

IVEY

Richard Ivey School of Business
The University of Western Ontario

Ben Graham Centre
for Value Investing

Value Investing Conference 2012

April 25, 2012

12:00 noon to 6:00 pm

Board of Trade, First Canadian Place, 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 2012 Value Investing Conference

Agenda

11:30am-11:55am	Registration
12:00pm-12:15pm	Introductions and Opening Remarks George Athanassakos, Director, Ben Graham Centre for Value Investing, Richard Ivey School of Business
12:15pm-1:15pm	Luncheon and Keynote Lauren Templeton: Lessons learned from Sir John Templeton
1:20pm-3:35pm	Value Investor Panel & Presentations
1:20-1:50pm	Wayne Peters – Take a simple idea and take it seriously
1:55-2:25pm	David Winters – Global trifectas
2:30-3:00pm	Jeff Stacey – Searching globally for outstanding value investments
3:05-3:35pm	Mohnish Pabrai – Ben Graham's net-nets are alive, well and working in 2012
3:40-4:10pm	Question & Answer Period
4:15-4:30pm	Coffee Break
4:35pm-5:35pm	Corporate Executive Panel & Presentations Looking for and creating shareholder value – Industry perspective Tom Ward – SandRidge Energy perspective Marc Bertrand – MEGA Brands perspective Bill McMorrow – Kennedy Wilson perspective Richard Garneau – Resolute Forest Products perspective
5:40-6:00pm	Question & Answer Period
6:00pm	Concluding Remarks



Panel of Speakers

The Canadian 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:

VALUE INVESTING PROFESSIONALS

Lauren Templeton, Principal, Lauren Templeton Capital Management, LLC

Wayne Peters, Chairman and Chief Investment Officer, Peters MacGregor Capital Management

David Winters, Managing Director, Wintergreen Advisers

Jeff Stacey, Founding Partner, Stacey Muirhead Capital Management

Mohnish Pabrai, Managing Partner, Pabrai Investment Funds

CORPORATE EXECUTIVES

Tom Ward, Chief Executive Officer, SandRidge Energy

Marc Bertrand, President & CEO, MEGA Brands Inc.

William McMorrow, Chief Executive Officer, Kennedy Wilson

Richard Garneau, President & CEO, Resolute Forest Products



Lauren C. Templeton

Lauren is the founder and President of Lauren Templeton Capital Management, LLC; a value investing boutique located in Chattanooga, Tennessee. The company is the general partner to the Global Maximum Pessimism Fund. Lauren began her career working with managed portfolios and investments in 1998, beginning as a junior associate at the financial advisor Homrich and Berg and later the hedge fund management company New Providence Advisors, both of Atlanta. In 2001,

Lauren launched her own hedge fund management company which dedicates its efforts to the practice of value investing across the global markets using the same methods learned from her great-uncle, Sir John Templeton. Ms. Templeton is the co-author of *Investing the Templeton Way: The Market Beating Strategies of Value Investing Legendary Bargain Hunter*, 2007, McGraw Hill, which has been translated into nine languages. Lauren is the great niece of Sir John M. Templeton and is a current member of the John M. Templeton Foundation. The John Templeton Foundation was established in 1987 by renowned international investor, Sir John Templeton.



L. Wayne Peters

Wayne is Chairman and Chief Investment Officer of Peters MacGregor Capital Management, a Sydney based International Equities value manager. He has 30 plus years of business and investment experience having built a retail photographic chain in Australia prior to establishing Peters MacGregor in 1999. The firm has achieved a compound 15% per annum gross return for investors since inception and is currently ranked 5 stars by Morningstar over the past 1, 3, 5 year periods.

Wayne is also Chairman of the ASX listed Peters MacGregor Investments Ltd. and a non executive director of the New Zealand listed Michael Hill International.



David J. Winters

David is the Managing Director of Wintergreen Advisers, LLC, where he is primarily responsible for the management of the Fund's portfolio, and has responsibility for the day-to-day management of the Fund. Prior to forming Wintergreen Advisers in May 2005, David held various positions with Franklin Mutual Advisers, LLC, including President, Chief Executive Officer and Chief Investment Officer. David led the Mutual Series group of global and domestic equity value funds and served as the Chief Investment Officer of Franklin Mutual Advisers, LLC, with assets under management in excess of \$35 billion as of March 31, 2005. He also served as the Portfolio Manager of the Mutual Discovery Fund during the period beginning February 1, 2000 through May 10, 2005, and other client accounts managed in a similar investment style. David had been a member of the management team of the Mutual Series since 1987. He was named Director of Research in 2000, and was promoted to President and Chief Investment Officer in 2001.



Jeffrey D. Stacey

Jeffrey Stacey is the Founding Partner of Stacey Muirhead Capital Management. In addition to sharing responsibility for the overall direction of the firm, Jeff has acted as Portfolio Manager for the Stacey Muirhead Limited Partnership and the Stacey Muirhead RSP Fund since their inception. He is also responsible for client service efforts at the firm. Jeff has over 25 years of investment industry experience. Prior to starting Stacey Muirhead Capital Management, he was employed with a boutique Toronto investment firm where he was also a shareholder. Jeff has an Honours Bachelor of Business Administration degree from Wilfrid Laurier University and is a Chartered Financial Analyst. He is a member of the Finance and Investment Committee at the University of Waterloo and is a member of the Dean's Advisory Council at the Wilfrid Laurier University School of Business and Economics. Additionally, Jeff currently serves on the Board of Trustees at Parkminster United Church. He is a former director of Rainmaker Entertainment Inc. and previously served on the Board of Trustees and Investment Management Committee at the University of Guelph.



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 has 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 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 is the winner of the 1999 KPMG Illinois High Tech Entrepreneur award given by KPMG, The State of Illinois, and The City of Chicago. He is an active Member of the Young President's Organization (YPO). He is also the Founder and Chairman of the Dakshana Foundation (www.dakshana.org) which has sent over 200 impoverished kids to the IITs in India so far.



Tom L. Ward

Tom has served as Chairman and Chief Executive Officer of SandRidge Energy, Inc. since June 2006. Prior to this, he served as President, Chief Operating Officer, and a Director of Chesapeake Energy Corporation from the time he co-founded the company with Aubrey K. McClendon in 1989 until February of 2006. In 2000, Mr. Ward and his son, Trent, co-founded White Fields, Inc., a home for severely abused and neglected boys. Mr. Ward graduated from the University of Oklahoma in 1981 with a Bachelor of Business Administration in Petroleum Land Management. He is a member of the Board of Trustees of Anderson University in Anderson, Indiana, the Board of Trustees for The World Golf Foundation and a member of the Economic Advisory Council of the Federal Reserve Bank of Kansas City.



Marc Bertrand

Marc is President and CEO of MEGA Brands Inc., a trusted family of leading global brands in construction toys, games and puzzles, arts and crafts and stationery. Marc joined the Company as Operations Manager. From 1991 to 1996, he was Executive Vice-President, before being appointed to his current position in February 1996. During his tenure as President and CEO, MEGA Brands has established itself as the fastest growing brand in the construction category. Marc spearheaded

the company's initiative to optimize manufacturing and distribution capabilities, and expanded the brand internationally.



William J. McMorrow

Bill is Chairman and Chief Executive Officer of Kennedy Wilson, which he purchased in 1988 as a real estate auction company. Kennedy Wilson has assets under management of more than \$12 billion, including over 50 million sq. ft. of office, retail, industrial and residential properties throughout the U.S. and Japan. In November of 2009, the company went public and is listed on the New York Stock Exchange. Kennedy Wilson Japan went public in 2002 and is currently listed on the Tokyo Stock

Exchange. In addition to his real estate experience, Bill has more than 17 years of banking experience. Prior to joining Kennedy Wilson, he was the Executive Vice President and Chairman of the Credit Policy Committee at Imperial Bancorp and held senior positions with a variety of financial services firms, including Fidelity Bank in Pennsylvania, where he was a Senior Vice President for eight years. He serves on the Executive Board of the USC Lusk Center for Real Estate and is involved in numerous Southern California charities.



Richard Garneau

Richard is the President and Chief Executive Officer of Resolute Forest Products. He has been a director of Resolute Forest Products since June 2010. He most recently served as President and CEO of Catalyst Paper Corporation. Prior to his tenure at Catalyst, Mr. Garneau was Executive Vice President, Operations, at Domtar. He also held a variety of roles at Norampac, Copernic.com, Future Electronics, St. Laurent Paperboard, Finlay Forest Industries and Donohue Inc.



A Message from The Director

Stock markets in Canada and around the world had a terrific run from 1982 to 1999, with only a few small setbacks. Equity investments, even on autopilot, made money. Passive portfolio management ruled. There was no need to pick stocks as it was cheaper and easier to diversify and make money by buying an index fund.

But the future is going to be different. Passive and autopilot investments will not be as profitable as in the past.

Stock markets are going to be increasingly volatile as productivity growth slows, taxes increase and government spending declines, coupled with population growth slowing and turning negative in many Western countries, baby boomers retiring and spending their hard-earned money rather than saving and investing, and eventually inflation and interest rates rising.

Further contributing to that volatility is the proliferation of highly speculative instruments, such as the recently announced eight new ETFs sponsored by ProShares that “promise to return three times the positive or negative return of four major equity indexes” and are designed to be held for a maximum of one day. Wall Street, with stock markets around the world following its lead, is starting to become a casino.

Moreover, hedge fund behaviour, and that of speculators in the commodity markets that led to the extreme volatility of commodity and energy prices in the last few years, will continue to add to the casino-like behaviour of stock markets. This trend is going to intensify.

The only way to make money in this environment is to be an active portfolio manager and a disciplined and patient stock picker – like a value investor.

According to market efficiency and modern portfolio theory, attempting to outperform the market based on stock picking will lead to a poorly diversified portfolio and risk for which there will be no reward. Diversification, according to the theory, helps investors minimize risk and therefore avoid losses.

But value investors don't believe in market efficiency and put less emphasis on portfolio diversification. They don't believe risk is measured by the volatility of stock returns – a key measure of risk that is reduced through diversification. Rather, volatility is a value investor's best friend as it gives rise to investment opportunities.



Modern portfolio theory regards diversification as a substitute for due diligence. Value investors disagree. In fact, Warren Buffett has indicated that wide diversification is only required when investors do not understand what they are doing. The importance of due diligence for value investors can't be overstated and will be critical in this era of stock picking.

Similarly, modern portfolio theory and diversification rejects a case-by-case stock analysis. Value investors disagree. Evaluating each stock on its own merit is what value investors do. Diversification and indiscriminately buying a large number of stocks (i.e., index funds) will not save a portfolio in the future. The last few years have been a prelude of this.

Valuing individual securities and having concentrated portfolios will be worthwhile. Value investors have concentrated portfolios, not because they reject diversification, but rather because they operate within the boundaries of their competence by choosing securities they understand. They prefer companies that can be reliably valued with stable cash flows and a history of steady earnings. They look at investment opportunities intuitively; they're sceptical if something doesn't make sense. They buy businesses cheap based on their assets or future earnings. By not paying for growth, they protect their capital and limit risk. Additionally, they apply a margin of safety, which provides downside protection.

The ability to correctly pick the right stocks is about to get a lot more important. Selecting the right stocks will do more to mitigate risk than controlling and managing risk through diversification.

Our panel of professional value investors are a living testament to the value investing methodology and will tell us how they put what is detailed above into practice in their own portfolios. The same holds true 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.

George Athanassakos

Director, Ben Graham Centre for Value Investing
Richard Ivey School of Business



Specific questions addressed at the conference

- What principles do they apply in searching out investment opportunities for detailed study? When it comes to stock selection, what are the key criteria they look for in potential investments?
- What kinds of information and securities are they seeking?
- What kind of investor irrationalities do they consider?
- What periods lead them to greater or lesser investments?
- How do they define and estimate value? How do they identify companies whose core product “is priced significantly below its value to customers”?
- How do they factor in asset values, related security transactions, industry economics, firm strategies, management behavior?
- How do they, if at all, account for differences between market prices and intrinsic values? What collateral information do they examine?
- How do they define and manage risk?
- How do they make overall portfolio decisions and determine asset allocations?
- What stocks to buy in a deflationary vs. inflationary environment? Can they name some?
- Macro risks? Does the economy matter now more than before?
- Do they hedge? Why yes, why not? How?
- How do they judge the greatness of a business? Do they start with a quantitative screen of companies with high returns on capital employed, i.e., do they have a “magic formula”?
- 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?
- Good ideas are only one piece of the success equation. Skilled portfolio management is indispensable. How concentrated is their investment portfolio, do they use leverage, and what is their view of short selling?

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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