Graham & Doddsville

Spring 2025

An investment newsletter from the students of Columbia Business School

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/ *Editors*

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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.

Columbia Business School
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The Heilbrunn Center for Graham & Dodd Investing

CSIMA Columbia Student Investment Management Association

We are pleased to bring you the 51st 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). In this issue, we were lucky to be joined by four investors who have honed their expertise across geographies, asset classes, and market cycles.

We first interviewed **Beeneet Kothari**, the founder of Tekne Capital Management. We discussed his initial experience working with Stanley Druckenmiller at Duquesne, the key frameworks that have shaped his philosophy in managing Tekne Capital over time, and the key themes he is focusing on in the global technology sector today.

Next, we interviewed **Roger Fan**, the founder of RF Capital Management. We discussed the early days of starting his fund, the influences that shaped his investment process and how he approaches investing in international markets. We covered his view on two investment ideas, Zengame Technology Holding, Ltd. (SEHK: 2660) and Sprouts Farmers Market, Inc. (SFM).

Then, we interviewed **Scott Rosenthal '07**, Portfolio Manager across three value-oriented strategies at Hotchkis & Wiley. We discussed the team's approach to idea generation, the differentiated risk management tools being incorporated into the process, and what Scott does personally to continue improving as an investor. We covered the recent opportunities to invest internationally, gleaning some insights on the analysis behind long positions in Siemens AG (XTRA: SIE) and Nippon Sanso Holdings Corp (TSE: 4091).

Finally, we interviewed **Benjamin Beneche** and **Ramesh Narayanaswamy**, the founders of the Tourbillon Investment Partnership. We discussed their motivations to launch the fund, the inspiration for focusing on durable value investing and how they set up their investment process to repeatably discover "symbiotic loops" and "fulcrum assets". Our discussion went through Tourbillon's long positions in Nintendo (TSE: 7974), Howden Joinery (LSE: HWDN) and Berkshire Hathaway (BRK.A).

This time, we decided to highlight three stock pitches from current CBS students.

In this issue, we feature the winners of the 2024 Neuberger Berman Sustainable Investing Challenge, Elsa Fu ('26), Xutong Liu ('26), and Yifan Wang ('26) with their long thesis on RB Global, Inc. (RBA).

We also feature the winners of the 2025, 18th Annual Pershing Square Investing & Philanthropy Challenge, Dimitry Karavaikin ('26), Erik Listoe ('26), and Tuan Nguyen ('26) for their long thesis on Carlisle Companies (CSL).

Last but not least, we feature the winner of the 2025, 3rd Annual Kawaja Stock Pitch Challenge, Aman Goyal ('25) and his long thesis on Eternal, Ltd. (formerly Zomato) (NSEI: ETERNAL).

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.

G&D Editors

28th Annual CSIMA Conference - February 7, 2025

Fireside conversation featuring Ryan Israel (Pershing Square Capital Management) and Michael Mauboussin (Counterpoint Global, Morgan Stanley)

Fireside conversation featuring Jennifer Wallace '94 (Summit Street Capital Management) and David Samra '93 (Artisan Partners)

Best Ideas Panel

18th Annual Pershing Square Investing & Philanthropy Challenge - April 25, 2025

Judging panel including Bill Ackman along with the Pershing Square Challenge winners

16th Annual "From Graham to Buffett and Beyond" Omaha Dinner - May 9, 2025

Panel featuring Angela Aldrich (Bayberry Capital Partners), Christopher Bloomstran (Semper Augustus Investments), Mario Gabelli '67 (GAMCO Investors), Ryan Dobratz (Third Avenue Management), Scott Hendrickson '07 (Permian Investment Partners), Elizabeth Lilly (The Pohlad Companies)

Tekne Capital Management

Beneeet Kothari

Beneeet Kothari is the Founder of Tekne Capital Management, a New York-based, concentrated global investment firm established in 2012. Tekne manages over $1 billion and focuses exclusively on technology-related businesses in non-U.S. and emerging markets.

Prior to founding Tekne, Beneeet was a Managing Director at PointState Capital and at Duquesne Family Office, the family office of Stanley Druckenmiller. He holds a bachelor's degree in economics and a bachelor's degree in applied science, both earned cum laude from the University of Pennsylvania, where he also completed a master's degree in biotechnology.

Editor's Note: This interview took place on April 1st, 2025.

Graham & Doddsville (G&D):
Beneeet, thank you very much for speaking with us today. We're very excited about this interview. To start, can you walk us through your background, how you got interested in tech and investing, and how you eventually started Tekne?

Beneeet Kothari (BK):
Thanks for having me. I was born and raised in India. We moved to this country in the early nineties and my dad is an engineer, so that's where the original interest, love and passion for technology came from. I was very much a tech kid. We bought our first computer when we could. I was programming in the nineties and writing a lot of basic code and then moved up to Java, C, and C++. I went to college at UPenn for an engineering degree and stuck around for a Master's in engineering. So unlike a lot of other people in our business, I don't come from a family of investors and I never owned a stock in my life up until that point, and my parents didn't really own stocks either.

I eventually went to Wharton, and Wharton is the kind of place where even if you have one foot in the door – I had one foot in Wharton, one foot in the engineering side of the campus – there was a gravitational pull that drew people to Wall Street. I ended up working at Morgan Stanley right out of college and I stayed there for about one year, a very memorable and very long year. At the time, in 2005, Duquesne was looking for a tech analyst, and so I interviewed and fortunately got the job.

I worked there up until the end of Duquesne, which was 2010. I became a managing director in 2008, and started managing my own portfolio, and built up my team in 2009 and 2010. Then in 2010, Stan (Stanley Druckenmiller) returned client capital and closed the business to outside investors. So overnight there were eight of us portfolio managers that created Point State Capital, which is the successor fund, and is still around today run by Zach Schreiber. I was one of the founding partners and I stayed there for about a year and a half until I was approached by the Rothschild family out of London to manage their tech portfolio for them. I was 29 years old, and this would have been May of 2012, when I decided to leave and start Tekne.

G&D:
The word Tekne is the root word of technique, technical, and technology, which also forms the three pillars of your investment philosophy. Can you expand on these three pillars and your investment framework?

BK:
Well, the idea behind Tekne is that investing is not just knowledge itself but also the application of it. The technical part is interesting. My former boss, Stan, very much has a technical underpinning to his investment style. He doesn't talk about it a lot. It's in some ways an archaic practice that people these days don't really follow that much anymore. It's considered a bit voodoo, but he's an amazing practitioner of it

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and I think if you worked at Duquesne, if you worked closely for him and you had a relationship with him, it was something that became a part of you. It was a language that he spoke that if you wanted to communicate with him, you had to learn to speak that language as well.

But I only wanted to do technology – I never had, and continue to not have, any interest in any other sectors. The idea behind Tekne was we will use all the things that I have learned over the years including technical analysis but apply them only to the tech sector. The genius of Stan was he's one of the few people who could apply it successfully across many different sectors and markets.

The meaning behind the word Tekne comes from Greek. The Greeks believed there were two kinds of knowledge. There's episteme, which is the root word for epistemology, and then tekne, which is the root word for technique. And the idea behind epistemology is like the typical person with a PhD. He read every textbook and could answer every question but maybe stayed in the ivory tower for too long. And then the person with tekne as knowledge is the person who maybe never went to school but has what we would call colloquially street smarts. He can understand a concept or an idea without necessarily appreciating its scientific underpinnings. I think that's a little bit of what investing is. As you all know, it's not something you can just read about infinitely. You need to go out there and practice it. And it's also what technology is, right? Technology is not just science in the real world; technology is the application of it. So that was the meaning behind the name of the firm and the idea behind it.

"But I only wanted to do technology – I never had, and continue to not have, any interest in any other sectors. The idea behind Tekne was we will use all the things that I have learned over the years including technical analysis but apply them only to the tech sector."

G&D:

That's very interesting. You talk about knowledge and application. You've been in the business for a little over 20 years now, what was the biggest challenge you have faced so far and how did you get past it?

BK:

The biggest challenge is just to stay focused. I think investing is only practiced over a long period. If you do it over a long period of time, you go through periods like 2008 and 2009, you go through periods like the rise of China or Trump or any number of really big weighty topics. And in those periods, you run the risk of not being open-minded and then you risk sounding naive or perceived as living in a bubble. People begin to ask you questions like do you really not have an opinion on Trump? Do you really not think it's going to have an impact on securities you own and portfolio? You have to balance that versus getting a little too carried away with the noise and quickly becoming distracted. This same idea applies to volatility. Volatility is basically you've got a portfolio and some other factor gets thrown at it and you've now got to sit there and figure out what you're going to do about it.

Are you going to respond to it? If so, you do that enough times, you'll get nowhere. Are you going to be oblivious to it? If so, you do that enough times and you will blow up. Are you going to say carve out one day a week, maybe the weekend to make some few phone calls? There is no right answer. But I'm confident that the right answer for us is to just remind ourselves of our portfolio, why we own these securities and stay as focused as possible. I have certainly in my career made the mistake

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of getting too distracted.

Sometimes these periods of volatility turn into a significant event like 2008. My point is even in those extreme scenarios where it wasn't just a week's worth of headlines, but it was a world-changing event – there were periods of ’08 where it was like the world was going to end, finance was going to change and all these crazy kind of pronouncements being made – even then the right answer for me was to double down and stay focused on tech. In fact, those were three amazing years to really build your tech network out and get to know people and get to know the technologies and the products from companies. So that's the biggest lesson and that's the biggest challenge when these volatility events happen.

Investing is walking that fine line between confidence and humility. It’s full of such contradictions. The other contradictions are these volatility events. Are you going to be in a bubble and oblivious or are you going to constantly respond? Neither is right, but you have to find that balance for yourself.

G&D:

What do you think about the current market volatility and the importance of having a macro view?

BK:

It's tempting when you don't work with someone like Stan because you think, gosh, if only I work with Stan, but there's one Stan and the rest of us just have to double down and triple down on the things we care about. I think the volatility is just a non-factor. It is like a thing that happens around you. I think the more important thing is the more time you can spend in your career going deeper and deeper into a specific area, the better off you'll be. The worst thing you could do is what I think I fell victim to, and I think a lot of other people fall victim to, which is pick a thing and then decide this is not the thing because I'm not interested in it or it's not working, or there are no jobs available and then you switch and then three years later this is also not the thing and you switch again. I think that's very problematic.

The biggest lesson I have learned is there are a million ways to make money in the market. Our careers are going to be 40 or 50-year periods. Munger once said, “you only need to get rich once.” Just pick a thing – it could be a style of investing, it could be a market, it could be a sector, it could be anything. And just more or less devote your life to it.

And I will promise you that in that 50-year career, there's going to be multiple moments where the market and the thing you have become an expert in align. And I'll tell you a second thing, which is the people who seek you out are generally people that you consider experts. And we all know that all of these people went through some really tough periods but they sort of stuck with it. In my chosen lane of growth tech investing in the public markets, this is year 20. I started in 2005 at Duquesne, but there have been an infinite number of moments where I have thought about modifying it slightly or sometimes even switching entirely. The 2008-2009 period is one that I'll never forget and I'm glad I never fully gave up and I think I've now done it. I've been distracted and I know the cost.

“I think the volatility is just a non-factor. It is like a thing that happens around you. I think the more important thing is the more time you can spend in your career going deeper and deeper into a specific area, the better off you'll be.”

That 2008-2010 period was one of the greatest three-year periods to double down on the thing that I had already

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chosen to study and to get better at tech. You really had an opportunity in that three-year period to be an expert.

In investing, as well as in managing your career, you have to kind of get two things right. One is orientation and the other is execution. Orientation is "are you betting on a thing that is more likely to be relevant 50 years from now than today?"

Tech is an easy example. There's a lot of other funds out there that aren't interested in tech, almost as a matter of policy. And the other one is execution. There are plenty of people who are interested in tech, they sort of got the orientation right, but the execution was challenging. And then I think there's many other funds where execution is 10 out of 10 but their orientation has been an area of the market that has been really, really tough. When you combine core orientation with phenomenal execution, you get a B+ outcome. Similarly, you could have greater orientation and poor execution, and you'd also get a B- outcome. So you can't just bet on tech, right? It's not that easy. There's execution required.

I think as much as I've always thought about that in terms of managing a fund, it's also relevant in managing a career, which is you can't just, unless you're born to money, be an artist and say, I'm going to do this thing, and I don't care if no one likes it. You got to pay rent and support a family and so on. I think it's important not to forget that you are walking two axes. It's orientation and execution and sometimes you might have to prioritize one over the other, but generally you've got to walk both of these two lines over the long term.

G&D:

Could you share with us who, whether that's a family member or a mentor, has had the most impact on you in investing?

BK:

I've thought a lot about this question. It's a little bit like your favorite book at age 20 is probably different than your favorite book now—it's quite rare that the same book is your favorite book over time. I feel the same way about mentors. I think Stan was a very dominant figure in my professional career. Duquesne was my first real job. Morgan Stanley was like a continuation of college to some extent—a little bit more structured and you get paid instead of paying tuition, but it was basically college. Duquesne was a job where you could have lost real money for clients. Therefore, Stan became a very dominant, mentor-like figure for me. But I think as you get older, the people that have a bigger influence on you are those that you have sought rather than those that showed up.

Stan was not somebody I actively sought—I didn't even know about him. I was looking for a job and he kind of showed up. It was a little bit more deliberate than that but not that much more. I think in your thirties and forties, you have the wherewithal to seek people. And now I think about people in the tech world like Peter Thiel and Mark Andreessen—people who I've actively sought out and spent time with. These are people that have had a profound influence and an impact on how I think.

"I think it's important not to forget that you are walking two axes. It's orientation and execution and sometimes you might have to prioritize one over the other, but generally you've got to walk both of these two lines over the long term.

However, one of the unfortunate things about mentors is there's some great people out there who just haven't done a lot publicly. I would actually put Stan in that category. If I hadn't worked for him for seven years, there's a lot I wouldn't have learned since he didn't write many investor letters

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and he didn't do a lot of talks. On the other hand, Peter and Mark are people that you could probably go on YouTube and find thousands of hours of original content.

The other thing for me is I really struggled reading the Jesse Livermore book of the twenties and thirties or even how George Soros built his firm or how Stan built Duquesne. Times were different then. I've had a chance to meet with some of my heroes. I've had one-on-one lunches and dinners with some of these people and it is a little bit like going to the museum. It's really breathtaking, but then you walk out and you're like, now I'm in the real world.

I feel that way about a lot of these people. I think what George, Stan and all these other people achieved is amazing. But a guy like Mark Andreessen is living the same challenges that, to some degree, we are. Not exactly but much closer than Jesse Livermore did in the thirties. I think those are the people that I tend to be influenced by a lot more today. The other benefit with these contemporary figures is you can intellectually follow a path with them. There are big outstanding questions about the world today. You're struggling with them, I'm struggling with them. They are also struggling with them.

It's super interesting to be able to get their perspective. They've got more or less the same set of facts as you do and they've got their opinions, you've got your own opinions. And then in, 12 to 18 months, we'll find out who's right. You can't really do what some of these investment heroes did. When Stan tells the story of how he broke the pound, you know how the story ended but you don't really know what version of this history you're hearing, right? It's a little bit like how we all learned that what you read in the news is not all true. If that's the case with news, what can it be like with history? I think having some of these more contemporary investment people like Peter and Mark that I've talked about is infinitely more influential to me today, as were some of the heroes of the past.

"Tech is now not only the largest component of the S&P, but it's almost 35% or 40% of the MSCI by market cap. And yet 90 to 95% of that market cap globally is in the US."

G&D:

That's very cool. And let's now move on to Tekne Capital. We'd love to learn more about Tekne. What are your competitive advantages and how do you define your strategy?

BK:

We invest in public companies that are in the tech sector and outside of the US. When I started the fund 12 years ago, you couldn't name more than five tech companies outside of the US. You couldn't name a single tech company in Europe that wasn't SAP in 2012. Back in 2012, Alibaba wasn't public, JD wasn't public. What's happened to the technology landscape in the US is it's absolutely ballooned. Tech is now not only the largest component of the S&P, but it's almost 35% or 40% of the MSCI by market cap. And yet 90 to 95% of that market cap globally is in the US. The US has 4% of the world's population, a quarter or so of the world's GDP. So, whether you measure it by people or by value, the stock market today doesn't capture either of those.

We decided many years ago that let's bet on that. We felt that we would have a unique advantage because we've been doing tech for so long that, in a way, America very much is the home of tech and a lot of these global companies over time have built localized business models that have been developed in the US. We believe that we have a unique advantage in this regard. We have added to this advantage by having a local presence all around the world. We've also got a globally distributed

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research team. We have research members in Brazil, Europe, Central Asia, Kazakhstan, Turkey, China, India and Southeast Asia.

Our view is that in the long run, tech will remain as the largest component of the stock market. One of the things I dislike is people will always ask me what inning are we in tech or where are we in the cycle? Tech is not a 5-year or a 10-year cycle. To me, tech is like democracy. This isn't like a 10-year cycle. This is something that goes on for a hundred years. And we decided we would bet on the part of the market that we felt was overlooked and underpriced.

G&D:

Tekne has a special focus on quality and runs a fairly concentrated portfolio. How do you think about the volatile nature of tech and how do you build a sustainable portfolio over the long-run?

BK:

Yeah, there are a couple of answers to that. One is I firmly believe, and this is a lesson everyone learns over time, trading is not hard but near impossible.

I think one of the worst things that could happen to you as an investor, which is what happened to me, is you work with one of the greatest traders of all time. It's like if you work with Steve Cohen, you might be deluded into thinking that if only you dressed like him, ate like him, and had as many monitors as he did and had his process, you could also trade like him. Well the odds are just because you're on the Chicago Bulls doesn't mean you're Michael Jordan. I think I fell victim to that as well. And then you realize the antidote to volatility is not to trade it. The more likely successful path as an antidote to volatility is to just manage through it and have a long-term vision. I think there are other approaches to managing the volatility and that's diversification. So how do you have a diversified portfolio if you're also concentrated? Well, you diversify across other factors. One is geography. Brazil is probably the cheapest market in the world currently, and we own one company in Brazil. I think the stock that we've talked about in Central Asia is one of the great companies. It's a measured finite portfolio exposure risk. You can also manage risk across sectors. We think what's happening in the AI sector is one of the great trends and themes of this decade. We've got a finite portion of the portfolio in the AI sector. We believe payments is also very attractive. So I think you can be concentrated but measure and manage your risk across other factors.

G&D:

What sets you apart from other types of tech-focused funds?

BK:

We haven't run into very many funds that are pursuing the opportunity outside of the US. This really hit home for us over the last few years where we would meet a lot of funds in Asia and they all had Google, NVIDIA, and Meta in their portfolios. It was a good reminder that the world has decided that all the innovation, all the value, all the market cap is in the US. But investing is not about describing to people what the world looks like today. It's about closing your eyes and imagining the future two years from now or three years from now.

> ***"And then you realize the antidote to volatility is not to trade it. The more likely successful path as an antidote to volatility is to just manage through it and have a long-term vision."***

And I feel that it's not just a focus on tech, but it's a focus on finding opportunities outside the US. People would still rather debate what will happen to Google and whether NVIDIA's transition from Hopper to Grace will be smooth and so forth, whereas no one's really talking about the mega trends in Asia

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or Latin America or why certain parts of Europe are so cheap. So that's in a way what I think is our differentiation.

G&D:

With international markets, the information can oftentimes be kind of opaque and there are many other factors such as geopolitics, and government relationships. How do you dig deeper into a company when information is sparse and gain the necessary conviction to invest for the long-term in such situations?

BK:

The premise of the question is how do you get conviction and I think part of the success in investing comes from that humility that you may be wrong. Just as a reminder, we didn't always invest in China or Kazakhstan. 12 years ago, Alibaba and JD weren't public. We were investing in US companies and in cable companies like Charter, and it was a reminder that you can also wake up in America to a piece of news out of DC that changes things for you. This isn't something inherent to international investing. It's a classic case of if it happens across the border, you think it's a seismic event that no one could have predicted, but if it happens at home it's different. I think this is a risk you undertake anywhere and everywhere.

First, I think the best way to manage the risk is to be aware of it. Second, you cannot delude yourself into thinking that you've got an understanding and have a full handle of the problem.

"It's a classic case of if it happens across the border, you think it's a seismic event that no one could have predicted, but if it happens at home it's different."

The third is to diversify away from the risk. In fact, I believe that if you've got your whole portfolio in US securities, the great irony to me is the market thinks of that as a very safe allocation. I actually think you're massively long a tail event. Whereas if you had a portfolio of let's say 10 securities, one in each of the major G10 economies, which is not our portfolio by the way but just to make a point, I think you are now sufficiently diversified from this government risk if that's the risk you're solving for. A lot of people think the way I'm going to solve for this crazy government scenario is I'm just going to be all in US.

But I think you've effectively traded one risk for another risk. It's just because you're an American living in America, you don't think of American policy as a risk, but it is. So what we do is number one, we diversify. So, are we long President Lula in Brazil doing something crazy? Absolutely it'll impact about 8% of our portfolio. So 92% of our portfolio has no bearing on what Lula may or may not do.

The other thing we do is the companies that we own around the world, they tend to be domestic businesses. Let's say you hypothetically own international businesses, but they were global in nature. You might own a European luxury retailer, which generates over half of its revenues and value from China. You're now long all of this risk. But if you own a Brazilian company that drives a hundred percent of its revenues from the Brazilian consumer and something happens in region X away from Brazil, you are to a large degree insulated from that.

The third thing is if the probability of making or losing money is heavily influenced by some government action, just move on. I think this is a luxury that we have in a concentrated portfolio. If you need to put together 50 stocks, it might be hard to find 50 stocks or a hundred stocks that the government can't have sort of a thumb on its outcome. But could you find 10? You probably could.

The last thing I would say is there are many countries—and I would say this includes Russia and China—where four Americans in a room would say, gosh, that's a black box.

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I would say even with those countries you can have a pretty good sense for whether you are on the right side of the government or on the wrong side and try as much as you can to be on the right side. In other words, do you really want to pick a fight? And again, this is not unique to China or India. In America, we as a government, as a culture, have certain opinions on pharmaceutical companies or banks or these for-profit prison companies and so forth. I'm not in any way saying those are good or bad investments. What I'm simply saying is if you go in a sector like that, you know what the accepted view is and whether you're on the right or the wrong side of it.

G&D:

That makes sense. You mentioned that you have a research team across the globe. How valuable is it to have such a team and what do they do locally that you cannot do from the US?

BK:

It's incredibly valuable. Number one, their primary job is to develop strong relationships. As we all know, there are limits to developing relationships over the phone. The best relationships are those you go to a conference and it's not the 9 to 5, but it's when you have somebody for dinner or you have a coffee with them and so forth and then you can see them again the next week or the next month.

For example, Arvin, who works for us and lives in Jakarta, has relationships in Indonesia, Singapore, and he was in Thailand last week when the earthquake happened. I'm confident that he's now got relationships in that region that he will be able to sustain. These relationships help you diligence management teams and business models. One of the classic questions that we always get is – is this company a fraud or are the numbers real? We're not accountants, but as you know, some of the best frauds basically will fail the smell test right up front, right? I haven't found any customers or I've talked to 12 people on the streets and 11 out of 12 of them have questions. That local advantage that only somebody that speaks the language, knows the people, and knows how to talk to people is very important.

There's a certain way to build a relationship in Mumbai as there is in Sao Paulo. If we're doing work on an Argentine bank, Rafael has got a much better sense for who the right people to call are than I would or Nikhil in India. So the short answer is diligence. The longer answer is diligence comes in the form of building local networks. A big part of diligence in a company for us is customers. You have to talk to customers large and small, former customers, prospective customers, competitors' customers. The more of these conversations you have, the better off you are. What you can't do is what I used to do, which is I'll go to Beijing for a week, I'll go to London for a week. Then what, right?

> ***"Another element of relationship building is some people tend to be bullish and some people tend to be bearish. The signal is only when the bullish person is bearish and the bearish person is bullish."***

Another element of relationship building is some people tend to be bullish and some people tend to be bearish. The signal is only when the bullish person is bearish and the bearish person is bullish. As an example, Rafael on our team tends to be quite sour on Latin America. As a Brazilian, he's quite sour on Brazil and Brazilian politics and obviously I've known him for years and he's been with this for a long time. We call him today, and he's actually quite positive on Brazil. And he's got his own network of people who are generally quite sour and they're quite positive now too. You would only get this element if you're able to talk to a

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particular person over time to see that trend changing and to be able to differentiate signal from noise. This is something that's hard to do from New York.

G&D:
We've talked about geographic exposures and the importance of having a local team. Can you share with us what your idea generation process looks like and given the international focus, how do you shrink your universe to a manageable size?

BK:
The idea generation process is very organic. We've got 10 stocks, we own them and we're fully invested. I've told our team on any given day you come to work, we're not looking for new ideas. What I want you to do and what I do is go deeper into what we already own. So if there's a customer out there, if there's a competitor out there, if there's a conference out there, let's go attend that and try to turn over one more stone. There are stocks that we own today that we've owned for six years. You can imagine doing work on a stock for six continuous years, in your fifth or sixth year or even in your third year, you're no longer asking the basic questions. You're going several layers deep. I will bet you any amount of money that if you own a stock for three years, by year three, you have turned over the stone on 10 of the companies and in year four you're actually now going quite deep into some of these companies.

Some of them might be private, some of them might be competitors, some of them might be just other companies in the supply chain. Odds are your next best idea will come from that diligence process. So we don't do screens, we don't look at 13Fs as a formula for finding ideas. We don't check CNBC or read Substack and newsletters or anything like that. We're doing research and there has never been a day, a week, a month, a quarter, a year where out of that research we don't find 10 other ideas. That's the crux of our idea process. Every single idea we own today came from something else we owned, and I will bet the next 10 ideas will come out of things we own today.

G&D:
How do you know the 10 ideas you hold at any given time are the 10 best ideas in your universe?

BK:
It's a very good question. The goal is not to own the 10 best names. The goal is to own 10 companies that work well together in a portfolio. When our clients invest with us, they're not buying a security, they're owning a partnership interest in the overall portfolio. What that means is you need to have a portfolio that's quite orthogonal. If you think of it like a vector, the risk return profile for each stock needs to be orthogonal to the other nine. So here's what our portfolio isn't – it's not we've got 50 stocks, we ranked them on IRR and we choose the top 10. If you did that today, I think your top 10 would be all Chinese securities because they're all beaten up or they'd all be Brazilian securities. And then the day after, if India crashes and you resort, your top 10 will be all India.

> ***"The goal is not to own the 10 best names. The goal is to own 10 companies that work well together in a portfolio. When our clients invest with us, they're not buying a security, they're owning a partnership interest in the overall portfolio."***

I don't think that's a good way to create a portfolio. I think a better way to create a portfolio is you've got the 50 securities, and you try to find 10 that would work well together. What does that mean?

That means if something goes wrong in one of those 10 companies—in fact it's likely that many things will go wrong in

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many of your securities—there isn't a spillover effect. If you own a particular business model like a data center or a cell phone tower or a payments company, and some new technology gets brought up that completely disenfranchises that business model like stable coins completely eliminates the need for business like Wise. That's a risk you inherit when you buy any security. Your job as the portfolio manager is to make sure that the other nine companies in the portfolio can still chug along. So that's how we're creating the portfolio. It's not just to have the 10 best ideas – it's to have 10 ideas that work well together where risk isn't contaminated.

G&D:

When you look at businesses, what type of characteristics do you typically look for?

BK:

I think there are several things. You want to generally buy businesses that are growing, profitable, and unlevered. I've been doing this long enough to know that every time I've tried to do something that was not growing, sometimes we'd make money and sometimes not. The overall track record is not great. Businesses that weren't profitable, sometimes you'd find a company that would get on that J curve and you'd make a lot but sometimes not. Same thing with leverage. The view is there's 4,000 securities out there, so the more heuristics you can have of what to eliminate, the more helpful it can be.

"Again, we're going through this in China where we're going through a deep recession and I always tell our team that everything goes down in a recession, but not everything comes out of a recession."

The fourth criteria that we've recently added is businesses that are market share leaders. Again, we're going through this in China where we're going through a deep recession and I always tell our team that everything goes down in a recession, but not everything comes out of a recession.
Typically, what happens coming out of a recession are companies that were ranked five through twenty just go away. They don't have the money, the talent, or the revenues to sustain the expenses. Companies number one and two and probably three will come out. And the amazing thing is even if the pie shrinks, if one, two and three come out, their share of that pie would be bigger. And then obviously ultimately the pie will also grow hopefully if you're betting on a growing theme. And then to actually bet on a company, you're looking for mispriced securities. The way I think about investing is you want to be a little bit counter consensus, but you also need to be right.

G&D:

When you look at more emerging frontier types of markets, you're bound to find 50 cents dollars, but at the same time, the other investors are not looking at those companies. How do you get the market to recognize the opportunity and agree with you?

BK:

You've got to have a little bit of faith in markets over a two-to-three-year period. If you own a growing business that's unlevered, profitable, and it's a market share leader and you bought it at a good price, and let's say it wasn't just the price, but you were sort of counter consensus, a simple test is to pitch the company to a room full of your peers and gauge the reaction that you get. That can be a simple proxy for whether you're in or out of consensus. I haven't seen many instances where over a 2, 3, 4-year period the market doesn't catch up to you. I've seen way more instances where you think your counter consensus, and then it turns out the consensus

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was right, and what you bought was actually a bad business and you now need to catch up to the market and sell that security down 50%.

"We don't own Alibaba, but just as an example, you could own one of the great companies in the world in November of last year for a zero enterprise value two to three years out. Zero."

To the extent that your question is going towards catalysts and sources for unlocking value, I've been doing this for a long time and I think those kinds of things can be a distraction. I think they can take time away from focusing on the important question, which is am I right? I always remind our team that there's a million small questions but there's usually one big question which is, are we right? Is the business what we thought it was? Is it a market share leader that's going to launch a new product that's going to double margins, or whatever the investment thesis was. Instead of obsessing about when will that value get unlocked, I would rather obsess over whether we are right on the thesis or not. And sometimes you get to a point where you just have to say I don't know. I've done everything I could, but I don't know if the product is going to get launched or if it'll double margins, in which case you move on. But we have generally moved on from catalysts because number one, the world is just a very, very different place and it's hard to find a catalyst that everybody doesn't already know. You've also got a world with systematic trading and 50% of the volume is driven by these pod shops. It's a very strange world. I've heard the sentiment expressed many times where 20 years ago, if you showed me the earnings release of one of our companies, I could tell you what the stock would do.

Today we're in a world where if someone gave you the earnings of our companies, I wouldn't want to bet on what will happen the next day. I have an opinion, but I wouldn't want to bet money on it. I think the world has evolved, but I think one thing that will never dissipate is the value mismatch closing. That gap has always closed. So the short answer to your question is we've generally moved on from catalyst investing and more towards simply analyzing the business, analyzing the industry, proving out the thesis, and figuring out what it's worth. The market thinks this and over the next three years we are going to be proven right and the market will not be able to any longer have its counter consensus opinion.

G&D: You mentioned that you're looking for businesses that are profitable, growing, unlevered, and now market share leaders. Does that mean that on a valuation basis, such companies are going to be more expensive?

BK: I think if you were looking in the US, the answer is yes. You can make money buying 30 times earning stocks, but you just now need to own them for much longer. As Munger says, over the long run, the share price will earn what the business's underlying returns will be. But I think people underestimate what long-term means. You bought a stock at 30 times earnings and its internal rate of return is only 15%. You now need to own it for a much longer time. It's okay but I would say that fails the execution test a little bit. You got the orientation right but failed on execution. I think the second you leave the US, you don't need to overpay. As a grand experiment that is going on while we are all here is China.

We don't own Alibaba, but just as an example, you could own one of the great companies in the world in November of last year for a zero enterprise value two to three years out. Zero. It's now up a hundred percent and so you have

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to pay a little bit now. You could own Tencent. You could own TSMC for maybe 14 times earnings. So it's not the case that you need to overpay. Again, if you only live in the US and trade in the S&P 500 companies, I'm not saying that it's too expensive or the market is in a bubble or anything like that, but the more you pay, the more your time horizon gets extended. The second you leave this country, and you leave these markets, that ratio becomes a lot more attractive.

G&D:

When you look at international names, how do you think about the importance of talking to management versus speaking to customers and the local players that actually use the product or service?

BK:

A very important lesson I learned at Duquesne is the concept of bias. Everyone in the world has a bias. That bias is often subconscious, and management teams can be influenced by their own incentives. I think your job as an investor is to a) know that, b) know where they sit on that bias spectrum and then c) try to counteract it. What we have found is that exercise is hard to do. The really good CEOs and CFOs are actually able to give you an objective assessment of how the industry's going. But the best CEOs and CFOs can't get over their own incentives. We have found that customers are the most consistent, unbiased sources of information on a company. It is hard to get to them because it's primary research. You can't just read a sell-side report or the 10-K. You have to find them and talk to them and get them to share their insights. And you can't just talk to one customer – you have to talk to dozens. And then you can't just talk to them in the month of March. You have to talk to them over time. But if you can do all of that and be able to go into depth and over a sufficient duration, only then do I think you have solved the bias problem. The only bias customers have is to their own business. But when you've got 36 of them or 48 of them, those biases become noise. It doesn't really matter because you've got a wide enough sample set. But if I had to create a binder on one of our companies, 80% of it would be those customer conversations while 20% would be what the CFO and the CEO of the company and the competitor CEOs and CFOs told us.

"But the best CEOs and CFOs can't get over their own incentives. We have found that customers are the most consistent, unbiased sources of information on a company."

G&D:

Makes sense. And is there any idea you would like to share with us today?

BK:

We were talking earlier about in order to really make money, you have to be right and be contrarian. I think as far as tech goes, the single biggest debate, and I think the only relevant debate is AI. Where are we on that spectrum? How real is it? How much of a bubble it is and what will the various impacts be? Basically answering the question of what is AI? Is it real and what impact will it have on various companies? The problem is, even if you get the right answer to that, with most of the US companies, I'm not sure you'll make money. NVIDIA's a $3 Trillion company. Maybe it's a $6 Trillion company over five years. I don't know if that's a good return. And if you're right, we feel that the impacted companies by AI in China is an opportunity to both. You still need to be right, but you can actually be contrarian.

The vast majority of our resources today are in that sector. For example, we own a data center business there called GDS, which is the largest data center company in China and is carrier

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neutral. It's well off of its highs. This is an industry that's white hot in the West and all this capital is flowing in. With China, over the last three or four years capital has been flowing out and no one's building anything. And everyone walked into China this year at the turn of the Lunar New Year. There was a big, on the ground, very real excitement about DeepSeek and how much innovation that they could do despite not having all the various advancements from NVIDIA and so forth. And then the head of the party Xi Jinping calls all the big people in and says "You need to start doubling down. Tell me what you need, and I'll get it done for you." That creates a very skewed opportunity because the market is still not there.

Another example is the semiconductor sector. Now everyone's a semiconductor expert. Back in 2013 and 2014, we owned Broadcom and we had to explain to people who Hock Tan was and what the strategy was and why it's not Valeant. It's now the seventh largest company in the S&P 500.

NVIDIA is obviously one of the largest companies. And so you know you're right in betting on semis, but I'm not sure you're out of consensus anymore. You take that same sector in China, now you might actually be counter-consensus and a larger upside if you're right. Let me give you an example. If you take the big semi-cap equipment companies in the West – AMAT, ASML, LAM, Tokyo Electron and KLAC – you've got a combined market cap of between one and one and a half trillion. Last year, those five companies earned on average about 40% of revenues from China. We all know that percentage over the next 10 years is going to zero. We want it to go to zero. China wants it to go to zero. They want to be independent, but it's a trillion, trillion and a half dollars of value where half of that value is going to disappear.

You and I also know that in 10 years time, China will be consuming more semiconductor chips than they are today. So here you've got a sector that's growing, the people providing that value today are shrinking to zero, and China has an ASML, an AMAT, Tokyo Electron, and so forth. There are businesses like ACMR and NAURA that have the potential of being in that right quadrant of both correct and counter consensus. So those are a few names and that's kind of a big focus.

G&D:

Let's touch on portfolio management. Running a concentrated portfolio over the long run has its merits and many of the great investors have utilized that framework. However, even if you don't lever, how do you ensure that large 30-40% drawdowns in a given year or multiple consecutive years don't impair your business permanently. How do you protect against that kind of volatility and manage that type of risk?

BK:

It's happened to us before. I'm sure it'll happen in the future. What can you do? I think you have to have some humility and know that there's only so much you can do. At the end of the day, you're long securities and you can walk in on a particular day and any number of things can happen.

"My old bosses used to say "you don't want to learn the wrong lessons from a drawdown." Everyone is very eager after a mistake to reflect on what went wrong and what did you learn. Sometimes it was just bad luck."

It's like a person investing in the travel industry after 9/11. My old bosses used to say "you don't want to learn the wrong lessons from a drawdown." Everyone is very eager after a mistake to reflect on what went wrong and what did you learn. Sometimes it was just bad luck. I have friends

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who started a fund in 2021.

There was no lesson there. Now, how do most people protect against drawdowns? They run extremely diversified portfolios. You own 50 stocks, 2% each. The odds of you having a drawdown that is deviant from the market’s drawdown are low. The only way that would happen is if you're massively in a particular factor and that factor blows up. The problem is you've now protected against a drawdown so much that you'll never make any money. We have obviously chosen a different approach. I think we still need to diversify but just in a different way.
So the short answer, I think if you're going to be as concentrated as we are, you want to diversify and be as orthogonal and inside your portfolio on some of these factor risks.

G&D:

Do you hedge your portfolio?

BK:

We don't. If you hedge enough, you will make no money. It's sort of like my old boss used to say, if you own a 10% position in Intel, but you're worried about the PC risk and you short five points of Microsoft, just buy a 5% intel position because now you're not long the risk of your Microsoft short blowing up. People will buy a Brazilian stock and then short the index against it for half of it or something. The problem is you're taking basis risk. There are a lot of disadvantages to running a concentrated portfolio, but no one ever asks me what are the advantages? Here are the advantages. The number one advantage is you can say no. Say you find a security and you really want to go long, but you don't like the fact that you’ve got embedded Xi Jinping risk so you decide to short the Shanghai composite. You simply don't even need to be there.

> ***“My biggest piece of advice would be to not forget that there are two balance beams that you're walking and you've got to get both of them right.”***

With Japan, we have wanted to own Japanese securities for a long time, but we always struggled with the currency. And what we didn't want to do was basically short the TOPIX or Nikkei or have a big currency hedge or anything like that. So we waited and waited until we found a security where the currency wasn't a major factor. In short, I think hedging is in a way something I was not raised up to do. It's been a long time since I worked for someone else and it's given me perspective to know what I learned is worth keeping. It's like enough time away from home, you realize that your parents weren't right about everything, but they weren't wrong about everything either, and you get to pick and choose. I think hedging was a good lesson learned from Duquesne.

G&D:

Our last question to you is how do you deal with stress and do you have any advice for students looking to break into the industry?

BK:

I think in some ways, stress is like volatility. It’s something you don’t want to completely ignore but you also don’t want to overly focus on it and get overwhelmed. For me, reading books about the industry, and the industry could be either markets or investing or technology, is that perfect balance where I don't want to totally switch off because sometimes that stress can be quite helpful in discovering certain insights or motivating you to make that phone call or do the thing that you’ve been thinking about but didn’t know how to quite get there. So you want to keep that engine going a little bit. And for me, reading is a way to do that. I don't want to read 10-Ks or annual letters – it's a little too much. But reading a book about work broadly is sort of a great in-between place to be. There's obviously other things, family and sports, but that really takes you to a distant place, which is

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sometimes necessary.

In terms of breaking into the industry, if you think about the two concepts of orientation versus execution, I think earlier in your career, you want to prioritize execution. I graduated college with debt and not having a job was not an option. I had friends who could just take an internship with some hedge fund down the street, but it was not an option for me. So I very much had to walk that orientation-execution balance a little bit towards execution. I would prioritize execution, which means getting a job, staying in the game, and then as those opportunities come up, as your luxuries come up, you can kind of tilt the balance a little bit. But my biggest piece of advice would be to not forget that there are two balance beams that you're walking and you've got to get both of them right. And if you don't have a sense of that orientation, the execution part is pretty straightforward, which is you just need to survive for as long as you can because you never know when that big moment arrives and you need to be in the game on the eve of that big moment.

To get the orientation right, I think a lot of that comes from having a very deep network. When I was in college, I didn't know any fancy people, but I knew a lot of people. And if you know a lot of people, you can figure out the right people that are worth spending three hours with over dinner. So it’s a combination of a lot of those conversations, a lot of reading, a lot of absorbing what's happening around you that will give you a sense of that orientation. It's about remembering that you’re walking that orientation execution line, and in the early parts of your career, you're emphasizing execution, but then don't forget that ultimately you got to get that kind of back in balance over time.

G&D:

This has been an incredible interview. Thank you so much for spending time with us today. We really enjoyed the conversation and are sure that our readers will enjoy this as well.

BK:

Thank you. It was a great conversation and I appreciate the opportunity to be a part of this edition.

RF Capital Management

Roger Fan

Roger Fan founded RF Capital Management in 2017 and is responsible for managing all aspects of the firm's investment process and strategy. RFCM is an investment management firm focused on publicly traded companies globally. He earned his B.S. in Psychology, Biology Emphasis, from the University of California, Davis, and a J.D. from Texas Tech University School of Law.

Editor's Note: This interview took place on April 17th, 2025.

Graham & Doddsville (G&D):

Thank you, Roger, for interviewing with us today. We would be curious to start with your background. Can you please walk us through how you started the business and what led you to RF Capital? ?

Roger Fan (RF):

First, thanks for having me. I have been a long-time reader of the Graham Doddsville newsletter and I've learned a lot from it over the years, so it's a pleasure to be here. I grew up in Arcadia, California, next to Pasadena and home to Caltech. Both of my parents came from Taiwan in the early eighties, and they have always owned businesses. They have been in fast food restaurants, liquor stores, food courts and logistics. I've been involved in the family businesses from the age of five, so I really learned what it was like to work hard and earn money. It's a drive and hustle that only immigrants and their children can really understand. Oddly enough, I became interested in investing as a pre-med. Throughout college, all the doctors, nurses and technicians that I worked with were all interested in the stock market.

Prior to college, the extent of my knowledge about the markets was a stock market competition in AP economics. It was fun and I did well. Yet the thought never really occurred to me that it was an actual profession. In an Asian household you either become a doctor or a lawyer, right? A doctor recommended the Buffett biography by Lowenstein, and I was hooked, so I went down the rabbit hole of Graham's *The Intelligent Investor* and *Security Analysis*, the Greenblatt books, *Margin of Safety* by Seth Klarman, etc. I also read all the books in the library and at Borders as well.

I started managing money for my parents starting in May of 2008 and I always say that that was the best education that I ever got, maybe better than an MBA or my law degree because I got to live through the great financial crisis in real time with real money on the line. Everything I bought was a double or triple. I only had one breakeven investment and one loss (and that was maybe only 1-2% of the portfolio). Maybe it was beginners' luck, but it was enough to give me confidence that I could do it for a living. So, I made up my mind that I wanted to be a professional investor. The only problem was that I made the decision at the end of my senior year, so I had no relevant finance internships, and I was set to go to medical school. Basically, it was nearly impossible to land a prestigious investment banking job, so I ended up taking the first job available. It was in logistics and somehow I ended up staying for three years, but I continued investing my family's money during this time as well as my own and did well. After three years, I knew that I had to get back on track if I wanted to achieve my dream of becoming a fund manager. So it was down to business school or law school, and I thought that law school was a better option given that it would indirectly help me become a better investor, given the skillset that you pick up there. Plus, there's all the corporate law classes, which are very useful. Classes like M&A, securities regulation, bankruptcy, contracts, private equity, banking law, international business, tax, accounting, etc. So I

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went to law school and it was an amazing experience looking back now, but maybe in the thick of things it wasn't so great, especially 1L year. I remember the reading and exams were brutal.

Looking back, I'm glad that I went through that hell of an experience and law school definitely did make me a better investor. It was definitely the right choice for me. When the time came to graduate, it was a choice of working for a fund as an analyst or starting on my own. I strongly leaned towards the first option of working as an analyst in a fund and learning business that way to pick up skills. Friends and family really pushed me to launch my own firm. I had been making money for them for a very long time, and they wanted me to make it official, so that's what I did. I launched RF Capital in October of 2017.

G&D:
Obviously, you have a very strong track record now. What was the biggest success and toughest challenge you faced along the way?

RF:
The biggest success has been the track record and performance that we've had up until this point. It's not the best track record on the planet compared to the legendary investors of our time, of course, but it's a record that I am proud of because I didn't attend an Ivy League school, I didn't work at Goldman Sachs or Blackstone, I didn't get an MBA at a prestigious school like Columbia and I didn't work my way up a multi-billion dollar fund like Appaloosa, Baupost or Pershing Square. I've made plenty of mistakes along the way, but somehow, I'm still here and the firm has outperformed the markets net of all fees since inception and over the rolling one-, three- and five-year periods. It was fantastic.

"I never sought out mentors and I never worked together with my peers on ideas. I focused on researching companies on my own and making good investments."

The biggest challenge that I'm facing currently is on the operational side of the business. We're classified as an emerging manager, so we're clearly operating sub-scale by institutional standards. These days you need to be a hundred million plus in AUM to even be considered institutional. Fortunately, I have never needed an official capital raise to this point. I haven't spent any time selling or marketing the fund. All I've done really is just focused on putting together a solid track record while making money for friends, family and referrals. I do plan to spend a bit more time on the business side going forward.

G&D:
Over your investment career, given you don't come from the traditional background, who had the biggest impact? Whether that's a book or a person that has the biggest impact on your investment philosophy?

RF:
I'm a self-taught investor. Everything I learned was through books. I never sought out mentors and I never worked together with my peers on ideas. I focused on researching companies on my own and making good investments. Indirectly, you can say that my mentors are Warren Buffett, Charlie Munger, Joel Greenblatt and Peter Lynch. My investment philosophy and process is derived from first principles based on everything that they've put out over the years. Also my parents have been a huge influence. Through them and the different family businesses, I learned to work hard, that details and speed matter, time allocation is paramount, and the big one is to avoid leverage. So I give my parents all the credit when it comes to my ability to execute at a high level, be a high performer and to stay disciplined. I really think

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that having amazing parents is a blessing and it definitely gives you a huge advantage in life.

G&D:
You’ve had a great track record compounding at ~26% over the past 5 years, with major indices compounding around 16% or less. Can we briefly go over your strategy and what made you so successful?

RF:
RF Capital invests primarily in high-quality growth companies globally across all sectors. The goal is to achieve strong absolute returns over the long term. To do that, we run a concentrated portfolio and conduct bottom-up, in-depth fundamental research.

Overall, we think a lot about quality and long-term investing. In terms of quality, I like to think about the numbers to start. The numbers have to demonstrate that the quality is there. You look at numbers like return on invested capital, return on equity, etc, and that's a good starting point. Ideally you want to see consistent growth and predictability of revenues and earnings. If you add a strong balance sheet with minimal debt to that, you're probably looking at a great company. We also want to see a good management team. You want to see how they execute, see how they allocate capital over time. You want them to deliver on what they say they're going to do. You have to be able to trust them because they're the ones running the business daily, not you. On a more basic level, we want to see whether the product or service is actually good. How does it compare to alternatives? If you don't see the product or service being clearly above average in some way, then the business definitely isn't high quality. In terms of time duration, it's best to look out five or more years, if possible, when analyzing investments. However, it's difficult for some businesses. You may have to settle for two to three years, but two to three years is the minimum. In my experience, investments do tend to work out by years two or three and maybe even faster if everything aligns. In terms of workflow and my own business, I think in terms of decades.

Everything that I do needs to be sustainable for the long term. For example, I believe Walter Schloss said that he only traveled a 20-block radius for work. He was probably joking, and he said he would've dropped dead, but I think he was also serious because imagine traveling all over North America and all over the globe constantly. There's no way that your investment record could match Walter's in duration, which is almost 50 years. Maybe your returns are higher for a few years, maybe a decade if you're lucky, but you certainly won't compound capital as long as Walter did. That holds true even for Buffett, Munger, Greenblatt and Lynch. People often overlook this, but Buffett and Munger's investment partnerships, both of their funds actually never made it to year 14. I think they were done at around year 13 or something like that. Same thing with Lynch, coincidentally he didn't make it to year 14 at Magellan and Joel Greenblatt, he did 50% gross at Gotham for a decade I believe, but he did return capital after 10 years. That's how I think about quality, duration and everything about the business.

G&D:
Where do you find most of the market inefficiency? What do you focus on?

RF:
We have a very broad mandate, so we look at any geography, any industry or sector, and we look at any market cap, but we do like to focus on micro caps and SMIDs as a starting point just because that's where many of the inefficiencies are. That doesn't exclude us from the larger mid caps and large cap stocks, but it's a good starting point. We’re also seeing a lot of value in the Asian countries, for example, like China and Hong Kong, Singapore, Japan. Some countries in

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Europe are very good to look at like the UK.

G&D:
Given the size of your universe, what is your first filter to screen for names. How do you find those opportunities?

RF:
It becomes a matter of focusing. You have such a broad universe, such a broad mandate, so what I like to do is make my searches very concentrated and focused. For example, I won't just be looking for a high growth company in every single country on the planet. It starts with a very specific country, say Korea; I want to know what I'm looking for very specifically and go look for that. An example search would be a Korean net-net with a market cap of $300 million or less that's profitable. Using that example, I'm looking in Korea, I'm looking for a deep value Graham and Dodd-type investment. I'm looking for a specific market cap 300 million or less and I'm looking for profitability. That eliminates the majority of the investment universe and you're left with a very specific list and you just keep repeating the process. Obviously, we have preferences on the types of companies that we're looking for and the countries that we like. We also even have preferences for sectors and industries. You just kind of have to put on different hats as you're looking at different businesses and different categories, but you have to make sure that you know what hat you're wearing and you can keep your priorities straight.

G&D:
Does that mean that you start with a top-down process because you have to know what you're searching for first and then you use bottom up to drive field research?

RF:
It's a bottom up process for sure, especially since we don't trade news flow. I have huge respect for macro investors and traders, but that's just not my game. I prefer to study companies individually and then we'll build out from the target to the competitors and then the industry. After that we'll figure out the macro factors that are actually important and if they'll impact the target company's revenues or earnings trajectory. The top down approach certainly works, but I've been a bottom up value investor since my freshman year in college. That's how I've always made my money.

G&D:
What do you think sets you or RF apart from other fund managers?

RF:
It's really about execution and discipline. There's no secret sauce there. Allocators can probably attest to this: every fund manager's pitch sounds pretty much the same. If a fund falls under the large cap value category, for instance, every manager pitching that strategy will say the exact same things, will give you the same buzzwords, and their pitch deck content probably looks the same. The question then becomes why is there such a huge divergence in terms of track records? Why do most firms underperform the markets net of all fees? Why aren't we seeing more track records like Warren Buffett's? The distinction is execution.

> ***"People like to think about Buffett saying you buy and hold forever; you buy it once and you never sell. In practice, it's not always so easy. You must be able to stay flexible."***

Everybody has the same game plan. There are no secrets—it's like sports. Everybody knows what the plays look like, game films are studied and pored over to the finest of details. Every player is scouted down to the smallest of details, what their strengths are, what their weaknesses are. Come game time, it's just about which team or individual can execute that game plan the best because there can only be one winner. Somebody is going to

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lose the game, the match, the race. The other aspect is also the psychological aspect: how rational and disciplined is the fund manager? Maybe that's the true edge, but unfortunately rationality and the ability to be disciplined are aspects that are very hard to quantify and measure.

"The most important things remain the same. That's a diligent reading of all the filings... If you're unwilling to take a position before doing all the extras... then you may not have a very good investment on your hands."

G&D:
For a buy and hold strategy, how do you improve execution?

RF:
Right, I would say buy and hold may not be the correct way to think about it because you do need to do maintenance diligence, you need to stay on top of your positions, and you need to stay updated. People like to think about Buffett saying you buy and hold forever; you buy it once and you never sell. In practice, it's not always so easy. You must be able to stay flexible and willing to change your thoughts and opinions on the company. You might think it's a buy one moment and maybe in two quarters you think it's a sell. That's okay. I think as a starting point, when you are evaluating investments, you definitely do want to think in terms of three to five years and then 10 plus at the outset. Once you've made the purchase, the initial position, sized it properly, then you need to be willing to change your mind about that.

G&D:
You mentioned the Korean market and some international markets that you have big exposures to. How do you ensure that you are educated enough to invest in those markets with the language barriers, local information flow, access to management teams that's easier on the ground? How do you get past that?

RF:
The margin of safety concept is paramount. If you're investing in an international market where you perceive the risks to be high, then the price you pay becomes extremely important. Let's assume that the target company, the international company that you're looking at, has comparable in the US. If it trades for say 20x earnings in the US, then perhaps you want to buy that target company in Korea for example, or Singapore, for 5x earnings. You don't want to pay 20x, it has to be a lot less. If you end up paying 20x earnings for that international company that's riskier, then you're likely violating the margin of safety principle. You want to speak with the management team and build a close relationship, if possible. You want to have friends or analysts on the ground doing research if you aren't local or can't travel regularly.

"... most companies don't have a competitive advantage that can last for years or decades. That's the brutal nature of capitalism. Very few companies on the planet have a competitive moat that looks like a toll bridge."

Those are all things that you can do to build comfort, but the most important things remain the same. That's a diligent reading of all the filings, a deep dive of the country, the industry, the competitors, and the margin of safety. A combination of all those things gets you most of the way there. That's the test. If you're unwilling to take a position before doing all the extras like calls and site visits and things like that, the scuttlebutt research, then you may not have a

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very good investment on your hands. So you need to do the initial work and be okay with investing based on that first before you progress further in the due diligence process.

G&D:
You mentioned that you are looking for businesses with high quality. What does the word quality mean to you and what type of business tend to have very good quality? Given these types of business can be very hard to find, how concentrated is your book?

RF:
Not many companies have a durable moat as defined by Buffett or the value investing literature. It goes back to that imagery of the water, the deep trench surrounding a castle, but most companies don't have a competitive advantage that can last for years or decades. That's the brutal nature of capitalism. Very few companies on the planet have a competitive moat that looks like a toll bridge. Again, the numbers have to be good. If the historical financials look good over 3, 5, 10 years or more, the company's doing something right, especially if it's growing and it's profitable.

Then the question becomes how is their product or service able to do it for such a long time, sustained period of time? You have to keep pulling threads until you figure that out. If they're doing something or multiple things better than their competitors, you can bet that it's probably not going to last very long because once something works, everybody in theory will copy that thing and that advantage erodes. The game then is pulling threads in your qualitative and fundamental research until you can figure out what the key drivers are. That's different for every company. That competitive moat or edge or quality operates on a sliding scale. It could be a little, it could be a lot. You have to make that determination when you're doing the research, but that's why investing is so intellectually rewarding and stimulating because you have all of these dynamics.

Then I believe you asked about concentration. We typically like five to ten companies.

G&D:
How do you manage your position sizes? You mentioned institutional clients, who like a systematic approach to position size. Do you have a formula? How do you determine if something is a 5% position, 10% position or 30% position?

RF:
Again, it depends on the kind of company that you are working with. But let's just for the sake of this exercise, we're talking about a high-quality company with a moat, with a good management team that's projected to do well over the long term. With that kind of company, we're basically looking to start out at 5% and then we'll build up to 10%. 10% is going to be the baseline and at 10% we're not really looking to add anymore. However, we're willing to take it up further as a function of price and/or conviction. If the price action warrants a large position or we have more conviction based on research and just more time spent looking at the business, we'll take it up further, up to say 15%, then 20%, 25%. In theory, I'm okay with a 30% position or a 50% position at cost, but since inception, the largest we've ever gone was 25%. The difference between a 30% position and a 10% position is a combination of three factors. Price, conviction and downside protection. So a 30% position would be very cheap. Conviction is 10 out of 10 and our downside is protected. Because it's very hard to get say two or three of those working at the same time, we don't have many 30% positions at cost to start.

G&D:
That makes sense, can you please share with us your idea generation process?

RF:
Absolutely. I generate ideas via screens and

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keyword searches. I used to read 13Fs and writeups on forums, talk to other investors, but I stopped doing that a few years into RF Capital. I said to myself, why am I listening to the opinions of others when I'm already an experienced investor myself? Plus I've been investing and doing well since 2008. This shift happened sometime in late 2019 or early 2020 before COVID hit and it's really helped my investment process. You're left with screens. I will say that I used to be against screens because the argument is that you'll miss companies. What I do with screens, is I run extremely broad screens, nothing too specific, I want as big of a list as possible. Think 300 or 500 names or more, and then I'll just work through each name one by one.

The other way I generate ideas is keyword searches on Google. This approach works especially well for special situations, things like spinoffs, post-bankruptcy exits, rights offerings, all that good stuff. Overall, I prefer this approach because I'm on offense. I'm generating my own ideas; I'm building my own conviction rather than relying on other people to do research. I think borrowing conviction from other investors is really a dangerous game to play because when an investment goes against you, and it undoubtedly will at some point, you're going to be blindsided if you weren't the one that did the work.

"I used to read 13Fs and writeups on forums, talk to other investors, but I stopped doing that a few years into RF Capital. I said to myself, why am I listening to the opinions of others when I'm already an experienced investor myself?"

G&D:
How do you make sure, first, that your process is repeatable, and second, your performance is repeatable? How do you ensure consistency?

RF:
I want to make a key distinction. You aren't actually looking for the 10 best companies on the planet and putting them into your portfolio. You're looking for the best 10 companies that work well together within the context of a portfolio.

That goes towards the concept of diversification. Ideally you don't have any correlated bets.

The process is definitely repeatable because there are so many companies to look at and the markets are always dynamic. The volatility in the markets is what creates opportunities. There's always something that's going to go on your watch list, that's going to get onto your big board, that warrants your attention. You just keep repeating the search process over and over and over again until you found something to do the initial research on and hopefully that company takes up a slot in your portfolio.

If you consistently research companies, value and size those investments properly, and maintain due diligence on your holdings, you can't help but make money over the long term.

G&D:
We know you wanted to share a couple of ideas, so please, take it away, let's dive into some of them?

RF:
The first idea I'd like to talk about is Zengame Technology, ticker 2660. We've owned this idea for a few years now, and it's still a top five position. We bought shares around 1.15 Hong Kong dollars per share. The price almost hit $6 per share last year, so quite the upside, but it came back down to around I think 2.20 where it sits today. It's been quite the ride, but despite owning it for such a long time, it remains an attractive opportunity. So

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Zengame makes casual mobile games. It operates on the freemium model, which means the games are free to download and play. They generate their revenue through ads and in-game item purchases. The flagship games right now are *Fingertip Sichuan Mahjong* and *Fishing Master*. The Mahjong game consistently ranks in the top five or six in its category on the iOS bestsellers list. Fishing Master is also doing extremely well. They've broken the top 20 recently and hoping that they break the top 10 soon. Their previous flagship game was Fight the Landlord. It was consistently ranked in the top three or five on the iOS bestsellers list and that game is still around today, but it's not their primary revenue driver. Overall, they have a portfolio of over 50 games.

"I want to make a key distinction. You aren't actually looking for the 10 best companies on the planet... You're looking for the best 10 companies that work well together within the context of a portfolio."

The company is extremely cheap. If you look at the multiples, Zengame has a negative enterprise value due to all its cash and short-term investments. Let's just stick with backing out the cash portion for now, that makes it about 2x EV/EBIT, a 29-48% pretax return on invested capital, depending on how you adjust for cash. It's trading for 5x earnings and free cashflow. It's a 0.8x tangible book and around 1x net current asset value. There's no debt, a 6.9% dividend yield, and the company is net cash.

In other words, Zengame has all of the key metrics stacked in its favor and it's so cheap that if it goes any lower, it's going to be at a discount to net current asset value, which would make it a Graham-type of stock, which is insane because you typically don't see a company like this, that trades at this type of valuation. It goes to show you that if you're willing to look outside of the US and Canada, if you're willing to go into countries like China or Hong Kong or the UK, you can find these types of companies. As for the management team, they've got the background that you'd want to see. Both Ye Sheng and Yang Min , the chairman, CEO, and the CTO, they came out of the gaming division at Tencent, which is one of the best companies in China and perhaps the world. They also own over 40% of the shares outstanding, so they own almost a majority of the company.

So why is the company so cheap? The company had a down year in 2024. Investors always viewed Zengame as a high growth company, but over the last year, revenues fell by almost 20% and earnings even more than that. Anytime that happens with a company, the stock price is going to drop significantly. It's like clockwork, so the question then becomes, what does the revenue and earnings trajectory look like over the next 2-3 years as the base case?

I would say Zengame is a no-growth company going forward. In other words, revenues and earnings are probably flat. You'll have some fluctuation, but let's just call it flat. That is more of a pessimistic view, but we'll go with that for the sake of being conservative. With that being said, the base case is good enough to make money on the stock because at current multiples Zengame is priced as if it were going to decline forever. Basically there's enough delta between a scenario of decline versus our projection of no growth for you to make money. If the company does in fact continue to grow, you're going to see some serious upside there, as well. You're getting a solid no-growth company at net current asset value and 5x earnings, and you've got a bunch of free options. The Mahjong game, continued growth there with increasing ARPPU

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and the company's going to do well. Continued growth, more ARPPU from *Fishing Master* is another one. *Fishing Master* is the up-and-coming game for Zengame. They go through periods of time, where they transition between flagship games. You're seeing *Fishing Master* maybe taking that spot, maybe taking Mahjong's spot.

Another free option would be any one of their existing games catching fire. I mean, *Fishing Master*, Mahjong, *Fight the Landlord*, these games have been in their portfolio for a long time. It's just a matter of which one catches on, which one gets popular, and then they decide to allocate the resources, the dollars for media and the ads to get the games popular. Then you also have the upside of overseas revenue. So overall, I think Zen Game is the perfect investment for deep value investors right now, but maybe not for investors that like high growth and predictability. Just remember that all high-growth companies go through bad quarters or bad years at some point in their life cycle. One bad year at Zen Game doesn't necessarily mean that the decline is going to continue forever, but at current prices, I really think it pays to be invested just to see what they can do over the next 2-3 years.

G&D:
The market in Asia can be different than in the US. In the States, you want high inside ownership because they care about the business, and they care about you as a triple holder. Asia is different, with Asian families on the management team - how do you make sure that their incentives are aligned with yours and what they're doing in terms of capital allocation to distribute the cash back to shareholders?

RF:
I will say that capital allocation is an issue. They have a lot of cash on that balance sheet and many short-term investments. Big picture, you want to watch closely what they do and go through their company's history to see what they've done. For me, this might be one of the issues and it might also contribute to why the company is so cheap. They're not so focused on allocating that capital the best way that they can in terms of share buybacks, in terms of dividends, etc. My perspective of the two founders and what they're trying to optimize for is just making the best games that they can. They're trying to create the best games and user experiences that they can for the marketplace. They can certainly put more thought and effort into capital allocation, but I think where they're coming from, it's standard practice. A lot of these above-average-type companies, like to keep cash on the balance sheet. They like to have a pristine balance sheet just to protect them from downturns and difficult times in general.

G&D:
We think you mentioned Sprouts, as another idea you'd like to share your view on?

RF:
Yes, another interesting idea, like Zengame, we've owned this company since 2020 and it's also top five position. We bought shares around $15-16 and the stock actually recently hit a high of 179 before drawing down a bit from the market volatility. It's been quite the multibagger for us coming from what many would say is a very boring and pedestrian business. Unlike Zengame though, I would say Sprouts probably isn't actionable for most value investors given its current multiples. To get it out of the way, the valuation isn't so egregious that we're looking to unload shares, while it's also not cheap enough where we can add to our position. It still takes a slot in our portfolio right now and they're definitely executing. You can see why the market is really liking the stock.

For those who have never heard of Sprouts, Sprouts is what management calls a specialty food retailer.

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They currently have 440 stores in 24 states. Sprouts focus on a very specific target group of customers. They're going for shoppers that are very health conscious, that have very specific needs and diets like keto, carnivore, paleo, gluten-free, vegetarian, etc. People with health conditions will also shop there. If they have diabetes or something like that, they're probably going to want Sprouts. In other words, they're targeting a 200 billion market, a very specific sliver of the market as opposed to the whole 1.4 trillion. Their core demographic is higher educated, higher income, and skews more female.

At current multiples I won't be adding, but that's because I'm a value investor that thinks anything above a P/E of 20 is expensive, but I'm definitely biased there. It can make sense for investors that are fine with high multiples, or they invest based on growth and qualitative factors. They're currently trading at 26.5x EV/EBITDA, 33.8x EV/EBIT, 42.5x P/E and 32.3x market cap to free cashflow, so it's not exactly screaming value, but they did grow pre-tax earnings by 30.6% and earnings by 50% in the last 12 months. If you use the PEG ratio for example, then the multiple isn't so bad.

They're really firing on all cylinders, and as I said, the investors are really responding to that. Their comparable store sales look great. This is really impressive given food retailers are struggling as a group, and their e-commerce sales have also grown significantly. I think adding Uber Eat as a partner has really helped them and they also continue to open new stores. They've got something like 110 stores in the pipeline right now for existing markets, and they say that there's potentially 1,200 sites all across the US that can support Sprouts locations. This includes the Northeast, the Midwest, and all the states that Sprouts currently isn't in.

"… start doing the scuttlebutt research, talking with management, doing site visits, calling as many people that will take your phone call and figuring things out that way. Trying the product or service yourself and trying to get a feel for what it actually is and if it's good relative to other offerings in the marketplace."

Sprouts are also rolling out a loyalty program this year, which should be a comp driver for 2026 and beyond. It's kind of shocking that they didn't have a loyalty program sooner, but I guess better late than never. The trends of being health conscious will continue. People are getting more and more interested in food and nutrition and overall wellbeing and longevity. I think that's a tailwind that's here to stay.

As an example, the market for non-alcoholic drinks and beers is hot right now. Fewer and fewer people are drinking alcohol these days and they're looking for alternatives like BERO Beer, which is Tom Holland's company. If you don't know who Tom Holland is, he's the actor who is best known for playing Spider-Man in all the Marvel movies. BERO is one of the products that's been selling really well at Sprouts. You also have people like Brian Johnson for example, pushing longevity. He's the entrepreneur behind Braintree and Venmo, and he spends something like $2-3 million a year on his health. He's also got a company called Blueprint that sells food, supplements, meals and merch.

So overall, I think Sprouts is a buy at current multiples if those types of multiples, that approach 30, 40, 50, is in your strike range because this company definitely hits on those aspects of high quality, the competitive advantage, the moat, and the growth that we

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spoke about earlier. Sprouts is definitely a compounder, that's the category that I classify it as, and they have very attractive growth prospects going forward.

G&D:
Thank you for sharing those with us. How do you go about researching these types of ideas? Especially in Asia, how do you make sure that people know about this?

RF:
The research starts with the filings. It's about doing a very deep, deep dive, diligent reading of all the filings, the 10Ks, the 10Qs, the proxy statements, the transcripts. You do that not only for the target, but also for the competitors. This step alone is going to take up the majority of your time. It's a lot of reading. Of course, you want to build that model with all the historical numbers, and then you want to project out as far out as you can making conservative assumptions. Then you start doing the scuttlebutt research, talking with management, doing site visits, calling as many people that will take your phone call and figuring things out that way. Trying the product or service yourself and trying to get a feel for what it actually is and if it's good relative to other offerings in the marketplace.

With regards to just getting the company known, I'm not an activist investor, so I don't talk about ideas or write about ideas or talk to friends about ideas with the intent of moving the stock price. That's not my intent at all. I believe in Graham's Mr. Market analogy, and it's also what Joel Greenblatt says. If you do accurate work, good valuation, and you don't make any mistakes with that, then the market will eventually agree with you. It could happen in one year, it could happen in two to three years, maybe five. If you're correct on the valuation, you're correct on the business prospects going forward, then it should be an investment that works out for you.

"I believe in Graham's Mr. Market analogy, and it's also what Joel Greenblatt says. If you do accurate work, good valuation, and you don't make any mistakes with that, then the market will eventually agree with you.."

G&D:
We're curious, what type of valuation method do you use to assess the intrinsic value of companies?

RF:
We look at all the metrics. So EV/EBIT, EV/EBITDA, return on invested capital, return on equity, price to earnings, market cap to free cashflow, all those metrics. So what you want to do is you want to come up with a range of valuations. You want to look at those multiples on an absolute basis, you want to look at it on a relative basis, and then you want to look at liquidation value if that's relevant to the company that you're looking at. You also want to look at M&A transactions, to see if there have been comparable companies that have been acquired and want to come up with a range. The liquidation value analysis will probably give you the floor and the transactions will probably give you the top end of the range. Then you match that up with your model and see where your valuation falls within that spectrum. You just keep doing this with all the businesses that you're looking at.

G&D:
Is it similar to an earnings power value type of framework?

RF:
Right, yes.

G&D:
When you do due diligence, do you focus more on the consumer side or the management team?

RF:
I focus on both. You

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want to get as complete of a picture as you can and you want to pull as many threads as possible. The real challenge, of course, is getting everybody and anybody on the phone. The management team will probably take your call, but if you're trying to call customers, you're trying to reach out to suppliers and vendors, employees, those people may be harder to get access to, especially if they don't know you. You're basically cold calling, so it may be difficult to get those kinds of people on the phone, but you just try to get as many people as you can. You want to try to get as many perspectives and viewpoints as possible so that you're able to form a complete picture of the business.

Both are important because the management team, they'll paint the best picture possible, they'll sell the hell out of their company, so you want everybody else to balance that optimistic view. I've never really met a management team that told me all the ways that their business could fail, and they never told me that their stock price was going to drop. They never provided doomsday scenarios, for example. But employees, especially ex-employees, maybe retired employees, definitely tell you everything about the company, all the bad things about the company. Those are the kind of things you want to figure out. At the end of the day, you're basically looking to generate your own research file on the company. You don't want to read analyst reports, you don't want to borrow your friend's materials. You really just want to create your own data sets. You want to create your own research file, do everything yourself, and that's how you build conviction.

G&D:
In terms of risk management, what are your guidelines, and do you employ any stop loss type of strategy into the portfolio?

RF:
In terms of the stop loss, there's no hard and fast rule, but I do have a framework for thinking about it. For example, if a position goes against me and it's down, let's say a third, I asked myself, the company is down a third in the stock price, am I willing to bring the position size back up to par? If it's a yes, then I may do that or I may just not do anything, but if the answer to that question is no, I would not bring the position back up to par, I would strongly lean towards exiting altogether. I used to average down a lot, but these days I'm not so keen on catching falling knives anymore. I have a huge respect for traders and momentum. Maybe you disagree with momentum, maybe you don't believe in it, but it is real and you do need to respect it, so we don't do that anymore.

"I respect traders, chartists, people who invest in the markets based on technical analysis. Now, I will say I still think charts and technical analysis are voodoo and black magic, but I do respect it, and I've added it to my process."

I also employ a bare-bones technical analysis framework, so some work with charts, nothing fancy, but just the basics. Again, I respect traders, chartists, people who invest in the markets based on technical analysis. Now, I will say I still think charts and technical analysis are voodoo and black magic, but I do respect it, and I've added it to my process. It's not as big of a focus as it would be if I were a trader, but it is there, and actually the risk management portion of your question is baked into everything that we do. From the very first filing that you read all the way down to the last person we call, or the last factory plant that we visit, everything is done to evaluate risk and to identify those risks and then to mitigate those risks. So while we've been talking a lot about

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upside, multibaggers and growth, the downside is where you really need to focus the majority of your efforts on.

G&D:
Since you started managing money, are there any noteworthy lessons that you would like to share with us?

RF:
Prior to launching, I was strictly investing in the US and Canada, but I saw the opportunity set in international markets, so I made the leap and added global equities early on after launching. I also changed my mind on trading around positions. It may violate value investment principles, but you know what, maybe not, because it's actually not really talked about in value investing literature and amongst value investors. However, some would say that it's a clear violation of value investment principles, but I would say to that, I don't really care. I'm looking to be the best investor that I can be, and I will by and large stick to value investment principles, but I will incorporate things like a stop loss framework, like basic technical analysis, into my investment process.

I also used to just buy all at once basically and sell all at once if the liquidity was there. And I didn't trade around the positions and I didn't really pay much attention to the price action. Nowadays, I'm willing to trade around the positions and react accordingly if the price action warrants it. So far it's been a value-add to the portfolio management process. I do recognize that it may not be optimal over the long term, but it certainly has helped in the short and medium term. The trade-off seems worth it so far, but don't get me wrong, portfolio activity is still quite minimal. There's just more trades now than compared to the early days or when I was a private investor.

> ***"I like to go back through all of the investing classics and materials to just revisit investment principles and theories, to make sure that I'm on the right track."***

Another big shift is what I referred to earlier in that I don't take ideas and I don't rely on 13-Fs and writeups and that's really been a game changer for me. I do realize that no idea is truly original. You think it's your idea and it's your original baby and whatever, but there's somebody else out there who's already looked at it and they've done the research and that's fine. I'm just saying that when you're building out your conviction, it starts from you and you only. Then maybe when you're at the top of the funnel in terms of the research process, maybe you do some calls and talk to other analysts and fund managers who are in that position. Operationally, I've also changed my mind in terms of hiring analysts and support staff. At the start, I thought I'd be a one man band forever. I just liked the idea of operating on my own and being a team of one, but I've come to realize that delegation and leveraging one's time is extremely important, especially as you become more and more successful and you have more assets.

I haven't arrived at a conclusion yet, but I am definitely open to building out a full team of analysts and a back office in the future. I don't know when, that's why I've had interns and analysts join the firm based on fit over the years. I'm also learning how to manage their workflow and leverage their time, so the idea is to just have a roster of names that I can go down and just call when investment analyst seats open up at the firm in the future. I think that's a much better way to do it as opposed to hiring a headhunter or just taking your chances on people that you've never worked with before.

G&D:
If you could go back to the beginning of your career, what would you do differently?

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RF:
If I were to go to business school or something, or if were to go back to 2011 or whatever when I graduated from college, Columbia would certainly be the place I would want to attend. I mean, I wouldn't even want to go to Harvard. I would want to go to Columbia because Columbia actually has a value investing program and that's what I would want to do.

"Compounding also applies to your track record. The earlier that you can start with a legitimate track record, the better… Don't go looking for positions that have nothing to do with your goal."

G&D:
How do you improve as an investor, and do you have any advice for students?

RF:
I'm constantly improving as an investor, I don't think there's an endpoint for that. If you stop improving or seeking to improve, that's probably the day that your business starts going the other direction. One of the things that I like to do is I like to go back through all of the investing classics and materials to just revisit investment principles and theories, to make sure that I'm on the right track. I think a lot about my investment process on a macro level, about how to make every aspect of it better and how to make it more efficient.

I also focus a lot on getting my sleep, diet and exercise. I think personal wellbeing is actually very tied to your productivity at work. Nowadays, I like to talk with friends and fellow PMs just to see what they're doing, not for idea generation, but more to pick their brain on certain things and see how their approaches differ from mine. If they're doing something that I like or think is a great idea, I'll go ahead and try to incorporate that into my own process.

Advice for students: it's very important to get your foot in the door no matter what, but not only that, to take the highest paying position that you can. Don't work for free if you don't have to, don't take a pay cut. The money matters. While the money matters, I don't think the prestige matters as much. Money is the important thing here and you need to start saving and compounding right away.

You want to start early, you want to start young. Compounding also applies to your track record. The earlier that you can start with a legitimate track record, the better, so the faster you can go to your first full-time job, your MBA, your post MBA jobs, get to a risk-taking seat, the better. You want to get to that as quickly as you can and just get started. Not only do you want a great track record in terms of the absolute and net returns, you also want that duration. You want to be like, Walter Schloss. I was a bit harsh on Buffett earlier, about him not making it until year 14, but he's still alive. He's got Berkshire Hathaway, he's doing fine, he's still an investor.

You also want to keep your expenses super low, that provides you with a lot of options going forward. If you are spending \$300,000 to \$500,000 a year and that's your cash burn, that limits your options significantly and the kinds of jobs that you can take. If you know you want to be an analyst at a hedge fund, then do that. Find something that gets you relevant work experience. Don't go looking for positions that have nothing to do with your goal, like venture capital or something.

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

RF:
I love going to the gym. I really enjoy lifting weights and doing Zone 2 cardio. It's a great way to get the endorphins going and I tend to get my most creative

(Continued on page 33)

RF Capital Management

thinking done in between sets and on the treadmill. I also like tennis. Somehow though, COVID disrupted my regular playing schedule and I haven't played as much since but I'm looking to play more on a regular basis.

G&D:
You've inspired us to go to the gym now.

RF:
You definitely should. It ties into focus and deep work and your ability to be productive and just have high output. It's one of the first things to go when you're busy. I'll give you an example, right now I will be travelling to a conference next week but I will be in the gym on Sunday. Even if it's one day a week, maybe two or three days, it's enough. It doesn't have to be seven days a week and you don't have to do something that doesn't fit your schedule. Just get it done and if it's something that you put off, do it first thing in the morning. Get up, get dressed, get in that gym and get to work.

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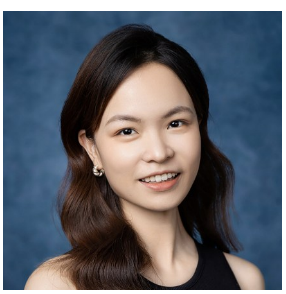

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RB GLOBAL, INC. (NYSE: RBA) - Long
2024 Neuberger Sustainable Investing Challenge (1st Place)

Recommendation: We recommend a **BUY** for RB Global (NYSE: RBA) with a base-case price target of $149, implying a 16% IRR over a three-year horizon. RB Global operates the largest auction platform for used heavy equipment and has expanded into the U.S. salvage car auction market through its acquisition of IAA - the second player in a duopoly. With strong execution from a seasoned management team, early signs of integration success, and meaningful synergy potential, we believe RBA is well-positioned to deliver steady growth and margin improvement. At its current valuation, the stock offers an attractive risk-reward profile with upside to $170 in a bull-case scenario.

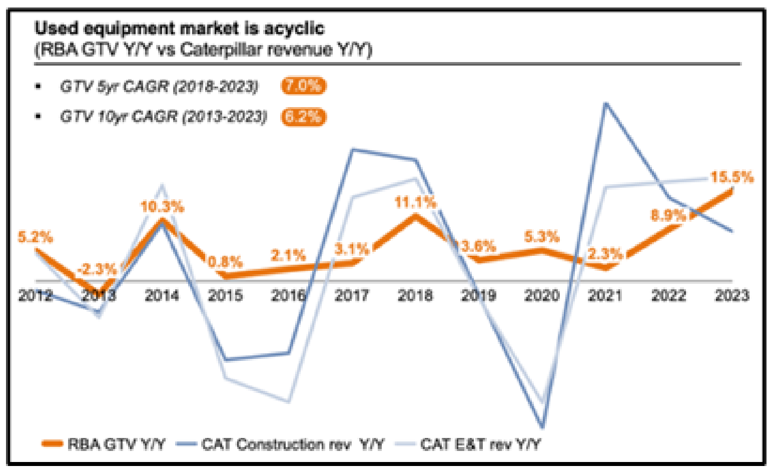
Business Overview: RB Global, formerly known as Ritchie Bros., is a leading auction platform specializing in used commercial equipment. With approximately 20% market share in a highly fragmented industry, the company has established itself as a dominant player. In 2023, the proven compounder had completed the largest acquisition in its history – the purchase of IAA. IAA operates as the second-largest player in the auto salvage auction market, a duopoly dominated by Copart as the leading competitor.

Both Ritchie Bros. and IAA operate platform-based business models, generating revenue by charging fees to both buyers and sellers, calculated as a percentage of the transaction value. Notably, on the seller side of IAA's business, most of its client base comes from the highly concentrated U.S. auto insurance industry.

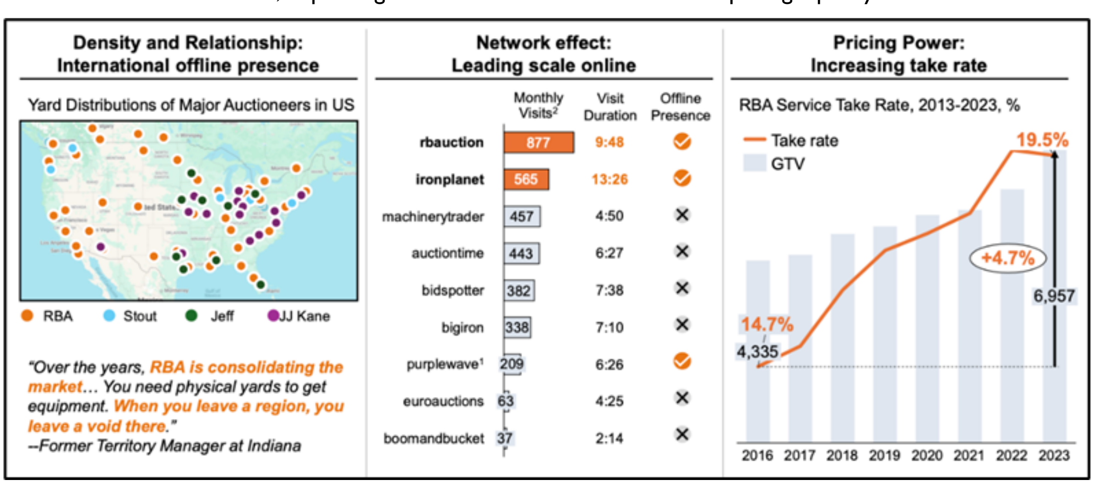
Investment Thesis

1. RBA is a share taker with substantial growth runway in a non-cyclical market.

- **Resilient demand through cycles:** Unlike OEMs, RBA's auction business benefits from downturns as asset liquidations rise. GTV growth has shown lower volatility and consistent expansion even in soft industrial environments.



- **Category leader in a fragmented market:** RBA is 4–5x larger than the next player, with strong network effects, increasing take rates, and an unmatched international yard footprint.
- **Structural shift toward auctions:** Online platforms are gaining traction as sellers increasingly prefer auctions over trade-ins, expanding RBA's addressable market and deepening liquidity.



RB Global, Inc. (NYSE: RBA) - Long

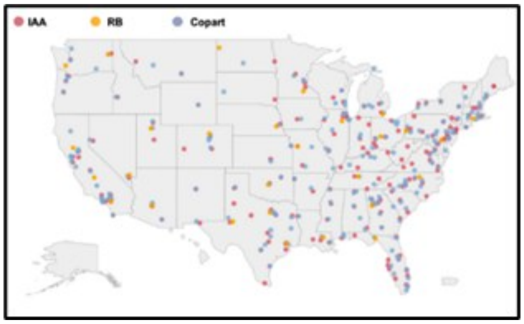
2. IAA is positioned for market share gains with improved capabilities in key areas

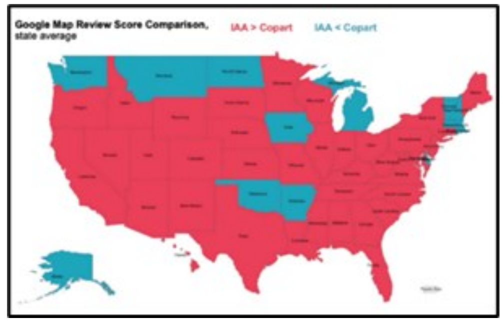
Bears argue that Copart's scale is an insurmountable advantage, and that IAA will continue to lose share. However, through interviews with insurance carriers and former executives, we believe IAA has achieved comparable capabilities in the four areas insurers care about most. Early signs of insurer confidence are emerging, management announced that one major partner had gone exclusive with IAA, adding ~40,000 salvage vehicles annually.

Search function improvements during Covid

Year	2018	2020	Current
Basic Model Info	x	x	x
Basic Condition Info	x	x	x
Auction Time & Location	x	x	x
Engine		x	x
Loss Type		x	x
Color		x	x
Advanced Model Info		x	x
Actual Cash Value		x	x
Buy Now Function		x	x
Interactive Features			x
Search Integration			x
Language Clarity			x

- **On-par pricing power with Copart:** Third-party data and insurer interviews confirm IAA delivers salvage returns comparable to Copart, easing investor concerns about pricing disadvantage.
- **Major tech upgrades improving user experience:** IAA's platform overhaul has closed the technology gap, with recent upgrades praised by buyers and insurers. Features like the Loan Payoff tool improve processing times and enhance insurer value.
- **Strengthened catastrophe response:** IAA has resolved prior CAT capacity gaps by expanding its Florida acreage and leveraging RB Global's personnel to build a dedicated response team.





- **Expanded yard footprint and better service:** IAA now matches Copart's U.S. yard count (~250), with superior customer satisfaction scores in most states—an advantage in insurer selection driven by proximity and service quality.

3. Experienced and visionary management team has delivered on its promises and continues to unlock acquisition synergies.

- **Clear leadership turnaround at IAA:** Years of ownership instability at IAA constrained its growth, especially under prior parent KAR. Under RB Global's leadership and CEO Jim Kessler's integration experience, IAA is now strategically positioned for long-term success.
- **Proven M&A execution driving integration gains:** RB Global brings a successful M&A track record, notably with IronPlanet. That integration combined salesforces in 30 days and enabled a full transition to online auctions. The IAA integration follows the same disciplined approach, with early synergy wins supported by HR-led collaboration, operational test runs, and yard-level best practice sharing.
- **Underappreciated value from IAA yards:** Contrary to market concerns, IAA yards have proven effective as satellite locations, enhancing seller access and expanding RBA's regional footprint. Their contribution during events like the Yellow Corp. bankruptcy highlights untapped value supporting legacy business growth.

Closed Date	Target	Size ($mm)
2023/1/3	VeriTread LLC	26
2021/11/2	SmartEquip, Inc.	176
2018/1/16	Leake Auction Company	-
2016/11/15	Kramer Auctions Ltd. and Kramer Auctions-Real Estate Division Inc.	13
2017/5/31	IronPlanet, Inc.	764
2016/8/1	Petrowsky Auctioneers, Inc.	10
2016/7/12	Ritchie Bros. Financial Services Ltd.	41
2016/7/12	Machinio, Corp.	3
2016/2/18	Mascus International B.V.	30
2015/11/4	Xcira, Inc.	17

Valuation

- We developed our base case target price of $149 with a 3-year holding period based on the average of two metrics: P/forward E (TP: $146) and EV/forward EBITDA (TP: $152), implying 60% total return/16% IRR.
- Under the base case, revenue grows at 8.8% CAGR from 2024 to 2028 as a result of IAA share gains and robust legacy business revenue. Financial leverage applies during debt repayment.

Risks and Mitigants

- **M&A Integration:** Anticipated synergies may not materialize as expected or could take longer to achieve than expected. **Mitigant:** Strong leadership and detailed integration plan increase the likelihood of success, with early signs of yard synergies emerging.
- **Used Equipment Supply:** GTV growth of legacy business could be negatively impacted in stagnant economy where equipment supply is tight. **Mitigant:** Acyclic nature of used equipment market provides downside protection. Additionally, RBA has been a share taker and consolidator in a fragmented market.
- **Technology Disruption:** Technological advancements such as autonomous vehicles could reduce loss frequency and TAM of auto salvage business. **Mitigant:** Regulatory challenges and technological limitations hinder widespread adoption of autonomous vehicles.

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Tuan is a first-year MBA student at Columbia Business School. He began his career as an investment analyst at Linchris Capital Partners, a value-oriented hotel private equity firm, before transitioning to corporate strategy at Ahold Delhaize USA, a leading retail grocery conglomerate. This summer, he will be interning at DG Capital Management and Horizon Kinetics. Tuan graduated summa cum laude from Boston University with a B.S. in Finance and is a CFA Charterholder.

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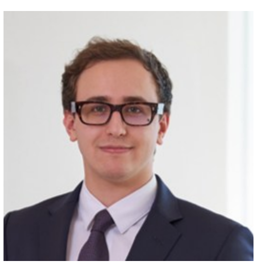
Erik is a first-year MBA student at Columbia Business School. Prior to CBS, he was an Associate at CSG Capital Investments, where he focused on distressed and special situations investing across the capital structure. This spring, he interned at Owl Creek Asset Management, and this summer he will join Rothschild & Co's Restructuring team in New York. He graduated summa cum laude from Purdue University with a B.S. in Finance and is a CFA Charterholder.



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Carlisle Companies (NYSE: CSL) - Long
18th Annual Pershing Square Challenge (1st Place)

N.B. All price and upside information are as of close of trading on April 22nd 2025.

Recommendation: LONG CSL with a 3-year target price of $598, an upside of 73% (incl. dividends) and an IRR of 23%. In May 2024, Carlisle finally completed an 8-year journey, transforming from a diversified industrial conglomerate with 5 segments to an advantaged pure-play building products platform. This change has been largely overlooked by the market, in part due to limited analyst coverage. The market is pricing CSL for weak growth, margin reversion and no optionality for prudent deployment of cash from a fortress balance sheet. This valuation underappreciates the potential for: 1) above-consensus revenue growth driven by structural tailwinds, including an aging commercial building stock, the non-discretionary nature of the replacement demand, and continued increase in insulation content per square foot of roof; 2) margin durability resulting from the rationalization of the industry structure, high incremental margins, and favorable product mix; and 3) disciplined capital allocation by management into share repurchases and accretive M&A.

Business & Industry Description: CSL has been a leading manufacturer of commercial roofing systems and building envelope solutions in the US for more than 35 years, commanding a market share of ~33%. The top four players control over 80% of a consolidated industry that has seen several high profile exits.

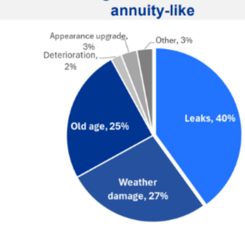
Today there are 2 segments: Carlisle Construction Materials ("CCM") ~75% sales, ~85% EBIT; and Carlisle Weatherproofing Technologies ("CWT"), ~25% sales, ~15% EBIT. Most sales are driven by replace & remodel ("R&R") demand, which is largely non-discretionary and annuity-like, making CSL less cyclical than you would expect. With over 90% of revenue coming from the US, and a predominantly domestic manufacturing footprint and industry supply chain, Carlisle is uniquely insulated from any direct tariff impacts.

Investment Thesis:

I. Significant pent-up demand for reroofing and continued increase in insulation content per sqft of roof will drive revenue growth beyond consensus expectations and management guidance

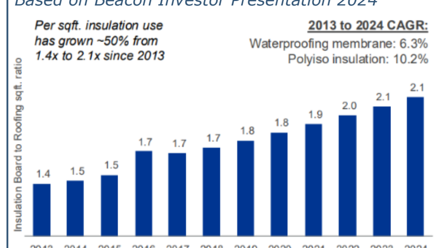
- Management guides 5%+ organic revenue growth through 2030 while sell-side consensus is modeling 4.5-5% revenue growth with only 2-3% total growth for 2025. After conducting value added-research, attending 3 industry trade shows and speaking to over 80 people across the value chain, we believe CSL will grow organically by at least 6% per year over the next 5 years.
- The lifespan and warranty of a typical commercial roof is 20-30 years. We conducted a granular analysis of EIA survey microdata and identified a spike in commercial construction spending in the late '90s and 2000s. Buildings constructed during this period comprise ~1/3 of the commercial building stock today and have roofs that are either at or past the end of their useful lives. COVID restrictions (combined with labor and material shortages) resulted in project deferrals and prevented re-roofing. Our analysis suggests pent-up re-roofing demand can add 1-2% volume growth above and beyond base volumes.
- Increasingly stringent energy codes in the US are expanding requirements for building insulation. Since 2013, insulation content per sqft of installed roof has increased by ~50%, with polyiso insulation volumes growing at 10% per year. This trend is not driven purely by regulation as increased roofing insulation leads to significant energy savings and becomes a positive financial decision for building owners. We estimate insulation accounts for 1/3 of CCM segment revenue and is poised to grow at HSD rates, well ahead of organic growth guidance.
- Tracking the core over time, on our best historical through-cycle estimate, CSL has grown volumes at ~6% organically, ahead of both guidance and what is priced in, over a period with negative price impact.

Over 90% of re-roofing demand is non-discretionary[1] and annuity-like



Every year there is a certain number of roofs that must be replaced and can no longer defer the work

Based on Beacon Investor Presentation 2024



Carlisle Construction Materials University and conversation with investor relations

II. Margin expansion over the last decade should remain durable due to disciplined industry structure, higher incremental margins, and broader cross-selling across the building envelope

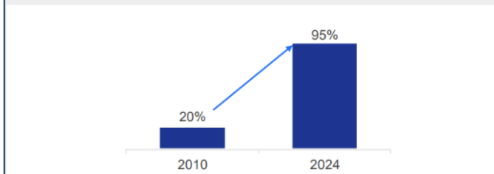
- There has been a transformation of the industry's competitive landscape. The commercial roofing market saw a technological shift from asphalt-based systems to single-ply membranes. Through the 2010s, most large competitors with legacy asphalt businesses (excl. CSL) undercut pricing to gain single-ply volume.
- Since 2018, CSL led the industry in shifting its pricing philosophy from pricing-to-cost to pricing-to-value,

Carlisle Companies (NYSE: CSL) - Long

helping explain the positive price growth post-2017, following 4 consecutive years of 1-2% annual price declines. Our research suggests the top players are now refocusing priorities to close the margin gap with CSL and are incentivized to stick to the plan. Going forward, enhanced industry-wide pricing will be a more reliable component of organic growth and drop through to margins.

- Systems selling has become the dominant and margin-accretive way to sell roofing. We estimate that at least 2/3 of the components in a typical system today generate margins at or above the level of CCM. Given insulation volume tailwinds and further cross-selling opportunities for accessories, the composition of material within a typical roofing system alone is margin-accretive going forward.
- Margins are protected by CSL's highly variable cost structure with ~60-70% of costs tied to petrochemical derivatives and freight. This profile helps explain the remarkable resilience of profit levels and margins during past downturns (in 2009, CCM segment revenue declined 24%, but EBIT declined only 4%, resulting in margin expansion from 13% to 16%).
- CWT continues to improve margins with scale and prudent M&A combinations.

Roofing is increasingly about systems-selling



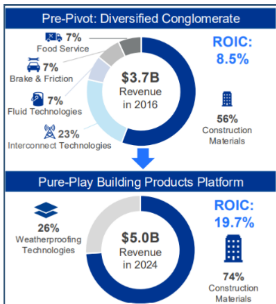
Roofing system selling % total market sales est[1].

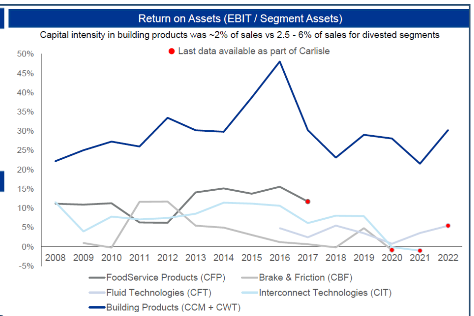
Systems-selling is margin accretive

We estimate that 2/3 of the roofing system are at Carlisle's CCM EBITDA margin or higher for the average player because:

Typical Roofing system components[1]	Membranes (main ext. layer)	Polyiso (insulation)	Accessories & other
$ sales contribution	1/3	1/3	1/3
Indicative margin est.	Slightly less than CCM average	At CCM average margin	Higher than 30% EBITDA margin

Based on our conversations with industry experts





Team analysis & company filings

III. Outsiders-inspired management team continue to make returns-oriented capital allocation decisions.

- Management has been willing to divest divisions to focus on just the two highest return segments. Few investors looking at the headline numbers realize that the Building Product segments have earned >20% returns for >30 years.
- CSL is a compounding cannibal, repurchasing almost 1/3 of outstanding shares since 2016. Given strong FCF generation and low leverage, CSL has the firepower to play offense - via repurchases or M&A. We estimate CSL can buy back at least a further 14% of float over the next 3 years.

<u>Valuation</u>

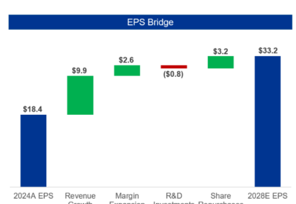
- In our base case, we modeled a Dec. 2027 PT of $598 per share, representing +73% upside from current levels and a 23% IRR.
- We arrived at this PT using an 18x forward P/E multiple on our FY28 EPS estimate of $33.25. Our base case algorithm is 6% organic growth (2% price and 4% volume) and ~200 bps of margin expansion at the consolidated level from 26% to 28%, which alongside share repurchases results in 16% EPS growth over the period.
- We believe the risk/reward of 3.7x is highly compelling, assuming 20% downside in our bear case scenario. In a worst-case scenario where we've fundamentally misunderstood the business, pricing would need to decline at twice the rate seen during the GFC - without any volume growth - for margins to revert to pre-COVID levels.

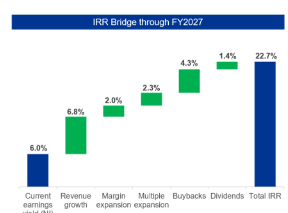
Valuation Summary through FY 2027E

Assumptions	Bear	Base	Bull
Total Revenue CAGR	1.8%	6.8%	8.5%
Organic Rev CAGR	1.0%	6.0%	7.8%
Price CAGR	-1.1%	2.0%	2.6%
Volume CAGR	2.1%	4.0%	5.1%
M&A CAGR[1]	0.8%	0.8%	0.8%
EBITDA margin	24%	28%	30%
Diluted EPS CAGR	3%	16%	20%
NTM P/E Multiple	13x	18x	22x
3-Yr Upside / (Downside)	-20%	73%	142%
Total 3-Yr IRR	-8%	23%	39%

<u>Key Risks & Mitigants</u>

<u>I. Macroeconomic Uncertainty.</u> High interest rates, economic uncertainty, and recession fears continue to dampen new construction activity and cause building owners to postpone projects. **Mitigant:** reroofing activity is largely non-discretionary and many roofs are in urgent need of replacement after years of deferrals leading up to and during COVID. Channel checks suggest healthy contractor backlogs supported by capital budgets designed ahead of renovation needs.





<u>II. New Competition.</u> New entrants have been drawn to CSL's attractive economics. A large new player adding capacity in 2026, aims to undercut pricing. **Mitigant:** high barriers to cost-effective distribution and switching costs make it challenging for new entrants to gain meaningful share without the decade-long track record and reputation necessary to be on the spec sheet or approved vendor list.

<u>III. Consolidation among distributors.</u> QXO, led by Brad Jacobs, recently acquired Beacon Building Products and plans to accelerate consolidation of distributors. **Mitigant:** Strong end-decision-maker loyalty will continue to pull CSL products through the channel and lead to QXO deepening existing relationships with top manufacturers. Greater discounts and rebates activity would be more than offset by higher volumes; local density enhances economics when concentrating volume on fewer entities.

<u>IV. Value-destructive M&A.</u> Changes to capital allocation strategy or difficulty in replicating successful M&A, as CSL pushes into new areas of waterproofing/the building envelope could dilute returns to shareholders. **Mitigant:** Management has meaningful skin in the game compared to their net worth, so we are confident having spoken to the team about their motivation and assessed their track record.

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Aman is a second-year MBA student at Columbia Business School. Prior to CBS, he worked in private equity focusing on buyout deals in Asia. Over the last summer, he worked with the equity long/short strategy at Balyasny Asset Management in their Singapore office and with Boston Partners in New York. Notably, he is the winner of the Annual Kawaja Growth Stock Pitch Challenge for 2 years in a row.

Eternal Ltd. (*formerly Zomato*) (NSEI: ETERNAL) - Long
3rd Annual Kawaja Growth Stock Pitch Challenge (1st Place)

Recommendation: Eternal, the parent company of Zomato and Blinkit, is India's dominant platform for food delivery and quick commerce. The company holds ~55% market share in a food delivery duopoly and ~40% in a rapidly consolidating QC market. Eternal's decision in late FY25 to aggressively reinvest in Blinkit caused a ~35% stock correction, creating an attractive entry point for long-term investors. Our forecast implies a 20.5% USD IRR and 2.5x MoM over a five-year hold.

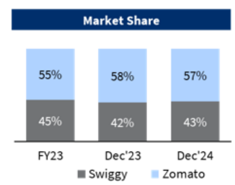
Divergent view: Eternal's stock has declined by ~40% from peak following its Q3 FYMar'25 decision to reinvest aggressively in its quick commerce expansion to maintain market share, offering investors a compelling entry point.

Business Model & Segments:
Eternal operates four synergistic verticals:
(i) **Zomato**: India's leading food delivery app with >1,000 cities served, high AOV, and a sticky subscriber base via Zomato Gold. (ii) **Blinkit**: A 15-minute delivery platform offering groceries and general merchandise through over 1,000 dark stores across 30 cities. (iii) **District**: Newly consolidated ticketing business, enabling high-frequency engagement. (iv) **Hyperpure**: B2B restaurant supply arm benefiting from captive Zomato demand. Eternal's business is asset-light and built on platform economics. Infrastructure, logistics, and tech are shared across Zomato and Blinkit, yielding increasing operating leverage as scale builds.

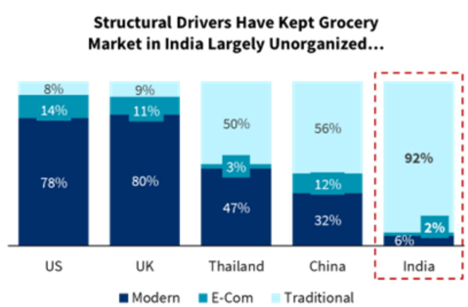
Industry Structure & Tailwinds:
India's food delivery market expected to grow at 18-20% CAGR over the next 5 years as it remains significantly underpenetrated. ~11% of meals are ordered online in India, versus ~25% in China, and ~10% of total food consumption comes from restaurants (vs. 40–60% in developed markets). Growth in delivery market led by underlying growth in food consumption market (10-12%), shift in consumption towards organized sector restaurants and increasing penetration of online purchases.

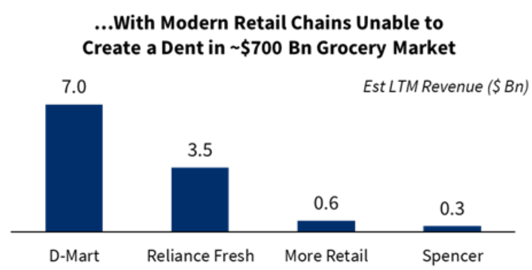
Online Food Market ($ Bn)	2018	2023	2030	CAGR 18-23	CAGR 23-30
Overall Food Consumption	588	706	898	3.7%	3.5%
Food Services Industry	47	71	126	8.4%	8.6%
% of Food Consumption	*8%*	*10%*	*14%*		
GOV for Online Delivery	1.2	7.5	25.1	45.0%	18.8%
Online as % of Food Service	*2.5%*	*10.7%*	*20.0%*		

Annual Customers	FYMar'24
Power customers (# Mn)	3.4
Annual Frequency	100.0x
Orders (# Mn)	340
% of Total Orders	45%
Other Users (# Mn)	60.0
Annual Frequency	7.0x
Orders (# Mn)	420



QC penetration is even earlier - only 5–6% of $60Bn+ TAM, with GOV expected to grow at 40–45% CAGR over the next five years. Structural drivers in Indian market such as low car ownership, smaller averages home size, top-up purchase culture, expansive kirana network (13 Mn mom and pop stores) and extremely low cost of labor drive rapid adoption of QC in India (24x GOV over last 3 years to reach ~$ 7 Bn in 2024 with market set to double in current year).





Why Now?:
The market is underpricing Eternal's earnings power and optionality. Blinkit's reinvestment is driving short-term margin compression, but store-level ROICs are already above 30% and improving. Zomato is profitable today, Blinkit is breakeven in mature cohorts, and operating leverage is inflecting.

Investment Thesis:
1. **Attractive End Markets with Consolidated Structure**
   Online food delivery and quick commerce have a fast-growing combined serviceable addressable market of ~$200 billion. Food delivery has already settled into a stable duopoly between Zomato and Swiggy, while QC is consolidating into a three-player structure led by Blinkit. These market dynamics support rational pricing, margin expansion, and long-term reinvestment at high returns.

Eternal Ltd. (*formerly Zomato*) (NSEI: ETERNAL) - Long

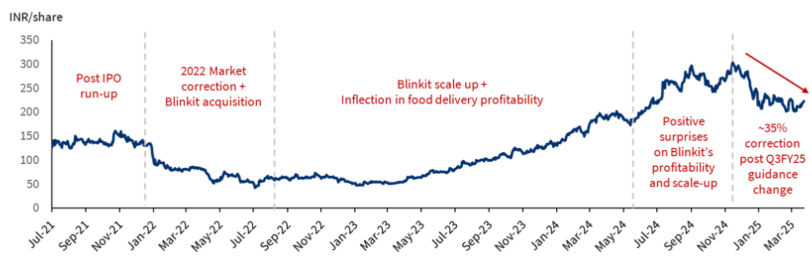
2. **Pole Position with Superior Profitability**
   Zomato leads the food delivery market with 55% share and significantly better contribution margins than Swiggy, driven by higher order frequency, subscription lock-in via Zomato Gold, and better ad monetization. In QC, Blinkit is the largest player by GOV and store count, with faster time-to-breakeven, wider SKU selection, and higher AOV than peers. The platform's scale, network density, and execution track record make Eternal structurally advantaged in both verticals.

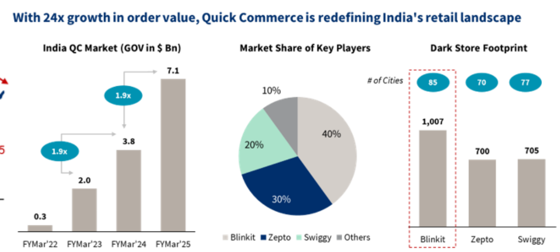
3. **Long-Term Alignment and Shareholder-Centric Strategy**
   Management has demonstrated a consistent ability to pivot ahead of the curve—from Zomato's move into delivery in 2017 to the contrarian acquisition of Blinkit post-tech correction. Deepinder Goyal and Albinder Dhindsa are both aligned through long-vesting ESOPs (until 2031). Further, management has resisted short-term market pressure in favor of reinvestment-led value creation.

Key Metrics	
$ Mn	
Shares o/s (# Mn)	9,060
Price (INR)	220
Price ($)	$2.6
Market Cap ($ Mn)	**22,910**
Cash Balance ($ Mn)	2,263
Enterprise Value ($ Mn)	**20,648**
3m ADTV ($ Mn)	~190 Mn

	Holders	Stake
1	Temasek	16.3%
2	Info Edge	13.2%
3	Founder	4.1%
	BlackRock	3.5%
	FMR	2.8%

1. Increased stake from ~4% acquired pre-IPO at $3-4 Bn valuation to ~16% in Dec'24
2. Zomato's first institutional investor - continues to owns 96% of shares invested in Zomato (~190x return on $17 Mn investment)
3. **Long term alignment** – Deepinder continues to own 90% of total shares owned / granted to date. No shares sold at or after IPO. Has stock options of 360 Mn shares (~4% additional stake) which are exercisable from 2031 onwards





Valuation & Returns

- Forecasted return of 20.5% USD IRR with 2.5x USD MoM
- Valuation driven by bottoms-up forecast of earnings power for each sector and applying an exit multiple to calculate potential value of the stock 5 years from now and comparing it to current market capitalization for calculating implied IRR and return potential
- Eternal forecasted to grow EBITDA from $250 Mn in FYMar'26 to $2 Bn in FYMar'30 driven by maturing of existing store and delivery network as well as slowdown of hyper growth capex currently being invested to continue market share in rapidly growing market
- Exit multiple used for forecast in line with long range daily trading multiple (last 20 years) for consumer staple as well as consumer discretionary companies

$ Mn	FY30 EBITDA	EBITDA Growth	NTM EBITDA	x(M)	EV ($ Bn)
Food Delivery	903	30%	1,174	25.0x	29.3
Quick Commerce	922	40%	1,290	30.0x	38.7
Going Out	114	35%	154	25.0x	3.8
Hyperpure	94	40%	132	25.0x	3.3
FY30 EV					75.2
Less - Net Debt					(4.85)
Equity Value Mar'30					**80.1**
# of Shares (Assuming 3% annual dilution)					10,503
Share Price (INR)					648
Current Share Price (INR)					220
USD MoM (3% annual currency dep)					**2.5**
USD IRR (3% annual currency dep)					**20.5%**
Blended EV/EBITDA					28.5x
Blended EV/Rev					6.8x

Risks & Mitigants

Key Risks	Mitigants
Regulatory scrutiny and restrictions on foreign investment or gig labor	Eternal is now a **domestically incorporated company** with **FDI capped at 45%**. Its marketplace model avoids inventory ownership, reducing exposure to FDI-related disruptions.
Heightened competition Flipkart, Amazon, and Reliance may re-enter the market.	Blinkit holds a **first-mover advantage**, deep operational scale, and consumer loyalty. Prior attempts by large players failed due to lack of QC focus and poor unit economics.
Key man risk: overdependence on Deepinder Goyal and Albinder Dhindsa	Both founders have **long-term ESOPs vesting through 2031**, a track record of strategic pivots, and strong second-line leadership built over multiple market cycles.

Hotchkis & Wiley

Scott Rosenthal

Scott Rosenthal '07 serves as a portfolio manager on the Global Value, Focused Global Value and International Value portfolios. He covers insurance companies and is a member of the capital goods, energy and financials sector teams.

Prior to joining the firm, Mr. Rosenthal was a member of the investment team at FLAG Capital Management where he worked to identify and evaluate fund-of-funds investment opportunities in venture capital and private equity. He began his career as an analyst with UBS' Health Care investment banking group. Mr. Rosenthal received his BA in Economics from Boston College and MBA from Columbia Business School.

Editor's Note: This interview took place on March 12th, 2025.

Graham & Doddsville (G&D):
We have been looking forward to this conversation, Scott. Will you please kick things off by sharing your background and how you became interested in investing?

Scott Rosenthal (SR):
Thank you for having me here today. I attended Columbia Business School 20 years ago and have been reading the *Graham and Doddsville Newsletter* since then, so it is a tremendous honor to be participating in this interview today.

My investing journey began in college when I really did not yet know what I wanted to do. I grew up overseas and spent eight years in central Europe in the late-eighties and early-nineties, which was an interesting time to be living there. I thought that perhaps a career in foreign service was going to be right for me. However, I studied Economics at Boston College and a professor of mine pulled me aside and suggested I pursue an investment banking role in New York City. I took his advice and spent the first several years of my career in UBS's Health Care investment banking group, which is where my interest in investing started to take focus. I realized that I wanted to be an investor and pursued my MBA at Columbia Business School to facilitate that move. I had the good fortune of finding this opportunity with Hotchkis & Wiley upon graduation from Columbia and have been with Hotchkis & Wiley for nearly 18 years. I've had a great experience learning about myself as an investor, developing my own investment philosophy, and being able to implement it as part of this world-class firm.

G&D:
Thank you, could you give us an overview of Hotchkis & Wiley and what you think fundamentally differentiates Hotchkis from other firms?

SR:
For those who don't know the firm, Hotchkis & Wiley is a boutique investment manager located in Los Angeles, California. We have been around for over 40 years with a long and ultimately successful track record. We are primarily equity investors, but we do also have a small high-yield fixed income business. We are long-only value investors on the equity side and execute that philosophy across a couple of different investment strategies. While there are a lot of little things and not so little things that we do well, what really ties it all together is this culture that has allowed us to be successful as an organization for over 40 years. We have an environment that prioritizes and encourages good investment decision-making, which is easier said than done. There's a lot of noise and pressures that come from operating in this industry, but I think we've been able to establish a culture that allows us to focus on arriving at the correct investment answer and then implementing that answer to the benefit of our clients.

G&D:
Could you give us a sense of the portfolios

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Hotchkis & Wiley

you manage and how those fit into Hotchkis' offering?

SR:
I'm a portfolio manager on three of our investment strategies: Global Value, Focused Global Value, and International Value. All three are relatively new initiatives for our firm, although we launched them a little over a decade ago.

To take a step back, the history of the firm is worth discussing to provide some context. Hotchkis & Wiley was founded in 1980 by John Hotchkis and George Wiley and was sold to Merrill Lynch in the mid-nineties. That time period was a difficult one to be buying a value investment manager, and ultimately the firm was repurchased from Merrill Lynch by a select group of employees.

At the time, the firm was focused on domestic equities. However, we recognized that we had significant research talent and capabilities that weren't being fully leveraged by focusing solely on the domestic investible universe, which was the impetus for branching out into international equities. We have built an attractive track record over the past 12 years investing internationally, and we're optimistic that this will be an important part of our business in the years ahead.

G&D:
Earlier you mentioned that Hotchkis focuses solely on its core competency, which is value investing primarily in equities. Can you discuss the importance of having that consistent philosophy over the years and how it has evolved, if at all?

SR:
I think consistency is important in a few respects. Consistency in decision-making is imperative, and we invest significant time and effort to ensure that our decision-making process is consistent. Consistent application of our investment philosophy is important because investment styles go in and out of favor. Our clients don't want us to be chasing whatever is hot today at the expense of delivering excellent longer-term performance. Consequently, we think it's an advantage of ours to be consistent over the long term.

"Our clients don't want us to be chasing whatever is hot today at the expense of delivering excellent longer-term performance. Consequently, we think it's an advantage of ours to be consistent over the long term."

We are also always looking for ways to improve and evolve, both in our investment process and our philosophy. We've always believed that the price you pay for an asset matters, which reflects the value element of what we do. Over time, I think what has evolved is the sophistication with which we analyze, interpret, and ultimately consider risk in the investment decision-making process.

G&D:
Let's use that as a segue to discuss Hotchkis & Wiley's investment process and the fundamental risk rating framework's role in that process.

SR:
There are two critical inputs into our investment decision-making process: valuation and our fundamental risk rating framework. Both are equally important and are related as you can't have a fully formed view of value without also having a fully formed view of risk. We use both inputs to build our portfolios. Our process is designed to ensure a consistent approach to both valuation and the evaluation of risk. We base our valuation work on a normalized earnings framework, which considers the long-term earnings power of a business and a business's assets in a mid-cycle operating

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Hotchkis & Wiley

environment. While other investors use similar approaches, risk is where I think we have a unique tool that has evolved, over time, for the better.

"There are two critical inputs into our investment decision-making process: valuation and our fundamental risk rating framework. Both are equally important and are related."

We have a tool called the fundamental risk ratings framework, which entails evaluating a business under three key characteristics that we believe are linked to our ability to understand a business's future earnings power and any uncertainty around it. Those three key variables are the quality of the business, the strength of the balance sheet, and the health of its governance structure. As a simple example, consider a very high-quality business with high barriers to entry, high incremental returns on capital, strong growth, a net cash balance sheet, and a great governance structure including alignment of interest between the managers of the business and the owners. Our ability to be confident in where that business is going to be one year from now, five years from now, or even 10 years from now is higher than at the other end of that spectrum, where a business might be facing a great deal of uncertainty. We score businesses on each of these three characteristics, and we use that score as an important input in the investment decision-making process. In summary, what we're looking for are businesses that are both attractively valued, trading at a large discount to what we think they're worth based on their long-term normalized earnings power, and that score attractively on our risk framework.

G&D:

Can you discuss your idea generation process? Hotchkis is divided into sector teams with deep expertise, so how much of idea generation is driven by bottom-up sector expertise versus broad market awareness and sharing ideas per the firm's culture of discussion, trust, and peer review?

SR:

You touched on a few important elements there, so let me try to address them all. Our analyst team is organized by sector and sub-sector specialization, which feeds into our sector-team peer review process that is critical to our final investment decision-making.

Beginning with the role analyst specialization plays in idea generation, we have a large investible universe, spanning most businesses across the world and market capitalization spectrum. Sector specialization plays a key role at the front-end of the idea funnel, allowing us to triage opportunities efficiently and decide which ones are worth advancing.

We leverage a variety of tools and resources to source ideas, but it's that filter of the analyst's sector-specific expertise that allows us to be efficient in that process. The sector team construct is especially valuable for ensuring a consistent approach that's critical for good investment decision-making to be maintained across analysts and across industries. Every piece of research, every assumption that is feeding into our estimate of earnings power and risk rating is peer reviewed by teams of experienced analysts who dive deeply alongside the underwriting analyst to understand the critical drivers of a company's performance. This multi-layered review gives portfolio managers the confidence to rely on the output of that research process to inform our portfolio construction.

G&D:

In the past several weeks there have been broad-based selloffs across the market. How

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do you think about the trade-off between increasing the position size of an existing holding that has sold down versus selling and reallocating to better risk/reward opportunities?

SR:
The key consideration is how the return potential and the risk profile of opportunities stack up against each other. We stay current and aware of the opportunities within our portfolio and evaluate their attractiveness relative to what's happening outside the portfolio. To the extent there is a better return opportunity available at the appropriate risk level outside of our portfolio, we want to be flexible enough to take advantage of it. We try to let our judgments around earnings power and risk profile inform those decisions as best we can.

Our approach, which typically results in us diving deeply into understanding a business and the drivers of risk and return, doesn't typically result in quick movements in the portfolio. However, there are occasionally exceptional situations where there is either a company in the portfolio undergoing change to which we need to react or an opportunity outside the portfolio with which we're already familiar and have a well-formed view of value and risk, and we're able to move quickly to take advantage..

Our portfolio turnover in terms of number of names is approximately 20% to 25% per annum depending on market volatility, but in most cases we're not making massive wholesale changes to portfolio holdings in short periods of time.

"I think that has created this dispersion in valuation that's well discussed, but I think it's really created this dispersion in sentiment that we've successfully been able to take advantage of."

G&D:
With that background on the firm, how do you evaluate what the market is offering you today? What do you think is over- or under-weighted by the market and how does that translate into how you view the opportunity set?

SR:
The opportunity set is ever-changing. As of today, in mid-March, things have changed just over the past few weeks, and I imagine by the time this is published, things will have changed again. If we take a step back and remove some of the noise, I think we've been in an environment over the past few years where so much of the market's performance and market participants' attention has been concentrated on a small subset of securities, predominantly here in the United States. That's resulted in a lot of opportunity being created elsewhere around the world. I think investors have, to some extent, become apathetic towards investing outside the United States. The prevailing view seems to be that—if investors are receiving a more-than-satisfactory investment return here in the United States from a mega cap that everyone knows—investors don't need to know what's happening in Europe or where the undiscovered industrial gem is in Germany. I think that has created this dispersion in valuation that's well discussed, but I think it's really created this dispersion in sentiment that we've successfully been able to take advantage of in recent times, and I suspect will be a continued contributor to our performance in the years ahead.

G&D:
Once you form a view that something might be interesting, can you discuss your process of narrowing that universe of interesting ideas, formulating a research plan, and evaluating management?

SR:
The first factor in our ability to take a broader opportunity set and

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narrow it down to something much more manageable is the individual sector expertise that our team can bring to bear. An analyst who's been covering a sector for a decade, or in many cases even longer, here has a level of institutionalized knowledge that facilitates quick decisions, especially as it relates to the allocation of resources. The expertise to quickly decide whether to spend more time on something is incredibly valuable. For example, our team knows the industry participants and who has good assets and strong management teams. We marry that qualitative information to valuation to identify if something is worth pursuing.

Our next step is to advance an idea through our research process, which as we discussed, revolves around a consistent approach to valuation and risk scoring, peer reviewed by our industry experts. Our peer review teams are also sector focused, so every financials opportunity we might look at, for example, goes through the same peer review team, which over the course of many years leads to an accumulation of knowledge that makes that peer review process more effective. Ultimately, that output results in the portfolio management team building portfolios.

All our portfolios are managed by teams. We don't have a superstar culture where one individual dominates the decision-making process. We have a very balanced, collaborative approach to portfolio construction with a small group of portfolio managers making decisions together.

Management quality is a very important variable in the investment decision-making process. Management quality gives us as an outside investor the ability to be confident that a management team is going to make decisions that will enhance the long-term value of the business. That is extremely important, and it becomes even more critical as we invest outside of the United States. US management quality can vary, governance health can vary, but there's a default position here in the United States and in select other markets around the world, that the business is going to be run to grow its value over time. There are parts of the world where that isn't necessarily the number one consideration, so we have to be especially conscientious of what is going to drive management's behavior and ensure that that behavior is aligned with our long-term interests.

This is another area of analysis in which industry experience yields helpful insights. After covering an industry for a while, you have a good understanding of the industry itself and the various players within, which makes you a better evaluator of managers in that industry and the quality of their decision-making and strategies. We focus on a manager's track record and whether they have a history of supporting long-term shareholder value creation.

"Management quality gives us as an outside investor the ability to be confident that a management team is going to make decisions that will enhance the long-term value of the business."

We are sometimes investing in businesses that operate in slower-growing, undervalued industries where we don't see significant opportunity for management to drive value creation by deploying capital in their own industry. While we're not dogmatic about this, we look for managers who have an open mind towards returning capital to shareholders because in many cases, that is the most productive use of the capital.

G&D: Consider the instance

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that you do like a business's opportunity to deploy capital. How do you evaluate a manager's track record in deploying capital and how do you attribute past successes specifically to this manager's inputs?

SR:
What I have found most valuable is conversing with management, which we have the good fortune to be able to do. We are engaged investors, and through those engagements, we seek to understand the framework through which managers make capital allocation decisions. Understanding their frameworks and decision-making is critical, whether in their prior experience or in a current opportunity. How are they evaluating the decisions they're faced with? Are they doing things for the right reasons, which regarding capital allocation means, "Is this the best use to my capital in the context of long-term value creation?"

For example, we have seen CEOs buy back stock based on their expectation that doing so would drive their stock price higher. In our opinion, that shouldn't be the goal of the stock buybacks. You should buy back your stock because you think the returns from that endeavor are higher than whatever else you could do with that capital, independent of what the stock price does in a particular period.

Understanding managerial decision-making frameworks is especially important. There's a wide range of sophistication levels amongst management teams as it relates to capital allocation, in particular. One of the things I've learned over 18 years, that I now share with the younger members of our team, is not to assume that the fact that someone is a CEO indicates that they know everything about their business and are coldly, rationally calculating whether each capital allocation decision is the highest and best use of that capital. Often, CEOs arrive without ever having thought too much about capital allocation. It might be the biggest hole in their skillset, which is why it's an area where we, as an engaged long-term investor, can sometimes have constructive interactions with the companies in which we invest.

G&D:
Is there a difference in terms of how you broach these discussions about capital allocation with management teams in countries outside of the US, either for cultural reasons or because they might have a different frame of reference?

SR:
There are certain parts of the world where the conversation has to start at a more fundamental level and work itself up to the point where it's resulting in actual changes in management's behaviors. One important element of our approach is to only invest where we think we already have that alignment in place. We're not activists, and we're not looking to take on projects where we have to convince a management team or board to do something wildly out of line with what they expect to be doing. Instead, we are looking for situations where management demonstrates a willingness to do things a certain way, and we perhaps just provide a little encouragement as thought partners.

> ***"One important element of our approach is to only invest where we think we already have that alignment in place."***

G&D:
You talked about team-based decisions in your portfolio construction approach. How does the team discuss trade-offs around industry or factor concentrations when building the portfolios?

SR:
As fundamental, bottoms-up investors, many of our investment decisions are driven by company-specific considerations. That said, in managing a

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portfolio, we need to be aware of our exposures to shared risk factors, define our appetite for that exposure, and manage the portfolio in response to that appetite. We are not afraid to be different to the benchmark. Our investment strategies have historically had high active shares, and that is a result of taking a concentrated, fundamental, bottoms-up approach to investing. However, we want to ensure we're not taking more risk in aggregate than we're comfortable with, and we want to be sure that the returns we are getting for that aggregated risk are sufficient to compensate us for the exposure. Therefore, the portfolio management teams look top-down holistically at portfolio construction and make incremental adjustments to our bottom-up research process output to ensure that we're delivering the best portfolio of investment opportunities that we can be bringing forward.

G&D:
Given your high active share, results can look very different than those of the market, can you discuss the importance of client communication and alignment to ensure the best long-term results?

SR:
Having clients who are aligned with your investment philosophy is an underappreciated competitive advantage. As you noted, our long-term contrarian philosophy can give rise to some degree of volatility in shorter periods of time. Having clients who understand what we're doing, who can have confidence that we are being consistent in our application of our philosophy, and that we are executing on the process is extremely valuable. It's another variable in that cultural element we discussed earlier. It gives us the room, confidence, and ability to focus our efforts on good long-term investment decision-making. We're very fortunate to have many clients who've been with us for a very long time and trust us to execute on our mandate.

G&D:
How has Hotchkis approached adapting the product set to balance offering focused portfolios alongside slightly more diversified ones?

SR:
There have been two main drivers: external client demand pulling us in that direction and our belief that we could address industry white space with our existing resources in a productive way. For example, we believe we're strong stock pickers and security selection has driven our long-term excess returns. As it relates to the Focus strategies, a good way to leverage that skillset is through a more concentrated portfolio. However, concentrated portfolios are not for everyone because they can carry a little more volatility. To accommodate the parameters of different potential clients, we have diversified our offering and expect both our more concentrated and more diversified portfolios to deliver strong returns over the long term.

G&D:
Moving on to discuss some individual names, how do you go about identifying something like Siemens as an opportunity given the complexity of the business? As your analysts consider what to add to the research plan, how might they have evaluated the return on time here?

SR:
Siemens is a great example of what we talked about earlier: the apathy of large parts of the investment community towards businesses outside of the US. That does not entirely explain why Siemens is an attractive value today, but I suspect it is a contributing factor. Siemens is a complicated company—an industrial conglomerate with 177 years of history and one of the biggest companies on the DAX—so it might not appear to be an obvious place to start looking for mispricing.

The company results during the 2010s weren't especially impressive,

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but during that decade, steps were taken as part of a broader transformation of the business from an old, cyclical, low-growth industrial conglomerate into a much more dynamic business. Today, Siemens represents a collection of attractive assets that we think have a great deal of long-term growth potential at high incremental rates of return, which makes them quite valuable. We think the market is starting to pay attention as management is increasingly willing to discuss the business in public forums, but we still believe the value of these assets has been underappreciated, creating a compelling investment opportunity for us.

G&D: Given all the moving pieces, how would you summarize the Siemens investment thesis today?

SR: You can summarize it as a collection of quality assets in disciplines such as factory automation, which includes a very fast growing software business; healthcare; and several other industrial/industrial-like disciplines that in aggregate should allow the company to grow at attractive incremental rates in excess of GDP and in excess of expectations that are embedded in today's stock price. The management team has clearly demonstrated through its actions over the past decade that it is committed to and focused on growing the value per share of Siemens through asset sales, acquisitions, and deployment of capital at high rates of return.

We've seen strong, consistent decisions by management, despite at times not acting quickly enough. For example, they still own 85-90% of Siemens Healthineers. There's a huge spread in value between the Healthineers listing and what you could impute the value of Healthineers within Siemens. Management has shown signs that they are going to sell down that position over time. We are encouraged to see that and expect they will continue on this journey towards value optimization of the business. Again, there's still more for them to do on that front.

G&D: Is your philosophy to evaluate management's decision-making and entrust them to make the ideal decisions, or do you evaluate the individual assets to have a view on which should be sold off versus kept together?

SR: We spend time thinking about the appropriateness of the portfolio as constructed and whether there's better ways to maximize the value of each individual piece of the business as well as what actions might allow for that value to be unlocked. While we do think about it, that's not the fundamental premise behind our investment. We're not an activist coming in to push for a breakup of this business, and we must be realistic about the many considerations that might inform a manager's decision on that topic.

There are hurdles to a German industrial conglomerate ever breaking up its businesses such that it can maximize the individual value of each business, and we have to factor that in our valuation in determining the appropriate price to pay. It is important to carefully consider what is actually likely to happen, not just what theoretical best possible outcome is for this particular company.

> ***"It is important to carefully consider what is actually likely to happen, not just what theoretical best possible outcome is for this particular company."***

G&D: Siemens stock has been performing well recently but would have required a lot of patience over the last decade for someone waiting for a catalyst. How do you think about time value and what it

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can take for the market to reach your perspective in situations like this?

SR:

That's another good question, and we have to be cognizant of the time value of money. This is why governance is a key component in the risk framework, particularly as it relates to having confidence that a business is going to grow its value over our holding period. We think about value realization over a three-to-five-year holding period, and part of the margin of safety from owning a business over that period comes from paying a low multiple on today's earnings power. Another contributor to that margin of safety is whether that business is growing its earnings power over the investable horizon. In the absence of the market coming to share our view, at the very least we can have confidence that the earnings power of that business, and therefore the value of that business, has grown over time, which is where capital allocation starts to become important.

We spoke earlier about how some of the businesses we invest in, unlike Siemens, typically don't have a wealth of opportunities to reinvest organically at attractive rates of return in their own business. Furthermore, we typically do not want to see transformational M&A as we think that's a hard way to create value. Therefore, in cases where there isn't an opportunity to grow the earnings power of the business through investment, returning capital to shareholders is important, and the market not immediately coming around to our point of view is actually an advantage because the business can repurchase significant stock at attractive rates of return.

"In cases where there isn't an opportunity to grow the earnings power of the business through investment, returning capital to shareholders is important."

We've had some great examples of investments where for whatever reason the market has been slow to pick up on value and drive a company's price closer to fair value. In those cases, companies have taken advantage of that through repurchasing their stock, which has ultimately led to an even better outcome than originally contemplated at the time of our initial investment because we would not have underwritten the ability to buy back stock at a particularly low valuation.

G&D:

What do you do to track the thesis for a business like Siemens and how quickly would you be able to react to reinvestment opportunities disappearing?

SR:

Stepping back from Siemens for a moment, our process requires regular evaluation of a company's performance versus our expectations. Every quarter our analysts put together a brief update summarizing the most recent financial results, and analyzing how the business is performing relative to our expectations. Has our view of a business' long-term earnings power changed? Has our view of a business' risk, as defined by our fundamental risk ratings, changed? We ask analysts to be honest in their assessments, which are informed by the company-reported quarterly results as well as any other information we have been able to uncover over the course of our work. We have industry specialists who are constantly meeting with other businesses, stakeholders, experts, consultants, and analysts within their industries. It is hard to determine whether what our industry specialists are learning can help us identify when something it not developing as we anticipated. To be perfectly honest with you, this is one of the hardest things we have to do as value investors. We're so accustomed to

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ignoring noise and bad news that we think will ultimately prove to be short-term in nature because we believe in the long-term value. Being able to identify when that original thesis, which was formed in a period of uncertainty, is no longer valid because of continued uncertainty is challenging. It's something we don't do perfectly, but we certainly try to put some structure around the process to make those decisions as best we can.

On Siemens, you noted the complexity of the business and monitoring the many lines of business. I think this is an example of how a small, collaborative investment culture can work well in both identifying opportunities and taking advantage of them. Our analysts are specialized by industry or sub-industry, but in a case like Siemens where they're in several different industries, multiple analysts involve themselves in the research process, decision-making, and ongoing monitoring. For example, the healthcare business has been researched and peer reviewed by our healthcare team members and the software piece by our software analyst and technology sector team. I highlight that because I think it reflects the softer cultural elements we spoke about earlier, the trust we all have in one another, and the alignment of interests we all have internally and with our clients. We are never going to have 100% certainty, but we want to do our best to arrive at the right answer and it is what everyone shows up here every day to do, which I think is what has allowed us to be successful. Siemens is a good example of that in practice.

"Being able to identify when that original thesis, which was formed in a period of uncertainty, is no longer valid because of continued uncertainty is challenging."

G&D: Pivoting to Nippon Sanso, could you could give us an overview of your investment thesis there? We felt the thesis could have aspects similar to Siemens, both with investors having obvious US-listed investment alternatives and with the companies having multiple business lines. Do you see a parallel there?

SR:
I do think there is a parallel. The unifying consideration between them is management's evolving approach regarding the operation, growth, and value of their business. Siemens is a massive industrial conglomerate with a long history that is focused on simplifying the business and accelerating growth. Nippon Sanso is a business with great real estate, operating in an attractive industry, and is well understood by many investors around the world. However, Nippon Sanso has historically not taken advantage of its unique position within its attractive industry and has consequentially delivered operating performance that trails that of its peers. We think that's changing.

We think the most important catalyst for change has been the acquisition of assets from Praxair a few years ago. Those assets included strong managerial talent that, we think, was smartly integrated into and embraced by the organization, bringing significant expertise effectuating changes that have already begun delivering improved results. Margins have improved, and the management team is seemingly motivated to close the gap in operating performance with its peers. These improvements are also taking place in a backdrop that is more conducive than any point in recent history.

This is a business that should have some pricing power, which has never been exercised in the domestic Japanese marketplace. With the impacts of recent inflation, broad

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segments of the Japanese economy have started raising prices, which creates an umbrella for Nippon to take advantage of some of the latent pricing power that they had and increase margins to more appropriate levels.

Another important consideration is the set of governance reforms that have been underway in the equity marketplace in Japan over the past decade. These reforms have come in various stages, but there was just another significant leap forward about a year ago, which provides further cover for a management team that is focused on improving operational performance and driving shareholder value creation. They're not out of sync with the rest of the marketplace by doing that, so the odds of them being successful go up.

G&D: Over the last decade, the market for industrial gas has consolidated, and Nippon Sanso has discussed acquiring further distribution assets in the US, as well. Do you still see room for consolidation?

SR: That is not the primary driver of our thesis, and I don't know if there's necessarily a lot of room for much more consolidation going forward. There may be an opportunity for strategic, targeted investments that clean things up around the edges, but it would seem that a lot of the major activity has already taken place.

G&D: One could argue that corporate governance reforms and latent pricing power could apply to more than one business in Japan, what drew you to Nippon Sanso versus other opportunities that might have similar dynamics on both those fronts?

SR: That's a tough question to answer because I can't explain every idea that was at the front end of the funnel of every analyst. What we liked about this particular situation is you have a business that scores very well on all of our risk scores, but whose quality and perhaps it's improvement in governance, are both under-appreciated by the marketplace. That makes for an investment proposition that we're very comfortable with. We like investing in opportunities where we can buy good assets that the market isn't valuing as such. In this case, we had a familiarity with the industrial gas industry globally. We had analysts tracking the M&A activity in the industry and where different assets were ultimately ending up. Consequently, we were nimble enough to see what was unfolding here and were early to recognize the compelling opportunity for return and attractive risk profile.

> ***"The bulk of capital expenditures are underpinned by long-term contracts, which allow industrial gas providers to earn an appropriate return on that investment."***

G&D: This is a relatively capital-intensive industry with capital expenditures as a percentage of sales in the double digits. Given uncertainty in industrial energy production and the economy's dynamic situation today, how do you think about the incremental return on invested capital of those expenditures?

SR: The investment profile of this business is slightly more predictable than many other types of industries that require large capital investment. The large air separation units and other projects that account for the bulk of capital expenditures are underpinned by long-term contracts, which allow industrial gas providers to earn an appropriate return on that investment. Nippon Sanso is able to then leverage that capacity to service the local market via either pipeline distribution or other forms of distribution in a very efficient way because the variable

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costs associated with industrial gas production are almost non-existent. Therefore, the capital expenditures, if pursued appropriately, represent a reasonably low-risk investment.

If you compare this to other capital-intensive endeavors like opening a copper mine, there is more uncertainty due to the operating environment and commodity prices over the life of that mine. There's a wide range of outcomes possible, even if you have a high degree of confidence in the quality of the resource and your ability to understand the long-term supply and demand dynamics of that commodity marketplace.

Nippon Sanso's capital expenditures have a narrower range of outcomes, and while things can certainly go wrong, the real risk is around aggressive, irrational competition to secure the initial contract. The economics of Nippon's capital expenditures are attractive; after the initial investment Nippon Sanso supplies a local marketplace in what is effectively a regionally protected monopoly or oligopoly because it is difficult to transport long distances. Due to this lack of competition, there is a risk that you compete aggressively to secure that initial contract, which dilutes the attractive returns. We see this risk declining in the future as the industry consolidates and the marketplace behaves rationally, but the risk is not zero.

G&D:

Fantastic. Discussing individual names is always one of the most fun parts of these conversations. Switching gears, is there anything that you do personally on an ongoing basis to improve as an investor?

SR:

I love this question because one of the things I enjoy about this industry and being an analyst or a portfolio manager is that there's always room to improve. It's a responsibility that I take very seriously. First, I try to seek outside perspectives. What I mean by that is we're a fundamental long-only value manager, and while I pay attention to what other smart, value-oriented managers are doing, I also like to learn from other successful investors' styles. For example, is there something I can learn about risk management from a multi-manager hedge fund or about portfolio construction from a macro hedge fund? Is there something I can learn about the growthier parts of the market from venture capital? I seek out varying investment perspectives from different disciplines to try to inform my own approach, wherever possible.

Another thing I do, and this is probably the more important of the two, is look back at past decisions and see what I can learn from them. I'm a big believer in the discipline of journaling. Being able to go back and easily identify what you did, when you did it, and why you did it is important both in terms of evaluating the consistency of your decision-making, but also in terms of learning from your decision-making. There are also tools that we use to quantitatively evaluate our investment decision-making, identify patterns of strengths and weaknesses, and take actions to improve. I'm a believer in using those tools to make incremental improvements on an ongoing basis. I've been in this industry for 18 years; I hope I'm a better investor today than I was 18 years ago and that I'll be a better investor in the future, as well.

G&D:

What advice do you give younger analysts at Hotchkis and what advice would you give current students or people seeking to work with a firm like Hotchkis?

SR:

For students or others looking to break into the industry, what we look for is a hunger to be an investor. We have found, through experience, that the type of individual who is successful as an analyst, and potentially as a portfolio manager,

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is someone who, regardless of the assignment, has that curiosity and hunger to dive in and learn everything possible in order to form an investment recommendation. I think that is the key attribute an individual needs to be successful in whatever career or endeavor they pursue. Having that passion for investing and passion for understanding how the world works, how particular businesses work, and how companies work organizationally is especially important.

When I talk with some of your younger analysts, one underappreciated element of doing this job well is accepting there are questions that are just too hard to answer. “I don't know” is an acceptable answer in this business. We don't have to own every stock in the market. We don't have to have an opinion on every stock. It might be hard for someone new at a firm who wants to impress their colleagues to say, “I don't know.” It's also hard to even know if that's the right answer or not. If you're new to the industry or to following a particular company or sector, it can be hard to know what you don't know. But over time, a good investor will become increasingly comfortable saying, “I don't know if I can figure this out and it's probably not worth any more of our time.” Passing can be an appropriate outcome in this industry.

G&D:

In closing, do you have any fun or unique hobbies outside of work? How do you spend your personal time?

SR:

I have three daughters aged 8, 11, and 14, so when I'm not working, I am busy supporting them in whatever activities they're pursuing. I'm a big sports fan, and I think it's great for kids to be a part of a group working towards a common goal, whether part of a sports team or other group. I have had the opportunity to coach several of my girls’ youth sports teams, and I love it. It's also a good thing for me to do because – and I don't know if you've ever been on a softball field or a basketball court with a dozen 8-year olds – but you have to be present and engaged. You can't be on your phone, you can't be thinking about something that happened at work today or is going to happen at work tomorrow. If you take your eye from it for a moment, it's going to be chaos. That hour and a half after work when we have practice or a game is a great break for me to shut down a certain part of my brain and be present in what's happening with that group of kids and relax.

G&D:

We all enjoyed learning more about you and the firm, and we think our readers are going to love this as well. Thank you so much for spending time with us today.

SR:

You're welcome, and again, thank you for having me. Happy to have done this.

Tourbillon Investment Partnership

Benjamin Beneche

Ramesh Narayanaswamy

Benjamin Beneche is the Co-Founder and Portfolio Manager for the Tourbillon Investment Partnership—a global public equity fund applying a first principles approach to identify durable value opportunities. Prior to founding Tourbillon, he was a Senior Portfolio Manager and co-lead of international equities at Pictet Asset Management. For 10 years, he managed all-cap international equity portfolios where he was primarily responsible for investments in Japanese and Asia-Pacific listed businesses. He began his career in 2008 as an analyst focused on US equities and the energy sector. Benjamin graduated with a degree in Economics and Economic History from the University of York (first class honors) and is a CFA charterholder.

Ramesh Narayanaswamy is the Co-Founder and Portfolio Manager for the Tourbillon Investment Partnership. Prior to founding Tourbillon, Ramesh was a Partner and Portfolio Manager at Veritas Asset Management. Over 11 years, he held roles spanning global fundamental equity research as well as portfolio management. Prior to that, he spent 5 years at Fidelity Management & Research where he was a global industrials and utilities analyst as well as sector Portfolio Manager. Ramesh graduated with a degree in Computer Science & Engineering from Cochin University of Science and Technology and a post-graduate degree in management (MBA) from the Indian Institute of Management Bangalore.

Editor's Note: This interview took place on April 28th, 2025.

Graham and Doddsville (G&D): Thank you, Ben and Ramesh, for coming to speak to G&D today. We'd love to start with your background. Could you please tell us about how you found the spark that got you into investing?

Benjamin Beneche (BB): Ramesh likes to say I was probably born with a stock certificate in my hand. It is a bit of an exaggeration, but it's not that far off. My father was a businessman. He ran what today would probably be called a value-added I.T. reseller. He introduced me to business in a broad sense. At the dinner table, our discussions would often revolve around it, to the dismay of my mother.

My interest in investing in public equities really started in high school. I had an Economics and Business teacher, called Mr. Manville, who also happened to have been a stockbroker before going into teaching. When I was 14-15 years old, he introduced me to *The Intelligent Investor*.

You hear a similar refrain from many people who catch the value investing bug. You read that book or you read something like it, and a light bulb flicks on in your mind. If you do resonate with it, it keeps hold of you for the long-term and that was definitely the case with me. From that point forward, I've been pretty single-track-minded in terms of my passion for investing. It led me to pursue a degree in Economics and Economic History at the University of York in the UK, an internship at BlackRock and, in 2008, a role at Pictet Asset Management.

Ramesh Narayanaswamy (RN): My story is quite different to Ben's. I was a wanderer in my youth, exploring many different things. I was a software developer and an engineer by training in my teenage years and at university. When I was young and foolish, I launched a software startup for companies in southern India, which is where I grew up. The internet and technology were still nascent, so I had my heart set on becoming a software developer or a tech

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founder. In hindsight, that looks like the career I should have pursued, given some of these SaaS valuations! Over time, that meandered into an interest in business through my MBA, but the real reason for pursuing an MBA degree wasn't business-related.

I felt that I hadn't had a liberal arts education in India. I was always interested in not just academics, but also broader pursuits and hobbies, like arts and sports. The MBA filled the gap. During my MBA, I spent time with Lehman Brothers in Hong Kong, which was my first foray into finance. Since then, I've been quite interested in finance and business in general, and investing in particular, which culminated in me joining Fidelity Investments initially in Boston, and then in London.

From Fidelity onwards, it's been a much more conventional, non-meandering career in investment management. The spark, which echoes what Ben said, came from encountering Buffett. When I first joined the investment management industry, I didn't really have a strong sense of value investing or any particular framework. I read everything from technical analysis to growth investing to momentum and quantitative strategies, and Fidelity was a great place to be exposed to very different styles of investing. Eventually, and inevitably, I stumbled across Buffett's writings and way of thinking. Like Ben said, a light bulb switched on. Thinking about stocks as pieces of businesses and trying to get more than what you pay—it seems so simple and so fundamental. I've been a value investor ever since—first at Fidelity, then at Veritas Asset Management, where I spent over 10 years as a fund manager and a partner. Finally, I got together with Ben a couple of years ago to launch Tourbillon.

"… it was the mistakes, from which I looked to learn, and the ability to endure tougher periods of time, which gave me the confidence… You have to have this deep burning desire, as cliché and corny as it sounds. Both Ramesh and I had that inside of us, which meant it really wasn't a choice not to try."

G&D:
Thank you. You both had successful careers at well-respected firms. What convinced you that you had what it takes to start your own fund and how did you know it was the right moment to do that?

BB:
I was very lucky during my career at Pictet to be charged with client capital in a fund really quite early. Some would maybe say too early, but it's the way it panned out. After only four years on the job, I was asked if I wanted to become portfolio manager focused on the Japanese part of a relatively large and well established international EAFE fund. I had the chance to see, firsthand, various market cycles, and I think by my estimate, make approximately 80 discrete investments over the subsequent 10 years. As those experiences were quite positive on average, that gave me the confidence to think that I could add value and could do a good job for clients, but it was the mistakes, from which I looked to learn, and the ability to endure tougher periods of time, which gave me the confidence to think I could go out and build an investment business along with Ramesh and my partners.

Whenever anyone sets out for something where you leave what is really quite a comfortable position to embark on something which is less comfortable, you're not calculating a risk-adjusted ROI in your head. There would be no entrepreneurs in the world if you were entirely rational in terms of how you approached

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it. You have to have this deep burning desire, as cliché and corny as it sounds. Both Ramesh and I had that inside of us, which meant it really wasn't a choice not to try.

RN:
Similar to Ben's early career, I was given responsibility to run sector funds at Fidelity. In hindsight, I was definitely not ready to manage capital as a portfolio manager, but it taught me valuable lessons, especially since it was around the global financial crisis. I joined the industry in 2007 at the peak of the market and saw '08, '09, '10, so both the deep drawdown as well as "recovery", in a sector that was very cyclical. I was looking at building materials, industrials, a bit of energy and utilities - all largely cyclical sectors. I was relatively successful, partly because of luck and partly because of this strong value orientation, which allowed me to stay away from things that were pricing in perpetual growth when it was most likely to be cyclical. That experience instilled a focus on capital preservation as a key principle for running money successfully.

As Ben and I got to know each other, we started talking about building something together almost from day one. We didn't have the grey hair nor the capital at the time. Eventually both of our careers evolved in a way that meant we earned the trust of our former colleagues, which allowed us to reach a critical mass of capital to launch. It's a combination of our life paths, surviving a few cycles, as well as the trust of our former colleagues that got us here.

G&D:
How did your parallel paths come together? Were you introduced by a common friend or mentor?

BB:
Ramesh and I have known each other for about a decade now. We were introduced by a Japanese equity broker, Mark West, who was at Mizuho at the time. This was towards the end of Ramesh's time at Fidelity, when a lot of what he was doing was Japan-oriented and likewise when my focus was entirely on Japan. Ramesh was even learning Japanese. It started with our mutual interest in that part of the world but very quickly expanded beyond it. For a decade we would meet up once a month, and talk about businesses from the very first moment we sat down, sometimes to the wee hours of the morning.

RN:
We bonded not just over value investing, which is a strong golden thread through our lives and careers, but also a bit of a disdain for the rest of the industry. We felt most of the industry was very extractive and didn't put the client first. It put fund managers first, and we felt there was a lack of focus on true long-term business ownership in what is effectively an indefinite-duration asset class. Somewhat arrogantly, somewhat foolishly, we felt that we could do better—that we could steward capital more effectively and offer genuine alignment between fund manager and client, both in fee structure as well as philosophical orientation; we could get traction for a differentiated offering to invest in the way we practice value investing.

G&D:
Could you tell us about how you came to your three pillars of fulcrum assets, symbiotic loops, and outlier management? Why these three and how did you narrow it down?

RN:
The fundamental uniting factor for all the business models is durability. We hearken back to what Charlie Munger said, take one good idea, but take it seriously. I think it comes from an Indian philosopher, if you go back far enough in time. We're trying to take the idea of durability very seriously: why do some companies endure, while others don't? What makes some companies endure? The common theme that unites everything is the idea

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that equities are very long-term, indefinite-duration assets. Then the question is, how do we identify them? Between Ben and I, we studied academic literature on persistence of returns on capital over time, fade rates (how quickly companies fade the returns down to the average), as well as our own unique experiences of what types of businesses endure from a first-principles perspective.

We focus on two ideas. One is based on the idea of scarcity: companies that offer a product or service that doesn't really have substitute, which we call "fulcrum assets". Secondly, we focus on the idea of scale, where the scale is being used to not just extract the most amount of profits for the company itself, but to reinvest into the ecosystem. These we call "symbiotic loops". We felt that these two ideas were not only the root of things that we understood and were drawn to, but also were very consistent with what we observed in academic literature and industry studies. To borrow a term from other disciplines, these were "emergent properties".

The idea of outlier management is more of a horizontal layer. It's more of a management, thinking and cultural model, not necessarily a business model. This hearkens back to people like Warren Buffett at Berkshire Hathaway and Mark Leonard at Constellation Software, who operate with a sense of trusteeship beyond that of a typical hired CEO, i.e. a very long-term orientation with stakeholder-centricity, as well as treating shareholders as partners and not just as a source of financing, which a lot of companies tend to do, especially when it comes to practices like stock option issuance. Those are the threads that we try to pull together in a way that Ben and I could execute.

We don't have hundreds of sectors that we claim expertise in. It's only maybe six sectors that really embody these ideas and are where both Ben and I had the required experience to make good judgements on the durability.

BB:
In terms of the focus on durability, there are a few other influences there that were quite important to us. There's the literature from people like Professor Mauboussin (Columbia) and McKinsey on fade rates. There's that fundamental mathematics of equity investing, which is intrinsically very long-term. Durability becomes paramount if you think in that way, but then there's also studies by the likes of Professor Bessembinder (Arizona State) that show the distribution of market returns. Only 2% of the market generates nearly all the market return and the vast majority of stocks generate returns below T-bills. In his 100-year study, he showed the characteristics of the top businesses, which generated on average 13% per annum. This is good albeit not great, but they did survive a hundred years. So you are left with businesses like Altria, Vulcan materials, Kansas City Southern as the top three. They are hardly the most "exciting", fast-growing things, but they have endured, which is what we're looking to harness.

"The fundamental uniting factor for all the business models is durability. We hearken back to what Charlie Munger said, take one good idea, but take it seriously... Strange, unpredictable things seem to happen every other year... We don't necessarily know what they'll be, but we think you can improve the odds in investing if you can find businesses which can weather those inevitable unknowns. That's why durability is so important to us."

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Our experience has also suggested, and the one thing I've learned in the time I've spent in the industry, is that the only real constant to investing and the world of business is change. Strange, unpredictable things seem to happen every other year. Whether it's COVID or a terrorist attack or a garden-variety recession, these things do happen and are incredibly hard to predict. People like Richard Zeckhauser have taught us that knowing what the future will be with precision is almost impossible. Again, if you approach the world from that perspective: strange things do happen, they're inevitable. We don't necessarily know what they'll be, but we think you can improve the odds in investing if you can find businesses which can weather those inevitable unknowns. That's why durability is so important to us; at some point or another, a business is going to have to prove it, and we think that's a big part of what makes the difference between a good and a bad investment.

G&D:
What is it about the persistence of returns and concept of scarcity that you think makes it challenging for other investors to focus on, given there is some high-profile literature? Do you think it's the challenge of letting go of precision that people find harder than you might, given your personalities and your experience, or is there another reason?

RN:
It's a great question. There are several strands here that are worth pulling together. The first is that most investors lack the context in which they can execute this kind of process, even if they believe in the principles. Most would agree that equities are long-duration assets and that you want to look for persistently good businesses that can endure the test of time.

Very few have the patience, and that lack of patience comes down to a lack of patience in the capital base that they're attracting. That can become quite sticky, if you have management culture around you that is focused on much shorter-term performance metrics and keep being questioned on what you don't own (instead of what you do own). Both Ben and I have experienced that ourselves. We have been in larger organizations before. It's very hard to remove yourself from the center of gravity of that ethos, which is why in smaller boutiques, especially, emerging boutiques like Tourbillon, we have the ability to start from a clean slate and to truly try to think from first principles. We can also attract the client base that we think shares our philosophy, rather than start with the industry standard, which by definition tends to be much more short-term, much more swayed by what is hot, and what sells at the present moment.

"… we have the ability to start from a clean slate and to truly try to think from first principles. We can also attract the client base that we think shares our philosophy, rather than start with the industry standard, which by definition tends to be much more short-term."

BB:
I do think that the ability to step back, ignore the noise and institutional pressures to conform is something you either largely have or you don't. We are inherently social creatures, so the way most people tend to operate (it's evolutionarily rational), is to go along with standard industry practices. That relates to measuring relative to benchmarks, time horizons, and degrees of concentration. Maybe Ramesh and I lack that basic evolutionary thing. In my mind, it makes far more sense to focus your attention on a few areas you genuinely understand and can build a sound foundation of knowledge in, rather than claim to know a little bit about everything and expect to do better than the average. There are

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40,000 companies globally. I don't care how big your analyst team is you won't know everything about all of them. Even if you somehow could, you wouldn't be able to synthesize it.

So we take that idea of durability in symbiotic loops and fulcrum assets, and look for the purest expressions of those business models. From there, it's about keeping the bar incredibly high. We could squint and probably fit a lot of things into those ideas, but we don't want to. That leads to the six industries we focus on. Today, 70% of fund assets are in two. This focus allows us to build on our knowledge in certain areas and make the most informed judgements possible.

"... the ability to step back, ignore the noise and institutional pressures to conform is something you either largely have or you don't."

RN:
We are not relying on information arbitrage, which is what a lot of the industry continues to focus on implicitly or explicitly; that is, trying to get the last amount of information out of companies and predict the next quarters EPS with more precision than somebody else. This goes into consensus numbers, "whisper" numbers , alternative data, you name it. What we are relying on is much more interpretation arbitrage. The idea of scarcity is not utterly unique, but the weight that we put on it, the way we choose to interpret it and how seriously we take it, is different.

"In my mind, it makes far more sense to focus your attention on a few areas you genuinely understand and can build a sound foundation of knowledge in, rather than claim to know a little bit about everything and expect to do better than the average."

A good analogy comes to mind here. David Deutsch is a physicist-philosopher, who wrote a book called The Fabric of Reality, where he talks about the double-slit light experiment in physics. It is a very common experiment. Everybody who's gone through high school would have learned that experiment, but he chose to interpret the interference patterns produced by the double-slit experiment as evidence for multiple universes, which was a completely different conclusion compared to what traditional physics would have you believe. It's not that we have new information or better data, we just choose to interpret it differently from what the rest of the industry might ascribe to it.

G&D:
For durability and long-term compounding, you may also need a long runway for growth and opportunity set for reinvestment. Could you speak to how that fits into your three pillars?

BB:
I would challenge that as I wouldn't necessarily say a long runway is necessarily what we're looking for. Real value-add in the eyes of a customer, almost in the way Jeff Bezos thinks about things—that's what we're looking for. It can be exploited in the form of, for example, higher prices, or value-based pricing, or it can remain untapped. It can be latent pricing power or latent growth opportunities. We're indifferent as to which one it is, as long as the value is there for the customer. You could frame symbiotic loops as areas where scale is the advantage, but it typically is found in products which are quite commoditized, such as car insurance or groceries, where the advantage is that the product is cheaper for the customer. When it comes to fulcrum assets, scarcity is really the advantage. What is the right price for a Hermes bag? It's already priced at more than I would personally pay for it, maybe not my wife. So that latent pricing power is there and you could

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frame that as growth, but, for us, we don't mind so much if it's tapped or if it remains untapped.

RN:
To complement what Ben said on the runway for growth, there are multiple ways to look at it. We want durability, but we are not necessarily looking for the fastest growing companies with the highest return on capital. In fact, one of the ways in which we define durability and quality, is not based on those quantitative and backward-looking metrics. It's much more about whether a company can endure the cut and thrust of competition over time. Having said that, if you look at the portfolio, the current owner earnings yield of the portfolio is 7% and the aggregate growth in the portfolio is 8-9%. We are not by any stretch buying companies that are growing 25-30%. We have healthy growth, at aggregate returns on capital of 19-20% with minimal leverage. We are buying the characteristics, where the roots of durability are expressing themselves in more conventional metrics, but we don't start with the conventional metrics of runway for growth, return on capital, or margins. We think those are the byproducts of a durable business and sometimes they may not even necessarily be an indicator of a durable business. We don't really start there, and especially in an age of ChatGPT, we think that quantitative metrics, are probably not as valuable in terms of making judgments over the next 10 or 20 years.

BB:
What we do care a lot about is the predictability of the business (and to a degree the predictability of the growth runway). It doesn't have to be a large rate of growth per se, but we need to have some confidence around where the end game could be and what the business is likely to look like in five, 10, 15, 20 years in the future. Coming back to the point I made earlier, the future is inherently uncertain. We know that, but if we can find a way to narrow down the world into things where we have a higher degree of confidence in that range than most, then we think we can probably do better on average. That's because of how we approach the problem, and on top of that, we're able to invest at valuations which truly provide a conservative margin of safety, so that forecast becomes less paramount. The predictability of that runway certainly is important.

RN:
The return on capital and runway also depends on what you pay for it. If you have a company that generates 40% returns on capital, but you're paying 10x book value for it, or 10x invested capital, your actual return on capital is only 4% because you paid 10x premium to the stated value of that in invested capital. Whereas if you're buying a company that has 20% return on equity, but you're able to buy it at half of book value, you end up generating 40% returns on your invested capital. They're all interconnected in terms of the price that you pay. What we are looking for is value investing within a very select group of durable businesses so that we receive the longevity of the cash flows, even if it's not the highest growth, at a price that severely undervalues their durability.

> ***"The idea of scarcity is not utterly unique, but the weight that we put on it... is different... one of the ways in which we define durability and quality, is not based on those quantitative and backward-looking metrics... in an age of ChatGPT, we think that quantitative metrics are probably not as valuable in terms of making judgments over the next 10 or 20 years."***

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G&D:
That's very helpful. Related to what you mentioned earlier, you define your edge in six industries. Could you share what those are with us, please?

BB:
Yes, they're not your traditional GICS sectors, it's our own terminology. Within symbiotic loops, we think about low-cost retailers, cost-advantaged financials, and scaled platforms. In terms of scarcity and fulcrum assets, we're thinking about durable brands, low-churn software and mission-critical industrials. There's nuance to each of them, but to give you a sense, our target list of companies which fit in those industries, that we also understand (we've done the work and feel we can reach a judgment on), is only 60 to 70 companies today. Even though on face value, we run this unconstrained global value fund, when you take those ideas seriously, it gets quite narrow, rather quickly.

G&D:
Are you looking for new subsegments to add to your circle of competence or you're prioritizing finding more names that fit these existing categories?

BB:
I'll give you an example of how we approach it. We were recently looking at some of the liquor companies, such as Diageo, Brown Forman, or the investment that we have, Remy Cointreau. They've got all the qualities you may imagine: they've been around for a very long period of time; the balance sheets are reasonably, conservatively financed on average; and the returns on capital are quite healthy. Then we take the first principles view of looking for examples of fulcrum assets within that. With that lens, we started thinking, which parts of that liquor complex have that durability? We came to the conclusion that dark liquor (whiskey, cognac, etc) and champagne, are the areas where the barriers to entry are highest because you have a fulcrum asset nature in terms of areas the actual product can be built. Champagne can only be produced in the Champagne region of France, around 150 kilometers east of Paris. It's not champagne if it's not from there. It's the same with cognac. For something like a Brown Forman and Jack Daniel's, there's a brand element, but much more significantly there's an inventory in an aging component, which means you need to leave it in a barrel, for at least three years, but for higher quality liquors much longer. That creates that fulcrum asset, no close substitute element, which doesn't exist in something like tequila, where you can easily harvest some agave, get a celebrity endorsement, and you can build a brand very quickly. It leads to much higher market share volatility. Even though, when it works, the return on capital is much better because you don't have that same degree of inventory sitting there waiting. We're always willing to make that trade off. If it's between return on capital and durability, we will pick durability every day of the week.

The way in which we go about potentially expanding that circle of competence is that sort of project work where we might look at an industry or sub-industry and think, is there something within this that we think has those qualities in spades? However, expansion of our circle of competence would be quite slow. We don't expect to be knowledgeable about crypto tomorrow and GPUs the next day. Like we said, we don't aim to be knowledgeable about every stock in the world. Although unconstrained, we have very tight filters and a high bar for new investments. Therefore that means that the rate of expansion of our knowledge will be slow and we'd rather prioritize things that we already know very well, where we can make superior judgements, compared to things that we may not know that well or we are just learning.

G&D:
We are excited to talk about the non-US exposure of the portfolio. You are both based in the UK and used to cover Japan. The

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portfolio is overweight the UK and Japan. Is that a function of your prior knowledge base and cultural context? How do you discuss the portfolio's tilts with clients?

BB:
It's two things. People talk about home bias as if it's this awful thing, which must be avoided at all costs. We're not so sure it's that bad. If it's home bias insofar as you understand the market, you understand the rule of law, corporate governance, taxation regimes, or have an insight into how consumers might actually behave, we think that's valuable. It's very hard to ascribe basis points of alpha to it, but it's important. We always frame risk as not understanding what you're investing in. We have a degree of comfort in markets like the UK, because it's where we're physically based, or Japan, because we've spent years working on that market.

> *"We always frame risk as not understanding what you're investing in."*

They also both happen to be markets that are rather deep. There are around 4,000 listed companies in Japan. There are just under 2,000 in the UK. The US is around 4,500. That depth means we're often able to find businesses which are under the radar, which trade at attractive valuations, but are intrinsically durable and of high quality. However, they are under the radar, and that's what often creates a value opportunity there. Both markets have their issues. Japan has been struggling with forms of deflation since 1991, and although they're going through governance reforms, there's still a hell of a long way to go. The UK has underperformed the US and Europe since Brexit in 2020 and is now facing a combination of relatively low GDP growth and high inflation, which is squeezing a lot of customers. Yet, if you look through those headline issues, they are markets where we understand what is going on, and there are a lot of great businesses hidden just beneath the surface.

RN:
I would challenge the premise that it's because of our UK and Japan historical experience. If you take our combined experience together, it's very global. Even though Japan was a reasonably large portion of my initial career, I went on to do mostly global equities, with significant US and eventually, emerging markets exposure towards the end of my time at Veritas. Secondly, the current portfolio reflects the opportunity set we're seeing today. We are more than happy to buy Microsoft at 10x earnings, but it's at a completely different kind of multiple today.

Over the last couple of years, we have felt that while there are lots of great businesses in the US, they're priced for perfection. On a like for like basis against those in other countries, they tend to be more optimized in terms of the capital structure, with more leverage and run with much lower margins for error in the business. Our current portfolio is built entirely on a bottom up basis and simply reflects where the value opportunities lie. People forget that it's not that long ago that the entire US market was trading on 12-14x earnings. If that changes and we ever enter that regime again, we'll be more than happy to have significant investments in the US. We have nothing against the US and we have plenty of experience between us to invest in US companies. It's just the valuation discrepancies we're seeing today that led to this portfolio. Part of the reason that we wanted to start Tourbillon at the time we did, was we saw a significant disparity between valuations for the same durability of assets between the US and rest of the world, some of which is starting to be recognized this year.

G&D:
To make our question more balanced, Ramesh, has lived in Boston, and Ben, if we're not mistaken, has a connection to the US through his wife.

BB:
That's right. She is from

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Michigan, and we met in Vail, Colorado. I typically spend a couple of months a year Stateside. I also spent the first four years of my career working as an analyst on a global fund, predominantly covering US names. The US is still the hub of capitalism and one of the most dynamic markets in the world. There will always be opportunities, it's just, as Ramesh said, the prices today, on average, more than reflect those qualities for us.

G&D:
This is a good moment to ask, would any one of the "Magnificent 7" be of particular interest to you if the multiples were to compress? Would it be Microsoft, as Ramesh mentioned?

BB:
Microsoft and Amazon are the two that are on our target list today. You can imagine which one is a fulcrum asset and which one is a symbiotic loop. They're both very clear examples of the type of business we'd like to invest in at the right valuation. The others have various issues or things we don't understand. We are somewhat skeptical of whether the duopoly between Google and Meta in digital advertising can endure over the very long term. As for Apple, we have ongoing debates about whether they're reinvesting appropriately into the business and innovation, or whether customer surplus is being exploited through data packages and subscriptions. They're right on the edge in our opinion. Obviously, Nvidia and Tesla are a bit tough for value investors like us.

> *"If you can combine extreme patience with extreme aggression, you will be able to find and buy great businesses on very low multiples of earnings or normalized earnings."*

RN:
If you can combine extreme patience with extreme aggression, you will be able to find and buy great businesses on very low multiples of earnings or normalized earnings. If you look back in time at the Mag 7, in that very small narrow subset of companies, let alone the wider market, quite a few of them were available for purchase on less than 13-14x free cashflow. Obviously at the time when some of these are on low valuations, there'll be issues or temporary troubles that cause the stock to be out of favor. That's where our judgment comes in and where our focus, experience, and historical knowledge base comes in so that we can step in at that time to make good judgements.

We separate assessing durability (in our control) from entry points or valuation (not in our control). We scan the target list regularly for companies we believe are on very low multiples of free cashflow because we already vetted the durability of the franchise. Then it's a question of whether something has changed. This process dislocates the immediacy bias and "shiny new object" syndrome for getting into something that you've just done the work on and you don't really have historical context or expertise to make a decision. We avoid that trap. We are very patient, but when the time is right, fairly aggressive. Our top 10 investments account for close to 80% of our capital, so we are very happy to swing hard when the price is right.

BB:
With regards to our approach to valuation, we've referred to owner earnings a lot, which is broadly synonymous with normalized free cashflow yield. As it relates to the Mag 7, the headline P/E multiple for Alphabet today is probably in the vicinity of 16-17x consensus forward earnings. For many Mag 7 companies, you should adjust for the elevated level of capital expenditure, as we think the ROI to create hyperscalers is to be determined. There could be a bit of a capital cycle in the works, where a lot of money is being put into what is potentially a somewhat commoditized

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product in the core base (or at least unknown today). There are all sorts of accounting shenanigans happening with changing data center lives, which peeves Ramesh and me to no end, along with adjustments for option expenses, whereby P&L option costs are typically dramatically understated relative to what the true cash cost would be to keep the share count flat. They're all based on the premise of Black-Scholes, which assumes a normal distribution, while we care more about cashflow attributable to owners. If you make those appropriate adjustments, headline P/Es are probably flattering in many cases.

G&D:
As usual, one of our favorite sections is the ideas portion of the interview. What makes Nintendo a fulcrum asset and how do you think about the return potential?

BB:
Nintendo has both fulcrum asset and symbiotic loop qualities to it. On the fulcrum asset side, it's a company most people are very familiar with. It's around 13 trillion yen of market capitalization, 11 trillion enterprise value. It was founded in 1889 and has been through various iterations over the past 100+ years, from selling trading cards called *Hanafuda* cards to taxis, until, in the eighties, they settled on the video game business with the launch of the *Nintendo Entertainment System*. Media can be difficult, with the economic split between artists and movie stars or musicians, being susceptible to change. Gaming is different in that it's a very large market; it's $250 billion a year of revenue and growing healthily; although there's been a post-COVID lull, over the long term the market has been growing. The important thing is you won't find Mario asking his agent to renegotiate terms with the publisher after a good game. The IP sits with the company and has proven itself to last over the long-term, and they'll have improved the economics over time.

With four of the top 10 best-selling video game franchises of all time being Nintendo franchises and a history of durability, going back to the mid-eighties, Nintendo stands out from the crowd in a sector that has historically been prone to booms and busts with franchises coming and going. That's been gradually evolving for the sector, with the change in monetization moving into more recurring revenue subscriptions and in-game transactions, away from the game itself representing the bulk of the economic profits associated with a title, making the whole industry more durable. Even within that, Nintendo has been absolutely standout.

G&D:
A quote that stood out from your investor letters highlighted the need to quantify certain things but not others: "not everything that can be counted counts and not everything that counts can be counted" (Albert Einstein). You alluded to an asset like Nintendo deserving a premium, but we suspect you might resist quantifying that premium. When you talk to your investors, how do you approach explaining the risk/reward to them?

BB:
Perhaps I can step back and explain how we think about valuation to help answer that question. We take the approach of a business owner who has no intent to sell in the future. We look to the business, as opposed to the multiple, to drive our return. That approach does require a long-term view. We often quote a statistic, which is, if you could never sell a business that was earning a 6% owner earnings yield, with free cashflow yield growing at 6%, it would take 12 years to make your money back and 28 years to earn a 10% IRR.

That thinking ties into our approach to valuation through our primary yardstick, the owner earnings yield, a conservative estimate of normalized free cashflow within the next 12 months. Although we consider the long-term growth that we expect of

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the business, we are inherently wary of specific forecasting. That’s where our value discipline really comes out.

In the case of Nintendo, if our scenario is around how the *Switch 2* is likely to evolve and change the nature of the business model is correct, we estimate 720 yen per share of owner earnings. That's a 7% yield on today's value, for a company growing 8-10% per year. It would get you to a mid-teens IRR, which we think is a very good return relative to our opportunity cost. Our opportunity cost is what we own in the portfolio and what is on our target list.

RN:
I would go back to what you referred to regarding “what can be counted and what can’t be counted”. If you go back to the eighties, the *Nintendo Entertainment System* had approximately 95% of the market. It really defined the category at the time. If you observe (despite different management at the time), the cultural fabric of the company, they have never been ones to maximize the revenue from each game. They've actually made decisions that have hurt them in the past. For example, when there was competition between Nintendo and Sega, with *Mortal Kombat*, Nintendo went with a version that had less violence in it, even though it hurt their sales and Sega outsold them.

Even to this day, they're not trying to maximize every dollar they can get from the game. They're taking a customer-centric approach that will endure over time instead of simply extracting the most profit today. It's a cultural element of the business that we really admire, in an industry that is not really known for that.

A lot of our companies have that. 65% of the portfolio is invested with “outlier management” ideas, or founder-owner-operators, who have significant shareholdings. It’s not easy to quantify but matters over the long-term since that sense of trusteeship and stewardship creates a lot of value. You need to take a 10+ year view for it to materialize and become evident, as it's not seen in any single quarter’s numbers.

“Even to this day, they're not trying to maximize every dollar they can get from the game. They're taking a customer-centric approach that will endure over time instead of simply extracting the most profit today. It's a cultural element of the business that we really admire...”

G&D:
When it comes to ranking or sizing positions, how do you weigh the normalized owner earnings, IRR calculations, duration, and cultural/management aspects?

BB:
The owner earnings yield is our north star when it comes to discussions around sizing. We're already fishing in a pond that is quite narrow and has those durable qualities. We think about owner earnings yield both relative to the opportunity cost of what we already own, but also relative to long-term government bonds and US treasuries as a yardstick. We try to incorporate Daniel Kahneman’s system one, system two thinking by employing a checklist. It is based on various criteria, but there's really three headings: operational momentum, management, and risk, which we use to frame our discussion. This structure allows us to have a more informed debate whilst incorporating our unique judgements and analysis.

G&D:
What gives you confidence that Nintendo may allow external developers for games on the *Switch 2*?

BB:
Switch 2 pre-orders are out, so we know what it is now—it's no longer conjecture. It was announced in early April and expected to ship in

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June. Around 20-30% of Nintendo sales for the *Switch* are with third parties. After several channel checks, we know that developers have been clamoring for development kits for the *Switch 2* for a while - almost three years in some cases. There were always some pretty significant gating reasons whereby the original *Switch* just couldn't handle a modern AAA game (such as *Grand Theft Auto* or *Call of Duty*, in high definition). The main one was simply Memory. That's been solved with the *Switch 2*. The *Switch 2* has 256 GB of storage. That's about eight times the original Switch and de-bottlenecks what was possibly the biggest issue for a third party doing anything on the original Switch.

They obviously want to have a piece of the installed base. I mentioned at the beginning, Nintendo has both fulcrum and symbiotic elements to it. The symbiotic loop element is quite simple; if you have a lot of gamers who are engaged, developers want to develop for you, and if they develop for you and they give you the best games, you get more gamers. The Switch has 150 million active users on the platform, who developers would love to sell to, and a lot of whom would be thrilled to get the cutting-edge titles which they haven't been able to have before.

G&D:
That makes sense, thank you. Next, for Howden Joinery, we imagine this idea is about finding durability in unexpected places, but could you tell us more about your thesis, please?

RN:
You're absolutely right that retail is not the industry where Ben and I would go looking for durable businesses. We found is that a particular type of retailer, which we call the symbiotic retailer, has at least as good durability as conventionally high quality businesses, like luxury goods. Just over 35% of our capital is invested in symbiotic retailers today. We did a study comparing our group of symbiotic retailers against high-quality luxury companies like Hermes, Ferrari, LVMH and Richemont on fundamental metrics over a full cycle. Looking over more than 10 years, revenue per share grows much faster, with much lower gross margin volatility and comparable returns on capital. The evidence suggests we are buying a high quality, durable earnings stream, but in a very unexpected place and without (in our eyes) having to pay nosebleed valuations.

Within that context, Howden stands out, and like Nintendo, Howden has elements of both a symbiotic loop as well as a fulcrum asset. Howden is a UK-based, B2B2C supplier of building materials and like many symbiotic retailers, has made a series of strategic choices creating a distinctive business model. The key amongst those is that Howden only sells to tradespeople or professional installers. It's not a consumer facing business as it doesn’t sell to the public. That has led to a series of emergent properties that make it difficult to replicate. Howden has an in-stock model that promises availability close to the builder—85% of customers are within five minutes of a depot. There are nearly 900 depots today, growing at a mid-single-digit pace. As it is a vertically integrated model and Howden has the ethos of sharing that scale benefit with the customer, it can offer ~15% cheaper prices. These advantages build up over time, so Howden has at least 70% market share in the trade, 30% share of new kitchens by value and 40% by unit sales.

The symbiotic nature also extends to how employees are treated and it's a very decentralized model. Depot managers or store managers have autonomy in terms of local market dynamics and pricing decisions. They also receive a share of the profits from the business at the gross profit level, which engenders a very entrepreneurial culture. Depot managers can decide whether or not certain CapEx investments should be put onto their units

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because they get charged on the depreciation. This level of autonomy, independence, and decentralization has led to outstanding box economics. The business runs at around a 60% gross margin and 25% return on capital in an end-market that is mostly residential houses. The story is not about new home building; 95% of the demand is repair and remodel, so unusually, it's not that cyclical compared to what you would expect.

If you look at the global financial crisis 2007-08 to 2010-11, total demand declined by only 15%, and we are in a similar state compared to 2019-20, with current levels of market demand approximately 15% lower. The peak of the cycle is much below mid-cycle, in our opinion, and that contextualizes the 7% owner earnings yield that we can buy the business at today, if you think about the long-term prospects. In the short-term, Howden is doing quite well and pulling ahead of the competition. The troubles at places like Wren and Homebase are well-advertised. Howden will benefit from it, though not like-for-like because tradespeople don't use Wren or Homebase to the same degree that they use Howden. It just shows the resilience of the model and how well managed it is. Management continues to make investments in the business with a long-term view and very strong returns on capital.

We also think the strength of the relationship with the builder or installer carries over into adjacent categories. Historically, Howden has been known mostly for kitchens, but adjacencies, such as bedrooms, don't require much rejigging of the supply chain. We think this is a business that can grow the topline at double digits. Current margins are 14%, but we think normalized margins are closer to 17%. We have several margins of safety in terms of the demand context, buying at below mid-cycle valuation, the strength of the balance sheet and the management culture.

G&D:
For a business like this, that is less cyclical than one might think, but still has elements of cyclicality, what is the right way to think about the normalized growth on a through-cycle basis?

BB:
The average number of kitchen units sold in the UK per year has been relatively steady since the late 1970s. It's been somewhere between 850,000 units and 1.2 million units throughout that timeframe. We're currently right at the low end of that, after a couple of years during and then post-COVID when units were at the high end of that range. As a result of higher interest rates in the UK and a relatively weak consumer spending environment plus potentially some demand brought forward over the past couple of years, we are now at the low end of that range with around 900,000 units. The incremental margin for the business is approximately 40%, so it's a relatively simple exercise to think about what owner earnings would be for the business at the long-term average of a shade over a million units a year. That's how we approached thinking about the cyclicality of the business, on which basis the shares would be trading on an 8% owner earnings yield. The good news is we don't need that to pan out anytime soon to still make a reasonably good return. Even on a trailing basis, the shares today are on an undemanding 15-16x earnings, equivalent to a 6% owner's yield, which means we're not relying on the cycle necessarily being in our favor to still earn a healthy return. If it does, great, we'll do even better, but it's not something we need at today's price.

RN:
When we look at cyclical businesses, our philosophical orientation is conservatism and the degree to which the business is doing the right things internally to pull ahead of the competition, which Howden is. Lastly, are we buying it at below

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midcycle at least? We are not buying at the top of the cycle. We are not being aggressive at all in terms of that owner's yield calculation, which is very typical for us.

G&D:
Thank you, it seems fitting to close the loop with a US name, Berkshire Hathaway. Could you discuss how you think about your position, and what is different compared to how other people who own this business might think about it?

BB:
It's a surprisingly controversial investment. Berkshire is a $1.1 trillion market cap company. It's 650 billion US dollars of book value, and that makes it the largest company in the world by tangible assets. Everyone knows the story of Warren and Charlie founding Berkshire in 1965 and compounding it at probably close to 19% per year since then. We think it's perhaps one of the most misunderstood, very large businesses we know of. The structure they've created is unique and distinctive. It's a total fluke of history, but it's created one of the most durable economic moats that we know of.

Let's elaborate on that. The insurance business is probably overrunning a little bit now on Geico. Normalized, we think it is three to four billion of profits out of, say 55 billion in owner earnings, but it's the amount of capital in that business that makes Berkshire unique, and we think remains underappreciated. The reinsurance business is General RE and National Indemnity, which have 40% of all the capital in the industry, even though they only write around 7% of the premiums. They've managed to amass huge amounts of excess capital. On our assessment, it's around $220 billion, which can then be reinvested into public equities or fully-owned businesses. That's very different to its peers, Markel or Fairfax, where the composition of the assets is very different. They have much less in businesses and much more in fixed income, government bonds, and cash simply because they haven't gotten over that catch-22 of generating so much surplus insurance capital, which is perhaps impossible in today's regulatory environment. It was very different back in the seventies, when Warren was building that business.

We could go into all the details of BNSF and the energy business and how we think they're run in a unique and long-term way, but the way we see what Berkshire is today is as a unique capital structure that allows $1.1 trillion of gross assets to work on $650 billion of equity with very little interest-bearing debt funding that difference. Even when Mr. Buffett departs, we don't think it's about that capital allocation genius today. The team in place are a steady hand, and they've got a structure today, which means your return on equity, even with quite conservative returns on the assets, is likely to be 11-12%. Not an incredibly high number, but incredibly secure with a lot of optionality around the $350 billion of cash that they are currently sitting on.

RN:
This ties well with a couple of points that we touched on earlier. One is information arbitrage versus interpretation arbitrage. Berkshire is one of the most analyzed businesses in the world. There's no shortage of commentary about Berkshire or Buffett's investment style. It's one of the largest businesses in the world, and yet we were able to buy it at more than an 8% owner earnings yield a couple of years ago. This is why it's been a large position in the fund since we launched and delivered good returns. Even on a 10-year trailing basis, I think I'm right in saying that it's outperformed the S&P, in a period where S&P has done quite well.

Sometimes just the fact that something is large or well-known can put people off (contrarian investors, especially). Our objective is not to be contrarian for its own sake. Our objective is to be generally right in our judgments and to be led by the facts and

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valuation. Going back to our earlier discussion, this is an example of a US company, with almost entirely US-based assets and earnings, that was available at what we thought was a high-single-digit owner earnings yield, and we are more than happy to have a large position.

> ***"This ties well with… information arbitrage versus interpretation arbitrage. Berkshire is one of the most analyzed businesses in the world. There's no shortage of commentary about Berkshire or Buffett's investment style. It's one of the largest businesses in the world, and yet we were able to buy it at more than an 8% owner earnings yield a couple of years ago."***

G&D:
Could you please expand on your portfolio construction and sizing? Given you set up your fund structure to attract partners that align with your philosophy, how do you think about the time horizon for investment decisions and how does it connect with the lens of durability?

RN:
The client alignment is critical. We are fortunate to have clients who understand that we are investing over a full cycle, which for us is five to ten years. Our analysis horizon is also five to ten years, but our ideal holding period would be a lot longer than that. We have no intention of selling anything unless our assessment of quality or value has been impaired. When we make an investment, our intention is that we are owning it for forever, and we want the business to grow and generate returns for us, rather than us selling it at a higher multiple to a buyer one or two years down the line. Our dollar turnover is currently trending at 15% annualized, but name count turnover is much lower. We tend to own for very long periods of time, and we haven't sold anything in the last nine months.

In terms of the difference between the best versus the second-best investment, we think of about three levels. Our large investments tend to be 8% plus, with the very biggest 11-12%. Valuations move faster than business quality and durability (or our assessment of it), which is why we do have the willingness and the ability to reallocate capital in terms of opportunity cost. We have 5-6% type positions (medium-sized positions), and we have a tail of positions that are 2% or less. We have the tail quite deliberately because over time we learned that investing in and owning something changes the way in which you approach it behaviorally, so it reduces our friction to act if we already own a small position in a company. We only sell investments outright when either we become more skeptical of our assessment of durability, or valuations get to a point where we can't make a risk-free rate level of return. Typically, it means our entry free cash yields have been 7.5-8%, so call it 12-13x. Our exit yields generally have been 3-3.5%, so 30x or more. That said, we are not managing to that, and we are not being dogmatic or mathematical about it. If you look at our actions over the last two years, it gives you a sense, all else equal, of what we consider cheap for a durable asset, and where we would look to sell based on valuation alone.

G&D:
We can wrap up with three short questions. Where does the Tourbillon name come from?

BB:
The name is derived from the French word for whirlwind, but it also has a second meaning, which is the device in a mechanical watch that prevents errors related to the effects of gravity. It is a nod to how Ramesh and I view

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investing. We're looking for businesses that are able to defy that gravitational pull of competition towards mediocrity and extinction so that they can endure. That's one element of it. In terms of our mission, we're trying to get better returns than the market over the long-term, and we think that's a hard thing to do. Anyone who says otherwise is kidding themselves, so that is also trying to defy gravity in some way.

G&D:
As important as it is to allocate capital, it's also important to allocate your spare time. What do you do, in terms of hobbies and outside of work, that takes up meaningful parts of your life?

BB:
I do enjoy my hobbies, but I have a young family, so that does take up a minute or two of my spare time. In my personal time, I like to ride my bicycle, and I find that particularly enjoyable even though it's definitely type two fun. It gets you out to see things and to be one with the road. I'm a big fan of Robert Pirsig's *Zen and the Art of Motorcycle Maintenance*. I don't have a motorcycle, it's a bit too high risk for me, but a bicycle is about as close as I can get. Other than that, I have played the classical guitar from a very young age and Ramesh and I both enjoy the odd game of chess. We're far from grandmasters, but I enjoy the process of trying to get better.

RN:
My turnover in hobbies is a lot higher than the turnover of individual positions in the portfolio! More recently, I've been interested in doing improv and a bit of dancing. I've also taken a deep interest in spirituality. I used to play the violin, and I'm starting to practice it again. Revisiting it keeps the right-brain side of things going for me. So, between Ben and I, we have the string theory of classical music going on. Otherwise, I am spending time with family, my son in particular, who is very outdoorsy. If I do have time left over, I like most racket sports. I'm a big fan of everything from table tennis to badminton, to squash, to tennis.

G&D:
Many aspiring investors, at Columbia and beyond, read our newsletter. Do you have any advice or message on how to approach building a career or learning about investing?

BB:
Warren Buffett said something to the effect of you become the average of the seven people you spend the most time with. I would say be very careful who those people are, as it relates to professional mentors and peers. Try to find that group of people who bring out the best in you and from whom you can learn. Potentially you should be quite brutal in discarding the people who don't do that. If you work on that basis and continuously surround yourself with these people from whom you learn and then at the same time, you try to give as good as you get without expecting anything in return, that can lead to some wonderful outcomes, if you just do it consistently. Then when it comes to a professional context, never sacrifice an easy win, a slightly higher starting salary or anything like that for the quality of the people you are around. It might be worth it at a stage in one's life, but certainly early on it's not. Always pick the people and the context over any near-term gain, particularly one related to a bit more money.

> ***"If you… continuously surround yourself with these people from whom you learn and then at the same time, you try to give as good as you get without expecting anything in return, that can lead to some wonderful outcomes."***

RN:
I'm very reluctant to give advice, because I'm reminded of Philip Carret, who ran the

(Continued on page 70)

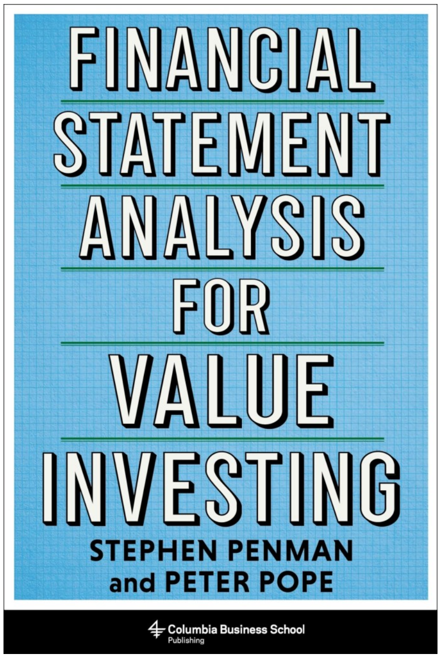
Tourbillon Investment Partnership

Pioneer Fund. He was fond of saying, "seek facts diligently, but advice never". With that caveat in mind, the only advice I have is to align your investing personality to your actual personality, as much as you can. You can play basketball or football, but don't bring a football to a basketball court. You need to know which game you're playing. Renaissance Technologies with the Medallion fund and Berkshire Hathaway with Buffett, have both been hugely successful, but they're not playing the same game. Make sure that the game that you're playing is the game you choose to play and that it's something that aligns with you internally. The worst thing that can happen is you think you're a long-term value investor, but you are actually a momentum investor. They're both fine, but you need to be careful about not lying to yourself. Expressing your true self, in an environment that allows you to do that probably gives the best chance of long-term success.

"... align your investing personality to your actual personality, as much as you can. You can play basketball or football, but don't bring a football to a basketball court."

G&D:
Thank you for talking to us at G&D today. We really enjoyed this conversation and are sure our readers will too.

Financial Statement Analysis for Value Investing



ABOUT THE AUTHORS
Stephen Penman is the George O. May Professor Emeritus and special lecturer at Columbia Business School, as well as a distinguished professor at Bocconi University. His books include *Accounting for Value* (Columbia, 2010).

Peter F. Pope is professor of accounting at Bocconi University and emeritus professor of accounting at the London School of Economics and Political Science. He is the academic coordinator of the Institute of Quantitative Investment Research.

Financial Statement Analysis for Value Investing offers a compelling framework, showing that understanding a business through the lens of accounting is the key to wise and strategic investment. **Stephen Penman** and **Peter F. Pope**—leading authorities on accounting and its investment applications—demonstrate why attention to financial statements is the key to judicious valuation. More broadly, they show that accounting fundamentals, when analyzed in a systematic manner, teach us how to think about value in new ways.

This guide to investing through analysis of financial statements presents both underlying principles and practical examples. It examines:

- How an accounting book is structured and how to challenge market pricing by understanding the fundamental principles of intrinsic business value through accounting to make informed investment decisions
- How to avoid common investment pitfalls that many investors face, such as overvalued stocks or misleading earnings figures
- How to adopt a structured method of assessing value, emphasizing the importance of profitability, growth, leverage, and risk, all grounded in sound accounting techniques.

Financial Statement Analysis for Value Investing is essential reading for anyone interested in the fundamentals of value investing, practitioners and students alike. Both professional and individual investors can benefit from its techniques and insights, and it is well suited for value investing and financial statement analysis courses in business schools.

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ABOUT TRATA
Trata (YC W25) is backed by Walter Kortschak—former CIO of SignalFire, Managing Partner at Summit Partners, and a venture investor with a unicorn rate surpassing that of Sequoia Capital and Y Combinator—as well as Y Combinator itself. Its later-stage founders have also received backing from top-tier firms including Sequoia Capital, Founders Fund, Andreessen Horowitz, Accel, Bain Capital Ventures, and First Round. We were recently featured by Matt Levine.

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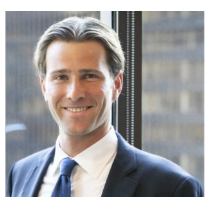
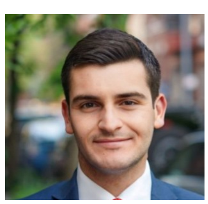
Vincent is a second-year MBA student at Columbia Business School and a member of the Value Investing Program. He currently serves as the Chief Investment Officer at Kathmandu Capital, a concentrated value fund specializing in small- and mid-cap international equities. Before founding Kathmandu Capital, Vincent worked as an Equity Research Analyst at the Irvine Company, contributing to its long-only, U.S. equity-focused single-family office. Prior to that, he served as an Equity Research Associate at Ladenburg Thalmann. Vincent earned a B.A. in Management Science from the University of California, San Diego, and is a CFA Charterholder.



Andrew Meylan '25
Andrew is a second-year MBA student at Columbia Business School concentrating on investment management. He recently interned at Franklin Equity Group (Franklin Templeton) covering industrials, focusing on auto suppliers. Prior to business school, Andrew worked in direct lending in the growth-stage technology space, first at Silicon Valley Bank and then at TriplePoint Capital LLC, with experience in asset-backed and mezzanine finance. Andrew graduated cum laude with a B.S. in Accounting from Santa Clara University where he was a member of the varsity water polo team. Andrew is from Los Angeles, CA and enjoys spending his spare time in the ocean or the mountains, cycling, surfing, skiing, reading, and cooking.



John Morcos '25
John Morcos is a second-year MBA student at Columbia Business School and a member of the Value Investing Program. Last summer and fall he served as an analyst at Miura Global, a Tiger-Cub long/short fund in New York. He began his career in Merrill Lynch's Private Wealth Management group, conducting third-party manager due diligence and constructing multi-asset portfolios for UHNW clients. He holds a BSBA in Accounting & Financial Management from Bucknell University, graduating in 2019, and is originally from Miami, FL.

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