Columbia Business School
AT THE VERY CENTER OF BUSINESS

Graham & Doddsville

An investment newsletter from the students of Columbia Business School

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Inside this issue:

Omega Advisors, Inc.

Leon Cooperman, CFA '67

At the end of 1991, following 25 years of service, Lee retired from his positions as a General Partner of Goldman, Sachs & Co. and as Chairman and Chief Executive Officer of Goldman Sachs Asset Management to organize and launch an investment management business, Omega Advisors, Inc.

At Goldman Sachs, Lee spent 15 years as a Partner and one year (1990-1991) as of-counsel to the Management Committee. In 1989, he became Chairman and Chief Executive Officer of Goldman Sachs Asset Management and Chief Investment Officer of the firm's equity product line, managing the GS Capital Growth Fund, an open-end mutual fund, for one-and-a-half years. Prior to those appointments, Lee spent 22 years in the Investment Research Department as

Ruane, Cunniff & Goldfarb

David Poppe CC '86

John Harris

David Poppe joined Ruane, Cunniff & Goldfarb in 1999 after a 12-year career in journalism. Mr. Poppe graduated with a BA from Columbia University in 1986.

John Harris joined Ruane, Cunniff & Goldfarb in August 2003. Prior to joining the firm, he spent two years as an analyst at Kohlberg, Kravis, Roberts & Co. (KKR), a private equity firm based in New York and San Francisco. Before joining KKR, he served as an analyst in the investment banking division at Goldman, Sachs & Co. Mr. Harris graduated with an AB from Harvard College in 1999, Magna Cum Laude and Phi Beta Kappa.

Vulcan Value Partners[1]

C.T. Fitzpatrick, CFA

C.T. Fitzpatrick founded Vulcan Value Partners in 2007 to manage his personal capital. Since inception, all four strategies have peer rankings in the top 4% of value managers in their respective

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Oasis Management Company

Seth Fischer

Seth Fischer is the founder and Chief Investment Officer of Oasis Management Company, an international investment manager headquartered in Hong Kong. Oasis was founded by Mr. Fischer in 2002 following a successful seven-year career at Highbridge Capital Management, where he managed the firm's Asia

[1] Please see page 10 for required disclosures

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C.T. Fitzpatrick, CFA

categories.[2] Prior to founding Vulcan Value Partners, C.T. worked as a principal and portfolio manager at Southeastern Asset Management. During his 17-year tenure, the team at Southeastern Asset Management achieved double digit returns well ahead of inflation and was ranked in top 5% of money managers over five, ten, and twenty year periods according to Callan and Associates.

C.T. earned his MBA in Finance from the Owen Graduate School of Management at Vanderbilt University. He also has a BS in Corporate Finance from the University of Alabama.

Graham & Doddsville (G&D): Could you tell us about how you got started in the industry?

C.T. Fitzpatrick (CTF): I was a weird kid. I was reading the *Wall Street Journal* when I was 14 years old. My father was my mentor. He was an entrepreneur and I was just curious about what he was doing. It became an intellectual curiosity. My dad was a value investor but he didn't know it. He didn't call himself a value investor. He did a lot of things in real estate and he would try to buy properties at a discount to replacement value. He'd be looking for things that had fat cap rates, things like that.

Since I knew I wanted to go into business, I did not have the patience to pursue liberal arts, so I went straight into corporate finance at the University of Alabama. I majored in finance and minored in English. As my coursework evolved and as I had exposure to more things, I discovered that I was passionate about investing.

While I was in school in the early 1980s, coursework emphasized efficient markets, CAPM, and all those things. Conceptually, a lot of it made sense but some of it didn't. It was counter to how my dad actually did things in the real world. I started challenging my professors and I got pushback. It just didn't feel right. Of course, you want to regurgitate it for the test, but then do you really agree with it?

I read Graham and Dodd's *Security Analysis* just to try to understand, "Okay, what's the other side of this?" It really appealed to me and struck a nerve. By the time I graduated, I wanted to be a value investor. It was the mid-80s and Wall Street was booming. I had some opportunities on the money management side, but I also had an opportunity to work here in New York in investment banking.

G&D: What was that job?

CTF: I worked at Merrill Lynch capital markets. I met my wife. She was a trader at what now is Credit Suisse First Boston, which was First Boston at the time. It was a great experience but I was only on the edge of what I wanted to do. I was an agent, not a principal.

I went back to graduate school at Vanderbilt's Owen School of Management and had a great experience there. It was a lot of fun, but the main reason I went back to school was to transition my career. In 1990, I started with Southeastern Asset Management in Memphis, also known as Longleaf Partners. I was very fortunate there had been some changes in the senior management of that company. It left a hole, allowing some younger guys, including myself, to take on a lot of responsibility quickly. I became a partner in the company pretty early on.

I started as a generalist. We were finding things in the real estate area that were really cheap and interesting. We increasingly gravitated to it simply because there was more opportunity there. Long story short, we started a real estate effort, and I was very fortunate to be tapped to lead that effort. I went from being a generalist to a real estate expert. Then, in the early 2000s, we shut that program down because basically we rode cap rates down from 12% to 8% and thought the bargains had dried up. Obviously we got out too early. I became a generalist again. At that point, we had moved into international and global. That was really fun.

Then, in early 2007, I decided it was time for me to move on. I'd been there for 17 years. I think anyone who's passionate about what they do, and strives to continuously improve, will keep their core principles but continue to refine them over time. I began to feel very strongly about some things that I wanted to

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[2] Source: Vulcan Value Partners Large Cap Composite versus peer group of the eVestment US Large Cap Value Equity Universe. Vulcan Value Partners Small Cap Composite versus peer group of the eVestment US Small Cap Value Equity Universe. Information provided is supplemental information for the Large Cap Composite, Focus Composite, Focus Plus Composite, and Small Cap Composite for period ending September 30, 2017 as of October 18, 2017.

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do in my own personal evolution.

I left Southeastern to start Vulcan Value Partners in order to put these principles into practice. I had a wonderful experience there and I'll be forever grateful for being part of Southeastern. I wouldn't be here today if I had not been there first.

G&D: Is there a particular philosophy or framework that they use?

CTF: When I was there my initial emphasis was just on valuation. The cheaper, the better. There were other parts to the analysis, of course, but the energy went to finding discounted companies. The bigger the discount, the more interesting, and that's the work you focused on.

As I evolved, I began to feel that it was even more important to focus on business quality, specifically value stability. This concept gets back to what attracted me to value investing in the first place: the idea that you could take on less risk and earn excess returns. That absolutely turns the Efficient Markets Hypothesis and CAPM on its head, but it is what Graham and Dodd were talking about, and what Warren Buffett and Charlie Munger continue to talk about.

For example, look at J.P. Morgan during the financial crisis. It was a really well-managed company but its balance sheet was so leveraged that it was impossible to figure out what its equity was worth with any accuracy. The company's assets are opaque and difficult to value with precision. Even if you were able to accurately value the assets, and the asset values dropped just a little bit, the equity value could evaporate because of the financial leverage on the balance sheet. You could buy J.P. Morgan at a discount to tangible book and believe you had a margin of safety, but the margin of safety would be ephemeral because the company's value is inherently unstable.

That is an example of a company that, in fact, the old C.T. would have said, "Oh, my gosh! I can buy J.P. Morgan at half of tangible book. You know, this is great!" or, "Maybe we should buy Bear Stearns too or maybe we should buy Lehman Brothers. We can buy them at a discount to book." But, we didn't do any of that at Vulcan.

"My evolution as an investor was that it's not enough to buy a company that is statistically cheap at a point in time. It has to have what we call at Vulcan Value Partners a sustainable margin of safety."

Instead, we were buying companies like MasterCard that were caught up in the taint of being a financial services-oriented company but it had net cash on its balance sheet. Unlike all the others that I mentioned, it generated a huge free cash flow coupon and had an inherently stable value. They all became discounted, but we bought the companies that had inherently stable values.

My evolution as an investor was that it's not enough to buy a company that is statistically cheap at a point in time. It has to have what we call at Vulcan Value Partners a sustainable margin of safety.

G&D: In addition to sustainable margin of safety, what other things are critical parts of your investment philosophy?

CTF: Time horizon is really important. It can be a huge competitive advantage if you're able and willing to use it. Our minimum time horizon is five years. Assume the equity markets are shut down or think about it like a private equity investor. If we would not be willing to have capital tied up for five years, it doesn't qualify for investment.

With that rule, we discard probably 90% of the companies that are publicly traded. A lot of them get cheap from time to time but we have no interest in them because they don't meet that test. If we're going to have a five-year time horizon and base our investment decisions on that time horizon, we have to invest in companies whose value is stable over that time horizon. Very few companies fit that criteria, but the ones that do, again, provide what we call sustainable margin of

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safety.

When I started, I was discount first and then the rest later. Today, at Vulcan, we are value stability first. We don't care if it's discounted or not. Of course, we want to buy companies at a discount, but when we start, we don't look for cheap stocks. We look for companies with inherently stable values. Those companies we follow. Most of them are overvalued most of the time but when they become discounted, we've already done the work. We're up to speed on them. We follow them just like we own them.

Often there is an event: it could be a macro event, it could be something specific to the industry, or it could just be volatility. We haven't had much of that lately but it does happen every now and then and you have a chance to buy these businesses at a discount.

You have a history of your values. You've updated them. When you watch that over and over again, it gives you a lot of confidence to buy a company. You might not have owned it for 10 years, but you might have been following it for 10 years and its value has compounded steadily. It gives you a lot of confidence because you're not scrambling to get up to speed. If you're trying to get up to speed at the last minute, the seller is going to know a lot more than you are as the buyer, but we've been following these companies forever.

We make mistakes but I think our dual emphasis on quality *and* discount is what really differentiates Vulcan. That is what we do differently than a lot of practitioners in the industry.

G&D: How do you motivate your analysts to look at things that aren't cheap yet?

CTF: That's a great question. It gets to how we're wired. I've heard Mr. Buffett speak very eloquently about this. There are different types and different stripes of value investors. When he wrote the essay *The Superinvestors of Graham-and-Doddsville*, he mentioned there are different people who do it in different ways. There's not, I think, one correct way to do it but there's probably one way that's correct for each of us to do it. It gets back to staying within our circle of competence.

G&D: You mentioned your shift towards value stability. Were there some investments that pushed you in that direction?

CTF: On average, our returns were really good but it bothered me more to lose money than I enjoyed making money. What attracted me to value investing in the first place is a margin of safety, taking on less risk.

Using a baseball analogy, you don't improve your average by just hitting more home runs. If you can eliminate your strikeouts, you can really improve your results. It's not so much about what you do; it's what you don't do.

G&D: When you're thinking about the value stability, you seem to focus on free cash flow. Is that correct?

CTF: Yes. From a quantitative point of view, free cash flow is really important to value stability. That's a quantitative metric. There are others: How high are your returns on capital? How stable are your margins? How strong is your balance sheet? We look at all of it, free cash flow being the most important.

We spend a lot of time qualitatively trying to understand what's driving the numbers and the qualitative aspects of the business. Is the business getting better or worse? Our analysis is quantitative but I think our real value add is on the qualitative side. We spend an awful lot of time debating those qualitative issues.

G&D: In the past you've mentioned energy companies and commodity risk. Are there any other sectors that you're saying, just by the dynamics of that business model and that sector, we're not playing in that area?

CTF: Anybody who doesn't control their own destiny, which is most people. You mentioned energy. There are less than a half a handful of companies in that area that provide value-added services that we like, but we don't like most of the industry.

There are some really well-managed industrial companies. One we've owned for a long time that's been really successful for us is Parker Hannifin. They're a leader in

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Professor Tano Santos speaks with Mario Gabelli '67 at the 27th Annual Graham & Dodd Breakfast

motion control products and they have a substantial aerospace business as well, where they are in programs like the 787 which have a very long life. We like companies where the equity duration is long and the cash flow is very stable.

Then there are other industrial companies that are just making commoditized products. They're typically price takers and they are heavily leveraged. They're in a very weak position. Anybody can do what they do. Those are just cigar butts. They get cheap, but we don't care. We don't want to waste our time with them, even if they are cheap, because they do not have inherently stable values.

G&D: Could you buy one of those cigar butts at such a discount that you are effectively agnostic to the commodity price risk?

CTF: Absolutely. You could, and I used to do things like that but don't do them anymore. You have to be disciplined. We still like the discount. But liking a discount didn't make it go away.

There are things we look at, we go, "Oh, my gosh. You know, this is just so tempting," but don't do it. We don't.

G&D: You mentioned spending some time on the quantitative but a lot of time on the qualitative. How do you go about valuing those qualitative metrics for companies and kicking the tires before you invest?

CTF: We don't screen. We're looking for great businesses. There's a lot of accumulated knowledge. A lot of businesses that we own currently, I have owned three or four times over the course of my career. That makes up what we call our MVP list: companies we follow that we would buy if they become discounted.

G&D: You have a couple hundred names on that list, right?

CTF: We have roughly 500. Our analysts are rewarded for finding new names to add to the MVP list, but they're doubly rewarded for taking names off. No one is rewarded for how many names they follow in the portfolio. You just happen to be the person who is following the name at the moment it became discounted. These names on the MVP list have been updated by numerous analysts over many years. Nobody even remembers whose idea it was. It's great because we're now working objectively with a culture that reinforces our investment process. We're not at odds with each other.

"We don't screen. We're looking for great businesses….A lot of businesses that we own currently, I have owned three or four times over the course of my career. That makes up what we call our MVP list: companies we follow that we would buy if they become discounted."

Most new businesses fail. You have a lot of things going against you but when you can set up initial conditions thoughtfully and create a foundation that can propel you forward, that is a one-time asset but it's depleted over time. It's gone. You only get it once. We spent a lot of time when we were setting up the company to make sure that we set up a culture and a compensation system that reinforces the execution of our investment philosophy.

G&D: How do you look for these new MVP companies?

CTF: We read a lot. We get a lot of ideas from following the companies we own. We spend a lot of time talking to the companies we own. I can't give you all the secret sauce, but we've spent a lot of time talking to very accomplished people. We never ask about earnings. We talk about long-term issues impacting the business. We talk about what's going on currently. We talk about the things that really matter. The companies we talk to really appreciate that.

G&D: You've owned Oracle for a while, and it's your largest holding. Why?

CTF: We became believers in the shift from on-premise computing to cloud computing a long time ago. Go back a few years before the cloud

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grew rapidly. Oracle and SAP dominate the on-premise software markets, specifically the enterprise computing software market. SAP is stronger in applications and ERP and Oracle are stronger in databases, but Oracle has plenty of ERP products and SAP has its own database. SAP licenses the Oracle database for most of their stuff.

It's like Coke and Pepsi. Neither one of them is going to knock the other out. They fiercely compete with each other, but they respect each other. They bad mouth each other but at the end of the day, neither one of them is going away. It's very logical. Both companies have pricing power and their products are really sticky. Renewal rates are north of 90%. They're in a sweet spot if you look at where the economy is growing.

There's more and more demand for their products. Everybody talks about the explosion of data, and that drives demand for their products. They both have had a wonderful business for a really long time. They're both MVP companies.

Roughly five years ago, Oracle made an announcement that they were moving toward the cloud. SAP at the time said they were staying with on-premise and not really investing much in the cloud. Oracle spent a ton of money to make all of their on-premise products fully compatible in the cloud and integrated with the on-premise offerings.

When you say you're in the cloud, what does that mean? Oracle is in the cloud in a much more integrated way than SAP is. Oracle invested aggressively to be able to offer the cloud across their entire product suite, a complete solution. With Oracle, you can be 100% in the cloud, you can remain 100% on-premise, or you can be hybrid and never know the difference. When you're sitting at your desk and you pull up the database, you might be using one of the products in the cloud and one of the products on-premise. You'll never know. That's really easy to say and incredibly hard to do.

SAP kept focusing on on-premise. They're more of a European company and more of their clients are based in Europe. The Europeans are generally more skeptical about cloud than the Americans. The adoption's been a lot faster in the U.S. There are some business reasons for it, too, but Oracle is in a much stronger competitive position than they have ever been because of their investment in the cloud.

It cost them in terms of earnings. They've been converting their client base to cloud. It has impacted their revenue growth because you've had decelerating growth in on-premise. They have had heavy R&D investments and costs going up faster than revenues. Their earnings after growing steadily for decades starting dipping.

G&D: When was that? When did they start dipping?

CTF: They started dipping about two years ago, sort of flatlining about two years ago and then just a slight decline. Part of it was FX, but I'm talking about down mid-single digits. Not a big deal at all.

At the same time, while the on-premise is slowing down, the cloud business is exploding. I'm a value investor. We have a really hard time modeling growth rates like this but this was 70-80% annual revenue growth with expanding margins. Earnings growing well over 100% in that part of the business.

The on-premise business is basically going from growing at a mid-single-digit rate to basically growing at zero. The cloud business is now at a $6 billion run rate. With that kind of run rate, it's now growing around 40-50% instead of 70% or 80% on that much bigger base. You couldn't see it in the GAAP numbers but we saw it in all of the new bookings. Growth was in line with the strategy that they explained to us. We weren't the only ones who heard it, but you could see it in the figures that ultimately drive the GAAP numbers.

You can go read old sell-side reports that were negative on Oracle because its earnings growth had stalled. Now their earnings are beginning to accelerate and the reports are getting more favorable. Oracle's stock price is beginning to go up but the growth was there two years ago if you looked at what's under the hood and not at the GAAP numbers. The GAAP numbers are a lagging indicator to what's actually happening in

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the business.

Oracle's growing at double digit rates again. We think they're going to grow at double-digit rates for a really long time. Ultimately, is it going to be a 10-year transition or a 20-year transition? If it's 10 years, they'll grow faster sooner, but if it's 20 years, you'll just have longer duration. They'll grow slower but it'll last longer. They will settle back down to a mid-single digit kind of revenue growth again but in the mean time they're going to grow at an accelerated rate. SAP trades at a significant premium to Oracle because they have continued to enjoy their earnings growth over the shorter term. They haven't made these investments, but that's going to catch up with them.

Again, at the right price, we'd own SAP. SAP's strategy is not flawed. It's just a different strategy, but in terms of what's going to happen, SAP's growth is going to slow relative to Oracle's and it trades at a premium. I think Oracle is an example of us exploiting our five-year time horizon. We look at that and say, "Okay, we've got two years of flat-ish earnings." Meanwhile, they're generating $13 billion of free cash flow, 80% of which has been put into share re-purchases because they know their stock is cheap.

While we're waiting for this transition to occur and earnings growth to accelerate again, our value is stable because of the robust free cash flow and stable margins. They quit growing for a while but we're still getting a free cash flow coupon, and they are using that to repurchase shares at a discount.

Our view is that we were paid to wait while this transition occurred. We give Oracle's management team points because they do what everybody says you're supposed to do. They're willing to sacrifice short-term results to strengthen the company over the long term. Now we're in the payoff phase but we had to ride through the investment phase. Now we're on the other side of it. As five-year investors, we're happy to wait. Other investors are not. They want to see near-term earnings acceleration.

"We give Oracle's management team points because they do what everybody says you're supposed to do. They're willing to sacrifice short-term results to strengthen the company over the long term."

G&D: Can you talk a little bit about barriers for entering the cloud? Can't others enter as well?

CTF: Oracle has made extensive investments not only to rewrite all of their code so that it can be deployed in the cloud, on-premise, or hybrid, but also in the infrastructure needed to deliver such services. We do recognize that cloud-only competitors exist in the application layer, such as Workday and Salesforce, and there are infrastructure-only competitors, such as AWS. However, no one competes effectively throughout the stack with Oracle in both on-premise and in the cloud.

G&D: Are there any other examples where your institutional knowledge from having followed these companies on the MVP list helped you spot a multi-year opportunity when others were focused more on near-term EPS?

CTF: It does happen from time to time. It's really ironic because it's what many say they want companies to do, but then the companies get in trouble for it. United Technologies is doing it right now with Pratt & Whitney. Honeywell did it a few years ago. FedEx did it a long time ago when they started building their international operations. Quaker Oats did it when they were investing heavily in Latin America. It can create great opportunities for long-term investors.

G&D: How do you evaluate management? Is that just going back and checking the track record of how they've performed as stewards of capital in the past or is it more by talking with them about the landscape they're facing?

CTF: You have to do both. I think that studying somebody's history is really, really important. We made an investment in Time Warner

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seven years ago. That was a company that was not on our MVP list because of mis-management exemplified by the AOL-Time Warner merger. Because of that, there was finally a shakeup on the board. People that we didn't like started to leave the board, and people we did like started to join the board. Jeffrey Bewkes became CEO, and we were paying attention.

The company was not on the MVP list because of this big, black mark on management but it could be a potential add. When Bewkes became CEO and we saw this change in the board composition, we started watching more closely what he was doing. He started reversing all the crazy stuff they'd done. They started doing a lot of shareholder-friendly things like spinning out Time Warner Cable and started buying back the stock when it was cheap.

We kept listening to conference calls, and we kept watching, and we finally put it back on the MVP list. Luckily for us this happened right before the 2011 U.S. debt-ceiling debacle. First, we decided it met our quality criteria, including management. You can have a great business like Time Warner, but if you don't have good management, it doesn't work. That was the missing piece. It then became discounted, and we bought it. We just recently exited the position.

G&D: You mentioned the quality criteria for Time Warner. Can you define it?

CTF: Our definition of quality is value stability. How stable is your value? Things that lend themselves to value stability are production of free cash flow, stable margins, and strong balance sheets.
You could argue that most of our companies have very inefficient balance sheets. Because of their free cash flow production, they could have a lot more financial leverage than they do. Most of our companies have net cash and their balance sheets can be used as a weapon.

You then go and say, "Okay, that's great but that's the past. What's the future going to look like?" During the financial crisis, we had large investments in DirecTV and Comcast, and we ended up owning Time Warner Cable when it was spun out. Those businesses were great businesses when we owned them and their bottom-line financial results still looked fantastic when we sold them. But from a qualitative point of view, we had started to worry about cord cutting.

We started talking to the younger analysts that we had hired. All of a sudden, I'm hiring people and they're saying, "I've never paid for cable or satellite in my life and I'm never going to." The more work we did qualitatively, we said, "You know what? Power is shifting from the content distributors to the content owners." About the time we bought Time Warner, we were getting out of DirecTV, Comcast and Time Warner Cable because we believed that the content owners were getting a stronger hand. We believed the distributors' competitive position was beginning to erode, but you couldn't see it in the numbers yet.

Now, look at today. Cord cutting's rampant. We saw that six years ago from a qualitative point of view. The qualitative analysis is even more important than the quantitative analysis because quantitative is always a lagging indicator. By the time you see it in the numbers, it's often too late.

G&D: So you recognize the qualitative thing that triggers you to think, "Okay, there's a shift here that hasn't turned up in the numbers yet."

CTF: We're not always right. Sometimes we sell something and the company remains competitively entrenched. Frankly, with the distributors, it's come back full circle. The video business is not that important to them anymore compared to what it used to be, but every time you're streaming Netflix or Amazon Prime, it's going through their pipes. They win anyway. They have really become ISPs more so than video providers.

I'm not saying that they qualify again, but who knows? Five years from now, we might own Comcast again. I don't know, but things evolve and they change. We don't always know about the timing and how fast it's going to happen.

As value investors, we don't have to play. It's all about managing risk. We might be wrong, but if we're wrong and things continue to go well, we'll just allocate capital somewhere else where we

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think things are also going to go well. We don't have to take those risks.

G&D: Taking a long-term approach as opposed to more of an activist approach, I would imagine you definitely need buy in from your clients on this type of strategy. How do you communicate the type of investor you're looking for and how do you best have that conversation?

CTF: That's a great question. We truly view our clients as partners. We chose the word partners and put that in our name very deliberately. We view the companies that we invest in as partners. We want them to treat us as partners. If they don't feel that way about us, that's a big red flag. We look for the intersection, if you will, of a partnership between the management teams with whom we invest, ourselves, and our clients. One of the things I'm really proud about at Vulcan is everyone at Vulcan is required to invest in public equities exclusively through Vulcan. You can't work at Vulcan and invest anywhere else.

I think that really aligns our interests with our clients. It doesn't make us smarter than anyone else, but it does keep everybody focused and it weighs heavily when someone in a research meeting feels strongly about something. I know that their net worth is riding on it.

Our clients share our time horizon. They share our ability to differentiate between value and price. We have fantastic clients. We tell them that investing with us can be very uncomfortable. There are going to be periods of time when we're doing things that are very uncomfortable in the short run. If you are not willing or able to go through that discomfort, don't hire us. You'll be unhappy with us. We want client partners that can provide stable capital for us.

"With the [content] distributors, it's come back full circle. The video business is not that important to them anymore compared to what it used to be, but every time you're streaming Netflix or Amazon Prime, it's going through their pipes. They win anyway."

There'll be a time when we're going to say, "Give us money. The opportunity set is rich." I really think they will because we've told them it's not a great opportunity set right now. If you have better places to allocate your capital, we encourage you to do that. If you have another manager who's got some great things for another asset class, that's great. Most of our clients are institutional. They invest in multiple asset classes, partner with multiple managers around the world, and have lots of options. We tell them to reduce their exposure to us and put their capital somewhere else where there are better risk adjusted returns. We want the kind of client where we can have that dialogue. Then, there'll be a day when we'll say, "Now, the opportunity set is rich. I fully expect to get that money back and a whole lot more." 2008 was a great example of that happening.

One of our competitive advantages is our group of clients. We closed to outside investors in 2015. Our clients provide us with very stable capital, and that is a huge advantage for us.

G&D: What advice would you have to students just as we think about careers in this industry long term?

CTF: I'm going to quote the interview you did in your Fall issue with Howard Marks. I thought his advice was outstanding. Do what you love. I'm the happiest guy in the world. Every day, I do what I love. I'm more blessed than I deserve to be. I have been happily married for many, many years. I have healthy kids, everything's great. But during my working hours, I don't think, "Okay, got to go and get through work so I can start enjoying my life." I look forward to going to work. I get bored on vacations pretty quickly. It's such a blessing to enjoy my work that much. My advice to everyone is to find something that you love. You'll become so much more successful at something if you love doing it.

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I'm sure you have all heard of Malcom Gladwell's book *Outliers,* and maybe you have read it. It discusses the principle that if you do something you enjoy doing, you're going to do more of it, and the repetition makes you better. That's my biggest advice. In terms of value investing or anything else, you must be passionate.

G&D: Thank you, C.T. Thank you for sharing your thoughts with us.

[3]Vulcan Value Partners, LLC is an investment adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. Vulcan focuses on long term capital appreciation; targeting securities purchases that we believe have a substantial margin of safety in terms of value over price and limiting our investments to companies that we believe have sustainable competitive advantages that will allow them to earn superior returns on capital. Value is our estimate of the price a willing buyer would pay, and a willing seller would accept, assuming neither was compelled to enter into a transaction.

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