Q&A



The Ben Graham Centre's 2020 Value Investing Conference

Luncheon Agenda

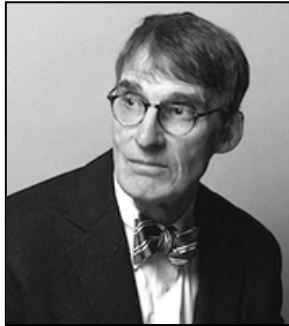
12:45pm – 1:15pm	Lunch
1:15pm – 2:00pm	Luncheon Keynote Speaker Howard Marks – 1969-2020: The Evolution of Investing Introduction: T.B.D.
2:00pm – 2:15pm	Q&A
2:15pm – 2:40pm	Break

Afternoon Agenda

2:40pm – 3:05pm	Afternoon Keynote Speaker H. Lawrence Culp, Jr. – GE's Multiyear Transformation Story: A Value Opportunity Introduction: Prem Watsa, Chairman and CEO, Fairfax Financial Holdings Ltd
3:05pm – 3:20pm	Q&A
3:20am – 4:50pm	Tweedy, Browne Company Presentation and Q&A
3:20pm – 3:50pm	William H. Browne – Tweedy, Browne 1920-2020: Celebrating 100 Years of Value Investing Introduction: Jeffrey D. Stacey, Chairman and Chief Executive Officer, Stacey Muirhead Capital Management
3:50pm – 4:20pm	A Conversation between Jeffrey D. Stacey and Tweedy, Browne Company Executives
4:20pm – 4:45pm	Q&A
4:45pm – 4:50pm	Concluding Remarks



Keynote Speakers



James Grant

Mr. Grant, financial journalist and historian, is the founder and editor of *Grant's Interest Rate Observer*, a twice-monthly journal of the investment markets. His book, *The Forgotten Depression, 1921: The Crash that Cured Itself*, a history of America's last governmentally unmedicated business-cycle downturn, won the 2015 Hayek Prize of the Manhattan Institute for Policy Research. His new book, *Bagehot: The Life and Times of the Greatest Victorian*, was published in July. Among his other books on finance and financial history are Bernard M. Baruch: *The Adventures of a Wall Street Legend* (Simon & Schuster, 1983), *Money of the Mind* (Farrar,

Straus & Giroux, 1992), *Minding Mr. Market* (Farrar, Straus, 1993), *The Trouble with Prosperity* (Times Books, 1996), and *Mr. Market Miscalculates* (Axios Press, 2008). He is, in addition, the author of a pair of political biographies: *John Adams: Party of One*, a life of the second president of the United States (Farrar, Straus, 2005) and *Mr. Speaker! The Life and Times of Thomas B. Reed, the Man Who Broke the Filibuster* (Simon & Schuster, 2011). Mr. Grant's television appearances include "60 Minutes," "The Charlie Rose Show," "CBS Evening News," and a 10-year stint on "Wall Street Week". His journalism has appeared in a variety of periodicals, including *The Wall Street Journal*, *Financial Times*, *Foreign Affairs* and *The Claremont Review of Books*. He contributed an essay to the Sixth Edition of Graham and Dodd's *Security Analysis* (McGraw-Hill, 2009). Mr. Grant, a former Navy gunner's mate, is a Phi Beta Kappa alumnus of Indiana University. He earned a master's degree in international relations from Columbia University, began his career in journalism in 1972, at the *Baltimore Sun*, and joined the staff of *Barron's* in 1975. He is a trustee of the New York Historical Society and a member of the Council on Foreign Relations. He and his wife, Patricia Kavanagh M.D., live in Brooklyn. They are the parents of four grown children.



Howard Marks

Since the formation of Oaktree in 1995, Mr. Marks has been responsible for ensuring the firm's adherence to its core investment philosophy; communicating closely with clients concerning products and strategies; and contributing his experience to big-picture decisions relating to investments and corporate direction. From 1985 until 1995, Mr. Marks led the groups at The TCW Group, Inc. that were responsible for investments in distressed debt, high yield bonds, and convertible securities. He was also Chief Investment Officer for Domestic Fixed Income at TCW. Previously, Mr. Marks was with Citicorp Investment

Management for 16 years, where from 1978 to 1985 he was Vice President and senior portfolio manager in charge of convertible and high yield securities. Between 1969 and 1978, he was an equity research analyst and, subsequently, Citicorp's Director of Research. Mr. Marks holds a B.S.Ec. degree cum laude from the Wharton School of the University of Pennsylvania with a major in finance and an M.B.A. in accounting and marketing from the Booth School of Business of the University of Chicago, where he received the George Hay Brown Prize. He is a CFA® charterholder. Mr. Marks is a Trustee and Chairman of the Investment Committee at the Metropolitan Museum of Art; Chairman of the Investment Committee of the Royal Drawing School; and an Emeritus Trustee of the University of Pennsylvania where from 2000 to 2010 he chaired the Investment Board.



H. Lawrence Culp, Jr.

Mr. Culp is the Chairman and Chief Executive Officer of GE. Larry is GE's twelfth CEO and eleventh Chairman. He joined the GE Board of Directors in April 2018 and joined GE as CEO in October 2018. Prior to joining GE, Larry served as the President and CEO of Danaher Corporation from 2000 to 2014, and during his tenure the company increased both its revenues and its market capitalization five-fold. Investors and analysts consistently ranked him as one of the top CEOs in annual Institutional Investor surveys, and Harvard Business Review named Larry one of the Top 50 CEOs in the world. Larry joined Danaher in 1990 at Veeder-Root, becoming President in 1993. He was appointed Group Executive and Corporate Officer in 1995, with responsibility for Danaher's Environmental and Electronic Test and Measurement platforms while also serving as President of Fluke and Fluke Networks. He was named Executive Vice President in 1999, Chief Operating Officer in 2001, and President and CEO in 2001. Larry is a member and the immediate past chair of the Board of Visitors and Governors of his alma mater, Washington College, and also serves on the Wake Forest University Board of Trustees. Previously, Larry was a Senior Lecturer at Harvard Business School, where he focused on leadership, strategy and general management in the MBA and executive education programs. A member of Phi Beta Kappa, Larry earned a B.A. in Economics from Washington College and an MBA from Harvard Business School.



Panel of Value Investing Professionals



Dianne K. McKeever

Ms. McKeever is Chief Investment Officer, Managing Member and Co-Founder of Ides Capital Management LP, a New York-based investment advisor focused on small and mid-capitalization public companies that are deeply undervalued and provide a margin of safety. Ides constructively engages with management teams and corporate boards to improve corporate governance practices and to implement changes that drive long-term value for the benefit of all shareholders. Prior to Ides, Ms. McKeever was a Partner at Park Row Capital. Ms. McKeever began her career at Barington Capital Group, a New York-based small cap activist fund, where she was a Partner and which she joined in 2001. Ms. McKeever has served as a public company director of LQ Corporation, Inc. and Sielox Inc., where she chaired the Nominating and Governance Committee and serves as a member of the Council of Institutional Investors' Corporate Governance Advisory Council. She holds a JD from Fordham Law and received a BE in Chemical Engineering from Stevens Institute of Technology and a BS in Chemistry from New York University. Ms. McKeever was recently named to Fortune Magazine's 40 Under 40, Marie Claire's New Guard and Crain's New York Business 40 Under 40. She is an American Swiss Foundation Young Leader and received the 2018 Stevens Distinguished Alumni Award in Business and Finance.



Francisco García Paramés

Mr. Paramés was born in 1963 in El Ferrol, Spain. After graduating in Economics, he took an MBA at the IESE business school. A voracious reader, he gets through books as briskly, it seems, as his long daily walks. He is also a keen swimmer, and sometimes plays golf. His track record of 25 years near the top of performance rankings make him one of Europe's leading asset managers in the "value" school. He is a self-taught follower of Warren Buffett's investment approach. His asset management style is based on strictly applying the principles of value investing (Graham, Buffett, Peter Lynch, etc.), within the framework of the Austrian business cycle theory. He is the author of *Invirtiendo a largo plazo* (Investing for the long term), a book in which he explains the underpinnings of his own investment approach and experience.



Evan Vanderveer

Mr. Vanderveer is a Managing Partner of Vanshap Capital and currently serves on the Board of Directors of Detrex Corporation, one of the Fund's largest holdings. Vanshap Capital is a deep value, globally oriented investment management firm, minority owned by Markel Corporation. Vanshap employs a research-intensive process to identify businesses run by disciplined management teams trading at low multiples of tangible book value or cash earnings. Prior to launching Vanshap, Mr. Vanderveer was an analyst at deep value manager, Aegis Financial Corporation. He is a graduate of The George Washington University, where he earned a Bachelor of Business Administration degree, with a concentration in finance.



Mohnish Pabrai

Mr. Pabrai is the Managing Partner of the Pabrai Investment Funds and CEO of Dhandho Holdings Corporation. Since 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.

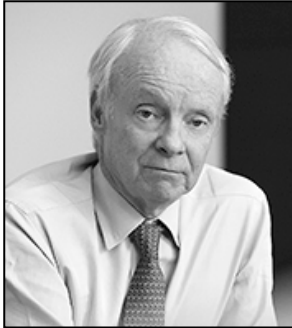


Guy Gottfried

Mr. Gottfried is the founder and Managing Partner of Rational Investment Group, LP, a Boston-based firm following a concentrated, long-term and opportunistic investment approach. Prior to founding Rational, Mr. Gottfried was an analyst at Fairholme Capital Management. He began his career at Veritas Investment Research, Canada's largest independent equity research firm. Mr. Gottfried graduated with a BBA with Honors from the Schulich School of Business at York University in Toronto, where he was a President's Scholarship recipient.



Tweedy, Browne Company LLC Panel



William H. Browne

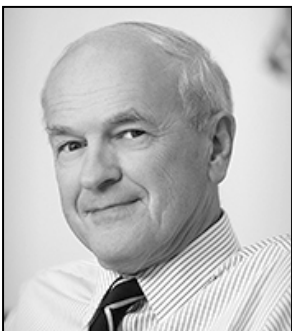
Mr. Browne has been with Tweedy, Browne Company LLC, a registered investment advisor, since 1978 and is a member of the firm's Management Committee and Investment Committee. He is a Managing Director of Tweedy, Browne Company LLC, Vice President and Director of Tweedy, Browne Fund Inc., a US-based mutual fund group, and is also Chairman of the Board of Directors of Tweedy, Browne Value Funds SICAV, domiciled in Luxembourg. Mr. Browne is a Trustee Emeritus of Colgate University, and holds the degrees of B.A. from Colgate University and M.B.A. from Trinity College in Dublin, Ireland.

Additionally, he is a Member of the Executive Advisory Board of the Heilbrunn Center for Graham & Dodd Investing. Mr. Browne has over 40 years of experience in the investment management business, and is a frequent speaker on value investing, investment theory, and behavioral finance.



Thomas H. Shrager

Mr. Shrager has been with Tweedy, Browne Co. since 1989, becoming a partner in 1997 and today serves on the firm's investment and management committees. Prior to joining Tweedy, Browne, Mr. Shrager had worked in mergers and acquisitions at Bear Stearns, and as a consultant for Arthur D. Little. He is a graduate of Columbia University (B.A. 1983), and the School of International & Public Affairs, Columbia University (M.A. 1985). Mr. Shrager has over 25 years of experience in the investment management business. He is the President and a Director of Tweedy, Browne Funds Inc.



John D. Spears

Mr. Spears has been with Tweedy, Browne Company LLC since 1974 and is a member of the firm's Management Committee and Investment Committee. He is also Vice President of Tweedy, Browne Fund Inc., a mutual fund group. Before joining Tweedy, Browne, Mr. Spears had been in the investment business for five years with Berger, Kent Associates; Davic Associates; and Hornblower & Weeks-Hemphill, Noyes & Co. He studied at the Babson Institute of Business Administration, Drexel Institute of Technology and the University of Pennsylvania — The Wharton School. Mr. Spears brings over 40 years

of experience to bear in the investment management business. He has spoken from time-to-time on the topics of value investing, investment theory and behavioral finance, as well as co-authored a number of Tweedy, Browne studies/white papers.



Robert Q. Wyckoff, Jr.

Mr. Wyckoff has been with Tweedy, Browne Company since 1991, becoming a partner in 1997, and today serves on the firm's Investment and Management Committees. He is also Chairman and Vice President of Tweedy, Browne Funds Inc., a U.S.-based mutual fund group, and is a member of the Board of Directors of Tweedy, Browne Value Funds, domiciled in Luxembourg. Prior to joining Tweedy, Browne, Mr. Wyckoff held positions at other investment firms including Stillrock Management (a Rockefeller family office), J&W Seligman & Co., C.J. Lawrence and Bessemer Trust Company. He has over 38 years of experience in the investment management business, and has been a frequent speaker on value investing, investment theory, and behavioral finance. He is a graduate of Washington & Lee University (B.A. 1975), and the University of Florida Law School (J.D. 1978), and pursued additional graduate studies at the Stern School of Business at NYU (1981-1982).



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