



## Invaluable Insights Webcast

Tuesday, May 12, 2020

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## **PRESENTATION**

### **Operator**

Welcome to the Invaluable Insights webcast. All participants will be in listen only mode. You may submit online questions at any time today, using the window on webcast. Please note, this event is being recorded.

I would now like to turn the discussion over to Ariel Investments head of institutional client and Investor Relations, Jennifer DiGrazia.

### **Jennifer DiGrazia**

Thank you all for taking the time to join us this afternoon. Prior to beginning the discussion today, I must read the following disclosures. Equity investments are affected by market conditions. The intrinsic value of the stocks, in which value portfolios invest, may never be recognized by the broader market. The opinions are expressed, are current, as of May 12<sup>th</sup>, 2020, but they're subject to change.

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### **Mellody Hobson**

At Ariel, we pride ourselves on having a learning culture. In our view, you can never know enough in the investment business. One place where we learn a lot, is from our respective peers. To this point, through the years we've built and maintained a regular dialogue with some of our value investing counterparts. These individuals also happen to be some of the most successful investment managers around. They have an average tenure of 34 years and collectively manage over \$250 billion dollars. In a world where there are a lot of benchmark huggers, they are all truly "active" in their approaches—which is evidenced by the fact that most have active shares around 90%. They also tend to have relatively concentrated portfolios.

Now I have to tell you, we are competitive when it comes to performance, but we read each other's investment letters, and sometimes compare notes on common holdings. Most of all, we root for each other. During the worst of this pandemic, my co-CEO John Rogers and I have called our value investing pals to trade war stories and pick brains. After a series of calls it dawned on me that it would be fun to have a group conversation, but to do so in the open. Hence, this mega webcast. I'm joined by Rupal Bhansali from Ariel, Staley Cates of Southeastern Asset Management, Mario Gabelli of GAMCO Investors, David Herro of Harris Associates, Bill Miller from Miller Value Partners, Dan O'Keefe from Artisan Partners, and John Rogers of Ariel Investments.

Five of these managers—five—Staley, Mario, David, Bill and Dan, have received Morningstar's Fund Manager of the Year designation. David and Dan are two-time winners. And if that's not

impressive enough, David and Bill both have Fund Manager of the Decade designations. Rupal and Mario are both members of the prestigious Barron's Roundtable. All of them have been five-star managers, but Rupal is the only one who has five stars right now. Mario and John are both listed in the World's 99 Greatest Investors Book.

As you can see, they are best of breed. So for the next 90 minutes, I will moderate a discussion that seeks to emulate a conversation that we might have had over dinner if we were not social distancing. Think CNBC's "Squawk Box" crossed with MTV's "Unplugged."

This conversation is totally unscripted, they don't know the questions, and hopefully it will also be unfiltered. and, hopefully, will also be unfiltered. The managers are encouraged to question and challenge each other. Our initial conversation will last for about 60 minutes, and I will include some of the questions that were sent in advance of our discussion For the last 30 minutes, I'll open it up to live questions that must be sent through our chat window. My colleague Jenn DiGrazia will sort those questions and send them to me. Now as moderator I may take the liberty of asking follow ups.

So since we have a big group here and so much to discuss, I will encourage brevity, and not so gently prod if my pals start to get too long-winded. In terms of the conversation, I tend to go from the macro to the micro. First, discussing big picture issues, then industries, then stocks and having somewhat of a face-off along the way.

In order to get the mood of the room, I'm going to start with a speed round. These are yes, or no, or multiple-choice questions. No editorializing. This line of questioning, will help us show where there's agreement, and dissention. So, here we go.

Multiple choice questions, yes or no, no editorializing. And we'll just go round robin. I'll start with Staley, Rupal, David, John, Dan, Bill, then Mario. And then do it again. U.S. recovery. Are we talking about a L, a U, a V, a W, or a nod to John as a Nike board member, a Nike swoosh. Staley.

**Staley Cates**  
Nike Swoosh.

**Melody Hobson**  
Rupal.

**Rupal Bhansali**  
U.

**Melody Hobson**  
U? Okay. David.

**David Herro**  
David votes, U.

**Melody Hobson**  
John.

**John Rogers**  
V.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

U.

**Mellody Hobson**

Bill.

**Bill Miller**

Swoosh.

**Mellody Hobson**

Mario.

**Mario Gabelli**

A W, with a swish at the end of the last (LAUGHTER) squiggle.

**Mellody Hobson**

Okay. Will the U.S. see negative interest rates in any three, in any near term period? Yes or no?  
Staley.

**Staley**

And I don't want to go first every time, but no.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Yes.

**Mellody Hobson**

David.

**David Herro**

No.

**Mellody Hobson**

John.

**John Rogers**

No.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

No.

**Mellody Hobson**

Bill.

**Bill Miller**

No.

**Mellody Hobson**

Mario.

**Mario Gabelli**

No.

**Mellody Hobson**

Okay, I'm gonna skip around the order for Staley's sake. (LAUGHTER) S&P 500 or MSCI index, which will outperform in the next three years? So U.S. stocks or international stocks. Let's go backwards. Mario.

**Mario Gabelli**

U.S.

**Mellody Hobson**

Bill.

**Bill Miller**

U.S.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

U.S.

**Mellody Hobson**

John.

**John Rogers**

U.S.

**Mellody Hobson**

David.

**David Herro**

My bias, international.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

International.

**Mellody Hobson**

Staley.

**Staley Cates**

International

**Mellody Hobson**

Okay. Will the Dow Jones Industrial Average be higher or lower 12 months from now. Dan.

**Dan O'Keefe**

Higher.

**Mellody Hobson**

John.

**John Rogers**

Higher.

**Mellody Hobson**

David.

**David Herro**

Higher.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Lower.

**Mellody Hobson**

Staley

**Staley Cates**

Lower.

**Mellody Hobson**

Mario.

**Mario Gabelli**

Higher.

**Mellody Hobson**

Bill.

**Bill Miller**

Higher.

**Mellody Hobson**

Is the market too hot, too cold, or just right? John.

**John Rogers**

It's a little hot, here.

**Mellody Hobson**

Mario.

**Mario Gabelli**

I agree. A little hot right now.

**Mellody Hobson**

Bill.

**Bill Miller**

Just right.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

It depends. (LAUGHTER)

**Mellody Hobson**

Staley.

**Staley Cates**

Too hot.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Too hot.

**Mellody Hobson**

David.

**David Herro**

Global, just right. U.S., too hot.

**Mellody Hobson**

Energy, buy, sell, or hold? Bill.

**Bill Miller**

Sell.

**Mellody Hobson**

Mario.

**Mario Gabelli**

I'd buy it.

**Mellody Hobson**

David.



**David Herro**

Hold.

**Mellody Hobson**

John.

**John Rogers**

Buy.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

I got a couple I'd buy.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Sell.

**Mellody Hobson**

Staley.

**Staley Cates**

Mixed. Not enough information given.

**Mellody Hobson**

Editorializing.

**Staley Cates**

Yes to gas, no to oil.

**Mellody Hobson**

Would you take a commercial flight today? Bill.

**Bill Miller**

No.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

Yes.

**Mellody Hobson**

John.

**John Rogers**

Yes.

**Mellody Hobson**

David.

**David Herro**

Yes.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

No.

**Mellody Hobson**

Staley.

**Staley Cates**

Yes.

**Mellody Hobson**

Mario.

**Mario Gabelli**

Yes. U.S.

**Mellody Hobson**

Disney stock or Netflix shares? Mario.

**Mario Gabelli**

Disney.

**Mellody Hobson**

John.

**John Rogers**

Disney.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Neither.

**Mellody Hobson**

David.

**David Herro**

Disney.

**Mellody Hobson**

Staley.

**Staley Cates**

Disney.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

Neither.

**Bill Miller**

Netflix.

**Mellody Hobson**

Tiger King or The Last Dance? John.

**John Rogers**

Last Dance, for sure.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Last Dance.

**Mellody Hobson**

David.

**David Herro**

I've seen neither, but Last Dance.

**Staley Cates**

Last Dance.

**Mellody Hobson**

Mario.

**Mario Gabelli**

Tiger King.

**Mellody Hobson**

Bill.

**Bill Miller**

Last Dance.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

Last Dance, for sure.

**Mellody Hobson**

Last one. This has nothing to do with your personal opinion. Just answer the question. Who will be the next President of the United States? Biden or Trump? Bill.

**Bill Miller**

Biden.

**Mellody Hobson**

Staley.

**Staley Cates**

Biden.

**Mellody Hobson**

David.

**David Herro**

Trump.

**Mellody Hobson**

Dan.

**Dan O'Keefe**

Biden.

**Mellody Hobson**

John.

**John Rogers**

Biden.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Biden.

**Mellody Hobson**

Mario.

**Mario Gabelli**

Biden with Whitmer.

**Mellody Hobson**

Okay. Now, we move past the speed round to questions. Everyone will not have to answer every question. I remind you again, to be brief. I'll ask you to mute when you're not speaking. Some questions I'll direct to individuals.

Starting with a macro question. So, the U.S. stock market, it took 22 days for the market to fall 30%, compared to 250 days during the financial crisis, and 257 days for the .com collapse. So,

22, 250 during the financial crisis, 257 with the .com collapse. In hindsight, having gone through all of those investing through all those periods, what was this period like versus those other times?

I'm going to start with Mario on this one.

**Mario Gabelli**

Mostly the same, violent, unexpected, much like '87.

**John Rogers**

I would agree.

**Melody Hobson**

John, did it feel any differently?

**John Rogers**

No. Very much like, it felt like '87 to me. Also, because of the quick downturn and a quick recovery afterwards. And only a short time to take advantage of the bargains.

**Melody Hobson**

David, did it feel like anything specific, to you?

**David Herro**

I think the volatility in an interesting day or week price period remains. Some dropping 10%, 20%, 30% almost, in a day or two. And then, coming back by half of that. I think the volatility and the amplification of price movement is difficult.

**Melody Hobson**

So, one question about the volatility. Does the volatility make you uncomfortable? With a lot of our clients, they talk a lot about the volatility and ask about that. Staley, does the volatility bother you?

**Staley Cates**

No. I mean, I think that's our whole opportunity set. And I mean, we, all of us on the call, try to coach that with our clients, that volatility is our friend. And this is a time when that really, really comes through. But I think if you're ready with a wish list, you sure love seeing it on the buy side. Obviously, we didn't have enough vol on the upside to sell a lot of stuff. But it's welcome if you've got your list ready.

**Melody Hobson**

Is there anyone from which the volatility is uncomfortable, or problematic, or is that the nature of value investing?

**David Herro**

Well, it's uncomfortable, but it's a good form of discomfort because it allows opportunities, as Staley said. But it doesn't feel good, certainly. And you have to be ready and you can't be a deer in a headlight. You have to be prepared to act when you have the volatility and you have to keep an open position. So, it doesn't feel good, but it ends up with a very desirable result if you're patient, and you're a true investor over a period of time.

**Melody Hobson**

When it doesn't feel good, what do you tell yourself, David, to stay the course, calm yourself, etcetera, during those moments?

**David Herro**

What I try to do, is just put myself a year or two or three forward. And then say, how would this look if look back. We know that volatility waves come, and they go. Think of a storm, if you're a sailor you get (INAUDIBLE). And you just have to think forward and not backwards. And you can't even consider the current situation.

**Dan O'Keefe**

(CROSSTALK) Having been through a bunch of these. It's always hard to see the other side when you're right in the middle of it. But having been through a number of these downdrafts, they always end. And the other side of it is always a lot more green than in the moment. And really, my experience has been the worst at fields, you know, the better the opportunity is. And you have to focus on the long term, you have to focus on your estimates of long-term value. And you have to remove yourself from the emotional volatility and focus on the long-term value.

**Melody Hobson**

How much do you think, Bill, the algos, the program training, etcetera, are whipsawing the market during this period?

**Bill Miller**

I think that there's a lot to that. I think that stuff like risk parity, like the quants that are in the market right now, have affected the structure of the market. So, stuff happens faster. So, you know, we had a we had the worst December in 2018, since 1931. Which is, sort of, bizarre because it was worse than December of 1941 when Pearl Harbor was bombed. So, I think that emotion tends to run a little faster now.

I do think, though, going back to your previous question, that, at least for us, going back 35 years, these declines, '82, '87, 2008, 2009, have always been opportunities for us to outperform. That is, when these things happen, this is where value investing, I think, you take advantage of because these prices get so dislocated. And if you're if you're careful—in understanding this and analyzing them, it's a great opportunity.

**Melody Hobson**

I'm going to come back to you in a bit on that, because you said that it's your fifth greatest buying opportunity of your career. But before I probe there, I want to go a little bit further on the program training and the algos. Are they bad for the markets, Staley?

**Staley Cates**

I think, overall, they're good for the market, in terms of brain liquidity. I don't think they are quite as good as they advertise. And I don't think they're as bad as their critics admit. But I do think one serious silver lining in all this, and the volatility that's come with the quants, has a lot to do with our all believing in value investing. Which is, those that most declare value investing dead, they pointed to that. They pointed to the quants as saying, everything is so scientific, so clinical, it's going to be hard to find any inefficiencies. And it's almost comforting in a bizarre way, that you see some of these stories now, that stocks are moving with every bit as much fear and irrationality as when people thought everything was run by the retail investor. You can still take advantage of bad correlations. Those clients are just correlating things, but they can have bad correlations. And then, it also doesn't repeal fear. I mean, there are people running the quants, but also can put a fearful overlay on that. So, I mean, I guess, we should keep in mind that

some of the bizarre behavior brought by some of the algos is also we will always find inefficiencies.

### **Melody Hobson**

We are getting messages that we know that we know that my audio is a bit distorted. They are working on it. So, just know that. I think it's already gotten better. Bill, I want to go back to, I was reading your first quarter letter, I read all of yours. Do you think, the worst of the damage is over? Or is there more to come? And in the letter, you said, you thought you would experience four great buying opportunities of your career, and this was the fifth, suggesting that you are very, very bullish. How do you think about this opportunity right now?

### **Bill Miller**

I don't. No one knows if this is, if the bottom was on March 23<sup>rd</sup> of 21, 91. Or if there's more to come. My guess is that that was the bottom. So, unless things get a whole lot worse, I think that was probably the bottom. And I think it was I was on CNBC on March the 18<sup>th</sup>, making that statement about being the fifth great buying opportunity. And I pointed out, that when Warren Buffett made the comment in 2008, that he was buying U.S. stocks, and it was a great opportunity and people should do the same. Of course, people didn't. They were selling U.S. stocks at the at the time.

But what makes it-- And somebody said to Warren a couple of years later, but how did you know that was the time to buy it? He said, I don't know time, I know price. And that was my judgment in mid-March. The prices were so attractive. And there was so much discounted, that if you looked out, this, sort of, the people said, you look out a year or two, it'd be almost impossible. In my view, you can throw a dart at the market and it'd probably do pretty well.

### **Melody Hobson**

Got it. So, Mario, you said, a W with a swoosh, suggesting you would expect, more trouble.

### **Mario Gabelli**

I would think that the second wave that's going to occur will be a pullback. Fortunately, we're watching what's going on in Wuhan, we're watching what's going on in Korea, and Italy, and those parts of the world. Some countries like Denmark have not had a second wave. So, that's the issue before we had testing and all of the other dynamics that go with that.

From an earnings point of view, (INAUDIBLE) is the worst. The Fed isn't hypersonic. We'd like to see some more fiscal stimulation, particularly in things that add long term values like infrastructure. So, I am in the camp that says that the economy could do a W with it. Then the good news, the good news is that with only-- about 2021, when they start pulling back or worrying about the economy, because I think there's a longer stretch here. So you're going to have a longer visibility to a strong economy going into 2022.

### **Melody Hobson**

On this issue of the rest of the world, Rupal, what are we seeing and what is the rest of the world telling us as it's opening up?

### **Rupal Bhansali**

So, I think China is very instructive. It's the first in and the first out. And what we are finding is, that even though there is a green sheet of recovery, PMI was up quite materially, but still below 50. We are hearing that people are reporting to work, but they are choosing to drive, as

opposed to take public transportation. So, you're actually seeing a lot of congestion during peak hour, rush hours during the morning and evenings. And after hours and over the weekend, you're seeing a ghost town. So, people are extremely uncomfortable, psychologically, to pull away from social distancing, essentially. So, I think that has implications over consumer discretionary. We were talking to Tencent music the other day, and a couple of other companies who have online music accounts. And what I think, that certainly, (INAUDIBLE) which will be (INAUDIBLE) digitally, would do quite well.

What we are hearing, is that even video games, which have the premium business model. Where you can play them for free, but then make in-app purchases. In-app purchases have plummeted in China. So, it tells you that people are very concerned about the income level, that they're being very frugal with their habits.

This is why I concur with Mario and some others who talked about either the U or a W shape recovery. We are going to have a lot of ups and downs. And any hope of something being a very quick, and V shaped recovery, in my view, is decisively off the table, because this virus is contagious. And it has yet to play itself out.

### **Melody Hobson**

And we know the audio is still distorted. We are working on it, for those who are listening. Dan, are you worried about all the stimulus?

### **Dan O'Keefe**

Well, I mean, on the one hand, we love it in the short term. And on the other hand, we worry about it in the long term. I mean, we've pumped, what, \$3 trillion into the economy already. And I think we spent the equivalent of 2020 dollars, about \$4 trillion dollars to fight World War Two. And I think the \$3 trillion is only the beginning. I think, I mean, I saw the House Democrats just put together a bill for another \$3 trillion. Now, obviously, that bill that they just proposed is not gonna end up being signed. But it shows you that we're not even close to being done, in terms of leveraging up the federal balance sheet.

And so, just use rough math, I mean, \$6 trillion dollars, is an enormous amount of money into this economy. Which will help, obviously, build a bridge to the other side of this virus. Which is probably going to be in six to eight months, would be my guess, in terms of how long the virus is around. A total of a year to 18 months. But at the end of the day, we're gonna have so much debt. How's it going to be repaid? What's the effect going to be on the economy? So, yeah. It's concerning long term, for sure.

### **Melody Hobson**

John, what do you think some of the repercussions are of the stimulus? You think the stimulus was a good idea? Yes or no? And what's the after effect? What's the hangover?

### **John Rogers**

I think the stimulus was very, very necessary. As we've been talking to some of our favorite economists and, from Burt Malkiel, to Robert Aliber, the census, this ultimately could possibly be significantly inflationary, as we go forward. And we've been able to withstand having inflationary periods for quite a long time. But I think over the next 10 years, you'll see a real spike in inflation. And as we think about our portfolios, it's going to be part of our overarching thinking, that inflation will be back and cause damage overall.

### **Melody Hobson**



Mario, you lived with inflation in the '70's? What do you think about that, and how do you prepare for it?

**Mario Gabelli**

Well, you'd look at how managements can handle changes in input costs. But whether it's labor and how they substitute that with artificial intelligence with robotics, and how do they handle pricing and are there (INAUDIBLE) So, you do the fundamental research. But it comes down to, how does the management anticipate it, rising prices are phenomenal returns that create very interesting dynamics. But the cap rates, if you go back to a 3%, or 4%, or 5% 10 year from 60 beeps, you're gonna have a question mark on the stocks as opposed to an invaluation. So, that's what we share John's concerns over.

**Rupal Bhansali**

Mellody, I would disagree that inflation is the only likely outcome. (INAUDIBLE) Japan for a very long time. Japan (INAUDIBLE) countries accumulated over the last two decades. And they were the first ones (INAUDIBLE). A lot of people thought inflation would take hold there. And clearly, the result actually has an been the opposite. It's deviation.

(INAUDIBLE) that we have to encounter deviation before we even encounter inflation. To me, that's the first (INAUDIBLE) before asking anybody about inflation.

**Mellody Hobson**

Does anyone agree with Rupal, on deflation versus inflation?

**David Herro**

I understand her argument, comparing this to Japan, but I think it's a very different story. I do believe that, eventually, this will be stationary, Coronavirus. At some point along the way of the recovery, we have to control entitlement spending and do something about revenues. But in the short and medium term, low interest rates, and my vote was they weren't going to go negative but there'll be volatile, you'll be able to afford the interest payment, the debt service. But at some point, this will become unaffordable. At some point, as the crisis wanes, it will become unaffordable. And whoever's in charge of our government has to think, how do we reform and reprimand.

**Mellody Hobson**

What about in the rest of the world?

**David Herro**

Yeah, each place, I believe, is a little bit different. Now, I recall, Germany was, kind of, the stingy man of Europe for a long time, not wanting to spend any money even as year over year we saw growth. And meanwhile, you had Southern Europe, which was somewhat not afraid to spend. People point to Italy as the biggest culprit. However, one realized countries like Italy, have an extremely high personal savings rate. So they have very low public sector savings, huge public sector debt, but huge private sectors. So, each one of these places is a little different. And depending on where you go, you can't even lump Europe together because there are differences within Europe.

**Mellody Hobson**

I'm going to come back to Europe when we talk about the world. A lot of people are scratching their head, because we had the unemployment number come out on Thursday. Thursday, Friday, the days are all running together. We came out with that just shy of 15% number in the

U.S. The numbers have come out in the EU and they were just under 10%. I think 9.4%, and the market went up. And if you look at just the market and its rebound from that low that we talked about, it's been pretty stunning. The Nasdaq is up for the year. It's up 2,500 points or 38% from the march lows. But 75% of the stocks in the NASDAQ index are down. What's happening here, this uncoupling from economic news and market performance, what is the market telling us, Bill?

### **Bill Miller**

First of all, I'm always struck by the comment about the disconnect between the market and the economy. Because basically, the market predicts the economy, the economy doesn't predict the market. And so, the market is looking forward, we've had enormous stimulus. And I think, one of the interesting things is that in indices that are market calculated, obviously, the big companies have a lot more impact on that. And you're looking at companies like Amazon and Microsoft and they have an enormous impact on the market. And I'm only struck by how things are clear in retrospect, when the first thing, the virus struck, and everything went down. So, I think Amazon went down to 1,500 or so. And then since then, all of the companies that would benefit from this, the stay at home companies and the ones that want you to perform so well. It reminds me of Tom Huxley's comment after he read Darwin's origin of the species. And he said, how incredibly stupid of me not to have thought of that.

So, in retrospect, it was very clear that if your company wasn't going to be affected by the virus, and you're going to benefit from it, and interest rates are collapsing, and the Fed is easing, your stock is going to go up a lot, and especially if you're a growth stock, because the discount rates so low and the value of future growth is great. So, that's, kind of, what's going on right now in the market, reflecting it, I think, pretty well.

I also think, it's not a secret that unemployment is huge right now. And I think it's going to be coming down probably slower than some might think. The market is going to look, I think, and not the second (INAUDIBLE) But basically, what's going on. If things are getting better, then the market will be reasonably well underpinned as long as there's plenty of liquidity going around.

### **Melody Hobson**

Why is isn't value inflating on the downside, Mario? (CROSSTALK) We've had to disconnect between growth and value now, for a decade. One of the things I found super interesting, David and Bill were manager of the decade in the zeros, both value. David was international, Bill was domestic. So, it was a decade of value. And we haven't seen value really have much of a moment since then. Historically, value has inflated on the down side. It didn't happen in '08. It didn't happen during that moment that we had at the end of '18. And it didn't happen recently. What's going on?

### **Mario Gabelli**

Well, that's a good question. I'll go back to Bill's comment about interest rates. If you have a company growing 6% to 8%, with a high degree of predictability and good earnings, and you have a discount rate by a 10 year bond, trading at 60 beeps, you're going to put a much higher valuation on that and that is driving growth. So, if you look back (INAUDIBLE) because you're worried you buy gold, and then you buy growth. And that's the last time period. But on the longer time period, you buy an ETF you have somebody sitting in Dubai or Edinburgh will say, hey, I want to buy the U.S. the relative currency, I like the relative strength and they buy an ETF and they buy a large cap. So, you have that dynamic and when you look at small and mid-cap, which are in my world, a large part where the opportunities are. That's where we at, fundamental bottoms up research is calling for ideas. And it's a challenge, short term.

**Melody Hobson**

So, do we have to wait for rates to go up for the story to change?

**Mario Gabelli**

No, I think the notion of the-- When we have a \$4.6 trillion dollar GDP out of pocket in (INAUDIBLE), and now we're looking at a \$5 trillion, plus on top of that, couple trillion dollars, that economy will help us companies and then we'll start discounting that sometime. Recovery, sometime in the first half of 2021, with a longer (INAUDIBLE) time period.

**Melody Hobson**

Does anyone (CROSSTALK) So do you think value is destined to outperform the next decade? Is that what we're looking at?

**John Rogers**

(CROSSTALK) I feel really confident that value is going to have a great decade. It's so extraordinarily cheap. You know, in our portfolios, our portfolios are 11 times next year's earnings versus the index at, like, 20 times next year's earnings. There are just extraordinary bargains there. And so, I think you're gonna have an explosive upside for value investing. It'll be much like after the internet bubble burst, and so many of us did so well coming out of that change and that really, sort of, violent turn that happened. And so, I think there's gonna be a violent turn, that's going to give value investors a really great, great opportunity over the next decade.

**Melody Hobson**

(CROSSTALK) Go ahead. Go ahead, David.

**David Herro**

When the turn does happen, I don't like the word violent, but I think it will be violent, because there's so much under exposure to these bits. That think of, in order to get into a company, think of a doorway, and the doorways are very, very tiny. And there's very little money in there. So, when teeter totter does return, I think you will get a violent (INAUDIBLE). And you know what, it will be like everything else, some point then it will be overdone. Now we're way overdone on the under exposed side. And I think at some stage, and I don't know exactly what the catalyst would be, probably some, view of the light at the end of the tunnel, in terms of economic recovery. But when it does happen, I (INAUDIBLE) lender involvement in the market today (INAUDIBLE).

**Dan O'Keefe**

I feel like, looking at the market now, or definitely over the last few months, you've seen this large cohort of companies and businesses that are tied to the economy, that have just gotten destroyed. And then, you have a lot of large cap tech companies who aren't really tied to the economy, at least not the downward pressure in the economy right now. And they've just continued to go up and up and up. And so, it seems reasonable to me, to think that as the economy starts to recover, all these businesses that have suffered from the weakness, it's brewing in the economy. Which are, basically, the stocks that a lot of us own. They should start to outperform. There should be a tailwind to their earnings, in a way that we haven't seen.

**Melody Hobson**

Staley, what do you say to the plant sponsors that all of us work for, big institutional clients who've just been exacerbated by the value underperformance?

### **Staley Cates**

Well, a couple of things that are-- And some of them are quite similar to what would have just been said, but one of the, I wish they were otherwise. But one of the patterns that really has been the case, and in past crashes for us, is that with our funky things with hair on them that are undervalued, that's not the flight to quality stuff that everybody heads toward, while things are crashing. So, I wish we protected our ground better during a crash, we usually just don't. Where we usually do benefit is coming out of it, as others have said before.

But I would point to another specific reason for that, which is where private equity is these days. Like, private equity is the king. And they don't do hostile deals. That's part of the short term disconnect between arbitraging our values because deal flow reasons. Not that they're nice guys, but they're not hostile deals, which would tend to get you paid quicker. But the disconnect is still there, the private market values are so large, compared to where we own these businesses at public prices, that that's what our managements and boards are going to be tasked with. Like, don't just sit there and look at \$0.40 cent dollars the way we all talk about them, especially compared to private market values, go do something about it. Whether that's selling the company or a piece of the company or taking advantage of it in another way. So, I think that's a specific reason we're going to get paid, even though it has not been in place, as helping us hold our ground so far.

### **Mellody Hobson**

It's interesting, you bring up private equity because I was going to ask about that. I wanted to go down that path, and I'm going to come back to it. We've got the growth versus value debate, and we've got this endless active versus passive discussion that I want to just at least spend a moment on. I know, we've all talked about it at nauseum. But I do think it's worth the group's opinion. But the private equity issue is something that I was also wondering about. We've seen big changes in asset allocation in the last decade. When you look back and look at private equity as even an asset class, it has grown tremendously during this period. We've lost publicly traded companies. Do you think that secular or do you think that's a moment? As well as, when you look at it in the context of all of the alts that are out there? Staley, you might pick up on this because you started that conversation, and anyone else who wants to weigh in, on how this, sort of shift in how money is distributed is changing the game.

### **Staley Cates**

Well, I think part of it's a moment, but this takes a long term to play out. Meaning, that the part that is, they have had the benefit of, basically, fake ball and fake pricing on a lot of their stuff. Which plant sponsors and clients love because the businesses are what they are and they have inherent volatility. They're economically like the businesses we all own. But they get the benefit of getting marked every so often by the asset manager. So, that's a moment because that is not going to last and that's going to bring up a discussion of, wait a minute, what is this stuff really worth and what's the leverage on it? Now having said that, I mean, they have big war chests. These are huge companies with a lot of stuff to do and a lot of investable money on call. So, it's not like they're going away. And it's not like they're gonna stop doing deals. So it's not about their demise, but it is about, maybe, us compared to them is going to look a little bit different coming out of this, I think.

### **Mellody Hobson**

But John, you actually invest in private equity. You like that, the process investment in the businesses?

**John Rogers**

You're exactly right. As you know, Mellody, we've been fortunate to serve on a lot of investment committees. And as we know, the sort of Yale model is taken over, everyone believes in alternative investing, and private equity being the favorite place. So, our biggest position right now in Ariel fund is KKR. And they're doing really, really well. As we've had a chance to talk to management and talk to Henry Kravitz. He's excited about the amount of cash that they have to invest in this environment. And they're also really thrilled that they're having a great fundraising time, money is, kind of, still pouring in. So, we think they're really well positioned. And of course, they've also diversified around the globe, and in different products. So, they're not just dependent on the one flagship private equity fund, the way they used to. So, it is a great, great sector. And we think it's a great, great stock to own in this environment.

**Mario Gabelli**

And they've also converted from a special LP to a C Corp. So that helps for us to buy it. As well as (CROSSTALK).

**John Rogers**

You're right, Mario. And a lot of the Russell indexes are going to add them as we move into the summer. And we think that'll be a nice wind at their backs, they'll be very helpful.

**Mellody Hobson**

Mario, you own it as well?

**Mario Gabelli**

I own KKR. Back about 2006, '07, or '08, they created a company and then they merged their private partnership into that company. So, we've been there for a long time, rotation and they finally converted. Henry did it. But going back, we're going to be harvesting portfolio holdings regularly but at irregular intervals. But I'm not only convinced that the PE firms are going to be buying, despite some political noise about deals not being done. But the second part is, this one company started saying, hey, you know, maybe the multiple I was looking for is (INAUDIBLE) maybe I should take 12. And when they get a little more realistic, which could happen very quickly, you're going to see a lot more strategists. In 1992, GE started a wave, after Drexel went under, when they went after a company in Chicago. And so, you'll see somebody doing that and that'll say it's okay to go back and buy these companies at reasonably good prices.

**Mellody Hobson**

I want to pick up the active versus passive discussion for a minute. Are you tired of this conversation? Bill? David, go for it.

**David Herro**

They both have a role to play. When you're building a financial plan, or putting together a salad, you want a little bit of everything. And clearly, active has outperformed or passive has outperformed some active. But I do think there's bad attributes to this whole passive thing. And actually, the more money that goes into passive in a way better for us, just the same thing, like the volatility, it creates market inefficiency, which we as active investors can deploy. So, I don't mind that they're there. I'm glad that they're there. We tend to beat them over the medium in the long term. But I do think there has been (INAUDIBLE).

**Mellody Hobson**

Rupal, you think passive is a crowded trade, right? You're worried about how crowded the trade is?

**Rupal Bhansali**

Well, I am. I wrote a book on it. I don't look on it. I'm a big believer, as many of us on this panel are in non-conventional investing. And I would say that, passive, it's like the definition of a bubble someone told me. When a good idea is taken to an extreme. And that's what passive feels like. It is a good idea. It made sense at the beginning. But now, we have more towards the end of that money train, and I just think a lot of people are buying into it, not understanding what they are buying, why they're buying it. And I've told active managers, it's hard to pick an active manager that can outperform.

So, you are telling me that you can make an assessment of value in thousands of stocks which are in the index, but you can't pick a handful of active managers who can actually pick the right value talk. To me, it's a peculiar thought to figure out, whether the market offers value or not. I'd much go with an active manager who knows how to pick that, rather than invest based on what I think is just a Ponzi scheme of more money flowing in. And so, this market is driven by flows, not by fundamentals.

And eventually, the markets always go back to fundamentals. So, I don't know if I call for a comeback of value, which I know is a question you asked earlier. Because value tends to be populated with cyclical. And the worst combination that you can find in an economic downturn is operating leverage combined with financial leverage. And sadly, a lot of cyclicals tend to have that characteristic. But I will, resoundingly, call for a comeback of active versus passive, because then it's a lot of polarization of the recent market, it's gone to extreme. As you pointed out in the NASDAQ, the vast majority of stocks have fallen, but the entire index has gone up. So, I think it's rich thinking for a contrarian and active investor, but stock picking is gonna come back.

**Melody Hobson**

(CROSSTALK) So, here's my question. Who owns, personally, index funds? Anyone? Wow. Okay, I don't either. Who was just weighing in on that comment?

**Bill Miller**

Yeah. So, Melody, I want to pick up on what Rupal said, because she's exactly right. That the worst place to be in a downturn, are companies that are with financial leverage, and operating leverage, and marginal returns on invested capital that are very sensitive to the change in the economy. But that's exactly what you want to own coming out of a recession. And that's typically value names, they get down, switched down to a to a level, which is very, very cheap. And so, I think right now in the market, that's where the better values are. And those things are gonna lead on the way out.

And then on the active versus passive thing, I think there's a very good reason for passive. You aren't earning so many assets, because most active managers don't add any value. They charge a lot for closet indexing. And I think that that's-- So, money is moving from an essence, high priced, passive closet indexing, to low price stuff which is the straight asset. So, I think though, that you mentioned right at the outset, that everybody on this on this podcast, or on this on this thing, has a very high active share. So, we take the risk of tracking error on both sides in exchange for, I think, long term returns.

**Melody Hobson**

(CROSSTALK) I reject the term tracking error because it implies it's bad. (LAUGHTER) But David, what were you going to say?

**David Herro**

It was Dan.

**Dan O'Keefe**

I was just going to add to the whole active, passive thing. I think one of the things, is, there are clearly many positives to passive investing. But I think one of the big, really big negatives, is just the governance impact. What are the implications of large portions of corporate America, being owned by shareholders who don't know what they own or why they own it? And they don't act as owners. And I think it creates, it relieves the pressure on management teams, to act in the interest in the interest of owners. And I've run into that in some of my shareholdings over the years where it's very difficult to get management to listen, to reason, in terms of changes to strategy, because there's such a large component of the shareholder base is passive and really doesn't care.

**Melody Hobson**

Well, they can't sell, that's for sure. Maybe they care. But it's hard for them (CROSSTALK)

**Mario Gabelli**

They don't vote appropriately. They have checkboxes on what ISS or Glass Lewis or some others are saying. And if you have a voice at the table, they count votes and they know when they could just turn around and say, we don't have any interest in doing that. So, secondly, for capital accounts not for most of the assets and pension defined benefits and so on, and endowments. There's a big tax advantage that you have with 852(b)(6). I don't need to get into the weeds on that, but the industry ICI, as well as the regulators, have not leveled the playing field.

**Melody Hobson**

Those are fighting words for some of our passive peers out there. So, I'm going to go to industries. And I'm just going to run through some industries really fast. I've got to start with the obvious. Are the FANGs ever going to have a moment? Or are they invincible because they're monopolies? Bill you own some of them. What's your point of view?

**Bill Miller**

I think they've perform so well because the companies are so extraordinary, in terms of return on capital, in terms of market share, in terms of defensible moats. So, and I don't find, if I look at Amazon or Facebook or Alphabet, Netflix is the most expensive in my opinion, but they're not terribly expensive. I know, people got Amazon wrong for most of the first 15 years of its existence, because they were mesmerized by gap accounting, and not really looking at how much value is being created. And so, as I like to say, that there's a reason they're called generally accepted accounting principles, and not divinely inspired accounting principles or immaculately conceived accounting principles. So, I think for a value investor, you're really trying to look at the present day, the future free cash flows of the business and sustainability of that. And I think I think that most of those companies, and I'm not talking about Shopify or ServiceNow. But those the big four or big five, I think they I think they're gonna be fine. They may not do as fine as they've done in the past 10 years, but I think they'll be solid investments.

**Melody Hobson**

Mario, there was a story today that Amazon was looking at AMC. Are they gonna own everything? What do you think about that?

**Mario Gabelli**

I think with Amazon, if I'm Bezos, what I want to do is understand how to get into content and how do I distribute it and how do I accelerate that. I hope they put an X after the AMC and not look at the movie theater business recovery, and house content. So, there's an AMC X that we own that we think is also very attractive. Independent of that, the question that Bill would adhere to, is what windows, the window is where you position your theatrical product, you go directly to the theaters first if you go directly to the consumer, and there's a great deal of economic doing that. Without getting into the details of that, I would think that if I were Amazon, I would knock on the door of a couple of companies that we own and say, hey, look, come on, join us.

**Melody Hobson**

So, day and date, that is releasing on streaming, releasing in the theaters. We just saw an example of this with a Comcast movie, called Trolls World Tour. They released streaming first, it supposedly went really well. Now, they're saying they may do it with other things. And some theaters have come back hard and said we won't release any of your movies. Has this train left the station, Mario? And John, obviously, you own a lot of media, do you have an opinion on this, as something that is a change?

**Mario Gabelli**

If I am a movie company, I put \$12 billion dollars in content, I've got that in my inventory, in order to get cash, I have to release it. Particularly, if I want to put another \$12 billion into content. So, the release dates are very important. So, if I am releasing the Quiet Place, or Tom Cruise number three, or whatever it is, Top Gun, I need a window and how do I get cash back onto my balance sheet. So, those are the issues that the market is struggling with. And as Bill talked about, today we have a digital revolution that's accelerating. 100 years ago was the Industrial Revolution. As this digital revolution is taking, we'll have losers and we got to figure out how do theaters come back over the next, not six months, but year afterwards. That's a good question.

**John Rogers**

And for us, we love Viacom, CBS, and it's you know, selling about three times earnings. So, people have, sort of, given up on the future of those two great brands. But they have really great content. With Showtime and CBS and Paramount Studios. Nickelodeon, you go down the list with one after another. And so, I think one way or another, they're going to find a way to monetize all that content. And it could be one day that Apple or Amazon or someone else comes in and buys them, so they'll have that content and not have to recreate it. Whether it's fresh content or the oldies that are so powerful and valuable, that are in their library. So, we're continually enthusiastic about these media stocks, that have really been crushed over the last couple of years.

**Melody Hobson**

Bill, what do you say?

**Bill Miller**

I'm just gonna throw out a point. We're talking AMC. So, on March 23<sup>rd</sup>, AMC was \$2 and today it was close to \$6. And on March 23<sup>rd</sup>, its bonds were \$0.70 cents another \$0.30 cents. So, the market clearly isn't buying that Amazon is going to come in and go after AMC, or the bond certainly wouldn't be \$0.30 cents on the dollar.



**Melody Hobson**

Good point. Okay, so (CROSSTALK) Mario talked about winners and losers, retail. So, anyone can answer this question. Is retail a long term loser now? Would you want to own a mall today? Staley, you come from a family that was involved in real estate, and you've got a lot of real estate exposure in your portfolios.

**Staley Cates**

Well, embarrassingly in our small cap fund, we had a little more than our fair share of retail going into this and we got properly face smashed in. But with a clean piece of paper, we actually are not fans of retail, compared to the other things we can do. We had, some of that is not necessarily a doomsday scenario for it, it's really more of a we don't have to make that bet. Like, if you're going to do the retail thing, it is going to get into very important forecasts on when this comes back, stuff like that, that that we put in the too hard bucket because we have so many other things that you just don't have to make that bet. Either because the business itself, or the way the price discounts it. And so, we just hadn't found that in retail. And everybody knows the negatives with those, and I think they have accelerated. So, on a clean piece of paper, the answer's no. But we were definitely exposed and took some pain.

**Melody Hobson**

What do you think about globally on this issue, Dan, or Rupal, or David? The retail story in America is very different because we overbuilt in malls, very different story than the rest of the world. Does that bifurcate the outcome for retail?

**David Herro**

I mean, it depends on the-- Go ahead, Dan.

**Dan O'Keefe**

Go ahead, David.

**David Herro**

Go ahead.

**Dan O'Keefe**

It depends on the country. I mean, you know, the UK is probably even more over retail than the U.S. So, it's situation is very similar. And in places like China, you have an even more rapid acceleration of ecommerce, so that the retail infrastructure was never really built out to the same extent it was in the UK and the U.S. So, it depends, but I haven't come across a lot of retail businesses around the world that I find particularly interesting. I mean, I think long term, they all face, in general, and then of course exceptions, but in general, they face the challenge of competing against ecommerce.

**David Herro**

Yeah, I think some of the exceptions involve those who've successfully developed Brick and Mortar and have a global brand. We own H&M, very strong global brand. They were a little slow on digital, but they caught up. And I also think the luxury, the hard and soft luxury, there's still a place for mortar with these companies given the (INAUDIBLE). Yes, I think, the malls, the space, it's one thing we're learning. We don't need all that space. And I think, unless you have a good brand and a good clicks and mortar strategy or you have a unique selling proposition, such as being a luxury good, it's very tough.

**Dan O'Keefe**

You know, one of the interesting--

**Melody Hobson**

Sorry. Go ahead, Dan.

**Dan O'Keefe**

I was gonna say, one of the interesting things and this is because David mentioned hard luxury. And I own Richard Mille, and I think, David you own Richard Mille, as well, in Swatch.

**David Herro**

We do. Yes.

**Dan O'Keefe**

And, I really like the stock. But one of the things that happened recently was Patek Philippe, one of the one of the leading ultra-luxury watch brands, which is never sold anything on the internet, started selling watches directly to consumers on their website. And they've never done that before. And so, what's happening now is, obviously, we're in this situation where if you want to do commerce, with a lot of brands, you have to do them online. And clearly, this is just going to accelerate, shift from bricks and mortar to ecommerce in many in many cases. Although, I do agree with David. I think hard luxury is one of the few things where a retail strategy is really important to the brand.

**Melody Hobson**

Rupal, you have tapestry. Does your opinion about tapestry get affected by the retail environment and what's going on? I know Asia has been a big outlet for it.

**Rupal Bhansali**

You know, to backup to really answer your question. Ultimately, every business faces competition. So, yes, the retail industry face competition from a new model of distribution. We think the supply chain. When we look at the exceptions to the rule, Costco, in the U.S. up. They are resoundingly successful, because they provide a value proposition that nobody else can beat. So, I think any company, whether it's a retailer, whether it's a bank, I mean, it doesn't matter who you are, you can define your own destiny. And you can take on competition, even if you build a business model that gives value to your customers. So, why do people go to Costco? Because they know it's astounding value. By the way, we are all value managers. Why do people come to us? Because we give resounding value, in high performance (INAUDIBLE) performance, right?

So, I think, ultimately, I believe people are smart. They look for bargains, and if you can give it to them like Costco has given and how tapestry has given it to them, which I think they do. Which is they give you a very premium quality handbag that's very affordable price. So, it's not luxury, but it is premium. And so, I think that any business model in any industry, if it provides value to customers, you can't go wrong.

**Melody Hobson**

Okay, I want to shift to where there's a lot of value right now. Airlines. So, Warren Buffett sold \$6 billion dollars' worth of shares, he announced in his virtual annual meeting a couple weekends ago. And Bill and Dan, your buyers. So, what do you see that he doesn't see? I read that Delta and United are averaging 23 passengers per domestic flight, losing \$350 to \$400 million dollars a day. Southwest, after 47 years of profitability this last January, is going to lose \$30 to \$35

million dollars a day. American Airlines, trying to get its losses to \$50 million a day, passenger traffic down 94%. Most half of the planes are parked. Now, interestingly, they got relief from the U.S. with stimulus, \$25 billion for the whole industry, which I thought was a pittance compared to when you look at the global financial crisis, and each bank got \$25 billion. So, what are you seeing that Buffett said, I'm out?

### **Dan O'Keefe**

Well, I own Southwest. And, it's got about \$14 billion in cash on the balance sheet. It's got about \$8 billion dollars of unencumbered aircraft that it owns outright, and unlevered. And it's probably going to lose four or \$5 billion dollars this year. But it can continue to operate. It could continue to operate for at least another year, in its current form, and still survive. Now, I don't think that's going to happen, but they have the enormous financial resources to survive, what I think most people would agree, is a temporary and anomalous situation. In other words, nobody's flying. And that can't be normal, and that can't be sustainable. So, people are going to fly again. And if you look at other periods of time, particularly in Asia, where you've had meaningful public health crises, we look at terrorist events. When people stop flying, when the emergency is over, people will go back to doing what they've always done. And people will fly again.

And I think what's particularly interesting about Southwest, is that not only are they they're the financially strongest airline, and I think you'll probably see another U.S. airline go bust. That's what the CEO of Boeing has been saying over the last couple of days. And that will be of enormous benefit to Southwest. You know, they've got the best, lowest cost network, they're purely domestic, they don't have to worry about international travel. They're a low-cost airline. They've got the best balance sheet; they're in the best position to bounce back and to take market share when the others are clearly impaired.

### **Rupal Bhansali**

Now, I have a different take on owning airlines. I would not own the airlines; I would own the aircraft engine manufacturers. Because, ultimately, I disagree with Dan, because airlines are in decline, and the demographics are such. Especially in emerging markets, we're still gonna see significant air traffic growth. But to me, the way to play that air traffic growth is to own companies like Safran, which makes the next generation of engines, which helps you make the most fuel efficient, more ESG friendly in terms of emission, etc. And these stocks have sold up hard. They happen to be international, of course, and obviously, can be owned perhaps in an international global portfolio. But Safran and even Airbus, which is the aircraft manufacturer, may be a better way to play air traffic growth resumption, than the airlines themselves.

### **Melody Hobson**

Bill, what do you think?

### **Bill Miller**

Just a quick comment. We own Delta and UAL. We've known for a long time, our average cost is in the single digits and I was interviewed this week about, well, why do we own them and Warren sold them and what do I disagree with Warren about. And I said, I don't disagree with anything on him. He has a different epistemic threshold. He wants to be able to project things out five or 10 years of some degree of confidence. And I think, as he said, he can't do that anymore. He doesn't believe that he has any edge in that regard. Way we look at it is, following what Dan said, I think we've got—all the bad news is in the in the airplane, or in the airlines right now—the art to have the ability, I think, to go probably just about as far as Southwest. And so, we get a free call option on them for the next six months to a year. And if you don't own the airlines that you're making, you're making a bet against the vaccine. Because people flying,

they're not worried about Catching polio or smallpox. If there is a vaccine, I'm not saying we're making a bet for it. But if there is a vaccine that will eliminate all of the issues that people have about flying, and these things will come back very, very quickly. And I don't think we have much downside risk over the next, three to six months in the in the share price.

**Melody Hobson**

Mario. Warren-- I'm sorry, who was speaking, David?

**David Herro**

And there is some differentiation within the airlines themselves. So, if you're a point to point within a country, like a Southwest it will probably see the earliest recovery, because people will want to fly there, they're cooped up. And whether you're concerned, if you're a younger person, you're not even waiting for the vaccine. Now, if you're going intercontinental, in the short term, they're still going to be problems. Because you're going point to point to two different countries. And there's all kinds of quarantine rules and all these issues. So, I think you'll see a different fly, pardon the pun, from the recovery from those airlines that are focused on long haul for short haul. I think short haul will do a better job. We own some Ryanair stock in Europe which still are going to have some issues, crossing national boundaries. But companies like Southwest, or companies that are more one country, shorter haul, I think will recover quicker than the long-distance country to country.

**Melody Hobson**

Good distinction. So, Mario, I was going to ask you, back to Buffett. He has a meeting. I know many of us are Buffett disciples. We watch him carefully, as one of the greatest investors of all time. He said he's not doing anything. I was really surprised by that, not buying, were you?

**Mario Gabelli**

No, I think, as Charlie Munger previously said the week before he said, "hey, the phone's not ringing off the hook." Are valuations coming down to where he has a margin of safety. And then, can he put \$30 to \$35 billion dollars to work and what areas is he going to look at? For my concern, is that I don't fully understand how tort attorneys are going to deal with this issue of the shutdowns and the unemployment that's taking place, and what insurance is there, in terms of who's gonna pay for that. So, I don't know how much of that is in his back of his mind. So, you're looking at the upside. And that's an issue. And from the airline's point of view, a lot of the companies that provide components to commercial and military aircraft. And, obviously, flying hours are an important subset of that.

**Melody Hobson**

Got it. Alright, I want to ask you some quick questions before we open it up, about how you're managing your portfolio's right now. And we're going to go fairly fast on some of these. Everyone doesn't have to respond. Give me an industry or stock, you just would not touch. You're just like, I am not interested. Staley.

**Staley Cates**

Believe it or not, even though they're down a lot, I would say the heavy banks. I don't mean banks that don't have fee businesses or masquerading as banks, but the pure, straightforward banks, we are not doing anything in.

**Melody Hobson**

But David, you like European Banks?

**David Herro**

Well, the ones we own, we like a lot because the balance sheet has changed significantly over the last decade. And by the way, they bond through interest rate compression, via fee income. So, this is, for me, the disconnect the market is missing. The balance sheet strength and the nature of how the money has changed significantly in the last half decade, decade. (CROSSTALK) And they should be able to do 10%, 11% return on equity (CROSSTALK).

**Melody Hobson**

Rupal, you don't like European banks?

**Rupal Bhansali**

No, because I think that the business of banking has structurally become impaired since the GFC. I mean, the raw material that banks need just to own that alchemy is a (INAUDIBLE) in a positive industry. So, and that's nonexistent, in Europe for sure but in most of our countries now. They really just don't have good revenue generation. And I think that you're just about to enter a pretty (INAUDIBLE) long-performing loan cycle. Now, regulators and governments all over the world can allow banks to extend and pretend, so not seeing the earnings, it will reflect that.

But the fact of the matter is, that when economic downturn, the banks tend to take it on the chin, and they are funded capitalized to begin with. They don't have core profitability to rebuild their capital position unlike the U.S. Banks that did. So, I think the structural impairment is what bothers me. And I think there's a lot of value in other portions of the market. So, one doesn't have to go down this path at all.

(CROSSTALK) Again, there are exceptions. So, like David, there are some very interesting fee generating potentials in Europe. They just happen to be the traditional banks and the actual bank to the country. So, can you see Belgium, half their revenues are fee incomes. Deutsche Boerse, which is our largest holding, is an exchange. You know, it drives off volatility and demonstrating inactivity. So, you don't have to own a traditional bank, to get exposure financially.

**Melody Hobson**

Someone was gonna chime in on that.

**David Herro**

I was gonna say, the opportunity with banks. The ones in Europe that I highlighted was that they've been able to grow book value per share, earnings per share, despite the raw material of the interest rate read, narrowing and becoming small, and able to grow their earnings because they've successfully pivoted to business. And I think this is the misconception, that investor (INAUDIBLE).

**Dan O'Keefe**

You know, I think also, you can find some really cheap stocks in Europe that are, sort of, tarred with the banking brush, maybe a little undeservedly. So, something like a UBS, which is one of our largest holdings. You know, every time there's a wobble in the banking industry, UBS stock goes down. But, I mean, it's, it's an asset-- It's a wealth management business. And yeah, it has the investment bank, but it's a fairly de-risk investment bank over the last 10 years. It generates a lot of fee income. UBS, as a whole, doesn't really have much credit exposure. It has some, but it's very high quality credit exposure. It's mortgages, to wealthy clients, mostly in Lombard loans, to their wealth management clients. And so, because it's called a bank, it gets thrown in with the worst of them. And it trades in just a ridiculous multiple. It's like probably seven or eight times

earnings, you get a nice dividend yield. So, if you don't want to own a bank, but you want to benefit from the undervaluation of banks, something like a UBS is really interesting.

**Melody Hobson**

Dan, you mentioned dividend yield. Bill, you said you think dividends are gone, for the time being. I read an interview that you did. Is that accurate?

**Bill Miller**

I don't think so. I don't recall seeing it. I think that interview is actually quoting my son, who runs the Income Fund. And his point was, that in this kind of an environment, we can move up the capital structure and get bonds that will give us yields that are 8%, 9% and we think their money good. And so, and we're not at risk of having a dividend eliminated. I think that was where he was coming from.

**Melody Hobson**

And just so you know, I haven't opened it up to the audience because they've been feeding me the questions and they said I'm hitting them as we've been going along. I was wondering, how do you all feel about no guidance? Does that make your jobs easier or harder? And do you think there's a possibility people will use this as an opportunity to just ditch it?

**John Rogers**

I think that's a really good point.

**Dan O'Keefe**

Go ahead, John.

**John Rogers**

Yeah, I was gonna say I think it's such a good point that people will use this as an excuse. People don't like having to give guidance. And I think, though, the market has been very receptive to this recently. Which has been much, to my surprise, as one company after another suspends their dividend, takes away guidance, takes away buybacks and the stocks keep marching higher. So, I think we're showing people that maybe they don't have to have guidance to keep Wall Street happy and keep all of us analysts on the sell side and the buy side, feeling good about them.

**Melody Hobson**

Do you care about that, John?

**John Rogers**

It's helpful, I think it is helpful to get a sense of where the company can be. But we also understand in this period, all bets are off. As you know, one of our favorite stocks now is Madison Square Garden Entertainment, which owns Madison Square Garden, and all the real estate in midtown Manhattan surrounding the garden, and the air rights, and Tao, and the Scotto theater, etcetera. Well, we realize they don't know when the Knicks are going to be back, or when the Rangers will be back, or when concerts will be back. So, not having guidance makes sense. But we still have a sense of that there's shoe value there and the stock's selling, probably, for half of what its true value is.

**Mario Gabelli**

I like the fact that, we as analysts, should do the guidance to connect the dots. Companies shouldn't have to do that, live by quarters. But when you read (INAUDIBLE) report,

(INAUDIBLE) report, they don't give you guidance before they have chock full of stocks located. So, going to Madison Square Garden Entertainment the one question I would ask, what's your cash burn? If nothing per month? And what's your cash strain? And if that's guidance, I need that because there's very difficult for me to calculate that on our own, to the degree that you want to EPS estimate or the outlook for the next quarter. I don't think we need that. I think that a momo or an algo, that's a different issue.

**Melody Hobson**

Anyone disagree? Anyone feel, is not having guidance making your job harder?

**Rupal Bhansali**

No.

**Melody Hobson**

(CROSSTALK) Is the whole story, then, right now, just getting to the other side. Is everything about survival at this point?

**David Herro**

You don't have to get to the other side. You have to see a path to get getting there. You see the light. Because once you get to the other side, once you start seeing the signs of getting to the other side, is what I think will activate changes in behavior.

**Dan O'Keefe**

I mean, I felt like as much as a credit analyst as an equity analyst over the last few months. You know, I mean, never in my career have I dealt with businesses where revenue, either across the entire business, in the case of the airlines, or parts of the business, in the case of something like a compass group, or a Dentsply Sirona. Revenue is effectively going to zero in many parts of these businesses. And so, you're looking at them and you're saying, well, okay, how much how much liquidity do they have? How much cash do they have? What are their covenants? How long can they last generating no revenue? So, that's a pretty odd place to be for an equity analyst.

**Melody Hobson**

Is it harder to do that, for you?

**Dan O'Keefe**

No, I mean, it's, it's unusual. But it's just, it's an extension of the work that you always do as a value investor. Which is to say, where does the revenue come from? What are the risks to it? What's the cost structure like? How can this business perform in a stressed scenario? We just have an extremely stressed scenario now. So, you're looking at your companies and you're like, okay, the current environment is not normal. But can they survive to get to a normal environment? You know, so can Southwest, burn \$30 million dollars a day and still survive for, pick your assumption? A few months, a year, 18 months?

**Mario Gabelli**

Yeah. Melody, we had the questions. How bad is bad? How long is it going to take and then how good is good? It looks good. Is there an element that the company is doing that can change the valuation on the upside? So, and there's lagging, leading, and coincidental sectors of the economy and we do all of that, but we don't like guidance.

**Staley Cates**

The nirvana would be those that you don't-- I mean, I don't disagree with any of the previous-- This is a separate point. But the nirvana is not having to make those guesses, to not have to get into cash burn and that, we've had, luckily by being concentrated, we don't have to have a lot of new names. But to about Tencent through proses, or Williams which is a very stable pipeline, or Timberland where the tree is going to grow whether you harvest it right now or not. And some of the insurance companies. Mario mentioned some of the worries that the insurance companies, that is yet to play out. But it is a tough credit analysis on those with the cash burn, but the happy place is not to have to go there to make sure there's still free cash flow this year.

**Mellody Hobson**

It's interesting, all of you, virtually, waded into Travel and Leisure. So, from airlines to cruise lines, to bookings, Hyatt, Vail resorts. I mean, I looked across the portfolios of buys. And that is certainly one of the areas where people are looking at cash burn and survival because of the lack of revenues. Do you think that your uniform interest in the area, in both the international managers as well as domestic, I saw it everywhere? Is that an example of like mindedness, of groupthink, of value clustering? What do you think that's all about? Rupal do you have an opinion?

**Rupal Bhansali**

No, I think it's value clusters. And it's not surprising that this is where the steepest corrections have been. Possibly the fishing ground for a classic value investor. So no, it does not surprise me. But of course, I think we all that we notice have very different kinds of stocks, even though they seem to report to the same team. So, there's still a stock picking element here. As far as pricing goes.

**Mellody Hobson**

The other area that was interesting to me, only a couple of you have done much in healthcare. So, I was wondering about that, some are underexposed in healthcare. Staley, you have very little. John, you have a lot. Thoughts there. John, what are you thinking?

**John Rogers**

Well, it's been a very, very important area. And, we have a great research team, and Sabrina on our team who's been following healthcare, has done an extraordinary job. And many of the stocks that are benefiting from some of the things happening now because of the horrific virus. Our favorite one right now is Envista. You know, Dan talked about a dental products company, Envista has some great brands, Ormco, people are going to have to go back to the dentist again. I think this month, we're up to having 33%, 35% of the dental offices up again. People are going to have to go back because people have been putting off your visits. So, it's favored one, but we love the healthcare space. And we've been able to find some terrific bargains and look forward to continuing to invest in that area.

**Mellody Hobson**

Staley.

**Staley Cates**

It is hard for us to be underweight. I think, maybe, we're just too cautious because some of this does not look like a health-- Speaking of the U.S., this is not a healthcare system that's working too well for everybody. And if you factor that in as a, it seems like the rules will have to change, combined with who knows what the political, any political changes will be. That if it's one of those things, that the terminal value part of our DCF, we think we're going to have no clue on



what the rules may be. That usually just makes us put it in the too hard bucket, but that that has cost us relative performance. So, we're always looking.

Our best backdoor one would be GE health because as Rupal mentioned, the engine maker is our, kind of, preferred way to bet on aviation back at some point. But in that process, we get GE health. Which is a lot like Siemens and Philips, which we followed forever. So, that's more about stealth exposure.

### **Bill Miller**

Our third largest holding is Teva Pharmaceutical, which is the largest generics company in the world. The CEO came in about a year and a half ago, is one of the best we've ever seen. It trades at 4.7 times this year's earnings with a 15% free cash flow yield. And the reason it does is because of the product liability overhang, on generics and on some specialty pharma stuff too, the opioids. But when we drop down into the weeds on the history of those sorts of lawsuits, is they're very, very rarely, asepsis one of the only examples, did they ever lead to the companies going bankrupt. So, what we've seen in the settlements right now would indicate that we think Teva is worth at least twice the current price. I think one out of every eight prescriptions come from Teva (CROSSTALK).

### **Dan O'Keefe**

I find it fascinating that, I'm able to find some really cheap stocks in the healthcare industry right now. So, a couple of our holdings, we have a pretty large position in Anthem. I find it fascinating that that stocks at 11 times earnings. That business is going to grow this year. I think the chances of a single payer health care system, I thought they were close to zero before the crisis and I think they're even closer to zero now. That company's earnings are going to do just fine through this crisis, even if there's fewer commercial lives under insurance because they're just going to shift to the exchanges that are going to shift to the Medicaid business. We own Novartis. That's a business that, I can't imagine that business is not going to grow its earnings over the next few years. They have one of the best pipelines in the industry. They have one of the most refreshed assortment of drugs in the market right now. It's got a net cash balance sheet and it trades on about 12 and a half, 13 times next year's earnings. I just don't see why, in this environment, if people are really afraid of the economy, why are they not bidding those stocks up to 15, 16, 17 times earnings? I think they're just really good bargains.

### **Mario Gabelli**

We've been buying body parts, these extremities, companies that manufacture that. And for the first time, elective surgery was just stopped. You know, John mentioned about the American Dental Association stopping practices, but there was still emergencies going on. What companies have had their stocks hit and which ones have recurring revenue of what they sell, and those are the ones we've identified. So, we've been adding to them, though they bounced a little quicker than I would have liked.

### **Melody Hobson**

We have a question about Europe. Will the EU survive the pandemic? Anyone have an opinion on it, will it make it? I mean, we're here we go again with Greece. We've got North versus South issues. We've got some countries doing relatively well, others, obviously Italy, Spain, Greece, really taking it on its chin. Can they make it? And I mean, Brexit is in the backdrop now. Who has an opinion on the EU surviving the pandemic?

**David Herro**

I think, technically, it probably shouldn't survive because we put too many things together that don't bond with each other. But I think realistically at this stage, it will survive. It's been tested a few times over the last decade. And the fact that they have common currency for the moment leads me to believe that there's too much cost to break it up. It was easier for the UK to because they had their own currency and monetary policy. And I think today, it's unrealistic to believe that any country really will want to believe in and form their own currency, because those countries that are most likely to want to do it, Southern Europe, are the ones that will have the biggest problems. So I think it will survive.

**Mellody Hobson**

Another question that has come in. How is your research changed because you can't go and visit management teams? Mario.

**Mario Gabelli**

I'm talking to a company in Buffalo, New York, there's three or four I want to visit. I'm not going to get on an airplane right now to go up there. So, if they're located within an hour and a half drive time. But I want to see the change in management, and I want to handle the dots. I want to read the trades; I want to see all the competitors. And visiting companies are an essential part of what we're doing and it just hasn't worked the last 90 days.

**Mellody Hobson**

Does it make it harder to do your job?

**Mario Gabelli**

A lot of dynamics. We've gone from being a grazing business, to being a milk business. That you have to be there daily because of the volatility because we set the price of where the bite and the momos and the algos. We had a stock the other day that dropped that at the end of March because of what Bill said about quants. It dropped from 20 to 11. They had 11. And cash, no debt, and a good business. But that lasted all of a day and a half. So, you had a device that you didn't anticipate happening? Yeah, I think that there's more challenges but greater opportunities. And if we can't visit the companies, we'll figure out how to do it a different way. You know, we can zoom, we can crow, we can, team but (CROSSTALK) I know, I got it, John.

**Mellody Hobson**

John, is it harder for you, not going on the road?

**John Rogers**

No, I think it's been great. You know, our research team led by Tim Fidler. We've been meeting every day, basically. On the phones with all of our management teams. We've been having very, very consistent, great discussions. People are welcoming the calls. People are taking lots of quality time. So, you really have a chance to think about your stocks, get your questions answered. And I think it's been, actually, really helpful, not being spending so much time in the air flying from place to place, to be able to be hunkered down, just doing quality research, and having great access to management teams.

**Mellody Hobson**

I'm going to end, we've got two minutes, with a few, really again, I began with a speed round. I'm going to end with it. Do you like working from home? Rupal?

**Rupal Bhansali**

Yes.

**Mellody Hobson**  
Staley.

**Staley Cates**  
Mostly.

**Mellody Hobson**  
David.

**David Herro**  
No.

**Mellody Hobson**  
John.

**John Rogers**  
No.

**Mellody Hobson**  
Dan.

**Dan O'Keefe**  
Hate it.

**Mellody Hobson**  
Bill.

**Bill Miller**  
Yes.

**Mellody Hobson**  
Mario.

**Mario Gabelli**  
Absolutely not. Even isolation. We have an office, but it's not the same. (CROSSTALK)

**Dan O'Keefe**  
I'm not at home, I'm in the office.

**Mellody Hobson**  
One thing you're watching or reading. One thing. Bill, watching or reading.

**Bill Miller**  
I'd say reading. I just finished a book, Radical Uncertainty with Mervyn King, which I think is a really interesting approach to thinking about capital markets and thinking about companies.

**Mellody Hobson**  
David, watching or reading.

**David Herro**

I'll say. I've actually got a lot of books read in the last four or five months, but The Body by Bill Bryson very timely. I started reading it before this all started but you really learn about what's kind of, happening. And specifically, viruses act too. And Bryson writes very light so you can understand it.

**Mellody Hobson**

Dan, watching or reading.

**Dan O'Keefe**

The Endurance. It's a story about Ernest Shackleton. And I highly recommend it, all value investors read that book.

**Mellody Hobson**

Staley.

**Staley Cates**

I'm watching the last dance and it's making me want to re-watch JR's video beating Michael Jordan one-on-one.

**Mellody Hobson**

Oh, God. Sucking up. (CROSSTALK) Stop it. We took bets on if that would come up. John.

**John Rogers**

I've been I've been doing a lot of reading and the book Anonymous was really interesting and the new Jonathan Karl book is fascinating too.

**Mellody Hobson**

Rupal.

**Rupal Bhansali**

Reading.

**Mellody Hobson**

What?

**Rupal Bhansali**

A lot of research on our companies, a lot of history, very eclectic reading, but a book? I'm pushing you.

**Mellody Hobson**

A book, anything.

**Rupal Bhansali**

Some of our friends (INAUDIBLE) It always makes me think in a very different way. And so, that's one that I've been catching up on.

**Rupal Bhansali**

And did I ask you, Mario?

**Mario Gabelli**

No. I basically, am reading reports coming out now and they're delivered by messenger to our Connecticut office and I like to read six to 12 of those a day. And go through the footnotes and see the touchy feel. And nothing (INAUDIBLE) in that regard, but I can read more that way. One of my friends, my wife reads three books a week and (INAUDIBLE) six, seven months.

**Melody Hobson**

Okay, very fast. Are you waking up at the same time? Yes or no? David.

**David Herro**

More or less. Within an hour.

**Melody Hobson**

Mario.

**Mario Gabelli**

Yes.

**Melody Hobson**

Bill.

**Bill Miller**

Yes.

**Melody Hobson**

Rupal.

**Rupal Bhansali**

No.

**Melody Hobson**

Dan.

**Dan O'Keefe**

Earlier.

**Melody Hobson**

John.

**John Rogers**

Yeah. It's about the same. About the same.

**Melody Hobson**

Staley.

**Staley Cates**

Close.

**Melody Hobson**

Last question. If we weren't social distanced and you had to stay home and you could spend time with any one person in the world, one person, who would you want to spend this time with?

Now, you can't say your wife or your family or anything like that. Who would you want to engage with, one person that is alive today?

**Rupal Bhansali**

Bill Gates

**Melody Hobson**

Dan. Or John, go.

**John Rogers**

Go ahead. Warren Buffett.

**Melody Hobson**

Dan.

**Dan O'Keefe**

I think I'd like to go for a bike ride with my friend David.

**Melody Hobson**

More sucking up. I love it. David.

**David Herro**

Melody Hobson. It's just been so long since we've lunch or dinner. And by the way, we're so thankful for you for organizing all this. And I'm legitimate, I miss you, Melody.

**Melody Hobson**

Thank you. Thank you. Staley.

**Staley Cates**

I'm copying Rupal. I'm going with Bill Gates.

**Melody Hobson**

Mario.

**Mario Gabelli**

I'd play one on one with John, but Buffett.

**Melody Hobson**

Bill.

**Bill Miller**

Jeff Bezos.

**Melody Hobson**

Thank all of you so much for giving us your time. I know there were moments where the audio wasn't perfect. I apologize for that, ahead of time. We are not a broadcast studio, we're a bunch of investment firms just trying to have fun talking to each other. We appreciate everyone who called in. This is a mega call. I think there's something like 1,300 people on the line, 1,200 1,300, and you can see why these are our friends. Because these are the some of the smartest people I know. When I was doing all this research. And I always read their letters, but I just thought to myself, I love, love, love working at Ariel, it's the only job I've ever had. And love

working with John and Rupal. But I would have loved, in my career, to work with any of you. So, thank you again so much. And we'll see you around. And thanks all who dialed then. Take good care.

(CROSSTALK)