EUROPEAN INVESTING SUMMIT MAGAZINE

2020 EDITION / PUBLISHED BY MOI GLOBAL

BRINGING TOGETHER GREAT MINDS FROM THE MOI GLOBAL COMMUNITY OF INTELLIGENT INVESTORS, WITH A FOCUS ON ACTIONABLE IDEAS IN EUROPE. MEMBERS ENJOY EXCLUSIVE ACCESS.

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PHOTOS: VARIOUS SOURCES
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EDITORIAL

Welcome to European Investing Summit 2020!

Through invitation-only events and member publications, MOI Global fosters a community of intelligent investors united by a passion for lifelong learning.

I am pleased to share with you the progress we have made building MOI Global into a unique membership community.

The Manual of Ideas started out more than a decade ago focused on content. As we went out to gather and generate uniquely differentiated content for value-oriented investors, we came to appreciate the tight-knit value investing community that had been developing for many years thanks to a strong nucleus formed by the Berkshire Hathaway annual meeting.

We realized this was not only a community of exceptionally gifted and successful investors, but that the vast majority of them were also willing to share with and learn from their peers. We were humbled to have an opportunity to bring the wisdom of investors like Jean-Marie Eveillard, Charles de Vaulx, Tom Gayner, Howard Marks, James Montier, Tom Russo, Mohnish Pabrai, Guy Spier, Murray Stahl, Will Thorndike, Arnold van den Berg, Ed Wachenheim, and Don Yacktman to others in the community. We also saw an opportunity to leverage the internet to help broaden the appeal of value investing beyond its traditional U.S. base.

We call this membership community MOI Global, with *The Manual of Ideas* constituting one component of the value we bring to members. Other benefits include content shared on this website; curated idea presentations shared via online events such as the Best Ideas conference, Asian Investing Summit, Wide-Moat Investing Summit, European Investing Summit, and Meet-the-Author Summer Forum; as well as offline experiences such as Latticework, Ideaweek, The Zurich Project, The Frankfurt Conversation, Best Ideas Omaha, and member-run local chapter meetings in many cities globally.

All of the above benefits are now available to members of MOI Global (at no incremental membership fee). In the past, our online events (formerly ValueConferences) generated revenue from ticket sales. Now they are not only complimentary to MOI Global members, but they are exclusive to members.

We look forward to featuring more than two dozen expert instructors at European Investing Summit 2020. These experienced investors will present in-depth research into their favorite investment ideas. We hope the conference will give you much "food for thought" and potential opportunities on which to follow up.

Thank you for allowing us to play a constructive role in your journey as an investor. Thank you also for being a part of the MOI Global journey as we pour passion and resources into building a special kind of community.

JOHN MIHALJEVIC, Editor in Chef


THE MANUAL OF IDEAS
EINSTEIN
THE INNER RUNNER

DEEPINDER BHATIA

FOUNDING PARTNER / CHIEF INVESTMENT OFFICER,
BAYARD ASSET MANAGEMENT LLC

Princeton, New Jersey

Concentrated value investor */ Bayard seeks companies with strong balance sheets trading at an attractive earnings and dividend yields.*

Deepinder Bhatia is Founding Partner and Portfolio Manager of Bayard Asset Management LLC based in Princeton, NJ. Launched in April 2011, BAM manages a concentrated, long-biased, value-oriented, global equity fund. Prior to Bayard, Deepinder was an Investment Manager and Partner at Ironbound Capital, a global equity long-short hedge fund. He started in 1994 as an Investment Analyst specializing in Asian equities at Merrill Lynch Investment Managers (now BlackRock). He holds an MSc in Economics from the London School of Economics, MBA from The Wharton School and a BCom from Bombay University. He is a Chartered Accountant and holds the CFA designation.

PAOLO CIPRIANI

INVESTOR

Italy, Europe

Investor */ Paolo invests in owner managed businesses with an economic moat, cash generation, consistent growth, and sustainable returns on equity.*

Paolo Cipriani is an investor with nine years of investment experience. Since 2017 he has a track record running a long-only equity portfolio with a focus on Europe, USA and UK. His investment strategy is based on a selection of high-quality businesses led by entrepreneurial business leaders. His expertise extends on sub-sectors with growth potential such as software vendors, IT resellers, publishers, system integrators, cybersecurity, digital communication, digital payments, diagnostic, electricity and renewable energy. His past experience includes working as a consultant and analyst. He holds a master's degree in Accounting from Florence University.

JEREMIE COUIX

CO-FOUNDER, HC CAPITAL ADVISORS GMBH

Munich, Bavaria

***European stock picker** / Jeremie is an experienced asset manager and a regular contributor to the European Investing Summit.*

Jeremie Couix is a Co-Founder of HC Capital Advisors based in Germany. HC Capital employs a value-oriented, long-term approach based on in-depth due diligence, business model analysis, and an understanding of behavioral finance. Prior to co-founding HC Capital, he worked at Discover Capital as an investment analyst and later as co-portfolio advisor of the fund Squad Growth. Previously, he worked at FORUM Family Office, a value-oriented investment manager based in Munich. Jeremie studied corporate finance at University of Mannheim in Germany and graduated from EM Lyon Business School in France with an MSc in Management.

ADAM CROCKER

CHIEF INVESTMENT OFFICER, LOGBOOK INVESTMENTS

New York City, New York

Disciplined investor and avid reader */ Adam combines insights from reading broadly with the rigor of a pilot's logbook to develop his investing process.*

Adam Crocker is Founder and Chief Investment Officer of Logbook Investments, a value fund with core positions based on insights from books. Logbook launched in 2016 and is seeded by his former employer. Prior to Logbook, Adam was a co-manager at Metropolitan Capital Advisors, a long/short equity fund founded in 1992. Before joining Metropolitan, he was an analyst at Morgan Stanley Investment Management conducting research for growth and value strategies. He began his career in Leveraged Finance investment banking at JPMorgan. Adam is a 2005 graduate of the Value Investing Program at Columbia Business School and has an undergraduate degree in Economics from Columbia University.

LOUIS D'ARVIEU

FUND MANAGER, AMIRAL GESTION

Paris

Concentrating in high-conviction ideas */ The MOI Global community has frequently benefited from Louis' perspective on investment opportnities.*

Louis d'Arvieu joined Amiral Gestion in 2005 and serves as a fund manager for the Sextant funds. Founded by François Badelon, Amiral Gestion is a Paris-based independent asset management firm wholly owned by its directors and staff. Amiral Gestion's investment teams benefit from their considerable knowledge of European small- and mid-caps and their close proximity to management teams. The firm's approach is based on fundamental analysis of companies and long-term investment in those that are well understood. Louis graduated from HEC in 2004 with a Diploma of Advanced Studies (DEA) in Public Finances and Taxation from Paris II Panthéon-Assas University.

SANTIAGO DOMINGO CEBRIAN

INVESTMENT ANALYST, MAGALLANES VALUE INVESTORS SA SGIIC

Madrid

European value investor */ Santiago is a passionate value investor with over four years of experience in finance and European equity markets.*

Santiago Domingo is an investment analyst at Magallanes Value Investors. Magallanes is an independent equity-only asset management, following value investment philosophy and controlled by its founders. Magallanes' aim is to preserve and increase its clients' capital by outperforming the market in the long term. Prior to Magallanes, Santiago worked as an equity portfolio manager for Solventis Asset Management, as an analyst for a start-up called OralSurgeryTube and in the Endesa's financial department. Santiago holds a Bachelor's degree in Finance and Accounting from University of Zaragoza and a Master's degree in Institutions and Financial Markets from CUNEF.

MARTA ESCRIBANO

PRINCIPAL ANALYST AND PARTNER, SALMON MUNDI CAPITAL

Madrid

***Global value investor** / Marta has more than a decade of experience in financial markets and employs a long-term, value-oriented approach.*

Marta became principal analyst at Salmón Mundi in 2013. Formerly she worked for three years in the Treasury Department of Banco Popular at the FX and fixed income desk. Before that, she had joined the Treasury of Inversis Bank and the international equity desk of Interdin as equity sales trader advising mostly Swiss and Italian clients. Since the beginning of her professional career she has been passionate about financial markets because they are global, changing and are related to human psychology. She holds a Bachelor's Degree in Law from the Universidad Pontificia Comillas (ICADE; E-1) and a Master's Degree in Financial Markets and Alternative Investments (MFIA).

ALEJANDRO ESTEBARANZ

ADVISOR, TRUE VALUE

Madrid

Engineer turned investor / *Alejandro's passion for value investing and reading investing books while working as an engineer led to his transitioning to the asset management business.*

Alejandro Estebaranz has served as the co-investment advisor of the True Value fund since its inception. True Value, based in Spain, is a long-only equity fund founded in 2014. It focuses on underfollowed small- and mid-cap public companies, seeking good businesses with good management teams. Before his move to the financial sector, Alejandro was a private investor while working as an engineer for companies such as Michelin or Nicolas Correa. He holds a degree in mechanical engineering as well as a degree in industrial engineering. Alejandro is a member of EFPA (European Financial Planning Association).

INSISTING ON THE RIGHT PRICE

WITH ALEJANDRO ESTEBARANZ, TRUE VALUE

Interview with MOI Global

It is our pleasure to bring you an exclusive interview with Spanish value investor Alejandro Estebaranz, co-investment advisor of the True Value Fund. The interview was conducted in 2016.

MOI Global: Please tell us about your background and the genesis of True Value.

Alejandro Estebaranz: I started working as a mechanical engineer, discovering value investing in 2008-2009 while looking for books at my local library. I found The Intelligent Investor. Value investing is a style that fits very well with my personality.

From that point, I became a value investing fanatic. I remember reading a new book every three days, and in six months I was ready to start investing my own money. It was an easy time because the markets were very cheap. I got good results with my personal account which reinforced my learning.

By 2012, I had left my job and was living from investing my own capital. In 2013, I met my partner Jose Luis Benito. He had been an active reader of my value investing blog. We started talking almost every day about stocks and value investing. After a while he said to me, *"It would be great to start a new value fund"*. At that time, he was running the equivalent of an IRA business in Spain.

We presented the idea to clients and started the fund in January 2014 with €2.5 million and 20 clients. Since then we have grown to €16 million and 800+ clients. Cumulative returns have been almost 40% net of fees in the last three years (compared with 17% for the S&P 500). It has been a wonderful experience.

MOI: How do you define your investment universe?

Estebaranz: We invest at least 80% of the assets in developed markets. Almost 90% of our investments is focused in small-caps and mid-caps. We came very early to the conclusion that we had no competitive advantage in large-cap stocks, i.e., market caps of €10+ billion. We like to compete with retail investors, passive strategies, and small funds. We like to invest 80% of capital in good businesses that might be able to generate good returns across the economic cycle. The trick is to find good businesses that aren't being recognized by the market. I can send you a list of a hundred wonderful businesses trading at fair multiples, but it is hard to find good businesses trading at low multiples.

For example, Fuchs Petrolub is a wonderful business, but the market didn't realize it until 2003-2004. The market thought it was another chemicals company, making standard lubricants. But one day, the market realized they are the leading player in a good

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> *I CAN SEND YOU A LIST OF A HUNDRED WONDERFUL BUSINESSES TRADING AT FAIR MULTIPLES, BUT IT IS HARD TO FIND GOOD BUSINESSES TRADING AT LOW MULTIPLES.*

niche, they have pricing power, they are good capital allocators…

We presented Neurones at European Investing Summit 2016. It is the best-run company in its sector, it has the highest organic growth, but the stock went sideways from 2003-2010 — seven years! In 2010, it was trading at 3x EV/EBIT, growing 15%, with great management, 75% recurring revenue, and a large cash pile. This kind of situation occurs only in small- and mid-caps.

MOI: How do you generate ideas?

Estebaranz: There's no secret sauce here. We like to track good small-cap managers. We have developed a good professional network into which everyone feeds their best ideas.

We do some screening. Once we have developed knowledge in a particular sector we like to seek out small promising companies in that sector. For example, we have had success with Constellation Software in our fund; it has always been a top holding for us. By studying this sector, we came across Enghouse Systems, Descartes Group, and Opentext. All turned out to be great investments.

Sometimes you find a CEO telling you how cheap the stock is, but they don't conduct buybacks. We don't like that type of behavior.

In France, we have had good results with small IT consulting businesses. We started with Neurones, but then we found Infotel, Groupe Open, and Econocom. These businesses operate in a secular growth sector, are resilient to crisis, and are run by owner-operators. They didn't have debt, and capital allocation was good. The market was pricing them around 6x EV/EBIT, and less than 10x earnings. This is how you can generate a good margin of safety — buying this kind of stuff.

MOI: What are your key stock selection criteria, and what types of businesses do you favor?

Estebaranz: We look for high ROCE businesses, with a high proportion of recurring revenue or predictable cash flow. The vast majority of our holdings follows the model of *"owner-operators"*, which tends to work better. We like to invest in industries where we can see the future clearly. We don't like to invest in turnarounds, because they often don't turn… We also haven't been successful in cyclicals.

We know our strengths, and we focus on those. When you are a small fund, you have tons of stocks to choose from, so why shall we force ourselves into tricky situations?

MOI: When it comes to equity analysis, how do you assess the quality and incentives of management? Which CEOs do you admire most?

Estebaranz: We like to look at what managements do instead of what they say they are going to do. If they are active in M&A, we track what multiples they paid and how the acquisitions have performed. We check if they have accomplished previous goals and strategic plans. Sometimes you find a CEO telling you how cheap the stock is, but they don't conduct buybacks. We don't like that type of behavior.

We like prudent and honest CEOs. We prefer them to have low public profiles. If we see a company presentation where they show trading multiples of their stock, that stock becomes un-investible. That kind of behavior creates short-term focus.

We also hate stock options.

Mark Leonard from Constellation Software is the prototype of the perfect CEO (leaving aside Warren Buffett). Leonard has created an amazing culture. They have one the most creative incentive systems I have ever seen. It is a system that makes people think long-term, act like owners, and rewards best performers.

Luc de Chammard at Neurones is also exceptional (see our related presentation at European Investing Summit).

Angus Kelly at AerCap is a very smart guy who has created a lot of value for shareholders.

Stanley Ma of MTY Food Group is another prototype of a perfect CEO. They don't give guidance, don't use stock options, have modest salaries, don't attend analyst conferences, and don't conduct quarterly conference calls. The business has compounded value at 20% for decades, and I expect they will compound at high rates in the future. Your capital is invested better with this kind of guy than in a ten-year bond.

In Asia, it is harder to find good management, but we admire Hong Tianzhu from Texhong Textile (Hong Kong: 2678). This CEO has built a $1 billion business from scratch over twenty years in the textile sector. He is always thinking, always improving, a very smart capital allocator. The business has multiplied sales and profits by 10x over the last decade. They are the largest player in a very fragmented market, and they can continue to compound value at 20%. The market offers you this great business and management team at a P/E of 5x (based on 2017 estimates).

MOI: Do you typically seek dialogue with the management teams of your investee companies?

Estebaranz: We don't like to talk with managers before investing. When you hear their *"story"* — they have already told the same story to dozens of funds bigger than you. You rarely discover anything new. In fact, it may corrupt your thought process.

We are a fact-based fund. We like to check their actions, and if we like what we see, we invest with them. We may ask them specific questions about the business – accounts or the sector – but this is different from going to them to hear about a bright future or a pitch.

We don't attend brokers' events. Usually, the best companies don't do these kind of roadshows. If your business is great, you don't need to promote it.

MOI: How do you strike the right balance between being concentrated in your best ideas while remaining sufficiently diversified to keep downside risks under control?

Estebaranz: We are a long-only fund. We don't use leverage. It is a very simple structure.

Spanish law forces us to have at least 20-30 holdings. We currently have 40 holdings, plus some exiting/starting positions. The top ten positions are around 50% of the fund.

You have to be very careful about concentrating a lot in small-caps. Bad news always happens, and if you own a lot of stock, you are going to suffer. We have taken big positions in small-caps, but only when the margin of safety has been huge.

MOI: What are you observations on the competitiveness of Spanish businesses on a European or global stage? What changes would you like to see to improve competitiveness?

Estebaranz: Spain has become very competitive inside Europe, after the recent reforms. Labor is cheap, competitive, and flexible compared to the rest Europe. We have a lot of skilled people. We have maybe one of the best infrastructures in Europe after the housing boom of the early 2000s.

Real estate costs have come down a lot, reducing costs for new companies. The main problem is politics. Populism is rising, and that is dangerous, in my view. I would like to see the government investing into improving the quality of education, technology, and R&D.

MOI: Which one or two recent books have given you new insights into the art of investing?

Estebaranz: 100 Baggers is a good read in you want to invest in truly great companies. You can learn what has worked in the past and try to find similar stocks.

The Outsiders is a great book on how to find good management teams and what they have in common.

MOI: Alejandro, thank you very much for your insights.

DOMINIC FISHER

FOUNDER & DIRECTOR, THISTLEDOWN INVESTMENT MANAGEMENT

Otham, Kent

Veteran investment manager */ Thistledown invests using a contrarian and value based style with the founders being among the largest investors.*

Dominic has been investing since 1989. He trained at Hambros Bank, joining Mercury Asset Management in 1992. There he led the charities team successfully during the dotcom bubble by resisting the pressure to invest in a 'new era'. He joined Singer and Friedlander in 2001, but left in 2002 to run his own business. He joined OLIM in 2005, a subsidiary of Close Brothers before establishing Thistledown in 2009. He is a director of Aberforth Split Level Income Trust Plc. and a founder member of the Value Investors Special Interest Group of the Chartered Financial Analysts.

MASSIMO FUGGETTA

FOUNDER & CHIEF INVESTMENT OFFICER, BAYES INVESTMENTS

London

Investing in Italian small-caps */ Massimo and his firm serves as investment advisor to the Made in Italy Fund, a mutual fund exclusively focused on Italian small capitalization stocks.*

Massimo Fuggetta started his career in 1988 at JP Morgan Investment Management in London, rising to become Head of the Global Balanced Group. In 1999 he left JPMIM to become Chief Investment Officer and Director General at Sanpaolo IMI Asset Management in Milan, later becoming Chief Executive Officer. In 2001 he started Horatius, originally an advisory firm which later became an asset management firm. In 2012 Massimo left Horatius and went back to London, where in 2014 he founded Bayes Investments. He holds a Master's Degree and Doctorate in Economics from the University of Oxford. Massimo shares his thoughts on the Bayes blog at www.massimofuggetta.com.

SMALL-CAP VALUE INVESTING IN ITALY

WITH MASSIMO FUGGETTA, BAYES INVESTMENTS

Interview with MOI Global

We are pleased to bring you this exclusive interview on small-cap value investing in Italy with MOI Global instructor Massimo Fuggetta, portfolio manager of Bayes Investments, based in London. This interview was held in 2016. The transcript has been edited for space and clarity.

MOI Global: What motivated you to start a fund focused on Italian small-caps?

Massimo Fuggetta: Italy is at an inflection point. I know it sounds clichéd, but it's true. After decades of stagnation and gridlock, real change is happening. I can't believe I'm saying this, but for the first time in my life we have a government I am really proud of. Until recently, I have been trying to explain to people all that is wrong with Italy. Now I am very receptive to Prime Minister Renzi's call to stop complaining and roll up our sleeves. The Made in Italy Fund is my answer to that call – to do something useful where I can.

The Italian stock market is small. There are only about 320 quoted companies, with a total market value of about 500 billion euro, which is not even 30% of GDP. Most of that value is concentrated in financial companies and public utilities. Add ENI in oil and a few consumer companies like Luxottica and you have three quarters of the market. If you buy an Italy ETF or one of the dozen "Italian equity" funds benchmarked around the index, you hardly realize to what extent you're buying those few sectors and therefore dramatically underinvesting in what is really the heart of the Italian economy – small companies. Hence our choice to forget about the large caps and concentrate only on small caps, defined as companies with a market cap of less than one billion. It is a universe of about 250 companies, which is more than three quarters of the names, but only 8% of total market value.

The fund has just started, but our preparation for it has been long and laborious. Our aim has been to select the best 30 companies within the universe, in terms of profitability, growth and valuation. I started my professional life in the '90s as the Italian stock picker in a large asset management company in London. Over time I moved on to do other things, but I kept that responsibility throughout the decade. At that time stock selection, even within Europe, was done country by country. I stopped doing it for a while in the early noughties, but when in 2004 I formed an asset management company in Milan, Italian stocks were always part of the global value portfolio I managed.

MOI: The universe of choice seems quite narrow...

Fuggetta: Of course it is, but so is our focus. You see, we wanted to create something new, a fund that could fill a need for Italian as well as international investors. Since the domestic market is so small, Italian savers are not used to thinking in terms of domestic vs. international equities, which is the norm in more developed markets and makes a lot of sense from an asset allocation point of view. So Italian exposure ends up being just a small, peripheral part of their equity portfolios. The Made in Italy Fund gives them a focused, thoughtful exposure to the vibrant core of the Italian economy. The same is true for international investors who are interested in Italy but don't want to end up owning lots of banks and utilities and little or nothing of the more interesting stuff.

MOI: What are your key stock selection criteria, and what types of businesses do you favor?

Fuggetta: Let me say first that our company, Bayes Investments Ltd., acts as advisor to a sub-fund of a Luxembourg Sicav. It is called the Made in Italy Fund and is a UCITS-compliant, harmonized, long-only fund, open to retail as well as institutional investors, and can also be bought directly on the Milan Stock Exchange.

As I said, it holds about 30 positions, which I think is the right balance between necessary diversification and meaningful focus. As a bottom-up value investor, I am fairly sector-agnostic, but I am happy to be able to include a good number of solid, well-managed industrial companies, which have a near-zero weight in the main index and are therefore virtually absent in most run-of-the-mill Italian equity funds.

Take Datalogic for example, a company I talked about at the valueconferences.com European Investing Summit in November 2014. It is one of the largest worldwide producers of automatic data capture and industrial automation products, with sales of more than 500 million euro and a market cap of about 900 million. It was selling at the time at less than 9 euro a share. Today it is more than 15 euro. As is most often the case in Italy, but also quite common throughout continental Europe, the company has a controlling shareholder – in this case the family of its founder, who created it from scratch in the '70s and owns about 2/3 of the shares. But if you look at the 1/3 free float, nearly all of it is in the hands of a variety of international investment firms, while domestic firms are conspicuous by their absence. It is a paradox and a pity, and in this respect Italy is indeed

different from other European countries, including Germany and France, where there is a large number of local firms focused on domestic stocks. That's why there are nearly three times as many quoted stocks in each country compared to Italy. Little demand means little supply. In this sense, we want to break the mould. If we are successful, you will see the Made in Italy Fund as a stable, long-term shareholder of reference in the companies we like. Hopefully, other funds will follow, and more companies will open up their capital to the stock market, in what could turn out to be a virtuous, self-reinforcing circle.

To answer your question, we look for profitable businesses, where strong management has a proven ability to reinvest earnings at a high rate of return on capital. These are the likes of Datalogic, but there are many more little-known companies that fit the bill in the industrial sector, such as El.En., a producer of medical and industrial laser systems, or La Doria, a wonderful company operating in the south of Italy and a European market leader in private label canned food products. You can as well find good companies in unlikely places like finance, where for example Banca Ifis does a great job in trade receivable financing. Or TIP, the investment company I talked about at the European Investing Summit last November, which is still at around the same price as it was then, at 3.2 euro, having fallen in the meantime to as low as 2.5, but we think it is worth a lot more.

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> *THE MADE IN ITALY FUND GIVES THEM A FOCUSED, THOUGHTFUL EXPOSURE TO THE VIBRANT CORE OF THE ITALIAN ECONOMY. THE SAME IS TRUE FOR INTERNATIONAL INVESTORS WHO ARE INTERESTED IN ITALY …*

MOI: How do you generate ideas?

Fuggetta: After a two-year preparation, we have a good knowledge of what, as we said, is a relatively small universe. We have studied and visited many more than the 30 companies we have finally selected. And I say we, because I have been joined in Bayes Investments by an exceptional team of experienced professionals – with strong backgrounds in management consulting, private equity and corporate governance – who are helping me by adding their particular angle to the analysis of each situation. I can't stress enough how important it is in our universe to have a direct, on-the-ground knowledge of each company, its environment, people and culture. Frankly, I see this as a big competitive advantage.

Initially, we ranked the universe based on profitability and valuation numbers. But then the real work started, with company visits and in-depth balance sheet analysis. The work is ongoing, also due to the fact that there is now a steady stream of interesting IPOs – the last one is Technogym, the well-known sports equipment manufacturer. It's a lot of work, but very exciting and rewarding.

MOI: What are you general observations on the competitiveness of Italian businesses on a European or global stage?

Fuggetta: Italy has very successful consumer goods companies – well-known brand names like Luxottica, de'Longhi and Campari, and in fashion of course Ferragamo, Moncler, Yoox and Prada, which has chosen to be quoted in Hong Kong. Not as well-known, we have very strong companies in producer manufacturing – Brembo, Prysmian, Interpump, Ima – and in Health Technology – Recordati, Amplifon. In some of these, whose market cap exceeds one billion, we are indirectly exposed via TIP. Our goal in the Made in Italy Fund is to find the next Luxottica and the next Brembo. What can happen sometimes is that companies we like get taken over. It has already been the case with three companies – DeLClima, a de'Longhi spin-off that makes air conditioning systems, has been bought by Mitsubishi Electric at almost twice the market price; Engineering, an IT services firm, has been taken private; and lately Bolzoni, a manufacturer of lift truck attachments, was sold to a US firm.

Many of our companies are solid and competitive exporters. An issue that regularly comes up with Italian companies is that a great many of them are family-controlled and therefore unable to grow beyond a certain point through dilutive investments. A related observation is that there is a generational succession problem and a reluctance to bring in external management. My point of view is that these are all lazy generalizations, and that it very much depends on a case-by-case basis. Mr Del Vecchio still owns 60% of Luxottica, but that has not prevented him from growing it to a 23 billion company. There is good management and bad management. Whether it is external or internal is largely irrelevant. What is a potentially relevant issue for the fund is the size of the free float. We said our universe is 8% of a 500 billion market – that is 40 billion. If we take one third of it, which is the average free float, that is about 13 billion. If you take just a small fraction of it, you can see that a fund like ours, which is not interested in short-term trading but wants to gradually accumulate stable, long-term positions, can realistically aim at reaching a size of several hundred million.

MOI: What is your assessment of corporate governance in Italy, and how do you assess the quality and incentives of management?

Fuggetta: We've made a lot of progress compared to when I started. In the '90s, Italy was still a poorly regulated market and a minefield for minority shareholders on all scales. Proper regulation arrived in 1998 and since then there has been a steady evolution towards international standards. What was then the rule has now become the exception. Most companies understand the value of transparency, equal treatment and respect for all shareholders. Certainly for us good corporate governance is a conditio sine qua non – one of our partners, who also serves as our Chief Operating Officer, is a top international expert on the subject. By the same token, we have a personal acquaintance with the top management of all the companies in the fund – I would be remiss to single anyone out. Some are the business founders, some are second generation, some others are external – as I said, it really doesn't matter. What is important to us is what they do and the value they place in having us as a committed interlocutor.

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> *I CAN'T STRESS ENOUGH HOW IMPORTANT IT IS IN OUR UNIVERSE TO HAVE A DIRECT, ON-THE-GROUND KNOWLEDGE OF EACH COMPANY, ITS ENVIRONMENT, PEOPLE AND CULTURE.*

MOI: What is your view of the potential opportunities and hurdles to *"activist"* investing in Italy?

Fuggetta: From all we've been saying, it's pretty clear that there is no space in our universe for hostile activism. Plus, if there were, I would not be the right person for it – it is not in my temperament. Still, you can think of what we do as *"friendly"* activism, as by engaging in a constructive exchange with our companies we find ourselves in a position to be heard.

DANIEL GLADIS

DIRECTOR, VLTAVA FUND

Brno

Accomplished investor and author */ Daniel has developed a reputation as a superb investor with the ability to develop a clear understanding of investment opportunities others may overlook.*

Daniel Gladiš, based in the Czech Republic, has amassed a market-beating track record since starting VLTAVA Fund in 2004. VLTAVA Fund is a value-oriented, research-driven investment fund focused on investing in good companies run by quality management. Previously, Daniel was Director and Chairman of the Board of Directors of ABN AMRO Asset Management (Czech) from 1999–2004. He was also Director and founder of Atlantik finanční trhy, a.s., a member of the Prague Stock Exchange. Daniel is a graduate of VUT Brno and has authored the best-selling books *Naučte se investovat (Learn to Invest)* and *Akciové investice (Stock Investments).*

IMPORTANCE OF ATTRACTING THE RIGHT CLIENTS

WITH DANIEL GLADIŠ, VLTAVA FUND

Interview with MOI Global

In an episode of The Zurich Project Podcast, presented by MOI Global, John Mihaljevic speaks with Daniel Gladis about the importance of attracting the right clients. This interview was conducted ahead of The Zurich Project in 2017. Daniel, chief executive and portfolio manager of Vltava Fund, explains why having the right type of investors is a necessity for long-term survival and success in investment management. The conversation delves into client selection and ongoing client communications. The following transcript has been edited for space and clarity.

MOI Global: It's always a great pleasure for me to have an opportunity to speak with Daniel Gladiš, Chief Executive Officer of Vltava Fund, based in the Czech Republic. Those of you who are members of our community will know Daniel quite well by now. He has given us insightful interviews as well as presented at several Value Conferences in the past, and his ideas have just been incredible – not just from a performance standpoint but also from the way that Daniel puts together his investment thesis. He has run Vltava Fund since 2004 and has beaten the market soundly by following a value-oriented, research-driven investment approach.

Daniel, I'm very much looking forward to having you with us at the Zurich Project. What I thought we could discuss now is the importance of having the right type of investors, something that I feel like is often overlooked but may in fact be a necessity for long-term survival and success. So, I look forward to your thoughts on the topic and then I'll just mention, obviously, we can continue this discussion in Zurich as well with those who are interested. So, tell me why you thought we should discuss this particular topic.

Daniel Gladiš: Well, first of all, thank you for the invitation, John. It's always a pleasure for me to be a host or a guest at one of your events. I really enjoy it very much. When you came up with this suggestion to do podcasts and I thought about what we should talk about, I think one of the topics I've been thinking about for years now – and it's not very often covered – is how important it is to have the right sort of investors for your fund to achieve success, so I suggested this topic and I'll be happy to share with you my thoughts. It's not a rocket science. There is a lot of subjective input into it, but I think this is something that is very important.

MOI: Absolutely, and I think, you know, I've also come across some scepticism when you mention the topic because a lot of folks are really struggling to get money in the door and this notion that you should actually pick and choose your clients seems almost a little arrogant, but why do you think it's actually a necessity over the long term?

Gladiš: Well, let me explain. I think at the end you should probably reject some clients, but let me get to that point step by step. I think when people start a business like a fund or a hedge fund, they may have different motivations. Of course, a financial motivation is important for everyone, but there are other motivations as well. Sometimes, people just want to start a fund because they like that kind of activity. They just like doing it, and also I know a lot of fund managers that feel good about the fact that they are helping others by offering them investment services. So, there could be various motivations. And I think when you start you should realize what your main motivation is, and then, when you look back at your own business, there are a number of criteria that you can use to evaluate whether you are successful or not.

Of course, the investment performance is important, but, if we set the performance aside – because running a fund is not only simply about managing money, but it's also operating a business – so there are other criteria for success evaluation. It could be size of your fund or the size of the business. It could be the stability – the stability of your business, the stability of your investor core. It could be the recognition you receive from not only your investors but from the wider public, and it certainly could be a pleasure from the work that you're doing and also from the relationships that you have with people that you serve, or from your clients. So, there are a number of evaluation criteria, and they do have a common denominator. That is that it is really very important and critical that you have the right type of investors to be successful, because, if you don't, then you may not be large enough, your business will not be stable, you will not have the satisfaction from working with pleasant people or people that share your investment philosophy, etc.

When you look at what kind of investors you may have, of course, there are various types of investors. When most people start a fund, they start with partners and friends and family and then they move along to high income individuals and they work with seeders. Then they can work with funds of funds, and, if they get some track record and they are bigger, they can work with family offices, they can use third-party marketers, foundations, endowments, pension funds and even sovereign wealth funds. So, there really are various types of investors – not only individual and institutional, small and large, but really different types. There are investors that are direct investors, and then there are investors which are not direct and they are represented by an agent or by a

middle man or by another fund. And this is all important.

So, when you think about what type of investors is good for you, it should be such that fulfils the following criteria: I think the right customer, or right investor, should understand your philosophy. That means they should be willing and able to understand it. They should understand the approach you have, your goals, your investment horizons, how you define risk, etc. Well, it sounds nice, but from our experience, this is very difficult to achieve in practice, because investors must be not only willing, but also able to look, learn, and understand what you're doing – and this is very difficult. We've been trying to educate investors for 14 years now, or 15 years, and very often what happens is that, if you ask them, they say, "Yes, we understand what you're doing. We share your thoughts, we agree with it." And then when you ask them to actually formulate what they think you are doing, very often they are not able to, so there's always some misunderstanding. There's always a misreading in perceptions and expectations, etc.

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Another thing to consider is should I offer what the people want or should I do what I think is right and then try to find investors that fit into this? There are two different types, but I think the right steps for achieving the right type of investors are the following: First of all, we should focus on the right types of investors in general. As I said, there are individuals, there are institutions and they have different expectations, different horizons, different criteria. If you focus on the wrong groups, then the probability of your success is lower. It's the same like in investing, you know, if you focus on sectors or industries where there is a high probability of success, then you'll probably find good investments. If you focus on the wrong industries, on the wrong countries, on the wrong types of companies, then you'll probably not succeed. It's the same in working with investors.

If you want to find the right types of investors, you have to realize first who they are and then to target them – and do not target other types of investors. You should do all you can before they become investors in order so that they understand your business. This is important, this is absolutely critical because if you accept a customer or an investor that does not understand what you are doing or does not agree with what you are doing and is joining you only because he likes your performance or only because someone has recommended it to him or someone just sold it to him, this is not good, because, sooner or later, this will result in dissatisfaction on both sides – on your side and the side of the investor. So you have to make sure that you do everything you can before someone becomes an investor so that he understands what you're doing, which means also that you should absolutely not take everyone that offers you money.

Now, there's a conflict between size and quality of your business. If you make size of your business the #1 priority – which is fine; I'm not telling what people should do – but then you should realize that you have to make sacrifices on the qualities of your business. On the other hand, if you put priority on the quality of the business, which means the quality and stability of your investors, then you should sacrifice probably something on the side of the size of the fund and you probably cannot do both at the same time. Then, when time goes on, and even if you do everything you can to accept only the right clients, then it's inevitable that, during your business, you will realize that some of your investors are not the right ones. So, what can you do?

Well, I think the best way, actually, is to discourage them from further investments in your fund. It sounds crazy, but I think it's better for both you and them, because if there's people in your fund that shouldn't be there in the first place because they expected something else or they had different horizons, they never actually accepted what your investment philosophy is, they're unhappy and you're also unhappy. I think a relationship like that lowers the quality of the business, and I think you should, in some way – I don't know in what way, there might be different ways for different funds – basically discourage them from at least further investments, but maybe from staying in your fund at all.

It is also very important that you control the selling process of your fund, because if you enable third parties to distribute your fund, it means that you give up a lot of control over who becomes your investor. You don't know what your new investors are being told, what they're being promised, what expectations they create before they become investors and this is very dangerous because there's a conflict, of course. There's a conflict between you as a principal of your business and your desires, there's a conflict between someone who sells your fund because their motivation is probably very different from yours. So, I think the best way to achieve the highest quality is to absolutely control the process over who becomes your investor. But I understand that for some fund managers or for many fund managers, this is either too restraining or too difficult or might be even too costly, and they want other people to sell their funds. But then they have to realize the dangers that you're getting with it.

Then, as the fund goes on, as the business goes on, you must make the communication with investors your top priority, because as the fund gets bigger and your client base grows, it becomes more time-consuming and more costly to constantly communicate on a one-to-one basis with everyone, so you have to design ways of communications for communicating with investors all the time, because even if you think that they understand what you're doing, that they accept it and they like it, don't get too complacent. You have to repeat the same things over and over and over, because people tend to forget. They tend to deviate from their original understandings and, very often, they just get distracted and basically they say they understand what you're doing, but they don't. So you have to repeat the same thing over and over and over all the time. Communicating with investors during their investments is very important. Last but not least, I think you have to be very patient and consistent. If you're in a hurry to grow your business, you'll probably get a lot of rubbish in your fund, so being patient and working slowly I think pays well in the end. So, those are my thoughts. I have some other thoughts, but maybe you want to jump in with your comments now, John.

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> *... SO I THINK YOU SHOULD MAKE MARKETING AND COMMUNICATION AND BUSINESS DEVELOPMENT – WHATEVER YOU CALL IT – A TOP PRIORITY RIGHT FROM THE BEGINNING.*

MOI: Yes, thank you so much for laying it out so clearly. Maybe on the investor communications part I'd like to go a little bit deeper in terms of how often you might want to communicate, what you actually want to put in those letters. I know you don't discuss live ideas in your letters, so just tell us why you decided on the modalities that you did.

Gladiš: Well, they've evolved over time. We have various frequencies of various types of communication. We have a monthly fact sheet, which gives you monthly NAV, but also gives you a set of basic data, including top investments, basic statistics and allocations, etc. But then we have quarterly letters, which are basically designed for both existing and potential investors. We try to explain what we do and what our thoughts are on various actual topics. We discuss only investments that we have closed in these letters, because it's been widely read and we don't want to give up our ideas publicly too soon. Then we have various presentations and an annual gathering for investors where we are more open and we discuss everything in detail. These are the standard ways of communications. Then, too, we do meet with investors throughout the year on a one-on-one basis, but this is very time-consuming, so we have two or three dedicated people just to do that.

This is very efficient and brings new business, but it is also very time-consuming. And then we organize various other events. We organize conferences, we organize seminars – so we try to do a lot of communication, and I think it's very, very important. I think one mistake that I see very often in other funds that come and go is that very often they just start a fund with an idea, "Yes, I'm going to start a fund and start managing money and then people will come," but people never come. If you don't try to get them very actively, they will not come on their own. It doesn't work like that, so I think you should make marketing and communication and business development – whatever you call it – a top priority right from the beginning. And it's a very different function from running money. It's inevitable that the fund manager himself or herself gets involved because he is the one that is the source of the ideas, but he cannot do it alone. You have to have other people that are basically designated and dedicated to the marketing activity.

You should also realize that you will never achieve the perfect or ideal setup, but if you know what you want to achieve, then you might get close. Basically, I see this as a trade-off between the quality of your business and the size of your business. I think if you prefer quality, then your business will grow anyway, your satisfaction will be higher, and money, even if it might not be your #1 priority, will follow in the end anyway. So, these are the criteria that we use and I think that they work well. Another thing that I think is important is that, as the time progresses, you may want to – or you may have to – target different types of investors at various phases of your business. Of course, when you start a fund, there is no track record, it's a small size, you could hardly get a sovereign wealth fund as your seed investor, right, so typically people start with their family and friends and partners when they start a fund. Then they can move along as the fund gets a track record and gets bigger in size to other types of investors and eventually they might end up with large institutions, and this is fine, but doing it the other way around is probably not a good idea. So, yes, you may have different preferences at different phases of your business.

MOI: I assume to date you've had mainly individual investors in the fund. In terms of communication between individual investors versus institutions, do you think there are any major differences there to be aware of, and how do you actually pick the institutions? That seems even more difficult than picking the right individual investors.

Gladiš: Yes, the communication is very different. Individual investors, even if they are very rich, they don't really care about, you know, ratios and tracking errors and Sortino ratios and drawdowns, and stuff like that. They basically use more common sense than hard finance, and you should also communicate with them in this way. It doesn't mean at all that they are less advanced or so, they just view things differently, but I think they are probably a better, more stable source of investors for smaller funds. We market our funds primarily to individuals from various European countries, and we find this to be the best source of money, because, first of all, they are end-investors, so they have no one to report to. They don't have any supervisors or bosses or boards or their own clients. They are end-investors, which means that they are making their own decisions. They usually are very long-term oriented, and they do not succumb to herd behaviour. They are not hot money. They make their own decisions, and they usually are more stable. They're also a good source of references for other clients, so I find this to be a very stable client base.

I realize that our fund could be bigger if we were more aggressive and if we were using third-party marketers and if we were more after institutional money, but I think the client base would not be as stable as it is right now because our client turnover is something like 2% a year. It's usually very low – and a lot of that comes from people divorcing and people dying, unfortunately, as well. So, there are natural causes for client turnover, but otherwise it is a very, very stable client base.

MOI: If you wanted to look to some institutions, what would be your ranking of the types of institutions to go after? Would you look at university endowments or family offices? Where would you get started?

Gladiš: Probably family offices, because they are the closest to what we have right now. And we do have some. Then probably endowments would be a natural extension because, again, their investment horizon is very long and they are more stable than, for example, funds of funds. We do fight certain prejudices, because we are based in Eastern Europe, and it's very difficult to attract Western money from here. That's also a reason why we focus on high net worth individuals, because they do not have this barrier as much as do institutions.

MOI: In terms of the structure of the fund, meaning frequency of withdrawals and things of that nature, have you looked into ways to use some of those tools in order to help you discourage the kinds of clients that you would not want in the fund?

Gladiš: Not really. I'll tell you what we have. We have monthly liquidity, so there are no lock-in periods, etc.. Anyone can come in and out every month, but what we do have is we have a redemption fee, which is 2.5% of the redeemed amount, except in February when it's zero. This is a funny arrangement, but what we wanted to achieve is to discourage hot money, because we do not want money that comes in in March and goes out in July and gets back in in October, etc. We want investors to be able to think first what pocket of their own money they're giving to us, and we only want long-term money. So, if someone thinks in the short-term, don't come, and the redemption fee is meant to be a discouragement. But then what we found out in practice is actually that this also works to prevent investors from acting emotionally throughout the year.

For example, last year when there was the Brexit and the market crashed after that, a lot of investors around the world started panicking and they were redeeming money from various funds...because emotionally they were scared, they were panicking. When they want to redeem from our fund, the redemption fee is preventing them from overreacting to their emotions, which in retrospect almost always seems a good thing to do. Our redemption fee, even if it's not meant to be such, it was not meant to have this effect in the first place, it actually prevents investors from overreacting to short-term market developments. And over the last 14 years, it's almost always been a good idea not to do anything. So, yes, we have a funny redemption fee structure, but so far it's been working very well.

MOI: You are organized as a SICAV. How much flexibility does that structure give you to tweak things like redemption fees? Could you have a redemption fee that's based on the length (of time) that someone has been in the fund? What are some of the limitations that SICAV puts on you that maybe where you might do something differently if it weren't for the regulations?

Gladiš: Well, the regulation in general in the last several years has gotten tougher and tougher and in many ways, just crazy, but, for the fee structure, especially for the redemption fees, I haven't seen any limitations. You have pretty much full flexibility in how you want to structure it, but we have not explored this subject because our fee structure has been the same for 15 years and we don't want to change it. But I think that there are no limitations here. You are very flexible.

MOI: Great. Well, I found this very helpful, Daniel. Thank you.

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Entrepreneur and investment professional */ Nils bought his first stock when he turned nine and ever since has been passionate about value investing.*

Nils Herzing is an Investment Professional at Active Ownership Capital (AOC). Prior to joining AOC as its first employee, Nils was the manager of a Family Office in Regensburg, Germany. In 2013, he graduated with a B.A. in Management, Philosophy & Art. In the same year he founded the Herzing Value Investment GmbH. Afterwards, he earned an MSc in Finance from the EBS Business School and EDHEC Business School and became a CFA Charterholder. In 2017, Nils co-founded ForkOn GmbH, the first vendor neutral SaaS forklift fleet management solution. Since December 2018, he has served as a board member of the supervisory board of PBKM (Polski Bank Komórek Macierzystych) S.A.

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Pieter Hundersmarck is the global portfolio manager for Flagship Asset Management, a specialist global investment management boutique based in Cape Town, South Africa. Flagship (est. 2001) is one of South Africa's most awarded boutique asset managers, with deep experience across asset classes in developed and emerging markets. Pieter has been investing internationally for over 14 years. Prior to Flagship, he worked at Coronation Fund Managers for 10 years, and also co-managed a global equities boutique at Old Mutual Investment Group. Pieter holds a BCom (Economics) from Stellenbosch University and an MSc Finance from Nyenrode Universiteit in the Netherlands.

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Arif Karim is a senior investment analyst at Ensemble Capital. Ensemble Capital is a wealth management firm managing assets on behalf of families and charitable institutions as well as a publically traded mutual fund. Ensemble's investment mandate varies across clients, but always involves a focus on long-term capital appreciation and protection. Before joining Ensemble, Arif was a senior investment analyst and co-portfolio manager at Kilimanjaro Capital. Positions prior to that included senior equity analyst at Pacific Edge Investment Management and research associate at Robertson Stephens & Co. Arif graduated from the Massachusetts Institute of Technology with a BS in Economics and he is also a CFA charterholder.

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European investing expert */ With extensive experience analyzing businesses, Thomas runs a specialist equity investment firm following a value-based strategy headquartered in Switzerland.*

Thomas Karlovits founded Blackwall Capital in 2014, having worked in the equity research sector for more than two decades. From 2003 to 2014, Thomas was at Kepler Cheuvreux (Kepler Capital Markets prior to the takeover of Cheuvreux). Thomas most recently held the role of Head of European Equity Research from 2013, and was Deputy Head from 2007. During this time, Thomas was also in charge of investment strategy for the wider group. Between 2005 and 2007 Thomas headed the European Telecom sector. Thomas studied Business Administration and Economics at the University in Vienna. He also serves on the Board of Directors for Sunrise Communications AG.

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Sébastien Lemonnier is Fund Manager at INOCAP, where he joined in 2017. INCOAP specializes in investing in European companies across a range of industries, with a focus on working with entrepreneurs operating in the "real economy". Sébastien started his career in 2003 as a financial analyst at Tocqueville Finance where he rose to become European Equity Fund Manager in 2006, running the UCIT fund Tocqueville Value Europe. Later he served as an Associate at Mansartis. Sébastien holds a Master's Degree from the University of Paris1: Panthéon-Sorbonne. His hobbies include playing competitive tennis, playing rugby, and practicing English boxing.

DAVID MARCUS

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David Marcus has more than 30 years of experience in the investment management business and has extensive real world operating and restructuring expertise across a wide range of industries. He began his career at Mutual Series Funds and was mentored by renowned value investor Michael Price. He rose to serve as director of European Investments for Franklin Mutual Advisors, LLC, and had portfolio management responsibilities for Mutual European Fund, Mutual Shares and Mutual Discovery Fund. He later founded two hedge funds, and co-founded a family office for the Stenbeck family. As a control investor, he helped set corporate strategy, implemented restructurings, and led activist/anti-activist campaigns. David is the Co-Founder of Evermore Global Advisors, and is the portfolio manager for all Evermore strategies.

GREAT OWNER-OPERATED BUSINESSES IN EUROPE

WITH DAVID MARCUS, EVERMORE GLOBAL ADVISORS

Interview with MOI Global

In an episode of the Ideaweek Podcast, presented by MOI Global, David Marcus discusses owner-operator-led businesses, particularly in Europe. This interview was conducted ahead of Ideaweek in 2017. The following transcript has been edited for space and clarity.

MOI Global: It's a great pleasure to welcome David Marcus, chief investment officer of Evermore Global Advisors. David, let's delve a bit into your unique expertise in owner-operators, specifically in Europe. It comes from your background and some of the experiences you've been fortunate to have along the way. We can learn a lot about how value in businesses is built and grown over time, particularly through folks who have a stake in the business themselves, whether it's a family or a CEO. Could you tell us a little about your own background, how you got to meet some of these owner-operators, what lessons you've learned?

David Marcus: What got me into focusing on family-controlled businesses, owner-operator style investments, came from going to Europe in the early 1990s. Sweden was the first country I had ever visited. It was going through a financial crisis, its banks were bust, the government bailed them out, and they were spinning off all kinds of interesting assets into new companies on the stock exchange. What I quickly realized was there were families and individuals who dominated companies. In Sweden, you had the Wallenberg family who controlled Astra (today's AstraZeneca), Electrolux, SKF, Saab, Scania, and Ericsson, among others. You have the family that started H&M. The Stenbeck family, who became my partners years later, controlled a whole bunch of telecom and media assets. These families or individuals who owned 30%, 40%, 50%, or 60% of the company had such a different perspective. They weren't trying to make a quick buck and get out. They took a real long-term perspective and made decisions they believed would add real value over time, not necessarily overnight. They would spend on new products or services or R&D, while a regular public company with quarterly reporting and no main shareholder might not even make those investments because the payoff might be too far away. If you're a public company CEO who is a hired hand, you may not want to take the risk that you'll even be here when it pays off. These families were making real decisions to create wealth for themselves and their shareholders.

But when you get into it, you start to realize there are all kinds. Some want to create real value for all shareholders. Others want to create real value only for some shareholders, themselves, and they don't want you to ride their coattail. And there's everything in between. There are good stewards of capital. There are generational transitions where the next generation doesn't have it in them to think like an owner, and they start going downhill. As with anything else, you have to do your homework. You have to understand who they are and what their thoughts are. That's why meeting the families was so critical for me. I could meet the CEO or the CFO, but if somebody owned 30%, 40% or 50% of the company, getting to know what they thought was critical because they could fire the management tomorrow. Understanding what the main owner's vision, thoughts, and ideas were to create value over time was absolutely critical in helping assess these companies.

Every value investor has their own definition of a compounder, but for us, these are generally family-controlled businesses. They've been around for an extremely long period of time, cranked out a huge total return to shareholders if they trade at a discount, and are led by dynamic value creators. Those are the kinds of things we'd like to focus on.

MOI: Maybe we could touch on some of the early compounders you came across that helped you shape your own investment approach. I assume it evolved out of some examples you saw along the way where the wealth creation over a long period of time was so impressive. What were some of those early examples and what stood out to you?

Marcus: I started in Sweden and eventually worked my way across Europe, then even jumped over to Asia, but it was true everywhere. A lot of these companies existed forever and had no real external shareholder base, so they were always cheap stocks. But in the early days in Sweden, we were looking at companies like Investor (a holding company for the Wallenbergs) and Stenbeck family's Kinnevik. Also in Sweden, there was a company called Ratos, which turned into a great compounder because it transformed its thinking into more private equity style. The ones that had strong managers and good decision-making were real compounders, and they continue on today. Some didn't live up to the billing and in some cases became targets or the main owners eventually exited their own companies during a generational shift. With Investor, we learned a lot about all the companies connected to the Wallenberg Group. I have huge respect for those guys today, but the fact that is over many years, they didn't create as much value as some of the other groups.

I thought Kinnevik had created an enormous amount of value because its owners were visionaries in telecom and media. They launched the first commercial TV channels in parts of the Nordics and had the first non-state-controlled telecom operator in so many markets, both in Europe and in emerging Asian and Latin American markets. They were really ahead of the game.

In the beginning, these guys didn't talk to investors – you talked to the CEO or the IR guy if they had one. But I wanted to know what the key players, the owners, were thinking, so I would keep calling them until they would meet with me. I was extremely diligent in not giving up. This was pre-internet, so you literally had to call them. Then I started FedEx-ing them letters, always respectful, always requesting a meeting, always praising them for the value they created. Then I said before I can go and be a big shareholder, I want to understand how they think, so can I come and meet them? After a while, I was able to use the first batch as references for the next batch.

I continued to grow this network over time, and frankly, I didn't realize other people weren't doing this. I would find I was the only investor some of these guys had ever met, and they were just as intrigued by what was happening in the US as I was intrigued with what they were doing in their countries and their markets. It was a great cross-sharing of thoughts and perspectives globally. There's a company in Spain called Alba, a public company controlled by Juan March and his brother. It was among the early ones

I met. These guys are classic value investors. They understood the Spanish market better than anybody and were extremely talented at finding businesses that were misvalued, buying stakes, taking board seats, and helping nurture these businesses over many years. You might look at it and say, "Boy, that was a sleepy company," but it was a true compounding machine for many, many years. I would say those guys were stock pickers and investors where others were more business builders, like Kinnevik. They were creating new businesses, not just picking stocks. The different perspectives were also very educational to understand the nuance of different families and how they thought about investing or their businesses.

One of the holdings we have today is the Bolloré Group in France. That's a 195- or 196-year-old business. The sixth generation of the family, Vincent Bolloré, runs it. I first met him well over 20 years ago, when it was a much smaller group. These guys didn't have much expert capital, but they had already started to create a lot of value for shareholders. Brokers didn't cover most of these stocks. You had to do your own work and analysis. It was hard because many of these heads of families didn't want to meet with investors. You're not looking for secrets; you're trying to understand how people think about value creation, if they even think about it. You're continuously calling, putting effort into getting the meetings, then trying to turn one meeting into two or three, maybe even into the beginnings of a relationship where you can chat with them. I still try to visit with Mr. Bolloré a couple of times a year in Paris, and he's been generous enough to meet with me. His holding company now has, I think, an €11 billion market cap, and it dominates many interesting businesses and sectors. The amazing thing is that the company is so different today from what it was back in those days because they're dynamic value creators.

Going back to the early days, there was a company in Italy called Cir. That's the De Benedetti family. First, it was Carlo De Benedetti, who in his day was one of the most aggressive corporate raiders out there. Today, nobody even knows who he was, but he created a holding company in Spain. He had his holding company in Italy and one in Belgium. He would use them as a publicly traded base to go after undervalued assets in these different markets. Today, his son Rodolfo runs it. In my view, he is a student of value investing. He thinks about long-term compounding and long-term returns. He's not a corporate raider like his father; he's more of an investor and takes a longer-term approach. When you have these generational shifts, you see how they are. Are they students of capital or just trying to collect the dividends and don't care about the business or the shareholders? Rodolfo cares about creating real value. He merged the different share classes over the years into one share class. He will buy back stocks. He's refocused the holding company's assets. It's a very interesting group. We don't own it at this point, but it's a group we track and watch. I still talk to him several times a year. He is one of the most plugged-in guys in that market.

I'm not just trying to get something; I give as well. You have a dialogue and share thoughts and ideas – it's the only way to do it. Otherwise, you're not going to build a real network. Many investors don't think enough about building their network. You can't just be a taker – it has to be a balancing act of giving and getting. You find there are all kinds of quirky ways in which you could share thoughts and ideas when you get out in the world and talk to people. You don't ask them about this quarter or the next one, you simply start talking to them about how they think about their business, what businesses they like, what they don't like, why they exited a particular division over the years, what attracted them to a business that turned out not to be a good business. You want to understand why they did what they did. When you get away from fixating on the quarter, you can have real conversations. We're not asking them about numbers but trying to understand the character, the judgment, the perspective of these guys.

Also in Italy, you have Exor, the Agnelli family's holding company. Years ago, there were two holding vehicles – IFI and IFIL. Ultimately, those combined to create Exor, which controls Chrysler, Fiat, Ferrari, Alfa Romeo, and a bunch of other plants, as well as reinsurer PartnerRe. It sold Cushman & Wakefield and a Swiss business called SGS. John Elkins was the head of the family holding company. He has made a variety of changes over the last few years, completely changing the trajectory of the family's total return profile and asset base. He is another dynamic value creator. We happen to own that in our portfolio. John is a young guy, in his early 40s. He was groomed by his grandfather to take over one day, and he's been in charge now for over a decade. He has great managers, like Sergio Marchionne, helping him manage one of the auto groups for him. Look, these guys bought Chrysler from the US government at a brilliantly low price during the financial crisis. That's being opportunistic, taking advantage, and having an owner's mentality of long-term thinking. You don't get it as much when you have. The hired hands have good incentives, but they are short-term focused.

We've looked at some cases we can invest in where activists are attacking companies. Our first question is whether this is a short-term guy trying to make a quick buck or an opportunity for real value creation at this company. Because what we found is that sometimes our perspective is not to support the activist; it's to be anti-activist. Why? Because it's too hard to find really good ideas. If you have one, it could be the gift that keeps on giving. Why would you want a short-termer to come in, make a few bucks, and get out? This keeps the magic money machine from evolving and spitting off more cash going forward. It's taking your time and doing your homework.

If you look at our portfolio, you'll see that our compounders are these family businesses, and everything else we have is more transactional – a special situation, a breakup, a spinoff, a restructuring we plan to exit at some point. The compounders we will own for an extremely long period of time.

Then there are companies like Bolloré. When I started Evermore Global in 2010, it was €100, but then you get a 100-for-1 split, so let's say it was €1. Today, it's about €4.5, or up 4.5x in eight years. This is almost a 200-year-old company still compounding at a ridiculously high rate and still undervalued. When we bought it, we didn't say, "This is going to go 4x or 5x." It's just that it changed the nature of its profile along the way. That's the difference between these owner-operators and some more passive ones. These are the kind of guys who really look at capital allocation and what can they do to change their profile long term to create more value. They're not always worried about us as a shareholder. They might only care about themselves, but if we can ride along with them, we're okay with that. We just want to make sure they're not working against us.

Bolloré owns roughly 25% of Vivendi, which, in turn, owns 100% of Universal Music Group, the largest music company in the world. Since Mr. Bolloré went on the board of Vivendi and eventually amassed this big stake, it's been a complete transformation of Vivendi. We own Vivendi as well. Before he got involved there, it was a value trap for a decade. With him spearheading the leadership there, it's been a fantastic investment for us. We like to say we're not just buying horses – we're buying jockeys. For the compounders, the owner-operators, these are jockeys. A horse doesn't know what to do when it gets on the track. It might know to run but not which way or how fast. The jockey sets the tempo, pushes them to sprint when needed, slow down, or whatever it happens to be.

It's critical to understand who these guys are, and we have continuously found that when you have a big shareholder very focused on creating value, the company will generally compound better than companies without a main owner driving them. It just keeps proving itself out, whether it's Bolloré, Exor, or Ackermans. Nobody ever talks about Ackermans, which is a 100-year-old company in Belgium. We love these guys. They just crank it out. They're so cheapo that when they can make an acquisition, you know it's a good deal because they will never overpay for anything. They're just good at acquiring assets at attractive prices and managing them very well.

We have a company in Sweden called Lifco, which is controlled by a man named Carl Bennet. Carl is a phenomenal value creator. He owned 100% of the company and IPO-ed it about three years ago. It's tripled since the IPO. This is his collection of odds and ends, value stocks and businesses he had acquired over many years, everything from robots for buildings demolition to dental supplies. There are no synergies, but each is compelling. He targets businesses where he can either latch it on to something he already has with solid management in place or where he's acquiring a good business with a good management, in some cases family-controlled businesses. A lot of the subsidiaries are also family-controlled businesses.

That owner-operator mentality simply delivers better outcomes over time. It doesn't mean we won't buy other kinds of stocks, but we do have over 20% of our portfolio in these conglomerate compounders. Then we have another chunk of our portfolio in other businesses also tied to one main owner or a family. The TLC these guys give to their holdings is impressive, and the data proves you can make better returns over time. But you must have the patience to do the work, to get to know who the right groups are. But just because there's a family there doesn't mean you're going to make money. Sadly, there are some who are not working for the shareholders and may even be working against them. You have to look at their track record and history. How do they treat investors in rough times and in good times? What do they do? When you find the right ones, you want to latch on to them because in the end, they're doing all the hard work. We can sit back and let them carry on, and our investors will give us credit for identifying these companies.

In Denmark, there's a company called NKT. There was a family there, and they had all kinds of family fights. Ultimately, the family couldn't agree with each other on so many things that they exited the whole holding company, which created an opportunity. That's not the normal way we go, but sometimes, over the generations, it's harder for them to stay aligned. That's part of our assessment as well.

Some of the shipping companies we have are also family-controlled, and they're really tethered to the business and treat it like their baby they're nurturing, investing in it and managing it well. They're not trying to make a quick buck but build value, and that's how we focus. I think it's paid off extremely well for our investors over time, and I'm surprised other people don't focus this way. In fact, our tagline is "Invest like owners" because we take an owner's mentality to everything we look at. Would we want to own this whole company if we could? If the answer's "no way," then why should we own even one share?

MOI: You've gotten to know many of these owner-operated companies over the years. How much of a priority is it for you today to try to find new companies that meet your criteria and are perhaps smaller, earlier in their lifecycle?

Marcus: It's always important to keep your eyes open for new ideas. We're not looking for startups, but they might be younger in their history. Even when we bought Lifco a couple of years ago, that was an IPO, but the owner had been acquiring these businesses for 20 to 30 years. We couldn't participate with him. He put it into a public vehicle, probably more for estate planning, and IPO-ed 45% of it.

One of my early questions to the CEO or the chairman will be about their background and history. I like to hear about it, and many times, they are surprised because frankly, they're not used to being asked this – most people will look at their CV, their bio on the website or their pitch book and consider this good enough. We want to learn and understand who they are because we are betting on people.

We're always looking to understand what they bring to the table because sometimes that's the difference between success and failure in an investment. It's the quality of the management and the guidance from their main owner. It's not just the ones from the old days, when we honed our skills. Some of those way back were family-controlled but didn't always think of shareholders. Before becoming a public company, the Lazard Group was three different partnerships. There were all these quirky little holding companies in France that owned stakes in the different partnerships, and they didn't care about shareholders or investors at all, but they changed over time.

Sometimes new ones are old ones. There's a holding company in France, the Rothschild Group, owned by one of the oldest families in banking, not just in France but in the world. They were recently in New York doing a roadshow, maybe their first time trying to get investors to focus on their holding company. I met with the management and told them how 15 years ago it took me a long time to get a meeting with a family member, but once I got in the door, he said something like, "Look, our stock is overvalued. You shouldn't own it. If you happen to have any shares, we'll help you find a buyer and sell them. It's really just for the family to trade amongst itself. You shouldn't waste your time." Of course, as soon as I got back to my office, I bought more, and it did extremely well. I realize they didn't care if shareholders were there. In fact, they were discouraging shareholders because they didn't want everybody outside the family to know what they had going on. When I recounted the story, the current management was partly mortified. At the same time, they were laughing, saying, "We understand. That was the old way of thinking. We're different now." It's an old company with a new approach, realizing that the market will not reward it appropriately if it's not communicating and giving perspective. Do we own it today? We don't. Are we more interested than we were previously? We certainly are because I think the market hasn't woken up yet to the fact that this company has a different perspective now. That's another thing we focus on: is there a change or a generational shift?

In Asia, you're on the cusp of seeing many family-controlled businesses going through generational transitions. Take CK Hutch, Li Ka-shing's company. He's 89 or 90, and the business will transition to his son, who he's been grooming for many years. We see German mid-sized companies going through generational shifts as well, family businesses where the next generation may not be interested in owning it the same way the previous generation was. We're at such a great point in time for these kinds of investments – we have new entrants, new focus, old companies coming back to realize they have misjudged the whole environment of public markets and should have embraced it rather than fight it to get more appropriately valued. You have sleepers like Ackermans and Van Haaren in Belgium – they don't talk, just act.

In the long run, it's also helping smooth some of the volatility for special situations investors, which we are. All of our other companies are restructurings, breakups, turnarounds, or transformations. These family-controlled businesses generally compound wealth. When you get the aberrant situation, you have to be ready to pounce and take advantage. In the first quarter of 2016, Exor was down about 48% in the first seven weeks of the year. Maybe investors thought nobody would ever buy a car again. I think we almost doubled the position, nibbling every single day. By the end of the year, it was only down 1%. Two years later, it was up close to 30%. It was a great window to buy it. When you get these aberrations, and family-controlled businesses decide to sell off for some reason, you have to take advantage if nothing else has changed. It sets the trajectory for your compounding at a better level.

The same with Bolloré. It owns the port in Liberia, and when Ebola broke out a couple of years ago, the stock price and the market cap collapsed because of this one tiny port in that country. Investors just dumped the whole thing, which was a wonderful buying opportunity. My point is that investors extrapolated one issue to the entirety of the company. That kind of crisis gives you a window to add, and that's what we did. We definitely don't want to be doing what everybody else is doing. We want to be independent thinkers, buy when it's the right time to buy and sell when it's the right time to sell. Selling and buying shouldn't be the same. You shouldn't think, "Oh, I have to sell this to buy that." Those decisions shouldn't be connected. You sell when it's the time to get out of something and buy when it's the time to get into something. If we have a pile of cash in the in-between phase, so be it. We don't ever feel like we have to be invested unless we have the right ideas.

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Investor and entrepreneur */ Markus has been investing in listed securities, private companies and real estate over 17 years with a solid track record.*

Markus Matuszek is founder, Managing Partner and Chief Investment Officer of M17 Capital Management, a market neutral value equity long/short fund, biased towards European public equities. He is also actively building its direct private equity portfolio. Prior to M17, he ran asset management and advisory firm Hermes Capital Management and he was a managing partner at Gabelli & Partners. His education includes a M.A. in finance, accounting and controlling from the University of St. Gallen (Switzerland), a master degree from CEMS and dual MBAs from Columbia Business School and London Business School (with honors). Furthermore, he studied at the Warsaw School of Economics and University of Geneva and received several merit-based fellows and scholarships. Markus is also a CFA charterholder.

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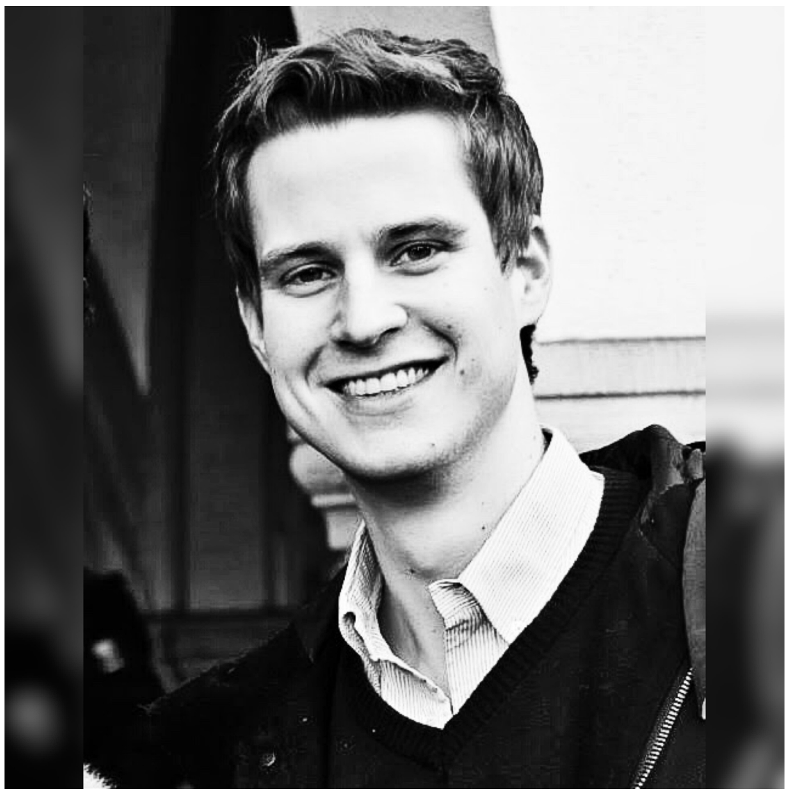

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KARLOVITS
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