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Ben Graham Centre
for Value Investing

The Ben Graham Centre's 2014 Value Investing Conference

April 8, 2014

7:45 am – 4:30 pm

Fairmont Royal York Hotel, Toronto



IMPROVING LONG RUN INVESTMENT PERFORMANCE

www.bengrahaminvesting.ca





Mission of the Conference

- to promote the tenets of value investing as pioneered by Benjamin Graham;
- to expose conference participants to the various value investing methods used by practitioners;
- to encourage and support academic research and study in the area of value investing.

The conference will provide a forum to explain, discuss and debate the principles, practices and various applications of value investing from a global context.

Corporate executives will offer an industry perspective of how to look for value creating opportunities and how to create value.





The Ben Graham Centre's 2014 Value Investing Conference

Morning Agenda

7:45am – 8:30am	Registration & Coffee
8:30am – 8:45am	Welcoming the Delegates, Introductions and Opening Remarks Dr. George Athanassakos, Ben Graham Chair in Value Investing, Ivey Business School
8:45am – 9:25am	Morning Key Note Speaker Amity Shlaes – Topic: Another Kind of US President: Calvin Coolidge, the Model of the 1920s and How a Scrooge Begat Plenty
9:25am – 12:45pm	Value Investor Panel Presentations and Q&A
9:25am – 9:55am	Mohnish Pabrai – Topic: The Ideal Team Size of an Investment Operation
9:55am – 10:25am	Irwin A. Michael – Topic: The ABCs of Deep Value Investing: Buying Toonies for Loonies
10:25am – 10:45am	Coffee Break
10:45am – 11:15am	Richard Lawrence, Jr. – Topic: Value Investing in Asia: Challenges and Opportunities
11:15am – 11:45pm	James Rosenwald III – Topic: Alignment of Interest
11:45am – 12:15pm	Srinivas Pulavarti – Topic: Investment Perspectives from an Endowment CIO
12:15pm – 12:45pm	Q&A



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Afternoon Agenda

12:45pm – 1:00pm	Lunch Service
1:00pm – 2:00pm	Luncheon Keynote Speaker Wilbur Ross – Topic: Lessons from the Bank of Ireland Saga Introduction: Prem Watsa, Chairman and CEO, Fairfax Financial Holdings Ltd
2:15pm – 4:15pm	Corporate Executive Panel Presentations and Q&A Topic: Looking for and Creating Shareholder Value – Industry Perspective
2:15pm – 2:45pm	George Chryssikos, Eurobank Properties' Perspective
2:45pm – 3:15pm	Murray Edwards, Edco Financial Holdings' Perspective
3:15pm – 3:45pm	Bruce Flatt, Brookfield Asset Management's Perspective
3:45pm – 4:15pm	Q&A
4:15pm – 4:30pm	Concluding Remarks



Panel of Speakers

The Ben Graham Centre's 2014 Value Investing Conference offers a panel of speakers with a proven record of success in the field of value investing and the corporate sector. Featured speakers participating at the conference, in the order they will speak, are:

MORNING KEYNOTE SPEAKER

Amity Shlaes, Columnist and Author, Chairman of Calvin Coolidge Memorial Foundation, New York, New York

LUNCHEON KEYNOTE SPEAKER

Wilbur Ross, CEO & Chairman, WL Ross & Co. LLC, New York, New York

VALUE INVESTING PROFESSIONALS

Mohnish Pabrai, Managing Partner, Pabrai Investment Funds, Irvine, California

Irwin A. Michael, President, I. A. Michael Investment Council Ltd., Toronto, Ontario

Richard H. Lawrence, Jr., Chairman and Executive Director, Overlook Investments, San Francisco, California

James B. Rosenwald III, Co-Chair, Management Committee, & Senior Portfolio Manager (Asian Equities), Dalton Investments LLC, Santa Monica, California

Srinivas Pulavarti, President & Chief Investment Officer, UCLA Investment Company, Los Angeles, California

CORPORATE EXECUTIVES

George Chryssikos, CEO & Chairman of Investment Committee, Eurobank Properties REIC, Athens, Greece

Murray Edwards, President & Owner, Edco Financial Holdings Ltd., Calgary, Alberta

Bruce Flatt, CEO, Brookfield Asset Management Inc., Toronto, Ontario



Amity Shlaes

Amity is a columnist for Forbes, and is the author, most recently, of *Coolidge* (Harper), a comprehensive and eye-opening biography of America's thirtieth president. *Coolidge* debuted at third place on the *New York Times* bestseller list, was picked as a book of the month by amazon.com, and received a positive review from the *Economist*. Amity is the author of three previous books including the *New York Times* best-seller, *The Forgotten Man: A New History of the Great Depression* (HarperCollins), which was named by *The Wall Street Journal* as one of the best books to read during

a financial crisis. Over the years Amity has written for *Bloomberg*, *The Financial Times* and *The Wall Street Journal*, where she was an editorial board member, as well as *The New Yorker*, *Fortune*, *National Review*, *The New Republic*, and *Foreign Affairs*. She lectures frequently and in the past five years has spoken at Philips Exeter, Yale, Harvard (in Kenneth Rogoff's course), Princeton, as well as at firms ranging from Jane Street to Soros Fund and K&L Gates, the law firm and teaches economic history in the MBA program of the Stern School of Business at New York University. She is chairman of the Manhattan Institute's Hayek Prize, an award she won in 2007 for *The Forgotten Man*. She is also chairman of the Calvin Coolidge Memorial Foundation. Amity was recently the director of the George W. Bush Institute's economic growth project. She graduated magna cum laude from Yale and studied at the Free University in Berlin on a DAAD fellowship. Amity lives with her family in New York, and is currently at work for HarperCollins on a history of the period following World War II, *The Silent Majority*.



Wilbur Ross

Wilbur is the CEO of WL Ross & Co. LLC - one of the best known private equity investors in the U.S. Wilbur was Executive Managing Director of Rothschild Inc. for 24 years before acquiring that firm's private equity partnerships in 2000. His private equity funds bought Bethlehem Steel and several other bankrupt producers and revitalized them into the largest U.S. producer before merging them into Mittal Steel for \$4.5 billion. Wilbur remains a Director of what is now ArcelorMittal. He also created and chairs the International Textile Group, the most global American company in that industry and International Auto Components Group. He is a member of the Boards of Assured Guaranty, BankUnited, EXCO and Ocwen all NYSE-listed, of PLASCAR listed in Brazil, and Sun Bancorp which is traded over the counter. He is Chairman of Diamond S Shipping, and is a director of Navigator Holdings. Most recently Wilbur acquired substantial interests in five U.S. banks and in Bank of Ireland and England's Virgin Money. He is also a Board member of Bank of Ireland and Talmer Bancorp. He is a Board Member of Yale University School of Management, The Dean's Advisory Board of Harvard Business School, Partnership for New York City, Palm Beach Civic Association, Business Roundtable, The Blenheim American Foundation, Palm Beach Preservation Foundation and the Council of the U.S./India Business Council. He is Chairman of the Japan Society and the Brookings Institution Economics Studies Council and a Trustee of the Town of Palm Beach Retirement System and the Magritte Museum in Brussels. President Kim Dae Jung awarded him a medal for his assistance in Korea's financial crisis, President Clinton appointed him to the Board of the U.S.-Russia Investment Fund and he served as Privatization Advisor to New York City Mayor Rudy Giuliani. Bloomberg Markets magazine designated him one of the 50 most influential people in Global Finance. He is a graduate of Yale University and of Harvard Business School (with distinction). He is the only person elected both to the Private Equity Hall of Fame and the Turnaround Management Association Hall of Fame. In 2011, Bloomberg BusinessWeek designated him one of the 50 Most Important Financiers in the World.



Mohnish Pabrai

Mohnish is the Managing Partner of the Pabrai Investment Funds. Since inception in 1999 with \$1 Million in assets under management, the Pabrai Funds have grown to \$600 Million in assets under management in 2011. The funds invest in public equities utilizing the Munger/Buffett Focused Value investing approach. A \$100,000 investment in Pabrai Funds at inception in 1999 would have been worth \$809,800 as of March 31, 2011 – an annualized gain of 19.5% (versus 3.3% for the Dow). Mohnish has been profiled by *Forbes* and *Barron's* and appeared frequently on CNN, PBS, CNBC,

Bloomberg TV and Bloomberg Radio. He has been quoted by various leading newspapers including *USA Today*, *The Wall Street Journal*, *The Financial Times*, *The Economic Times* and *The Times of India*. He is the author of two books on value investing, *The Dhandho Investor* and *Mosaic: Perspectives on Investing*. *The Dhandho Investor* has been translated into German, Chinese, Japanese and Thai. Mohnish was the Founder/CEO of TransTech, Inc. - an IT Consulting and Systems Integration company, which was founded in 1990 and sold in 2000. TransTech was recognized as an Inc. 500 company in 1996. He is the winner of the 1999 KPMG Illinois High Tech Entrepreneur award given by KPMG, The State of Illinois, and The City of Chicago, an active Member of the Young President's Organization and the Founder and Chairman of the Dakshana Foundation which has sent over 200 impoverished kids to the IITs in India so far. Mohnish strongly believes in a balanced life between work, family, and personal time.



Irwin A. Michael

Irwin is the President of I. A. Michael Investment Council Ltd. He earned his bachelor of commerce degree from McGill University in 1971. In 1973, he received an MBA from the Wharton School of Finance at the University of Pennsylvania and in 1979 he earned his CFA designation. Upon graduation from Wharton, Irwin started his career at Hodgson, Robertson, Laing & Company in the capacity of fixed income portfolio manager and bond trader. He then moved on to Morgan Stanley Canada Limited and worked in the areas of fixed income research and institutional sales.

Prior to forming his own investment council firm, Irwin was a partner at Beutel Goodman & Co, where he served as vice-president of fixed income investments and portfolio manager of Dynamic Income Fund. He has also served as a director of the Toronto Society of Financial Analysts and is a former vice president of the Toronto Futures Exchange. I. A. Michael Investment Council Ltd., established in 1985, is dedicated to managing the ABC Funds. By concentrating on securities that are deemed to be undervalued, ABC Funds' portfolios are structured for superior long term returns with limited downside risk. Irwin is the single largest individual unit holder of ABC Funds. He does not trade for his own account and has confined his and his family's investments to ABC Funds.



Richard H. Lawrence, Jr.

Richard is the Chairman and Executive Director of Overlook Investments. Richard established The Overlook Partners Fund in 1991 to invest in high quality listed equities that sell at bargain valuations across Asia, excluding Japan. Richard grew up outside New York City and graduated from South Kent School in 1974, and Brown University in 1978 with a degree in Economics. From 1978 to 1981 Richard lived in South America and was a financial analyst for the Organización Diego Cisneros, a conglomerate based in Caracas, Venezuela. From 1981 to 1984, he was vice-president of J. Bush & Company, Inc., a NYSE member firm, responsible for equity research. Richard moved to Asia in 1984 and was a founding vice-president of First Pacific Special Assets (FPSAL), a Hong Kong Stock Exchange listed company that invested in undervalued assets throughout the Asia/Pacific region. In 1986, he became one of the first Chartered Financial Analysts in Asia. When FPSAL was sold, Richard established Overlook. Richard currently lives in San Francisco, California, with his wife and two adult children. Richard and his family have worked for the past 13 years in Honduras, first with the OCHO Project which leads an annual medical mission in rural Santa Barbara Province, and for the past 10 years as founder and director of Proyecto Mirador LLC, a non-profit organization that has built over 60,000 fuel efficient stoves in rural communities across Honduras.



James B. Rosenwald III

Jamie is Senior Portfolio Manager for Dalton's Asian Equities strategies. He is a recognized authority in Pacific Rim investing with more than 30 years of investment experience. He formerly co-managed and founded Rosenwald, Roditi & Company, Ltd., which he established in 1992 with Nicholas Roditi. James advised numerous Soros Group funds between 1992 and 1998. He commenced his investment career with the Grace Family at their securities firm, Sterling Grace & Co. He holds an MBA from New York University and an AB from Vassar College. He is a CFA charterholder and a director of numerous investment funds, a member of the CFA Society of Los Angeles and the CFA Institute and an Adjunct Professor of Finance at New York University's Stern Business School.



Srinivas "Srin" Pulavarti

Srin, a veteran endowment and investment management executive, serves as president and chief investment officer of the UCLA Investment Company, which manages approximately \$2 billion in assets for The UCLA Foundation. Selected after a global search, Srin joined the UCLA Investment Company in August 2012. He is responsible for defining the strategic vision for management of the company's portfolios while directing the company's staff and overseeing more than 100 external investment managers. Previously, Srin served as president and chief investment officer of Spider Management Company, which as of July 2012 managed \$1.9 billion for the University of Richmond in Virginia and \$1.1 billion for 23 other entities, for a total pool of approximately \$3 billion. Under Srin's leadership, the Spider endowment was consistently ranked as one of the nation's best-performing among universities. Among his previous positions, Srin served as director of global investment strategy for Citigroup Pension Investments; director of investments for Johns Hopkins University; investment manager for Lockheed Martin Investment Management Company, and senior analyst of fixed income and sovereign debt for the Howard Hughes Medical Institute.



George Chryssikos

George is the CEO & Executive BoD Member and Chairs the Investment Committee of Eurobank Properties. He joined the company in early 2006 as Investment Manager and was elected BoD member in 2007 and General Manager in 2008. He played a leading role in the company's IPO in April 2006, raising €100 million, as well as in the December's 2007 Share Capital Increase of € 330 million. He is now leading again a new Share Capital Increase of € 193 million, expected to be completed in the first months of 2014. He & his team have executed more than € 350 million real estate acquisitions & disposals in Greece and South-East Europe building up the portfolio of Eurobank Properties and they are now in the process of expanding company's portfolio with already committed new investments of €215 million. In the past George was Managing Director of Corporate Value Partners, CEO of DTZ in Greece, BoD advisor at also Healthcare Group and Senior Associate in McKinsey & Co at the London Office. George has an MBA in corporate finance & strategy from Columbia Business School (NY), an MSc in engineering & construction management from UC Berkeley (CA), and a MEng in civil engineering from National Technical University of Athens. He is also a member of Royal Institute of Chartered Surveyors U.K. (MRICS) and National Technical Chamber of Greece.



N. Murray Edwards

Murray was born and raised in Regina, Saskatchewan. He is President and owner of Edco Financial Holdings Ltd., a Calgary based Management Company. He is a leading investor in and a managing director and executive chairman of numerous publicly traded companies including Canadian Natural Resources Limited, Ensign Energy Services Inc., and Magellan Aerospace Corporation. He also owns a number of private companies including Resorts of the Canadian Rockies Inc. Today these companies employ over 25,000 individuals. He is also a director, chairman and co-owner of the Calgary Flames Hockey Club. Murray graduated with a Bachelor of Commerce from the University of Saskatchewan with Great Distinction and a Bachelor of Laws from the University of Toronto with Honours. After moving to Calgary in 1983 he became a lawyer and later a Partner with Burnet, Duckworth & Palmer, a Calgary based law firm. At a community level Murray is a member of the Board of Directors of the Canadian Council of Chief Executives and the C.D. Howe Institute.



J. Bruce Flatt

Bruce is the CEO of Brookfield Asset Management Inc., a position in which he was appointed in 2002. Over the last 12 years as a CEO, Bruce has overseen the expansion of the company's franchise into one of the largest global managers of real assets with over 100 offices in 25 countries and 24,000 employees and has transformed Brookfield into a global asset manager. Prior to that, and having been with Brookfield for over 20 years, Bruce was instrumental in rebuilding its property businesses in the early 1990s, the expansion of its renewable power businesses in the late 1990s, the launch of its infrastructure business in the mid-2000s, and the globalization of its operations over the past 20 years. Brookfield's capital is sourced from publicly listed entities and private funds for institutional clients. The company's \$180 billion plus investments in property, power, infrastructure and private equity position it as one of the largest alternative asset managers in the world. Brookfield's operations are supported by permanent capital of over \$50 billion and relationships with sovereign and institutional clients on a global basis. Brookfield's businesses have been built on a philosophy of being value investors in the areas where Brookfield has operational expertise. Bruce is a Canadian by background, resides in New York and Toronto, and is a director of Brookfield and a number of its affiliates. Bruce holds a Business degree from the University of Manitoba.



A Message from The Director

Stock picking following the value investing process, and carried out with the right temperament, works!

However, it is a commonly held misconception that all value investors do is sort stocks by P/E and invest in those with low P/E. But considering low P/E stocks is only part of the value investing process. This is because, on average, about 39% of all low P/E stocks have a negative return for the 12 months following their selection. How do value investors separate the good low P/E stocks from the bad ones? They do so by valuing each low P/E stock to determine its intrinsic value and only invest in the stocks that afford them a satisfactory “margin of safety” – these are the good low P/E stocks.

In a 2011 Journal of Investing paper, I followed this process in the first academic paper to do so. I examined whether value investors (following the right process) add value over and above a simple rule that dictates they invest only in stocks with low P/E ratios. Using Canadian data, I found that value investors do add value, in the sense that their process of selecting truly undervalued stocks produced significantly positive excess returns over and above the naive approach of simply selecting stocks with low P/E ratios. The average annual outperformance between 1985 and 1998 was 1.10 per cent, while between 1999 and 2007 was 13.20 per cent.

But this is not easy to do for the average investor and, even for professionals, it is a very time consuming exercise. Is it possible to identify the good low P/E stocks (i.e., the truly undervalued ones) without having to go through the time consuming estimation of each stock’s intrinsic value? Is there an additional screening, after the low P/E stocks have been chosen, which will enable an investor to identify the low P/E stocks worth investing in without having to go through the time consuming estimation of each stock’s intrinsic value?

I have researched this question both in the Canadian and US markets. All data used are from COMPUSTAT.

I removed the time-consuming step of valuing each stock individually by assigning a SCORE to each stock that is based on publicly available financial ratios from historical company information.

I first examined US companies, excluding AMEX companies, high business risk companies, such as Software & Services, Semiconductors & Semiconductor Equipment, Transportation, Automobiles & Components, Real Estate/ Construction Materials and Pharmaceuticals, Biotechnology & Life Sciences Capital Goods, and companies that had reported extraordinary items the year before. Those stocks were excluded as I found that they tended to have high business risk and low returns over my sample period. I also excluded negative P/E stocks, stocks with P/E over 500 and stocks that traded for less than \$1. My sample included 78,752 annual observations belonging to 7,353 unique companies.



Each year at the end of April, I sorted the stocks in my sample by trailing P/E ratios from low to high and formed quartiles. Value stocks were those that fell in the lowest quartile. A SCORE for each value stock was then assigned based on six historical variables: market cap, stock liquidity (i.e., annual trading volume/shares), asset turnover (i.e., assets/revenues), total debt to equity, cash to assets and year-over-year EBIT annual growth rate, one variable at a time. The overall SCORE was derived by assigning a value of 1 (for good ranking) or the value of zero (for bad ranking) to each of the 6 firm-specific variables and summing up the zero or one values for each firm. I finally formed seven portfolios of firms with SCOREs from low (portfolio 0) to high (portfolio 6) and calculated each SCORE portfolio's mean and median annual returns from May 1, 1969 to April 30, 2011. I found that value firms with the highest SCORE had a mean annual return of 54.38%. The lowest SCORE value firms had a mean annual return of 13.32%. Median annual returns were consistent with the mean values. For comparison, the mean annual return for all value stocks in my sample was 22.36%.

I next examined Canadian non-interlisted companies that traded on Canadian Stock Exchanges from May 1, 1985 to April 30, 2009. I zeroed in on non-interlisted Canadian stocks as a test of the robustness of my approach since these stocks were very different from the stocks I examined in my US study in terms of size, liquidity and visibility. I followed the same methodology as for the US markets. The Canadian non-interlisted sample contained 7,145 annual observations belonging to 1,237 unique companies. I found that the highest SCORE portfolio had a mean annual return of 36.89%, whereas the lowest SCORE portfolio had a mean annual return of -11.35%. The median annual returns were consistent with the mean values. For comparison, the mean annual return for all value stocks in my sample was 16.86%

In both markets examined, value stocks had much better performance when stock selection took place by focusing on high SCORE value stocks. Consequently, an additional screening (based on the SCORE indicator) to the first screening of the value investing process (i.e., only looking at low P/E stocks) adds considerable value to an investment strategy and makes stock picking simpler, easy to standardize and, hence, faster.

I am really excited about our panel of professional value investors today. They are a living testament to what I have described and will tell us how they put what I detailed above into practice in their own portfolios. Same holds for our panel of corporate executives, who will discuss how they look for and create value for their shareholders. As investors, we all want to buy companies that create value and these are well run companies with executives who know how to create value.

I am also delighted to have as key note speakers at the conference Ms. Amity Shlaes and Mr. Wilbur Ross as they will give us a view of the world which is different from what we are exposed to in our everyday norm.

George Athanassakos

Director, Ben Graham Centre for Value Investing
Ivey Business School



Specific questions presenters will address at the conference

- How do they define and manage risk?
- How do they make overall portfolio decisions and determine asset allocations?
- What stocks would they buy in a deflationary vs. inflationary environment? Can they name some?
- Does the economy and macro risks matter now more than before?
- Do they hedge? Why yes, why not? How?
- Do they have a “magic formula” for investing success?
- How do they generate investment ideas?
- How did the volatility of the recent financial crisis affect their investment process, and have they changed their approach in any way as a result of the experience?
- How concentrated is their investment portfolio, do they use leverage, and what is their view of short selling?
- How do they find value creating companies and what creates value?

Presenters will take participants through actual investment decisions (from their own current holdings), including decisions to purchase securities, how large a position to take, and decisions not to purchase securities.

Time will be allowed at the end of the presentations for open-ended questions.



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