As of March 31, 2019, EXOR represented 8.2% of the Longleaf Partners International Fund and Baidu represented 4.7% of the Longleaf International Fund. EXOR represented 8.5% of the Longleaf Partners Global Fund.

Gwin:	00:00:06	Hello and welcome to the Price-to-Value podcast with Southeastern Asset Management, where our Global Investment Team discusses the topics that are most top-of-mind for our clients from a Business, People, Price point-of-view.
Gwin:	00:00:17	We at Southeastern are long-term, concentrated, engaged, value investors, and we seek to own high quality businesses, run by capable people, at a discounted price-to-intrinsic-value, or P/V.
Gwin:	00:00:29	I'm Gwin Myerberg, Global Head of Client Relations and Communications. Today's podcast will be a bit of a different format. We'll be sharing excerpts from the panel on International Value Investing that we co-hosted in Omaha at the Berkshire Annual Meeting earlier this month with Evermore Global Advisors, and moderated by Greg Dowling, Head of Research and CIO at Fund Evaluation Group.
Gwin:	00:00:50	Before we jump into the recording, I have Josh Shores with me here today, our Co-portfolio Manager of Southeastern's Non-U.S. strategy. He represented Southeastern on the panel, alongside Evermore CIO David Marcus and Greg from FEG.

Gwin:	00:01:05	Josh, on the panel you referred to the 50,000 or so attendees at the Berkshire Hathaway Annual Meeting as "pilgrims". Can you just start with a quick background on how you three pilgrims - Josh, David, and Greg - came together for this event with our clients, and perhaps highlight what you think is the most important takeaway for our listeners here today.
Josh:	00:01:25	Sure. David and Greg were phenomenal people to share the panel with. David Marcus has been a contact, someone we've discussed investment ideas and talked about Europe and the opportunities there, for several years now. He's very like-minded in how he views European investments in particular, and how he thinks about his network and how he puts that into practice on finding contrarian value opportunities in that market. It's remarkable how often we find ourselves talking about and looking at some of the same investment opportunities and same companies, so we've shared notes several times over the years. And it was only logical that, as we've looked at potentially sharing a stage in Omaha, he would be a great person to have a conversation with.
Josh:	00:02:13	And Greg at FEG is the CIO of that organization, which is one of the consultants that we have most enjoyed working with over the last few years. They're very thoughtful in how they approach asset allocation, how they think about their clients. They're very value oriented and like-minded with us in their allocator view of the world versus our more investing view of the world, so those two work well together, and FEG is a really strong organization. Everyone I've ever interacted with there is top notch.
Josh:	00:02:44	It's appropriate that the three of us should be gathering in Omaha for the Berkshire meeting because that has become such a focal point for the value investing community over the last decades. It's astonishing how many people are there, how many like-minded individuals and value-oriented investors from all over the world congregate in that city for that weekend, and it is a treat to be around so many other folks who have the same world view as we do and then to compare notes and talk about the opportunities that we're seeing.
Josh:	00:03:16	So this was a chance to sit down with two especially like-minded individuals in Greg and David and, in a very appropriate setting, have a conversation about the opportunity set that we see outside the United States and specifically in Europe.
Josh:	00:03:31	We talk a lot about the investment opportunity outside the United States, and at this juncture I think it's particularly helpful to focus on what's going to work over the next ten years is

probably not what's worked over the last ten years. For ten years, a decade now, we've seen S&P 500-led, Index-led, FANG-led, U.S. dollar-led, diversified portfolios that have really paced the world. And from here the value opportunity that we're seeing on our bottom-up analysis is 100% skewed to outside of the United States. The Asia-Pacific region, the opportunities around Europe, various things in other parts of the world where we see lots of opportunity to be concentrated, long-term, value investors in a diversified way across different geographies and exposures, but way more concentrated than what most people have been used to, I would say, over the last decade, in non-dollars. So, it's a non-dollar, non-U.S., concentrated, long-term value oriented in quality companies trading at a discount, and their intrinsic value is where we think people should be focusing their incremental capital right now.

Josh:	00:04:46	And this conversation with David and Greg that centers a little bit more on Europe highlights the kind of opportunities that we're seeing there, how we approach that market, how we think that our global network and boots on the ground and two-to-three decade track record of building out contacts in that market help us evaluate business quality opportunities, people opportunities, around partnering with great management teams and boards in that geography, and then also engagement opportunities. As we discussed, Europe has changed over the last 15 years or so to become much more open to stakeholder value, shareholder value and the stakeholder stack, I should say. So, where shareholders fit on the overall priority of stakeholders in the organization and those changes, those disruptions, are what can create opportunity. Whether they're happening internally at an organization where there's been some sort of change in management or the board or in philosophy, or whether we're able to, on our own or in conjunction with other people, help nudge those changes about, there's a lot of low-hanging fruit and value to be captured in Europe at the moment, and that's where we're spending a lot of our time.
Gwin:	00:05:56	Great. Well, thanks Josh. And with that, we'll go to the recording, and we hope that you'll enjoy the discussion as much as we enjoyed having it.
Greg:	00:06:03	I'm Greg Dowling. I'm CIO of Fund Evaluation Group, and I have the great pleasure of moderating this panel between Josh Shores of Southeastern and David Marcus of Evermore. The topic's really going to be international value, however we'll cover a myriad of different topics, and I also use the term moderate loosely. If you know these individuals, they might just moderate themselves, and I'll just sit here. But occasionally I might have to cut them off

		and say, hey, next topic. Two wonderful investors, I can't think of a better topic.
Greg:	00:6:40	So maybe under the guise of level setting, before we go in too deep into Europe and Asia and some of the different geographies, maybe we can talk about how you guys think of value investing. Josh, you have a really interesting under-graduate background. You don't see this very often in the investment world, but Josh has a double major under-grad in philosophy and religion.
Greg:	00:7:10	So, maybe a question for you, because when I think of philosophy, it's sort of guiding principles. And religion tends to be much more of a strict doctrine. How do we need to think about value investing? Is it a religion for you, or is it just sort of a philosophy?
Josh:	00:7:24	It is a core conviction of religion, and it's no accident that lots of times those of us in the value world when we tell our story of how we came to be pilgrims to Omaha, even the language there is religious. It is like the scales fell off the eyes or there was a Damascus road type of experience. That language often comes into study-
Greg:	00:7:48	You studied when you were there?
Josh:	00:7:51	I did. I studied a bit! For me, that's very much what happened. I was telling the story a little bit ago. In the '90s trying to understand markets and investing and stumbling on Robert Hagstrom, who we will be with later this afternoon, which I'm excited about because I've never met him. But his books were a key part of my being led to Buffet and Graham, Charlie Munger, John Templeton, and ultimately Mason and Southeastern, was that, gosh, this was the only way to do it. Why would you not want to buy a dollar for 50 cents and particularly focus on a high quality company where you could, instead of divining or predicting the future in a knowable way, you have the security of value.
Josh:	00:8:33	The philosophy side really comes into play, and I think what attracted me to it, I went to school thinking I was going to major in science, but switched that after my first philosophy 101 course because it just brilliantly captured my interest. There are no answers. People way more brilliant than I suspect any of us in this room have argued for millennia over what is the right approach to pick your topic - on the problem of evil or the question of free will, right?

Josh:	00:9:04	I have loved the argumentation and discovery and multi-disciplinary approach to problems and get comfortable with the uncertainty that lies in philosophy. But then I need some anchors. I need the religious side, the ten closed fist things that don't change. And then we're going to overlay the philosophical mindset on top of that. Really, for me, yes, there's a religious aspect to value investing for myself. But then the philosophy is the search for knowledge and answers but the humility of never thinking you have it figured out. So that's how I would answer that.
Greg:	00:9:38	It's a good answer, good answer.
Josh:	00:9:41	And should I define value? Because you said you wanted a level set on how we think about value.
Greg:	00:9:46	Yeah, what's value to you?
Josh:	00:9:47	So value to us is what the intrinsic value of a company, what an informed, private buyer would pay for 100% of this company. And that encompasses a lot. Within that there could be a DCF [discounted cash flow] of a stable, mature operating franchise where you can see the free cash generating power, but there also might be significant non-earning assets on the balance sheet. We love to see hidden - what we call NEAs [non-earning assets] - that the market tends to miss. We like to see big construction in progress, where they dumped a billion into a new facility, but it's not generating free cash flow yet. So the market often misses that. And then we like to see complexity where a situation has, there's something that's gone wrong or there's some sort of short-term head wind, and we're three-to-five-year time horizon people, but we'll own things for ten if they keep compounding and growing. So the time horizon arbitrage of looking through the short term and being able to have the conviction, the capital and the infrastructure and, most importantly, the clients, who are aligned in that way that will allow you to be long term.
Josh:	00:10:45	What would an informed private buyer pay for this company if they were stripping out this non-earning asset and selling it, optimizing this segment by selling it to this person or buying something else to roll into it. And then DCF-ing this part because it could be fixed, it could be better and it's worth that. Roll it all up, that's worth a 100, okay. We want to buy at a margin of safety on that. Then crucially to the catalyst side, either roll up our sleeves and help nudge along catalysts, or partner with management who already completely see that and are a catalyst in and of themselves or we can happily just surf along for the ride.

Greg:	00:11:19	Maybe I'll ask kind of the same question but with a little twist to you, David. So I think probably many of you are aware that it was announced this morning that Buffett bought Amazon. He's been moving in that direction ever since he bought IBM, but ten, fifteen years ago, Buffett buying that?
Greg:	00:11:42	Maybe the question is, do we need a modern definition of value and the second part of that question is, do we also need to adjust value by geography or region?
David:	00:11:59	He got the easy one!
Josh:	00:12:01	Yea, what's Amazon worth, David?
David:	00:12:04	More.
David:	00:12:07	Well, look, I don't think you need to redefine value. I just don't believe that. I think like anything else, things evolve, but I will tell you, and I'll get to that Amazon part in a minute, but the fact is, the foundation of every, and maybe it's more like I'm answering his question, but the foundation of everything that we do, it really goes back to the lessons that were really beaten into our heads by Michael Price back in those 14 years that I worked there. It works. It really works. So, we didn't change it, but we added the things that we learned since then. So that's the foundation of everything that we do. I do think that, yes, I saw the news this morning and Buffett made it very clear. He said one of the fellows down the hall from me - so he didn't buy it - one of these other Todd Combs or Ted Weschler, I guess, initiated that. We've seen it with other things where they initiate something and then he piles on with a much bigger stake, like an Apple or whatever.
David:	00:13:13	They have expanded the definition of what they feel is value, and it's pretty-
Greg:	00:13:22	Broad.
David:	00:13:23	...pretty broad
Greg:	00:13:24	Yeah.
David:	00:13:25	And I would say for us, again we start with the foundation from the old days, but what I learned over the years from sitting on the boards and seeing how businesses are built, the great thing for me was that the boards that I was sitting on and that group, the Swedish group, that I worked with, they were building these very high growth telecom and media businesses. They were not

		value stocks. But for us, the opportunity was always, we weren't paying for it. So as investors, we were buying their legacy assets, and we were getting all this potential for the future for virtually nothing.
David:	00:14:00	Now you had risk. You had execution risk. You were spending real money to do it. But the cash flow from the existing businesses was more than getting us there. So you really were getting free upside, free future. So we always still look for that to this day. We have different media companies in our portfolio. We own Vivendi, which owns Universal Music, , it's the largest music company in the world, going through massive change as this industry has been disrupted, creating a lot of value.
David:	00:14:32	At the same time, we have old industrial businesses that have been around for 100 or 200 years, that are now embracing technology. So something like an Amazon, well, it may or may not be something that we'd ever really focus on. It just may not work for us. The fact is, it's this concept of change and evolution and technological transformation and disruption. When we're analyzing the situation, we challenge ourselves with all of these questions. Is it being disruptive? Can it be disrupted? Does this company have a future? It's an auto company, everybody's saying the auto industry is dead in ten years. Is it? Why is it? We won't have all the answers, but can we get something for close to nothing? When we can do that, we jump at it. We want to own those and take advantage of it so still hardcore value at the base, but can I get some of those other pieces and pay little or nothing for it?
David:	00:15:33	I think of us as value investors like the old geezer with the rose bush that he's forever pruning. He's not killing it. He's not breaking it. He's not doing things to it. But you're tweaking along the way because you learn new things as the world keeps moving forward. So you have to take advantage of the knowledge as you move forward and try to incorporate it in.
David:	00:15:58	But we're not going to say, okay value is now this other thing. I think it works this way, the way that we do it. We're sticking with it because we're believers.
Greg:	00:16:07	The second part of that question is, now that you've established it-
David:	00:16:11	We're not looking for cigar butts.
Greg:	00:1612	Right.

David:	00:16:13	We're not cigar butts investors. We're don't want the last puff. We want the whole cigar. We want a box of cigars. We want as much as we can get out of it. We don't want the last puff. We hate selling.
Greg:	00:16:25	But how much are you going to pay for cigars in Europe versus the U.S. versus Asia? How is it different when you go around the world?
David:	00:16:30	Well, Europe has been a tomorrow story for almost as long as Japan has been a tomorrow story. It's a long time. Europe's a lot cheaper than the U.S. It has been for a long time, but I would tell you- We have about 65% of our assets in Europe. I've been focusing on Europe for 30 years. This is as good as I've seen it in 30 years. I have the least competition that I've maybe ever had. The headlines are so bad, that's all I need. That scares everybody away. They read the headlines, they don't read the stories. You get down past the headline, there's what we look for: break ups, spin off, restructuring, change. There's more activism. There's M&A activity. There's so much pressure to change, and if you're a German company, you're no longer just competing. So you're in Frankfurt? You're not just competing with the guy in Munich. You're competing with the guy in Oslo, in Stockholm, in New Jersey. You're competing with everybody in your industry. And if you cannot be competitive globally, you're dead.
David:	00:17:33	Companies are radically shifting. They're doing all kinds of restructuring. The restructuring isn't always going to make money. It might just help them survive a little longer until they ultimately don't survive. So we have to assess the change to see if we think it will actually create real value. I think Europe is just so grossly undervalued because the fears of Brexit, Merkel leaving, Italy going through its changes. The list is as long as you want it to be. You can add as many things as you want.
David:	00:18:04	In crisis, in stress, in misery, there's opportunity. The last place I want to be when there's a crisis? In the comfort of home. I want to go to the crisis, because I'm going to get bargains all over the place. I think it's important to do it, and it's bubbled up to parts of Asia as well. We have maybe 8% of our fund in Asia. That's up from nothing three years ago. Eight percent sounds like nothing, but when it's versus nothing, it's more. (laughs)
Greg:	00:18:35	It begets the question, Josh, too, of- You guys love Europe, too, but the question I think most investors ask is: Europe? Really?
Josh:	00:18:45	A key distinction is both of us are concentrated, with varying degrees of concentration. We're at 20 or fewer investments in a

portfolio and can even go tighter than that. The top down, what's the index priced at, or what is your priced at versus what the S&P 500 is priced at, doesn't really matter that much to our style of investing. What matters is inefficiency, volatility, change, corporate actions, things happening, and less competition is great. I 100% agree with the view that the further you get from here, so to speak, or from New York, the less competition there is, whether it's in Europe or further into Asia. The further afield you are, there's more inefficiency and more opportunity.

Josh:	00:19:29	We don't look at the world from a top down perspective. We're all bottom up on setting our intrinsic values. We have the list of a thousand companies in Europe, of a thousand companies in Asia, of 100 companies in the Americas and Africa ex the United States. And in the U.S. there's another 2000-ish companies that are on the list. We are following these from the bottom up. We aggregate our intrinsic value of all these companies, the U.S. is the most expensive. And then Europe is the most interesting, and Asia/Pacific broadly is the cheapest. Does that mean that from a top down perspective Germany should be at X? I don't know. All I know is that we find lots of opportunity from the bottom up and there is gigantic change happening, as David alluded to in Europe. So stakeholders in the past, if shareholders are number four or five on the list, and the state was here and the employees were here, shareholders are moving up the list. In different countries and different companies, it's happening at different paces, but it's different than it was ten years ago. That change by itself is throwing up all kinds of opportunity.
Josh:	00:20:29	I couldn't help but think when you were talking about how competition has changed of one of our investments from the last five years in adidas. Part of the reason that adidas was so cheap was that management and the board of adidas were more focused on Puma across town in Herzogenaurach, rural Bavaria, they weren't looking at Nike or Under Armour. Truly, if you talk to management, they benchmarked themselves against the guys they saw at the local, not against their best in class global competition. It was time for that to change, and that's what created a lot of value unlocking and margin unlocking potential around adidas. Ten years ago, it probably wouldn't have happened.
Greg:	00:21:09	How do you- Maybe this is a question for you, Dave-
David:	00:21:11	Can I just pile onto that?
Greg:	00:21:12	Yeah, absolutely. Go ahead.

David:	00:21:13	I'm going to pile onto you piling onto me.
Josh:	00:21:15	Greg, you're done. You're out! (Laughs)
David:	00:21:22	It's really true. The fact is, we're bottom up. We have to be aware of what's happening in the big picture. Because of this global competitive environment, you have to be more globally aware. It's just another nugget of data in the data set that you're looking at, and from the bottom up you realize there's a higher level of sophistication, and it is because enough is enough. These companies can't make excuses anymore. They can't talk about tomorrow forever. It is adidas saying Puma, which- It was two brothers who started it who hated each other and went their separate way. Whatever it happens to be.
David:	00:22:06	You know, you go back to the beginning when I went to Sweden, you'd have just a handful of large caps. You'd have Astra, back then it was Astra not AstraZeneca, and you'd see that people would benchmark Astra against Ericsson electronics because those were the two large caps. Well why don't you benchmark Astra against the global pharmaceutical companies? Why would we do that? Then we'd have to cover those stocks. That was a long time ago. People do realize they have to be more global. What we learned quickly was because they were so local in how they invested and thought and benchmarked, we could make an enormous amount of money because once you did it globally, you had actually very cheap, undervalued stocks that may have looked expensive relative to a car company, when they benchmarked it against a car company, but against another- They were selling non-core assets, they were making changes, they were peeling out value all over the place.
David:	00:23:01	This wave of a different kind of perception from the company came out of necessity because of competition. It's there now, and that's the way it is, but I would tell you Europe, before we get to Asia, if we're going to get there, is-
Greg:	00:23:20	We've got till four today. (Laughs)
David:	00:23:22	4:00 AM, right?
David:	00:23:26	So, in Europe what you really have is- I see these management teams where they, I like to say they get drunk on restructuring. They do it, they start to see the stock improve, they see their earnings improve, and they say “Wait, we can cut even more. We can find more ways. We can streamline. Who are these three layers of management that we don't even know what they're adding here?” You just find more and more of this happening

and the market will reward focus, so as conglomerates de-conglomerate and they peel pieces out, they get much higher valuations. I'm not advocating that every conglomerate break up. We actually like certain kinds of conglomerates. The fact is, when they peel out pieces, the market really- Because the other side of the market, the sell side, everybody's a specialist. You're only this sliver, only this sliver. You're a farmer, but you're only this part a farmer. You're auto. You're auto parts.

David:	00:24:23	The coverage, what's going to help push it, not just the investors on the buy side, it's this other push as well, it gets more notoriety, more notice as there is more focus because there's more people pushing.
Greg:	00:24:37	But how do you- So, say it's the next step-
David:	00:24:39	We're not counting on that. We want to buy it, if it's cheap, just on its own merits and it's a self-contained opportunity to get value out.
Greg:	00:24:46	You're engaging with management, right? And you guys are having active dialogue, and foreigners love when a bunch of Americans come over and tell them what to do. How do you do that?
David:	00:24:58	(laughing) If by love you mean hate.
Greg:	00:25:00	How do you do that?
Josh:	00:25:02	Maybe I can circle back to Asia since I got off that, because part of our learnings over the last two decades of how different geographies and different cultures require different treatment, is that we're not saying that level of roll-up-your-sleeves engagement in Asia is not doable, but we've discovered for us it's very low return on time. And very little return on resource. If others are able to bring that about, that's great. We're happy to watch and maybe even piggyback on them doing that work, right? But we're not going to lead the charge on a Japanese company on changing. And this is speaking from experience. We've done it, and the returns versus the effort were just not there.
Josh:	00:25:40	What we have found broadly, and whenever you say Asia, it’s such a gross over-generalization, but for the sake of brevity, because apparently that's important, that we're going to look more for internal changes, internal catalysts where something has shifted. That could be a generational change in the company, where a Hong Kong conglomerate has been run by a 75 or 80-

		year-old who founded it, and now the next generation is taking over, and they have very different views of the world, and they're going to unlock value. I think of Cheung Kong in that regard, where we've owned it for almost ten years off and on and it's split into two, and they've bought things and they've sold things and the next generation is creating a lot of value.
Josh:	00:26:17	Or it could be that in Japan, there's kind of a top down impetus to say, actually you do need to focus on returns on capital and margins? We've seen this kind of three times over the last 20 years, so we're still not certain that this is going to stick, as far as a durable, cultural change in Japan, but we're more optimistic now than we would have been when Abe first said, "Here's the third era."
Josh:	00:26:37	And so in Japan, there's a huge amount of low-hanging fruit. Where if we say, benchmark this versus this global company, and it should be two or three times higher as far as total market value if they would only get on top of that. And as that culture starts to shift, we'll happily surf along with those opportunities. In a lot of these countries we've found that it's hard to predict alignment of interests with agent management teams, perhaps the way you're comfortable with doing that in the UK or the U.S., so we really focus on big ownership. That can often be founders, family control, someone who's built up significant personal interest. They don't necessarily need to own – though we love it if they do - 40% of the company, but if it's a huge part of their personal net worth, and we know they're aligned with us and their outlook, that gives you a much higher degree of certainty of the way they're going to behave over the coming years. So, in Asia we really focus on partnering with big owners, big owner/operators, particularly when there's some sort of generational change or other sort of shift that's going to unlock some of that value.
Greg:	00:27:32	And David, we were talking earlier and you had some great examples of how you were able to get access when nobody else has been able to get access. How do you do that?
David:	00:27:43	Well, we have done activism in Europe, I've done proxy fights in Germany. I'm really not interested in doing that anymore. It really wastes a lot of time. We've actually found that there's a number of situations where we actually have gone anti-activist. We help the company fend off the activists. You want to tighten your relationship with a company, you do that. So when you have a family controlled or individual controlled business, it's very hard because in many cases they don't want to meet investors. That's what we have people at the company for. And so it takes a while

		to break through. Once you can break through, you try to turn the first meeting into a second, a third, a tenth. It takes years. It doesn't mean you're ever going to buy their stock, but they become a great part of your network as you're looking at other companies controlled by other groups in their country or in Europe overall, and you can learn a lot from them.
David:	00:28:40	We've built an extensive network of these families going back, really to the beginning. I bring up Sweden as the first country that I ever discovered, when I was 26.
Greg:	00:28:50	Like Christopher Columbus.
David:	00:28:51	Yes. 1991, I got a passport, I went to Sweden. Prior to that I had never been anywhere. I've told a few of you guys this. Even when I was a kid, my dad took us to Niagara Falls, we stayed on the New York side. We had never been out of the United States. I had never been anywhere.
David:	00:29:09	And I got a passport and I went to Sweden, and it coincided with a financial crisis there. The banks were bust. And what I quickly realized was, look at all these companies that have somebody behind it. The Wallenbergs, the Stenbecks, the guys from H&M, the Lungden family. It didn't matter. There were just so many of these, and I just started calling on them, and once I could get meetings, I realized, this is where I have to start and get to know them. Once you come over and over and over and over and over, I mean at one point I had a million miles on SAS. That's just inordinate. They used to send me a salmon every Christmas. (laughs) But then United started going to Sweden so, the salmon stopped. I had to switch.
David:	00:29:55	The point is, you make these connections, but we're here to make money for our clients. We're not just here to make friends. The fact is, how do I utilize that? We're not looking for non-public information. We're betting on people. We say it all the time: we're not betting just on the horses. We're betting on the jockeys. That's these families, these chairmen, these CEOs, so we have to get to know who they are.
David:	00:30:21	To really just wrap it up, we're not betting on Europe. I'll cut to the chase here. We're not actually- You know we have a lot of money in Europe, we're betting on *companies* in Europe. It's from the bottom up. The global players have huge presence, they have scale. If you're a German company and you're doing business in two or three countries in Europe, you speak English. That's the language of business, of international business. You see it happening all the time, and you want to go where there's

opportunity and stress and strain. And you can get in there, you can build relationships, but you build them by deeds. Showing up, sharing your own thoughts.

Greg: 00:31:04 It's interesting. So, these guys have been in some similar names over the years and have traded notes, have talked on the phone before. This morning when we met for breakfast, it's the first time they've actually met in person, which is kind of cool. So, you're seeing this experiment live. We'll see how the rest of it goes.

Greg: 00:31:22 Now, you do have some similar names, even in your current portfolio. One that is cultivated in your holdings is EXOR, so Josh, why do you own it? And maybe we'll hear if David has a different view on that.

Josh: 00:31:35 Well that's one that fits within the template of what we've talked about a couple different times today. There's no “activism” at EXOR. You're not going to go in and tell them what to do-

Greg: 00:31:46 And what is EXOR, for those in the audience?

Josh: 00:31:48 EXOR is the Agnelli family holding vehicle in Italy that was the combination of two different holding companies about a little over ten years ago, where there was a generational change element, there was a new people/new philosophy element.

Josh: 00:32:06 So John Elkann is the grandson of Gianni Agnelli, and he was selected from an early age as the heir apparent to run this business. I mean, as a teen he was on the floor of one of the Fiat factories in the UK, he was on the board of Fiat Chrysler in his early 20s while it was only Fiat at the time. With some tragic events in his family, he was elevated to leadership at a very early age. We discovered it ourselves, at least realized what was going on, in mid/early 2012, reading the annual letters that John was writing and the philosophy that he was talking about putting into play was *exactly* in line, I mean we could have written the letters, they were so aligned with our way of thinking.

Josh: 00:32:52 The observation earlier that sometimes you don't want a conglomerate to break up? Sometimes in Europe we've been involved in things where, yeah, sell this, spin this, focus in here. That's the best value. But there are a few situations where you've got a great capital allocator and operating structure sitting at the top of a stack that can create more value, just like we're all here with Berkshire Hathaway as your archetype example of that. No one would ever tell them to break that up to release more value, right? Because there's so much synergy. Or at least they wouldn't

		tell Mr. Buffett to do that. Maybe ten years from now, I don't know.
Josh:	00:33:23	In Europe, similarly, there are situations where, and EXOR is an example of that, a great capital allocator can move capital back and forth between different options within the organization, can buy back stock when it's cheap because frequently these things trade at a discount, so you'd use NAV and look through earnings per share that way. And then also can put a little bit of leverage on it, right? Not a small piece of the returns that companies like Berkshire or Fairfax or Brookfield or any of these that we would all hold up as great examples of this have generated is with other people's money - be it flow from insurance, be it leverage debt from banks and bond holders or be it third party fund vehicles, like with a Brookfield.
Josh:	00:34:01	EXOR is an example of all those things wrapped up into one. And what changed was somebody taking the mantle of leadership there who cared about value per share, but also knew humbly where his expertise was and brought in great operating management, most personified by Sergio Marchionne and the amazing work that he did over a decade at those entities to empower and step back and let them create a lot of value.
Josh:	00:34:24	We first invested in EXOR in 2012. There were three different share classes where you could even get a triple discount because you were buying the saver shares at the time before they got collapsed into the ordinary shares. And the value has compounded and compounded and compounded about 20% a year and is one of our largest positions. That's kind of excellent.
Greg:	00:34:44	Do you agree with all that or do you have anything-
David:	00:34:45	I do, but of course I have a little more to add. Which is just, that's sort of a secret weapon, which is these family-controlled holding companies. There's very few that are real compounding machines like EXOR is. When you find them, you do want to latch on. They're doing all the hard work. Over the years we've seen John Elkann here. He comes here. He's a Buffett believer. But if you ask him what's the difference between you and Buffett, besides 50 years or whatever, he says, “Well I have everything, ultimately everything in my company's for sale. There's a price for everything.” Which is vastly different from Berkshire.
David:	00:35:27	He takes such a value sort of approach, and it's really remarkable. You read his letters, you read the work that he does and his group does on looking at other family-controlled businesses and how they've performed. It's really fantastic the work they've

		done. And as you say, he had Sergio Marchionne and others, and he brings in these phenomenal people and he sort of unleashes them to their talents. He doesn't try to control them. And so it's really fantastic. And he's a young guy. What is he, 40?
Josh:	00:35:58	Forty-two.
David:	00:36:00	Yeah, he's in his forties. So, you have that. In other ones you have generational shifts. But the fact is, when you can latch onto these guys, they're doing all the work. They are the activists. They are the catalysts. They are the value creator. But they really are compounding over time. These can become core in your portfolio where, for us, other things that might be much more transactional, because they are restructuring some changes. Here we have this base of these family compounders that we can just sit on. And we think they're working for us every day of the week.
Greg:	00:36:36	So maybe we'll move to-
David:	00:36:37	Q and A?
Greg:	00:36:40	Yeah, maybe we'll move to just a lightning round real quick for a few questions. Let's go ahead.
Audience Member:	00:36:49	Question is on EXOR. Do you believe that John is going to try to make EXOR into even more of a Berkshire type entity now that he's in the insurance business? And how unique is EXOR in terms of a capital allocator that you believe in because it seems mostly, at least, David, that you think that focus is valuable, so this is the counter example.
Josh:	00:37:17	I'll take the first part, you take the second part?
David:	00:37:18	Sure.
Josh:	00:37:20	So first part is- We were joking this morning about the code with which a management team would communicate and that they will be “pragmatic” because they are going to do what will create the most value per share. And bottom line is, I think John will be pragmatic. He's not going to follow some strategic vision mimicking what has been built here. If that's not what he thinks on a risk adjusted basis is going to create the most value per share. As David alluded to, everything's for sale. If someone came with a phenomenal opportunity or price around PartnerRe, I don't think he would keep it because he had visions of being Berkshire.

Josh:	00:37:58	He's going to be pragmatic and do what's going to create the most value. Does that preclude that it could turn into something more like a Berkshire or a Fairfax or a Markel or something? It could. That's one of the possibilities. That's part of the brilliant free upside optionality of partnering with people who think and act the right way and have the right philosophy is, we don't have to necessarily predict that. He's going to behave in the manner that will create the most value.
David:	00:38:23	I would add, you do have optionality, and it could become an incidental Berkshire, meaning I don't think it's necessarily his goal, but it seems to be going- He's not looking to sell everything, It's just that everything has a price. They're taking the lead in trying to consolidate the auto industry. They're willing to do something with PartnerRe. They used to own Cushman and Wakefield, they got out of it. They owned other assets. They concluded there were better opportunities elsewhere. But they did some remarkable things. They convinced the world that Ferrari was not an auto company. They convinced the world it was a luxury brand. They got luxury brand pricing when they IPO'd it. So it's really phenomenal what they've been able to do. They've bought Chrysler during the financial crisis for really cheap. It's the engine of a lot of the cash flow here today.
Josh:	00:39:12	And I would throw out on the capital allocation, the PartnerRe deal was pretty brilliant. They'd been hanging around the hoop in insurance for years. And we'd been talking to them about reinsurance and had meetings with various re insurers and when that opportunity came up, because remember there was another company that was trying to merge with PartnerRe, but they were calling it a merger because of the egos involved.
David:	00:39:36	It was a hostile deal.
Josh:	00:39:38	It was a hostile deal. And it was at 1.1xbook [value]. Maybe 1xbook, depending on how much excess capital there was. If you'd have been in an auction, these things go for 1.5, 1.6xbook. But because of the structure of the way it had happened and how the egos had pigeonholed them into this corner, EXOR was able to step in and say, well, we can actually take advantage of this, and we can offer you a bit of a better price. And they got it for only 1.1xbook.
Josh:	00:40:01	At the same time that other things transacted within twelve months, at a 30%, 40% higher multiple, the capital allocation is very important. They've got a phenomenal track record of unlocking, but that's a great example, Chrysler was a great example, of proactively allocating capital in very intelligent ways.

David:	00:40:18	And even today they took from their auto business. Magneti Marelli, which is the auto parts business.
Josh:	00:40:24	Great price.
David:	00:40:26	Which the market was not valuing appropriately, that's for sure. They got about seven billion, KKR and others bought it. And so they're finding ways to peel out parts of the business that the market's just not valuing. They don't buy a lot of parts from these guys, they don't have to own the business, and I remember after they bought PartnerRe, I'm like, you like your challenges, but why would you want to buy this thing? This is not a company that needs a lot of restructuring. His phrase was, it was “under managed.” It wasn't poorly managed. That's a phrase we use a lot, under managed. Because under managed companies, when you see them elevate the quality of management, the C-player or the D-player finally leaves, they bring in a B+ or better yet an A or an A+. It doesn't happen overnight. But you see better outcomes come from it.
Greg:	00:41:22	All right, let's get some more questions in.
Audience Member:	00:41:24	We've been coming to this meeting for 20 years. It used to be, we would come for the meeting itself, and now we come for these events. We'll do six or seven of these when we come to town and listen to people like y'all. And David, as you've described, we all are betting on the jockey. We're in the business of allocating capital, of high net worth individuals to jockeys like y'all. And so when you come to Omaha this time of year, you really screen a lot of the 15,000 managers that are out there down to a more manageable group, but even that group's grown over time.
Audience Member:	00:41:57	And so, if we're looking for just a handful of jockeys, what is it, among the group of people that we may run into here, would differentiate the two of y'all?
Greg:	00:42:08	And you can't spend the next 20 minutes doing that. There are other questions.
David:	00:42:12	Just take 18 minutes.
Josh:	00:42:13	Eighteen minutes?
Greg:	00:42:15	Go ahead.
Josh:	00:42:16	Well, we've talked a lot about the table stakes that are required to even approach the table. I would say that once you've got

		those table stakes, our differentiating factors are 40 years of network building, 20 years actively on the ground outside of the United States, and developing those Rolodexes of who to call to help evaluate business quality, people quality, opportunity set, which allows you to identify where there's going to be a change. Or at least with a higher probability where something's changing for the better. And also in certain situations allows you to credibly nudge along those changes in constructive ways.
Josh:	00:42:53	I'd say the network and 40-year history of doing that is a hard to replicate factor that you can't just snap your fingers and do.
David:	00:43:04	What I would add is that the reality is, we do something that we believe is different because we do focus on catalysts and change, but also this fixation on who are the stewards of the capital. I do think one of the things that we bring to the table is an amazing network of relationships around the world. It's not just my relationships. I think it's so critical to be able to hand that, grow your team, widen it out, push your team to have their own networks. The greatest thing Michael Price, one of the many things that I learned from him, is when I said, "Oh, you know that guy. Could you call him? I want to understand a certain industry better." "David, that's my relationship. Go build your own."
David:	00:43:51	That was really great advice because I had to go build my relationships with others, and I pushed myself to do it. I do the same with my team. If I have a big network and they have networks, the leverage effect on the network, of families, of people that control businesses or industries or segments, it's just this leverage effect of knowledge. It's incredible. But the key is that it shouldn't only be in one brain. So you have to push to broaden it out so you can have more people adding value to the core. I think if it's all in one head, it's a huge risk. Michael Price pushed us to do it, me and other guys, I'm doing the same with my team.
David:	00:44:32	It's a small team, but I think a small team can have a big impact as we grow our networks, and the fact is, it's taking advantage of that and then offering ourselves to these companies as I said earlier as a sounding board. It actually is a differentiator because we're actually willing to lock ourselves up, be restricted for a short period of time, and try to help them think through some critical issues they have, where most people are just saying just do this, which will just get a quick buck. We're saying no. How do we get a long term lots of bucks out of this.
David:	00:45:07	If you look at our stuff here, our tagline is "Invest like owners." That's our view. We want to think, would we be willing to own

		this whole company if we could? If we wouldn't, why would we own one share? So I think the differentiation comes out of the backgrounds that we have, how we were trained in this industry, for me, for Michael Price, and then having the luxury and wonderful opportunity to work as a partner with Jan Stenbeck, a great visionary, and to learn how he built an empire and take that in. And then utilizing it. I think every one of us in here, we have similar yet complimentary and yet differentiated skills. We cover a whole spectrum here. We don't do exactly the same thing. We've ended up in a few names together, but we also do other things very differently. I might not ever buy some of the stocks that Josh would buy-
Greg:	00:46:03	Like Baidu?
David:	00:46:05	And he may never want to buy something that we love. And that's why there's an opportunity for investors who don't just pick one jockey. But the question is, how do you pick the short list of jockeys?
Greg:	00:46:22	So, invest in both of them.
Josh:	00:46:23	And to put an overlay on that, I would say in this day and age, is that that is one of the most robust to technological disruptions. You mentioned cigar butts earlier? There aren't many cigar butts these days. There's not many just stat arbitrage type of opportunities, particularly in the West. Because if it can be arbitraged away by an algorithm, it probably has been.
Josh:	00:46:40	This is way soft qualitative stuff that's much more robust and durable because that network can't be.
David:	00:46:48	And if I can say the last thing, I promise, on that topic, is that this is an industry that's chock full of sameness. There's how many large cap this? Small cap that? Mid-cap, blah blah blah. SMID/SMAD, whatever you call it. And there's all kind of managers that almost strive to be the same as each other. Right? And the fact is, we don't think about the index. We want to beat it. We want to crush it. Now, we'll have lumps along the way. Look at our numbers. We're out there. We had a bad year last year. All in December. Doesn't matter. It kills the year. It kills all your numbers. We really want to be in a long-term race, and we think the differentiation, you find it at the end of the race, right? You know who really won the race.
David:	00:47:34	But the fact is, it's all these pieces that add up, but we're not striving to be the same as anybody. We just do it because if I was just running my own money, sitting in my same office in Summit,

New Jersey, this is how I would invest. And if I could build a business around exactly the way I would invest my own money, that's the differentiator in my view.

Greg: 00:47:57 All right, so we had a question up front?

David: 00:47:59 Sorry, I'm a blabberer.

Audience member: 00:48:04 Josh, you made a comment early on that European companies are changing the prioritization of stakeholders and that government employees, shareholders, now European companies are beginning to prioritize shareholders higher. That, from my view, seems like a massive cultural, maybe even structural shift in the market, and I'm curious for the names that you own, what's driving that change? Why are companies now beginning to prioritize shareholders higher?

Josh: 00:48:43 So I would first say that's a good addendum there. It's some companies. It's certainly not every company. And that's where more of this bottom-up approach is important to tell. When I think about Asia, if we put the U.S. on this side of the spectrum, and again, gross generalization, Asia on this side is as far as depth of capital markets, capital access. So, a conglomerate plays a much more useful role in different parts of Asia because it provides discipline, structure, governance, accountability and also depth of capital market access if you don't have a deep bond market, for instance.

Josh: 00:49:15 Whereas in the U.S., you've got all these things established. Governance norms, established fixed income markets, access to capital, conglomerates are much less useful. They cost more than they add on average. And Europe is in this process of moving up this line in this direction. And different countries and different industries and different companies are moving at different paces along it, but on average it's progressing along that. So, some of it, I think, is just capital markets' maturity and development and how long this style of capitalism has been embedded in those markets. And then more company specific, it's generally generational change opportunities, where there's been a new management team or new people, or it's a fairly young company so they bring a bit of a different philosophy.

Josh: 00:49:59 So to grossly generalize, I would say, big picture, there's that trend, but you've got to be very careful about saying, ah, Germany's shareholder friendly. Volkswagen loves me, type of thing. It's very nuanced from the bottom up.

David:	00:50:11	We've had no stocks in the UK for six years. None. Zero. The reason is because it's a different type of a market. First of all, a lot of our U.S., global, or international investors start and stop in London and push up all the valuations. There are always one offs and unique opportunities, but we want to go to where there's real change at hand and it is the other markets. Until now. Now you have Brexit. Brexit is scaring people, again, bad headlines, and bad reality depending on what happens. But the fact is that will create real opportunities in all caps, but especially the mid and small with people just bolting out of these. We're finally getting our chance to go there, but the change in the UK happened forever ago, where they went away from these families and it's such a mature market, they went through this two generations ago. It's one of the oldest stock markets out there. And so, it's just a different kind of investing culture.
David:	00:51:15	So going elsewhere where they're doing things, it is, as you say, generational shift and other things going on. The fact is, it is really changing, but the most important thing in my view are these homegrown activists. We haven't really seen in a big way in Japan, Japanese activists. When you're an outsider going in, trying to push, it's very different than if you're an insider working from within.
David:	00:51:45	In Sweden, and in all the Nordics, and now they're moving across Europe, there's a group of activists that are really going across. They've had some major successes and some modest successes and some failures as well. But they're working from within this system. Instead of punching companies in the face, they work to get on the board, they work from the inside out, and it's a different style. You move it to Asia, over time that will start to happen and you'll get people who are going to push for change, but they're not the outsiders. They might have come here for school, but they go home, build a fund, raise money locally, and guess what? You'll see some real differences, and that will create even more opportunities for us to take advantage because we don't want to be activists. But we sure want to take advantage of some of the work that they're going to do. And we can help them by piling on.
Greg:	00:52:37	So maybe one last question if we have one?
Greg:	00:52:38	Last question. Better be a good one.
David:	00:52:47	Come on. Or give us a lob. Give us a lob.
Audience Member:	00:52:51	Just a question in relation to the change you called out in your moving shareholders up the hierarchy of constituencies. Looking

back over the past five or ten years, there are a lot of examples where companies come out, AirBus probably being a good example because it's so big and visible, saying that we're going to benchmark ourselves in that case to Boeing, to global peers, and we care about returns and we care about shareholders. And at the time nobody actually cares or nobody believes in that if you bought Airbus the day of that, analysts say back in 2012 you would have made five times your money. And I'm curious, having seen this happen for five, six, ten years, why people still don't really buy into the story and what the market still misses in some of these leadership changes.

Josh:	00:53:37	So if it's a ten-year process, or fifteen-year process of evolution and we're halfway through it, I think the institutional memory tends to be a little bit longer than that, on average, for the market. And you're right. EADS was a phenomenal opportunity which we actually kicked ourselves a lot for missing. Although we always questioned whether the people actually ticked the box and what the role of the state was at that company, but oh gosh, it was a great returning investment.
Josh:	00:54:06	I think it is just time. Fast forward another five or ten years and there's going to be a little bit more opportunity, but you'll still have exogenous type of events like Brexit that throw up opportunity where, even though that's a very mature, more Anglo-Saxon familiar market, this overlay is throwing up lots of interesting chances. We're spending a load of time in the UK right now.
David:	00:54:27	And I would say, specific to your question, our experience is that investors like to come in after. After the restructuring, after the cleanup, after the change. It's rare that investors really want to come in before, but it's also rare during. You have to make a leap of faith on execution. We have maybe the lowest valuation when something is in the midst of change, but we have execution risk. So, we have to get to know who's driving the transformation. And the fact is, many investors want to come in after. After it's all clear. After it's more simple. That's usually when we're moving on. Because that's where you have, in our view, the biggest risk of all. It's purely an earnings-driven story.
David:	00:55:18	And when they have to sell more of something next year at higher prices than this year, we think that you're just going to have the natural for profit warnings and you don't have the cushion of the asset sales, the transformation, the operational improvements, the financial improvements. You want to know that earnings are just a piece of the whole pie in our view, or the outcome of all these other things. But investors want to come in

after. We see it all the time. You get a window of time to work on it. We don't have to be there before either. We like to get there during. We want to see milestones being hit. The market may not reward them yet, but you want to know that they're actually doing the things that they talk of doing that should create value. It's not just talking, it's doing.

Greg:	00:56:02	That was actually a really good last question, so good stuff. Wanted to thank our hosts, Evermore and Southeastern. It takes a village to put this on, so wanted to thank John and Adam for all the work you guys did to put this on. And also, a round of applause for our speakers because they were awesome.
Greg:	00:56:20	And, as a reminder, you can invest in both!
Gwin:	00:56:25	Thank you to our listeners for tuning in today. And a big thank you to Greg Dowling and David Marcus for joining us in Omaha and for all our clients that were able to be there on the day. We hope that you have enjoyed the discussion, and we look forward to speaking with you again soon on our next podcast.
Gwin:	00:56:41	If you have any questions or have any topics that you'd like to see us cover in future podcasts, then please feel free to reach out to us at podcast@SEasset.com.