

Disclosure Information: Current and future holdings are subject to risk, and past performance is no guarantee of future results. This podcast was recorded in March 2020. This podcast should not be copied, distributed, published or reproduced in whole or in part. Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Securities identified do not represent all the securities purchased, sold or recommended to advisory clients. The views and opinions expressed by the Southeastern Asset Management speaker are their own as of the date of the recording. Any such views are subject to change any time based upon market or other conditions. Southeastern Asset Management disclaims any responsibility to update such views. These views should not be relied on as investment advice and, because investment decisions are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Southeastern Asset Management product. Neither Southeastern Asset management nor the speakers can be held responsible for any direct or incidental loss occurred by applying any of the information presented. Further information regarding the Longleaf Partners Funds, including the Prospectus, as well as performance and holdings information, can be found at [www.southeasternasset.com](http://www.southeasternasset.com). **Please read the Prospectus carefully before investing to learn about the investment objectives, risks, charges and expenses of the Longleaf Partners Funds.** Copyright 2020 Southeastern Asset Management, Inc. All Rights Reserved.

As of December 31, 2019, CenturyLink represented 10.3% of the Longleaf Partners Fund, 9.3% of the Longleaf Partners Small Cap Fund, and 9.0% of the Longleaf Partners Global Fund. EXOR represented 9.0% of the Longleaf Partners Global Fund and 9.6% of the Longleaf Partners International Fund. CNX Resources represented 4.9% of the Longleaf Partners Fund, 4.9% of the Longleaf Partners Small Cap Fund, and 4.9% of the Longleaf Partners Global Fund. The Williams Companies represented 3.6% of the Longleaf Partners Global Fund and 3.7% of the Longleaf Partners Fund. Lanxess represented 5.7% of the Longleaf Partners International Fund and 6.6% of the Longleaf Partners Global Fund. PotlatchDeltic represented 5.1% of the Longleaf Partners Small Cap Fund. As of March 15, 2020, Prosus represented 3.9% of the Longleaf Partners Global Fund and 2.5% of the Longleaf Partners International Fund.

- |       |       |   |
|-------|-------|---|
| Gwin: | 00:05 | 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: | 00:16 | 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: 00:27 I'm Gwin Myerberg, Global Head of Client Relations and Communications, and I'm joined today by the portfolio managers for our five strategies, Mason Hawkins, Staley Cates, Ross Glotzbach, Ken Siazon and Josh Shores.

Gwin: 00:41 We'd like to thank you all for taking time out of what we know is a very busy period for everyone to listen to this podcast. We'd like to start by sending out our thoughts to those of you who have been or will be directly impacted by the COVID-19 virus. Like all of you, we're monitoring the rapidly evolving situation closely, and the health and safety of our employees, their families, our clients and the community around us remain our top priority.

Gwin: 01:06 We've taken precautions to ensure that our team across the globe are fully equipped to work safely and without disruption from home, and our robust BCP systems have allowed us to do so successfully. We remain available by email and phone to address any questions that you may have, and we're working at 100% capacity. Please feel free to reach out.

Gwin: 01:27 This unprecedented situation has resulted in dramatic volatility across global markets. We recognize that we're very much in the middle of things still and that the situation is developing rapidly, minute-by-minute. We thought it was important to communicate with you in real time. We will continue to share updates as the situation develops, as it no doubt will.

Gwin: 01:47 I'd like to start by turning it over to Ross to walk through an update on what the past couple of weeks have looked like for Southeastern from the research perspective, what the team has been focused on and what we're seeing in the portfolios.

Ross: 01:58 Thanks, Gwin. First and foremost, I want to echo your comments from a personal perspective. We are deeply concerned about the human impact. We are doing all we can to ensure everyone's safety here, and we're thinking about everybody here on the team and all of our clients as well.

- Ross: 02:16 From a research perspective, the last few weeks have brought about volatility that we have not seen since the Global Financial Crisis (GFC) over a decade ago. Originally what got this rolling, of course, was the virus driving a lot of fear through all things related to large groups of people and/or travel. Then you had a pile on from energy, from this oil price war that could potentially destabilize a lot of industries and a lot of countries. Then, of course, it always can get to the banks, and people start worrying what kind of bank exposure do all of these industries impact. Zero percent interest rates, which are now here in the US as well, further leads to bank profitability questions and leads to banks trading well under book value, which always spooks the market.
- Ross: 03:19 You see this in the volatility index, the VIX, trading at very, very high levels, some of the highest levels it's ever seen. This is what's happening when fear starts overtaking markets.
- Ross: 03:33 With this increased volatility has come extremely volatile returns with several down days with big declines, the likes of which we haven't seen since Black Monday. Then there will be big comeback days that we haven't seen in a long time either.
- Ross: 03:51 Our portfolios have not been immune to this price volatility, and as the stewards of your capital and the largest shareholders in our funds, we are not pleased with our year-to-date performance because we focus on absolute returns, as we often talk about.
- Ross: 04:06 We know it is extremely uncomfortable and that it can be hard to remain convicted. However, we have to point out a few things about why we remain highly confident and believe that the portfolios are well positioned for strong future outperformance coming out of this.
- Ross: 04:22 Looking back at our history, pay off patterns following large downturns can be quick and sizable. In the handful of prior periods where we've seen similar levels of absolute or relative underperformance - we look back to the late 1990s, early 2000s, the 9/11 to 2003 period, GFC, and even 2015 - our absolute and relative outperformance over the

12+ months following those low points have been dramatic.

- Ross: 04:55 Another important factor is people also say, "I'm going to sit this one out for a while, and I will just come in once I'm feeling better." Studies have shown that just missing even a handful of the biggest recovery days, historically looking back as far as the data goes, can dramatically impair your long-term performance.
- Ross: 05:17 It's hard to call a bottom. It is better to be invested through the worst parts in great companies with great people. Again, we have charts we can share on this.
- Ross: 05:26 We are doing what we do. We've lived through seven different bear markets already in our 45-year history, and we are not panicking. We are sticking to our discipline. We are taking advantage of these opportunities being presented by this extreme price dislocation. As we've written about previously, because this overriding indexing and big quality companies at any price trend had been driving markets for so long before this, we came into this with much more cash than usual. That's been a good thing as we have been putting it to work.
- Ross: 06:03 We are more fully invested outside of the US. We've moved a little slower in the US, but we are continuing to go down the list every day.
- Ross: 06:14 We're re-underwriting every company in the portfolio. To that re-underwriting, one interesting analysis that we've done recently is we looked at where the publicly traded debt of all of our investee companies is trading currently. It's actually quite reassuring in that there's a lot of mid-single digit or better yields in there, very few discounts to par and lots of premiums to par. We can tell you that that analysis looked very different in '08, '09 for a lot of our companies where there were severe discounts on the debt, as well as the equity, which always makes you a little concerned about what the bond market is telling you.
- Ross: 06:53 We don't have that today yet. Of course, it could change, but we're already pretty deep into this panic and by and large this is a good "quality" indicator of the individual

companies in our portfolio. We're taking steps where possible to upgrade the quality and the margin of safety of the portfolio. P/Vs of all portfolios across all five strategies today are in the 40s, and that's a level that's only been seen in '08, '09, since we started tracking that.

Gwin: 07:25 Ross, that's a really great point. Mason, I'd love to turn it over to you to hear your perspective on how this compares to prior periods. As Ross said, we've lived through seven different bear markets in the 45 years at Southeastern. Many today are comparing what we're seeing right now to the GFC in '08, '09. I'd love to hear your thoughts on if today feels similar, what's different, or if another period is maybe a better comparison.

Mason: 07:52 Well, Gwin, I think that the commonality of all bear markets starts with the correction of some excess. In this case, I think the bear market is correcting an extreme amount of bullishness in various segments of our economy, our society, our markets.

Mason: 08:17 I think you need to just be mindful that correction of those expectations and those excesses is a good thing if you're a long-term investor because it dislocates the market expectations. It highlights risk to those that get their clue from market prices, as opposed to appraisals and economic values. Even though this one feels extreme, I think that many of the excesses of the prior couple of years or so will be addressed. And just as '07, '08 addressed the excesses of speculative real estate investing, the same may be true this time in terms of redefining what a "unicorn" is or what might or might not be a success in the venture capital world or some of these highly leveraged private equity deals.

Mason: 09:23 I'm not seeing a lot of attention placed on all of that. It's more being placed on those things that are quotable and tradable. Again, it should set the table for good economic opportunities for sensible and disciplined long-term investors.

Gwin: 09:43 Mason, on a previous podcast about 18 months ago, we were talking about whether or not value investing was dead, and you drew a parallel to the environment back

then to being similar to a bit of a combination between the Nifty 50 and the late 90s. I realize that we're very early into this and a lot is still unknown, but would you compare the feeling of the volatility we've seen and the movement we've seen here recently to any specific period?

Mason: 10:16 There are analogous things to the early 1970s when there was a new tech paradigm, in companies like Memorex and Telex imploded and went to zero. There was this consensus and senseless belief that you could pay anything for a great company, and you'd be okay over time. It evolved into this thing called the Nifty 50, as you referenced, with a couple of the lead banks pushing that concept or that false belief that you could just throw money into these 50 companies and end up with a good result. First and foremost, some of them weren't great. Secondly, those that were, declined 80 or 90%. Companies like Avon, Simplicity Pattern, Sears, Kmart, Burrows, Digital Equipment and Tambrands and whatnot, a lot of them went away as businesses. Yet they were preferred as *the thing* to own and throw money equally into the 50 companies and that would give you a good outcome.

Mason: 11:34 That's not unlike these acronyms that got thrown out this last cycle, whether they're FANGs [Facebook, Amazon, Netflix, Alphabet (Google)] or whatnot. It's true that many of those companies are viable, great, long-term businesses. What you pay for them is another matter entirely. Because they were big and great and had dominated indices, they got most of the capital flows, because they had been going up and people put money into things have been going up because they've been going up, not for other discipline investment criteria. We think that a lot got ignored in that last decade. Businesses that are viable in terms of their business, competitive advantages, etc., those businesses are being punished today even more, so there is a subset or a universe of investment opportunity for the next decade that is pretty compelling.

Gwin: 12:47 Staley, are there any comparisons that you would make as well to '08, '09 or other periods and what you think may be different today?

Staley: 12:57 I'll start with the differences. Part of this is amazingly obvious as to be useless. Where this all started, with this health situation leading to all things travel and entertainment, is of course different than in the GFC, which came through the financial sector, through housing and finance and the banks and all that. Our on-the-ground work is different in that the bizarre type decisions these executives would never think they'd be making are coming from the travel side, the entertainment side, all those related issues versus in the crash when we would talk to bank executives or CFOs, it was things about trapped cash, money market funds gone bad, locked up liquidity, a visceral panic about the actual financial system, which we not only saw headlines about, we were hearing that real-time from CFOs and financial executives.

Staley: 14:02 That part is very different. This has the potential to look amazingly wrong later, and we're monitoring this every minute. At this point, the bank situation is very different in a better way. The bank executives are not as panicked. They're not seeing anything like what they saw in GFC, nor are we from the CFOs. All this is so minute-to-minute, that's foremost in our minds as analysts is watching the liquidity barometers, banks, all that side of it.

Staley: 14:33 Before all this stuff started, there was the whole active versus passive and value versus growth. We were submitting there was a huge valuation difference in the typical index name versus some of the rifle shot special situations we put our money into. What's interesting this time versus GFC is we reported in the GFC that price-to-values had gotten to insane levels, you know, 35- 40% kind of price-to-values.

Staley: 15:10 We see the same thing here on average. Again, I'm not going to do a specific number, because this moves every minute, but the difference is in price-to-free cash flow multiples. Because this value versus growth thing hadn't really changed since this started, these are very similar declines for a lot of similar assets and index leaders. We're now at a situation where we may report a 35-40% price-to-value but we'd be around mid-single digit type price-to-free cash flow multiples, which is incredibly important on the go forward, to Mason's last point. In a minute we will

talk about sustainability of those cash flows. Even with badly deferred sets of cash flows, that is way attractive, and it's way different against the index compared to GFC.

- Staley: 16:06 Then flipping very quickly to similarities, we talked to tons of peers, clients and endowments that got so panicked in GFC, they went to cash at the wrong time. They would watch it; they would feel panicked. They'd say, "We're moving a lot to cash, and we wish we were all in cash." That did not prove to be the wise long-term thing to do, but it was very understandable. We are feeling some of that now, I wouldn't say to the same degree, but you start to hear that, and perversely, you get a little more actually comforted, but just when we're talking similarities and differences, I would say that's a little bit of a light similarity.
- Gwin: 16:47 That is probably a great point to circle back and talk about today and to get into a little bit more detail on how we expect COVID-19 to impact our companies, how the team are looking at that, how we're adjusting our appraisal values.
- Mason: 17:02 It's important and mindful for our audience to understand the math of a couple of quarters of earnings going away. If you were a company selling for 10 times free cash flow, and you've modeled the value of that company, and you eliminate two quarters of free cash generation in your spreadsheet and you bring your appraisal back, it hits your appraisal by about 5% in round figures. I think that needs to be kept in mind as you see these markets dislocate, and what it means in terms of your improving investment price-to-value on a go-in basis.
- Ross: 18:08 We are going down the list of every company we own, re-underwriting the appraisal for each to determine if we're looking at two to four plus quarters of deferred revenues, which are truly deferred and not lost. Something like that could result in the kind of mid-single digit case Mason talked about. Sometimes it can be more. Sometimes it could get up into the low double-digits, if potentially there are losses. In the meantime, we want to be as conservative as we can there. Those are the kinds that we can just take the hit and live with. What we want to be on the lookout for are permanent value impairments, permanent changes



to businesses. When we find those, and those are much rarer cases, those are the things we want to avoid. Those are the kinds of things that we want to swap out of and do a higher quality situation, if possible. Those will be decisions that we will continue to make in the days to come.

Mason: 19:00 It's very difficult to glean the exact amount of maximum bearishness or as John Templeton might've said, "the point of maximum pessimism." We are specifically focused on each individual opportunity, each company within the portfolios, and those that are on our wish list that might be more compelling than those that we own. Our minute-to-minute attention is on those specific opportunities and the opportunity to improve our relative positions within these funds of ours.

Ross: 19:38 I think this is a different impact for each one of these companies. It is interesting to us when we look across some of our top holdings. We see a CenturyLink where this crisis has shown everyone the growing value of broadband, and fiber especially, which is what the value of that company is built on. Then you have a company like EXOR - it's paradoxically in the eye of the storm, but they just announced this incredible deal to sell their largest business, PartnerRe, for a very good price, much more than they paid for it. That's just an example of how these companies, even when you would think all is just total crisis mode, are still able to go on offense.

Josh: 20:30 I would jump in on EXOR and note that times of panic are when the proverbial \$500 bills are sitting on the sidewalk. And EXOR today is one of those phenomenal examples of a company that is being *massively* discounted because it happens to have a listing in Italy still, even though its primary is in the Netherlands. The bloodbath correlation of one general trading decline in all Italian indices has pulled EXOR and its constituents down with it, despite the two large deals that John Elkann and team have put together and announced over the last month, the biggest being the sale of PartnerRe to Covea, and second, the Fiat Chrysler deal, where they're going to merge with Peugeot. The cash that's going to be released by those two deals is substantially greater than the current market cap of EXOR.

Josh: 21:29 Today at market, you are paying less than what the cash balance will be after those deals close, and getting Case New Holland, the new Fiat Chrysler, *The Economist*, Juventus and Ferrari control stakes for free. Those types of opportunities for people who have liquidity only come around every now and then and are phenomenal ones. We are aware that there's some potential for either of those deals to be disrupted in this sort of environment. We take comfort from the fact that both counterparties are extraordinarily well cushioned and prepared to close the deal, even if it takes weeks or months longer than we would have been anticipating two months ago.

Gwin: 22:12 Staley, you talked a little bit about some of the differences between now and '08, '09, but back then, we did see permanent value impairment to a number of our companies. Why do you not expect to see more of that now? Or is that yet unknown?

Staley: 22:26 It starts with trying to learn from the lessons at that point of being even more careful, even more cautious, even more paranoid and realizing that in the many categories of knowing what we don't know, being doctors and scientists is right up there. So not making any forecasts about the unforecastable and trying to take the worst imaginable cases of the current extrapolated risks and feeling like we're protected against that. To me, it's best to give an example of durability of cash flows. One thing on the International side and then the Global side would be Prosus, which is tied to Tencent. Tencent has a lot of WeChat users, actually 1.1 billion users that, if anything, are on their phones way more per day. The more they are isolated, the more they are using it.

Staley: 23:26 This is the kind of durable cash flow that, even if we do extrapolate some of the worst-case fears, we don't see those cash flow streams going away. Another one would be in the US. We've added to our position in Williams, which if we're going to be plugging in these devices and working remote, we're going to burn up some natural gas and electricity, and these molecules are going to move, regardless of the gas price. Even when we try to discount them heavily, to Mason's point about even with a couple of quarters of cash flow going away, we don't think these

long-term cash flows go away. Last thing I would say on this, it also becomes even more paramount to see insider buying and/or share repurchases because we may submit from the outside that these are durable cash flows. Those insiders who see that even better, they'd better agree, and we'd better see that in the form of action. For those companies that we are adding to or holding with confidence, including all the ones we're talking about today, we're seeing that, and if we don't see it, it gets to what Ross talked about, we may have to do some upgrading or portfolio changes that we wouldn't have thought about before this.

- Ross: 24:40 One thing I would add is to some of those where you look down the portfolio and say, "Okay, these might have some risks or some volatility around them," we would point to something like a CNX Resources that is essentially 100% hedged on the top line this year. Just last week they announced an asset-backed financing at 6-6.5% effectively for seven to eight years when their debt trades in the market at a very high-teens yield. This company is just an example of how some of those, if you were just re-running a chart from '08, '09, could look scary, but they've preemptively prepared for a moment like this.
- Gwin: 25:28 We've talked at a high level, but I'd like to get in a little bit more to hear the perspective of everyone from the different global offices on how your assessment of the situation has varied. Ken, can we start with you on the ground in Singapore and having lived through SARS and now right in the middle of it there. Can you talk about the situation on the ground and then what you're seeing in terms of the portfolio and outlook?
- Ken: 25:56 The one big difference with SARS was that SARS was pretty much a, let's call it a six-month event, it really never spread as fast as this current coronavirus did. I would say it was pretty much under control in a few months in 2003. As we all know, this thing has spread around the world. The quarter started off fine even though we started hearing about cases of coronavirus in January. I think the capital markets really started getting shaky more in February, rather than January. And as Staley mentioned, the stuff that got cheap was your typical transportation, leisure, travel-

related stocks, hotels, travel agencies and so forth and so on. Since the Chinese buyer was essentially locked up and not allowed to travel, consumer companies that sell a number of these services to travel retail were hit.

Ken: 27:14 With the collapse of oil prices, we've also seen a number of oil and gas companies, not just in Asia but worldwide, de-rate. In Asia we've seen the big winners, as we can expect, are the health-related companies, the medical technology guys, the rubber glove makers, and so forth and so on.

Ken: 27:40 What did we do in the last three months? Rather than buying the most beaten up stocks, of which there are a ton in Asia, and now there are a ton worldwide, we bought companies where we were most confident of that long-term competitive advantage a la Tencent via Prosus, where we thought that the earnings growth would be delayed at worst rather than impaired. As a result, I don't think we bought the cheapest businesses this time around. Instead, we've reallocated our capital to more of the businesses where we feel confident that they will continue compounding because of the strength of their business.

Ken: 28:35 Prosus via Tencent is one. In the Asia Pacific portfolio, we've actually also added two online travel agencies. For example, Trip.com that we initiated in Q4, we added more to that. Trip.com dominates China's high-end hotel business, with about 60% Online Travel Agency (OTA) share there. So that space, the OTA space in China, has become a significant portion of our portfolio. In Asia, we have been adding to our top positions. Macau was actually shut down by the government for two weeks and they're open again.

Ken: 29:19 However, they're still operating at a low level because the Chinese government has not granted individual visit or group tour visas yet. I think Macau is going to be a beneficiary of not only the transport and infrastructure that continues to be invested there, but the fact that Macau is open for business, and they're friendly to Chinese, mainly Chinese, visitors, and so we believe that as China is now getting back to work and restarting their economy, that it will be not a very long time from now that they will start to see a relaxation of the visas as it relates to travel in Macau.

Ken: 30:19 Beyond Asia and also in the International strategy, we increased our investment in Richemont, which derives the majority of revenue from Asian customers and has de-rated further given that the Chinese government has banned basically all non-essential travel. So Richemont, Trip.com, Prosus, Tencent, they're all quality franchises as well. We think that the demand for their goods or services will continue to compound over the long term, driven by a secular consumption upgrade trend in Asia. Hopefully that gives you a little bit of color as to where we've positioned or seen the opportunities and how we're thinking about allocating capital, whether in Asia or in International portfolios.

Gwin: 31:14 Josh, can you talk about what you're seeing in Europe?

Josh: 31:18 We view Europe as falling between the Asian leaders that we've been tracking since February, as Ken discussed, and having intense conversations about the progression of COVID-19 in that geography, but it is still a leading indicator on North America. We've seen a heavy concentration, as everybody knows just from reading the headlines, particularly in Italy and the impact of that on the indices, as we were talking earlier about what this feels like. To me, from a Mediterranean/European point of view, it harkens back to the 2010 European debt crisis post the GFC, where everything was cratering in lockstep in the Mediterranean region of Europe. There was no differentiation at all between very high-quality companies that were well capitalized with great businesses and good people and everything else. Today you're seeing that same dynamic at play as evidenced by the EXOR share price, as evidenced by some other opportunities that we're seeing pop up in that part of the world.

Josh: 32:34 The similarities are striking in a full-on index-driven, ETF-driven, reflexive-driven dumping world, all correlations line up, and that provides great opportunity and discounts for the well-capitalized company. What we're seeing with our dialogue on European management teams, which has only increased in the last two-three weeks, is share repurchases, strong awareness of keeping well-capitalized balance sheets, but at the same time taking advantage of low equity prices. Our bigger investments in Europe are all

following that path. LANXESS, for example, just announced a 10% share repurchase and management were buying on the inside. Back to the evidence, some of the indicators that we like to see to confirm our perspective from the outside when insiders are putting their money directly in play, and then when the company is shrinking the share count opportunistically, that's a great sign that insiders are seeing the same opportunity and dynamics that we as outside shareholders are observing. That dynamic is encouraging at LANXESS.

- Josh: 33:47 That dynamic is encouraging at other companies where we are involved in Europe and the opportunity to communicate more directly. It's been interesting to see over the last couple of weeks, there's been even more flow of communication between CEOs, CFOs, and board members in Europe and in the Southeastern side than you would see normally because they're looking for perspective and encouragement the same way that any people are in this uncertain time. That's an opportunity to grow our network, to build relationships, to encourage them to continue to do the right thing and hold the line, and we will continue to do that. Europe is the cheapest it has been in my last decade-plus of focusing more on that part of the world. It's remarkable the opportunity set that is opening up across the continent.
- Gwin: 34:43 And, Ross, can you talk about the US and then also, to your point there, Josh, talk about what we're hearing from our company management teams and how this is impacting our ability to engage.
- Ross: 34:54 We've definitely been stepping up the talks, be it specific ideas to grow and realize value per share or just check ins on the current situation. It's been very fast developing. The Americas are going last in this, so we do have a good path to follow. A lot of these companies have really taken action into their own hands and started shutting down things themselves. But it varies by the kinds of industries that you talk to. You talk to the hospitality CEOs, and I've heard the word "shocked" by how fast this has happened. They are reacting quickly, doing what they can.

Ross: 35:36 On the other hand, on Friday I was talking to PotlatchDeltic, which is a holding in our Small-Cap Fund, and they invest in growing trees. That business over the long run has not changed specifically, but they're going to wait and see how this impacts housing. They haven't seen an impact yet, but let's see what happens. The range is wide. It does speak to our ability to be a good long-term partner. People want to talk to somebody now who's not just going to ask them something about tomorrow or yesterday, but rather focus on growing long-term value per share.

Gwin: 36:11 Staley, anything that you would add there from what you've been hearing from management teams that you've talked with as well?

Staley: 36:18 The only thing I'd add is something that bridges back to Ken's talking about the Asian continent, which is US-based companies that have operations everywhere have been telling us that they're just way more back to work in Asia. Various kinds of manufacturers, transportation companies, most of them are telling us that they have their employees back to work there and that factories are back open, and there's just a lot more back in business over there.

Ken: 36:49 That is true. The malls in Singapore are certainly more crowded than I would have expected them to be at this point in time.

Gwin: 36:59 So, you've all made some references to this about new opportunities coming out of the environment. You've referenced a few of the new names that we've bought or companies that we've added to, but can you talk a little bit more about those new opportunities we're seeing and how the on-deck list has shifted? We started the year with cash in most of the strategies. What does that look like now, are we holding onto any of that cash, or has that all been put to work?

Ross: 37:25 Well, it varies by portfolio. We came into the year with the least amount of cash in our non-US funds because we thought that that's where multiples and price-to-values were the lowest, where there was the greatest opportunity. As the year has gone on, that cash has been put to work. In

the US, we've also put cash to work. We still have some there. We had written about US Large Cap being the most overvalued part of the market. That's still where we have the most cash today because we've yet to find that great next qualifier to use up our last slug there. We have been doing some upgrading, trading within the portfolio as well, but it's not easy to put the opportunities that have popped up into a simple bucket just like our investing style is not.

Ross: 38:11 We're not rushing headlong into those that are the most impacted, but we're definitely not just trying to buy defensive names either. It's a very case-by-case world where being a bottom up, value-focused business appraiser really matters more than it ever has. That's what we're focused on. We're having a lot of discussions. A lot of devil's advocate work has been flying back and forth over the last week or two, and there's going to be more to come. Overall, we're not sitting here and missing out on this opportunity.

Staley: 38:46 One thing I think is interesting on an industry/percent of GDP item is that, going into this, we did not own any huge money-center banks, big traditional, heavy balance sheet banks. We've talked about that a lot before. We don't like leverage. We don't like stuff you can't understand. Just because those prices get better, does not make them qualitatively more appealing. However, as that group gets crushed, a lot of other financials are coming down with those which more fee-based type things. They're not balance sheet risk type things. So those are interesting. Then also, as our long-term holders know, we've had a lot of success over decades with insurance companies, and we were light in those coming into this. Some of the most blue-chip insurance companies that you can think of have also come down with that group and gotten really interesting.

Josh: 39:43 It's no surprise that the on-deck list has absolutely exploded, and there is a great opportunity and one of the hard things to do but also really exciting things to do in times of more broad-based cheapness is to take a hard look across the portfolios, and upgrade to the absolute best opportunities that we can find. It's never easy to make those decisions between selling something that's cheap



but good for something that's cheap but great. But that's the opportunity set that we're starting to see today, which is an exciting change.

Gwin: 40:20 One of the topics that we've all read about a lot, and we've written about in our own letters, is the ETF and passive craze and money flowing into those strategies. How do you think this impacts that trend, or how would you say that our portfolio compares to the index and our outlook there?

Ross: 40:40 I guess first of all, while this is very short-term painful for all of us, you might need some pain like this to break the mindset that ETFs and indices are just this free lunch that go up forever at a lower cost. That gets to how we think about our valuations and our multiples versus what is in these indices still. I think back to February and March of '09 when we looked at our master lists, and it was about a 60-cent dollar, and our portfolios were in the 30-40-cent range. Well, today we've also got 30-40-cent dollars in our portfolios in aggregate, but the US master list is more like an 80-cent dollar just because of how elevated it was before this and still how much some of those favorites have actually held in there. We don't think that will be the case over the long term. We think this actually could be an opportunity that highlights the value of long-term, active management done properly, which is another reason that we're using this opportunity to upgrade our portfolios as best we can.

Gwin: 41:46 The last question I would ask is we sometimes talk about pounding the table in terms of the opportunities that we're seeing in the portfolio, and we, of course, always look at whether our investment partners are adding, either adding personally or buying back shares. My question to you: are we pounding the table today and/or what are employees doing with their capital?

Ross: 42:13 We are pounding the table today, and it's something that we don't take lightly. If you talk to us, especially about our US portfolios, last year, we wouldn't have been pounding the table to the same degree anywhere near what we are today. We're continuing to pound the table to a greater degree in our non-US portfolios. *Multiple* employees across Southeastern have been adding and will likely continue to

keep adding until we run out of money or the markets start going back up again. That's where we are now. We're right there with our clients, and we think this is a great time to buy more of what we already own.

Ross: 42:56 Just to sum up what we've been talking about and why we're confident, why we're excited, why we keep doing what we're doing. First, we are actively assessing every company we own. We're taking advantage of this price volatility to upgrade the portfolio to even higher quality businesses. Across all of our strategies we've sold a few companies, and we bought more new companies. We've trimmed some that have held up better than we thought or that aren't as strong qualitatively in this new world. We've added to more that we do think are going to make it through this stronger, that we do like owning. One thing that we've talked about recently and written in some of our letters is how we assign a one to five quality score for each business and each people situation at all of our investees. Those moves I just talked about have increased our weighted average quality score across the portfolio, and we think that's further evidence of what we're doing here, helping the long term for all of our clients.

Ross: 44:01 Especially when we look at the top positions across each of these portfolios. Again, companies that we've talked about already, like CenturyLink, like EXOR, those are the ones that we feel most confident in, and we've actually seen great things happening at each of those across the last several months. Another key thing is that the balance sheets of our companies are by and large in a much better position than they were going into 2008. This gives them the ability to both make it through how long this downturn lasts and to go on offense in certain instances. This gets to the importance of good people. We have stepped up our engagement. We're speaking with management, seeing where we can help, getting real-time looks into what is happening. Our management partners are aligned with us. They're focused on building shareholder value.

Josh: 44:53 They have proven track records of doing so, and we're seeing plenty of insider buys and share buybacks across a large part of our portfolio companies. While prices have dropped for all of these stocks that we own, values have

held up much better, and therefore you see this large margin of safety, price-to-values in the forties, sometimes into the thirties, depending on the day. That's what most sets us up for this unpredictable but quick payoff pattern from downturns like we've seen before. We recognize that the situation is still developing and that we are likely to see more short-term volatility. *But* we are confident the companies we own today and the management teams at the helms of them will navigate through this difficult period and come out stronger afterwards, as will Southeastern. Thank you for your partnership, and please don't hesitate to reach out with more.

Gwin:

45:54

Thank you to Mason, Staley, Ross, Ken and Josh for your time today, and thank you to our listeners for tuning into the Price-to-Value Podcast with Southeastern Asset Management. We hope you all keep well and healthy. We look forward to keeping you updated over the next several weeks and months as the situation develops. As always, if you have any questions or would like to share topics you would like to see us cover in future episodes, please email us at [podcast@SEasset.com](mailto:podcast@SEasset.com).