



**Ben Graham Center for Value Investing**  
**April 10, 2013**

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# Disclaimer

I might be wrong; don't rely on my statements. Do your own work.

# Agenda

- Our Approach
- What we own
- A couple of observations

# My Investment Criteria – “ABBA”

*Accidents*

*Bird in hand*

*Brick (cheap) house*

*Avoid Lola (or alignment of interests)*

# Criteria 1: Accident

*“If you’re going to buy the best bargains, you have to buy the things that people are selling.” – Sir John Templeton*

- Look to buy when people are selling for reasons other than price
- Examples:
  - Sectors, industries or regions that people are avoiding
  - Bad news (i.e. dividend cuts, unexpected poor results)
  - Special situations ( spin off, emergence from bankruptcy, rights issue)

# Criteria 2: Bird in hand

*“Protect the downside. Worry about the margin of safety.” – Peter Cundill*

- Want margin of safety based on purchase price
- Also consider what the stock may be worth in 3 years (bird in the bush)
- Examples of things considered when valuing a company:
  - Replacement value
  - Liquidation value
  - Private market value
  - Sum of the parts value

# Couple of Cundill-isms

- *Cash is subject to theft or stupidity*
- *Concentrate but not too much*
- *Benign neglect*

# Criteria 3: Brick house (but cheap)

*“To finish first, you must first finish.” – Rick Mears (4 time Indy 500 winner)*

- In the Three Little Pigs story, the brick house survives the wolf
- There will always be wolves in business and our job is to look for cheap brick houses
- Things considered include:
  - Balance sheet strength
  - Free cash flow generation and capital requirements
  - Market share, competitive positioning, relative cost of production

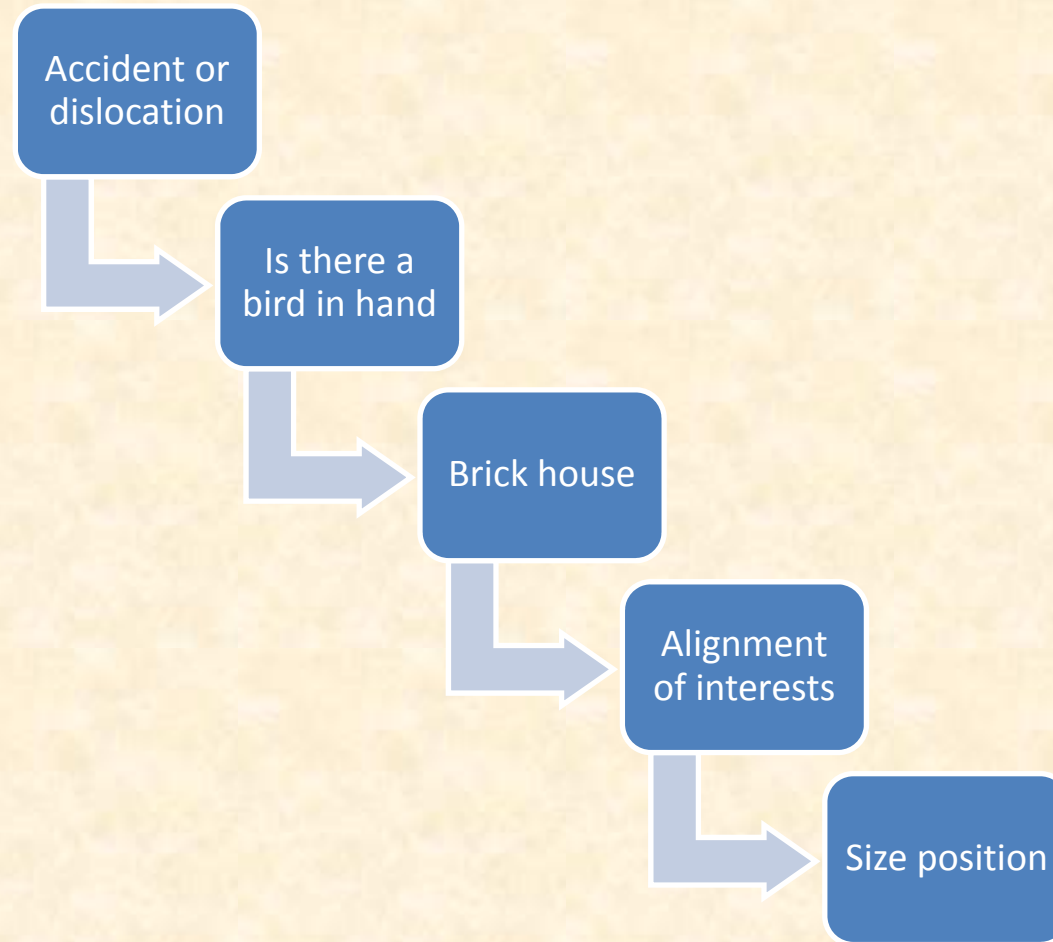


# Criteria 4: Alignment of Interests

*“If you’ve been playing poker for half an hour and you still don’t know who the patsy is, you’re the patsy.” – Warren Buffett*

- In 1970s, the Kinks had a hit song “Lola” about a story of a young man who meets a lovely lady who he fancies called Lola. He later was unpleasantly surprised to discover that Lola is a man and not a woman
- Similar to this story, we prefer to avoid unexpected surprises by understanding the motivation and interests of the Board of Management before investing
- Things considered include:
  - Stock ownership of directors and management
  - Insider buying
  - Management compensation program
  - Independence of Board

# Decision Tree of Investment Decisions



# Some of our largest positions



# Howard Hughes Corp

## *Accident*

*– “dislocation”; spin-off from GGP in Nov’10*

## *Bird in hand*

*-book at time was about \$57; sum of the parts: \$100+*

## *Brick House*

*-minimal net debt on \$2bn+ equity*

*-operating assets producing cash and many divisible pieces*

## *Alignment of interests*

*-Pershing - 13% (incl warrants); Bill Ackman Chairman*

*-CEO, CFO & President invested \$19mn cash for warrants (to 2018);  
representing 2.8mn shares at prices from \$42 - \$54*

# Howard Hughes Corp

(10k filed Mar13)

Community	Location	Total Gross Acres(a)	People Living in Community (Approx. No.)	Remaining Saleable Acres(b)			Other Acres(d)	Remaining Saleable Residential Lots(e)	Projected Community Sell-Out Date
				Residential (b)	Commercial (c)	Total			
Summerlin	Las Vegas, NV	22,500	100,000	5,184	890	6,074	—	43,000(f)	2039
Bridgeland Maryland	Houston, TX	11,400	6,250	3,635	1,226	4,861	—	18,523	2036
	Columbia County	14,200	100,000	—	—	—	35	—	2022(g)
	Gateway County	630	—	—	63	63	40	—	2018
	Emerison County	520	3,407	—	68	68	—	—	2017
	Fairwood Prince George's County	1,100	2,600	—	11	11	24	—	2017
The Woodlands	Houston, TX	28,400	105,000	857	613	1,470	277	2,750	2022
<b>Total</b>		<b>78,750</b>	<b>317,257</b>	<b>9,676</b>	<b>2,871</b>	<b>12,547</b>	<b>376</b>	<b>64,273</b>	

# Howard Hughes Corp

(company presentation Feb13)

**Summerlin – Home to 100,000+ Residents after 20 Years**

**5,804 residential and 890 commercial acres remain<sup>1</sup>**



**Strengthening market - Las Vegas home prices increased by 24% in 2012**

**Note**

(1) As of September 30, 2012. Please refer to 10-Q.

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# Howard Hughes Corp

(company presentation Feb13)

## Bridgeland – *Tomorrow's Leading MPC*

\$325+ million invested by our predecessors



15<sup>th</sup> best selling MPC in the U.S. in 2012

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# Howard Hughes Corp

(company presentation Feb13)

## The Woodlands – *World Class Master Planning*



**6 MSF of additional office, 2,000 residential units, 3 hotels and 2 condo towers**

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**Victoria Ward – 60 Acres, ~\$23mm NOI**



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# Howard Hughes Corp

(Ward Development website)



# Howard Hughes Corp

(Ward Development website)



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# Howard Hughes Corp

(company presentation Feb13)

## South Street Seaport



Unparalleled experience for New Yorkers and tourists

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# Howard Hughes Corp

(company press release Mar13)



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***Tim's Truisms***  
***or observations from (nearly) 25***  
***years of value investing***

*All of our money is made on the purchase*

*We buy on assets, sell on earnings*

***Tim's Truisms***  
***or observations from (nearly) 25***  
***years of value investing***

*My focus is on “price to mess” otherwise known  
as Tim's PMS ratio*

***Tim's Truisms***  
***or observations from (nearly) 25***  
***years of value investing***

*Emotion and margin of safety are at opposite ends of the market teeter-totter*



***Tim's Truisms***  
***or observations from (nearly) 25***  
***years of value investing***

*A pendulum never stops in the middle*

***Tim's Truisms***  
***or observations from (nearly) 25***  
***years of value investing***

*Value stocks don't run, they hop*

*“Buy stocks like you buy groceries, not like you buy your perfume”*

*Benjamin Graham*



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