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Ben Graham Centre
for Value Investing

Ben Graham Centre's 2022 Virtual Value Investing Conference

April 20, 2022



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.

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. Unfortunately, academics have paid little attention to stock picking over the years, particularly with regards to the value investing view of risk and risk management. And I would like to set the record straight - I cover this extensively, among other things, in my recently published book **“Value Investing: From Theory to Practice”**.

The two key tenets of modern portfolio theory are that investors should hold well-diversified portfolios and that, in this setting, the only risk that matters is beta risk - volatility-based risk. According to the theory, markets will reward investors for beta risk alone. Academics argue that anyone who tries to pick stocks only achieves a high level of diversifiable risk for which they will never be rewarded and that exposes them to large losses.

Value investors reject both tenets of modern portfolio theory. They don't believe astute investors must hold well-diversified portfolios and they reject the notion that beta is a measure of risk.

Is there a need for a well-diversified portfolio?

Academics regard diversification as a substitute for due diligence. They believe stock-by-stock analysis is a wasted effort and that diversification will save us all. Of course, if we cast our minds back to October 2008 or March 2020, experience tells us that diversification doesn't work when we most need it to. Even if we accept that diversification reduces risk, its downside is that it also dilutes returns and limits an investment's upside. In fact, economic theory suggests that a perfectly diversified portfolio will earn the risk-free rate in the long run. So why not just cut to the chase and invest directly in government bonds?

Beyond this, though, diversification would work if we knew and could measure all possible risks. However, we can't. There are two kinds of risks: the risks we know we don't know — those measured by the variance of returns — and the risks we don't know we don't know — those that aren't captured or measured by the variance of returns. Diversification doesn't protect us against the risks we don't know we don't know.

In a book they wrote in 2006, the late mathematician Benoit Mandelbrot and former *Wall Street Journal* editor Richard Hudson showed the daily returns of the Dow Jones index for the period between 1916 to 2003 didn't plot out as a bell curve — the far edges flared too high. These risks are more commonly referred to “fat tails.” The first academic to discuss this was John Maynard Keynes, but his view of risk didn't prevail because it was difficult to quantify and capture in mathematical models. What prevailed was the view of mathematician Thomas Bayes: that risk is like roulette; we know all the odds even though we don't know what number will eventually arise. Unfortunately, risk in the markets isn't like roulette. In the game, the odds are fixed and what we observe around us doesn't affect the odds. Our world is more like poker, when whatever we observe around us affects the odds. It isn't possible to develop formulae and closed-form solutions. As a result, models that are developed based on the bell curve will fail.

Recently, even super-quant academics have come around and admitted the fallacy of developing and depending solely on formulae. Andrew Lo and Mark Mueller from the Massachusetts Institute of Technology recently penned an article titled, *Warning: Physics envy may be hazardous to your wealth*, in which they argue that “physics envy has created a false sense of mathematical precision.”

What do value investors want?

Value investors want to reduce risk without limiting the upside. How do value investors handle risk? They select securities after in-depth due diligence. They choose to invest in companies whose business they understand with a history of stable cash flows. They never buy on margin and avoid companies that are over-leveraged. They employ position limits. They have checklists of why they want to buy and what they're buying. They adhere to a disciplined process of when to buy and when to sell and they never short stocks, among other risk mitigating strategies. More importantly, value investors employ the concept of margin of safety. They only buy a stock if its price is well below its intrinsic (fundamental) value.



To be clear, value investors don't totally reject diversification. If they did, they would hold only one stock. They tend to hold concentrated portfolios of between 15 and 30 stocks. They believe that some diversification, along with the margin of safety, go a long way in dealing with the risks discussed above.

In 2009, Nassim Taleb, Daniel Goldstein and Mark Spitznagel co-authored a *Harvard Business Review* article on the six mistakes executives make in risk management. Two of the problems they identified were studying the past and putting faith on the variance of stock returns. They end the article by stating that risk managers place a greater emphasis on making money than on avoiding losses. Avoiding losses is key for value investing. Value investors would rather minimize risk than maximize returns. This is the role that the margin of safety plays.

Is beta a risk measure?

Value investors reject the notion that beta is a measure of risk. Risk for value investors isn't volatility. Volatility is good. Risk is the possibility of permanent loss of capital. We have permanent loss of capital, for example, when investing in an over-leveraged company that will go bankrupt in a recession or when investing on margin and forced to sell even though this may be undesirable. Value investors aren't alone in taking this position. Even the academic most responsible for popularizing beta, Eugene Fama from the University of Chicago, dismissed the estimation of beta for individual stocks as "garbage" in a 2016 paper he co-authored with Joel Stern.

Will value investors' view of risk change the views of risk at universities? Of course not. Academics are too invested in the status quo to have a few value investors or even a few aging academics argue against modern portfolio theory. But next time you hear that we must diversify and that beta is a measure of risk, ask why billionaire investors like Warren Buffett, Charlie Munger and Seth Klarman have mocked those concepts and much of what's taught in finance departments at universities around the globe.

Advice for investors

My advice to professionals, especially those who are starting out, is to never start your analysis with spreadsheets and formulae. This shows you don't understand what's happening and you're trying to hide behind the formulae. I'm not alone on this. Buffett has also cautioned investors to "beware of geeks bearing formulas." Another value investor, Avner Mandelman, also cast doubt on the idea that understanding financial numbers requires complicated formulae, saying "the essence of business — the conflict, the personalities, the drama — cannot be encapsulated in language, let alone in math."

Instead, start with the qualitative analysis. Demonstrate you understand the company, the business, the management, the industry and the competitive situation. Once you get the qualitative stuff right, then you start putting in the formulae and the spreadsheets — not the other way around.

I would like to welcome you all to this year's Conference. Thanks to your support of the Centre over the past seventeen 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 2022 finalists join us today, and value investing Seminars with this year's Seminar to be held in Toronto from May 30 to June 3.

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.

I am also delighted to welcome Russell Napier, Raj Subramaniam and Bob Seeman, 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 2022 Virtual 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

Russell Napier, Author & Founder, Electronic Research Interchange (ERIC), London, UK

Luncheon Keynote Speaker

Raj Subramaniam, President, Chief Executive Officer-Elect, and Director, FedEx Corporation, Memphis, Tennessee, USA

Afternoon Keynote Speaker

Bob Seeman, Managing Partner, CyberCurb, Vancouver, British Columbia, Canada

Panel of Value Investing Professionals

Ross Glotzbach, Chief Executive Officer, Head of Research and a Portfolio Manager, Southeastern Asset Management, Inc., Memphis, Tennessee, USA

Edward Blain, Portfolio Manager, Orbis Investments, London, United Kingdom

Thomas A. Russo, Managing Member, Gardner Russo & Quinn LLC, Lancaster, Pennsylvania, USA

Izet Elmazi, Chief Investment Officer, Bristol Gate Capital Partners Inc., Toronto, Ontario, Canada

Richard H. Lawrence, Jr., Founder & Executive Director, Overlook Investments Limited, Hong Kong



The Ben Graham Centre's 2022 Virtual Value Investing Conference

Conference Agenda

8:15am – 8:30am	Virtual Waiting Room
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 Russell Napier – The Capital Cycle in an Age of Financial Repression
9:15am – 9:25am	Q&A
9:25am – 9:40am	15 Minute Break
9:40am – 9:45am	Value Investor Panel 1 Introduction
9:45am – 10:15am	Ross Glotzbach – Why We Believe Value Works
10:15am – 10:45am	Edward Blain – Contrarian Investing Through the Cycle
10:45am – 11:15am	Thomas A. Russo – “Global Value” Equity Investing
11:15am – 11:35am	Panel 1 Q&A
11:35am – 11:45am	10 Minute Break
11:45am – 11:50am	2022 Virtual International MBA Stock Picking Competition – Winner Announcement
11:50am – 11:55am	Luncheon Keynote Speaker Introduction Introduction: Prem Watsa, Chairman and Chief Executive Officer, Fairfax Financial Holdings Ltd.
11:55am – 12:35pm	Luncheon Keynote Speaker Raj Subramaniam – "FedEx Then, Now, and Next"
12:35pm – 12:50pm	Q&A
12:50pm – 1:05pm	15 Minute Break
1:05pm – 1:10pm	Value Investor Panel 2 Introduction
1:10am – 1:40pm	Izet Elmazi – Dividend Growth Investing for the Digital Age



Conference Agenda

1:40pm – 2:10pm	Richard H. Lawrence, Jr. – The Model: 37 Years Investing in Asian Equities
2:10pm – 2:30pm	Panel 2 Q&A
2:30pm – 2:50pm	10 Minute Break
2:50pm – 2:55pm	Afternoon Keynote Speaker Introduction
2:55pm – 3:25pm	Afternoon Keynote Speaker Bob Seeman – Bitcoin: Unlicensed Gambling
3:25pm – 3:35pm	Q&A
3:35pm – 3:40pm	Concluding Remarks



Keynote Speakers



Russell Napier

Professor Napier is author of *The Solid Ground* investment report for institutional investors and co-founder of the investment research portal ERIC- a business he now co-owns with D.C. Thomson. Russell has worked in the investment business for over 30 years and has been advising global institutional investors on asset allocation since 1995. Russell is author of the book *Anatomy of The Bear: Lessons From Wall Street's Four Great Bottoms* ('a cult classic' according to the FT) and is founder and course director of *The Practical History of Financial Markets* at The Edinburgh Business School. Russell is Chairman of Mid Wynd International Investment Trust a GBP500m market cap. closed end investment vehicle listed on the London Stock Exchange. He is a member of the investment advisory committees of three fund management companies, Cerno Capital, Kennox Asset Management and Bay Capital. In 2014 Russell founded the charitable venture *The Library of Mistakes* a business and financial history library in Edinburgh that now has branches in India and Switzerland. Russell has degrees in law from Queen's University Belfast and Magdalene College Cambridge. He is a Fellow of The CFA Society of the UK and is an Honorary Professor at The University of Stirling and a Visiting Professor at Heriot-Watt University. He is a contributing columnist for *The Toronto Star* newspaper. His second book – *The Asian Financial Crisis 1995-1998: Birth of the Age of Debt* - was published in July 2021.



Raj Subramaniam

Mr. Subramaniam is President and Chief Executive Officer-elect and a Director of FedEx Corporation, one of the world's largest transportation companies with an annual revenue of \$92 billion. As President and CEO-elect of FedEx Corporation, Subramaniam is responsible for providing strategic direction for all FedEx operating companies: FedEx Express, FedEx Ground, FedEx Freight, FedEx Services, FedEx Office, FedEx Logistics, and FedEx Dataworks. Subramaniam is a member of the five-person Executive Committee, which plans and executes the corporation's strategic business activities. He is also a member of the FedEx Strategic Management Committee, a select group of the company's top leadership, which sets the strategic direction for the enterprise. Subramaniam will assume chair positions for both committees on June 1, 2022. Before being named President and CEO-elect in March 2022, he was President and Chief Operating Officer of FedEx Corporation. Previously, Subramaniam held various leadership roles in operations and marketing across the FedEx portfolio of operating companies. Subramaniam has more than 30 years of industry experience at FedEx. His international leadership experience, keen business insights, and focus on globalization have contributed to the success of FedEx and provide a blueprint as the company revolutionizes the transportation and logistics industry. Subramaniam is responsible for several recent transformational initiatives, including revitalizing the company's operating strategy, profitably growing the e-commerce business, and harnessing the power of global supply chain data to drive the company's digital



transformation. Originally from Trivandrum, India, Subramaniam lives in Memphis, Tennessee – the company’s global headquarters. He earned a bachelor’s degree in chemical engineering from the Indian Institute of Technology (IIT), a master’s degree in chemical engineering from Syracuse University, and a master’s degree in business administration from The University of Texas at Austin. Subramaniam serves on the board of directors of FedEx Corporation, First Horizon Corporation, the U.S. Chamber of Commerce’s China Center Advisory Board, FIRST, U.S.-India Strategic Partnership Forum, and the U.S.-China Business Council. He is also a member of the International Trade Administration’s Advisory Committee on Supply Chain Competitiveness (ACSCC).



Bob Seeman

Mr. Seeman is an entrepreneur and technology, legal and business advisor. He is a Principal at Endeavor which identifies and industrializes game changing technology for the US Government. He is also a co-founder of RIWI Corp., a data analytics company, advises government on technology and business issues, and has been a consultant to a bitcoin technology company. He is a California attorney, electrical engineer and entrepreneur, was a Head of Strategy for Microsoft in London and a technical consultant to the European Commission. Bob previously practiced administrative law with an international law firm. He holds a Bachelor of Applied Science (Elec. Eng.) with Honours from the University of Toronto, a Master of Business Administration from EDHEC, and a Juris Doctor (J.D.) from the University of British Columbia.



Panel of Value Investing Professionals



Ross Glotzbach

Mr. Glotzbach serves as Chief Executive Officer, Head of Research and a Portfolio Manager at Southeastern Asset Management, Inc. He is a Principal of the firm and serves as a Director on its board. Southeastern is a \$13 billion investment advisor that focuses on long-term, concentrated, engaged value investing in public equities for institutional clients and the Longleaf Partners mutual funds and UCITS funds. As part of the firm's engagement approach, Mr. Glotzbach and the research team often collaborate with corporate management teams and boards on ways to build long-term value for shareholders and prospective directors who could enhance companies' strategic efforts. In 2019, Mr. Glotzbach was the keynote speaker at the 17th Annual Value Investor Conference and a panelist at the 10th Annual "From Graham to Buffett & Beyond" Dinner in Omaha, Nebraska during the Berkshire Hathaway shareholder meeting week. In 2020, he was a panelist on the "From Graham to Buffett & Beyond" Omaha Panel Webinar. He was recently featured on The Value Investing Legends podcast hosted by the Heilbrunn Center for Graham & Dodd Investing at the Columbia Business School. Mr. Glotzbach has been with Southeastern since 2004. He was a Corporate Finance Analyst at Stephens Inc. from 2003 to 2004. He has been a CFA Charter holder since 2006. Mr. Glotzbach received a B.A. in Economics from Princeton University in 2003. Mr. Glotzbach serves as Chairman of Memphis Grizzlies Preparatory Charter School.



Edward Blain

Mr. Blain is one of the lead portfolio managers responsible for Orbis Investments' flagship \$28 billion global equity strategy (as at 31 May 2019). Mr. Blain has a Master of Arts (Honours) in History from the University of Cambridge and is a Chartered Financial Analyst. Edward joined Orbis in 2010. Based in London, he is a member of the Europe investment team and is one of the stockpickers who directs client capital in the Orbis Global Equity Strategy. He is also a member of the firm's UK Executive Committee. He previously worked as a political adviser.



Thomas A. Russo

Mr. Russo joined Gardner Investments as a partner in 1989. In 2014, Mr. Russo became the Managing Member of the firm. Mr. Russo serves as Managing Member of Gardner Russo & Quinn LLC and of Semper Vic Partners GP, LP, which oversees two “global value,” long-only, equity investment partnerships, the first of which Mr. Russo founded in 1983. Mr. Russo oversees more than \$8 billion distributed between Semper Vic partnerships and separate accounts managed in parallel fashion. In his role as a global value investor, Mr. Russo attempts to commit clients’ capital to globally leading companies whose brands permit them the capacity to develop market shares in those parts of the world that are undergoing economic growth and increasing political stability. Such economic growth, coupled with increased consumer disposable income, creates a large total addressable market (TAM) for our businesses to address. He prefers companies with sufficient cash flows from existing operations to allow them to underwrite long-term-oriented investments required to build market share and develop enduring franchises. In selecting investments, Mr. Russo looks for companies that possess two valued “capacities,” i.e., the “Capacity to Reinvest” and the “Capacity to Suffer.” It is rare to find a company that possesses the above-mentioned “Capacity to Reinvest.” It is even more rare to find management teams that have the “Capacity to Suffer.” Our company managements have the “Capacity to Suffer” when investments, required to ensure strong growth in intrinsic value on a per share basis, inevitably burden current, reported profits. He has found over the years that family-controlled public companies are often best positioned to withstand criticism which comes from Wall Street when the burden of such long-term investments weighs negatively upon reported short-term profits. Hence, he has relied over time on public company investments where founding families still retain control and significant investment exposure. Typically over 50 percent of Mr. Russo’s portfolio companies remain family controlled. Founding families of our public companies, like Mr. Russo and his investors, prefer the ability of investments, intended for long-term gains, to allow one to hold positions tax efficiently for as long as franchises, built by such long-term investments, continue to deliver growth in intrinsic value on a per share basis. Thomas Russo is a graduate of Dartmouth College (BA 1977), and Stanford Business and Law Schools (JD/MBA 1984). Memberships include Dean’s Advisory Council for Stanford Law School, Dartmouth College’s President’s Leadership Council, and California Bar Association. Mr. Russo is a charter member of the Advisory Board for the Heilbrunn Center for Graham & Dodd Investing at Columbia Business School. He serves on the boards of the Winston Churchill Foundation of the U.S., Facing History and Ourselves, and Storm King Art Center. In May 2017, he was awarded The Graham & Dodd, Murray, Greenwald Prize for Value Investing.



Izet Elmazi

Mr. Elmazi joined Bristol Gate in May 2018, bringing almost two decades of experience with him. In his prior roles, he was a Vice President & Portfolio Manager at an emerging high net worth asset manager and, before that, a Portfolio Manager on a team managing approximately \$7 billion at a major Canadian bank. Izet focused his undergraduate studies in accounting, knowing that a broad exposure to a variety of industries and the ability to understand financial statements would be an asset for his true passion, equity analysis. He was attracted to the firm because of its singularly focused, concentrated dividend growth investment philosophy. History has proven that a track record of regular dividend increases is an excellent indicator of the underlying health of a business that not only provides compounding over time but also relative stability during periods of stress.



Richard H. Lawrence, Jr.

Mr. Lawrence is the Founder and Executive Chairman of Overlook Investments Group, which he established in 1991. Overlook is an independent fund management company that invests US\$ 7 billion in a concentrated portfolio of public equities throughout Asia, excluding Japan. Overlook has compounded investors' capital in excess of 14% per year for 30 years. Richard grew up outside New York City and graduated from South Kent School in 1974, and Brown University in 1978 with a degree in Economics. From 1978 to 1981 Richard lived in South America and was a financial analyst for the Organización Diego Cisneros, a conglomerate based in Caracas, Venezuela. From 1981 to 1984, Richard lived in New York and was Vice President responsible for equity research at J. Bush & Company, Inc., a NYSE member firm. In 1984 he traveled to Asia and worked as Vice President at First Pacific before founding Overlook in 1991. In 1986, he became the second Chartered Financial Analyst in Asia. Richard is a director and co-founder of several non-profits including Proyecto Mirador Foundation, which has built over 230,000 fuel-efficient stoves in rural communities across Central America; Cool Effect, an online platform that supports high-quality carbon reduction projects worldwide; High Tide Foundation, a grant making foundation focused on climate change mitigation; and Carbon Mapper, which develops satellite technology to pinpoint and track point source emissions. He is also a member of the Board of Directors of The National Audubon Society. Richard's first published book, *The Model: 37 Years Investing in Asian Equities*, is due for release in 2021. Richard currently lives in San Francisco, California, with his wife and two adult children.



VALUE INVESTING

FROM THEORY TO PRACTICE



GEORGE ATHANASSAKOS

Foreword by Prem Watsa



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