

Graham & Doddsville

Fall 2025

An investment newsletter from the students of Columbia Business School

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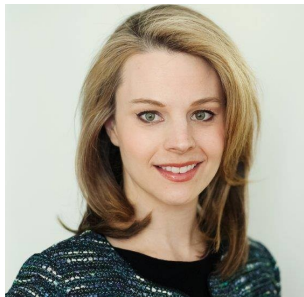
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Welcome to Graham & Doddsville



Meredith Trivedi, Managing Director of the Heilbrunn Center. Meredith leads the Center, cultivating strong relationships with some of the world's most experienced value investors and creating numerous learning opportunities for students interested in value investing.



Professor Tano Santos, the Faculty Director of the Heilbrunn Center. The Center sponsors the Value Investing Program, a rigorous academic curriculum for particularly committed students that is taught by some of the industry's best practitioners. The classes sponsored by the Heilbrunn Center are among the most heavily demanded and highly rated classes at Columbia Business School.

Welcome back! We are pleased to bring you the 52nd edition of Graham & Doddsville. This student-led investment publication of Columbia Business School (CBS) is co-sponsored by the Heilbrunn Center for Graham & Dodd Investing and the Columbia Student Investment Management Association (CSIMA). We were lucky to be joined by six interviewees and we hope you will enjoy the range of perspectives as much as we did.

We first highlight **Amelia Morris** and **Michael Hutchens '01**, Directors at Brandes Investment Partners. We began with the story of Charles Brandes meeting Benjamin Graham and what underpins the firm's enduring value orientation. We discussed four companies from their sectors: Kering (KER), Watches of Switzerland (WOSG), TBC Bank (TBCG) and NLB Bank (NLB).

Next, we interview **Jillian McIntyre**, founder of 221B Capital Partners, who took us through her career journey from equity analyst to hedge fund owner with a reputation for short-selling and uncovering non-consensus long ideas. She explained her early influences, philanthropic pursuits that shape her vision and proprietary "5 M's" framework through the lens of Carvana (CVNA).

Then, we introduce you to **Hendrik Bessembinder**, Professor at Arizona State University and author of a research series on global wealth creation. We had a feeling Hendrik's comments would intertwine and dovetail well with the others. We cover the origins of his studies, key research insights and a sneak peek of his upcoming work on founder-led businesses.

We revisit **David Poppe '86**, who returns to G&D almost 8 years later as a co-founder of Giverny Capital Asset Management. We discuss his decision to launch his own fund after 20 years at Ruane Cunniff, the meaning of quality and the importance of aligning yourself with great managers. We focus on his investments in Arista Networks (ANET) and Progressive (PGR) in detail.

Finally, we round out our journey of learning about students of companies exhibiting exceptional characteristics with **Andrew Rosenblum**, founder of Bonsai Partners. With his fund approaching an anniversary, we go through his background, investment philosophy and thought process on long positions in Wise (WISE), FeverTree Drinks PLC (FEVR) and XPEL, Inc. (XPEL).

We decided to feature four pitches from current CBS students:

- 1) The winners of the 2025 Booth MBA Stock challenge, Bennett Lee ('27), Srivats Mohan ('27), Aaron Samuels ('27) and Oliver Suffern ('27) with dLocal, Ltd. (DLO);
- 2) The winners of the 2025 Booth MBA Credit competition, Chidi Keng ('27), James Michalski ('27) and Gabriel Wensko Martins ('27) with a recommendation for the senior unsecured notes of Advanced Auto Parts (AAP);
- 3) The winners of the 2025 Darden Investing Challenge, Elliot Tompras ('27), Craig Larkin ('27) and Olivia Qi ('27) with A.O. Smith Corp. (AOS);
- 4) One of the top teams from the Security Analysis class, Victor D. Aguiar ('26), Leonardo M. Fernandes ('26), Alejandro Lalla Dodds ('26), Carolina Sanchez Alzamora ('26), Rogerio Rios ('25) with MercadoLibre, Inc. (MELI). We also feature Olaoluwa Bobade ('26), CSIMA simulated fund '25 winner.

You can find more in-depth interviews on the *Value Investing with Legends* podcast, hosted by Tano Santos and Michael Mauboussin, Head of Consilient Research on Counterpoint Global at Morgan Stanley Investment Management and adjunct faculty member at Columbia Business School. We thank our interviewees for contributing their time and insights not only to us, but to the whole investing community.

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The Heilbrunn Center
for Graham & Dodd Investing

CSIMA COLUMBIA STUDENT
INVESTMENT MANAGEMENT
ASSOCIATION

G&D Editors

35th Annual Graham & Dodd Luncheon - November 12th



Conversation featuring Nicolai Tangen (CEO of Norges Bank Investment Management) and Tano Santos (Heilbrunn Center Faculty Director, Columbia Business School)



Fall 2025 photos from our students & CSIMA programming



Value Investing Program Class of '26 pictured with Professor Santos after the Modern Value course



CBS teams win 1st and 3rd place prizes at the Darden at Virginia Investing Challenge



Guest Lecture with Howard Marks



Security Analysis Class with Professor Begg and Guests: Joshua Tarasoff '07 and Todd Combs '02



The Heilbrunn Center
for Graham & Dodd Investing

SAVE THE DATE

The 29th Annual CSIMA Conference

Friday, February 6th, 2025

9:00 a.m. to 6:00 p.m. EST
2920 Broadway (at 115th Street)
Alfred Lerner Hall, Columbia University
New York, NY 10027

Keynote speakers & panels will include:

Matt Fine, Portfolio Manager of the Third Avenue Value Strategy portfolios

Michael Green, Chief Strategist and Portfolio Manager,
Simplify Asset Management

Matthew McLennan, co-head of the Global Value team,
First Eagle Investments

Dan Rasmussen, Founder and Managing Partner, Verdad Advisors

Will Thorndike, Managing Partner, The Cromwell Harbor Partnership

Best Ideas Panel

Emerging Managers Panel

Student short idea competition sponsored by Hawkshaw Research

Ticket price:

Early Bird Pricing until 12/22/2025 - \$525
Regular Conference Fee - \$625

Registration link: <https://heilbrunncenter.org/civcrm/event/info?reset=1&id=271>

Discounted tickets are available for Columbia Business School alumni and current students

For inquiries, please contact: valueinvesting@gsb.columbia.edu

Brandes Investment Partners



**Michael
Hutchens '01**

Michael Hutchens '01 is a Director, Investments Group and a Senior Analyst on the Financial Institutions Research Team. He is a member of the Small-Mid Cap Investment Committee and the All-Cap Investment Committee. Mr. Hutchens is a limited partner of the firm's parent company. Before joining Brandes, he was a Bank examiner with the Federal Reserve System. Mr. Hutchens earned his MBA with a concentration in finance from Columbia Business School and his BS in business with a concentration in finance from Indiana University. His experience began in 1994 and he joined Brandes Investment Partners in 2001.



**Amelia
Morris**

Amelia Morris is a Director, Investments Group. She oversees and directs equity research activities in the consumer sector. Additionally, Ms. Morris covers the European retail and telecommunications services industries and is a member of the International Large-Cap Investment Committee. Previously, Ms. Morris was a member of the Emerging Markets Investment Committee, the firm's Investment Oversight Committee and the Brandes Institute Advisory Board. She is a limited partner of the firm's parent company. Ms. Morris earned her AB in economics (Phi Beta Kappa and cum laude) from the University of California, Davis and her MBA from the University of Chicago Booth School of Business. Her relevant experience began in 1986 and she joined Brandes Investment Partners in 1998.

Editors' Note: This interview took place on November 21st, 2025.

Graham & Doddsville (G&D): Michael and Amelia, thank you very much for speaking with us today. Why don't we begin with the famous story of Charles Brandes starting the firm?

Michael Hutchens (MH): The Brandes origination story goes all the way back to the source and begins with Benjamin Graham. In 1971, Charles Brandes was a young broker in La Jolla, California. One day, while he was working as the broker of the day at the front of the house, an older gentleman walked in. Charles quickly recognized him. It was Benjamin Graham.

Graham owned a condo in La Jolla, so he spent his winter and retirement years there. The stock he wanted to buy that day was National Presto, one of Graham's favorites from the third edition of *The Intelligent Investor*. He put in an order for National Presto through Charles Brandes, and a relationship developed from there. Through this relationship, Charles became intrigued by Graham & Dodd-style investing.

Fast forward a couple of years to the horrendous bear market of 1973-74, Charles decides it's the perfect time to start an investment management firm based on Graham & Dodd principles. So, he starts the firm in 1974. We have a letter in our reception room from Graham congratulating Charles on the founding of the firm, saying he felt the timing was perfect and that he was pleased Brandes was starting the firm based on Graham & Dodd principles.

Although for many readers, Brandes needs no introduction, we wanted Michael to give us a brief overview for those newer to investing. If you'd like to read more details about the founding story of the firm and the origins of Brandes' investment philosophy, we recommend going directly to the [Brandes Letter from March 2022](#) or the corporate website.

G&D: That's an awesome piece of history there. Moving to Amelia, what originally attracted you to Brandes and Graham's principles, and how does that tie in with how you first became excited about investing?

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Amelia Morris (AM): I was first introduced to what we could call value theory and value investing in business school at Chicago Booth. At the time, efficient market theory dominated the curriculum. One of my professors, Ken French, who later went on to develop the factor model with Eugene Fama, mentioned that there was a firm implementing a value style that was beating the efficient market hypothesis, and that stuck with me. Here's a funny little quip that really reflects a value investor personality. Many years ago, when people still did this, I went to the library to check out the famous Graham book, and the librarian told me, "Well, you really shouldn't follow this because this is old and out of date." I took that as a pretty good sign.

My background fit value investing, and then I was also drawn to Brandes' international focus. It fit naturally with my own experience. My mom was an art and antique dealer, and there are similar principles involved because in both, you're looking for a diamond in the rough, something overlooked.

Growing up, I had the chance to travel the world with her searching for these pieces, and it was a great experience. To be a successful investor, you must find the style that fits your personality, and for me, that was value, particularly at the international level.

G&D: Thank you, Amelia. Mike, how about you? What parts of that are similar and different in terms of how you came to Brandes and value investing?

MH: I'm going to be incredibly unoriginal here. I became interested in value investing by reading Warren Buffett. This was in the early and mid-1990s, and it really started as a hobby. I was working at the Federal Reserve, interested in investing, traveling a lot, and had plenty of time in hotel rooms to read. I started with Buffett and then looked at who his influences were, including Phil Fisher, Benjamin Graham, and then the contemporaries. As part of my role at the Federal Reserve, I was in the CFA program because my specialty was capital markets. Between that and my growing interest, at some point I thought, "Wow, wouldn't it be wonderful to make this a career?"

By nature and disposition, I definitely have a value orientation. The timing worked out perfectly, because I attended Columbia Business School in 1999, which could not have been a better period. You had the TMT bubble and the internet bubble, so value investing was an area of very low interest (perhaps at trough levels), and value firms were having a tough time. Brandes was in a better position because it skewed so heavily to international markets and was coming off a very strong track record. My interest was really in getting into value investing, and Brandes added the possibility of looking at international companies.

Whenever you broaden your universe, it makes the work much more intellectually challenging.

G&D: We've mentioned going through Buffett and his own influences. Who were some of your other investment influences and are there some that you look up to today?

MH: As far as people you read about whose style and thesis you find interesting, you can look at Seth Klarman and what he was doing with savings and loans in the early 1990s, which he talks about in *Margin of Safety*, or David Dreman, an old-school value investor and a bit of a contrarian. He really made his name investing in Citigroup during the less-developed-country debt crisis. Then there is Bill Miller. There were so many great investors in that area, and I was soaking up what they were doing. I did not necessarily agree with everything in terms of

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philosophy, but I was building my own philosophy and trying to learn from seasoned professionals in the field.

Beyond that, when I went to Columbia, I was fortunate to take a couple of classes with Bruce Greenwald, where we spent a lot of time discussing franchise value, competitive moats, and the conditions under which growth creates value or destroys it. I had a course with John Griffin, *The Analyst's Edge*, which was a great course. I had exposure to many great investors of that generation. For example, meeting Julian Robertson was wonderful. Here at Brandes, there has also been a great opportunity to learn from my colleagues. I served on an investment committee for several years with Charles Brandes, and that was a great experience to see how he thought about companies and investing.

G&D: Amelia, were there any investment influences who shaped your philosophy that we are missing?

AM: Many of the names Mike mentioned are similar touchstones for me. I also served on a committee with Charles Brandes, and that was a great experience.

In terms of contemporary investors, I do not tend to look at the holdings of other value firms because I really want an independent view. For me it is really some of the historic figures Mike mentioned, and of course our own team.

G&D: Thank you for sharing. Could you tell us a bit about what drew you to the sectors you cover today?

AM: I've covered a couple of different sectors at Brandes, which has been a great experience because it gives you a cross-sector analytical framework when you look at a new area. In the past I've covered telecom and media, as well as a small subsection of financials.

When we had turnover, I had the opportunity to move to the consumer sector and took over that team. It is an interesting space, with cultural themes and various trends influencing consumption patterns across a wide range of products. What I like about the consumer sector is that many of the subsectors, such as retail, generate a significant amount of information and short-term data. In our experience, this plethora of data often creates opportunities to take advantage of dislocations in price, especially when others, particularly hedge funds, take a very short-term view of metrics such as sales. With our long-term focus we can take advantage of short-term reactions to build positions.

MH: We can go way back. When I was an undergraduate at Indiana University, I spent a summer in Connecticut at Reed Elsevier. I knew no one there, so I had a lot of time to read. One of the books I picked up was *Secrets of the Temple*, a history of the Federal Reserve. It includes a whole section on the failure and resolution of Continental Illinois and on bank supervision. I remember thinking, "Wow, that is actually pretty interesting."

The following year, the Federal Reserve Bank of St. Louis was interviewing on campus. I thought it would be interesting to spend a couple of years there, learn about the industry, analyze banks, and then move on. I got the job, spent five years there, became a commissioned examiner, and altogether I have spent most of the last 30 years analyzing banks. It may sound odd, but I genuinely like analyzing banks. They sit at the intersection of business, politics, and economics, and technology has become increasingly important. Whatever the sector, it is important to build a circle of competence and real depth of knowledge. At

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Brandes, we try to develop that. If you look at our structure, we are composed of sector specialists, many of whom serve on our investment committees. First and foremost, we focus on building expertise within individual sectors. Mine happens to be banks, so I can bore you to death talking about them.

G&D: Excellent. Let's move to philosophy and process. Brandes has consistently applied a pure value philosophy that is quite rare today, especially against a backdrop where both international investing and value investing have been somewhat out of favor for a decade or two. What is it about the kind of people you choose for your team, and your own personalities, that allows you to retain this unshaken confidence in the process and philosophy when others are tempted to change?

AM: In terms of our confidence in value, we are very evidence-based. We look at more than a hundred years of data showing that value stocks typically outperform growth companies, even though we went through a period of value underperforming for 165 months following the global financial crisis. Through that entire period, we never had style drift. We remained fully committed to value. As a partnership, and through our committee discussions, we recognize that this commitment is our edge and our differentiation. When you look at Brandes as a potential recruit, you have to understand that this is who we are. We are purpose-built for value, and we do no other style. All of our products are value. To us, it is critical to know what your edge is. We never questioned whether we would trade off growing assets during that period by drifting in style.

MH: I think Amelia covered it very well. I would just add that it is in our enlightened self-interest to prevent style drift, because over the long term we believe value will outperform. When capital allocators decide to increase their exposure to value strategies, we want to be the firm that has remained consistent, disciplined, and true to its philosophy. As Amelia mentioned, we are a partnership, so we are accountable to ourselves. That is an important part of our culture. We also have strong buy-in from our clients. They know who we are, they appreciate the consistency, and they know that if they are allocating a sleeve of their portfolio to value, we are going to behave like value.

G&D: Another key part of the process at Brandes is the freedom analysts have within their sectors. After you screen and gather the initial list of names, how do you develop an eye for which ones are worth spending the next few weeks or months on?

MH: That's a good question. Looking at myself now versus 20 years ago, *one area where I've gotten better is the willingness to pull the plug earlier on a project.*

There are a lot of ideas that may screen attractively, but once you dig in, you realize it is not an undervalued business; rather, it is cheap for a reason. Even if you have already put in some effort, it is important to move on to the next idea. That helps productivity. A lot of what you look at initially will not pan out. That is simply the nature of the process.

G&D: When you do pull the plug early, how do you make sure the research still has a long shelf-life and is reusable? What is the right balance there?

MH: When you pull the plug, the idea is not going to make it to the investment committees, but the team knows you have done the work. Everyone is aware of why you did not cross the line on the project and at some point it may become attractive again. The price might become more compelling, or the risk factors that led you to step away may no longer be a major concern.

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G&D: Amelia, would you have anything to add on how you think about prioritize the research pipeline?

AM: I think Mike's points are spot on. We run fairly concentrated portfolios with about 60 stocks. We recognize that we do not have to own everything; we want to own the best ideas with the margin of safety trade-off that is going to add value to the portfolios. We are investing in companies, not stocks. We are trying to find the best ideas in companies that have a durable moat and an attractive margin of safety. When we review a company, it may not have that margin of safety at the time, but we will continue to monitor it.

I have a story about being at an investor day for a company. Another investor saw me there and asked, "What are you doing here? This is no value stock." And I said, "They all are, eventually."

We know our universe, and we know when to drill down and do research on the companies we cover.

G&D: Brandes has teams with impressive long tenures, and investment decisions run through investment committees. Given the potential pitfalls of team-based decision making, how do you structure the committee to ensure knowledge is transferred effectively, and who is ultimately accountable for the decisions?

MH: We are very aware of the pitfalls of committee decisions, including groupthink, the dominance of one individual, and free riding. The Director of Research sets the composition of the committees, aiming for the right blend of personality types and experience. It's critical to have people who can think independently, articulate their views clearly, and maintain a sense of mutual respect within the group.

Amelia and I both served on investment committees with Charles Brandes, and he did a tremendous job instilling a culture where everyone's voice should be heard.

Everyone brings a perspective, and an effective committee depends on people contributing their views so the group can reach the best possible decision. One change we have made over time is moving to slightly smaller committees. Our investment committees today are generally 3-5 people, whereas previously they were larger. We have found that this size strikes the right balance between maintaining accountability and ensuring we have a diverse set of voices in the discussion.

G&D: How do you navigate the asymmetry of knowledge between the person who has done most of the work and the people helping give their input on the decision?

AM: It is valuable to have the analyst, who has deep and detailed knowledge of a company, present to a broader group that is looking across industries. Committee members bring their understanding of ROIC levels that make sense across companies and sectors, and they can draw on experiences from similar cycles. Introducing that broader perspective into the analyst's focused work often leads to fresh questions and highlights issues the analyst may not have considered while concentrating on a single company. It usually produces a very constructive discussion. There are no bad questions, and differences of opinion are encouraged. Everyone is expected to contribute their views so the committee can arrive at the best possible outcome.

G&D: Does the committee need to reach consensus on an idea? How does the final decision work?

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AM: The committee reaches a consensus on our view of intrinsic value, essentially the worth of the business. From there, we look to buy at a margin of safety, a discount to that intrinsic value. Working with the analyst, we establish that assessment at the committee level.

G&D: Turning to individual stocks, our first question is with Kering in mind. When you evaluate global consumer companies, what helps you determine whether changes in demand, brand performance, or popularity are temporary or structural? How do you approach that analysis?

AM: We may look anecdotally at information such as trends in the secondary market for a brand. There is a constant flow of public data, but much of it is anecdotal. It is important to understand what our edge is and what it is not.

Our advantage is not being quicker than others to react to the latest data point, rather, our advantage is our perspective and our patience.

When I look at Kering, and at Gucci, in particular, I focus on the brand's history. It remains one of the strongest in the industry, with tightly controlled distribution and more than a century of heritage. It has one of the most recognizable logos in the world and a deep set of brand codes that can be drawn on at the product level. Rather than searching for a leading indicator of a quick change in brand heat, we look for actions that could harm the brand, including cuts in advertising and changes in distribution. We also pay attention to investments that strengthen the brand.

When we evaluate Kering, we are not focused on specific short-term consumer trends. We see a company that historically operated at lower revenue levels than our recovery scenario and achieved margins of 30% to 40% at the Gucci level; margins at the time we purchased it were significantly below that. Given the brand assets they control, our view is that those depressed margins did not represent their normalized profitability. We value the business based on profitability that reflects the strength of the brand, which results in much lower and more attractive valuation multiples. We are not assuming every company reverts to the mean. We first ask what brand assets the company has. In Kering's case, it is a moat built on heritage and iconic design elements that can support a return to profitability levels that match the true value of the brand.

G&D: Kering has recently gone through a leadership transition. Does that affect your assessment of the company's normalized margins and financial profile? How do you handle the uncertainty of a new capital allocator coming in, and determining whether their investment priorities will align with what you think is optimal for the business?

AM:

As value investors, we know the thesis takes time to play out, and we accept that we will not always know what will ultimately unlock the potential we see.

We were invested in Kering before the new CEO, Luca de Meo, was appointed. Previously, the company had a joint chairman and CEO who was also part of the controlling family. Mr. de Meo is the first independent CEO in Kering's history, and this is the first time the CEO and chair roles have been separated. We had advocated for that separation, so we were pleased to see it implemented.

We also know Mr. de Meo from his experience at Renault. I spoke with our automotive analyst, who had very positive things to say about his tenure there, including his ability to turn around the company, his skill with product launches,

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and his strong marketing expertise.

However, we are not buying a particular individual - we are buying a business.

We already believed certain changes were needed, and we saw duplication in management and unclear lines of decision-making. It was encouraging to see him address those issues fairly quickly after taking on the role.

G&D: We also exchanged a bit about Richemont and Watches of Switzerland. Could you tell us how these luxury watch and jewelry names first came onto your radar? What made you excited about them?

AM: We first looked at Watches of Switzerland a few years ago when Rolex acquired Bucherer, a Swiss retailer. It was the first time Rolex had ever owned a retailer. They are a watch manufacturer and before the Bucherer acquisition they had never engaged in retailing themselves. The market became very concerned that Watches of Switzerland, which had enjoyed an exclusive but non-contractual relationship with Rolex, might see that relationship change. We analyzed the company at that time, but did not purchase it, although it stayed on our radar.

We revisited it this past August when the Swiss tariffs were announced. We incorporated the 39% tariffs into our valuation and again found the company trading at a very low valuation. We already understood the business well and we understood the dynamics of its Rolex partnership. When we reviewed what had changed on the Rolex retail side since the Bucherer acquisition, the answer was essentially nothing. That reinforced our confidence that Watches of Switzerland would likely retain its Rolex distribution in the medium term.

The company also benefits from a very strong and well-incentivized management team and a highly attractive franchise anchored by the Rolex relationship. While we incorporated the tariff into our work in August, we also recognized that it was unlikely to be permanent. Recently we have seen indications that it may be reduced, and the share price has appreciated significantly since then. That was the thesis when we purchased the stock in August.

It was a lower multiple business that naturally appears in our value screens. A company like Richemont may appear less inexpensive on a simple multiple basis. However, when we triangulate their valuation with their returns on capital, their strong balance sheet, and the durable strength of the brands in their group, the overall combination becomes very attractive to us.

G&D: When it comes to Watches of Switzerland, how do you think about where the thesis could go wrong? When clients ask about a business that has clear strengths in distribution and under-appreciated business model but faces macroeconomic or external risks, how do you frame that discussion?

AM: When we looked at the company in August, the shares were down 42% year to date, and about 36% of their sales were exposed to the Swiss tariff. We incorporated the full impact of that tariff on the Swiss watches they import into the U.S., which allowed us to reflect this top-down dislocation in the business model. We then evaluated other scenarios in which the tariff might be reduced to EU levels or eventually removed, and we ran scenario analysis and valuation triangulation around each outcome. It is also important to remember that this is a discretionary product. Consumer discretionary is an entirely different challenge when you think about forecasting the top-line. There is no required volume tied to production needs. It is driven entirely by discretionary demand, which is the bigger question.

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G&D: When you first began researching the company, what prevented you from investing? Was it primarily the lack of a sufficient margin of safety, or concerns on the long-term stability of the relationship with Rolex?

AM: When we first reviewed the company around the time of the Rolex announcement, we spent a considerable amount of time trying to understand the nature of the relationship with Rolex. If you look across the retail landscape, it is quite common for retailers not to have long-term agreements with suppliers or any kind of exclusive perpetual arrangement. As consumers, we may have assumed that a company like Watches of Switzerland had something more formal, simply because the Rolex banner is so prominent that it can feel like a Rolex-operated store. That helped clarify the true structure of the relationship. It was not that we were uncomfortable with the relationship itself. The issue at that time was that we did not have an attractive margin of safety at the then current price.

G&D: We are keen to transition to a company Mike has been researching that fascinated us too. TBC Bank, looks exceptionally well-positioned within Georgian banking. For our readers, what is your thesis on the company, and what makes TBC an attractive investment?

MH: It really comes down to valuation. With TBC, we see a bank trading at under 5x earnings in a very attractive market. Georgia has strong GDP growth prospects, and the banking system functions as a duopoly between two well managed and rational players. A little more than 80% of the business is in Georgia, and beyond that you have meaningful option value in the Uzbek business. Financial penetration in Uzbekistan is extremely low. TBC has been gaining deposit share there at a rapid pace, and the opportunity set over the next 5-10 years is potentially tremendous. There are certainly risks when operating in a country like Uzbekistan, but when we consider the quality of the franchise and the valuation the market is placing on it, we believe that valuation is far too low.

G&D: When Oliver Hughes stepped in to TBC, he brought a great deal of experience and looked like a compelling leader. How do you factor in management quality in your investment process?

MH: Management quality is a factor, especially when you are operating in emerging markets such as Uzbekistan. If you look at the team TBC brought together in Uzbekistan and consider their backgrounds, it is genuinely first-rate. Many of them came from leading fintech firms in Russia, and after the Russian invasion of Ukraine, that created a rare window for TBC to hire exceptional talent. Management invested in bringing in very high-quality individuals who had already built real businesses. One recent hire was the person who created the Russian equivalent of Alexa. When you look at the CVs of the people they have added, it is an impressive group. TBC's management did an excellent job building an environment that would attract talent of that caliber to the Uzbek operation.

G&D: We touched on digitalization earlier. How do you think about digitalization across the banks you cover? What are the main opportunities and risks?

MH: It is already there. If you are not digitalized and you do not have digital distribution, you will fall far behind. The world has moved on. It is no longer a competitive advantage. It is simply table stakes. When you look at digitization in Georgia, both Bank of Georgia and TBC have been clear leaders. Across the banking industry, there is a greater focus on technology investment and a smaller emphasis on traditional headcount. The people you do have tend to be more highly compensated because the mix has shifted toward engineers and computer scientists. That is the reality of the business today compared with emerging market banks 15-20 years ago. The distribution model is entirely different.

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Smartphone penetration is extremely high in these countries, which is a crucial enabler.

G&D: When you evaluate emerging market banks, macro is always a significant risk. How do you become comfortable with the macro and regulatory backdrop? A valuation of 5x earnings is very appealing, but how do you build conviction around the factors that are harder to control?

MH: You must be cognizant of macro risk. Using TBC as an example, in the week before Russia invaded Ukraine in February 2022, I had a call with the CFO. I asked what scenarios they were running, what assumptions they were using, and what they expected would happen to the Georgian Lari if Russia invaded Ukraine. They walked me through a very severe scenario and explained how they were preparing for it. At first, that scenario did play out, the Lari weakened substantially. But then it strengthened.

Something unexpected had happened. Georgia benefited from the war and there was a wave of high-tech migration into the country. If you look at the economy and its composition today, the IT sector has expanded meaningfully. There has been substantial investment into IT, and that has supported the development of the broader economy. It has also contributed to one of the highest GDP growth rates in the world, even though the situation initially appeared to be a major risk.

We are always cognizant of macro factors. From a banking perspective, we ask how much credit there is in the economy, what the financial health of the government is. Regulatory risk is ever-present, both from a safety-and-soundness perspective and, more often, from a consumer-protection perspective. If a line of business is "too good to be true" for a bank, there's a risk interest rates get capped, account fees reduced, or you are forced to offer free accounts. If returns get too high, you can't assume that will persist either, because governments have an increasing propensity to try to capture some of that excess profitability going to shareholders to plug their own finances.

G&D: There is this one saying in Latin America that "governments love to hate banks".

MH: There is a story about a bank robber, I cannot recall his name, who was once asked why he robbed banks. His answer was simple: that's where the money is. For politicians, the logic is very similar. When you look at voters, there is rarely any affection for banks. Public sentiment ranges from indifference to outright hostility.

G&D: Moving on so we can give readers another example, what is the core thesis for NLB?

MH: NLB is not a household name, so a brief background is helpful. It is the largest bank in Slovenia with about 33% asset share. Roughly 56% of its assets are in Slovenia, and the rest are in other Balkan countries, with Serbia being the most significant at about 20% of group assets. It is a very well-managed bank, and we believe it can generate ROTE in the high teens on a normalized equity base in a reasonable rate environment. Growth prospects are attractive when you consider credit penetration and GDP growth in the region.

Our interest in NLB began after the global financial crisis, during the Eurozone financial crisis, when different countries were dealing with severe banking problems. Iceland, Slovenia, and Greece stood out as three very different approaches. Iceland essentially left foreign creditors on their own, Greece required assistance from the Troika, and Slovenia decided to go it alone. Before

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the crisis, Slovenian banks suffered from questionable lending and exposure to state-owned enterprises, and the system required a major cleanup. The government adopted an austerity program, increased sovereign debt, injected capital into the banking system, consolidated weaker institutions, and created a bad bank to absorb troubled assets. This process culminated in a large recapitalization in 2013, and because the state had provided aid, the European Commission required Slovenia to privatize NLB within 5 years. So, NLB's IPO was in November 2018, which is when we initiated our position.

The setup was compelling. In most IPOs the seller knows more than the buyer and sells at a price they consider reasonable. Here the Slovenian government was up against a year-end deadline. They had to complete the offering and sell a meaningful stake in a bank located in a country that is not even included in the emerging market indexes. Market conditions in late 2018 were poor for European financials, making the sector generally unloved. We also liked that the bank had been cleaned up, that there was a large unrecognized deferred tax asset from prior losses, and that the government had installed a new management team during the recapitalization, most of whom were still in place. With conservative assumptions, we believed there was a sufficient margin of safety relative to intrinsic value.

This is an investment where our thesis has evolved. After taking one of the largest stakes in NLB, I visited in 2019 and spent a full day meeting with the C-suite, the board, divisional managers, the risk team, and the legal team. I focused on risk culture, the professionalization of management, the influence of the Slovenian state, strategic priorities, and capital allocation. As we got to know the bank better, and with interest rates normalizing after the pandemic, our view of the bank's underlying quality improved. The market has not reflected that improvement. It values NLB at around 7x earnings, with a tangible book multiple we consider low and a dividend yield above 7%, even before factoring in excess capital that we estimate at 10-15% of the current market cap. That capital will either be returned to shareholders or used for M&A. M&A always carries risks for banks, but NLB's track record since 2018 has been positive. The acquisitions of Komercijalna Banka in Serbia and Summit Leasing, the leading leasing company in Slovenia, have been clearly value-accretive. We believe more opportunities are possible, and if those do not materialize, we expect a significant amount of excess capital to be returned to shareholders.

We have owned NLB since 2018. The share price is now more than 3x the IPO level, but we still see attractive upside relative to our view of intrinsic value. Sometimes the best ponds to fish in are the obscure ones where very few investors are looking.

G&D: Thank you both for the small window into your analysis on companies you know so well. One important question for us is how you evaluate juniors. Given your long time horizon and patient approach, how do you make sure juniors are on track, learning the right things, and approaching work in the right way?

MH: That is both critical and challenging at a firm like ours because we do not want to encourage short-term thinking. We want people to focus on deep fundamental analysis.

Our evaluation process is very qualitative. We want to see that individuals are thinking carefully about the key components of the thesis, and we also want them to be comfortable with the reality that not every idea will work. They need to be willing to make mistakes. We do not want people to be afraid to bring in ideas that carry higher risk but also offer the potential for significantly higher reward.

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We have a very flat structure. Most of us are sector analysts within the research department, and we have eight different sectorial teams. We all try to develop the juniors because ultimately we are going to rise or fall together.

This is not a star system at Brandes. The goal is to help people grow, to get them thinking about long-term fundamentals, and to avoid incentives that push them in the wrong direction.

The committee makes the final decision to purchase a stock, which gives analysts protection and support as they bring forward ideas that may look unpopular at first.

AM: We want to be sure that people who join us are genuinely comfortable taking positions that go against the crowd. Are they willing to think independently and accept that they may look wrong in the short term?

Many of our theses require patience and time to play out. In the early stages, a lot may go against the thesis, and the share price may decline. You must be comfortable with that. A contrarian approach can be uncomfortable on a personal level, so we want people who can operate in that environment. Our committee structure also helps analysts be brave.

G&D: When you meet a potential new hire or intern, is there anything that makes you really excited about the person you are considering? Are there obvious signs that a person thinks in the right way or has the requisite level of patience?

AM: When we interview, we usually spend time discussing stock ideas. We look for independent thinkers who genuinely enjoy analysis and who naturally take a longer-term view. They are not focused on finding a short-term catalyst that will play out in three months.

From our perspective, if everyone already knows about a catalyst, there is no real opportunity. It will not differentiate us. So, we look for people who enjoy the process itself.

MH: I would add that we look for people who fit our very team-oriented culture. It is the classic balance: someone who fits well culturally but also brings something distinctive and additive to the collective knowledge and experience of the firm.

AM: It also must be someone comfortable with the absence of a star culture. We make decisions by committee, and we are fully committed to that. We do not operate with a star portfolio manager model.

G&D: Brandes funds are typically underweight to the U.S., and often this is the most pronounced deviation from the benchmark. We also enjoyed reading your analysis comparing the long-term performance of the MSCI EAFE and the MSCI USA, which discussed recent market concentration and the rising proportion of US weighting in the world indices. How do you think about where opportunities are more or less likely to come from in the future?

MH: I would put it this way: we do not hate the U.S., which has world class companies, an entrepreneurial culture, rule of law, a very large consumer market, abundant natural resources, and high-quality human capital. Having said that, at quarter end I was looking at the MSCI ACWI and the U.S. represented 64% of the index while accounting for just over 25% of global GDP. We are very bottom up in our process and are organized by sector rather than geography. When you look at opportunities on a bottom-up basis, you often find a significant

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discount elsewhere. In many cases, the better opportunity is a company domiciled outside the U.S. with significant business in the U.S. but is not being rewarded for it. The regional allocations in our global portfolios reflect where we see value across the universe. Based on those allocations, we are finding more attractive opportunities outside the U.S. than within it, at the moment.

G&D: With a bottom-up process, how do you think about risk management and exposure levels?

MH: Most of our risk management happens at the committee level. On my committee, we think about different buckets. For example, we may have a group of companies that are exposed to residential construction (or another set of specific factors). We evaluate these risks and pay close attention to correlated ones. You might have several companies that each offer an attractive margin of safety but share the same underlying risk. The question becomes how much exposure you really want in that area. There is more art than science in this part of the process, but we are very mindful of avoiding excessive exposure at the portfolio level to any single risk.

AM: It is similar on the international committee. We focus on diversification, the number of companies, sector exposures and sector correlations, and the appropriate sizing of each position.

G&D: Staying with risk management for a moment, there are many books about how to buy securities, but few that teach you how to sell. How do you think about the selling decision?

AM: The strength of our process is that we establish value for the business when we first present it to the investment committee. That becomes our indicative sell price. We then continue to update that assessment as events unfold, as the company evolves, and as sales or profitability changes. This gives us a very quantitative foundation for our sell discipline. We are always trying to maximize the weighted average margin of safety of the portfolio while staying within the risk parameters we discussed. Our sell decisions are anchored in intrinsic value.

G&D: How do you evaluate past investments or mistakes, and how do you track whether a thesis is moving in the right direction while you hold a position?

MH: The great thing about our process is that we write reports, and each report has the investment thesis clearly laid out. Everything is archived, so you can always go back and review whether the thesis actually played out. That is useful not only when an investment goes badly but also when it performs well. It is valuable to revisit both the thesis and the process behind it. Sometimes your thinking and process were correct, yet you still end up with a negative outcome because of simple bad luck. Other times the investment works out, but for reasons that are unrelated to your original thesis. Whether the outcome is positive or negative, it is important to go back and understand the real drivers and how replicable they are versus being a one-off.

In the end, everything comes down to probabilities. Did you just get hit by that 10-15% adverse event or was there something in the process that did not hold up. Careful documentation and an accessible archive make that kind of honest review possible.

AM: The key point Mike raises is the need to separate the outcome from the process. You can follow a very sound process and still end up with a bad outcome, perhaps because your time horizon as a patient investor is interrupted by an external event, such as a take-under or a company making a poor capital allocation decision. Or, in the case of banks, you might face government

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intervention.

G&D: We have two final questions that we like to ask all our interviewees. As aspiring capital allocators, it is important to allocate your spare time thoughtfully as well. What are some interests, passions, or hobbies that you make time for outside of investing, that are meaningful to you?

AM: We spend a lot of time sitting behind computers, and I emphasize the sitting part. I like to get outside, and I am competitive by nature, so I play competitive tennis. I enjoy both playing and watching tennis. I am also a big sports fan more broadly, and I follow the NBA closely. now, so I am open to suggestions.

MH: My capacity for free time has expanded. I have two kids in college now, so my wife and I are empty-nesters. Like Amelia, one of the great benefits of living in San Diego is the access to the outdoors. I enjoy walking, running, and exercising. I am also a history buff. With the kids gone I have a little more time now, so I am open to suggestions.

G&D: For those readers who are aspiring investors, do you have any closing advice on what they should be doing or focusing on?

AM: You really need to think about who you are, what your personality is, and then find the investment style and firm that fit you. I always tell people that you must enjoy what you are doing to be successful at it. If you discover that you do not enjoy it, you should probably do something else. I think that is the best advice I can offer.

MH: I agree completely. Be true to yourself.

G&D: It has been a great honor to have the chance to learn from two very experienced and thoughtful investors. We truly appreciate your time, and are very glad we had the opportunity to have this conversation with you.

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Jillian McIntyre

Jillian McIntyre founded 221B Capital Partners in 2024. She has worked and consulted for some of top tier hedge funds and global investment banks. Born and raised in the UK, she started her career working in both research and investment banking for Morgan Stanley (UK) focusing on the Technology and Telecom sectors. In 2005, Ms. McIntyre left the sell-side and moved to the hedge fund industry. She was hired by Mr. Art Samberg founder of Pequot Capital Management to run a L/S global TMT portfolio. She was subsequently hired by renowned activist Sir Chris Hohn, founder of UK-based The Children's Investment Fund to run the short selling research process. In 2012, Ms. McIntyre worked at White Elm Capital LLC, a spin-off of Lone Pine Capital, which appealed to her entrepreneurial spirit, and helped grow assets fivefold during her tenure. Ms. McIntyre re-launched 221B Capital Management LLC, a woman-owned global L/S fund in March 2024, backed by the prior head of seeding for Goldman Sachs. The fund takes secular themes in Technology, Industrial and Renewable energy sectors and marries those with bottom-up fundamentals.

For the past seven years, Ms. McIntyre has acted as a judge for Mr. Bill Ackman on the Pershing Square Challenge in conjunction with Columbia University. She has presented at many industry and hedge fund conferences such as the Robin Hood Foundation Investors Conference (2022), Kase Capital (Mr. Whitney Tilson), CFA society, 100 Women in Finance, High-Water Women (HWW) and NIRI (IR). She also presented a highly contrarian solar short directly to Mr. Julian Robertson, the Founder of the Hedge Fund industry. Her network extends across industry leaders, academia, family officers/mutual funds/hedge funds, as well as VC and PE equity firms.

Ms. McIntyre studied Accounting and Finance at Kingston University Business School, while running her family business. Ms. McIntyre lives in New York City with her husband and son.

Editors' Note: This interview took place on November 7th, 2025.

Graham & Doddsville (G&D): Jillian, thank you for joining us. To kick things off, we'd love to start with your background and how you became interested in investing.

Jillian McIntyre (JM): Thank you so much for having me. It's an honor to be invited to do this newsletter. Participating in the Pershing Square Challenge as a judge for Bill Ackman for the past seven years has been a great opportunity to see the outstanding talent of future investors at Columbia Business School first-hand.

My parents ran a family business outside of London and from a very early age I spent every spare moment helping them grow it. Even at that age I knew the importance of it and the pressures that came with providing for the family. I was eventually put in charge of accounting and the operational side of the business. This experience helped me appreciate the excitement and advantages of being an entrepreneur. It also taught me and my two brothers the importance of preparation, focus, resilience and determination. They went on to be successful entrepreneurs, and I knew it was a matter of time before I would get my opportunity! My interest in investing came from that entrepreneurial environment, but also the need to expand my horizons and see how I might use the skills I had developed. My mother always encouraged me to keep an open mind, to experience other cultures and travel as much as I could. That led me to work for a global bank, Morgan Stanley, and further develop my business analysis skills. Investing was a natural path from there.

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G&D: You were involved with the IPO of what has now become one of the most famous European companies, ASML. You were also on the sell-side covering TMT just as the internet bubble was forming. Do you still draw on that experience today, and how has that shaped your coverage, interests, expertise?

JM: When I started at Morgan Stanley, there were only two of us in the entire technology research team in Europe! European Technology companies at that time were mostly conglomerates (expanding my universe of companies was one of the reasons I would ultimately move to the USA). ASM Lithography spun out of Philips Electronics NV, a large consumer electronics company in Europe. Being involved with the ASML IPO taught me a lot and certainly shaped my approach to investing. Focusing on the people running the business: ASML had an exceptional management team that consistently executed well. Its IR team was outstanding, and it had developed a product that had an extremely strong moat. When I left the UK for the US, I made a point to take the time to maintain my relationships with European companies. When the ASML CEO retired last year, I was honored to be invited for a celebratory lunch with him. That was a full circle moment!

My main influences and colleagues at the time were people the Head of Global Tech investment banking and my direct supervisor who was the number one ranked European Tech analyst at the time. Morgan Stanley required a high level of professionalism and work ethic. It was a place where I found it very satisfactory to get a lot of answers to my curiosity about research and investing. I got a sense of purpose there and how I could make a difference. While I draw on that experience today and continue to focus on Technology, I have expanded to cover Renewable Energy and Industrial companies. This has made me able to identify converging themes and is a strong differentiator for the fund. I would add that investment research has changed significantly. The process has evolved and will continue to change with AI and access to many more tools. It is important to adapt, and to recognize that change.

G&D: Who were the biggest influences or role models in terms of investing for you early on in your career, and who do you look up to today?

JM: I have many, but I think

the most important thing for anyone looking to go into the investment industry, is to learn the styles of the most successful investors, listen to their podcasts, and understand if that investment style suits you. It took me a while and several experiences to really understand my style.

I am fortunate enough to have worked and consulted for several of the most successful global investors and CIO's, from Sir Chris Hohn, founder of The Children's Investment fund to Art Samberg, founder of Pequot Capital. I have interacted frequently with Bill Ackman on the Pershing Square Challenge. Not only are these world-class investors, but they are also great philanthropists, which is something I admire.

G&D: We're sure everyone will be curious: what was working for Sir Chris Hohn at TCI like and what lessons did you take away from that experience?

I have a lot of respect for Sir Chris and I certainly learned a lot from him, both investing and running a business. Sir Chris is a demanding manager as you might expect, and great at challenging a thesis. As an activist, he became best known when he led a shareholder revolt in 2005 that blocked Deutsche Börse's

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attempt to acquire the London Stock Exchange. At 221B we are not activists in the traditional sense, but we partner with our portfolio companies to help with their capital markets communication and build the right investors. One example of that has been the Space company called RocketLab (ticker: RKLb), which just won 'AWS Company of the Year' at the Deloitte Top 200 awards.

On the business side, I appreciated and believe that it is optimal to hire the best talent and keep the team small. TCI was the first fund to be set up to donate profits from the fund to charities. We believe in this initiative and are doing the same at 221B.

G&D: How did you learn to navigate the appropriate way to push back constructively as a junior?

JM: Pushing back is not necessarily the right way to frame it.

I always say, focus on fact versus opinion. Build your case with facts first and let them speak to the thesis. Summarize with your opinion, but don't lead with it.

One fund I worked for was involved with a large internet company. We started to see click fraud spread across the industry. I thought "this is going to be a problem for the industry and for our investment". This was not being factored in by the street in their estimates. I built a detailed model and determined that if I was right and this click fraud was more pervasive than people realized, it was going to have a material impact on consensus estimates and ultimately the valuation of our holding.

I put my facts together and presented it. I had covered every possible angle and was ready to recommend exiting the position. In this instance, I laid out the impact of click fraud on the financial model. The divergence between Street estimates and what the actual estimates would look like should the downside materialize. The team sat down and discussed the work. We unanimously came away thinking the asymmetrical risk was to the downside and decided to exit. The stock fell 60%. That became a good entry point on the long side, as the click fraud was then fully discounted.

In my current position, I always value somebody who's willing to step up and say, "Here are the facts, what do you think?"

G&D: We think it might speak to your mindset, the culture of the team and Sir Chris' personality.

JM: Yes, that's probably fair!

G&D: How do you encourage the junior people you work with to speak their mind?

JM: If you want to work in a hedge fund and see it grow, it's a necessity. Not speaking up can be detrimental to the fund, but your argument must be well researched first. You should think of yourself as an entrepreneur and quasi owner of the business. Survivability of the business depends on everyone being an active participant. I particularly incentivize junior analysts to speak up when their thesis is wrong or to make the case to double down when an investment idea isn't working.

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One of the things I learned to do is a pre-mortem. You want to consider all factors that could negatively affect your thesis, whether a long or short position. I've seen situations where news comes on the tape that's counter to someone's thesis, but they're so determined that they're right that they refuse to budge. That can eventually take down a fund. It is important that new analysts are humble enough when an idea isn't working and can speak up.

The other very important aspect here is culture. I have zero-tolerance for bad behavior at 221B. Unfortunately, the industry is rife with bad actors.

It is critical that business owners take time to develop a good culture and environment for junior analysts to grow.

G&D: You have founded 2 investment firms so far. Could you please tell us about the decision to start 221B Capital. When did you know you were ready to take ownership of the value you were creating for yourself?

JM: 221B was started in 2014, but it was a short-biased fund. My research suggested there was a clear gap in the market for this type of fund. I talked to my prior colleague, who was the head of marketing for TCI at the time and had helped raise considerable capital. Rahul is not only an incredibly talented marketer, but he is also one of the best human beings I know. He has always been incredibly supportive along the way.

I put my own capital to work and had solid performance, but the lack of mandates for short-biased funds meant it was impossible to raise capital. While it's great to be resilient and determined, you must recognize when you won't get anywhere too! That led me to pivot. Having the short-selling skillset, means that you scrutinize companies and with that in mind, you find those that are misunderstood and under researched. If you can get comfortable with management, its product or service, and trajectory of the business, that's where you can find multi-baggers and can create significant alpha. That led me to restart 221B as a long-short fund. I also knew that I was ready, in part because I found a great partner and anchor in Lucashill, founded by Ryan Roderick the prior Head of Seeding at Goldman Sachs.

With 20+ years in Technology research, I found an innovative way to demonstrate my learnings by hosting 'Salons', where I bring thought leaders together. I invite existing and potential LPs to attend these events. It provides them with industry access and a chance to be part of our research process. I recently hosted a Digital Assets salon in September, with 23 CEOs, regulators, and a Senator.

G&D: How did you go about building the right skills for short selling? Was there something intentional that you did or studied?

JM: I have studied a lot on short selling but it really all started when I published a "Sell" report on a company, who then called my firm and demanded I be fired because they didn't like it. The push back from the company led them to invite me to meet all their divisional heads to give them an opportunity to show me where I was wrong. It just cemented my thesis. I wrote a follow-up "Sell" report and three months later, when the stock was down about 50%, I got a call from a pensioner who had worked at this company for 30 years. He had come across my report, followed my recommendation, and avoided a massive loss in his retirement fund. This was certainly a moment early on in my career that I understood first-hand the inherent value for short-selling work. Over the past few years, we have seen some great short sellers retire or exit the business. Having this skill set is a differentiator today.

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Over my career, I developed the 5Ms framework for my research process. It's a culmination of all of the things I've learned so far through my interactions with some of the world's best short sellers. I tried to discover what they were all looking for and the number one thing I have learned over my career is that it's much about the people. You might have an excellent product, but if the management is not able to execute and if the voting structure means they cannot be replaced it's likely going to be a bad investment. Learning is also fundamental, because it's about connecting the dots. This is why I chose the name 221B, Sherlock Holmes' address. It's very detective-like work. It involves drilling down and looking for things that people either don't have time to do, or they just don't bother. For me, it's a culmination of all the things I have learned.

I think for anyone reading this, you must go where your superpower is. Over time, what you're good at becomes apparent, and then you have to keep at it. Eventually you develop your own process, improve it, and ultimately find your superpower.

G&D: We're glad you touched on your "Five M's" framework: Management, Mendacity, Model, Mania, and Mediocrity. Could we go through how you applied the most relevant pillars to evaluate a short, please?

JM: Absolutely, one prior example for some background, I pitched Carvana (CVNA) at the Goldman Emerging Managers Conference and the Morgan Stanley European CIO Conference in 2022. It was the best performing short, as the stock went from \$196 down to \$4, when Apollo stepped in and saved it from bankruptcy. We covered the short position.

For the 5M's, the first M is Management. Carvana had a poor track record and a lack of regard for investors. They present themselves as a car sales company, but they're really a subprime lender. They had an SEC investigation which started in August of 2020 and lasted until 2023. During this time, they sold about \$3 billion worth of stock. The voting structure gave management 97% control, and there were several lawsuits that I found mostly concerned with the lack of independence of the board members.

The second M is Mendacity, which is about nefarious behavior. In this case, there was a lot of SEC correspondence going back and forth, which provides a lot of helpful information. The SEC letters talked about questionable accounting, particularly with regards to gain-on-sale accounting, and self-dealing among the management team. I also think analysts overlooked the changes in the operating structure, in this case DriveTime, which was the underlying operational business helping Carvana.

The third M, Model: is it a good business model? Carvana's cost of debt and operating costs had increased at a faster clip than sales. My analysis suggested that the losses they were seeing at that time were going to be further exacerbated because of this change in structure with DriveTime. They had revenue recognition issues due to problems with transfer of title of the vehicles, but most prevalent was the gain-on-sale accounting. This is one of the differentiations of the thesis. Sometimes there is great information online that is completely missed by the market. One of the things that I came across was a geographical database of complaints against Carvana from the Consumer Finance Protection Bureau. We found a strong correlation between high numbers of complaints in each state and that state putting a hold on Carvana's business license. So, I followed these complaints across the country in 2022, and they were mostly related to how Carvana would delay transfer of the title.

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Finally, estimates were too high, capital raises were likely at that time, and then they upsized the bond issuance to around 10-10.5% yield. So, the model was all about the gross profit per unit, the gain-on-sale accounting, and the fact that estimates were too aggressive for lack of understanding it.

The fourth M is Mania, related to valuation. When we initiated the short, Carvana was trading at about 53x EV/EBITDA, a meaningful premium to the peer group. To be clear, we don't short companies on valuation alone.

The last M, Mediocrity, is about whether it's a consensus long or short. At the time there were twenty-nine analysts covering the name, and only two rated the company sell. Attending several ideas dinners (hosted by the brokers), I was surprised at how many buy-side investors presented the ideas as a long, based on the potential TAM. They had no idea of the undisclosed SEC investigations at the time. I knew we had strongly differentiated work and thesis.

G&D: Was Carvana typical for your idea generation process? How do you source ideas and how do you prioritize what to work on at a given time?

JM: Yes, we believed it was misunderstood, and there was clear asymmetrical risk to the downside.

We invest in technology, renewable energy, and industrial companies. What sets us apart is that we look at converging themes. We marry secular themes with bottom-up, fundamental stock selection. I would go as far as to label us "systems thinkers".

On one hand, you've got generalists who have broad knowledge and might avoid missing the forest for the trees. On the other hand, you've got single sector funds. When you're investing in AI, you need insights from both the tech as well as energy experts, but not all funds are structured for that. That's where we differentiate ourselves and gain an advantage.

Our ideas come from many places. It's all about reading a lot, and I like attending the "big picture" conferences to get a good cross-sector view, which gets my thinking going. For example, last year the CEO of a large semiconductor company at one of the conferences, said that the telecom industry is going to be the first and most disrupted by AI. That really piqued my interest, and then I started to connect the dots. It's not just what's happening with AI, it's also about what's happening with satellites.

The satellite sector is another sector where we have had several investment successes and to this day is still under-researched. It has been forgotten for years, because in the early 2000s, you'd need to spend \$500 million on a geospatial satellite. That's no longer the case thanks to Elon Musk and others. That one presentation sparked my 'systems thinking' approach, so I started to look for companies that were going to benefit from this trend and found RocketLab at \$8. It was a retail stock, no one cared about it despite them being the only ones who have launch capacity for satellites outside of SpaceX.

I also looked at Vodafone, which at that time was a consensus short in Europe, for various reasons. They were early investors in satellite, seeding AST Mobile (ticker: ASTS) and are going to be one of the first to launch a satellite

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direct-to-device commercial service in 1Q26. Then we asked ourselves, who's going to be negatively impacted? It's the cell tower companies, the heavily indebted REITs. You're getting an influx of "cell towers in space", which is how Elon Musk thinks about Starlink, and we're seeing a consolidation going from thirty to ten operators in Europe (following the pattern in the US). Those cell towers are going to get decommissioned, and it's already happening.

That's how it starts, with a high-level approach and then I find the companies that I express that opinion with.

G&D: Do you have signposts to help you size and risk-manage your positions? How do you compare your level of conviction on a like for like basis?

JM: That's another great question. We use a system called Alpha Theory, where we input our bull, base and bear case, and it adjusts for volatility of the names. The system also allows us to rank management, where we are in the research process (early, middle or late stage), and our conviction. Every input is factored in, and the output is an optimal position size. It provides a dashboard of all the names we are researching and ranks the best risk-adjusted return that we can optimize our portfolio and prioritize our research.

G&D: Shall we touch on your long thesis on Overstock? It stood out for us because you mentioned that you exchanged with Marc Cohodes on the idea, so we were wondering what collaboration with other investors looks like usually.

JM: Overstock came about because I was reading about Patrick Byrne, who was probably the most misunderstood CEO in tech at the time. He had developed a product called "tZero". This product used blockchain technology to get settlements done quicker and more efficiently, i.e. T+0 and it allowed institutions to trade directly on the blockchain. He was ahead of his time, but it was a part of the business that no one had done any work on.

The genesis of tZero, was the CEO experiencing naked short-selling on his stock, and he wanted to create a system that would prevent it. I read that Marc Cohodes's business partner was sued by Patrick Byrne for naked short selling. I went to Mark and said, "Listen, you need to bury the hatchet because he's come up with something quite creative, and there could be a lot of money to be made as its misunderstood." I went through the story and convinced him - he ended up making amends with Patrick Byrne. Then he presented the long thesis at Grant's conference (the video is available on Youtube). The stock was approximately \$19, and you couldn't get a borrow on the stock because it was so heavily shorted. The stock went up over \$100+ very quickly as people realized that they missed the upside potential of this interesting portion of the business. For me, that's proof that if you do really good work and diligence, you can find some attractive idiosyncratic ideas with asymmetric risk-reward.

G&D: It was really special to get a feel for your aptitude to find these ideas that few people are looking at in the same way. One of the motivations behind your work seems to be an aspiration to do some charitable giving. Please tell us about the causes you're supporting and what motivates you?

JM: I am involved in several charities including some for children. I run a non-profit in the West Village, that supports the families and local businesses together. It's how I spend part of my downtime. Purpose is an important aspect of life, it's always important to understand your own. Investing is obviously a means to that end, but I think it's important to give back as well.

G&D: As important as it is to allocate capital it's also important to allocate your spare time. What are some of the things you are doing or reading to keep

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yourself energized and what other things are you interested in outside of investing?

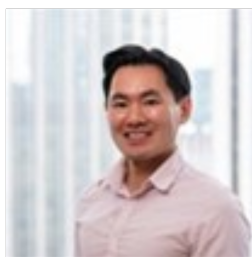
JM: Family is incredibly important, and I encourage that to be the case for anyone who works for me. I have a son, and he would like to be a professional football player. I spend most of my spare time helping him in that process. Otherwise, I just read as much as I can, from philosophical books to business and learning about different leaders. However, most of my time is spent on investment research.

G&D: Do you have any advice for aspiring investors in terms of what they should be doing or learning?

JM: I would go back to the point that I made before, which is trying to figure out what your superpower is. After you find out, focus on it and be dedicated to that. Understand what you want to do and what you don't want to do, which is equally important. You must try to talk to as many experienced industry folks as you can.

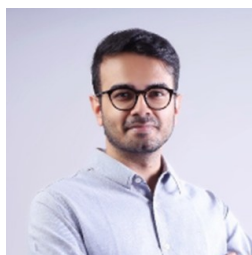
In this environment, finding a job can be challenging. If you don't get the specific job that you really want, try to land in the field or a large organization where you can move around, and then have that chance to make the most of it. Maybe your ideal role also changes over time, so being open-minded can help you find the right path and grow.

G&D: Thank you Jillian, this was a fantastic interview and we are confident our readers will enjoy going through it to savor all the nuggets of wisdom here.



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Bennett is a first-year MBA student at Columbia Business School. Prior to CBS, he was a Corporate Banking Associate at Barclays covering the TMT Sector, and before that in a Operations Rotation Program. Bennett graduated from Rutgers University with a degree in Business Analytics & Information Technology.



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Srivats is a first-year MBA student at Columbia Business School. Prior to CBS, he spent three years across in VentureEast Investment Advisors and Amicus Capital Partners, evaluating technology-enabled businesses. He began his career with JP Morgan Equity Research covering the European Healthcare market. Srivats graduated from BITS Pilani University with a M.Sc. in Economics and B.E. in Mechanical Engineering.

(This was a team of 4 students, please see the profiles of the remaining team members overleaf)

dLocal, Ltd. (NYSE: DLO) - Long 2025 Booth MBA Stock Pitch Competition (1st Place)

Recommendation: We recommend a **BUY for dLocal (DLO)**, a scaled emerging-markets payments infrastructure provider that we believe is at an inflection point: TPV growth is re-accelerating, take-rate compression is stabilizing, and a new management team is tightening execution. The stock trades at a discount to developed market peers at 17x P/E NTM and 7% FCF yield. We see a 50% 12-month return, driven by an 8% NTM EPS beat, 28% EPS roll-forward, and a re-rating to 20x P/E NTM.

Business Overview: dLocal is a cross-border payments platform that allows global merchants to accept and send payments across 40+ emerging markets using a single integration ("one API"). It supports 900+ local payment methods and offers both Pay-In (acceptance) and Pay-Out (disbursements), plus tooling like analytics and multi-currency management for merchants operating across dozens of markets. Geographically, 75% of revenue is concentrated in LatAm (with Brazil and Mexico as its largest markets), with a growing contribution from EMEA/APAC.

Investment Thesis

1) DLO is a leveraged play on a massive and underappreciated EM digital payments TAM.

Emerging markets are where the next decade of digital payments growth will happen, with estimates of mid-teens growth through 2030. Drivers for this secular trend include a transition away from cash, a growing digital-first population, and increased mobile/Internet penetration. These markets, while attractive, present several barriers for global merchants: fragmented local Alternative Payments Method (APM) ecosystems, varying regulatory regimes, FX friction, and operational complexity. DLO's value proposition is solving these problems, country-by-country, so merchants can outsource their payments operations rather than building local stacks themselves. Their customer base is skewed to large, repeatable "winners" globally (large tech, marketplaces, travel, e-commerce), and DLO grows as those merchants expand into additional EM corridors.

In our base case, TPV grows roughly in line with management's 2025 guidance and the 2025-2030 23% CAGR is supported by continued market expansion of 15% and share gains as DLO executes the playbook of entering new markets, offering new payment methods, and deepening wallet share.

2) The market is anchoring on take rate compression, but gross profit growth is re-accelerating.

After a significant drop in net take rate from 2020 to 2024 driven by change in product mix, country mix, and increased discounts for large customers growing their volumes significantly, net take rate has recently stabilized around 1.05%. We're underwriting 95 bps for 2027, broadly in line with consensus and private peers. DLO also has multiple levers that can support take rates: expanding APM coverage, pushing into platform/marketplace flows, and layering adjacent products (BNPL enablement, offline POS, and stablecoin rails) that increase complexity and raise switching costs.

3) A credible management reboot is reducing governance risk and improving execution.

With the new CEO Pedro Arnt (ex-MercadoLibre CFO; became sole CEO in March 2024), DLO has refreshed leadership across finance, operations, and commercial functions, including senior hires from Visa/Mastercard and the broader payments ecosystem. Headcount is up 35% since 2023, reflecting reinvestment in product/tech and compliance.

Operationally, management's internal focus is on incremental gross profit per contract, and take rate is an output. Since the CEO transition, DLO has been delivering a steady cadence of incremental gross profit. Our base case is a continuation of this growth path at 75% incremental EBITDA/gross profit margins.

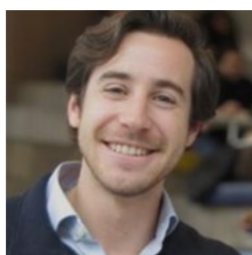
Valuation:

Our 12-month target price of \$20/sh is calculated with a 20x forward P/E multiple on \$1 EPS. Our bull case (+169%) is a 30x multiple on \$1.2 EPS, driven by an increased market share growth and a flat take rate leading to \$11-13 mm in incremental gross profit per quarter. Our bear case (-40%) is a 12x multiple on \$0.7 EPS, assuming no market share growth and exit take rate of 80 bps, leading to \$0-1 mm in incremental gross profit. The risk/reward of 4.2x shows the asymmetric opportunity for DLO, where downside risk is bound by a 5.5% run rate FCF yield at current prices. We see 2026 guidance (Feb '26) as a catalyst, as consensus estimates seem beatable.



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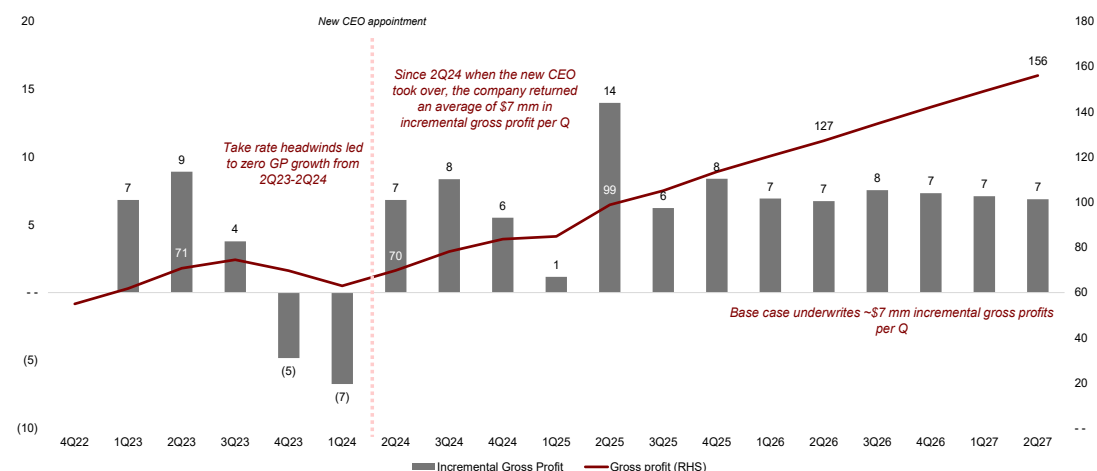
Aaron Samuels is a first-year MBA student at Columbia Business School. Before CBS, he worked in equity research at Susquehanna International Group covering internet and software companies, and he began his career as a financial analyst at ICONIQ Capital. He graduated from Dartmouth College with a BA in Economics.



Oliver Suffern '27
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Oliver is a first-year MBA student at Columbia Business School. Prior to CBS, he spent five years on the LatAm Equities team at Moneda Patria Investments, a leading regional asset manager within Patria Investments Group, where he covered the Energy, Healthcare, Homebuilders, and Conglomerates sectors. He graduated from the Instituto Tecnológico de Buenos Aires with a degree in Industrial Engineering.

dLocal, Ltd. (NYSE: DLO) - Long



DLO Recommendation: BUY															
DLO	Total Return				Key Drivers	2021	2022	2023	2024	LTM	NTM	NTM+4	2025	2026	2027
Price	13.3	3M	1Y	3Y CAGR	Total TPV	6,049	10,567	17,677	25,575	31,549	44,848	58,648	38,143	51,548	65,848
Shares	302	0%	17%	3%	YoY		75%	67%	45%	50%	42%	31%	49%	35%	28%
Market Cap	4,011	EPS Revisions			Consensus TPV						42,976		37,411	50,063	65,081
Debt + Leases	61	Year	3M	1Y	Delta vs consensus					4.4%			2.0%	3.0%	1.2%
Cash	477	2025E	3%	14%	Net take rate	2.16%	1.91%	1.57%	1.15%	1.10%	1.04%	0.99%	1.06%	1.02%	0.97%
Net Debt	(416)	2026E	6%	10%	YoY		(11%)	(18%)	(26%)	(17%)	(5%)	(5%)	(8%)	(4%)	(5%)
Enterprise Value	3,595	2027E	7%		Consensus take rate						1.04%		1.06%	1.02%	0.95%
					Delta vs consensus					0.3%			(0.7%)	1.03%	1.6%

IRR	'28 P/E Fwd	TP	IRR	MOIC
3 Year Target	20.0x	32.1	35.7%	2.6x

NTM Scenarios	NTM+4 EPS	P/E Fwd +4	12m TP	Return
Base	1.00	20.0x	20.0	50%
Bull	1.19	30.0x	35.8	169%
Bear	0.67	12.0x	8.0	(40%)
Risk/Reward				4.2x

Financials	2021	2022	2023	2024	LTM	NTM	NTM+4	2025	2026	2027
Revenue	244	419	650	746	863	1,229	1,579	1,046	1,401	1,757
YoY		72%	55%	15%	22%	42%	29%	40%	34%	25%
Gross Profit	130	202	277	295	346	466	582	402	525	637
YoY		55%	37%	6%	25%	35%	25%	37%	30%	21%
Consensus Gross Profit						445		397	512	620
Delta vs consensus						4.7%		1.3%	2.4%	2.8%
EBITDA	99	153	202	189	237	334	420	284	377	462
Margin vs GP	76.0%	75.7%	73.1%	64.0%	68.6%	71.5%	72.2%	70.5%	71.9%	72.5%
Consensus EBITDA						306		273	344	435
Delta vs consensus						9.1%		3.8%	9.7%	6.0%
EPS (GAAP)	0.25	0.35	0.49	0.39	0.49	0.78	1.00	0.65	0.89	1.10
YoY		38%	42%	(20%)	12%	59%	28%	66%	35%	24%
Consensus EPS						0.72		0.64	0.83	1.05
Delta vs consensus						7.7%		2.6%	7.1%	4.8%

Valuation	2021	2022	2023	2024	LTM	NTM	NTM+4	2025	2026	2027
EV/EBITDA	108.7x	28.8x	23.9x	16.6x	16.1x	10.7x	8.5x	12.3x	9.1x	7.3x
EV/EBITDA Consensus						11.7x		13.2x	10.4x	8.3x
P/E	125.1x	38.4x	30.6x	22.5x	28.8x	17.1x	13.3x	17.3x	13.8x	11.3x
P/E Consensus						18.5x		20.8x	16.0x	12.7x
FCFF Yield		3.2%	5.7%	(1.8%)	2.4%	7.5%	8.9%	9.5%	8.6%	10.9%
FCFF ex WK Yield		2.6%	3.3%	3.5%	4.3%	7.0%	8.7%	6.2%	8.2%	10.1%

Key Risks & Mitigants

- Competition and pricing pressure:** Global and regional PSPs could force further take-rate compression or share loss. We believe DLO's unified API and deep local integrations create durable moats.
- Client concentration:** The top customers represent 56% of revenue. However, the company states that for each cohort, the top customers' share falls over time as new merchants outgrow them. They are concentrated, but the key customers are not static.
- Network reliance / rails risk:** Dependence on card networks and local rails could expose DLO to fee or rule changes. This is mitigated by the increased adoption of APMs in EMs, such as Brazil's Pix.



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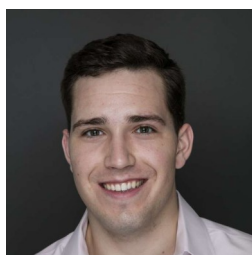
Chidi is a first-year MBA student at CBS. Prior to CBS, he was a researcher and trader at Citigroup, where he focused on Mortgage-Backed Securities (MBS) and Collateralized Mortgage obligation (CMO). He graduated from Emory University with a concentration in Information Systems and Operations Management. He is a CFA Charterholder.



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Gabriel is a first-year Master in Accounting and Fundamental Analysis at Columbia Business School. Prior to CBS, he was a partner and fixed income trader at Sparta. He holds a bachelor's degree in Industrial Engineering from the University of São Paulo (USP) and is a CFA Charterholder.



James Michalski '27

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James is a first-year MBA student at Columbia Business School. Prior to CBS, he spent nearly eight years on Citigroup Global Markets' Investment Grade Debt Capital Markets desk in various roles, most recently as a VP. James graduated cum laude from The George Washington University with a BBA in Finance, and a minor in Economics, and is a Chartered Financial Analyst.

Advanced Auto Parts (7.375% Senior Unsecured Notes due 2033) - Long 2025 Chicago Booth Credit Pitch Competition (1st Place)

Recommendation: We recommend buying 7.375% Senior Unsecured Notes due 2033, which currently trade at 100.008 and yield 7.37% (319 bps OAS). With \$975 million outstanding and Ba3 / BB ratings (both negative outlook), the notes offer attractive spread compression potential as fundamentals stabilize. Our base-case target price of 105.634 by year-end 2026 implies a 6.25% yield (213 bps OAS) and delivers a compelling 13.3% IRR and 1.13x MOIC.

Business Description: Advance Auto Parts (AAP) is a leading North American automotive aftermarket retailer serving professional installers and DIY customers through 4,297 stores. The company offers a broad range of branded, OEM and owned-brand parts and launched a major 2024 restructuring to streamline stores, optimize inventory and improve distribution, aiming to lower costs and strengthen margins and service levels.

Market TEV	5,343.7	71,662.0	85,851.7	23,181.0	5,340.4
TEV / NTM EBITDA	8.9x	16.3x	20.3x	10.6x	10.4x
LTM EBITDA	290.1	4,223.4	3,869.5	1,930.9	443.4
NTM EBITDA	603.4	4,402.5	4,233.9	2,190.6	512.8
LTM Revenue	8,624.3	18,938.7	17,463.3	24,060.9	1,692.0
LTM Revenue Growth	(5.36%)	2.43%	6.19%	3.26%	7.53%
Gross Margin (%)	42.3%	52.6%	51.5%	37.0%	38.5%
Issuer Rating	BB	BBB	BBB	BBB-	BB
Sr. Unsecured Bond	7.375% 08/33	5.200% 08/33	4.700% 06/32	6.875% 11/33	3.625% 06/31
YTW	7.368%	4.757%	4.587%	5.141%	5.476%
G-spread	366 bps	143 bps	170 bps	210 bps	--

Investment Thesis:

I. Aging vehicle fleet and high new auto prices sustain strong aftermarket demand

- **Non-discretionary demand:** About 90% of AAP's business is essential maintenance and repair.
- **Aging vehicle fleet:** US fleet age hit 12.8 years in 2025 and is projected to reach 15.35 by 2030, with 2015–2019 models now entering the high-repair 6–14 year window, driving sustained parts and service demand.
- **High vehicle prices:** New car prices above 50 thousand dollars push consumers to keep cars longer and invest in maintenance, while online resources support DIY growth and rising vehicle complexity boosts DIFM demand.
- **Softening new auto sales:** Q4 2025 sales are expected to moderate after a strong Q3 lifted by expiring IRA tax credits.

II. Store optimization has driven consistent sales per store improvement, but a meaningful gap to peers remains

- **Restructuring Impact:** As of YTD 2025, Advance has opened 26 stores and closed 517 (approximately 11% of its footprint), focusing on underperforming locations.
- **Parts Availability:** improved to 96–97% in Q3 2025, up from the low 90% range in FY 2024, time to serve was reduced by roughly 20% YoY in Q3 2025.
- **Sales per Store Gains:** Sales per store have steadily improved. In Q3 2025, Advance posted its strongest quarterly performance in over two years, with comparable sales up 3% YoY, with particular strength in pro.
- **Peer Gap Remains:** Despite progress, Advance continues to lag peers, with annual sales per store still ~30% lower than Auto-Zone and O'Reilly (~\$1.8M vs. \$2.5M), highlighting continued room for improvement.



Advanced Auto Parts (7.375% Senior Unsecured Notes due 2033) - Long

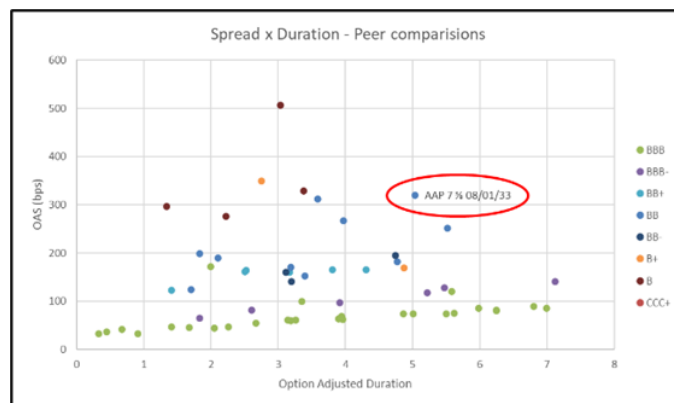
III. Supply chain restructuring is driving margin expansion

- **Operational Efficiency Gains:** Streamlined distribution network and optimized routing improved DC productivity by mid-single digits YoY, while shipment errors declined by ~33%.
- **Enhanced Availability & Service:** Market hubs (75–85k SKUs each) now enable same-day coverage for 60–90 stores, boosting part availability and sales velocity.
- **Margin Expansion Catalyst:** Combined footprint optimization and localized hub rollout contributed to a ~370 bps YoY improvement in operating margin via a reduction in COGS.
- **Economies of Density:** 75% of stores are now in markets where AAP holds number 1 or 2 position based on store density

Bond Valuation: AAP's 2033 notes trade at a discount to peers, with meaningfully higher yields and OAS that imply weaker credit quality than fundamentals suggest. This creates an opportunity to capture roughly 50–80 bps of spread compression as the bonds reprice toward peers, supported by attractive relative value versus the 2032s. Investors can also pick up an additional 10–20 bps by rolling down the curve.

Key Risks and Mitigants:

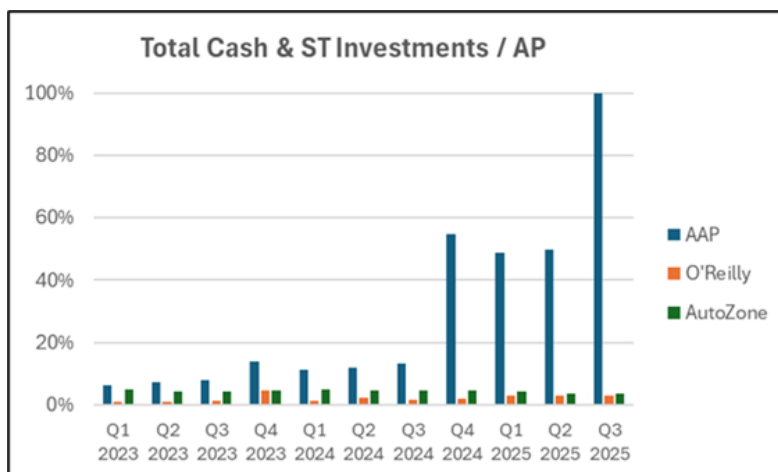
- **Turnaround execution:** Risk that management misses its turnaround, FCF recovery and 7% EBIT target. **Mitigant:** experienced leadership and early momentum, with Q3 2025 margin at 2.6%.
- **Competition:** Intense pressure from national chains, online retailers and dealers. **Mitigant:** large, stable after-market, strong DIFM position and concentrated footprint where 75% of stores hold a top-two market share.
- **EV adoption:** Engine-related parts are ~40% of sales, and EVs require fewer parts. **Mitigant:** US adoption remains slow at 1.4% of vehicles and 9.6% of new sales.
- **Tariffs:** 40% of COGS face a 30% blended tariff. **Mitigant:** cost sharing with vendors, sourcing shifts, and resilience of non-discretionary demand; tariff pressure expected to hit independents harder.
- **Supplier Financing Risk:** AAP's First Brands exposure is minimal, with the \$28 million non-cash charge under 2% of COGS and tied to just one of 634 vendors. **Mitigant:** Supply chain finance risk is mitigated by \$3.0 billion of cash, \$1.0 billion undrawn ABL, and management's commitment to maintain smooth A/P factoring, with no maturity until 2027



\$ in thousands except per share						
Fiscal year	2024A	2025P	2026P	2027P	2028P	2029P
Fiscal year end date	12/28/24	12/31/25	12/31/26	12/31/27	12/31/28	12/31/29
Revenue	9,094,327	8,576,997	8,660,187	8,880,797	9,122,497	9,386,497
Growth %	-1.2%	-5.7%	1.0%	2.5%	2.7%	2.9%
Cost of Sales Total	5,254,278	4,833,256	4,782,253	4,848,257	5,008,265	5,244,277
Growth %	-1.8%	-8.0%	-1.1%	1.4%	3.3%	4.7%
Gross Profit	3,840,049	3,743,741	3,877,934	4,032,541	4,114,232	4,142,219
Growth %	-0.5%	-2.5%	3.6%	4.0%	2.0%	0.7%
Gross Margin (%)	42.2%	43.6%	44.8%	45.4%	45.1%	44.1%
adj. EBIT	27,125	377,173	370,558	435,818	419,621	340,688
Operating Margin (%)	0.3%	4.4%	4.3%	4.9%	4.6%	3.6%
adj. EBITDA	319,105	655,843	640,688	712,178	692,621	620,688
adj. NOPAT	20,724	273,827	280,476	330,873	318,912	258,923
plus D&A	291,980	278,670	270,130	276,360	273,000	280,000
less CAPEX	(180,800)	(250,000)	(291,260)	(288,390)	(319,000)	(329,000)
change in NOWC	400,461	(376,500)	(2,609)	(6,919)	(7,580)	(8,280)
adj. Free Cash Flow	532,365	(74,003)	256,737	311,924	265,331	201,643

Key Covenants Related to the 2033s:

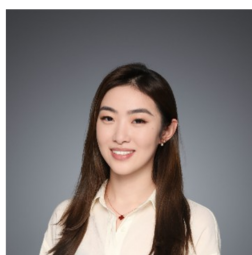
- Cross-Default for other borrowings equal or greater to \$125.0mm
- Limitation on Liens (15% CNTA) / Limitation on Sale and Leaseback transactions
- Springing subsidiary guarantee apropos of credit facility or future capital markets debt
- Change of Control + Downgrade triggers put at 101%
- Covenant restricting M&A (unless buyer takes over obligations)
- Clean Up Call at 90%





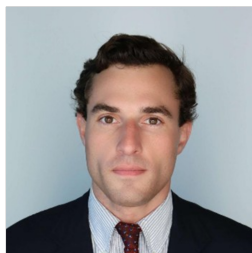
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Craig is a first-year MBA student at Columbia Business School. He has 3.5 years of public market investing experience at a long-only value investment manager. Prior to business school, he worked as a generalist investment analyst at Focused Investors. He graduated from UCLA with a B.A. in Economics.



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Olivia is a first-year MBA student at Columbia Business School. Olivia has 5 years of primary research experience serving public market investors. Prior to business school, she worked at AlphaSights, where she managed capital markets accounts. She graduated from Babson College with B.S. in Business Administration.



Elliot Tompras '27
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Elliot is a first-year MBA student at Columbia Business School. Elliot has 5 years of public market investing experience at a long-only value investment manager. Prior to business school, he worked as a generalist investment analyst at Gardner Russo & Quinn LLC. He graduated from Franklin & Marshall College with a B.A. in Classics.

A.O. Smith Corp. (NYSE: AOS) - Long 2025 Darden at Virginia Investing Challenge (1st Place)

Recommendation: LONG AOS with a 5-year price target of \$118.5, an upside of 71% and an IRR of 14%.

Overview: Founded in 1874, A. O. Smith is an established leading global manufacturer of residential and commercial water heaters, boilers, and water-treatment products, serving ~80 countries through two segments—North America and Rest of World (primarily China and India). North America makes up 75% of its business and contribute ~90% of total operating income, with ~24% EBIT margin, compared to low-single digit margins in Rest of World segment. Water heaters drive ~84% of North America revenue, with ~80/20 split selling into residential and commercial end-markets, through 50/50 wholesale vs. retail channels.

The residential market is an oligopoly shared by 3 main players: AO Smith (36%), Rheem (36%), and Bradford White (19%). In the commercial water heater market, AOS holds a dominant share at 53%, followed by Rheem (26%) and Bradford White (16%).

Investment Thesis:

I. Non-discretionary sales nature with regulatory tailwinds will drive revenue growth beyond consensus expectations.

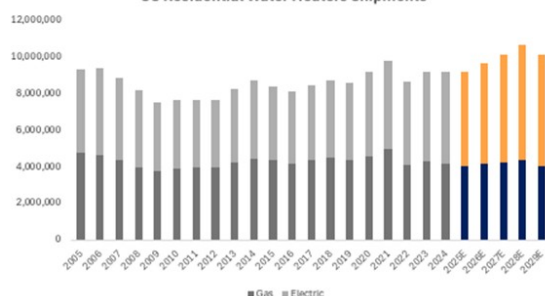
- The residential market is driven by 80-85% replacement demand. AHRI industry shipment data over the past 20 years suggests a replacement cycle of 10-15 years and that industry demand is currently near trough levels, with a peak expected in the next 2-3 years. With the new 2029 DOE rule requiring stricter energy-efficiency units, we expect a volume uplift in 2028, as distributors tend to place orders 6-12 months in advance. The rule will also accelerate replacements of higher energy efficiency units, which carry premium pricing.
- In the commercial market where AOS commands leading spec share, the 2026 DOE rule further provides market share gain opportunities given AOS is both a first mover and a technology leader. The rule requires condensing technologies for many commercial applications. AOS has been a leader in R&D investment and owns proprietary cyclone technology that already qualifies under the new requirements, whereas competitors still need to redesign many of their units. Our analysis suggests that commercial water heaters sell at 6-7x the price of residential heaters, so any market share gain creates further revenue upside.
- Industry structure resembles a rational oligopoly, which supports pricing power and margin stability. After reviewing five years of distributor pricing announcements, we found that manufacturers followed each other's price hikes annually. An expert interview with a Senior Sales Executive at AO Smith confirmed that "the industry takes one price increase a year and they try not to give it out or give it back over the course of the year".
- We conservatively modeled a 5-7% volume uplift (recovery back to peak-level demand) and a 5% ASP (3% inflation + 2% from selling higher price units) increase going into 2028. This supports a 5% revenue growth, even after incorporating China weakness.

Financials and Key Metrics

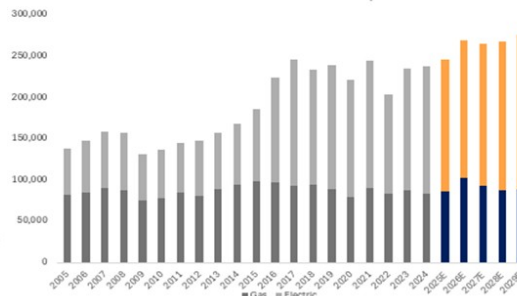
Price (10/24)	\$69.24
52-week high	\$80.26
52-week low	\$58.83
Market cap	\$9.7bn
Enterprise value	\$9.9bn
Shares out.	140.4mn
Short int.	1.8%
Dividend yield	2.0%

	12/24	12/25E	12/26E	12/27E	12/28E	12/29E	12/30E
Revenue (\$ mn)	3,818	3,907	4,130	4,367	4,620	4,890	5,178
% growth (0.9%)		2.3%	5.7%	5.7%	5.8%	5.8%	5.9%
EBIT (\$ mn)	725	728	781	839	901	967	1,039
% margin	18.1%	18.6%	18.9%	19.2%	19.5%	19.8%	20.1%
% growth (5.1%)		0.4%	7.3%	7.4%	7.4%	7.3%	7.4%
EPS (\$)	3.73	3.93	4.38	4.89	5.46	6.10	6.81
% growth (2.1%)		5.4%	11.5%	11.6%	11.7%	11.7%	11.6%

US Residential Water Heaters Shipments



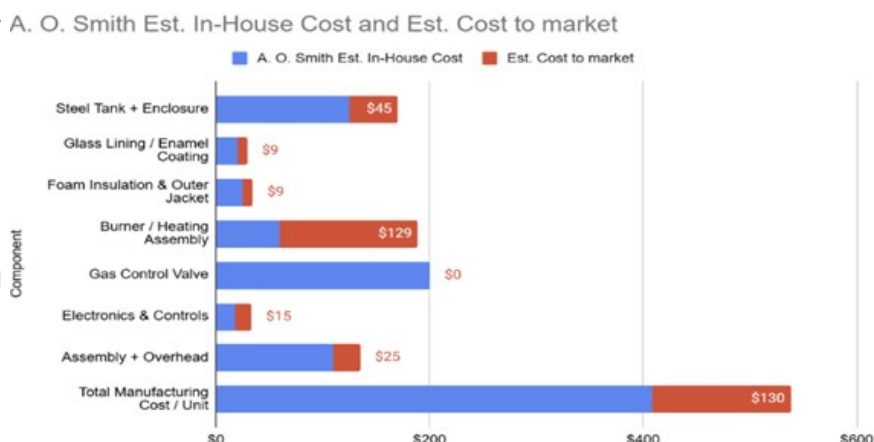
US Commercial Water Heaters Shipments



A.O. Smith Corp. (NYSE: AOS) - Long

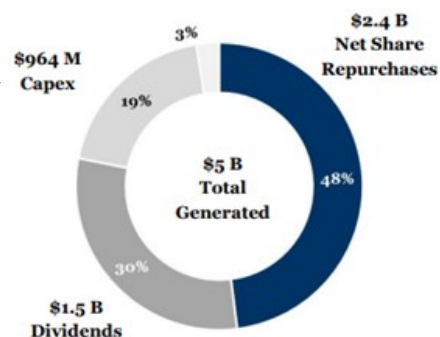
II. Vertical integration and strong wholesaler relationships underpin durable cost advantages.

- Frequent installations over long duration and brand familiarity make AOS the preferred choice among plumbers. The ease of maintenance via technological servicing integrations such as contactless monitoring, mobile servicing of units and QR codes allow plumber access to applications for building and managing plumbing operations. Experts also note that the plumber benefits from re-installing an existing OEM unit when all the “hookups” are intact and the plumber does not have to “re-sweat” piping and tubing for a new unit.
- AOS manufactures most key components in-house, generating cost advantages through vertical integration: “[w]hat's unique about AO Smith is they make a lot of the components for the industry at a plant they own just right down the street from me in Franklin, Tennessee called APCOM, which stands for appliance components [...] they're making all other components that they not only make for their plants, but also their competitors. That's a tremendous advantage parts-wise.” We estimate that strategic insourcing drives ~18-24% cost savings, allowing AOS to lead the industry in innovation via R&D, differentiating AOS from the competitive set.
- Niche use cases for components protect the parts from outsourcing via Amazon, a Chinese site, or another distributor. The end customer usually contacts the plumber who has the part in inventory received by the wholesaler: “[i]t's coming in as a coil of steel and it's leaving as a water heater and there's not much that [Amazon or another distributor] can touch.”



III. Disciplined capital allocation will drive strong future returns and remains underappreciated by the market.

- Since 2013, AOS has compounded net income at an 11% CAGR, while growing capex at a 1% CAGR, driving 9% FCF growth. Capex has declined to ~1% of sales from 3.5% over the same time as maintenance spend has averaged ~\$75 million. FCF conversion has averaged ~100%, with declines in conversion in 2017-2018 and 2024 as the company invested in innovation ahead of regulatory changes, increasing spending to ~\$100 million. Over the same time, AOS has grown its ROIC to 35% from 17% through earnings growth while the invested capital base has increased.
- Having generated \$5 billion in free cash since 2013, the company has allocated it advantageously. Management has increased the dividend at a 15% CAGR, increasing the payout ratio to ~35% from 25%. At the same time, total share count has declined 21%. Currently, management has a buyback authorization for 7 million shares (5% of market cap) and with continued spending (~\$300-400 million per year) will be able to reduce shares outstanding by a further 11% over the next 3 years.



Valuation (71% upside, 14% IRR)

We reached our December 2029 target price of \$118.5 through a 5-year earnings model. This implies an average revenue growth rate of 6%, slight margin expansion to 7% net income growth, compounded by share repurchases to reach 12% EPS growth. Our 17.4x NTM P/E multiple implies no margin expansion from AOS's FY2024 ending multiple. The company has traded at a 5-year historical average of 19.6x NTM P/E, reaching a high of 26x in 2020 while trading at lows of ~13.5x in 2019 and 2022.

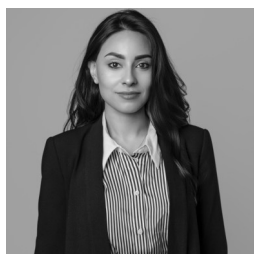
Risks

- Tariff unpredictability and rising steel costs:** AOS operates with a diverse manufacturing base (65% of production in the US), giving the company the ability to mobilize production across its manufacturing footprint. Rising steel costs present a margin expansion opportunity, as industry pricing typically passes through costs while not subsequently lowering prices if they subsequently decline.
- New management team introduces uncertainties:** Having passed Smith family approval, Shafer has experience driving efficiencies through his background at 3M, particularly in China. He has also signaled his commitment to a similar capital allocation strategy with an increased emphasis on “portfolio management.”
- Loss of Tax Incentives (Inflation Reduction Act):** While the loss of Tax Incentives will increase total project costs by up to 30% in some cases, water heaters remain non-discretionary spend – “no one wants to take a cold shower twice.” In commercial projects there is no “sticker shock,” with 20-year spending plans anticipating water heater investments.



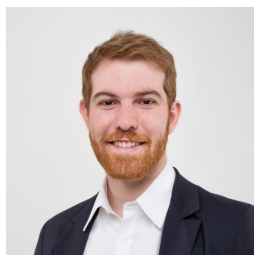
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Victor D. Aguiar is a second-year student at Columbia Business School. Prior to CBS he worked at BTG Pactual in São Paulo, Brazil, where he was a PM in the Real Estate group, structuring and managing listed real estate funds. During his MBA, he has been focusing on PE investing and investment banking, including a summer in the Real Estate, Gaming & Lodging group at Bank of America.



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Carolina S. Alzamora is a second-year student at Columbia Business School. Prior to CBS she served as a Senior Corporate Banking Relationship Manager at Santander Peru, where she covered international corporate clients. During her MBA, she has continued to build on her experience in corporate banking and client management while taking on leadership roles, including Co-President of MBA Perú 2026. Most recently, she completed a summer internship in J.P. Morgan's Wealth Management LatAm team in New York, serving Mexican UHNW clients.



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Alejandro L. Dodds is a second-year student at Columbia Business School. Prior to CBS he worked at McKinsey & Company in Argentina, gaining experience in strategy and client advisory in multiple LatAm countries. During his MBA, he has been focusing on investing and fundamental analysis, including his role at FACT Capital in New York.

MercadoLibre, Inc. (NYSE: MELI) - Long Fall '25 Security Analysis Class (judged to be one of two best presentations)

Recommendation: We recommend a long position in MercadoLibre (MELI) with a 7–10 year horizon. At US\$2k/share (c. 22x NTM EBITDA and c. 40x NTM P/E), the stock screens expensive on near-term multiples, but our base-case DCF points to 50–130% upside and a 15–25% IRR over 10 years. The thesis rests on (i) durable scale advantages in LatAm e-commerce and logistics, (ii) increasing monetization from credit and advertising, and (iii) Mercado Pago's transition into a broad financial platform, all in underpenetrated markets.

Overview: MELI operates a vertically integrated commerce and fintech ecosystem in Latin America, with three main pillars:

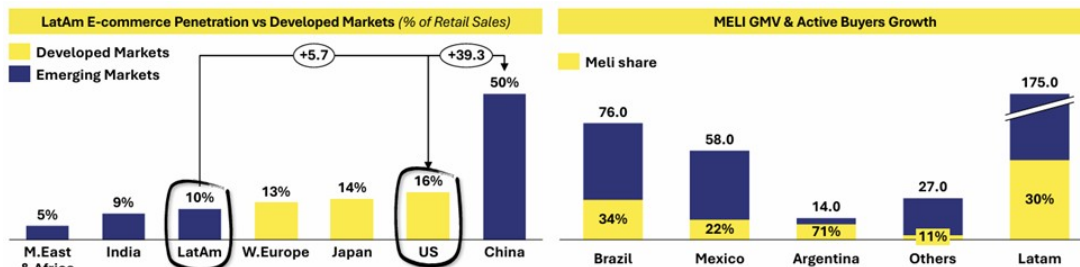
- **Commerce:** Marketplace across Brazil, Mexico, Argentina and other markets, monetized through take rate and ads.
- **Logistics ("Mercado Envios"):** Fulfillment centers, cross-docks and last-mile network; ~90%+ of shipments handled by MELI, with a rising mix of fulfillment.
- **Fintech ("Mercado Pago"):** On- and off-platform payments (QR, online, POS, cards), digital accounts, credit, investments and insurance.

Investment Thesis:

I. Structural growth and scale in LatAm commerce.

- E-commerce penetration in LatAm is approximately 10% of retail vs. mid/high-teens+ in developed markets and much higher in China, implying a long structural growth runway as penetration converges.
- MELI has the broadest buyer/seller network, high-frequency categories, and the deepest logistics footprint, especially in Brazil, Argentina and Mexico.
- Investment in fulfillment, cross-docks and own fleet has lowered delivery times and unit costs, boosting conversion and repeat usage, while the high capex and know-how required to replicate this network underpin MELI's ability to defend and grow share.

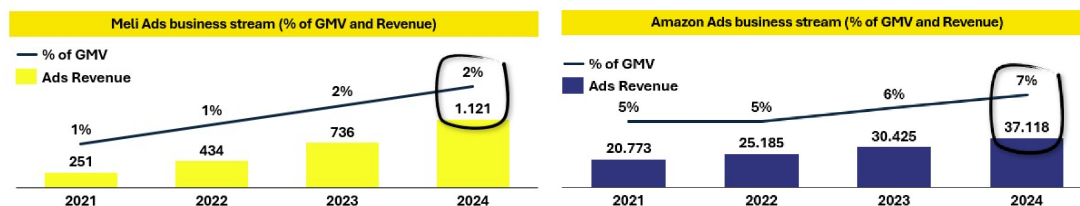
Implication: MELI should participate in both market growth (e-commerce penetration) and share gains, supporting high-teens to 20%+ GMV growth in commerce with improving unit economics as density increases.



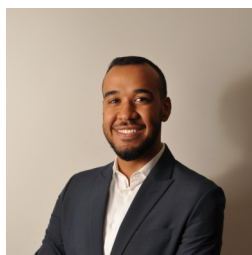
II. High-return adjacencies: credit and ads.

- **Credit:** Merchant working-capital loans, consumer loans, cards and auto loans, largely to in-ecosystem users. Underwriting is based on transactional data from marketplace and payments.
 - MELI can manage risk by adjusting origination, ticket size and pricing, and has diversified funding.
 - Credit increases seller throughput and consumer affordability, enhancing GMV and TPV while generating attractive risk-adjusted returns.
- **Advertising ("Mercado Ads"):** Sponsored listings and display/video ads on top of marketplace traffic, as (i) Ads is the highest-margin business (software-like economics, limited capital needs); (ii) As ad penetration moves closer to global benchmarks, incremental revenue should largely fall to the bottom line and help subsidize shipping and price investments in the core business.

Implication: Credit and Ads convert MELI's large user base and traffic into higher ARPU streams with modest incremental capital, lifting consolidated margins and ROIC over time.

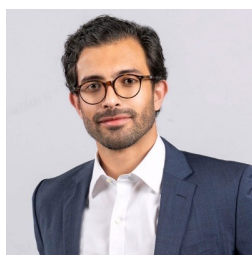


Source: JP Morgan



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Leonardo M. Fernandes is a second-year student at Columbia Business School. Prior to CBS he worked at McKinsey & Company in Brazil and at 2C Capital, a search fund, gaining experience in consulting and deal analysis. During his MBA, he has been focusing on Private Equity, Fundamental Analysis, and Data Analytics & AI.



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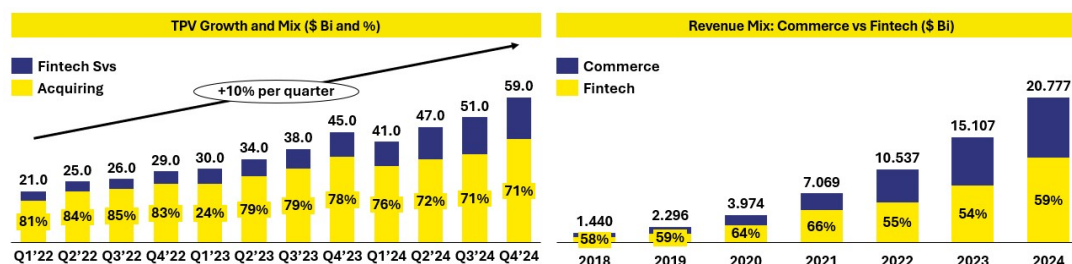
Rogério Rios is a second-year MBA/MPH student at UC Berkeley Haas, who is currently on exchange with Columbia. Previously, he worked in special situations investing at BTG Pactual in Brazil, focusing on distressed and complex credit opportunities. He recently interned at J.P. Morgan in New York and, during graduate school, has been honing his investing skills across the capital structure to capture market dislocations globally.

MercadoLibre, Inc. (NYSE: MELI) - Long

III. Mercado Pago as a full financial platform

- Mercado Pago started as MELI's checkout solution and has grown into a multi-product financial platform: digital accounts, QR, P2P, bill pay, debit/credit cards, investments and insurance.
- Off-platform volumes (offline merchants, bill pay, transfers) and card penetration are growing faster than on-platform volumes, indicating that Pago is becoming a primary financial relationship for many users.
- Engagement and monetization increase meaningfully when users adopt multiple products across commerce, fintech and credit (higher ARPU, lower churn).
- Banking and credit penetration in core markets (especially Brazil and Mexico's lower-income segments) remain low, providing a long runway for Pago to add users and deepen product penetration.

Implication: Fintech should grow at least in line with, and likely faster than, commerce, becoming an equal or larger profit pool over time and further diversifying MELI's earnings base.



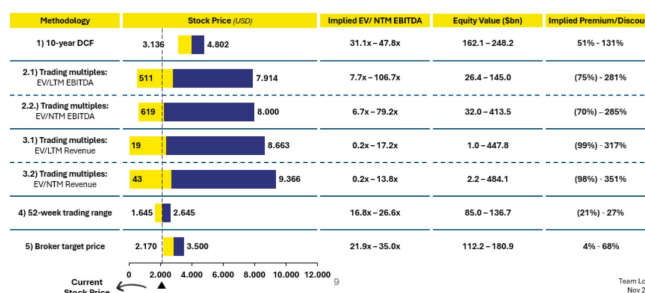
Valuation Framework

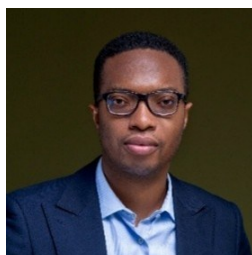
- Consolidated DCF assumes revenue grows from roughly low-20s US\$bn in 2024 up to US\$190bn by 2035 (24% CAGR), with Commerce GMV growing on higher penetration/share; take rate stable to slightly up given Ads contribution.
- EBITDA margins expand from mid-teens to 20% by 2035 driven by (i) Logistics scale and route density; (ii) Mix shift toward Ads and higher-margin financial services; and (iii) Operating leverage in technology and G&A.
- Under discount rates of 8–9% and terminal growth of 3–4%, we derive an equity value range implying 50–130% upside from the current price and a 10-year IRR of 15–25%.
- Terminal EV/EBITDA multiples implied by the DCF (8–12x) are not aggressive for a still-growing business with improving ROIC and a long reinvestment runway.
- We cross-check the DCF with public comps: MELI trades at a premium to global e-commerce/fintech peers on EV/EBITDA and P/E, but also offers higher expected growth and structurally higher returns on capital, which partially justifies the premium.

Key Risks

- **Competition:** Amazon, Shopee, Temu, TikTok could pressure pricing, shipping subsidies, and acquisition costs, slowing share gains or compressing margins.
- **Logistics profitability:** High shipping subsidies, particularly in Brazil, could weigh on margins for longer if density and Ads contributions do not ramp as expected.
- **Credit cycle:** A macro downturn or underwriting errors could increase NPLs and credit losses, impacting earnings and capital needs.
- **Regulation:** Potential changes in marketplace, payments or data regulations could constrain product design, bundling or data usage.
- **FX and macro:** Results in USD are exposed to volatile Latin American currencies and macro environments.

Conclusion: MELI is a scaled commerce and fintech platform in underpenetrated markets, with logistics, credit and Ads as key growth and monetization levers. Despite rich near-term multiples, a 7–10 year DCF supports attractive risk-adjusted returns if MELI sustains high-teens/20%+ GMV/TPV growth, gradually expands margins, and keeps credit/competitive risks under control, making the current price reasonable for a patient long-term investor.

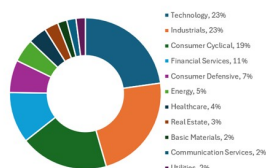




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Olaloluwa is a second-year MBA student at Columbia Business School. Prior to CBS, he worked as multi-asset senior portfolio manager at ARM Pension Managers (now Access ARM Pensions), one of Nigeria's largest Pension Managers. Over the summer, he worked as a Finance Manager intern with Amazon Web Services' Internal Rates Team. Olaloluwa graduated top of his class from Babcock University's School of Science and Technology with a Bachelor's degree in Microbiology and is also a Chartered Accountant (Nigeria).

Sector Allocation (as of October 3, 2025)



*Return reflects adjustment for acquisition and delisting of Triumph Group, Inc (TGI).

Columbia Student Investment Management Association (CSIMA) 2024-25 Simulated Fund (1st Place Winner)

Investment Strategy and Performance: 2024/2025 CSIMA Simulated Fund Competition

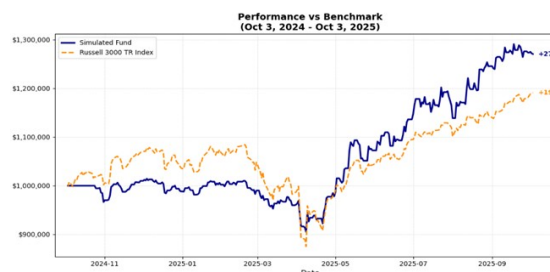
Duration: October 3, 2024, to October 3, 2025.

Primary Strategy: Systematic value investing (mostly in the second half of the competition)

Starting Value: \$1 M, **Portfolio Return:** 27%*

Outperformance: The Portfolio exceeded its primary benchmark, the Russell 3000 Total Return Index, by (as well as the S&P500) by ~800 bps

Final Portfolio Position: Cash and 99 individual equity securities held, with a total value of \$1.27 M



Investment Philosophy:

The investment approach was primarily driven by a value investing philosophy, with an emphasis on margin of safety. This was complemented by experience working as a portfolio manager in Nigeria, as well as learnings from Finance Theory, Behavioral Psychology, the Physical Sciences, and other relevant fields.

Strategy: In the first half of the competition, the portfolio was mostly invested in index ETFs, with a 55%/45% split between equity ETFs and short-term Fixed Income ETFs. This decision was driven by an unwillingness to stay uninvested while equity research was ongoing. In hindsight, I should have held on to cash/cash equivalents, since the intention was to eventually implement an active stock picking strategy. For the equity strategy in the second half of the competition, I defined the Russell 3000 Index as the portfolio's investable universe. Given the breadth of the index and results from extensive back-testing of the strategy I was considering (indicative long-term outperformance of up to 600bps), I made the decision to pursue a highly diversified approach. This approach also provided much comfort with regard to managing downside risk (permanent loss of capital). With broad diversification, I could minimize stock-specific risk while capturing population-level returns from undervalued securities.

Valuation: The approach to valuation hinged on making reasonably conservative estimates rather than attempting any level of precision. My core premise was that a sufficiently large pool of relatively undervalued assets, as defined by conservative estimates, should, over the long term, generate returns superior to those of the broader market.

Execution: While the portfolio was initially invested in broad-based index ETFs (pending completion of equity research), the portfolio eventually transitioned to an entirely equity-focused book. It is important to mention that most of the equity purchases made coincided with significant market turbulence and uncertainty, which were engendered by renewed US-China trade tensions. However, to avoid market timing, the purchases proceeded as planned.

Top 10 Holdings (as of October 3, 2025)



Columbia's Influence: Despite my prior experience, the curriculum at Columbia Business School was instrumental in validating and refining the Portfolio strategy. Professor Geert Bekaert's Asset Management Class reemphasized the principles of Modern Portfolio Theory, prompting me to embrace broad diversification despite a history of taking moderately concentrated bets. Professor Tory Higgins' Motivation Science class introduced me to his Regulatory Focus and Regulatory Fit Theories as well as his and Arie Kruglanski's Regulatory Mode Theory. These theories improved my understanding of how I evaluate opportunities, form convictions, reach decisions, and take action. I am grateful for these and many other enriching experiences at Columbia.

Key Takeaways and Future Focus: The competition reinforced the importance of being able to do nothing, especially when working on an active strategy. For example, strictly holding cash prior to executing the equity strategy would have resulted in a significantly higher return of 35%. On the other hand, it demonstrates the importance of taking lessons from the past, shaking off the regrets, and using the lessons to make better decisions going forward. I am also of the opinion that I may have overdiversified the equity portfolio. While at the time it gave much needed comfort, I am convinced that a moderate reduction in the number of securities would result in greater return benefits over the long term while achieving similar risk management outcomes. Following the competition, my focus remains investigating sources of excess return - especially as markets become increasingly efficient and hyper-responsive - while developing more robust downside risk management techniques. I would eventually like to pursue investment management entrepreneurship and the CSIMA Simulated Fund Competition has been an amazing, low-stakes opportunity to test out some of the work that I have been doing in this regard. I am grateful to CSIMA for the opportunity.

Hendrik Bessembinder



**Hendrik
Bessembinder**

Hendrik Bessembinder is Professor of Finance, and holds the Labriola Chair, at the W.P. Carey School of Business of Arizona State University. He completed his Ph.D. in Finance at the University of Washington, and previously held faculty positions at the Eccles Business School of the University of Utah, the Goizueta Business School of Emory University, and the Simon School of Business of the University of Rochester.

Hank's research and teaching interests focus on financial markets, including stock markets, foreign exchange markets, energy and commodities markets, trading costs, trading strategies, and long-term investment outcomes. His research has been extensively published in the top refereed Finance journals. He is Managing Editor of the *Journal of Financial and Quantitative Analysis*, Associate Editor of the *Journal of Financial Markets* and the *Financial Analysts Journal*, and is past Associate Editor of the *Journal of Financial Economics* and the *Journal of Finance*.

Hank has been a consultant to the New York Stock Exchange, Goldman Sachs, Barclay's Global Investors, Interactive Data Corporation, Compass Lexecon, Baillie Gifford & Co., the United States Department of Justice, the United States Securities and Exchange Commission, the Federal Energy Regulatory Commission, and the Commodities Futures Trading Commission, among others.

Editors' Note: This interview took place on October 24th, 2025.

Graham & Doddsville (G&D): We would love to hear a little bit about your background and your path to academic finance.

Hendrik Bessembinder (HB): I think everybody's path has some randomness in it, and mine is no different. After I finished my bachelor's degree, I went into an MBA program. I had an assistantship at the school but teaching full-time was not something I had considered before. I was sitting in my office one day when the department chair walked in and said they'd had an unexpected resignation, so they needed somebody to teach the next year. He asked if I was interested. My professional prospects were not very exciting, so I accepted. My thinking: I'd get some experience, get better at presenting, and it would look good on my resume. I taught for a year, and I loved it. That was a pivotal moment in my career.

Back when I was young, we didn't have video games, but I had a baseball game that was produced by Sports Illustrated. It was basically some special dice and a board with a whole bunch of charts. I realized it was all statistical, so I reverse-engineered the probabilities and did great. As I look back on it now, it's obvious that was the sort of thing that sets one up for a career in statistics, finance or economics. It just didn't occur to me until the department chair asked.

G&D: What motivated you to start looking at long-term returns as a research project, and how did the partnership with Baillie Gifford come about?

HB: My research career has shifted a few times. Broadly speaking, I've pursued things that I thought were interesting. I had a few years where I was studying commodities, mainly through the futures markets. After that I studied what we call microstructure trading for some time (e.g., trading rules, trading strategies), and I also got into electricity markets simply because I thought they were interesting.

Then I had this foray into long-run stock market outcomes. That was an accident. I was working on a project with a couple of co-authors, we were

Hendrik Bessembinder

studying logarithmic returns (continuously compounded returns), and it was a big sample of stocks. I was looking at our summary statistics, and I noticed that the average logarithmic return for these stocks was negative. One of the reasons people study logarithmic returns is that you can add them cleanly, while regular returns must be compounded. For a given stock, if the average logarithmic return is negative, then the compound return is negative as well.

That got me thinking: a lot of these stocks have negative cumulative returns! I saw something in the data that I didn't expect and started digging further.

That led to the first paper you're probably familiar with, the one with the marketing title - *Do Stocks Outperform Treasury Bills*. My thought process was: if you see that title, you have to read the paper and find out what this guy is talking about. Of course, I quickly explain that I'm talking about individual stocks, and that most individual stocks don't outperform Treasury bills.

I produced that paper and it got some attention. I wasn't familiar with Baillie Gifford at the time, but later learned that their investment strategy focuses on identifying a few firms with potential for outsized, transformative gains. From what I understand, their investment philosophy emphasizes a relatively narrow and long-term portfolio. They do not invest unless they plan to hold a position for at least five years. I'm not telling the world anything new about how the overall markets perform in the long-run. When they came across my study showing that the sizable equity premium is not driven by the typical firm, but by the few successful firms that pull up the average, they saw their intuitive worldview quantified. That naturally led to a deeper collaboration.

G&D: We recently learned that James Anderson, a former partner at Ballie Gifford, was a particularly enthusiastic supporter of your work.

HB: James is no longer at Ballie Gifford, but we stay in touch and he was a proponent of this worldview more than any other individual. I'm just documenting empirical facts and as it turns out the set of questions I've posed are of particular interest to him – he's probably one of my strongest supporters.

G&D: Let's dive into your research insights from the US and international wealth creation papers. We enjoyed some key takeaways: 1) if you pick stocks at random, the odds are stacked against you (it's more than a 50% chance that you'll underperform the average); 2) skewness preference (swinging for the fences) is not necessarily irrational; 3) very few companies (sometimes the ones with business models that are not necessarily in vogue) are responsible for most of the wealth creation today – others we leave for readers to explore themselves (in this interview and in the papers). Most discussions since the series focus on the winning stocks, but they show that roughly 96% collectively only match Treasury bills, while all of the excess returns are attributable to just 4%. How does this happen?

HB: If we're going to talk about wealth creation, we should talk about what it is, and how it is measured. The simplest thing to do is to compute buy-and-hold returns. The first half of the paper does that, and it's interesting because

buy-and-hold is a simple strategy. But if we want to talk about what happens in the markets overall, buy-and-hold returns don't give you the right answer.

Hendrik Bessembinder

For one thing, they implicitly assume the reinvestment of dividends. Some of us can do that, but the entire market can't, as every time an investor is buying shares, another is selling. Another way to put it is that if I'm buying shares on the secondary market, there's no money going back to the company. Therefore, as a collective, we don't reinvest dividends.

A striking example is General Motors, which went bankrupt in the financial crisis and the shareholders were ultimately wiped out. That's your individual result if you had a buy-and-hold strategy reinvesting dividends. In practice, the body of GM shareholders extracted dividends and did something else with them. Collectively they did not reinvest in GM.

My wealth creation measure tries to be realistic about what happens in aggregate, and then it is compared to a Treasury benchmark. People pay attention to outcomes in excess of Treasury rates, because that is what I take as their opportunity cost baseline.

Wealth creation above Treasury rates is concentrated in 4% of the stocks. This type of outcome has always been the case: there are relatively few companies that are just killing it in the long run, and then a lot of losers and mediocre companies.

It means that 96% of stocks collectively match Treasury bills. ~57% destroy wealth relative to Treasury bills while ~39% beat them and create enough wealth to make up for the losers. Thus, all wealth creation is generated by the top 4% of companies.

G&D: Many investors focus on mean reversion, whereas your study shows that for an average stock if you don't get momentum and instead get reversals, you're actually losing money. You had an elegant explanation, so we think it is worth walking through that together, please?

HB: If you do get reversals, then riding any particular stock is not necessarily a good idea. But momentum vs reversals is not the main driver; even a random walk will give you this extreme concentration in the long run. It's the mathematics of compounding random returns. Introductory finance courses show a nice smooth curve describing how money accumulates as it compounds, but they assume no volatility. When you throw in volatility, the mechanics of compounding with randomness are not so intuitive. Long before I stumbled into this, there were people talking about power laws, which show up in a lot of places such as wealth and city size distribution. What I documented was another manifestation of power laws, which ends up in this skewness or concentration.

G&D: Investors have been talking about the concentration levels of the S&P500 around the Magnificent Seven. Should we expect this concentration and skewness resulting from power laws to increase over time because of the nature of the market?

HB:

We've always had concentration and skewness. The longer the time horizon, the more noticeable the effect. We will continue to see concentration of wealth creation in the future, and it seems to have become a stronger phenomenon in recent years.

In one of my updates, I study 3-year horizons and show that concentration

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levels have risen. There are two good econometricians in Sweden, Adam Farago and Erik Hjalmarsen, that showed that the main determinant of skewness in long run returns is the volatility in the short run. That said, there are other things that matter, for example momentum makes the effect stronger while reversals make the effect weaker. Time will tell whether the skewness in the future is stronger than what we're seeing now, but there's no question that there will be skewness.

G&D: People focus on the 4% winners, but have you seen any common themes or features of the losing names? What does a typical loser look like?

HB: In another follow up paper I looked at things in a 10-year horizon and investigated what leads a name to be in the right or left tail.

Most of the interest is on the right tail, and that's rational because on the right tail you can have a 10-bagger or a 100-bagger that compensates for another investment going to zero. You would prefer to identify the really big winners as opposed to avoiding one of the losers.

The ones that end up in the left tail are the mirror image of the ones on the right. You see shrinking cash balances, low asset growth, lower dividend payments, declining profitability, and high return volatility. It is ultimately fundamentals that really matter, but markets are competitive and it's not easy to forecast them in advance.

G&D: There's been some discussion around what reporting should look like for companies and how it differs across regions. Do you feel there is other information that should be disclosed that would have more predictive power?

HB: I don't know if I have a great answer here for you on optimal disclosure. The accountants are constantly debating those things. For example, how much should be disclosed? How often should it be disclosed? What I do know is that it's competitive out there, and so predicting which companies are going to end up in the right or left tail is a competitive business. Anything that I can do as an academic, pulling data from Compustat or CRSP or Morningstar, there are smart people with real capital doing the same things. Other people are going after the intangibles, for example, going beyond the words said in a conference call, the mannerisms or intonations. I put weight on the idea that evaluating people is also a fundamental aspect.

G&D: We'd love to dive deeper into some of the hidden gems: are there any names outside of Altria, Vulcan Materials, that you read up on after seeing them in the list?

HB: In all honesty, I haven't dug too deeply into the individual companies. I think Vulcan is a fascinating case study. It would be easy to think that a tech stock would be the best performer, there are obviously a lot of tech stocks in the right tail of returns. Next time I update the study Nvidia's likely to be at the top, unless something big happens in the next months. Vulcan's business is sand, gravel, and asphalt. Flashy new technologies are interesting and potentially transformative, but apparently competitive moats can arise in a less sexy business. Probably since this stuff is so heavy, the issue for them is having the resources in the right locations. My view is that there's more than one way to generate the economic profits which drive value creation.

G&D: Have you personally invested in individual equity positions, and did your approach change after your study?

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HB: Big picture, the study has not changed my investment approach. I'm mostly non-active, and I'm not an individual stock picker. In my view, "diversify and be patient" is great advice for most investors. Maybe you are really smart and talented, but you have a day job, a family, and stock picking is not your comparative advantage. If you just pick a few at random, the odds are against you. The only way to be sure you have the next Nvidia and next Amazon in your portfolio is to own everything.

I think the studies strengthened the argument for diversification for most people, but the key words are comparative advantage. Some parties have the right combination of analytical and people skills.

Having patient capital is also part of the comparative advantage because, as documented in the paper, even the winners tend to have big drawdowns along the way.

For people with that comparative advantage, the case is strong for being an investor of conviction and I think you need to have a relatively narrow portfolio. These closet indexers, they're active managers who charge active fees and then end up diversifying so broadly that you might as well have been in an index fund. That makes no sense to me. If you're going to be an active manager, be an active manager.

G&D: Diversification reduces risk if measured by standard deviation. What if you don't measure it solely by volatility? You've proposed a skewness-adjusted Sharpe ratio to bridge the gap between alpha and long-term investment outcomes.

HB: I've been somewhat critical of our standard ways of measuring things but in all honesty, I'm probably more of a troublemaker in this area, in that I have more criticisms than answers. If you think about alpha and Sharpe ratios, and you trace the intellectual roots of those measures, they are directly linked to the Capital Asset Pricing Model (CAPM). The first thing you notice is it doesn't work that well. Conceptually, it's a single-period model whereas we live in a multi-period world. When compounding, the arithmetic mean overstates the geometric mean. The Sharpe ratio is the arithmetic mean compared to the volatility. But if you're a buy and hold investor, the geometric mean is the number that matters. It's not hard to build an example where an asset with a lower Sharpe ratio gives you a better compound return than one with a higher Sharpe ratio. I was speaking with a prominent finance professor about these issues, and he stated that

alpha is a terrible statistic for a long-horizon investor because it's based on arithmetic mean, and arithmetic means fail to capture multi-period outcomes well. I think he has a point.

I admit, while I've been critical, I don't really have the solution – I just highlight one suggestion. The idea of the skewness-adjusted Sharpe ratio wasn't original to me, and I have cited the authors. This measure basically says: if you have some preference for skewness, let's bring that into the calculation as well. It considers both mean returns and skewness, which many investors think of as good things, versus volatility, which is generally considered a not-so-good thing. It's one possibility, but what I really think is that

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we need more smart people thinking about how to measure investment performance over multiple periods in the long-run.

G&D: We found it curious that in the US, ~55% of stocks underperform Treasury bills, while for non-US, this figure is ~57%. Do you believe the proportions are coincidental, or is there a theoretical reason for the parallel?

HB: It's a little bit higher outside of the US but not night and day, and I've never done a statistical test to check if those proportions are different purely due to randomness. The Swedish econometricians I mentioned show that the main driver of long run skewness is the short run volatility. I think it's probably true that stocks are typically a little more volatile outside the US. Their analysis would say we should expect a little more skewness outside the US.

G&D: It feels like most investors are increasingly myopic, with holding periods declining. Should investors with a quarterly or monthly investment horizon take different lessons from the study than those aiming for a longer-term strategy?

HB: Everybody has their own objective functions and compensation structure. If you look at the frequency distributions charts in my study, skewness becomes really striking at about 10-year horizons. Having said that, it never looks like a normal distribution. There is skewness even in monthly returns, it's just not nearly as striking as it is once you get out to a decade or so. People say, "If I rebalance once a year this doesn't apply to me, does it?" The answer is, "Yes, it does." If you're going to be investing for 10 years, the distribution of your outcomes is skewed because it comes from the compounding of random returns. Periodically rebalancing doesn't fundamentally change that. If you're in the market for 10 years, you are going to have skewness in your return distribution, whether you rebalance or not.

G&D: Would you be willing to give us a teaser of how you are going about your work on founder CEOs?

HB: For me, the CEO question just kind of naturally followed from my previous work. If you study wealth creation you get one number per company, but that wealth was accrued at various points through history. The natural question is: who was the CEO when that wealth was created? I have to word it carefully because it's not the CEO that created it, rather it happened on their watch. Presumably, the CEO was one of the influences.

What I'm interested in is: is it random or do CEOs matter?

It's preliminary but, so far, statistically, CEOs matter a lot. I can identify that some of these CEOs are founders and then I could ask: do founders do better on average? And the answer is yes, founders do better on average.

G&D: How do you approach the CEO turnover challenge? When there's a change in management, how can we decide who gets credited with the performance and with what kind of time lag from the moment they take over?

HB: I don't have a firm answer yet, but the thought has crossed my mind. One of the things I looked at is what happens in the immediate and relatively short period after a high-profile CEO retires or steps down. Things are often difficult for the next CEO during the first few months. We never know if it was a strategically

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timed retirement, or bad news that hadn't come out yet and was made public afterwards. It looks like, on average, the first few months after the replacement of a high-profile CEO tend to be difficult.

G&D: We'd also be curious if you would consider thinking about the impact of returning executives, as we have noticed some anecdotes of founders, who come back, creating compelling track records?

HB: I have not looked at that systematically yet but I also noted striking cases in the data of returning CEOs generating good returns upon returning to the business.

G&D: Is there anything else in your workplan or in terms of papers that you hope people might pay more attention to? We were curious about your papers about Chinese ADRs and the "factor zoo" - what else is in the pipeline and what are your other research aspirations?

HB: In part, the answer is I don't know what I'll be working on tomorrow because, in some sense, I'm like a kid in a candy store. When there's something that looks like fun, I'll chase after it. Fortunately, there's been enough overlap between what I thought was interesting and what other people found to be interesting. I've been able to earn a decent living at this.

In terms of things that I am doing now, I have one paper that's already been published. None of us are objective about ourselves or our own work, but I think this paper is important and it hasn't really been noticed yet. It came out in the *Financial Analysts Journal* and it's titled *How Should Investors' Long-Term Returns be Measured?* My co-authors and I introduced a new measure for stock market returns or any other asset returns. Academic studies are often focused on arithmetic means, alphas, and Sharpe ratios. Meanwhile, geometric means are studied less often but are informative measures as they represent a buy-and-hold return. Let's focus on the geometric mean, which assumes the only thing you care about is how much you put in at the start and how much you have at the end. This measure may miss the reason many people invest. We invest because we'd like to use the proceeds for some real purposes such as funding your retirement, giving to charity, or donating to a university endowment to fund research. So, we introduce a new measure of return that's entirely focused on what annuity you can withdraw from an investment. It's a different way of thinking about how well an investment performed.

G&D: Who do you hope your research is most relevant for?

HB: I want to do research that's new and is adding to the body of knowledge. It should be interesting for academics and have a chance of getting published in academic journals. At the same time, I want to do research that's connected to the real world, and most of the papers I've done have gained attention among practitioners. I've been surprised by the depth, and continuity of interest in *Do Stocks Outperform Treasury Bills*.

G&D: What have you been thinking about recently, are there any particular books and papers influencing your thinking?

HB: It's hard to give a single answer to that. I read widely. I generally read most of the *Wall Street Journal* and part of the *New York Times* every day. I have a collection of books I've ordered that I'm waiting to read. I also read academic papers. Some people ask me where I get my research ideas from. It's hard to answer a lot of the time because ideas can come from anywhere. The more you read, the more you expose yourself to interesting thoughts.

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One more paper I am currently working on is about leveraged single-stock ETFs. I already mentioned that the properties of compound random returns can be counterintuitive. When you add leverage and daily rebalancing trades, it can get really complicated. These products end up surprising people very often. This new paper is an empirical study of how these products are performing and the determinants of outperformance and underperformance within this product class. In some sense it's a continuation of my prior single-stock papers, except that when you mix in leverage and rebalancing it accelerates every complicated issue. This product class was launched in the US three years ago. When I started the study a little over a year ago, there were 35 of them. Now there are 400. So, having a taste for skewness is not necessarily irrational, but these products have a ton of skewness and they're complicated. I'm excited about this because I think it's timely and helps people understand what's going on with this relatively complicated product.

G&D: One reason we host these interviews is to give students and our wider readers potential role models and inspiration for how they can contribute to the world. Do you have any advice for those considering academic finance?

HB: For me it's been a great way to earn a living. The seeds were in place ahead of time, but there was that pivotal moment when I got steered in this direction. I get paid for figuring stuff out and I have fun doing it. The best part of being an academic is when you're learning. You're in the data, seeing the results, you puzzle over, and make sense of them. In all honesty, that's more fun than submitting papers to journals and making reviewers happy. To a substantial extent, I don't have a boss. Technically I do, but it doesn't feel that way at all. I like teaching. I taught that first year, really enjoyed it, and decided to be an academic. Being in the classroom is still an important part, but teaching is the one part of my work life where I have to be in a particular place at a particular time. The rest of the time I can work from where I want, on the topics that I want. For example, I flew to London a couple of weeks ago for an investment conference. I didn't have to ask anybody's permission. I just did it. My job description is getting research done that matters and enhancing the reputation of my employer through it. Other than that, it's unscripted.

It feels like I'm an entrepreneur and I get paid for interesting ideas, and that's fun.

G&D: This has given us a lot to think about Hendrik, thank you for sitting down to go through it all with us!

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**David
Poppe '86**

David Poppe '86 is president and co-founder of Giverny Capital Asset Management in New York. GCAM owns a concentrated portfolio of 20-25 businesses that it believes have the potential to compound their earnings at attractive rates over many years while generating high returns on capital. Prior to starting GCAM in 2020, David spent 20 years at Ruane, Cunniff, LP, including 13 years as co-manager and director of the firm's flagship Sequoia Fund, and two years as CEO. He began his career as a journalist. He serves on the board of Central Securities Corp., a closed-end fund, and on a volunteer basis on the board of the Trust for Public Land, a non-profit that advocates for and builds parks, playgrounds, trails and green space across the country. He holds a BA from Columbia University.

Editors' Note: This is our second conversation with David Poppe almost 8 years since the first. Building on our prior discussion, we now revisit David in his role as Co-Founder of Giverny Capital Asset Management (GCAM), a partnership with another prolific investment letter-writer, François Rochon. You can read the previous interview, where we also met his former colleague John Harris, [here in the Winter 2018 issue](#).

This interview took place on October 24th, 2025.

Graham & Doddsville (G&D): As a brief introduction, for the sake of continuity for our readers, could you please tell us about how you met François Rochon and what sparked the idea of partnering with him?

David Poppe (DP): To go all the way back, I was a journalist for 10 years before moving to investing. I started doing due diligence at Ruane Cunniff in the era before expert networks existed, so you had people in-house who focused on the qualitative parts of analyzing a company. That's how I entered the business. I had 20 really good years at Ruane Cunniff and retired at the end of 2018. I knew I wanted to focus on my own investing in the next chapter of my life. In 2019, I took a year off and was flattered to be approached by several people about possibly working together. I knew I didn't want to go back into a Director of Research or managerial role; I wanted to focus purely on investing.

As I looked around the landscape, Giverny was the closest thing to what we were doing at the Sequoia Fund: a roughly 25-stock portfolio of high-quality companies, with a genuine long-term orientation. A lot of people talk about being long-term, but François has a 7–8-year average holding period. There aren't many people out there with a 7-year holding period, it's much rarer than you might think.

His portfolio looked very familiar to me: Constellation Software, Berkshire Hathaway, Alphabet. These were companies we followed, owned, and admired. As such, I felt the alignment was there, both in how we think about investing and the kinds of companies we want to own. I thought I could contribute to their research effort, and it would also be helpful to me, as an individual investor at that point, to have François as a sounding board.

I didn't know François and J.P. extremely well, but I had known them for 15 years. They would come to our Sequoia meetings, and we would have coffee now and then. When J.P. was in New York, I would sometimes see him. I just knew they were good people with the right alignment. So that was the partnership that made the most sense for me and fast-forward almost seven years since those

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conversations began, and it has absolutely been the right decision. François in person is exactly who he is on paper. If you look at his portfolio, you understand him. He's dead-honest, focused, and knows what he's looking for. He understands that real wealth is created by long-term compounding. We get along famously well on that score. To his credit, he also gave me the freedom to run my own portfolio. We manage two separate portfolios with a shared back office and research team, and that structure is efficient for both of us. They're bigger than I am, and hopefully our team contributes to research and makes their life easier, but it also allows me to avoid spending time building out a compliance team or an accounting infrastructure. That's how I got here, and it has been a fun stretch of my life and career.

G&D: From a practical perspective, how do you collaborate on research? Managing independent portfolios, there might be companies which one of you owns but the other feels they don't quite meet their criteria. How do you work together in those situations?

DP: He doesn't own anything I would not own, and I don't own anything he would not own. We operate as one research team with a lot of communication. They're in Montreal, and we're here in New York, but we're on the same email system, and we have regular investment team meetings. I see everything they do and vice versa. I spent 20 years at another high-performing shop, so there are some companies I know very well, and I may be more comfortable with those ideas. There are also businesses they have followed for years that I'm less familiar with, so there are areas where I'm still learning.

I don't want to say I'm a slow learner, but I'm a deliberate mover, and sometimes we need to follow a company for quite a while before I feel comfortable owning it.

We may have slightly different opinions about certain things, but there's a lot of overlap in what we call our "farm team" list, the next 25 or 30 companies we think could enter the portfolio. The portfolios are also probably two-thirds overlapping. We're not running two wildly different enterprises under one roof. We're very similar with some differences at the margin.

G&D: Building on that shared philosophy and appreciation for long term ownership of exceptional businesses, how do you establish a common language around what "quality" means? You both came to this philosophy in different ways, and it can be subjective. How do you transfer that judgment and feel for a company when one of you has followed it for longer?

DP: I don't want to sound flippant, but everyone has read the Book of Charlie. If you follow Munger and Buffett, you have a sense of how they think. You share similar reference points and teachers. At a high level, it's pretty straightforward.

We both would say we are looking for above-average earnings growth, above-average returns on equity and invested capital, proven management teams and business models, real moats, and businesses we can own for a very long time. In my case, I often prefer a company with a small share of a very large market, because that gives you a chance to own it for five or ten years.

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Of course, every company is different. No two situations are the same. Pattern recognition helps, but you still have to do the work. How good is the decision-making? Do people like working there? Do customers value the product? You need to understand those things.

It would be rare for either of us to own a company earning an 8% ROE, 3x levered, or with a poor M&A record in the recent past.

When you see people making poor decisions rarely is it only a one-time thing.

There are no hard and fast rules, but if you look at the portfolios you see patterns that repeat. There will always be exceptions and we can make mistakes, but the fundamentals remain the same: high returns on capital, above-average earnings growth, and leadership you respect after doing the work. That's a great starting point.

G&D: Is there anything you have picked up since starting Giverny that you didn't do before or learned from François? For us, his rule of three and the podium of errors stand out. Has he had any influence on the way you invest?

DP: Podium of errors, yes, although it can be hard for me to limit it to three. One thing I've learned from François is his extreme discipline around capital returns. Even compared to Ruane, he's very methodical and inflexible in a good way when it comes to capital returns. He's just not interested in trying to figure out how an average business could become better. Instead,

he starts with beautiful numbers and works from there to determine what you should pay. You simplify your life and reduce mistakes when you do that because you remove one complicated variable from the equation.

If a company has an 8%–10% ROE, you're essentially trying to determine if it can get better in the future. There's definitely a lane for that and there are investors who do that well, but a much higher degree of difficulty than what we are trying to do.

We focus on finding companies that already earn a 20% ROE, and perhaps for some reason the market is skeptical about whether it can continue. We try to solve that problem. When you start with great numbers, you reduce the chance of unpleasant surprises.

François is very good at that.

G&D: Could you tell us about your early influences and who shaped the way you think about investing? Last time we interviewed you for G&D we didn't quite get to talk about this.

DP: I'm unbelievably lucky that I landed at Ruane Cunniff. I got 6 years at the end of Bill's career working with him, and nearly 20 years with Bob Goldfarb. Those are two giants of the era in investing.

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Here I am, coming out of a newspaper-reporting job trying to understand how smart people think about these problems, and I had two of the highest performers on the planet to learn from.

Bill Ruane was a unique individual. He was incredibly sunny, generous, and kind. He also had remarkable conviction - a golden gut isn't even a good enough way to put it! When he had conviction, he acted.

The number one thing I learned from Bill is that when you have conviction, you have to go large. You can't putter around the margins.

It's fine if conviction only comes once every two years, if you take a big position. When I started at Sequoia, it was an 11-stock portfolio and a \$4-5 billion fund. With separately managed accounts on top of that, we were putting \$500 million to \$1 billion into single decisions in an era when the S&P was far smaller than today. So, when Bill had conviction, he sized positions meaningfully, even if that happened only once a year. And the bar was high. You could work all year, have great ideas, and still not get anything into the fund because Bill would only buy things he felt strongly about, which was slightly tricky to navigate. He also had a willingness to own great businesses forever. Berkshire Hathaway was a holding for over 30 years. Progressive was owned for decades. They owned Mastercard for about 15 years. His view was that you make most of your money in life from a handful of good ideas that you allow to compound, and he was very strong on that.

With Bob Goldfarb I worked more directly for years. Bob is maybe the smartest person I've ever met, and I've had a lucky life in that I've had a chance to work with many smart people. Bob stands out even among the smartest of them. There was no diminishing returns mindset with Bob.

You should always aim to know more. You keep digging, keep understanding, keep following the business.

You'll never know enough, so you aim to invest as if you could have perfect information. There's no such thing as perfect information, but the goal is to keep at it. That stayed with me: keep following, keep paying attention, keep asking what you could be missing and what you could understand better. Bob also had a huge appetite for work.

When you're young and you see your boss, who is 20 years older than you, there in the office every night and genuinely loving the work, never getting tired, it's incredibly inspiring.

From Bill, I learned that when you're right, you must maximize it, because it doesn't happen often. And from Bob, I learned that to be right, you need to know more than the other person.

G&D: Given the recent departure of Mark Leonard from Constellation Software, we were interested in your views on founder-led companies. First, how do you get confidence that a long-tenured team remains incentivized and motivated in the right way? Second, with some of these legendary owner-operators, sooner or later that person will retire or move on. How do you think about the risk that the

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next leader is not quite at the same level as the founder who established the company and its reputation?

DP: With founders, you tend to get someone who had a vision and the passion to execute it. It's usually differentiated, sometimes even counterintuitive. One example, and I don't own the stock though I wish I did, is Costco. Jim Sinegal was never going to charge more than a 14% gross margin on anything, even though Costco already offered an incredibly good deal. They could have charged 18% on some products and nobody would have noticed, but they were never going to break that trust with the customer. It doesn't make sense on the surface. Costco has earned roughly a 3% operating margin for 30 years, despite exceptional same-store sales growth and tremendous customer loyalty. They get people to pay \$100/year just to shop there, but Jim understood that trust mattered more than anything. They could have a great ROIC, a great business, and provide a good living for employees while sticking to that 14% rule. It was simple for everybody to understand, and it created a culture unlike any other retailer. Most retailers try to maximize gross margin on items where customers don't understand the price or are willing to pay more. Costco doesn't do that. It doesn't make sense that Costco will be stuck at a 3% margin for decades while stores only get more productive each year. He was passing through savings, which is frustrating if you think in traditional corporate terms, but look at the result. Nobody else would do that. That kind of quirky vision and conviction is what you get from a founder. And because it's his baby, he's never going to hurt it. He's not going to do a crazy acquisition to make his empire bigger. Costco is also a great example of culture surviving a founder. Jim retired years ago, Craig Jelinek followed him, and now the next CEO is in place, meanwhile, the culture remains intact.

Progressive is another good example that I do own. Peter Lewis was not the founder, but he led the company for about 50 years as part of the founding family. He died in 2013, but the culture survived him. The intense focus on analytics and underwriting didn't disappear, it endured. Auto insurance is an industry where many competitors are not wired the same way. The risk I've noticed with founders, on the other hand, is that sometimes they're creative, brilliant entrepreneurs but they're not good managers and the company can outgrow them. When they reach a certain size, they can't do it all themselves anymore if they've been a micromanager. As investors, we can't see the future, yet that's what we try to do. Since you can't predict everything, align yourself with people who consistently make good decisions and whom you can trust.

In general, a founder treats the company like their child, and they're not going to put it at risk. Their vision worked, which is why they're in that seat, and you maximize your chances of navigating uncertainty with a founder. You still have to pay attention, there's no autopilot. The company could outgrow them or the culture may not survive, but the odds are better.

Turning to Constellation specifically, I think there are reasons to be optimistic if Mark Leonard doesn't return soon, though I hope he does. It's an extremely decentralized company. He has delegated a tremendous amount of responsibility to the business units. They make most of their own acquisitions, and many deals are \$5-10 million. They don't need Mark there to diligence those. Mark Miller joined Constellation through an acquisition in 1995, so he has sat next to Mark for 30 years. He knows the playbook. He has spent his whole career successfully

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doing these small acquisitions. Mark Leonard is invaluable, and I think on some larger deals we will miss him, but he had already stepped back to some degree. He was not calling every play. I think Constellation will be fine. The stock has taken a double hit because of concerns over AI's impact on vertical market software. My view is that vertical software is largely a customer relationship and service business that involves highly customized software, and it will not be easy to displace them. Constellation has had far more durability in these assets than skeptics expected. They might sell a software system for country clubs that's not state of the art, but it works and is a tiny expense. It's essential to run the business, for 25 years in some cases. It doesn't make sense to rip it out, especially with nonprofit clients like hospitals and municipal airports or very small organizations, replacing a working system with something new is unlikely. So, there are reasons to think the model persists. Mark Leonard is arguably the best CEO in our portfolio, one of the best I've ever met. Jim Sinegal is another. You can't replace that. But the culture is very strong, Mark Miller is very strong, and the structure is built to endure. Everything is in place for Constellation to carry on.

G&D: You've mentioned before that you invest the portfolio with the idea that AI could become a much larger part of the economy. From an execution standpoint, did you reassess your existing positions to see how they map to the theme? How did you approach the AI theme?

DP: Earlier this year we bought Taiwan Semiconductor. They are essentially a sole supplier at the leading edge of computer chips for most of the giant technology players, including Nvidia, Broadcom and Apple, but the stock trades for a much lower multiple than its customers do. Our belief is that all the AI winners rely on Taiwan Semi, and while there is geopolitical risk with the stock, the risk actually is the same for Nvidia as it is for Taiwan Semi. Nvidia cannot produce chips without its foundry partner.

The other overt thing we have done in the last couple of years to increase AI exposure is buy AAON, the air conditioning company, which has a very strong position in liquid cooling for data centers, and we think that the data center construction is going to go on for a very long time. Before the AI hype really ramped up, we already owned Arista Networks, Alphabet, and Meta. We have owned those since the inception of this firm, and personally I owned them even earlier.

7-8 years ago I believed Alphabet was the leader in AI research and capability. I continue to believe this today. Sometimes legacy companies hesitate to be innovators because they have a very profitable business to protect, but Alphabet has a powerful position in AI, strong research, and good applications including Waymo. AI will be extremely helpful for Waymo by accelerating the pace of improvement and rollout.

For Meta, I think they have the clearest and simplest use case for AI. They do targeted advertising, and AI improves targeting. It's not a revolution at Meta, it's an evolution. As computing power improves, Meta will get better at targeting, which makes it an even stronger business.

With Arista, I wish I could say the original thesis was AI, but it was not. The thesis years ago was cloud computing data centers, and the idea that demand for bandwidth would grow for the rest of my career. Arista had, in my view, a better product than Cisco for hyperscale users. It turns out AI data centers are essentially hyperscale cloud data centers, so Arista benefits directly. They have superior technology for complex routing and switching. With AI, you may run a single problem across multiple physical data centers, so routing becomes extremely complex and if you have the best technology, that matters. On top of

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that, they have an enterprise operating system that allows customers to manage traffic and identify network bottlenecks as systems scale. So, while the original thesis on Arista was bandwidth growth, AI has accelerated that demand even more than I expected.

We don't own Nvidia. We're not that smart. We did some work on Broadcom and didn't buy it when it was lower earlier this year, which is my fault. We did buy Taiwan Semi, but I haven't pivoted the portfolio specifically to chase anything. Instead, we looked at our holdings and asked: which companies benefit from AI? We already owned them, so we kept them. In Arista's case, we have occasionally added and trimmed around the position as the stock moved.

G&D: Arista relies heavily on a relatively concentrated group of large customers. Could that concentration become a risk if those clients try to exert influence on pricing? How do you think about that risk?

DP: Yes, that's true. Meta and Microsoft have been the two biggest customers for years, not just the last three years but closer to ten. In Microsoft's case, they're building out Azure, and in Meta's case they have massive traffic on their systems that requires constant expansion. They would not get that pricing and they would not have these two customers if they didn't have the best solution. The entire time I've owned Arista, analysts have asked the same question on earnings calls: when is white-box going to displace you, or when will Microsoft cap your profitability and crush your pricing? The reality, which is harder to see from the outside but is supported by the numbers, is that Arista offers a much better total-cost-of-ownership proposition for large, sophisticated customers. By using Arista and their operating system, these companies can manage network growth more effectively. Arista's technology is also more power efficient, which matters a lot now because data centers consume enormous amounts of power. If you can reduce a hyperscaler's utility bill and help them manage network traffic so they buy fewer routers and switches, you have earned your keep. Arista has repeatedly proven that, yet people keep asking when white-box will displace their business.

White-box (or generic) equipment works, but not for the most complicated problems and they're not the most power efficient. So you see everyone, including Meta and Microsoft, use some white-box equipment in certain parts of the network where it makes sense and to avoid being completely dependent on Arista. But in most of the complex parts of the network, Arista provides the best solution. These customers pay a premium because it still results in a lower cost of ownership compared to doing it themselves or using only white-box. At this point Arista is generating billions in revenue and billions in profit. This is not a startup anymore. People still ask the same question, and it's a good one, but the customer behavior speaks for itself. Microsoft doesn't care about Arista's profitability. They buy Arista because it works. That's the key.

There's a separate question around Nvidia with InfiniBand. Nvidia has talked about their Ethernet solution, and you could say that's a concern for Arista. But I think InfiniBand faces the same issue: customers don't want to be completely beholden to one vendor for both GPUs and networking. Ethernet is a more flexible, open-source technology, that everyone is comfortable with, and I think Arista will continue to win there.

To your question about concentration risk specifically, Meta and Microsoft have been buying massive volume from Arista for many years, not just a few quarters. They would not continue doing that if the total-cost-of-ownership equation didn't make sense.

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G&D: Arista is scaling quickly with AI-driven demand, which presents challenges in terms of how to run the company and think about the cost basis. What's your perspective on how management should approach that and how they should communicate when falling into such a high-growth environment?

DP: This is a question people don't ask very often, and it's a good one. When you're growing this fast, how do you manage the growth and the supply chain? They have done an exceptionally good job. During the pandemic everyone had issues, but Arista had fewer than most. They're very smart, and it's a founder-driven culture. Andy Bechtolsheim and Ken Duda are still involved day to day. Jayshree Ullal and a lot of the top team joined from Cisco as a cohesive team. They tend to be conservative in how they speak publicly, but if you look at how they've managed the supply chain it's clear they knew this growth was coming. They could see it through conversations with customers, both the two hyperscalers and others, and they planned for it. They haven't had the hiccups you often see when a company is growing 40%, such as not being able to source parts or falling short on components. That happens frequently at that growth rate, but they haven't experienced it. That speaks to an aligned and very capable management team that understood, from customer conversations, what the demand was really going to look like. And it has been beyond what most people expected.

G&D: Switching gears to go deeper on Progressive, could you tell us what sets them apart and allows them to consistently outperform the rest of the auto insurance industry? Is this another case of culture, which you alluded to before, being the main differentiating factor?

DP: One of the former CEOs who succeeded Peter Lewis, Glenn Renwick, liked to describe Progressive as a statistics factory. And it really is. What sets Progressive apart is that since Peter Lewis became CEO in 1965, Progressive has been intensely focused on data analytics and getting better at underwriting insurance. If you go back to the 1960s or 1970s, Progressive was a really small company writing nonstandard insurance. Peter Lewis and his team, 50-60 years ago, figured out that a person with one DUI was not necessarily a worse risk than an average driver, especially if they were young. A person with two DUIs, however, is uninsurable. That sounds simple, but sixty years ago if you had a DUI, you either could not get insurance or you paid triple. Progressive built a niche writing insurance for people viewed as terrible risks by everybody else, because the data showed they were not necessarily terrible risks. That was the light-bulb moment. There were actuarial problems to solve, and they could make a lot of money writing insurance.

It's a weird industry. It involves gigantic amounts of money, it's a required product, so it functions almost like a utility, and historically, much of the industry was not very good at what it did. I once heard a private insurance CEO say he looked at auto insurance when he was young and realized it was a math-and-statistics business run by people who didn't know anything about math or statistics. He thought he could do well, and he did. That's Progressive. They're math and statistics experts, 100% focused on solving hard problems and solving the next problems. The rest of the industry tends to rely on credit score, zip code, if you have DUIs, basic factors. How you actually drive matters a lot more, and Progressive was the first company to roll out telematics. It's a more curious and relentless culture. I've had people say to me that if you go to an industry event, you can tell immediately who the Progressive people are. They're just smarter. That's incredibly powerful in an industry the size of auto insurance. Progressive today has about an 8-10 point underwriting advantage over the rest of the industry, which is unheard of. If anything, the margin is widening. They invested in telematics long before anyone else, so they know more about how you drive, and that turns out to be the most important underwriting factor. They

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have billions of miles of driving data and hundreds of data scientists in Cleveland. That data throws off a lot of noise and some signal, and they have spent years figuring out which is which. It's a remarkable advantage. My only reservation, and we trimmed about a third of the position earlier this year, is not the cyclical factors in the industry but their market share, which is now in the high-teens in passenger auto insurance. How much share do you want when you underwrite at 88-90% combined ratio? State Farm is not going away. State Farm has a lot of great customers and is willing to write business at 102%, meaning it loses money underwriting. You don't want to write those customers. So, I think we're somewhere around the sixth inning with Progressive. There's a limit to how much market share they can take. But as for whether they will be the most profitable company in auto insurance five years from now, that's one of the easiest questions in the portfolio. It's simply a better company.

G&D: How do you think the shift to autonomous driving will impact Progressive's business? What does insurance look like when you no longer have a human driver with, for example, a DUI record?

DP: It's impossible to predict the future, so let us start there. I don't know for sure. What I would say is that there are roughly 260-270 million cars in the United States, and cars last 15-17 years. Everyone over the age of 25 drives everywhere unless you live in New York City or San Francisco. That habit will not be easy to break. People are not going to sell their cars when they still have \$15,000 on the loan to satisfy their transportation needs with a taxi fleet or an autonomous fleet. I go to Scottsdale periodically to visit family, I use Waymo when I'm there, and it's awesome. I'm not someone who doubts that this will be popular. It's going to happen. Uber, Lyft, whoever operates fleets - those fleets will eventually go autonomous once cars can navigate rain and snow reliably. But I think it will take decades before most people are willing to have no car in their garage.

There will also be a very uncertain litigation environment during the 10-20-year period where we have mixed driving: 2/3 human drivers, 1/3 autonomous vehicles. What will liability look like? What will lawsuits look like? What will the laws be? Anyone hit by an autonomous car is going to want 7 million dollars from Elon Musk or Waymo. That phase will be complicated. There will also be an opportunity to insure the fleets. Progressive, GEICO, Allstate, or someone else will figure out how to write fleet policies. The fleets will need coverage. Alphabet is not going to be on the hook for every fender bender.

So, I think this unfolds over decades, not 15 years. I would agree that Progressive is a melting iceberg, but it's a very large iceberg. As autonomous vehicles reduce accidents, the frequency may shrink, but the severity of each accident and the litigation around it may increase. This plays out over 30 years, and that's such a long time period that Progressive has the opportunity to earn vastly more than its current market capitalization between now and then.

G&D: Progressive's underwriting knowledge and data advantage seem somewhat transferable. Do you see international expansion as a long-term growth opportunity?

David Poppe: It's a good question because you do have Admiral in the UK and Intact in Canada, both successful. I don't know exactly why they haven't gone international, but the U.S. is a complex market with a unique regulatory and litigation structure and Progressive still had a relatively low market share until recently. Given the size of the opportunity, they probably felt like there was a lot left to do at home.

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The litigation environment is different everywhere you go, and you really have to understand the rules. The U.S. is a particularly good market because it's complicated. Every state sets its own insurance rates. When they do these rate submissions they're complex, with multiple rate categories in every state for every kind of driver. Every state has a different regulatory environment, and this complexity actually helps because it makes it very hard for others to compete effectively by just copying Progressive's rate filings. I know, for example, that Britain doesn't have that. It's a much simpler market. The U.S. also has more high-value vehicles than anywhere else, so the dollar amounts are higher. There are more giant Escalades, pickup trucks, and \$60,000 cars here than in most countries, so the economics are different. I would be curious if they ever decide to go elsewhere, but I also wouldn't be surprised if they didn't. Their advantage is really based on having more data than anyone else. I don't know how easily they could replicate it in another country.

G&D: Within the context of investing as a permanent owner of businesses, could you talk about how you think about exiting positions? Is there a difference between how you approach a full exit versus simply resizing a position? What can lead you to change your decision?

DP: Selling is harder than buying. It's really hard. The Achilles heel for people like me is that when you own something for a long time, you have a lot of sunk cost in research, you really like the people running the business, and you lose some objectivity. It becomes hard to walk away from the years of work and the relationship that went into this.

A lot of the time, when you own a good business, selling is not the right decision.

I've done it, but selling because the multiple is three turns ahead of what your model says it should be is not a good reason. Sometimes the stock doesn't compound for a year or more, but it still may not be the right decision to sell. You want to sell when there has been a change to the thesis. You see they're not as good as they used to be. I've seen situations where the CEO retires abruptly for no good reason, you have to look into that. Or they do an acquisition that makes no sense – say they were a serial acquirer with a great record, and suddenly they start doing larger deals at higher multiples. That could be a sign something changed. Or in a case such as Carmax, where a strong competitor emerges.

The number one reason to sell is when your thesis is broken, and you need to be honest with yourself.

The other reason to sell is valuation becoming so out of line with future expected returns that you need to go. Even then, sometimes you just trim because the market might know something you don't. I wrestle with this with Arista now. The growth looks great, but I can see a path where earnings double in a few years, yet the stock goes nowhere because you started from such a high multiple.

In general, exiting purely because valuation is high is tough. Unless it's really extreme, the market is right as often as it's wrong. You're usually better off reducing the position rather than selling it outright. I've generally opted to trim when valuation seems excessive. I tend to exit when I think it's broken.

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There's the tax layer too. When you're a long-term investor, you end up with big capital gains. Clients, and I'm a client myself, hate capital gains. You need to be thoughtful - the worst thing you can do is hit someone with a big capital gain in a year when you're down 20%. It should not dictate the decision, but it does matter. That's another argument for trimming rather than fully exiting.

G&D: How do you go about systematically evaluating management quality? Are there common patterns or behaviors you look for?

DP: Yes, there are a few things I look for.

One is whether people love working for them. Are employees motivated to come in every day? Do they want to be part of the team? That's huge.

When you see a culture where there's strong alignment and people feel really good about working for the company, and about the service or product they deliver to customers, you can feel it. That's gigantic. There's also the analytical side. It's easy for people like you and me to figure out returns on capital and whether a company has capital discipline. I've been doing this a long time, and

I would say I'm even more focused on capital allocation today than I was 25 years ago. If you allocate capital poorly, it doesn't matter how good the business is, you're not going to get the right outcome.

So, you have to take a hard look at how cohesive the culture is, how much people like working there, how good the product is, and how happy the customers are. And then ask whether the leaders are truly sound capital allocators who are not going to fritter away earnings over time. The best ones reinvest intelligently, whether organically or inorganically, in projects that build value for shareholders and customers. You cannot overstate how important capital allocation is, even if financially it sounds simple. When your stock is cheap, buy it back. When you have the chance to buy a really good small company at a below-market price, do that. I really like inorganic growers that have strong relationships with a large pipeline of mom-and-pop businesses. Owners want to sell to them because that's the best home for their employees and their business. Those are powerful situations because you're not in auctions, you're not competing with private equity. You're in one-on-one deals with founders who care deeply about the future of the company and their people. When you find acquirers who have that magic, that's huge.

G&D: Most investors struggle to evaluate the intrinsic value of future M&A when analyzing serial acquirers. Is that something you model and ascribe explicit value to, or do you focus on the qualitative aspects of identifying a tail of willing sellers to an advantaged acquirer?

DP: That's a great question and a really hard one. I think you have to ascribe less value to M&A than to organic growth. If I own Costco, and I know the next however many billions of dollars of investment are going into Costco boxes and I know there's a 35-40 year track record of a box ramping to roughly \$250 million of sales and around \$8-9 million of operating profit on a \$25-\$30 million build, with a 20-25% ROIC at maturity, that's incredibly clear. There's almost no uncertainty around the next dollar invested. That's why Costco trades at the multiple it does. It's the best kind of reinvestment runway you can have. Serial acquirers are different. There's Constellation. We own Installed Building Products. We recently bought Watsco. Those are situations where they're buying small companies and are often the only or the clear best buyer. They may have

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had a 10-20-year relationship with the seller. They know each other. The seller wants to sell to them. That's worth a lot, and I don't have a problem underwriting a pretty high return there. Same with Berkshire Hathaway back in the day. People wanted to sell to Warren. They didn't want an auction process because they wanted to be inside Berkshire. That's valuable. However, if you're doing platform acquisitions or transformative deals and competing with private equity, that's a crapshoot. When you're not aligned with the founder, incentives are not always the same, and the desire to be big can sometimes override the desire to be great. That's when mistakes happen. There are people who do it really well and avoid auctions, but I'm wary of a professional management team doing largescale acquisitions.

G&D: You refer to investing as "a game of mistakes" in one of your letters and mention that even the best portfolios tend to be driven by just a small number of their constituents, which is a lovely parallel with the winners from wealth creation studies of Professor Bessembinder. How do you evaluate your decision-making? Do you have any advice for young investors trying to develop their own process to reduce costly mistakes?

DP: I've said this before in other venues, so forgive me if you have heard it, but Bill Ruane consistently said that you will make more money from your six best ideas in life than from everything else you do. You really need to know what your six best ideas are. It's okay to not be excited about everything. It's okay to not find a great idea for a year or two. When you find that great idea, you want to buy it in size. Sometimes you have to trust your gut.

The majority of businesses I bought to a 1.5-2% position didn't work. I didn't love the idea. I just thought it was interesting and could be an "okay" investment. Those don't outperform. It's not that they all go bad, but they don't drive performance. They don't grow into 10% positions.

Conversely, and please allow me to be immodest for a second, most of the things I bought at 4-6% weight did fine, and often better than fine. Why? Because at the moment I bought them, I was excited. I thought the price was great, the value was amazing, the business was great - and I was right! So, there's a psychological tell: if you say "it seems interesting" don't buy it.

When you wake up in the morning and think "I hope the price stays here because I want to buy every share I can", those tend to work out.

Now, if you're someone who loves everything you look at, maybe this is not helpful. But I'm not that person. The things I didn't really love, I signaled through my position size. So now I have a rule: I don't buy anything below 2%. I have one exception that's small and very hard to buy, and I want to buy more, but otherwise I'm not buying below 2%, often not even below 3%. The logic is: if you would not at least size it there, don't buy it. The flip-side is humility matters too. I don't size anything at 8-10%. Bill Ruane might have done that, but for me 6% is probably as large as I will go because you could be wrong.

Don't be afraid to delay gratification. If you don't love it, don't buy it. Don't buy something because you feel like you have to. Buy it because it feels like one of your punch-card investments.

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Warren and Charlie talk about twenty punches in a lifetime. It will be hard, because in the real world no one actually invests like Warren and Charlie and you would get fired for not having any ideas, but the way to make a lot of money is to behave as if you truly have only twenty punches and think very hard about when to use one.

G&D: In a related way, arguably the market today is driven by a narrow set of businesses. In your approach, does that make you reconsider or revisit some of these top performers? Do you look for similar profiles at better entry points or are you completely agnostic? Are you tempted to look internationally where the market be might driven by a broader set of companies?

DP: Well, I missed Nvidia, and that has hurt me pretty significantly. I'm really happy with our 5.5-year track record, but it's hard to keep up with the S&P, much less create separation from it, when you have one stock at a roughly \$4.6 trillion market cap compounding at 120% and you don't own it. That's painful. However, I continue to believe in the evidence over 100 years that really good small and mid-sized businesses have more room to grow. The math is on your side. They have more years to compound compared to a \$3 trillion company. It's possible that this is some inflection point in history where the tech giants become entrenched monopolies or duopolies and earn most of the profits in corporate America. Maybe.

I still like owning \$10 billion market caps that dominate a niche. Maybe they dominate by having the best economic model in that niche, but they only have 6% market share today. For example, I own Kinsale Capital, which has roughly 1.5% market share. They're simply much better at the insurance lines they write than competitors, and they have a lower expense structure for what is essentially a commodity product. I like owning Watsco. It's a technology-enabled distributor in an industry where many competitors are mom-and-pop operators. Watsco can connect contractors through an app and make it easy to run a business, order parts, and price jobs for air-conditioning work. They will benefit from technology; it's not an AI company, but technology will help them win. I think these types of businesses that I'm buying at smaller market caps, with long runways in large industries in some cases, are extremely compelling.

I love what I own. I love the positions and the approach. Not owning the Magnificent Seven in size for 5.5 years has hurt, but I don't think it will hurt forever.

I think Progressive wins, I think Watsco wins, I think Kinsale wins, I think Installed Building Products wins. These are the best companies in their industries. I own a strong collection of highest-performing companies. They're just not AI companies.

G&D: You have built the firm intentionally as a small, deliberate partnership focused on durability rather than asset gathering. How would you define success for GCAM 20 years from now? What are you focusing on and what are your aspirations?

DP: I really care about performance at this point. I'm not an asset gatherer. I made a decision that we're going to focus on investing, write clear letters, send them out into the world, and I'm happy to talk to people who want to talk, but I'm not going on the road trying to drum up business. We have ended up with a business that I feel incredibly fortunate to have. I have great clients - long-term families and individuals who understand what we do and who want this product. Bob Goldfarb used to say it's a product better bought than sold, and I 100% believe that. I will just do what I do, hopefully have good results, and have a

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portfolio that makes sense to people who want to be here. That gives you long-term alignment.

20 years from now, the two things I would look at are: did we perform, and did we have client longevity? Do we provide the service people want, behave in a way that aligns with them, and make money for them? It's a mercenary business, but also a very rewarding business. If you're good at what you do, you make people's lives better. I enjoy that.

G&D: When you hire new analysts, how do you think about their development? Are there milestones you look for to make sure they're on track with their learning?

DP: I only have one analyst at this point. We work with the Montreal team, and we're a team of five altogether. John Bleday, as you know, is a graduate of the Value Investing Program. I look for someone who is truly long-term and who wants to own compounders. That was clear with John. Not everybody, even in the program, wants to have a 20-stock portfolio and own Mastercard for sixteen years. That doesn't excite everyone. It excites me, because Mastercard compounds every year and I don't have to do anything. John has a huge motor and great curiosity. Do you want to know everything? Do you want to meet everyone? Do you want to talk to 10 CEOs at a conference and then sit with me and sort out who we rate as top-tier, who is second-tier, and who we're not interested in? He has that. Not everyone wants to be a long-term investor, and I'm looking for people who do. You need patience. I can probably be frustrating to work with. You can do a lot of work and I may say, we're not buying that today. I don't think 75 is a great price; I think 67 gives us a margin of safety. You do a lot of work and nothing happens. You have to tolerate that. Ruane was the same. When I was young, I had ideas I was excited about and they would say, "No, not interesting enough". You have to be willing to tolerate the frustration of delayed gratification and acknowledge when to put something in the too-hard pile. So, I want people comfortable with delayed gratification, but with a big motor. Intellectual curiosity takes you far in this business.

You're in the early part of your careers. This is the most interesting work you can do. You learn every day. I'm older, and I still learn every day. You meet amazing people doing creative things. It's incredibly rewarding - but whole years can go by where you feel like you didn't accomplish anything and that's hard.

G&D: Last question. Aspiring capital allocators also need to allocate their spare time. When you're not investing, what do you do to decompress, stay fresh, and get new ideas?

DP: I've always liked sports. I played as a kid and I like being active. I play tennis two or three times a week. I would play every day if my body allowed it. I'm a reader and a traveler. I'm a huge music fan, I probably go to 30 shows a year and have the hearing loss to prove it. I've seen The National 33 times.

Whether it's reading, music, or travel, you want to be learning every day. I'm not quite as hardcore as Charlie. I'm not reading physics textbooks and Marcus Aurelius every night, but he's right. You want to be a learning machine your entire life, both within and outside the investing world.

G&D: Thank you David, we really enjoyed our discussion and this chance to learn from you again.

Bonsai Partners



**Andrew
Rosenblum**

Andrew Rosenblum is the founder and Managing Partner of Bonsai Partners LLC. He founded Bonsai Partners in 2018 out of a belief that active management, when approached with deliberate thought and care, can put investors in the best position to succeed. Bonsai pursues this ideal by maintaining a highly concentrated portfolio of public equity investments, structured on honest terms for partners and guided by a long-term mindset.

Previously, Andrew was an investment professional at Matrix Capital Management, LP, and later joined Adaptive Biotechnologies, contributing to their cancer immunotherapy business. Andrew graduated from the Ross School of Business at the University of Michigan in 2010 and lives in San Diego with his wife and two daughters.

Editors' Note: This interview took place on November 25th, 2025.

Graham & Doddsville (G&D): Andrew, thank you so much for joining us. In the spirit of the late Professor Joseph Campbell, how would you describe your "Hero's Journey" in investing?

Andrew Rosenblum (AR): My favorite quote from Joseph Campbell is: "The privilege of a lifetime is being who you are."

Growing up, I was fortunate. My mom used to say, "Andrew, you can be anything you want to be." I didn't fully appreciate the impact of that message until I was older and could look back to where it led me. I grew up just outside Manhattan. My father owned a small pet supply store on the Upper West Side, and I'd help in the shop from time to time. Business ran through me from an early age, and I had an entrepreneurial spirit. I was always fascinated by why people buy and sell things, and what they're worth. I didn't know anyone else who felt that way at the time.

I played a lot of video games when I was young, and when online multiplayer worlds emerged, I spent countless hours not actually playing the game but wandering through the virtual marketplaces where players gathered to trade their items, simply watching and taking part in the in-game economy. My brother and my friends were frustrated because they wanted to play the games with me, but I was obsessed with these markets.

There was no financial gain for me in spending my time this way; I simply loved figuring out what things were worth.

I knew my interest in markets was something I wanted to pursue, and in high school, I discovered investing and opened a brokerage account. It was a way to channel my interest in value and human behavior, with the potential to make money if I was correct. Investing became what I did for fun.

I went to Michigan to study business and joined investment clubs, thinking investing would just be an extra-curricular while I explored other business paths. Eventually, though, my interest became an obsession. I would spend all my free time, nights and weekends included, in the "trading room" at the Tozzi Center, learning as much as I could. The center has been upgraded since my time as a student, but even then, it was special because it offered students resources such as Bloomberg and FactSet. But more importantly, it was an ecosystem. Anyone who caught the investing bug hung out there. You'd go between classes or after school, meet other people who invested, and learn from each other. I went from not knowing how to read an annual report, or even where to find one, to realizing this was what I wanted to do with my life, and I had to go all in.

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That's when I decided I wanted to work at a fund.

It was 2009-2010, not the best time to be looking for a job in investment management, but I took my best investment idea and cold-emailed analysts at one hundred funds. At the time, few funds hired undergraduates, but I ended up getting an interview from Matrix Capital Management in Boston. There wasn't much information available, and I didn't even realize it was a Tiger Cub until I got to the interview. After several rounds, I was offered a job and ended up in an awkward position: my first job out of college was my dream job. I spent five and a half years there. Towards the end, I focused on short selling, which involved deep investigative due diligence.

At that time, Matrix had invested in a private genomics-focused biotech company called Adaptive Biotechnologies. I met the person hired to build their new therapeutics division, we hit it off, and he ended up hiring me as his second employee. We spent more than a year building it before Adaptive decided to sell its therapeutics business, ultimately licensing the technology to Genentech. I found myself without a job at that point, so I assessed my options. I could return to Matrix, join another company, or try to build something myself. I was 29 at the time, and I decided it was time to create something of my own. That's what led to the founding of Bonsai.

G&D: You're one of the few investors with operating experience. Do you think it's been helpful, and is it something you would recommend?

AR: Buffett often says that being an operator makes him a better investor, and being an investor makes him a better operator. For me, though, I pursued that line of work out of a fascination with business. I wanted to scratch the itch to build something, not just allocate capital. I wondered if the "grass was greener," and that curiosity led me to an operating role.

My advice would be not to pursue operating experience just to become a better investor. You need to be all in for it to work, because building something is extremely hard. It taught me how the sausage is made, but it also taught me that investing was what I was meant to do.

G&D: We loved the saying you have on your website: "It takes dedication, patience, and time to grow something beautiful". Why did you choose the name "Bonsai Partners"?

AR: The most important factor when picking a name is whether it's available. To my surprise, "Bonsai Partners" was.

But the deeper reason is that I greatly admire people who dedicate themselves to achieving greatness in a craft.

A bonsai tree is beautiful, but behind it is a bonsai master who devotes years to shaping it with precision and patience. These types of people inspire me. The symbolism of long-term focus, deliberate practice, and patience resonated with me, and investing requires the same mindset. So, the name felt right.

G&D: Earlier in your career, you studied a database of 100-baggers. What drove you to this, as someone with a short-selling background? And what were your conclusions?

AR: In life, you change, you improve, and you figure out what you want to do differently. My short-selling focus developed because it was the seat available to me at the fund where I worked. When you're limited, you play the game in front of you. But if you get the chance to start again, you can design your own game.

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What excites me most is the possibility of finding and owning one or more of the greatest public investments of all time. That became my mission, so I needed to understand what those extraordinary successes looked like. I read Christopher Mayer's 100 Baggers and Thomas Phelps's 100 to 1 in the Stock Market. They are excellent starting points, but I didn't feel I explicitly learned how to identify the next great idea that would make the list. I downloaded the raw data to see if I could reverse-engineer the drivers of greatness myself. For years, I applied different mental models and frameworks to the data, but no matter what I used, I couldn't find a consistent pattern. It frustrated me endlessly.

Then, like an optical illusion snapping into focus, the conclusion became clear: the pattern behind the greatest performing stocks was the absence of a pattern.

If a company fits a recognizable pattern ex ante, it cannot be one of the greatest winners. If the mental model behind a company is well understood, the market will not misprice it enough to become a 100-bagger.

The paradox, that greatness must be inherently non-obvious, is fascinating and shapes how I search for ideas today.

G&D: What does your idea-generation process look like today, given that absence of a pattern?

AR: Every investor has an investment process, but that process starts after you find an idea. Idea generation itself is more creative and serendipitous; it's not something you can program. There's a helpful book called *Why Greatness Cannot Be Planned* by Kenneth Stanley and Joel Lehman. It argues that rigid goals often prevent great outcomes, especially in complex systems, because narrowly optimizing for specific traits can miss opportunities you couldn't predict. I do not look for ideas in a rigid way. Instead, I prioritize curiosity, excitement, and the freedom to wander. Creativity is stimulated by talking to more people, reading widely, exploring new environments and places.

Instead, my investment criteria play a role more like tuning an antenna. The world broadcasts billions of signals. You want your antenna tuned to pick up the subtle frequency that matters, so you can recognize a great idea when you come across it.

G&D: How prepared did you feel, when you decided to venture off on your own?

AR: My biggest asset was being young and naïve. Jensen Huang recently said that if he knew everything he knows now, he never would've started NVIDIA. I had great training, working for exceptional investors who gave real responsibility to someone young and inexperienced like me. That accelerated my learning and boosted my confidence. But to start something yourself, you need to have a radical belief in yourself. Realism is good, but too much realism stops you before you begin. I focused on doing something I believed was important, not on numerical definitions of success. That conviction gave me the confidence to use that blank sheet of paper and build something meaningful, at least to me.

G&D: What are the key tenets of your investment philosophy today? And how have those principles evolved since you started Bonsai?

AR: Everything begins with understanding what you're trying to achieve. My goal is to identify and own one or more of the greatest public stocks of all time. That's extremely hard, but that challenge energizes me. Once you know the destination, you can work backwards to define the principles required.

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It all starts with the business. You cannot make a great long-term investment in a bad business. I've learned that lesson the hard way. A great business has two essential components: competitive advantage, which allows the company to sustain high returns on capital, and customer advantage, which ensures the company maintains a relationship with its customers even as industries evolve. Competitive advantage is well-studied, but customer advantage is not.

Customer advantage comes in two forms: alignment, when the customer buys because it is in their best interest (e.g., Costco), and control, where the customer has no viable alternative.

A company with both competitive advantage and customer advantage has what I call "enduring economics." That's what we look for in a great business.

Once we find a great business, we look for "barriers to investment" that allow us to purchase shares at an attractive price. If you're looking for an outlier investment, it's not enough to have a great business; you must also buy it at the right price. Barriers to investment are either psychological or structural obstacles that keep other investors away, creating an opportunity for us. In my view, psychological barriers (misconceptions, lack of a mental model, etc.) are often the most powerful. Those are the central tenets of our philosophy.

In terms of how my thinking evolved, in the early days, I overemphasized barriers to investment because it was a novel concept. Over time, I learned that business quality must come first, and I refined my understanding of customer advantage as a critical piece.

G&D: How did you come up with the idea of barriers to investment?

AR: At Matrix Capital, we worked alongside our sister venture capital fund, Matrix Partners. This caused me to keep an eye on the venture capital industry. Early on, I watched as series A rounds suddenly ballooned from \$2-4 million to \$20-40 million. The companies didn't change; only the price paid. A VC investing \$3 million for a 20% stake might make 20-40x if the company hits a \$500 million valuation. But at inflated Series A prices, that same outcome yields only 2-4x. That was an early lesson: price matters.

In public markets, investors often prioritize business quality at the expense of valuation. But to find an investment worthy of the Mount Rushmore of greatest stock investments, you need both quality and price.

I asked: under what conditions can you find a great business at a great price? The answer is when barriers keep others away.

G&D: Do you need to distinguish cosmetic barriers to investment from meaningful ones? And do these barriers tend to be structural across an industry, or unique to each company?

AR: Barriers to investment come in many forms and fall along a quality spectrum. On one end is trading risk for return. We can argue that is not value-accretive. On the other end are barriers that increase upside without increasing risk. That's the sweet spot. One example is identifying a mental model that others do not yet recognize. You need to determine for yourself which types of risks you are willing to accept. Identifying the right barriers requires time and effort.

G&D: How do you recognize that a mental model has matured, and that its potential to deliver outsized return has diminished?

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AR: In business school, we did the classic jellybean jar experiment. Everyone in class guesses how many beans are in a jar at the front of the room, and the average of the guesses is usually more accurate than almost any individual guess. It's a good metaphor for stock prices, because a stock price reflects a group of actors creating an intelligent average guess. A mental model is like having a scale and being allowed to weigh the jar, an advantage that enables you to outperform the collective guess. But once everyone brings a scale to class, your advantage is gone.

I look for signs that a mental model has become mainstream. For example, if I notice the concept used where I wouldn't expect it, such as in sell-side reports, AI-generated responses, or online message boards. These are all signs that it may be consensus knowledge. You don't need exact precision; you just need to know whether a framework shifted from obscure to mainstream.

G&D: How important is writing to your process? And how did you improve your writing over time?

AR: Writing is important to me, but not necessarily to my thinking process. I journal primarily to maintain truth, because our minds rewrite history to flatter ourselves, and journaling preserves what we actually thought at the time. Writing is also crucial for my relationship with my partners. If they don't understand what we own and why, they won't have conviction during difficult periods. Writing scales communication.

When it comes to becoming a better writer, the key is wanting to improve. The best advice I received was to read widely, but read as a writer, not solely for entertainment. When something strikes you as effective, pause and ask: Why did this work? How can I use this technique? My favorite book on the subject is Stephen King's *On Writing*. Half of it is a narrative about his personal story, the other half is about the craft.

I've shifted toward writing about timeless concepts rather than writing about quarterly movements, which I used to focus on in my early letters. I want someone to read a letter five years later and still find value. I've also reduced frequency, from quarterly to semiannual, focusing on quality rather than quantity. The writers whose work I value most tend to publish less often, but with greater depth.

G&D: One of the most popular sections with our readers is the discussions of investment ideas. With this in mind, how has your view of Wise evolved over time?

AR: Interestingly, at Matrix, we briefly looked at Wise as a private investment around 2014. It's fascinating how ideas can resurface nearly a decade later. Wise is a very different investment today compared to when I first bought it in 2022. At the time, there were significant barriers to investment that made it appealing to me. Interest rates rose sharply, and high-multiple tech stocks like Wise were down 70% or more. I also thought the drawdown was potentially beneficial, as Wise was already profitable, had significant cash balances, and unprofitable competitors would be hurt. Additionally, with rising interest rates, a large, unrecognized earnings stream emerged from earning interest on customer balances that had previously been minimal.

As time went on, I started to focus on the culture, what motivated management, and how the business would evolve. Ultimately, Wise is evolving from a consumer-facing company to a platform business. Interestingly, Wise's founder and CEO recently described its consumer business as their "demo app," a tool that taught them how to build infrastructure capable of powering the world's

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money. My research now focuses on understanding the bank-level platform opportunity and what role Wise plays in a future potentially shaped by stablecoins and cryptocurrency.

G&D: What do you mean exactly by “platform business”?

AR: Originally, Wise offered a consumer website/app where you opened an account, funded it from your bank, and moved money internationally. But the founder realized that banks will likely remain the primary touchpoint for consumers looking to transfer money internationally, not only within Wise’s app. Effectively, Wise built an alternative to SWIFT, which is the leading network for international payments. If you send money internationally today through SWIFT, the transfer may be routed through multiple banks and countries, which takes days and incurs layers of fees. Wise is an alternative; they built a different system that holds local accounts in many countries and allows nearly instant transfers between their own accounts. Banks can then “plug in” to this infrastructure. In a platform transaction, the customer never sees Wise; from their point of view, the bank simply works better.

This invisible infrastructure sold to banks is Wise Platform. Wise believes its platform business will eventually represent the majority of its volumes. It’s a radical shift from where Wise started.

G&D: You wrote that you have admired Fever-Tree for a long time. What were the main reasons? What are the barriers to entry in this market?

AR: Fever-Tree operates in a niche market, premium mixers, with unusual dynamics that lead to first-mover advantage and winner-take-most outcomes. For decades, Schweppes dominated this market, but by the mid-2000s, when Cadbury Schweppes sold the Schweppes brand to different companies around the world (e.g., Coca-Cola in the U.K., Dr Pepper in the U.S.), investment in the brand stopped, and it became a cash cow. Fever-Tree entered the market at exactly the right moment, and Schweppes became a share donor.

Instead of large plastic bottles with artificial ingredients like Schweppes, Fever-Tree focused on natural, high-quality mixers. It aligned perfectly with changing consumer trends, such as the premiumization of spirits. The mixer market is small, and Fever-Tree achieved first-mover advantage in premium mixers, enabling it to build a strong distribution network and brand. Keep in mind that in the beverage market, distribution is hard to disrupt, as once you establish distribution density, it becomes self-reinforcing.

The dynamic we’re seeing with Fever-Tree is a “win-win-win”: consumers drink less alcohol but choose higher-quality mixers when they do, and they’re willing to pay up for them. Meanwhile, bars/retailers as well as distributors and Fever-Tree earn more. When everyone in the chain benefits, it becomes a powerful flywheel.

G&D: How important was the Molson Coors deal to your investment decision?

AR: Due to COVID, Fever-Tree’s supply chain was strained. Fever-Tree is an asset-light business that outsources manufacturing to producers in Europe and then ships heavy, low-value liquids worldwide. This became incredibly expensive as transatlantic freight rates and input costs spiked, leading to their margins collapsing.

This dynamic resolves itself with the partnership with Molson Coors. Molson faces declining beer volumes, and it acquired the rights to the Fever-Tree portfolio in the U.S. to fill the lost volumes within its breweries and trucks.

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The deal is attractive to Fever-Tree because Molson will manufacture their products in the USA and apply their economies of scale, while also offering superior distribution reach and replenishment. These improvements were not priced in after the deal was announced.

G&D: One of the key risks you identified is related to demographics. How do you keep track over time, and how does it impact your positioning?

AR: Trends in alcohol consumption are hard to predict, but sometimes scenarios that appear to be headwinds at first glance can end up offering an unexpected tailwind, and I've found those situations can be quite favorable. Lower alcohol consumption, the emergence of mocktails, and wellness trends are all modest tailwinds for Fever-Tree. Whenever you shift from beer or wine to mocktails or cocktails, you're consuming more mixers. Those who drink less frequently often opt for higher-quality, natural ingredients as well. So, if you are a beer company, partnering with Fever-Tree can be an attractive way to diversify. Fever-Tree could replicate the Molson partnership model internationally as other beer companies seek growth beyond declining categories.

If data eventually showed that mixers were structurally declining or losing cultural relevance, I would revisit the thesis. But so far, Fever-Tree continues to grow even while liquor volumes have softened.

G&D: Let's discuss XPEL. How do you go about quantifying further legs of growth (new products/verticals, new partnerships, dealership expansion)?

AR: My philosophy on forecasting has evolved. It took me a while to realize that

I've never seen a correct financial model. So instead of accuracy, I focus on defining a realistic range of outcomes based on what I know, then being conservative in the base case.

That way, I leave room for positive surprises and avoid being forced to "call the shot."

Some things can be quantified in XPEL's case, however. For example, you can reasonably measure their installer base growth by visiting the installer locator on their website. This provides a reasonable starting point.

Other potential growth drivers, such as growth from new verticals or products, are harder to quantify. It's challenging to predict product-market fit with precision. For example, the first time I saw XPEL's core product, I couldn't understand why anyone would buy it. Optionality is valuable, but I don't assume I'll benefit from it by default. I still try to understand what the financials look like if everything works well, but I'd rather use conservative underwriting and be positively surprised.

G&D: Here's a controversial question: Are management teams that quote Warren Buffett on capital allocation a red flag or a green flag?

AR: Let me tell you an XPEL-related anecdote. XPEL's CEO, Ryan Pape, appeared on a podcast with one of his large installer customers. The host asked him: "If you were on an elevator with Warren Buffett, how would you pitch him on XPEL?" Ryan answered that he wouldn't pitch the company and would instead use the time to ask Buffett how he became such an extraordinary capital allocator. That, to me, is a green flag. He didn't bring up Buffett himself, and he wasn't pandering.

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Another green flag would be quoting Buffett to explain a concept with sincerity. Buffett has been around for so long, and he is so wise that he's already covered a lot of ground. I am more skeptical when Buffett is used as a tool for people to get what they want, for example, "we are building the Berkshire Hathaway of X", that's a red flag to me. The intent matters.

G&D: How do you think about assigning realistic earnings multiples for fast-growing companies?

AR: I don't have a precise answer. There's a short book called *Pleased But Not Satisfied* by David Sokol, who, coincidentally, previously worked with Buffett. One of the messages of the book is: be conservative in your assumptions so you can be pleased to the upside. I try not to use overly ambitious multiples in my return stream. It doesn't matter much if I use 20x or 25x earnings if most of the compounding comes from earnings growth. A multiple is a linear function, going from 20x to 30x earnings can earn you a 50% return, but a business can grow its profitability 10x, and that's an exponential function. Exponential functions trump linear ones.

I use conservative multiples to avoid adding another risk to my thesis. I'd rather let the business do the heavy lifting.

G&D: What are your thoughts on fair fee structures for those considering starting their own fund?

AR: When I was starting and contemplating this question, someone advised me by asking: "If you beat the market by a few percentage points per year for 20 years, a rare achievement, who keeps most of the alpha in the fee structure you are proposing? You, or the client whose money is at risk?" When I ran the numbers,

I realized that most fee structures don't allow the investor to retain the majority of the upside, even though it is their money at risk. That felt wrong.

From first principles, there are three levers you can work with: management fee, incentive allocation, and hurdle rate. The management fee and incentive allocation are straightforward, but the hurdle rate is often underappreciated because it protects the investor from paying for beta unnecessarily. I initially didn't understand the importance of using a compounding hurdle rate to approximate beta rather than a resetting hurdle. An index hurdle also works well.

Management fees aren't inherently bad, as they can allow for stability and rationality. If you have no management fee and high incentive fees, you might take bets you would otherwise not make to stay in the game and earn returns faster. The structure should put partners in the position to retain most of the value created. Most fee structures don't deliver this, and it's a frustration of mine. If your objective is to stay in the game, you want to make your partners happy. You increase the odds of achieving this if you share your fees fairly. The law of compounding costs is quite unintuitive. Even a small miscalibration can create a significant imbalance.

G&D: What do you do outside of investing to stay energized?

AR: I'm lucky because my office is ten minutes from the beach. When I have a lot on my mind, I drive there and walk. Seeing the ocean's scale helps put

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things in perspective and makes me see things more clearly. San Diego also has plenty of mountains; I can see them from my office. So, I spend time hiking. Nature clears my head.

I also have two children under five, which reshapes how I use my time. Most of my non-work time is with them, my wife, and friends. I genuinely love what I do. Investing isn't separate from my life; it's woven into it.

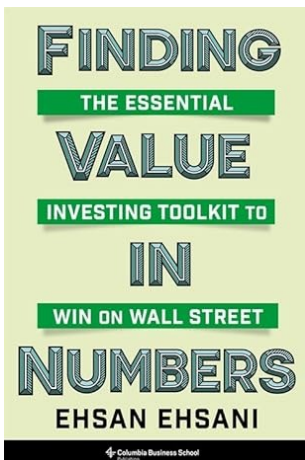
G&D: Would you have any recommendations for aspiring investors?

AR: Investing is a passion-driven field, like music, writing, or cooking. You need a deep desire to improve, to be different, to pursue excellence because it's hyper-competitive. Passion is essential.

Let your curiosities guide you, not peer pressure or conventional wisdom. Stand for what you believe, even if you stand alone. That's often where the greatest discoveries lie. The most valuable paths are the ones few people travel. Curiosity is the compass that leads you there.

G&D: Thank you, Andrew, that's a great note to conclude on.

Finding Value in Numbers: The Essential Investing Toolkit to Win on Wall Street



ABOUT THE AUTHOR

Ehsan Ehsani '22 is an executive director at Crescendo Partners LP, an activist and value-oriented investment firm based out of New York. He is an alumnus from Columbia Business School's Executive MBA program and we are lucky to have him teaching three courses at Columbia this year including Activist Value Investing for Small Cap Companies and a new Industry Immersion course about Value Investing and Fundamental Asset Management in Virginia. He has authored several books, we wanted to highlight the one that is available for pre-order for January 2026.



Finding Value in Numbers offers quantitative frameworks grounded in value investing for those looking to develop their investing toolkit. With a foreword from legendary investor Mario Gabelli, the book has already debuted as a No. 1 New Release on Amazon. It follows on the heels of Professor Ehsani's *How Not to Be Replaced by a Spreadsheet That Talks: Generative AI for the Fundamental Investor*.

Written for readers without a technical background, *Finding Value in Numbers: The Essential Investing Toolkit to Win on Wall Street* is an engaging and practical guide to how thoughtful investors can use numbers, not just for the sake of crunching data but for making better decisions. Using a value investing perspective, Professor Ehsani shows how to deploy quantitative tools to identify and analyze investment prospects, demystifying the math that points to overlooked opportunities in the stock market, other securities, and beyond. Combining practical frameworks with real-world examples, this book walks through key concepts that enable robust analysis to grasp how much a company is worth and the durability of the competitive advantage, while explaining how to spot red flags. Along the way, it reveals how a disciplined, numbers-based approach can support both conviction and patience - two traits every successful investor needs. The book has already received acclaim from several notable investors, including a foreword written by Mario J. Gabelli '67.

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Bob Robotti, President and Chief Investment Officer, Robotti & Company

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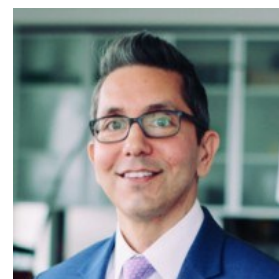
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