Columbia Business School

Graham & Doddsville

An investment newsletter from the students of Columbia Business School

Issue IX Spring 2010

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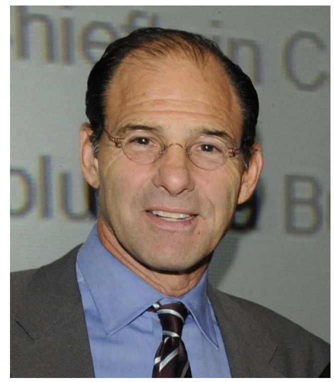
"A Brave Concentration on Value" — Glenn Greenberg

Glenn Greenberg is the founder and portfolio manager of Brave Warrior Capital. Previously, Mr. Greenberg ran Chieftain Capital Management, which he founded in 1984. Mr. Greenberg holds an English degree from Yale and is a graduate of Columbia Business School.

G&D: Could you tell us a little about your background, how you got interested in investing, and how you've evolved over time as an investor?

GG: I was an English major in college and taught school during the Vietnam War era. I went to business school at the recommendation of one of my bosses. When I was at business school, the only thing that appealed to me was a portion of one class that dealt with security analysis. It seemed like a lot of fun to study a company and figure out whether its stock would be a good investment. I didn't understand what investment bankers did. I didn't think I'd be interested in being a management consultant, which attracted all the best and brightest. So I took a job at Morgan Guaranty, now JP Morgan Chase, in their trust and investments department.



Glenn Greenberg, Portfolio Manager - Brave Warrior Capital

I had a knack for figuring out which companies were undervalued. I was quickly promoted to what I call 'Money Mismanager.'

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"Searching for Dirty Gems" — Kingstown Partners

Mike Blitzer CBS '04 and Guy Shanon CBS '99 are the Managing Partners of Kingstown Partners, LP, a $285M special situations partnership that has compounded at 17.2% net of fees since its inception in early 2006, versus negative returns for the S&P 500. The pair also teaches Applied Value Investing in the Heilbrunn Center at Columbia Business School.

G&D: How do you describe Kingstown's approach to value investing?

MB: We are an opportunistic partnership that invests across the capital structure in a specific set of special situation categories. We are deep-value fundamental analysts, but we try to only look at situations where there is some element of forced or indiscriminate selling. We need to know why a security may be mispriced before wanting to dig deeper. This could be something like a corporate spin-off being discarded because of an unusual distribution ratio or a company exiting bankruptcy or a busted convertible bond where arbitrage sellers are exiting en masse. In every case, we have a view on why an opportunity may exist.

We spend our time focused exclusively on what we think are the pockets of inefficiency in equity and debt markets and just try to find a handful of mispricings each year. We manage a more concentrated portfolio of 20-25 of these types of situations which tend to be less correlated to the overall market. We also require a specific catalyst or series of

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Pictured: Bruce Greenwald and Marty Whitman at the Columbia Investment Management Conference in February.

Welcome to *Graham & Doddsville*

We are pleased to present you with Issue IX of *Graham & Doddsville,* Columbia Business School's student-led investment newsletter co-sponsored by the Heilbrunn Center for Graham & Dodd Investing and the Columbia Investment Management Association.

This issue features an interview with Glenn Greenberg, founder and portfolio manager at Brave Warrior Capital. Mr. Greenberg outlines his high concentration, low turnover investment approach, with a focus on growing, high quality companies that also offer attractive and defensible free cash flow yields.

The issue also features an interview with two of Columbia's own Applied Value Investing professors, Mike Blitzer and Guy Shanon of Kingstown Partners. They discuss their focus on special situation investments throughout the capital structure.

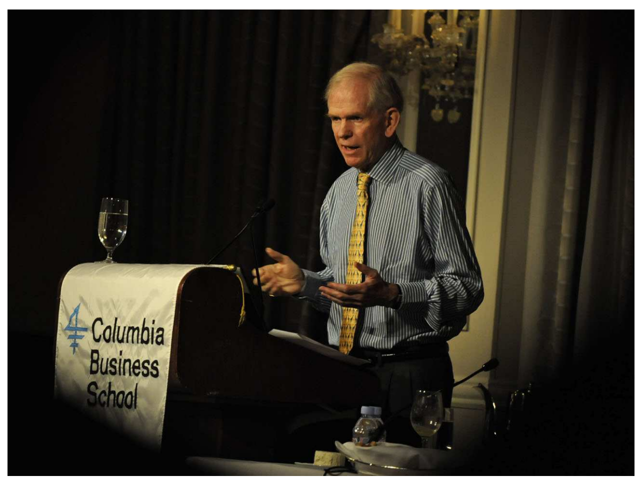
We also aim to offer specific investment ideas that are relevant today. The current issue includes two student investment ideas, including Broadridge Financial (BR), presented by Matt Gordon '10, Garrett Jones '09, and Mike Smeets '09. The Broadridge pitch was the winner of the third annual Pershing Square Challenge. We also include a short recommendation on Plum Creek Timber (PCL), the runner-up from the Pershing Square Competition.

Please feel free to contact us if you have comments or ideas about the newsletter as we continue to refine this publication for future editions. Enjoy!

"The Efficient Market & Rational Expectations"

On October 7th, 2009, Columbia hosted the 21st annual Graham & Doddsville breakfast at the Pierre Hotel in midtown. Each year, the breakfast brings together students, alumni, faculty, and investment practitioners to discuss current investment markets and celebrate Columbia's ongoing contribution to the value investing discipline.

This year, Jeremy Grantham gave his thoughts on the volatile markets of 2008 and 2009, including some sharp criticism of the common interpretation and practice of "Graham & Dodd" style value investing. The following are excerpts from his speech. A full version of Mr. Grantham's speech was published as an appendix to his most recent quarterly letter and is available on the GMO website.



Jeremy Grantham delivering the keynote address at the 2009 Graham & Dodd Breakfast.

On value investing, efficient markets, and the peril of ignoring bubbles…

This title was aimed, really, at my number one pet hate, "The Efficient Market and

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Glenn Greenberg

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After five years there, I left to join a small private investment group as a research analyst for a very successful investor. I spent five years crunching his numbers and analyzing his investments. One thing that's changed a lot is that we were much more qualitative, we didn't have PCs to do these fabulous, complex multi-variable models, but I don't think we lost anything by not having that available. It forced you to think more clearly about the quality of the business and what would give it legs as an investment, as opposed to tweaking models and changing assumptions, and worrying about the latest data point and what that did to your IRR.

After being in the business 10 years, I started Chieftain Capital Management in 1984, and took with me as my junior partner John Shapiro, who was working with me at Central National. We started with $40 million, 2/3rds of which was family money. By 2006 we compounded that to 100x its original value before fees just by concentrated investment in pretty pedestrian, easy to understand businesses that seemed undervalued. That meant no turnarounds, no crummy businesses, no highly competitive businesses, and no tech businesses, which we didn't understand. It was boring stuff. Almost every year, we'd look in the portfolio and say gosh, how are we going to do 15% or 20% this year with this group of dull investments, but somehow it happened. We had 23 great years of investment performance, but the last 3 were not so hot.

The firm broke up at the end of last year, and I started Brave Warrior with the same precepts, and hired some super bright young guys. One of them dropped out of college at 19 to start a pharmaceutical company, which he is now in the process of selling. Got the directors, raised the capital, got the rights to the drugs that he wanted to market. I thought that with that kind of motivation and ingenuity, he's a very creative person who knows how to think about a business. I think I've built a team of that kind of people.

> ***"That meant no turnarounds, no crummy businesses, no highly competitive businesses, and no tech businesses, which we didn't understand. It was boring stuff."***

There are five of us: my partner and I, and three younger people. We have one person who does special projects research. We give him a question that we want answered, which may involve conducting interviews or getting documents other people haven't bothered to get. It's a whole different vantage point on these investments that we're looking at. Then we have one fellow who has a more conventional investment background. He's done distressed and private equity, but he loves publicly traded securities. Very bright and has a similar investment approach to what I do. So, we have a great team.

G&D: You have a unique approach to client management, which allows you to let your assets compound organically rather than focusing on marketing. How do you cultivate your relationships with investors?

GG: In the past it was by delivering outstanding results. When we founded Chieftain, I felt that since my partner and I were going to be doing everything, all the research and picking stocks, we wanted to spend 100% of our time on that. So we made up some rules. Num-

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Glenn Greenberg

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ber one, we didn't want brokers to call us with their ideas. We told them we would call when we wanted information. We decided not to market. We did accept accounts over the years, but we didn't spend any time marketing.

It was people who selected us who we thought would be good clients. Often they were CEOs of companies we met through our research. The clients who selected us really knew and admired what we did, so there was never a problem of them leaving six months later because they didn't understand what we were doing. They didn't call often either. We had almost no turnover at all, until 2008 when the world went to hell in a basket.

The other thing we made up our minds not to do was spread ourselves too thin. The minimum position was 5%, with the thought that if you don't have enough confidence in an investment to put 5% of your assets in it, you shouldn't be in it. So we generally had about 10 stocks in our portfolio, which meant we knew them well and we followed them closely. They tended to be businesses that didn't have much downside risk, because you're not going to gamble with 10% of your money.

Of course, 100% of our funds were in an identical portfolio as our clients. Anything we bought for our clients, we bought for ourselves and our families. I think that tends to focus the mind. So, those were the rules we set down at the outset in order to maximize the amount of time we had to do our research and not be bothered with marketing or with other people's ideas.

"The clients who selected us really knew and admired what we did, so there was never a problem of them leaving six months later because they didn't understand what we were doing."

G&D: How has the investment business changed since you were a student at Columbia?

GG: I think it's a harder business because of two big factors. Number one, a lot more smart people are attracted to the financial rewards and the challenge. And number two, regulation FD makes it more difficult to get insights into businesses by meeting with management and gleaning information before the crowd does.

Basically, these companies undress themselves four times a year, plus every conference they attend. People are focusing on every little number and change in business direction and it's harder to get a differentiated view of what might be happening. There's not that much that you're going to think of that no one has thought to ask. Now that you have analysts bombarding management with questions for the whole world to hear, your question is probably going to come out. Even if you're an idiot and you're just listening to the call, or attended a group one-on-one, you're getting the benefit of other people's brains.

G&D: On the other hand, is it possible that this has led to a lot of noise, where thinking about things differently remains valuable?

GG: I would say our edge is the willingness to take a longer view of a business. Maybe the willingness to take advantage of somebody getting jittery about something that's a short-term

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Glenn Greenberg

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development and being willing to take a position at a time when other people are bailing out. If I could go back to the world of 20 or 25 years ago I would.

There was real value in being a detail-oriented, hands-on manager who went out and visited with management. There was real advantage in spending that time because other people weren't. Managements weren't out on the road talking all the time. They would announce earnings, and if you were quick to read the 10-Q, you could glean if there was some important new information before the rest of the world.

G&D: Does that change your approach? Do you still find it valuable to meet with management teams?

GG: The most important thing is the attitude of management toward their shareholders. I don't think it's very original to say you want to find managements that are candid and honest about the plusses and minuses in their business. If they're not candid about the minuses, chances are their subordinates are not telling them what's going on. I like managements that are not promotional or flashy, that seem to be interested in running their business and nothing else.

I don't think you learn that from a guy giving a speech at a conference or remarks on a conference call. A lot of time it's just sitting down with a guy, asking him questions, and seeing how he responds. Presumably, if you're meeting with management, you have a good idea why it might be a good investment.

Therefore, there are a few key issues you need to resolve to know whether you want to own it. Before meeting with top management, I determine the three questions I would ask if I could administer truth serum. I see a lot of analysts who arrive with five pages of questions, and that's not very helpful. You want to identify the key questions that are going to drive the investment, and ask the CEO.

"I like managements that are not promotional or flashy, that seem to be interested in running their business and nothing else."

For example, take Abbott, which we've looked at. If I were sitting with Miles White, I would ask him about his strategy for offsetting the ultimate maturation of their big product that contributes half their earnings. What are the strategies for maintaining its profitability as there are generics and competitors? How do you think about offsetting something so big? That is the key issue in that company. Not that I expect him to tell me THE answer, but I want to hear the quality of how he thinks about it, how seriously he's thought about it, and how ingenious his strategy might be.

G&D: What are some of the characteristics you look for in a high-quality business?

GG: There are a number of models of what could be an investible business. For example, the Ryanair model is similar to the Geico model in my view, which is to take a big fragmented business that is commoditized, where one company is so much lower cost that they are in a position to gain market share. So as the market grows, the company grows much faster. Their costs are so low that when other people are barely earning acceptable rates of return, they're still earning very acceptable rates of return. When the industry is having good times, they're

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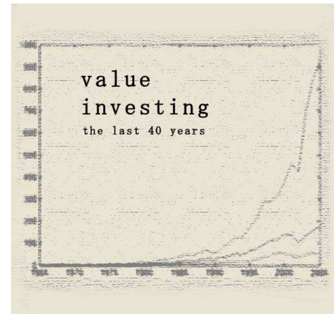

Columbia Business School is a leading resource for investment management professionals and the only Ivy League business school in New York City. The School, where value investing originated, is consistently ranked among the top programs for finance in the world.

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Glenn Greenberg

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having great times. That's one model.

Another model is the LabCorp model. It was terrible business in the early 90's, when there were 7 or 8 national lab companies all of whom could perfectly well perform a blood test. But it's quite a different thing when there are two national lab companies and reimbursement is coming from 3rd parties who are interested in the lowest cost and who make contracts with LabCorp and Quest and basically force people who use other labs to make a higher co-pay.

Suddenly, you can't just get into the business. It's the model of a maturing business that's growing, but not fast enough to attract new competition, and where new competition would have a difficult time getting scale and getting reimbursement. So there's natural barriers to that business, very high returns on capital, very high profit margins, very high free cash flow generation, some opportunities to do fold-in acquisitions, where once you buy another lab you can kick out almost all of the costs. That's a dwindling opportunity because it's already been rolled up.

Then, there's the idea of companies that do not have to spend money to get big revenue opportunities, where other people are spending the money. If you think about testing, there are other companies that are trying to come up with new tests for diseases, but LabCorp doesn't have to spend any of that money. So, they're hitchhiking on the success of other people coming up with tests. Some of those tests are pretty pedestrian, like vitamin D testing, which we didn't monitor 10 years ago.

"So, I don't think [lab tests are] an area that is likely to be cut down significantly. Anything that brings down the cost of treating people is going to benefit."

The big opportunity for a company like LabCorp is if there is a blood test for the early stages of prostate or lung cancer that's really accurate. I think that's a high likelihood. And, that would be a test that would be administered annually and would be a big windfall for the lab testing companies and they're not spending any of their own money on it. So, it's a great business with big barriers, high profitability, and with the opportunity for rapid or even explosive growth with the development of new tests.

G&D: Is there a big risk to the business with the new health care legislation?

GG: The big risks are to anyone who is increasing the cost of treatment, where they are receiving exceptional payment, or where the treatments don't do very much good. I think in the case of lab testing, 80% of all treatments are determined by the results of a lab test, yet the testing represents 3% of overall medical spending. So, I don't think it's an area that is likely to be cut down significantly. Anything that brings down the cost of treating people is going to benefit.

G&D: You run very concentrated portfolios and you're willing to hold positions for a long time. How do you manage risk in such a concentrated portfolio?

GG: I define risk as the probability that a business trajectory will change dramatically for the worse. First of all, you choose your businesses carefully. By picking businesses that have

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very few competitors and that are basic, essential-type businesses, you mitigate the possibility of that happening. It tends to be a more boring business. Lab testing is not going away. Air travel is not going away. Broadband usage for the cable companies is not going away. We try to pick businesses where there's not likely to be any radical change for the negative. That's how you mitigate risk.

On the point regarding holding things for the long term, a lot of people say that they invest for the long term. But it can be difficult to stay in a very good business because you're constantly being bombarded with ideas. When I look at our big winners over the years, that really drove the performance of the portfolio, they didn't happen in one year. They very often happened over a period of five or seven years. The trick is not to discard them just because you've already made good money on them. It's not so easy to stay in something for 10 years and make 10x your money, it's very tempting after something goes up 40% in the first nine months to ditch it and leave the next 5x behind.

G&D: What was your biggest winner over the last 26 years?

GG: Probably Freddie Mac. When it went public in 1989, it only competed with Fannie Mae. The stock at that time was a preferred stock that thrifts were required to hold as part of their capital and it traded on a yield basis. At that time, interest rates were pretty high and it traded at a very low P/E.

"I define risk as the probability that a business trajectory will change dramatically for the worse."

Congress decided to convert it to common and allow public shareholders to buy it from the thrifts on the basis that it would increase the capital of the thrifts. We bought it at that point, and it did brilliantly in the first year and we sold our whole position. Then it came back down the following year when the Gulf War broke out, and we bought it back and ended up holding it for the next nine years. Basically, it was an incredible business model that was augmented by buying mortgages for their own portfolio and selling debt to lock in the spread. The combination of their basic business and the new one propelled growth in earnings phenomenally well for an extended period of time. Eventually it got a higher valuation and its business model became more risky as it began buying junkier mortgages and we sold our stake. I think we made some 20 odd times our money over that period of time, and that's before calculating the times we trimmed our position after it ran up and bought some back after it came down.

We also bought the cable industry in the mid-90's when satellite was just coming on the scene. Business Week published a front-page story about the death of cable, and the cable stocks were really depressed. It was just at the verge of the internet via broadband, which we thought would be a huge driver. There were a lot of issues with the early satellite product offering so we didn't think that the cable companies were going to lose so many of their TV subscribers.

So we made a huge bet in that industry: we invested in one company and then we found another company we liked, and then a third company, and finally ended up

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Pictured: Glenn Greenberg at the Security Analysis 75th Anniversary Symposium (Fall 2009), with Bruce Berkowitz (left) and Tom Russo (right).

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with about 40% of our portfolio in three cable stocks. We were very fortunate that they went from very depressed valuations to exceedingly generous ones. By the late 90's they were trading at 15 or 20 times EBITDA after trading at 5 times EBITDA. Two of them got taken over, and the third one we ended up selling. I think we made about 4x or 5x our money on each of them.

We still own Comcast and we're getting pay-back on our rates of return in the cable industry because we haven't made any money since we've owned it. They've done OK and they're generating a lot of free cash flow, but there's always one issue or another.

G&D: You've owned it since 2003, but the stock hasn't moved. Have your reasons for owning it changed over that time period, or are you still waiting for the original thesis to play out?

GG: The original thesis was that the business had some competition, more than we would like, in TV, but only one inferior competing product in broadband, which is DSL. In telephone they had a strong business opportunity because they could offer telco services very cheap. In business communications, they had one competitor, which was the incumbent monopolist Verizon or AT&T. Comcast could offer telephone and internet access much cheaper because they're inherently lower cost.

It's always good to come into a business against a monopolist, because there are always 25% of the customers that are hacked off at the monopolist and will switch over to your service for a minor savings just because they're tired of the guy that's been providing them service. So you could pick up 20% or 25% market share by giving a 10% discount and make a fortune. They'd done that in consumer telephone service and now they're doing it in small and medium sized businesses.

"It's always good to come into a business against a monopolist, because there are always 25% of the customers that are hacked at the monopolist and will switch over to your service for a minor savings…"

When you look at that mix of businesses, TV is the biggest and lowest margin product, but these other businesses are all growing and they have a competitive edge and are going to become more and more important. Meanwhile, the industry has gone from being a consumer of capital to a huge generator of excess capital and sells at multiples that are quite stunning compared to the history of the industry.

The industry has been out of investor favor for the last four or five years. I can't think of what would bring it back in, except for broadband demand that keeps increasing and they are the only ones that can provide the speeds that people want for 85% of the country. Not only can they pick up the 50% of the market that belongs to DSL, but they could also pick up some pricing flexibility to tier the pricing such that the customers who use a lot of broadband would pay more than the ones that want to use less. I think that model of pricing could be very favorable for them. They've got an essential good with only one competitor, and they have a much better product than they do. I think the price they're charging is pretty low.

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G&D: On the pay TV side, it's getting more competitive.

GG: It's gotten more competitive, because satellite has been there for 15 years. Then the telco's were overbuilding to offer television service. You've got 3 or 4 competitors in every major market. The question for telco's is what the rate of return will be on their investment. The likelihood is very low. They've now indicated they're no longer going to keep building out to additional homes, so this will be the last year.

AT&T didn't really overbuild, they just upgraded. I think a lot of the competitive damage is already done on the TV side. Plus, you had a reduction in demand because of foreclosed homes. So you have a cyclical low combined with extreme competition and yet the pricing in the industry has continued to move up probably 5% or so. I think there's a cyclical rebound ahead on the TV side of the business, but that's clearly not where the attraction is today. It's on the broadband side.

G&D: How do you think about valuation, both in terms of a multiple and what measure of earnings you tend to focus on?

GG: I tend to focus on free cash flow. We focused on free cash flow before the metric was popular. We basically looked at the amount of cash that the business could return to us as shareholders and valued that. If you could buy a decent — not great, but decent — quality business with a 10% free cash flow yield, my experience is that you would not lose money. A decent business is going to grow – maybe not really fast, but if you can start out with a 10% free cash flow yield and it is going to grow at some modest rate, 3-4%, you are going to end up with a pretty decent investment – a theoretical 13-14% rate of return. Think about how that compares with what anyone says the market can offer over a given period of time, which is between 7-8%.

"If you could buy a decent - not great, but decent quality business with a 10% free cash flow yield – my experience is that you would rarely lose money."

So the question is why should a decent quality or good quality business be priced to give you a 13-15% return when the market is priced to give you a return of about half that? Eventually somebody discovers this, somebody wakes up – it is not necessarily that the boring company with a double-digit cash flow yield has got some major trick up its sleeve; it just gets recognized as mispriced relative to the market. I would say that even though the equity market has run up quite a bit, there are still a lot of those companies around.

That is what we focus on and if you can load your portfolio with those kinds of investments, I think you will do quite well. Then occasionally, you hope to find a real race horse, a company with a huge opportunity and you invest heavily in it. But, they are not easy to find. Those investments may be what really give you the excess returns; but, it is basically loading your portfolio with work-horses where the risks are low and you will be okay.

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Glenn Greenberg

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G&D: You mentioned that the investment management industry has been getting more competitive. Has that hurdle, the 10% free cash flow yield, or 15% total rate of return, changed over time?

GG: Twenty years ago, I would ask myself if I could see making 50% at least in every stock over the next two years through a combination of the earnings growing and where I thought the stock should properly sell – kind of a subjective judgment. At that time, I could imagine every stock in my portfolio being ahead 50%. It did not always work out of course, but I could easily imagine it. That was sort of the test.

I do not think you can do that today. I cannot look in my portfolio and envision every stock being 50% higher because the earnings growth rates are lower or because I am not willing to assume that multiples will go through the roof. I just think that securities are not priced for the kind of returns that we were able to realize for most of my career.

G&D: What percent of company's that you study end up in the portfolio?

GG: That is easy – 99% of the companies we look at do not make the cut. In the past, we would buy three new names in a good year. In other years, when stocks were high – zero! There are three or four people, each looking around every day and we may end up buying two or three new names in a given year.

Also, I have a view that there is nothing wrong with starting a position, continuing to do your homework, and then deciding to either build that position up or eliminate it. There is nothing wrong with that. It is not a matter of having to do 102% of your research before purchasing a company – by that time, the stock may have moved up 30%, in which case you'll never own it, but realize that you should have owned it. Sometimes you look at something and get to a point fairly quickly, where you say you should begin to own some of this.

"Going for too much certainty can hold you back – there is no certainty."

Then, you continue to do your homework and you know it better and you follow it, and you begin to figure out what the right size position should be. That will change over time, depending on how well the stock does. If the stock doubles and is now double its size in the portfolio, you may decide that percentage of the portfolio is not justified and you may trim back at the higher price. It is a process.

Going for too much certainty can hold you back – there is no certainty. A lot of it is weighing probability, a lot is judgment, and a lot less is number crunching and multi-variable modeling. I have seen so many cases where there is a complex model that is exactly wrong. This focus on a model may cause you to move away from thinking about the competitive advantages of the business. Then you are making decisions based on all these numbers rather than thinking about whether this is one of the ten businesses that you would like to own.

What I have found is that we look at the past carefully to develop questions about the future. We model this year, next year, and a glimpse of the third year out. That is about the ex-

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tent of how far your modeling should go, just to have a sense of where the earnings and free cash flow will be in a year or two. However, the idea of projecting it out further than that and discounting it back is not useful.

Is it a business I would want to own over a long period of time? If it was cut in half because the markets collapsed, would I still feel comfortable owning this company? Would I be enthusiastic about buying more because it is such a good business? If the answer is yes, then okay, it is one of the names that I want to consider. Next, is it cheap enough based on where I think it will be in a couple of years? If the answer is yes, then it probably should be in your portfolio.

G&D: Where do you find those types of ideas?

GG: I have been in the business since 1973, so I have been looking at companies for a long time. There are a lot of things in my head. There are a number of different models of the kinds of business or situations that can work. It may be the local monopoly concept, the low-cost commodity producer concept, the consolidated industry that has come down to a few competitors, a basic essential service that isn't going to stop growing, or an industry that may be growing too slowly to attract any competition. So, there are a lot of different models. Usually, brand new frameworks do not fit in – they can make you a lot of money, but it is not consistent with our approach.

"This focus on a model may cause you to move away from thinking about the competitive advantages of the business. Then you are making decisions based on all these numbers rather than thinking about whether this is one of the ten businesses that you would like to own."

Starting with a top-down idea, such as 'I think all medical records are going to be digital in five years. Therefore, let me go find a company that digitizes health care records'. I have not been very good at starting with a concept and then finding the companies. More often, I find the company and it seems cheap, it seems like it has good potential, and it seems like there is not much that could happen to disturb it. I typically start from that angle.

G&D: How does Google fit in that framework? Earlier you mentioned that you tend to stay away from tech stocks, similar to a lot of value investors, so why do you think you can find value in Google that the market does not already see?

GG: I think it comes back to your comment that with so many data points and so much buzz, people can get very distracted and make generalizations based on one data point. For example, when Google decided to withdraw from China, there was a huge amount of buzz that revolved around China being the fastest growing market and this being a terrible scenario for the company. Yet, it is actually such a small in part of Google.

For example, the exploding growth of smart phones means so much more to their growth. Or the growth in display advertising is much more important to

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Glenn Greenberg

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them. Obviously, it would be better to be in China, but it's about $300 million of revenue now for a $28 billion revenue company.

I do not think you can get great precision around Google. They own the search market with staggering market shares. I think you have to start out by saying, how is it priced? It is generating about $30/share of free cash flow this year and $34 next year. At the end of 2010 it will be sitting on $100/share of cash, as long as they don't spend it all on high-priced acquisitions. Thus, at $540, you are paying $440 for $34 of free cash flow in 2011, an 8% yield. That seems really cheap.

Even though there are competitive threats from Apple and Facebook, and traffic acquisition costs that are uncertain for some of these rapidly growing areas, it still seems to me that you are paying a market-type multiple for a well-above market-type company with all sorts of growth avenues, which they should be able to exploit to varying degrees.

Basically, the face of advertising is changing – with internet based advertising it is much easier for the advertiser to calculate an ROI on ad spend. I think that change will be beneficial for Google and something you are not paying a crazy growth multiple for. When I compare Google's growth to some of the other companies we have in our portfolio with an 8-9% free cash flow yield, it seems materially undervalued.

G&D: One comment that you made in Professor Greenwald's class was that you see a lot of cheap stocks in the US with no growth. With other markets around the world growing much faster, why don't you invest more internationally?

"We believe that a very rapidly growing company is not always where you want to invest. You could look at many economies that are rapidly growing, but profits as a share of GNP are very, very low."

GG: It is not something I think about at all. We believe that a very rapidly growing company is not always where you want to invest. You could look at many economies that are rapidly growing, but profits as a share of GNP are very, very low. There also is no guarantee that you will get the same culture in other economies that you have here. There may also be rapid growth in businesses that I wouldn't necessarily want to own.

In addition, I do not know the accounting, the politics, the economics, I do not speak the language, and I do not know that the management has the appropriate attitude. I am used to fishing in this pond and I do not know whether I would be a good fisherman in those ponds. Since I do all the fishing myself, without a large staff, I want to stay where I have a better chance of success.

I can also get exposure to many parts of the world by owning American companies. I've owned American Express, Waters, Google, Precision Castparts and Varian Medical, which are all 50% foreign. Thus, it is possible to get exposure to the rapidly growing parts of the world without direct investment. I've also had extremely uniform luck investing in foreign companies, which is that I've always lost money on the currency – every single time! That is why I stick to the thousands of American companies.

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G&D: You alluded to this earlier, but how does the macro environment play into your investment style – how much do you think about it?

GG: I think about it because I read the paper and we lived through a horrific experience where we lost a lot of money in stocks and stocks are a reflection of what is going on in the economy. Yet, I believe that I have absolutely no predictive powers when it comes to anything macro and I believe that most people do not either. Thus, I feel that basing an investment on a macro view is something that I just will not do. I really start at the very micro level – what is the business, do I think I can understand the business, do I think the price of the stock protects me against risks that might occur in the macro economy or to the individual business. I really start at a stock-by-stock level as opposed to starting at a high level and then working my way down.

I have never seen anyone who could predict the market or predict the macro economy with any degree of consistency. I remember the year when OPEC finally broke and I think it was clear that oil demand and supply lines had finally crossed back in 1980-81, after the huge rise in oil prices. But, OPEC didn't actually lower the price, it didn't actually fall apart in terms of its ability to coordinate prices until, I think, 1984 – three years later. I remember thinking that if you had known at the beginning of the year that this was the year oil prices were going to collapse, how would you have positioned your portfolio? You would have bought all these industrial stocks and you would have shorted all the oil stocks. Well it turns out that oil stocks did very well that year and the industrial stocks that were GNP related, didn't do well. A lot of things get discounted in the market way before you figure it out.

"Yet, I believe that I have absolutely no predictive powers when it comes to anything macro and I believe that most people do not either."

I just do not look at the macro. I think about it, I read the papers, and I have a hunch of what I would expect. A good example would be a year ago - a very smart person that I heard speak was of the view that since 70% of the economy was from the consumer and the consumer was overleveraged, being foreclosed on, and worried about his/her job and assets that had just tanked. There was no way that consumer spending would be anything but very weak for an extended period of time and therefore, the US economy could not possibly recover. This person's opinion just got gloomier and gloomier from there.

You couldn't argue with it – there was nothing to debate about. But, the world looks a lot better today than it did; the worst didn't happen and stocks have done brilliantly. If you listened to people back then, you would have thought that not only were corporate profits going to collapse, but that there would be no recovery and stocks were a terrible place to have your money. That is what they call conventional wisdom – it may be that very brilliant minds come to the same conclusion, but it still becomes

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conventional wisdom and it does not mean that it is right.

G&D: Going back to the concentrated portfolio. We've talked about a success and the impact that can have, but can we discuss one of your worst investment mistakes and what you learned from it?

GG: We never had any really big losers, but the single one that stands out was a fairly large position. I think we put 8% of our money in AT&T back in 2000 and it was sort of a classic value analysis. It had four parts to the business – one of which was already public, which was AT&T Wireless, so you had a valuation on that piece. They were in the cable business and we knew that very well and we valued that segment.

That left us with the two telephone pieces – first, consumer telephone, which was shrinking, but generating monster amounts of cash, and they gave forecasts about the amount of cash flow generation going forward. We put a very low multiple on it because it was not growing. Second was the business communications division, which also was not really growing, but was generating a lot of cash. We had these four pieces and we built up a model that it was worth $55 and we were paying $34.

Then, one quarter later, they said that actually, the two telephone parts of their business were worse than they had predicted. The consumer business was shrinking faster and the business communications business was also shrinking, compared with their prior belief that it was growing slowly. So, the free cash flow of those businesses came down and the stock got knocked off by a quarter, I believe.

"Sum-of-the-parts is one of the many value-school type tools we avoid."

You could have done the same sum-of-the-parts analysis again and it would have been worth $40, with the stock at $26. We just said 'no'. Sum-of-the-parts is one of the many value-school type tools we avoid. It is really trying to find high quality businesses where we have a lot of confidence in the business. If we make a mistake it is going to be that we mis-analyzed the business – it was not as good as we thought it was. Maybe it did not have the pricing leverage that we thought it had, or maybe someone is nibbling away at market share in a way that we didn't really expect.

With a sum-of-the-parts analysis, if it is a piece of junk, and you really do not have a lot of confidence that the pieces are going up in value – and they may be going down in value – I do not want to guess what the fair price to pay is.

G&D: Are there any other mistakes that you see the value investing community in particular making systematically?

GG: I do not know whether we are value or growth because every business we buy, we want growth. I think we are buying growth at a price that is unjustifiably low. It is a different approach than somebody who is adding up the pieces and deciding that this is a Picasso that I could trade for $1 million and am getting it for $600,000. Therefore I am getting a huge discount to what it is worth today. Some might say 'what is something worth today?'

How can you say what it is

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worth — it depends on whether an investor wants a 6% rate of return or a 16% return. If investors want a 16% rate of return, it is worth a lot less. If investors are very happy to get 6%, it is worth a lot more. This idea of an intrinsic value implies that all investors, or average investors, will insist on a certain rate of return. I don't even know what the term fair value means and that seems to be bandied about a lot. I do not think we could agree upon what the fair value of the market is because we all have different return requirements.

I just come back down to micro – is it a business that I have a lot of confidence in, one that will grow and be more prosperous in the future. I determine a sense of what a minimum rate of growth might be and then I am paying a price that will give me a very adequate rate of return over time, even if it hits the low-end of what I think the expectation of its growth is.

G&D: You mentioned your background in education – is that something that you are still interested in?

GG: Most of the charitable dollars that I give away, and I do it with great relish, I give to educationally focused institutions or charities. That is how you improve people's opportunities, by getting them a better education to get better quality jobs and also, so that our country can compete. Despite all the dollars that are devoted to it, we still have a huge bifurcation in place with underachievement in most of our society and very, very high achievers going to Wall Street at the other end and hopefully going into engineering and science as well.

"My advice would be to never compromise your integrity to anybody. Always be able to go home and say I did the right thing."

I think people have an opportunity in this country. Anyone can go to a university, compared to Europe, where very few people can go to a university. Yet, it does not mean that everyone has the wherewithal, the family foundation, or the backing from the community and the value placed on getting an education. You see it in certain sub-segments of the US population, but you have others that don't place a high value on education. Therefore, no matter what opportunities you make available, they are not always seized.

G&D: What type of advice do you have for students, who are graduating within a month?

GG: My advice would be to never compromise your integrity for anything. Always be able to go home and say I did the right thing. The right thing would be defined as if it appeared tomorrow morning on the front page of the *Wall Street Journal* or the *New York Times*, you would be able to hold your head up and feel good about it. You will be asked by unscrupulous or greedy people to do things that will debase your integrity and you are better off not doing that. In the long-run, that is the best thing you can do – being able to go through life and be happy with the decisions you made. There is no quicker way to feel bad about a decision than to look back and say, 'wow, why did I do that? How did I let desire for money or power, corrupt me to such a degree that I did what I did?'

G&D: Thank you Mr. Greenberg.

Professor Bruce Greenwald at the 2009 G&D Breakfast

Bruce C. N. Greenwald holds the Robert Heilbrunn Professorship of Finance and Asset Management at Columbia Business School and is the academic Director of the Heilbrunn Center for Graham & Dodd Investing. Described by the New York Times as "a guru to Wall Street's gurus," Greenwald is an authority on value investing with additional expertise in productivity and the economics of information.

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Matt is a second year MBA student and participant in Columbia's Applied Value Investing Program. Prior to school, Matt spent four years covering the healthcare sector for Putnam Investments. He holds a BA from Amherst College.

Garrett is a first year MBA student. Prior to school, he spent four years consulting with Booz & Company. He holds a BA from Dartmouth College.

Michael is first year MBA student. Prior to school, he spent two years at Royal Capital and two years at Sankaty Advisors, the credit hedge fund of Bain Capital. He holds a BS from the University of Pennsylvania.

Broadridge Financial (Winner of the 2010 Pershing Square Challenge)

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Summary Statistics

Market Valuation	4/27/10
Enterprise value	3,150
Plus: cash	347
Less: debt	(321)
Market capitalization	3,124
Diluted shares out.	134.8
Share price	$23.18
Fair value of equity	**$33.55**
Margin of safety	**30.9%**

Multiples	LTM
EV/S	1.4x
EV/EBIT	8.4x
EV/FCFF	8.6x
EV/IC	2.6x
P/S	1.4x
P/E	13.9x
P/FCFE	8.9x
P/B	3.0x

Returns	LTM	3-yr. Avg.	5-yr. Avg.
ROA, pre-tax	13.9%	13.6%	13.8%
ROTC, pre-tax	59.1%	58.6%	59.8%
ROE	21.2%	23.8%	24.9%

Growth	LTM	3-yr. CAGR	5-yr. CAGR
Revenue	3.5%	2.0%	6.1%
EBIT	4.7%	1.9%	6.3%
Net income	-2.5%	4.1%	6.3%

Leverage	LTM
Debt/capital	14.7%
Debt/EBIT	0.5
EBIT/I	23.0

Earnings	2010	2011	2012
Forecast	$1.69	$1.91	$2.35
P/E	13.7x	12.1x	9.8x
Consensus	$1.59	$1.73	$1.96
% Diff.	*6.5%*	*10.5%*	*20.1%*

Investment Thesis

We recommend purchasing Broadridge Financial Solutions ("the Company" or "BR"). The company is undervalued, despite its strong competitive position, due to the complexity of the business and unfounded concerns regarding regulatory changes affecting its proxy segment. While the street incorrectly views these changes as a negative, our research shows they will actually improve profitability and growth. BR has an intrinsic value of $33.50, a 30% margin of safety against the current price of $23.

BR is a great business with a dominant and stable franchise: BR has 99%+ market share in its core proxy business (Investor Communication Services or "ICS") and is effectively the sole player in the US. ICS benefits from both network effects (it has contractual relationships with the 10,000+ issuers and essentially every broker-dealer) and a positive cost/risk trade-off for its clients. BR's fees to individual issuers are small ($200K or less on average) while mistakes in the proxy process can result in expensive lawsuits. Security Processing Services ("SPS") has similar characteristics, with high switching costs and substantial risk when changing platforms.

Very inexpensive: Trading at 10x LTM FCF, BR is very inexpensive for a company with such a stable and dominate franchise. Public peers reinforce this; BR trades at a 50% discount to public comps and a 100% discount to transaction multiples.

Notice and Access ("N&A") is beneficial for BR's business: The street is concerned that Notice and Access (switching from print to online proxy distribution) will allow new competitors into the space. In fact, N&A makes distribution more complicated and allows BR to charge incremental fees which are not regulated by the NYSE.

High single-digit growth in free cash flow: BR will grow cash flow at a double digit rate over the next three years due to (1) increased profitability from N&A and (2) cyclical recovery of the SPS business.

Value is hidden because it is an obscure and complicated business: Investor communication is a complicated business that it involves many layers of regulation and 3rd party relationships. As a consequence, BR has limited coverage and is not well understood.

Sale of clearing business will free up $250M of capital for repurchases: BR is exiting its unprofitable clearing business, which will free up $250M of capital for redeployment.

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Broadridge Financial (Continued from previous page)

Business Description
BR was spun off from ADP in 2007 and operates in 2 forward-looking segments. Investor Communications Services (ICS) generates about 70% of sales and operating profit, and Securities Processing and Outsourcing (SPS) generates the other 30%.

Investor Communications Services (ICS): ICS' primary business (65% of segment sales) is proxy distribution. 85% of US equity positions are held in "street name," meaning only the shareholder's broker knows the identity of a given share's beneficial owner. When corporate issuers communicate with their shareholders (annual meetings, mergers, etc.), BR is the central player connecting issuers with the beneficial owners. BR controls 99% of this market. If BR didn't exist, corporate issuers would send all shareholder communications to the brokers, who would then need to forward the materials on to beneficial owners and tabulate returned votes. This is low value-add work, so brokers outsource the handling of shareholder communications to BR. The remainder of ICS is transaction reporting and fulfillment.

Proxy distribution is undergoing a long-term shift away from paper distribution, hastened by the SEC's 'Notice and Access' (N&A) requirements. Beginning in July of 2007, N&A requires issuers to provide electronic access to proxy materials and allows them to send notice for their availability in lieu of full paper copies, unless shareholders request otherwise. The economics of N&A are hugely beneficial to both BR and the issuers. While issuers save up to 80% of the prior cost to distribute due to the elimination of printing and some postage costs, BR is able to charge incremental non-regulated fees. While N&A is not synonymous with e-delivery, the longer-term shift to electronic distribution has a similar beneficial impact for issuers and BR. While investors are concerned that these changes lower the barriers to entry for the non-registered proxy business, we believe it has the opposite effect. The range of distribution possibilities has expanded, and all of the prior barriers (scale in distribution infrastructure, broker relationships) remain in effect.

Securities Processing and Outsourcing Services (SPS): The SPS segment is the leading provider of equity and fixed income processing platforms to banks and brokers. Over half of equity processing and nearly 2/3rds of fixed income processing are outsourced, with BR capturing 50% of equity market share and over 90% of fixed income market share among this outsourced portion. This is another business with barriers to entry due to customer switching costs and high fixed costs. The drivers for SPS are a combination of net new business (1-2% growth per year) and average daily trading volume, which has grown at compounded annual rate of 19% since 1990, despite being down over 30% from pre-crisis levels. Operating margins shake out in the mid-20% range, and the high fixed costs mean earnings should grow faster than sales.

"In terms of the big picture, at today's share price we think you are buying a very high quality business at a current FCF yield of 10% with strong likelihood of high single-digit FCF growth and limited downside."

Valuation
In terms of the big picture, at today's share price we think you are buying a very high quality business at a current FCF yield of 10% with a strong likelihood of high single-digit FCF growth and limited downside. Based on the similar return and growth profiles for the ICS fee-based and SPS businesses, we apply a 10x multiple to 2012 EBIT, while the ICS distribution business is worth 8x due to its single-digit rate of decline. We then discount the resulting values back to present at a 10% rate. The resulting $33.50 value represents 19.9x, 17.5x, and 14.2x our 2010, 2011, and 2012 EPS estimates, respectively.

Valuation Range

	Low	Mid	High
Total EV (2012)	3,057	4,787	6,470
Equity value	3,433	5,162	6,846
PV 2/26/10	2,705	4,068	5,394
Shares	121.2	121.2	121.2
Per share	$22.31	$33.55	$44.49
Curr. Price	$23.18	$23.18	$23.18
Upside	-3.7%	44.7%	91.9%
Margin of Safety	**-3.9%**	**30.9%**	**47.9%**

Catalysts
Sale of clearing business by June 2010 will free up cash for repurchases: As discussed, the sale of the clearing business will free up $250M of cash for share repurchases.
Shift from debt pay-down to share repurchases: ADP loaded BR with debt during the spin-off, which it has been paying off the last 3 years. Management commented that they are comfortable with the current leverage, indicating that they will direct BR's substantial FCF towards buying back the undervalued stock.

Plum Creek Timber Co, Inc. (2nd Place - Pershing Square Challenge)

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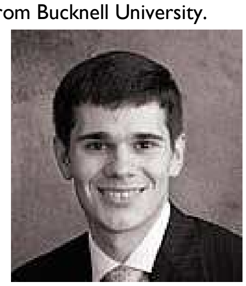
Dennis is a first year MBA student and will be spending the summer working at a value-oriented hedge fund in Connecticut. Prior to school, he spent three years at Bear Growth Capital Partners after two years in investment banking. Dennis holds a BS from Bucknell University.

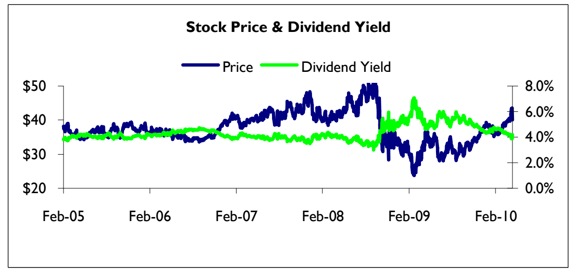


Chris is a first year MBA student. Prior to school, he spent two years at The Sterling Group and two years in investment banking. Chris holds a BA in economics from Rhodes College.

Patrick is a first year MBA student and will be spending the summer at a value-focused, long/short equity hedge fund in NY. Prior to school, he spent three years at Veritas Capital and two years in investment banking. Patrick holds a BS from Vanderbilt University.

Summary Statistics and Historical Stock Performance

Share Price (4/27/10)	**$40.01**
x Fully Diluted Shares Outstanding	163.07
= Market Capitalization	**$6,524.2**
+ Net Debt	1,644.0
= Total Enterprise Value (TEV)	**$8,168.2**
EV / 2010E Revenue	6.4x
EV / 2010E EBITDA	21.3x
Price / 2010E EPS	27.5x
Price / Tangible Book	4.4x
Valuation per Acre	$1,175
Timber FCF Yield - 2009 [1]	1.5%
Timber FCF Yield - Peak (2004) [1]	4.1%



(1) Unlevered FCF excluding cash flow from the sale of real estate assets.

Summary (Short Position):

Although Plum Creek has never generated more than $335 million in unlevered free cash flow excluding real estate sales ($127 million in 2009 and $214 million on average since 2001), the Company is currently valued at $8.2 billion and pays a $275 million annual dividend. PCL also pays approximately $90 million in annual cash interest ($2 billion of funded debt). Plum Creek has funded the dividend by being a net borrower from 2000-2005 and by being a net seller of 1.3 million acres (15% reduction) since 2005. We believe that PCL's lack of core operating cash flow, poor earnings quality and extreme valuation make the Company an attractive short investment. Plum Creek's CEO, Rick Holley, recently took advantage of PCL's valuation and sold 250,000 shares (approximately 60% of his total holdings) at a share price of $49-$50 in September 2008. **We believe PCL's intrinsic value is $20-$25 per share, representing a 40%-50% margin of safety.**

Company Description:

Plum Creek is the largest publicly-traded US timber REIT and is the owner of approximately 7 million acres of land throughout the United States. Plum Creek also owns six wood product conversion facilities. Included in the 7 million acres are approximately 1.35 million acres of land that the Company has classified as higher and better use ("HBU") acres, which are expected to be sold and/or developed over the next fifteen years. End demand for timber is primarily driven by paper and pulp (40% of total) and housing (45% of total).

Investment Thesis:

- **Dividend is Not Sustainable and Represents a Return of Capital**: PCL has been a consistent net seller of land since 2005 (15% total reduction) in order to fund its dividend. Real estate sales represented 70% of PCL's total cash flow from operations over the past 5 years. Furthermore, 25% of the cash flow from operations over the last 5 years represented PCL's GAAP basis in the land; these proceeds used to fund the dividend are a return of capital vs. a return on capital. The practice of being a net seller of real estate every year is akin to a slow liquidation of the business and is clearly not sustainable over the long-term.
- **Private Market Values Used to Justify Valuation Reflect a Bubble, Not Intrinsic Value**: Timberland prices have appreciated at a 9% CAGR since 1987 (and doubled in most regions between 2002 and 2007) while the annual cash return from owning timberland has declined from 10.4% in 1987 to 1.5% in 2009 (per NCREIF). The increase in private market values was primarily a function of investor demand for timberland as an asset class, not an increase in intrinsic value.
- **Private Market Has Begun to Crack:** Based on numerous conversations with timber investors, we confirmed that very few transactions were completed over the past 1-2 years (due to large valuation bid-ask spreads), discount rates have risen, and private market values have fallen ~15% in 2009 and are likely to fall further before any large transactions can clear the marketplace. We believe the intrinsic value of PCL's timberland (determined based on the cash flow the land can generate) is $600-$800 per acre, well below PCL's current implied market value of $1,175 per acre.
- **Perceived Downside Protections are Incorrect:** Two additional misperceptions are contributing to PCL's current valuation (25x peak timber FCF, 27.5x EPS and 4.4x tangible book value):
  (1) Misperception #1: Option to Defer Harvest: Although the value of timber does increase as trees age, this is only accretive to value if future demand supports higher prices and all

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Plum Creek Timber Co., Inc. (Continued from previous page)

players in the market cooperate to manage available supply. In 2009, every public timber REIT (and presumably most private timber companies) deferred harvest. As firms continue to build "inventory," we are skeptical of their ability to extract higher prices in the future.
(2) Misperception #2: Valuation is Supported by Hidden Land Value: PCL's land is not capable of providing significant natural gas, wind, or solar power, and management estimates the annual opportunity to be $50 million by 2020 (vs. $23 million avg. annual revenue since 2007).

Valuation:
We estimate PCL's core timberland business to be worth $10.34-$17.27 per share based on cap rates of 3.5% - 4.5% (vs. the market price of $40.01). We also assign $1.5—$2.5 billion of value (~30% of total PCL enterprise value) to PCL's HBU property. We do not believe that PCL will be able to realize a significant portion of the value ascribed to its HBU land in the foreseeable future (one reason the present value of these components is much lower than our estimated value). Based on our Sum-of-the-Parts and DCF analyses, we estimate the intrinsic value of PCL to be approximately $20-$25 per share.

Sum of the Parts Analysis ($ in millions)

	Acres (in thousands)	Price per Acre Low	Price per Acre High	Total Value Low	Total Value High
Core Timberland	**5,646**	**$600.0**	**$800.0**	**$3,388**	**$4,517**
Implied Last 5 Years Avg. FCF Cap Rate (1)		**4.4%**	**3.3%**		
Core Timberland Price per Share				**$10.34**	**$17.27**
HBU / Recreational Use	991	$1,000	$1,500	$991	$1,486
Conservation	165	1,000	1,500	165	247
Commercial Development	149	2,000	5,000	299	746
Higher and Better Use (HBU)	**1,305**	**$1,114**	**$1,900**	**$1,454**	**$2,480**
	Peak EBIT	**Multiple**			
Manufacturing Operations (2)	**$41.0**	**6.0x**	**8.0x**	**$246**	**$328**
Total Enterprise Value	**6,951**	**$732**	**$1,054**	**$5,088**	**$7,325**
Implied Per Share Equity Valuation				**$20.77**	**$34.49**
Discount to Current Valuation				*(48.1%)*	*(13.8%)*

(1) 2004-2009 Avg. FCF per Acre was $26.20 vs. Peak FCF per acre of $43.63.
(2) Manufactured Products Segment last 5 years average EBIT was $11 million.

DCF Analysis

Key Projection Assumptions
- Log prices increase 20% in 2010, 10% in 2011 and 3% thereafter
- Harvest volume per acre returns to peak levels in 2011
- Manufacturing breakeven in 2010; peak levels by 2015
- SG&A constant at 2009 levels
- Sell 350K acres per year @ $1,000/acre in 2010 and $850/acre thereafter
- 3.2M acres remain in 2020 generating $122M of terminal FCF

Total Price Per Share

		Terminal Perpetuity Growth Rate 2.0%	3.0%	4.0%
Discount	**6.0%**	$15.27	$17.10	$20.78
Rate	**7.0%**	$12.41	$13.32	$14.82
(WACC)	**8.0%**	$10.38	$10.87	$11.62

Catalysts / What will 'Break" PCL:

- **Debt Covenants:** PCL's debt covenants limit its ability to fund the dividend with sales of more than 2 million acres (net) from 2005-2012, and the Company has sold 1.2M acres through Q1 2010.
- **Inability to Replace One-Time Montana Transaction:** PCL generated 48% of total FCF from 2008-2009 from a one-time conservation sale to Montana. The last portion of this transaction will close in Q4 2010 ($89 million). As Montana goes away and without a significant increase in institutional demand for timberland (non-existent at the current prices), PCL is completely dependent on retail buyers purchasing $150 - $200 million of small 10-20 acre lots for second homes and / or recreation purposes in order to fund the dividend.
- **Refinancing Risk:** Plum Creek has $1.2 billion of debt maturing through 2012, and management estimates that refinancing the debt will require $25-$30 million in incremental annual cash interest.
- **Valuation:** Investors realize PCL is not worth 25x peak timber FCF (51x 2010E timber FCF), 27.5x 2010E EPS, and 4.4x tangible book value.

Investment Risks / Considerations:

- **Recovery in Housing Market / Timber Prices:** Timber prices in the Southeast have increased by 20% YTD (vs. an 85% increase for lumber) as a result of a weather-driven supply shortage. However, PCL cannot fund the dividend from its core timber operations even at peak levels of FCF.
- **Inflation:** An increase in inflation will result in higher nominal revenue for PCL, but the Company's primary expenses (oil, fertilizer and labor) will also increase significantly in an inflationary environment. Consequently, it is unclear if inflation will result in an increase in PCL's cash flow. PCL's' utility as an inflation hedge is also mitigated by the Company's current valuation. However, the possibility that investor demand for hard assets like timberland supersedes a rationale investment decision (based on the assets' actual cash flow potential) remains a risk to the short thesis.
- **Canadian Pine Beetle:** The pine beetle will decrease available US supply by ~10%. However, only 7.5% of PCL's property will benefit from the reduced Canadian supply (Pacific NW).
- **Dividend / Borrow:** There is no current cost to borrow PCL shares, but a short investor will have to pay the current $1.68 dividend (4.2% yield). We believe this is a risk worth taking.

> *"The concept of 'private market value' as an anchor to the proper valuation of a business can also be greatly skewed during ebullient times and should always be considered with a healthy degree of skepticism."*
> *- Seth Klarman*
> *(Lesson #7 from "Twenty Investment Lessons of 2008")*

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"Without a catalyst, an investment is premised on believing the market will come around someday to your way of thinking, which can work very well, but can also lead to being stuck in value traps for long periods of time."

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events to cause value to be realized over time – this is critical in helping us avoid value traps.

G&D: Mike, you worked for Joel Greenblatt of Gotham Capital who also teaches here at Columbia – what impact has he had on your investment process? What do you think Joel does well that enabled him to generate such excellent returns at Gotham?

Pictured: Mike Blitzer and Guy Shanon, Kingstown Partners.

MB: Joel has one of the world's great investing track records and was instrumental in shaping how I think about investing. He does many things very well, but a couple of things in particular stand out. For one, he is able to very quickly distill a complicated idea into its most important elements. Most investments have one or two things that ultimately will determine whether you will make a good return or not. The challenge is figuring out what these are since every situation is different.

It may be understanding the incentives or motivation of a key constituency in a restructuring, or perhaps identifying the true drivers of a company's above-normal returns on capital. He is able to get to the crux of an investment very quickly and then handicap risk extremely well. Second, he is very good at finding overlooked opportunity in different areas of the market. After all, he's literally written the book on special situation investing.

G&D: You have talked about requiring a catalyst in your investments, how do you define 'catalyst'?

MB: We like investments where there is a defined event or series of events that will help to realize a return in an investment over time. A catalyst can take many forms, such as a final maturity or put in a distressed bond, a tender offer or spin-off in an equity, or even a restructuring event to establish a timeline to have securities or proceeds delivered. Without a catalyst, an investment is premised on believing the market will come around someday to your way of thinking, which can work very well, but can also lead to being stuck in value traps for long periods of time. Since we have a fairly concentrated portfolio, we think we can afford to be very picky – we need something to have an attractive valuation but *also* have a clear path to re-rating or liquidity event.

G&D: There are a lot of event-driven funds, what do you think has differentiated you?

MB: For one, our event time horizon tends to be over the medium term, which we define as a 6-36 months. Any shorter, and ideas tend to be very picked over by more traditional event-funds with short-term investor demands being run for monthly performance – therefore these situations are less likely to be misunderstood or mispriced. Any longer, and it is difficult to have enough certainty to get conviction.

GS: The reason we are able to take this approach is that our investor base also has a long-term mindset – so we can roughly duration match to capture higher

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returns. We pay a lot of attention to partnering with the right types of capital. Our capital base is very diversified and comprised mostly of family offices and university endowments. It takes a lot more time and energy to accumulate this type of investor base, but we think it is very valuable for the entire partnership – if our partners understand and believe in our approach to value investing, we are more likely to stick together during times of market dislocation, when most capital allocators are fleeing from the markets. Having capital to deploy during these times is a critical aspect of outperforming over the long-term. Not only did we not receive redemptions in 2008-2009, but many of our partners added. This helped us take advantage of what we saw as a big opportunity in busted converts, for example, in the fourth quarter of 2008.

G&D: Speaking of 2008 - it was very difficult for many value investors. But your fund seems to outperform in down markets. How do you explain this in light of the fact that you generally have a long-biased portfolio and don't do a lot of shorting?

GS: We focus on process-oriented investments where the return profile is hopefully only modestly correlated to the markets and driven more by whether we are right or wrong on the underlying situation and its catalysts. We also try to be disciplined on valuation and 'real' downside protection either through liquidation value or a low multiple to franchise cash flows.

"I think that doing mostly nothing is actually one of the most difficult things to do in investing but probably the most effective."

This means we miss a lot of things – many times we find ideas that we are pretty sure will work out, but we can't get there on the downside protection, so we pass. And then they go up 50%. But I think this is the essence of our outperformance during market during sell-offs. In 2008 I think a lot of our longs were so cheap and washed out to begin with that they just didn't have as far to fall as the overall market did.

MB: Holding income producing securities also brings down correlation and volatility.

G&D: How do you think about the large cash balances you have held at times. Is this a market timing bet?

MB: We always seek to be fully invested. But the portfolio is constructed from the bottom-up. If we can find enough compelling risk/rewards that protect capital if we are wrong, then we can create a fully invested portfolio like we did for much of 2008 and early 2009. If we can't, then we hold cash, it's that simple.

GS: It's not a market timing bet. Usually we don't have any view on the market as a whole outside of wide ranges at the tops and bottoms. It's just a decision that we would rather hold cash to invest on another day than stretch for things just to have exposure. I think that doing mostly nothing is actually one of the most difficult things to do in investing but probably the most effective. If you are patient enough, exceptional risk/reward opportunities will surface. Easy to

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understand, hard to do – and people constantly asking us about our cash level doesn't help.

G&D: Ha, sorry about that, forget we even asked. Can you elaborate on some of the distressed debt investments you made in the midst of the financial crisis in 2008-2009 -- how did you get the conviction to make these buys, especially given the environment we were in?

MB: In hindsight, it was obvious. We bought about a half dozen stressed bonds with maturities under three years and yields in excess of 30%. These were situations where the economy could continue to deteriorate and the debt markets could remain shut and the bonds would still pay off at par given balance sheet and/or operating strength. These were names like Textron Finance, Jetblue, Brunswick, and Americredit. And some smaller issues from companies like Compucredit and Ambassadors that were purchased at prices as low as 20c [on the dollar] and have stayed performing.

Of course, during that period of time, it's always difficult to buy when the bottom is totally falling out. Maintaining the same process is what gave us the conviction but we also had stable capital, so all of that work would have been for naught had our investors not continued to support us.

GS: I was mostly nauseous during that time. But it was also kind of a magical time in that the disconnect between market prices and very conservative valuations was so large – something that intellectually we knew could happen because of all the behavioral finance stuff we read and experiences we have had with individual securities over the years, but is still amazing to watch in real-time and on such a large scale. So I just felt that if our research process was sound, we had to follow through and buy – chips fall where they may. It worked out a lot faster than we thought it would. In life, people talk about following their gut, but maybe a part of our job is ignoring our stomachs when well-adjusted people are unable to.

"In life, people talk about following their gut, but maybe a part of our job is ignoring our stomachs when well-adjusted people are unable to."

G&D: Speaking of personality traits, what are some that you think have that you think have shaped both of you, as investors? Or life experiences?

GS: My father was a home builder, so I grew up in the real estate business and worked in commercial real estate investing and financing before business school. I think good real estate investing and value investing are on the same gene – both reduce to the idea that you can find a situation that is underappreciated or undervalued, and that you can influence or understand what is likely to happen to unlock the value.

In real estate this might mean looking at a lot of land parcels that maybe have environmental or zoning problems or are being sold in estate sales by disaffected sellers. Or commercial properties that suffer from high vacancy, are in need of renovations, an owner that

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is in default on the mortgage and needs to sell, etc. Some of these properties might actually have great locations and other attributes, and if you can find a couple each year that can be repositioned, you are in business.

Of course companies are not quite as clear-cut, there are many more moving parts and we have to rely on management to execute operational initiatives and allocate capital rationally. And of course you have this noise of a market that re-prices companies all day, and all of the modern portfolio theory that came out of that. But the mentality is the same – we are looking for a couple of dirty gems. There has been some trauma or bad luck, but the bones of the business are good and will be recognized as things get back on track, because these are companies that have indisputable asset value or earning power that has been obscured but is still intact.

MB: I took an internship working on the Asian equities desk at Goldman Sachs in London during my Junior year of college. It was during the '97 Asian Financial Crisis after Thailand dropped its dollar peg. It was my first direct experience with financial panic and witnessing valuations becoming totally disconnected from reality. I was hooked, so I ended up taking my Junior year off and continued to work there for the rest of the year then went back to Cornell.

After graduating, I worked at JP Morgan structuring high yield and mezzanine debt, but my heart wasn't in it – I had already taken a strong interest in value investing, and that is how I ended up at Columbia. I met Joel in the class he was teaching there.

"I think good real estate investing and value investing are on the same gene – both reduce to the idea that you can find a situation that is underappreciated or undervalued, and that you can influence or understand what is likely to happen to unlock the value.

G&D: I notice you guys share an office, how did that happen and why do you do it?

MB: When we started the partnership, renting one room was cheaper. So that answers the "how did it happen" part. It actually saves a lot of time – we have ongoing conversations about things we are working on all day without having to have formal meetings. And it saves a lot of time recounting to the other person a telephone conversation that one of us had, for example. Or we often listen to the same company conference call and have a real-time debate/argument about it, or talk to one of our analysts at the same time and we don't have to get out of our seats.

Why would anyone get out of their seat if they don't have to? Since we are both close to all the names in the portfolio and have to agree on why they are in there and how big, it just seems to make things happen more quickly and efficiently for us if we are in the same room.

GS: Of course it can be a little challenging to sit 5 feet away from the same human being for twelve hours a day.

MB: Yes, very challenging. But we think it benefits the returns over time, so we do it.

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Pictured: Professor Bruce Greenwald, Anna Nikolayevsky '98, Mike Blitzer '04, and Timothy Jenkins at 2010 Spring Value Investing Reunion.

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G&D: Can you discuss an idea you are currently working on that you think is cheap?

MB: Not really. But I always make fun of people who don't provide live ideas in these interviews, or only ideas that worked out in the 90s. So I guess I have to now. We are one of the largest holders of the preferred notes of Fremont General, a bank holding company that filed bankruptcy in 2008. The process has been an unusually complicated one with five separate plans of reorganization filed and nearly 2,000 documents on the court docket.

GS: 2,007 documents as of today.

MB: The process should be coming to a close within the next month, and we are fairly certain the preferred notes are money good which means we'll get par back in a combination of cash, new debt, and new equity. The balance sheet is comprised almost entirely of cash, including a big and unexpected tax refund the estate recently received. The preferred traded recently for around 80c.

GS: The post-reorganization equity could also be an interesting opportunity once the company emerges this summer and there is more clarity on who is running it and what the business plan will be. The new equity is trading for around book value, but there is a $700M NOL which, in an unusual twist, is actually going to be preserved through the bankruptcy. Both leading plans contemplate purchasing specialty finance assets to utilize the tax asset going forward. I think that could be a good one – though small.

"We are one of the largest holders of the preferred notes of Fremont General, a bank holding company that filed bankruptcy in 2008."

G&D: We were searching for your holdings on the SEC website. Now that your asset base is larger, why can't we follow your holdings on a 13F report?

MB: We've always owned less than the minimum threshold of US-listed equities required to make a filing, and funds are not required to disclose fixed income, international, or other non-US listed positions such as most bankruptcy investments. We've also carried significant cash levels. If the opportunity set shifts more to equities, this will be something we'll have to deal with in the future.

G&D: Any other ideas you'd like to share?

MB: Compucredit is an interesting situation. We are part of an ad-hoc group of bondholders that is suing the company for fraud, so there is only so much we can say. We own the convertible notes which are basically the only debt outstanding. The equity is majority owned by insiders who are trying to stymie creditor rights by paying out large cash dividends and also spinning out some assets. It's an important case for creditor rights in general, but regardless of how this fight plays out, we think the bonds are undervalued. The company has recently launched a series of coercive exchange offers so this will be an interesting one to follow.

G&D: A question related to the class you teach at

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Columbia – what types of mistakes do you see students make over and over?

MB: We teach our class exactly how we manage our analysts. We are staffing students on real-time ideas and then digging into research as a situation develops. I think the biggest mistake is coming in to the class and expecting a traditional lecture and a series of powerpoint slides to take home and study.

GS: Most finance classes at business school are organized around getting a problem set or a deck of slides the professor has used for 20 years. But working on a live idea is a different process – this is the experience we are trying to give to the students. You could do hours and days of work that ends up being useless just to figure out what the question being asked really is, or to find out a security is not interesting at all. You need to figure out how to use your time judiciously and shape some type of alternative view of a security, some insight that the market is missing – and be right.

That is new for many students – it's not really what school has been about for them in the past. Some people say you can't teach people to think like that. I am not sure what the answer is there. But I think we help students the most by nudging them in the right direction every week – ultimately they learn from the struggle and the trial and error and the confidence they get from doing it five times in a semester.

"Every year we have maybe two or three students who tell us they never worked harder, learned an incredible amount, and that the class changed them forever."

Students get out what they put in. Every year we have maybe two or three students who tell us they never worked harder, learned an incredible amount, and that the class changed them forever. I think that is an experience Mike and I had as students at Columbia. And I think we are satisfied with that hit rate. What we do isn't for everyone – it's usually tedious and we spend most of our time accenting the negative, not the positive. And we don't take action on 95% of the things we work on. We often get to the end of a month and all we can say we accomplished was to have read tens of thousands of pages and found lots of things to hate about a bunch of companies. Most people don't want to live like that.

G&D: You had Marty Whitman guest lecture in your class this year and Bruce Greenwald introduced him as a value investing legend and Kingstown as the next generation of value investing at Columbia.

MB: Marty Whitman is a legend, we'll take it.

GS: Yes. I read one of his books twenty years ago and was completely fascinated by him and his approach to investing, it just made so much sense to me, so it was very special to have him in the class. But ultimately the way Marty Whitman distinguished himself was by delivering outstanding returns, and while we have a good head of steam going here, we have a long way to go to be comparable, so that is what we focus on mostly – maintaining and improving our process and hopefully the returns.

G&D: Thank you for your time.

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"The Efficient Market & Rational Expectations" -Jeremy Grantham

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Rational Expectations." I think it's got a lot to answer for, including all of the recent crises and Bernanke's behavior, his refusal to see a housing bubble, because he knew it couldn't be there. It was a three-sigma event and he couldn't see it. That's the main struggle I've had all my life; a preposterous belief that all information is embedded quickly and efficiently in stock prices.

Lurking behind that, I've been pretty irritated by Graham-and-Doddites, frankly, because they've managed to deduce from the great book of 75 years ago, Security Analysis, that somehow bubbles and busts can be ignored…keep your nose to the grindstone. Both hammer in the same direction that there's something faintly speculative and undesirable about calling bubbles.

It's that idea that I want to attack. At the other end of the spectrum, I believe the only thing that really matters in investment are the bubbles and the busts. Here or there, in some country or some asset class, there is usually something interesting going on. The rest of the time you keep your nose clean; you probably keep your job. When there's a great event, that's the time to cash in some of your career risk units and be a hero. It turns out Graham and Dodd are not nearly as anti-big picture as Graham-and-Doddites would have you believe.

This weekend it dawned on me that I'd never read Security Analysis. I have very strong opinions about it, but I'd never actually read it. So I did my best to cover all of the chapters that matter to me. Among other things, I surprised the hell out of myself in what I found.

"If ever we were living in the world of artificial stimulants, it's now."

And this in particular, "The field of analytical work may be set to rest upon a two-fold assumption. First, the market is frequently out of line with the true value. Second, there's an inherent tendency for these disparities to correct themselves. As to the truth of the former statement, there can be little doubt even though Wall Street often speaks glibly of the infallible judgment of the market. The second assumption is equally true in theory, that is, it goes back to normal. But it's working out in practice that is often most unsatisfactory. Undervaluations caused by neglect or prejudice may persist for an inconveniently long time."

The great attribution to Keynes comes to mind here. The market can stay irrational longer than the investor can stay solvent. So they dovetail a whole lot more than I would have thought. "It persists for an inconveniently long time and the same applies to inflated prices caused by over-enthusiasm or artificial stimulants." Don't you like that? If ever we were living in the world of artificial stimulants, it's now.

And Graham goes on, "The market is not a weighing machine, rather should we say that the market is a voting machine," shades of Keynes, "influenced partly by reason and partly by emotion." Now, I have heard that weighing machine and voting machine (line) misquoted a billion times by you guys in this room. It is NOT a weighing machine.

I have come friends and Romans, to tease Graham and Dodd, not to praise them, even though this is the seventy-fifth anniversary…

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Jeremy Grantham

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On the social value of value investing and animal spirits….

Keynes believes that if you have a margin of safety and you took the typical prudence that Graham & Dodd recommend and you believe that, no one would undertake a new enterprise. New enterprises fail in a vast proportion at 80%.

The ones that make it have to struggle with the future. Graham & Dodd were not at all comfortable with the future. They think dealing with it is speculative. They want the present. What are your assets in the piggy bank? What is the yield you pay today? It's all quite irrational, because they are prisoners of the future just like anything else. However many assets you have, they can all be eroded long before you get your hands on them.

Keynes says, "If the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will simply fade and die. It is safe to say that enterprise, which depends on hope stretching into the future, benefits the community as a whole. But individual initiative will only be adequate when reasonable calculation is supplemented and supported by animal spirits so that the thought of ultimate loss, which often overtakes pioneers," and nearly always overtakes Graham-and-Doddites, "as experience undoubtedly tells us and them is as a healthy man, put aside the expectation of death."

You only take dramatic initiatives of the type that create the Microsoft's of the world by a heavy dose of animal spirits. If you Graham-and-Dodded it, you would never do any of the above. This is the most dramatic relative strength of America, its willingness to roll the dice, and too much analysis would simply kill that. And you'd be very much the worse for it if it happened…

On career risk in investment management…

Keynes thought that the Graham & Dodd approach, if done in the institutional world, was also, "incredibly dangerous to your job, particularly when you had to deal with a committee." "Investment based on genuine long-term expectations," Keynes wrote 1936 Chapter 12, "is so difficult today as to be scarcely practicable. He who attempts it must surely lead much more laborious days and run greater risks than he who tries to get better than the crowd than how the crowd will behave. And given equal intelligence, he may make more disastrous mistakes. He needs more intelligence to defeat the forces of time and our ignorance of the future than to beat the gun." Keynes understood that what really drives our industry then and now is momentum, career risk, and beating the gun.

"Moreover, life is not long enough, human nature desires quick results, and there's a peculiar zest in making money quickly. The game of professional investing is intolerably boring and over-exacting to anyone who is entirely exempt from the gambling instinct," which applies to almost everybody here…my sympathies for the boredom that you have to suffer under.

"Finally, it is the long-term investor who will in practice come in for the most criticism wherever investment funds are managed by committees. For it's in the essence of his behavior that he should be considered eccentric, unconventional, and rash in the eyes of average opinion."

Average opinion, by the way, prudence is defined as doing what a similarly well-educated person would do. Therefore, if you're not going with the pack, you're imprudent. Sorry guys, all of us contrarians are legally imprudent. If (our value manager) is successful, that will only confirm the general belief in his rashness. I'd like to say he'll be patted on the head, but when he leaves the room he's de-

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"This is the most dramatic relative strength of America, its willingness to roll the dice, and too much analysis would simply kill that. And you'd be very much the worse for it if it happened."

Jeremy Grantham

> "After 1932, expensive stocks had to go up 6.4x to get their money back while the cheap guys, the best-priced book, had to go up 14.3x… It would have taken you 41 years to catch up."

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scribed as a dangerous eccentric. And if he's unsuccessful, which in an uncertain world sooner or later is inevitable, he will not receive much mercy. The pure administration of Graham-and-Doddery really needs a lock-up like Warren Buffett has…

On value traps….

The key weakness of the Graham & Dodd approach is the fifty-year value trap… Normally, a cheap company with lots of assets and a high yield outperforms in a bear market, because it's propped up by the yield that gets higher and higher as the price goes down. They almost always end up going down less than the average stock. When there's a really severe recession, they start cutting the dividends and it becomes a little more questionable. But when there's a depression or a great crash, as there was last year, then they start cutting the company and this gets to be a lot more problematic.

We sent a guy into the stacks to get data from 1929 to 1932. He nearly died of dust poisoning. I think low price-to-book and yield and low P/E are risk factors. I think this is the one thing French and Fama got right for the wrong reasons. Everything else, I disagree with them. After 1932, expensive stocks had to go up 6.4x to get their money back while the cheap guys, the best-priced book, had to go up 14.3x. Too many of them had gone the way of all flesh.

Let's assume you get two points a year for the extra risk of carrying the cheap price to book. It would have taken you 41 years to catch up. That is the event of the century. The rest of the time, you made money buying price-to-book and low P/E. But in 1929, you basically took such a hit that you never got back out of the hole…

On extrapolation…

You can see inflation peaks in 1981-1982 at thirteen percent. Now, if you have inflation at 13%, you'd expect a t-bill to yield 15%. It did. How about the thirty-year bond? It yielded 16%. The thirty-year bond took a 1.5 millisecond high in inflation at 13% and extrapolated it for thirty years. It had never occurred.

Volcker was snorting flames that he was going to crush it or die in the attempt and they extrapolated it for thirty years. Then in 2003, you get inflation down to 2% and the thirty-year bond is 5% for thirty years. Oh, it's going to stay at 2% for thirty years now. It's incredible extrapolation. It's double counting of the worst kind.

The best, simplest way to look at double counting and extrapolation is in the stock market itself. Andrew Lo was saying that the market had two phases. A lot of the time it was efficient and then bang, it would become crazy. Nonsense. A few seconds of every five or six or seven years, it's efficient. The rest of the time it's spiking up or spiking down.

Now, the market should equal replacement costs, which means the correlation between profit margins and P/E should be a negative one. Putting it in simpler terms, if you have a huge profit margin for the whole economy, capitalism being what it is, you'd want to multiply it by a low P/E, because you know high returns will suck in competition, more capital, and bid down the returns.

So what actually happens? Instead of having a correlation of minus one, you have a correlation of plus 0.32. High profit margins get high P/E's and vice versa, and it's much greater than 0.32 at the peaks and the troughs. Right at the peak in 1929, you had record profit margins and record P/E's. In 1965, new record profit margins and record P/E's, equal to 21x.

Think about 2000, you had a new high in stated claim profit margins and then decided to multiply it by 35x earnings, a level so much higher than anything that preceded it. But in 1982,

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Jeremy Grantham

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you had half-normal profits times 8 P/E. You had half normal profits times half normal P/E. I mean give me a break. So we're getting a quarter of replacement costs and then four times replacement costs. This, to me, is the great driver of market volatility and basically nonsense. Once profit margins roll, you look around at your competition. They're all going along for the ride like they are today and you get overpricing.

On bubbles…

I hero worship bubbles. The average of all the bubbles we've studied, by the way, is that they go up in three years and down in two and a half. Thirty-four bubbles is not an alarming amount to an efficient market believer. Randomly, you get these outliers. We define a bubble as a two-sigma event, a forty-year event. It's completely random and I consider it completely reasonable. So we have a nice little body to study. Thirty-four of them and they say, well, that's about the right number. Okay?

But this is the problem. If you get a bubble randomly, what happens from the peak? It goes off in a billion flight paths. Some go higher, some go sideways, and some go lower. How often does a two-sigma bubble on the downside follow a two-sigma bubble on the upside? That's easy. Every forty years times every forty years. Every 1600 years, you should have something that looks like the South Sea Bubble. What have we had? We've had 34 out of 34 that look like the South Sea Bubble that go back in a very similar flight path to the way they went up. Why would Graham-and-Doddites choose to ignore such a potent weapon?…

"I say it's akin to the Chicago story where the two professors cross the quadrangle and pass a ten-dollar bill and they don't pick it up, because they know in an efficient world it wouldn't be there."

On the housing bubble and the Federal Reserve…

There had never been a housing bubble in American history, as Robert Schiller had pointed out. It's clear in the data, because Chicago would boom and Florida would bust. There was always enough diversification. It took Greenspan. It took zero interest rates. It took an amazing repackaging of mortgage instruments. It took people begging people to take money out of their houses and buy another house down in Florida.

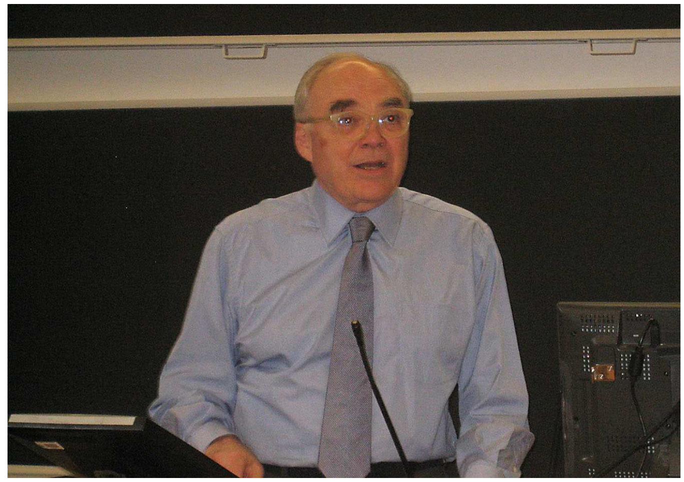
We had neighbors in Westport who ended up with three apartments in Florida. It was going to come down. And right at the peak, Bernanke says, "The U.S. housing market largely reflects a strong U.S. Economy." What the hell was he talking about? And this is the guy who got reappointed. Surrounded by statisticians, he couldn't see a three-sigma housing bubble in a market that has never had a lousy bubble at all.

I say it's akin to the Chicago story where the two professors cross the quadrangle and pass a ten-dollar bill and they don't pick it up, because they know in an efficient world it wouldn't be there. It would have already been picked up. Bernanke couldn't see a housing bubble, because he knows you don't have housing bubbles. You don't have bubbles in big asset classes. Regardless of the data, like French and Fama and all of the efficient market people, they ignore the data in defense of a theory…

Bob Bruce—Former President and CIO of the Fireman's Fund

"Avoid taking a strictly formulaic approach to investing. Keep asking what you can do better and always stay curious."

On April 8, 2010, Mr. Bob Bruce (CBS '70) - former president & CIO of the Fireman's Fund - visited campus to offer his thoughts as part of the Columbia Investment Management Association's lunch-time speaker series. Mr. Bruce was instrumental in the creation of Columbia's Heilbrunn Center for Graham & Dodd Investing and influential in bringing Professor Bruce Greenwald to the school in 1991.



Pictured: Bob Bruce, Former President and CIO of the Fireman's Fund, lecturing at Columbia.

Mr. Bruce, who was kind enough to take some time away from his farm in New Hampshire, shared the following wisdom from a storied career that has included close relationships with both Walter Schloss and Warren Buffett.

Ten Takeaways

Keep Evolving! Avoid taking a strictly formulaic approach to investing. Keep asking what you can do better and always stay curious – we do not see enough of that these days.

Inflation Looms. Bruce believes it is a question of when, not if, the US will exhibit inflation. As Buffet has commented, the best hedge against inflation is ownership of stocks (at a reasonable valuation) which have the ability to pass-through inflation. "Owning a lot of cash is as smart as holding bananas."

Buy Superior Companies. Buying these companies is like betting on favorites at the horse track, but instead of the house taking 10%, the market offers a 7-9% return per annum.

Be Suspicious of Management. "I want to look at their record and read a story; I do not want to hear a story." Look for management's prints in the snow over a ten year period, specifically how they have done during recessions.

Stick With Franchise Businesses. These companies can sustainably earn above their cost of capital. Most businesses get bigger over time, but these grow while adding value.

Narrow The List. Bruce follows a list of less than 100 companies. "It makes your life simpler to have a smaller list of names."

Franchise Companies Are Like Battleships. Unlike ordinary companies, without a competitive advantage, these companies will see earnings and cash flow bounce back after a temporary blip.

Margin of Safety. As Graham stated in the Intelligent Investor, there is no margin of safety if you are paying much for the future. "You would like the future to be a freebie, or at least be able to buy it cheaply."

Reinvention is Risky. Any company that must perpetually innovate deserves caution because you are betting that the trend will continue – this is similar to paying for growth.

Intrinsic Value is a Range. "Never calculate intrinsic value with a fine point – develop a range."

Heilbrunn Center for Graham & Dodd Investing

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Pershing Square Value Investing and Philanthropy Challenge

Students and alumni gathered on April 23, 2010 for the third annual Pershing Square Value Investing and Philanthropy Challenge final presentations. The competition is anchored by the commitment of Pershing Square Capital Management and CBS to produce talented and knowledgeable graduates who are ready to take on leadership roles as value investors.

The winning team received a cash prize of $25,000 which is, in turn, directed to the School. The allocation of the award is at the winner's choosing, based on three or four areas of need identified by the School and discussed with Pershing Square. The prize structure supports the goals of promoting the idea for value investors: doing well and doing good.

Bill Ackman, of Pershing Square, kicked off the final presentations with an entertaining introduction of the nine judges, poking fun at David Einhorn's dressing style, while taking a shot at one of the other panelist's tennis abilities.

Each team had 10 minutes to give a prepared presentation, followed by 20 minutes of lively Q&A with the panelists. First place was awarded to Matthew Gordon ('10), Garrett Jones ('11), and Michael Smeets ('11) for their research on Broadridge ("BR"). Ackman explained that the judges were impressed by the team's clear thesis, depth of primary research, and strong understanding of a complex business (see write-up on page 16).

The competition has made impressive strides over the past three years and Mr. Ackman commented that the quality of analysis had improved substantively. "We had to turn down ideas early in the selection process that would have won in prior years."

The five final groups were selected from a pool of 39 teams, who enrolled in a class titled Applied Security Analysis. The course was taught by Professors Greg Francfort (Neuberger Berman) and Caryn Zweig '95 (Abner, Herrman, & Brock) and covers search and valuation strategies based on the Graham and Dodd framework.

As ideas took shape, the teams progressed through a series of three presentations and had access to practicing mentors, who provided feedback and suggested areas for further research.

Pictured: Pershing Square founder Bill Ackman presents a check to the winning team: Matt Gordon '10, Garrett Jones '11, and Mike Smeets '11.

Pictured: Bill Ackman at the Pershing Square Challenge Finals

Pershing Square Challenge Finalists			
1st Place	Matthew Gordon '10	*Long*	
	Garrett Jones '11	Broadridge ("BR")	
	Michael Smeets '11		
Runner-Up	Dennis Gorczyca '11	*Short*	
	Chris Hathorn '11	Plum Creek Lumber ("PCL")	
	Patrick Sullivan '11		
Runner-Up	Karuna Chhabra '10	*Long*	
	Joseba Eceiza '11	TransDigm ("TDG")	
	Saurabh Malpani '11		
	Jeremy Kogler '11	*Long*	
	Gordon McLaughlin '11	Service Corp. International ("SCI")	
	David Yatzeck '11		
	Brandt Blimkie '10	*Long*	
	Todd Brunner '11	GameStop Corp ("GME")	
	D. Zachary Cogan '11		

Judges	
Willam Ackman	Pershing Square Capital Management
Craig Effron	Scoggin Capital Management
David Einhorn	Greenlight Capital
Bruce Greenwald	Columbia Business School
Paul C. Hilal	Pershing Square Capital Management
Douglas Hirsch	Seneca Capital
Dahlia M. Loeb	Reveille Capital Management
Daniel Loeb	Third Point
Craig Nerenberg	Brenner West Capital Partners

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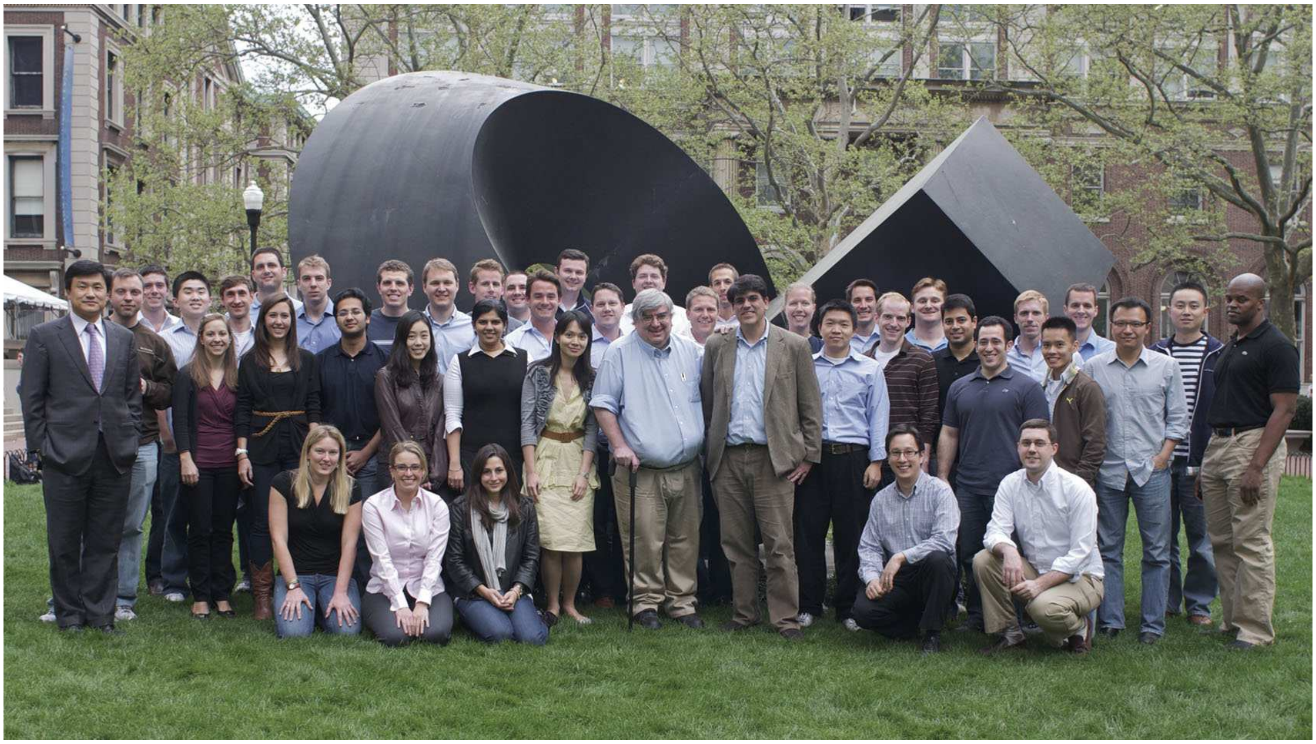
Applied Value Investing Class of 2010



Also Pictured: Li Lu '96, Bruce Greenwald, Tano Santos, and Kevin Oro-Hahn

Chaitanya Aggarwal
Meghan Baivier
Matthew Berry
Brandt Blimkie
Grant Bowman
Erica Brailey
David Brenninkmeyer
Bruce Chen
Catherine Chen
Brian Chin
Matthew Cohen
Damien Davis
Eric DeLamarter
Brad Doppelt
Sidney Gargiulo
Michael Gayeski
Bobby Geornas
Matthew Gordon
Nicole Greenfield
Manisha Kathuria
Joyce Kwok
Charlene Lee
Ken Leslie
Matthew Lilling
David Lin
Caroline Lundberg-Carr
Andrew Macken
Matthew Martinek
Eric Micek
Daniel Moudy
Brian Neider
Sunil Parthasarathy
Joey Peterson
Christof Pfeiffer
San Phan
John Piermont
Oliver Reeves
Willem Schilpzand
Scott Siegel
Eunbin Song
Marcela Souza
Rich Tosi
Ian Weber
Ben Weiss
Jayme Wiggins
Clayton Williams
Andrew Yang
Xiaoting Zhao

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Get Involved:

To hire a Columbia MBA for an internship or full-time position, contact Bruce Lloyd, assistant director, outreach services, in the Office of MBA Career Services at (212) 854-8687 or valueinvesting@columbia.edu . Available positions also may be posted directly on the Columbia Web site at www.gsb.columbia.edu/jobpost.

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Please also share with us any suggestions for future issues of *Graham and Doddsville*:

Graham & Doddsville 2009 / 2010 Editors

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Clayton Williams is a second year MBA student and a participant in the Applied Value Investing Program. This summer he interned at Brandes Investment Partners in San Diego. Prior to Columbia, Clayton worked for four years in fixed income research and portfolio management at Martin & Company, a regional investment management firm in Knoxville, TN. Clayton received a BS in Finance and Accounting from the University of Tennessee in 2003.

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