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January 20, 2022*

Andrew Brenton is Chief Executive Office and Co-Founder of Turtle Creek Asset Management. Andrew spoke with the editors of the Ben Graham Centre's Newsletter about his experience being a value investor.

Could you share with us your journey to becoming a value investor? How did you initially develop and act upon your interest in the industry?

We could spend a long time just on that. When I saw the question, that made me think back a lot. Unlike a lot of you, I did a science undergrad - I was a chemistry major. Around the same time, I realized I didn't want to spend my life in the lab. I also read a profile of John Maynard Keynes, and one of the things that I observed was that he was not only an amazing economist, but he was also an investor, and quite a good investor later in his career. By his own description, he went from being a speculator to an investor.

As an aside, I would say that when you see one of our corporate catchlines, "a different kind of value investor," we're different in a bunch of ways. One way I think we are different is, we do not think about Ben Graham. We think about John Maynard Keynes, in terms of what informs our way of thinking about investing in the public market. But when I read that he made a pretty good living, just by reading the Financial Times in the morning and trading foreign exchange and other things - I realized you can make a living doing that.

You can use just your brain and make money with money. Wow, that's fantastic! And so, it really was one of those aha moments and it took me to a pivot toward investing. And it was at that point, I thought that that's what I want to do and the question was

how to get there. Ultimately, I did attend Ivey, although it was not called Ivey at the time. I did an MBA in the early 80s and got a job on Bay Street. I looked at other places and I chose Bay Street, but there weren't really any firms like Turtle Creek back then at all.

“ I kept noticing that the public companies, in many cases, were better run than the private companies we would invest in. They were also available at much more attractive prices. ”

I started in mergers and acquisitions still with the plan to be an investor and my thinking was, what better way to understand value than to understand how companies think about buying other companies or selling divisions? It is totally removed from the quoted share price every day. So that was the first phase of my career and it was the first phase of the careers of my two founding partners for Turtle Creek. The middle part of our career was setting up and running a private equity fund for the Bank of Nova Scotia and that was a terrific schooling in making control investments and sitting on boards.

In a way, taking that advisory role and as a mergers and acquisitions advisor, to then applying it, buying controlling positions in companies... but really I

thought what I want to do is go and find the exceptional public companies. I kept noticing that the public companies, in many cases, were better run than the private companies we would invest in. They were also available at much more attractive prices. You could not necessarily buy the whole company at that price, but I also concluded I did not want to be a controlling shareholder, as I did not want to sit on boards. I wanted to spend my time finding amazing companies and interacting with them. We are quite engaged as shareholders, but not activist and not sitting on boards. Call it the journey to being Turtle Creek, 20-plus years ago. Many people raise the question of how that happened, there really was a logical rationale all the way through.

How have you leveraged your experience at Scotia Capital in founding and operating Turtle Creek? What prompted the decision to pivot from private to public markets?

You almost have to include the mergers and acquisitions phase. If you think of the twenty-five years or so, pre-Turtle Creek, of both working on a lot of transactions and getting inside companies as an advisor. Then that phase of looking at hundreds of meetings, hundreds and hundreds of companies ultimately starting to dig in on, let's say it was 50 or 100, getting to the point of really committing on a term sheet to 25 or 30, and ultimately investing in 12... That process confirmed a bunch of things. One is that most companies aren't that great. They may sound great; they may say all the right things, but one of the things that we stress that we are looking for are companies with an owner mentality.

Often our companies are still founder-run, but then many are not. Of course, at some point, public companies are not founder-run. Understanding how important that is, understanding how rare great companies are and appreciating that a company can be great and then lose their edge and vice versa. A company can become a great company through governance changes and management changes. Also, in the pre-Turtle Creek period, understanding how incredibly complicated companies are and recognizing that you can only know so much about them. I was on the board of companies, I had control positions and I recognized that there are still a bunch of things that I did not know. Frankly, there were things about the CEO I really did not know.

“ Bringing humility from private investing and M&A to the public markets through Turtle Creek and understanding that the only thing that matters is the present value of the future cash flows, that is ingrained in how we think. ”

Appreciating the uncertainty in the world was critical. I'll go back to Keynes. Keynes refers to those as irreducible uncertainties – there are things you just cannot know and you have to accept that.

Bringing that humility from private investing and M&A to the public markets through Turtle Creek,

and understanding that the only thing that matters is the present value of the future cash flows, that is ingrained in how we think. And that comes from when you buy 100 percent of a company and it's private and you do not have a share price telling you how you're doing and the only way you're going to make your returns is whether you've created a forecast and assumptions that come true, or in best case, beat your forecast and your assumptions. You might get lucky when you ultimately accept there is a jump ball and people are strategically trying to buy it, and that did happen sometimes. However, you never go into an investment thinking that way.

Bringing that attitude to the public market, treating each company as if we were going to buy the whole company. And we are actually able to get that work done, we just cannot do it in a compressed fashion. If you think of a private company looking for capital, they would come to us. If we were interested, we could get management in a boardroom for as long as we wanted and ask tons of questions and do legal due diligence and accounting due diligence and all the necessary work. When you think of a public company, we do not do the legal, we don't do the accounting. It's really important to make sure that there are honest companies, that there's no fraud happening. We've never been in a situation where we look back and thought that they were lying to us or lying to the market. We don't deal with that. I think that, over time, the business due diligence that we're able to accomplish is very similar to the quality of due diligence we were able to do with companies that we controlled, because one of the self-selecting criteria for us is not only remarkable companies, but is that understanding. Whereby, I feel my owners deserve some of my time. I should allocate some time to telling my

owners what I think, and where I think, we're going. I would stress that we're very long term in our focus.

What happens with us over time is that our companies, they really like talking to us because we're not bugging them or trying to read their body language on what the next quarter is. We're genuinely interested in where they're headed and what their strategy is, and we've had many companies over time say, I really like talking to you guys because I get to bounce strategic ideas off of you. Last week, at the end of a call with the CFO of a \$40 billion market cap company in the US said, I really like my sessions with you because it makes me think about my business in a different way than when I talked to any other of the shareholders. It's that interaction and bringing that humility, the constant curiosity that we had as controlled private investors and just bringing that to the public market in 23 years with Turtle Creek. I always say we have only owned, I believe, one hundred and seven or one hundred and eight different companies, and today, we own 30 of those. You think about how slow the turnover is in our companies because we recognize how valuable that history and context and knowledge is. We're careful not to get distracted by the latest hot story in the market.

Do you think co-founding Turtle Creek and being an entrepreneur throughout your career gave you a unique perspective on investing and evaluating management teams?

I know you use the term entrepreneur... Maybe for me, and it's my mistake, I associate entrepreneurs with taking crazy, illogical risks because they're passionate about something. If that's the definition of an entrepreneur, I don't fit in that category. If it's

enjoying trying new things, but not swinging for the fences, then maybe I fit in that category.

I've always liked starting new things, but until Turtle Creek, they were always inside an institutional framework. It's not like I went out on my own and wasn't able to pay the rent. Whether it was being a founding member of that mergers and acquisitions group at McLeod Young, which became Scotia Capital years later, or setting up the high-tech investment banking practice, and then setting up the private equity group, I guess those are initiatives and starting things new, but within the comfort of a big institution and getting a nice paycheck along the way.

Even with Turtle Creek, it's not like we said, let's go take a crazy, big risk and start this. Years into Turtle Creek, a guy who was looking at us made a funny comment. He said, boy, it's a good thing you had those few really good early years, so that this patch where you weren't beating the market, you knew what you did worked. And I say I didn't need to do it to understand that investing is about cash flows and owning great companies that are working for their shareholders, and that value is the present value of cash flows - I didn't need to do it to know that it works. In a sense, I knew we would be successful.

It wasn't risky, because if you have that appreciation - and I'll admit when I started this by describing that I was a chemistry student and I suddenly realized that I like this investing stuff. I'm an intellectual - physically, I wouldn't start a business because I know that things would fall through the cracks, but my partners make sure things don't fall through the cracks. We are a really good team, but initially, I made the mistake of

thinking things are worth their prices. Sitting in a stockbroker's office was my first exposure to investing and it didn't take me long to realize that, this isn't the way to go. So I did have that natural role.

“ Quality buy and hold people aren't the ones driving the marginal share price. It's the emotion and the noise that is doing that. ”

You can get lost in the ideas that you get with these prices all of the time. I'm sure all of you experienced that when you go on the Bloomberg website, or any website in the financial news, there's a scary amount of information and you have the background and the understanding. It's really about conviction, the understanding that 95 percent of it is all noise and really letting yourself get to know a company.

One of the things that I realized early in my career when I was in advisory and mergers and acquisitions, is that after a while, I would know more about that company than the shareholders because I would go and speak to larger shareholders and maybe my client was trying to look at, can we take this company private? And would some of the big shareholders look up to that? Would they be willing to tender? And I would have done a lot of work on the company and I would go and talk to these institutions and realize they don't know much about the company. They really don't.

That was another one of the aha moments of thinking what you need to do is pick a manageable number of companies or holdings and just let yourself get to know them really well. And as time passes, if you're curious as I described and open-minded, and you have a good memory for all the things they told you in the past, it's not long before you're in the top decile and then you're in the top percentile of knowledge in the public market.

“ Pick a manageable number of companies or holdings and just let yourself get to know them really well. ”

The other comment I'd make is, I'm not suggesting there aren't other really good investors out there, but what's lovely about the public market is they're typically quality buy and hold people. They aren't the ones driving the marginal share price. It's the emotion and the noise that is doing that. It's back to this idea, when I left, I thought markets were efficient because I was taught the modern portfolio theory at the height of the efficient market theory. It didn't take me long to realize it was simply not true. But again, you have to do the right thing. If someone said you need to own 500 stocks, you need to sound smart on all of the big public companies in case a reporter asks you about it, there is no way we would have the returns that we have. It's because we're focused. Private equity owner attitude toward the public markets.

Could you speak to the ideation stage at Turtle Creek and how you go about finding strong companies you're interested in

aside from meeting with management teams and sell-side analysts?

It's all about meeting companies and hearing about companies from companies. I hate the question that investors ask me saying "Other than you, who are good portfolio managers?" I always say, I have no idea because I haven't spent the time to look at what other portfolio managers do in any kind of great degree, so I can't help you there. We never ask a company saying, "Who do you think is really good in your industry?", but sometimes that comes out.

We have a long time holding in the transportation and logistics industry, we've owned it in varying amounts for 15 years. The CEO's extraordinary and has run the company for 30 years. He wasn't the founder, but he took over as, essentially, a Montreal-based, bankrupt long-haul trucker, and it's now the sixth largest transportation logistics company in North America. It's really stunning. So when he says the Knight Brothers, Kevin Knight, that's the gold standard, that's who I want to aspire to in terms of operating ratios. We pay attention to that and then have always made sure that we would meet with Knight if we're at a conference in the US.

“ It's all about meeting companies and hearing about companies from companies. ”

There was a period a few years ago when they bought the biggest trucking company called Swift. The company is now called Knight Swift and I don't

know for whatever reason, the public market put them in the penalty box and we have had an opportunity again. We had a discounted cash flow value and it managed to be cheap enough to get into our fund. But it's a golden halo stock, and deservedly so. Once they prove that they could get swept on their operating model, the stock went back up. It's not crazily overpriced, but it isn't cheap enough to make it into the portfolio today. That's an example of where it wasn't from a sell side analyst and from meeting companies.

It's hard for me to think of many examples where it wasn't from taking a meeting or being at a conference. If I use TFI as an example, I remember when the investment dealer who was talking about it around 16 or 17 years ago, said you really should meet the CEO. The guy's impressive. "What do they do?" I asked. He described it and I said, I don't want to own a trucking company. Because one of the ways I think we're different is we're looking for unique companies.

If you think of all the work I've described that we're going to do on a company, wouldn't it be great if you picked the companies that are going to get mispriced? Let's think of the Canadian banks, the chances of one of the Canadian banks getting really, really mispriced when there are all of these analysts comparing the six different big banks, it's just not all that likely. Whereas, the companies that we own in virtually every case, I can argue they're one of a kind. There's nothing that the market can do, a comparable analysis to any reasonable degree, if a trucking company is different.

That was one of the reasons we weren't as interested in trucking. But we met Alan Bogarde, and I still remember the meeting in our boardroom

and I thought, wow, this person is extraordinary. I think it was the first meeting and he's confirmed that he is extraordinary. I didn't know why the stock was up six percent yesterday, but we don't really care, we would have been trimming a little bit into that strength because we were buying a week ago at lower prices. Cameron McAndrew, our principal, whose been with us for 15 or 16 years, said Alan is just so honest with the market. He tells the market and tells everybody exactly how he sees things. Clearly he's feeling really good and he's not afraid to say that things are going great. Again, it's that communication. I would say to you, if you want to listen to one quarterly conference call of a company, if you want a masterclass on how to be a CEO. he's Chairman, President, and CEO. He used to be the CFO, but he now has finally hired the CFO and he is the only other person on the quarterly call. It can go on for almost two hours sometimes. There's so much quality information in that call for the analysts who were asking questions and after I feel like I can't think of any reason to reach out and ask our own questions.

It's finding those companies, and we do find them overwhelmingly from meeting everybody because one of the nice things about Toronto is that even for US companies, Toronto has become a stop for companies that are doing non-deal roadshows. They go on the road to tell their story when they're not raising money. If they're raising money, we don't want to meet with them because we basically want to own public companies that don't ever need to sell shares.

I would give credit to the sell side analysts because they can sometimes take a bad knock but they have a tough job because they're supposed to tell you where the share price is going to go in the next

year, which is ludicrous. But the good ones know their companies well and have great context. I'll give you a great example: a US analyst who covers of fintech and payments space, about a year ago we had a call with them, and we said, look, we don't care what your buys, holds, or sells are, we just want to know who are the great companies in the industry. Forget about price. Forget about value. And he flagged the company for us called Euronet, that we then did our own work on. We've not circled back with that analyst, but the value of him flagging it out of twenty five companies and identifying the one that would that fit what we were looking for, that happens. Again, remember it doesn't have to happen that often because we typically add only four new companies a year.

In a past interview, you mentioned the importance of companies being good at acquisitions. How do you think about the importance of organic growth compared to inorganic?

I think the comment was not quite the way you describe it. The comment I would make is most public companies, or most companies, don't create value when they buy something else. I'm sure you've been taught that and talked about that while looking at case studies where value has been destroyed. I saw it when I was in M&A.

There was one transaction I remember just taking the CEO through game theory because, as a buyer, he had so much synergy. He had a plant in Ontario where he could bring in this product and they had the capacity to produce it. You'd do the math on how accretive it is and how much it's worth to him, but then trying to make him step back and say no one else has this. You should not convey any of

that to the seller, you should keep all of that value for yourself. He goes, you are absolutely right. Think of it as if he was going to pay 400 million, the next highest buyer would have paid not even three hundred. Then I get a phone call. I'm not making this up, in the middle of the night, saying, "I need to own this. I have to own it." And ultimately, he paid a much higher price than he had to because he just needed it in his mind.

“ About a year ago we had a call with [a sell-side analyst] and we said, look, we don't care what your buys, holds, or sells are, we just want to know who are the great companies in the industry. Forget about price. Forget about value. ”

I've seen a lot of acquisitions where companies don't create value. There's the old saying that 80 percent of acquisitions destroy value. I don't know if that's the right percentage. I don't know how anyone comes up with that, but I think because of our backgrounds, we're good at identifying the minority, and I want to stress "minority", of companies in the public realm that are good at it. It's not like we go looking for a company that's good at acquisitions but when we find one who is, whether that's TFI International or a long time holding out of Vancouver called Premium Brands, which is extraordinary, there is a long list of other things you'd say about those companies.

More than half of the portfolio would be really good at acquisitions. Sometimes, like Premium Brands or TFI, they have huge opportunities that it's a one-off opportunity. But when they do it, they're disciplined and they're good at it.

It's not like we go looking for it but when we find it, we really like it. One of the reasons we really like it is the public market just doesn't count them until they happen. In our forecasting, our thinking is, if TFI International has made over, my gosh, when we met them, they had made over 100 acquisitions, and he's continued to do that. He made his most accretive and probably his largest acquisition ever a year ago - bought the leasing truckload operations of UPS by convincing the CEO. It's a great business. They're incredible. They were neglecting this little piece and we agreed with them. The transaction was the right thing to do for UPS and it didn't move the needle one way or the other. But for TFI, it's a lot of capital for them and it's been stunningly accretive. When you have a company that has an opportunity set and has done it and over and over in the past, and are telling you we're going to keep doing this, we will build that into our forecast. But the public market won't recognize it until it happens.

“ I think we will always likely be overweight on good acquisitive companies the market doesn't value appropriately. ”

Think of Premium Brands... The number of times I've run into other portfolio managers at a conference and they'll say, I'd like to see you on

Premium Brands. It's a great company, but boy, it's expensive. If you just looked at the trailing earnings, and frankly, even with the organic growth they have today, it's probably fairly priced. But once you add in the fact that they have a lot of opportunities to buy entrepreneurial founded family businesses where the next generation has decided they don't want to be in the business and Premium Brands is the safe hands that an entrepreneur wants to become part of. They call it the ecosystem. Then that creates a lot of shareholder value. You put that into your forecast and then you conclude it's not fully priced in, so on a current earnings basis, it's really cheap.

I think we will always likely be overweight on good acquisitive companies the market doesn't value appropriately. If I can use Constellation Software, a Canadian company that you probably have looked at or are familiar with, we've never owned the market and I know the CEO, he complained to me years ago, he said, the analysts are modelling acquisitions into their next two years because it's so programmatic. I haven't looked at it in a long time, but he would make 30-40 plus acquisitions in a year. It is something that's absolutely part of the business. You can see it happening on a weekly basis, whereas if it's episodic, you never know when it's going to come. That's when the market just doesn't count it.

One of your firm's thought pieces references that you “don't own investments that are premised on no cash flow for the next ten years but then a big ‘payday.” Looking back over the past few years, especially when market gains appear to be driven by these companies, do you feel that your opportunity set has been

unduly limited? And has it created challenges with limited partners who see these fast-growing companies across the news?

Well, maybe it's limited our returns. I'm sure you hear from a lot of value investors complaining about value being out of favor. Growth is in favor now, but value will have its day. I would never try to make that argument because I don't like that distinction between value and growth. If you look at some of our forecasts, you would say, wow, that's a hockey stick. We have Premium Brands as an example, as a company being a lot bigger five years from now and ten years from now. We're not afraid to consider a lot of upside in our forecast.

We own another Canadian company called Spin Master, and we haven't owned it that long, we didn't look at it when it was going public. They are Western University guys that invented the business in their dorm, I've known them for a long time but when they went public, it was a toy, hit-based business and almost like a fashion business, if you will. While I think they're brilliant, it was not a fully big company enough for me. Again, there might be a one-off opportunity, but if we're going to dig in and invest all that time, I'm not going to do it now. It's now properly described as a global children's entertainment business. Their digital side is doing well and to the credit of my investment team, as we were doing the work in the last few years, I was very pleased to see them being willing to consider, if this keeps ramping the way it is for preschoolers and great schools in terms of the digital platform and the way the kids play, this could be its big already. It could be big or for example, if Paw Patrol, the film, is a success, what does that mean for Spin Master because they decided to take more risks by

maintaining creative control of that product and not just outsourcing to a studio? I don't know whether the critical reviews were great when it came out in the summer, but I think the kids loved it and they've announced they're doing a sequel, so we will include that in our forecasts.

To come back to your question, for sure, it reminds me of the dot com bubble. If you look at our history, we were around in the late 90s and I can tell you the number of times in meetings in private equity pre-Turtle Creek, when I would have a management team look at me, and I wasn't that old then, saying, "you just don't get it", because I didn't understand that the world had totally changed. Of course, the world changes over time, but it doesn't change that fast. Because we've seen a lot of different markets and because of our approach, we're not a buy and hold. But our comment ties to the fact that we have a high discount rate. If we were owning companies that had no cash flow for the first 10 years and then a potential of a big payday using a non-market discount rate, you could argue against that because we're undervaluing cash flows way, way out. But that's not part of our investing universe. All of our companies are generating cash. Some are generating a lot and some are generating a little bit.

I've done this exercise at times... I've walked down the hall and said to one of the members of the team, the investment team, especially when someone's new because they're coming out fresh - Greg Cohen, who came in a year ago, is our most recent addition to the investment team - I would say, Greg, can you just look at what if we used a seven percent discount rate average versus a nine? Would it change our target weightings in our portfolio? And he came back saying that really

wouldn't have much of an impact. We highlight the fact that we've never altered our discount rate. It ranges around, let's say, a median of a nine percent discount rate and we've never changed in twenty years. And if you step back and look at what 10-year treasuries have done, they are a lot lower. You could make an academic argument that we should use a lower discount rate. But again, because it wouldn't change our portfolio composition, it kind of doesn't matter.

“ Returns we earn are trimmed in a bull market because we're trimming anything with valuation froth so we don't capture that euphoria. ”

The one thing I'd point out or observe is our companies haven't lowered their hurdle rates for acquisitions or for capital projects just because rates are low. I think if I can use that term, there's a natural return expectation if you step back and look at over hundreds of years. I don't think it's really changed all that much. Back to your question, has it hurt us? For sure. If we used a lower discount, we'd probably own things that have more hypergrowth 10 or 20 years out, and we've debated it internally, and we've decided there's a huge valuation risk and of all the risks in investing, it's easy enough to not own companies who are not going to hit the wall, right? That's pretty easy. You just have to avoid all of the new industries and an untested management teams. The real risk is that you own a portfolio like in 2000.

We're sending out our quarterly commentary soon, so I know the numbers are really fresh. In the 11-year period from the beginning of 2000 looking forward, if you own the S&P 500, you had a negative three percent a year compounded return. A dollar shrunk to 70 cents. And now in the next 11 years that just finished a few weeks ago, you had a 17.7% compounded return. A dollar grew to six dollars. There is a classic recency bias, and the point we make in the commentary is we're not predicting negative returns in the next decade. But it's really hard to imagine that the broad market is going to generate anywhere near what it's done in the past decade. Our point would be because we're so valuation risk-focused, our portfolio today is very similar.

The returns we earn are trimmed in a bull market because we're trimming anything with valuation froth so we don't capture that euphoria. We didn't capture that euphoria in the dot com, but I think so far, we've protected our investors in terms of when valuations compress because they can compress and it's not obvious when they will. That's such a short term focus that all we do is, every day, try to find a way to make our portfolio a little cheaper around the edges. When I say cheaper, I mean better of course.

Turtle Creek has an interesting focus on value through lowering risk, and academically risk is often viewed synonymously with volatility. How do you interpret risk in your strategy, and how does volatility relate or not relate to that interpretation?

I think risk is just being wrong. We wrote our first thought piece, The Taos of the Turtle, on it. I

haven't written one in a long time. I'm not sure there's anything else to say, but the first one we wrote about was the first episode on risk. We wrote a follow up later, in the latter half of 2009, and said, how do you feel about risk now because people have been just shocked by the credit crisis? And the point we made was risk is being wrong on your forecast, and you're going to be wrong on your forecasts.

You handle risk with knowledge. And then if you think of the building blocks only on honest, decent companies, they don't have to be perfect, none of them are perfect for their shareholders. But because they are honest we don't have to worry that the share price is telling us something that we don't know, that is just that emotional noise. The public market, there's no information in the share price.

A friend of Michael's, this was years ago but it's one of my favorite memories, he was in our office library, and he was a Ph.D. in mathematics and off of the trading desk, and he kept talking about price signals. But what about the price signals? And I finally had, like, the shoe drop. There's no information in the share price, the information is from the company. The share price might go down because they announced something in it and it's bad news. The reason TFI international share price was up yesterday is the CEO was at a conference and he was telling people how great everything was going. The share prices are not giving us any information.

If you think about the one hundred and seven companies we've owned and let's assume that I haven't looked at this in a long time, but let's assume half of them were ever a big holding. When

I say big, I mean six percent, seven percent of the fund because we'll let things go above even 10 percent. We have no cap on the weighting of any one company, it's purely based on how cheap that holding is compared to everything else that we own at any time. The only way something becomes a big holding is if the price goes down, and then it goes down more, and then it goes down a lot over time and we're buying and buying and buying and there's a bigger margin of safety, we're talking the classic Ben Graham margin of safety. Of course, the bigger the margin of safety the greater the long term expected return because of that margin. If you think of value being up here and then the share prices close up here, there's a little bit of margin of safety, but now your expected return is higher than your discount rate. But if it's way down here, if we have companies where our expected return for the next five to 10 years is over 30 percent a year - it might turn out to be 40, it might turn out to be 18 - but it's not very likely going to turn out to be zero. That's how we think about risk.

I'll reiterate our forecasts are not conservative. We're trying to get it right. We include organic growth. We think it's there. We include acquisitions if we think they can do them and create value, but the conservatism and the risk management comes in to the discount separation between business value or intrinsic value and the current share price. It does limit, in a way, our returns, especially in a bull market.

I'll use a baseball analogy that we never hit a home run. We've never hit a grand slam. We're hitting singles. We'll bunt to get on, we'll get hit by a pitch and we're going to manufacture runs. It's interesting when, let's say, a U.S. endowment starts to dig in on us. Of course, one of the things

they want to look at is, this happens a lot with the manager with a decent track record, is, did they have a couple of home runs? Did they get into Google at the right time and do they still own it? I'm using that as an example. I'm assuming that would have been good on Google, but we've never looked at Google.

I'll often show them the analysis. Our returns are very distributed, not from three or four holdings that tripled or quintupled. If you think of, I'm using TFI as a long time holding, it has been more than a 10 bagger. We bought it in the credit crisis when it was three bucks. Today, it's one hundred and forty bucks and it pays a dividend. It's been terrific. But our return on that holding has been better than the buy and hold. That's the case for all of our companies. If I did the math, if I put everything in the TFI at three bucks and still held today, our unit price would be higher but it would have been a lot more risk if you follow that logic.

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You mentioned that your portfolio discount to value was 70% in 2008 and 50% in November 2021 – what has driven the

improvement in your view, especially considering pricing now vs 2008?

It's interesting, starting in the COVID crash, in March of 2020, for the first time, we've added a change in intrinsic value or business value in our term. We did this because it drove me crazy when I'd listen to people and they would say, I look at intrinsic value, and you listen to how they're describing it, and you realize, no, you're not. I wanted our own defined term.

I think less about the discount to intrinsic and more about how we are able to grow it. And the way you grow intrinsic is, if you have good companies, they grow their intrinsic value over time. If they don't pay you a dividend, which most of our companies don't, they reinvest it. If they can't reinvest all of it, the really smart ones buy back some of their shares, especially when they're at attractive prices. Think of it as a per share intrinsic value. They drive that higher over time. Taking advantage of fluctuations in the share prices allows us to, in the long run, grow our intrinsic value higher than our companies can on their own.

Generally, we tend to take our long term forecasts up more often than down. If it was drastically up, I'd be upset, meaning we didn't have it right. We were being too conservative. Again, sometimes we take our forecasts down, but more often than not, we take them up. That's also a tailwind for that business value increase. Then, the final is when we find a new company that we think is really cheap. We add that and then we remove a company that would be a small holding because it's the least attractive of the ones we own, which also increases business value. Think of, you're getting rid of a company that's only trading at 20 percent away

from their intrinsic value, when you add one, that's at a 50 percent discount, that's going to increase that and grow your business value.

In terms of attractiveness of the portfolio, the way to think of our portfolio today, and this is why I'm not worried about whether we're going into a bear market because if you set aside the credit crisis and you set aside March in the COVID crash, the portfolio is as attractively valued today as it's ever been. That's not even taking into account that long term interest rates are a lot lower than they used to be because they may go back up. One of the nice things about having not dropped our discount rates, we don't have to worry about raising them if it turns out in interest rates are really going to rise over time.

“ I think less about the discount to intrinsic and more about how we are able to grow it. And the way you grow intrinsic is, if you have good companies, they grow their intrinsic value over time. ”

The past three decades have seen a significant shift in assets from active to passive investment strategies. In past interviews, you have commented on this trend noting that “a lot of people should just own the index without trying to pick stocks.” How does the growth of passive investing affect market efficiency and active investment strategies if at all? How

can we leverage this trend as value investors?

It's not just passive investing, there are a whole host of factors. You would think common sense would suggest that markets should become more efficient. There's more information, the invention of the Excel spreadsheet, first of all, it drove the first part of my career because it drove leveraged buyouts because not many people can do the intuition in their head as to how much debt a company can really handle and how much money it can make for you as an owner, if you use that debt. But there's more information and there's definitely more sophistication.

I think it creates more inefficiencies. We've always had, and I'm sure you've learned about all of this in school, all of the behavioral inefficiencies and biases that, as humans, we have and as groups we have... Then if you add an increasing amount of passive investing. To be fair, traditionally, a lot of the mutual funds were probably pretty much closet index funds. Is that a huge driver of inefficiency? I'm sure it doesn't help. It doesn't make the market more efficient, but I think it's things like all of those behavioral biases. I think it's the fact that there's so much information that it's so interesting and compelling for people to want to read the financial news and what people think.

I saw Jeremy Grantham said that the market's about to go through a 50 percent compression. That's more interesting to read, than to say that TFI is an interesting company, but you need to really go down the rabbit hole to understand it. People don't want to do that. I think that these computers trying to figure out what the markets doing by mining data, I think all of that is just circularity.

It might work for a brief time, but the fundamental idea of value investing, where you pick a manageable number of companies, pick good ones and get to know them, but don't overdo it... It was interesting. Michael and I had a meeting with a sophisticated private equity person and one of the comments I made to him was, one of my jobs at Turtle Creek is to make sure that the people on the investment team don't go too deep because there's a point at which you feel like, ok, we've got a pretty good handle on TFI. We know the CEOs are really strong now and they've got a CFO who is really strong. We interact with them. We've got a big model, but you could spend all of your time on that company.

“ It's not just passive investing, it is a whole host of things. The short-termism, the noise, the distraction that makes it even harder for people to have their eye on the horizon and think about the longer term. ”

I remember years ago, the National Bank analysts came in. He was so proud he had his monthly or quarterly survey of the rails and the truckers and the rates. I just listened to it and I thought, I don't care about any of this. What matters about value for TFI is what the CEO is going to do in those hundred acquisitions he does, the decisions he makes in the operations and how he tweaks the compensation for his people so that they make the right business decisions. That's what drives the

value, not how rates are going to go up or down in the next quarter or year. It's all of those things. The exciting news for you, starting out in value and as a value investor, it's as good as it's ever been. It's not markets are not more efficient.

One of my long-time investors, who is a technology entrepreneur and loves big data, we had lunch a few years ago. He knows what we do, and he said you've got to apply AI and big data to what you do. And I took them through the point of, ok, even though an AI has been able to win chess for a while against grandmasters, let's talk about how complicated a corporation is. Then recognize that the stock market is really an accumulation of thousands of those complicated corporations. That'll be the last thing that ever gets properly dealt with in a year. By the end of the dinner, he said you're right, it's going to be generations before, if ever.

It's not just passive investing, it is a whole host of things. The short-termism, the noise, the distraction that makes it even harder for people to have their eye on the horizon and think about the longer term. I remember years ago, Seth Klarman did a presentation and he started off by saying, we have one competitive advantage at Baupost. I was leaning in saying, what is it? And he said we take a long-term view. It was so deflating at the time, but I would just echo that comment.

It is so rare for people to truly take a long-term view because another inefficiency is this agency problem that it's not just in professional management of corporations, but it's the separation of the owner of a stock and now inserting an institution managing the money. His point is that doesn't make it more efficient, it makes

it worse in a lot of ways, because then the professional manager is worried about their business and not thinking about what the best thing is for their for their clients. We see a lot of that. There is a role for value investing in the next generation.

Turtle Creek has delivered an impressive 22% compounded annual return since inception, what has been some of the key success factors driving the outperformance and how does the firm remain disciplined moving forward?

What I would say is that as frothy as things may be today, it's not nearly as ludicrous on a broad basis as it was at the tail end of the dot com. I would park those first couple of years. If we have a crazy environment like that again, then I think we can match what we did back then. But if you set that aside, it takes you to still really good, mid to high teens, returns. One of the exciting things for me and my two founding partners is how repeatable, scalable and teachable the approach is.

The source of the return is what I've been describing. It's just recognizing that there are, at any time, a handful of generationally great companies. You want to go and try to find those and only build your portfolio from those. That's what we've done. I'd say we've definitely done a better job on that today than 20 years ago, if you think of future sources of returns versus past ones. Put it this way, I think the buy and hold of our portfolio will be better than 20 years ago. We know the quality is higher and it's common sense, right? If you spent 20 years trying to find the best companies and kicking out the ones that just don't match up anymore. But then that's been an

enhancement. Maybe that means that the share price volatility per company won't be as high? I don't know. But the source of the returns hasn't changed, the building blocks of owning really good companies that we are a buy and hold will be pretty good. In some cases, it's been terrific.

better than it's ever been. We are up to 11 professionals, eight additional people on the investment team. We are able to cover more companies as a consequence. But the quality hasn't declined, I'd argue the quality is better. I think there's been no change, just some enhancements, if you will, over the years.

“ The source of the return is what I've been describing. It's just recognizing that there are, at any time, a handful of generationally great companies. You want to go and try to find those and only build your portfolio from those. ”

Maybe because we were at a time only private investors and didn't have this tool, this lever to enhance returns? I sometimes joke and feel like we're harnessing psychic energy. It's a perpetual motion machine. It's all of that angst and excitement and depression that occurs in the market and we're the rational actor that have the temperament to just look past that. I make it sound easy. It actually is easy, but it's only easy because we've done the work.

People often say it's really hard to buy more of a stock that keeps going down when everybody else is selling. I went into Jeff Cole's office and said, Jeff, do you really find it hard to buy more when it's going down? He said, no. I said, well, let's not tell people what we think they want to hear. We don't find that difficult. I don't think there's any change. Markets aren't more efficient. Our quality of our team is