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Ross Glotzbach is Chief Executive Officer, Head of Research and a Portfolio Manager of Southeastern Asset Management. Ross spoke with the editors of the Ben Graham Centre's Newsletter about his experience being a value investor.

You mentioned on the Value Investing with Legends podcast how you managed your own portfolio with a value orientation while studying at Princeton. How valuable do you think managing a portfolio and getting hands on experience is for students when learning how to invest? Do you think learning the theory is enough?

I think real life experience is extremely important. There's a big difference between having a paper portfolio where you can do as you wish and it doesn't feel quite as real, versus losing and making real money. The sooner you can get into that and start getting familiar with those feelings and those decisions you have to make, the better.

When I talked about it in that interview, I was lucky, and it was a good time prospectively to be a value investor. But, looking backwards, it was actually not a good time. I was fortunate enough to get control of this portfolio, but it was all in the hottest tech stocks of the moment. And this was early 2000 so it was a real crash course in terms of what things are actually worth, because I had to really think fast to make these decisions and transition into a more value looking portfolio. That was a great way to learn and I'm forever grateful for that. It's very important to learn the theory as well, but you don't really learn it until you get into it.

What is something that you've learned on the job that you wish you had learned at school?

That's a tricky one because I start thinking about the Charlie Munger quote: "Tell me where I'm going to die so that I don't ever go there." I think about some of the investment mistakes that I've made at Southeastern as well, and I would have loved some specific ways to have avoided those. But learning lessons like that the hard way is usually the only and best way to learn them. You know there's just a lot of things that happen in the work world that you can't learn in the school world.

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If I could go back in time, I do think I'd take more classes that are related to psychology and some of the more practical and mechanical aspects of investing and business rather than some of the more esoteric math driven, higher level courses that I took. I admit that I don't use a ton of those these days.

So, I would probably tell myself that you've got a lot to learn. And unfortunately, there's no way you can learn it yet.

As students, we're relatively aware of what a good investor needs to do well. What we don't hear much about is the process of managing and growing an investment team. Could you briefly discuss the learning curve from being an investment analyst to a CEO, and any lessons you have for investors on building team processes?

We always want to stay on a learning curve and keep evolving at Southeastern. None of us are done improving. You have to start by putting yourself in the shoes of the analyst. We want to be a great place for analysts to work, where they can do the parts of their job that add the most value and they have a minimum of bureaucracy and anything that takes away from making great investments.

Whenever we're having to decide something and I'm doing management work instead of research and stock picking, that's always first and foremost. How is this going to help us find a great investment and build a great portfolio? Or is this just something extraneous that we shouldn't even be talking about? Once we start talking about processes and things of that nature, it's always a balance between process and judgment and creativity. Yes, we definitely want strong processes in place so that we don't go off the rails and so that we're also looking at things on an apples to apples basis as much as possible, around the world, across industries, from analysts to analyst. But if we do that via some rigid template that might make us miss some interesting companies or interesting people, or it might not lead to us being the kind of place where analysts can express themselves and be creative, then we're not getting those great creative 'looking around the corner' type insights that are things you can't ever get from a computer. So, we don't want to go too far on the process front either.

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It is definitely a balance. I think of myself as a coach, to use a good old sports analogy. The analysts are the stars and I get to play along with them. Nobody comes to the game to see the coach. It's the analysts who are delivering those stocks and then along with the portfolio managers who are also analysts. It's a real team effort. So, we just stay focused on what's going to drive long term absolute returns and remove all barriers to that.

What is the biggest lesson you've learned from an investing mistake?

There have been too many, but that's investing life. Words you'll hear from us a lot are business, people, price. That's how we evaluate our current and prospective investments. Is this a great business that we can understand? It sounds strange to say it, but some of the companies that we invested in weren't actually a business. It was just a collection of assets that didn't really have enough of an ongoing terminal value. That can lead to sometimes a low looking, static price to value ratio. We appraise it. We say this thing's worth 100 and it's trading at 50. That's great! But if we fast forward a few years and that 100 value has not grown or, it shrank, it's almost always been a bad investment. When it's something that's not an ongoing business throwing off free cash flow with a strong moat, it's more likely that that value won't grow. So, number one would be stick to businesses, not assets.

Number two would be avoiding excessive leverage at the wrong time. Some amount of leverage is proper but if you can stick to businesses and avoid leverage, you'll probably be in a good spot, especially if you partnered with great people. The people part is often really hard because you can get the incentives aligned, you can have owners, but people can make mistakes and we need to make sure that we've got the right people on the team. Sometimes we have to work to change that too. Putting that all into one investment would be something like Quicksilver Resources, where it was an oil and gas stock and had some interesting discrete assets. But it wasn't really enough of an ongoing business. When a few of these assets stopped working, as we'd hoped, and they were subject to commodity prices and other things like that, that was rough times for that one because it was combined with some leverage and with a family that we thought could be good owner partners. But partly because of some decisions they made because of the circumstances of their business and the leverage, it was tough going. And the good news was that we sold that one and took a loss and moved on to other better things.

You mentioned in May that your fund was underweight in sectors that held up well during the initial market panic (i.e., Healthcare, IT) but you remained confident in your bottom-up portfolio coming out of the pandemic. Do you remain underweight on those sectors 7 months later?

We're always very bottom up focused just trying to build the right portfolio. And if we look different than an index, so be it. We're focused first and foremost on great absolute returns. Pre-COVID we thought that in IT world especially (and healthcare world somewhat), the prices that we'd have to pay, even though there were some very high-quality companies run by great people, had no margin of safety.

Then COVID hit and a lot of those companies were very direct beneficiaries of that. So even though they might have had a high price to value ratio going into it, that denominator, the value for them, it grew. But it didn't in pretty much all cases, double, triple or what have you. So, we have still found it very hard to find good investments in those industries. We have gotten a little more interested in healthcare, just because a few things that are more stock specific have shaken out. As for IT, well look at us all here on this Zoom. So, everybody is still very much aware of the benefits of the virtual world and we're not discounting that either. We just want to pay a big discount to what we think something is worth.

Back in May when that interview was, we didn't flip our portfolio around to all those things. But the good news is in the second half of the year, we performed well on absolute basis and relative basis on our portfolios (we focus most on the absolute). So, we've been seeing some of the benefits of sticking to what we owned and not jumping on to the latest and greatest, but hopefully at some point we'll get to own a lot of those companies down the road.

When responding to a question regarding the -10% YTD performance after the pandemic hit, you mentioned that the S&P was already at rich valuations even before the crisis. Is there any way to rationalize current market valuations (record-low yields, maybe), and how does your selection process change in these unusual circumstances?

I think what we could all do is our best to run the numbers and try to understand why things might be trading where they are. But that doesn't necessarily make it rational. So, certainly if you say that some of these market favorites are going to grow at high single/low double digits forever, and interest rates will stay down at these levels forever, and you put a big terminal multiple on some of these companies, then yeah, I can see why someone could think it trades there. But that's not the kind of multiple layers of conservatism we want to use in one of our appraisals. We look at markets like Japan where interest rates have been low for a very long time. That doesn't mean that earnings multiples have been all that dramatically different than the long-term average over that time.

Another way to think about it would be to look worldwide at the long-term market multiple average through a variety of “this time is different, this time is not different,” has been in the mid to high teens and it should probably get back there at some point. It’s all to say whenever something starts feeling different and permanent, it's usually not. That's usually the time you should be the most careful.

In a time when growth stocks and large-cap tech have been outperforming value stocks for more than a decade and passive investing AUMs seem to have no limit, do you have any words of reassurance for students interested in value investing, and the prospects of it in the long-term future?

I actually think you're all very lucky in a lot of ways. Firstly, that you didn't have to work through a lot of this, but you got to look at it. Secondly, that even after looking at it, you're still interested enough in value investing to hop on Zoom with me and that shows some dedication. So, you're already off to a pretty good start. Some words of reassurances are that usually the best time to be getting into value investing is when it's looked the bleakest looking backwards. That usually means it's going to be the brightest looking forward.

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I remember when I first wanted to work at Southeastern, they originally didn't hire me out of college. But I think one of the reasons they eventually gave me a shot was because they knew that I had been interested in value investing in the midst of dot-com bubble 20 years ago and didn't come to it after the dot-com bubble made me lose all my money. It was more like the opposite, where I lived through some tough times and they knew, hopefully, that I'd have the fortitude to help the team make it through the next time. I don't think any of us thought it would be a 14 year long period of underperformance next time. And I can't tell you if it'll be 14 years and a month or 15 years, but we're going to keep doing our thing and we really like what we have in our portfolio now. And that's what should help any kind of real value investor sleep at night. And that's what you should all take comfort in is that as Ben Graham said: “Value outs in the long run.”

In an interview you noted the “fact that the market is a voting machine in the short run, but it’s a weighing machine in the long run.” After such a tumultuous year, do you believe that 2021 is the year the market makes the switch to a weighing machine focusing on value rather than growth which has largely outperformed for over a decade? If so, what do you think will be the catalyst?

Well, I think it's one of the many great reasons to be a value investor who actually values companies, when you've got an appraisal of say $100 on a stock, and you have the discipline to wait to pay your discount on it. So, you're waiting for that stock to hit $60 or $65 a share. That helps you disengage from the day to day ticker bouncing around. You know what you want to pay and then if you get a shot you pay it. If you don't, you don't. You just have to get used to maybe missing a thing or two because it's far better to maintain your discipline. That’s why we try to surround ourselves with a lot of different types of viewpoints on the team, but we are all value investors. That helps us through it. Of course, the market can do crazy things day to day and you can't ever predict it in the short term. But we have this term we like to use called time arbitrage, where the longer out you look, the more likely the market is to be that weighing machine versus a voting machine. We've just seen it for decades and decades and that’s the kind of time horizon, we have. And it also gets to our client base. Our average clients have been with us for more than 15 years and have that long-term view too, which we are very grateful for and we love our clients because of that. If you've got misalignment on that front amongst employees and clients, then that's not good either. We do work to seek out those who are going to be with us through thick and thin.

Now can I tell you 2021 is going to be the year? I'd sure like it to be. But I can also look at market multiples and see how high they are and how these are generally on peak after-tax margins for a whole lot of companies. So high multiples on high margins, whereas our portfolio is, we feel, very low multiples on low margins. That's a big gap. And it's usually not this big. It's very rarely this big. And so that's what gives us the confidence that sooner rather than later. But I think we've also learned that putting a time definite date on it can be tough.

Your company's website shows your fund's history and one recent point that was interesting was how the small-cap fund closed in 1997 and since reopened for new investment in 2020 due to "qualifying companies becom[ing] more attractive amid indiscriminate selling during the COVID-19 pandemic". Could you give us some insight as to how these companies became more attractive and what sectors these opportunities showed up in?

It was really kind of idiosyncratic stories from here to there that we came across. Just backing up a little bit, we do feel another thing that makes Southeastern unique is that we've always been about what will we do with our own money. It's not about how can we gather more assets and make more fees, it's really the total opposite of that, which is why we had that small cap fund closed. It's why we've closed other strategies with good track records. We want to put first and foremost, our clients and their prospective absolute return for making decisions like that. So, when we opened up the fund we thought, wow, there is a lot of stuff to buy and we were really going down the list and getting very excited.

That said, the market rocketed back pretty hard last year, so we didn't get to buy quite as much as we would like. We have more cash than usual once again and that's frustrating, but it'll change. I can't tell you when or how it will change, but the things that we were able to buy were somewhat unique, quirky type things. We bought part of the Atlanta Braves baseball team and it's controlled by the people at Liberty Media who we've had a good track record partnering with because they're just great thinkers on long term value per share. People were worried about the baseball season so we feel like we got a good bargain there.

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Other things in the small cap world that we bought include Everest Re, which is a reinsurance company. Pretty boring. But where the market loves these stocks that grow on a ruler in a straight line and you put a big multiple on it and then you're done, Everest does not report earnings in a straight line at all because they could have a fire or wind storm or who knows what. But they have this continuing mindset themselves that that's when you should be writing the most policies, when it's a hard market and when you have good pricing opportunities. It's kind of like value investing in a way where you have to be a contrarian and think long-term, and we're glad we get to partner with them at a deeply discounted price once again.

Which industries do you typically see opportunities for value managers in our current climate? Do you see that potentially changing in the next 5-10 years?

One of my favorite Warren Buffett quotes is when somebody asked him a question like, there's so many thousands of companies out there, how do you prioritize? How do you do this? And he said, "I suggest you start with the A's." Meaning you just have to go down the list and it's not often the fastest paced or most exciting to a lot of people, but I find it very interesting as does everybody at Southeastern. You just have to keep going down that list every day. And we've built up a master list around the world of the few thousand companies that we'd love to own. So, we're always trying to be as current as we can on those.

Once we've already qualified them on business and people, then we're waiting for that right price. Because we're long term and concentrated, we don't need many great new ideas. Each year, in a standard 20 stock portfolio and a five-year holding period, mathematically, that means you need four new ideas on average every year. With a team of almost 15 analysts around the world looking across our different portfolios, if each analyst has one or two ideas then that's been a pretty good year for that person. So that means that there is a lot of looking that goes into those one or two and then there's a lot of debate as well. We're going to always have a devil's advocate on the other side. We are of course going to meet with management when possible, and we're also looking for those quirky type ideas that maybe don't screen on a standard mathematical computer screen all that great. We've bought things that look like they have a very high P/E or no P/E, but actually they're at an extremely low multiple of free cash flow power in a few years, which is what matters most. Not last year's or next year's or this year's earnings.

> “It's a lot of going down that list and continuing to be open minded because these companies change and something that you might not have liked a few years ago can be quite different now.”

So, you're right, it's just a lot of going down that list continuing to look and continue to be open minded because these companies change and something that you might not have liked for valid reasons a few years ago can be quite different now if its industry has changed, or if its management has changed. We're just kind of business dorks and appraiser nerds and we keep doing it.

The popularity of passive investing through index mutual funds and exchange-traded funds (ETFs) has grown substantially over recent years now exceeding the AUM of active managers. Do you believe this shift has had a negative impact on market efficiency? Has it created opportunities that active managers are able to take advantage of?

I'd say firstly that, Bogle's original idea of indexing makes a lot of sense. Like most fresh, original, good ideas, there was a lot to it. To get people an efficient way to own a broad swath of the economy at a reasonable price. Hey, we're all in favor of that. So, the concept of indexing, we're not here to say that it's terrible or evil or something like that, what we might say, though, is that there is always going to be a high importance placed on us by what you are paying for things. And today for that index, you feel like you're paying a high price. Then as ETFs have become more of a thing, that has been another factor that has probably divorced people even more from the importance of paying a good price and knowing what you're owning because these ETFs have become more of a way to just “play things” instead of long term invest in businesses. Yet again, a classic Ben Graham quote is that investing is best when it's most business like. Trading around hot ETFs and whatnot, because you like a theme or a story associated with that ETF that week? That's not good. And that's going to lead to some definite inefficiencies.

The term “active share,” where you can measure mathematically how different an investor's portfolio looks versus a given index, where the max score is 100 if you looked nothing at all like the index, we're always pretty much in the high 90s. Whereas, there's a lot of folks out there who claim to be active, but once you start dipping your score down below 75 or so you're starting to look a bit like an index. That can lead to comfort in the short term, but it's not going to lead to differentiated returns in the long term, which is what we want to provide our clients and what they're paying us to do because you know they can go into an index fund if they want to.

We certainly see some silly things happen out there in index world. I mean, the whole Tesla thing is, of course, a kind of interesting example where it goes into the S&P 500 after it's just boomed totally, but we're here to focus on what we own, and if it's not in an index great. If it's in an index, okay, that's all right too. We're just here to own great companies run by great people selling at a discount. We've got to be able to understand why they're at that discount and sometimes index effects come into play. I think, probably some momentum chasing in recent years has led to some market distortion. Unfortunately, it's the kind that has benefited our competition so far. But we like where we're coming from for the next several years, that's for sure.

How do you distinguish a good value investment from a value trap?

We've got to see a path for how our value per share can grow and the biggest way to get into a value trap is when your value per share is not growing. The best way to get growth probably is to have a company that generates free cash flow. And usually, when you're generating solid free cash flow, you've got a good, solid, competent management team. That starts building up a floor and growing the value per share. It's also important to have demand tailwinds for a company's product or service. If you're trying to rationalize your way into some declining industry, that can be dangerous and lead to value trap world.

Also, not being aligned with great partners can lead to value traps. If you've got a management team that just doesn't care about value per share, free cash flow per share, and they just want to get bigger, they will dilute you. That's how you could have something that might, in theory, have some free cash flow and some demand growth. The number of shares keeps going up and the return on capital keeps going down. Well, then you're not going to get paid in that situation either. So, we are vigorously on the lookout for value traps.

A process that we've put in place is that 18 months is an important timeframe when we need to take fresh looks at our investments. That sounds kind of short term, but we think it's a good discipline. And so, if we have something that's not working out, we need to go down the list, business, people, price, and why it's going to change, if it hasn't worked yet and ask ourselves some tough questions. And sometimes we change analysts on a stock. Sometimes we assign other ways of taking a fresh look at things. We're always on the lookout for those value traps.

Where do you think ESG/Impact Investing fits within a value investing, if at all?

I think it definitely does. I think it's very important. We at Southeastern feel like we have been incorporating these factors into our investment approach for a long time. I give credit to our ESG team for helping us learn to talk about it externally a little better than we have previously.

Because you start with each of those few letters: G on the governance. We've cared about that from day 1, 45 years ago. Here in the US, when you file a 13D with the SEC, that’s kind of a big deal. It means you're going to talk with management and explore some options. We've been filing those since the 1990s, and we have a good track record when we've done that. In general, we've got one or two of those going at any moment. Generally, though, what we're doing on the governance front is we're engaging with these companies behind the scenes because we just want to see them succeed. Then we succeed along with them, everybody wins and the company gets the credit - that's great.

And the best way to do that is just to pick the right partners on the front end and then you're aligned with them. Of course, we're asking still always tough questions and using our network to help theirs and to help drive long-term outcomes. We’ve also never outsourced any of our proxy voting. We read what ISS has to say but we're going to make our own decision. And it's not through some kind of proxy voting committee or something. Each analyst needs to know the issues, front and back. Read every page of that proxy and make an informed decision on if we're going to vote for these people and their initiatives or not.

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So that's the G; on the S, we've always been focused on whether this is the kind of business that we would want to be in long term. For that reason, we've never done tobacco stocks. But we're also just not going to rule out any kind of industry going forward if we don't give it a fresh look. There can sometimes be too much box-checking in this world, but if this is something that we would like to be associated with, and think it's a good overall thing for society, that's important. Southeastern itself is also focused for a very long time on giving back. That's one of the many reasons I love working here, because our founding ethos is around that. We tend not to talk publicly about our charitable commitments, but that doesn't mean it's not important.

On the environmental front, that's another one where we think it's incredibly important. But that doesn't mean that we're not going to, for example, own a natural gas company, if we think that can lead to lower emissions than the alternative, and a better planet than the alternative. You've got to work within what's possible, but we are engaged with our management teams on steps they are taking to improve their environmental practices. We are deeply concerned about these issues, and we're going to do it through our lens where price will matter too. If you're just buying any ESG ETF without regard to the price of the securities within it, we would caution against that. We would think we could be doing more of the best of both worlds here at Southeastern.

You recently mentioned that you bought and sold Alphabet. Could you tell us a bit about how that fits into a value portfolio?

We bought it in 2015. That's one way it fit into a value portfolio. When you go through business, people, and price on that one and try to transport yourself way back to those days. Back then, on the business side of things, you had Search, which was viewed as a strong business, but it was viewed as a slowing business and people worried about the rise of Apple and Facebook. Maybe people's searching habits will be different on their mobile phones. YouTube was kind of this interesting thing that was nice, it wasn't making much money, in my view, or losing money.

Then, they also had these wild investments in driverless cars, broadband from blimps, and all this other stuff. This kind of blurs over into the people side of the case. People thought they might be setting money on fire with these weird investments that were not broken out separately. You had to do some work yourself to dig through how much they're spending on all this other stuff that's not Search or software or YouTube. We did that, and so then it gets to the people side of things. This was a company that gave no guidance, paid no dividends, and just didn't really seem to care much about the Street. We looked at their track record, and it was actually really strong on value per share creation. YouTube is worth significantly more than what they paid; Android was a brilliant long-term strategic move and they'd also avoided a lot of dumb deals. They were rumored to have bought Groupon and they never did that. They did a lot of smart things and they avoided a lot of dumb things. We'd also heard through our network, people who knew them, about how smart and value-focused they were. They themselves had also made the pilgrimage to Omaha and talked to Warren Buffett about value per share, and that's pretty good.

Again, everybody can talk about the positives on the business and people side of the case. So, it gets down to price. At the time, it looked like the company was trading kind of in the mid- to high-teens on a PE ratio. Which is not too demanding these days. Back then, it was viewed at- or above the market - this was, potentially, for a slowing business with hard-to-understand capital allocation. When we backed out, what eventually became the Other Bets and maybe gave them some separate credit for YouTube coming up the curve, backed out their large amount of cash and securities on the balance sheet. We thought we were paying 12 times or less free cash flow for a business like this that should grow in the double digits prospectively from there.

Ultimately, it grew even faster than we thought it would and some of these wild investments turned out even better than we thought they would. So, it was a good compounder for us for five plus years. But in 2020, when we sold our last shares, we just felt it finally traded through its value per share. Originally, we paid 500 and we sold over 1,500. That was a lot of value growth over those five years. We just can't live in a world as value investors when we hold on to things, even if they feel warm and fuzzy, if they're trading for significantly more than they're worth. That's what we felt about Alphabet at that time. And we'll see where it goes from here.

Due to the long hold periods required by the value-investing approach, have there ever been any periods in Southeastern's history where bringing on new investors/capital was a challenge? Have investment vehicles like the small-cap fund been established to allow for investors with varying appetites?

Usually, it's kind of a trailing performance-driven thing. That's just a big factor in the world of professional investing. So, a time like now, when our trailing returns aren't as strong as we'd like, it's generally tough to get people to come with you. That said, the people who come join us right now are going to be some great, happy, clients over the long term. Conversely, this is why we close funds: when we don't have enough to do and when we don't think it's a good time to be partnering with us and our style of investing. If you come in at the wrong time, that could lead to a mismatch of what that person might be expecting versus what we're expecting. We don't want that either. So, we do our best to seek money at the right time and turn it away at the wrong time. We feel that makes us unique and again, gets back to what we're asking ourselves every day. What would we do with our own money? At time like now, we would say we're going to put up some solid numbers for you and you should join us. Other times, we'll do the opposite.

How has your personal investing philosophy changed over the years and, since you jumped on as CEO, has the company's investment philosophy changed?

I don't think we've had too many big changes. And I think my philosophy is very aligned with the company's philosophy. When Mason Hawkins founded Southeastern in 1975, it was somewhat of a different investing landscape. For the 10 years after that, there were more of the Ben Graham style of investments out there: the net-net, the thing trading below net asset value or book value. I wasn't at the table at the time - I was a baby - but even then, the team still would've rather owned great businesses generating free cash flow with great partners. We do things like buy Gerber Baby Food when they found glass in the bottles and things like that.

Over time, we've tried to continue to use the best of both worlds from the Graham and the Buffett schools. Buffett more on the qualitative, where he'd just rather pay a fair price for a great business, whereas Graham would rather have paid a discount for whatever it is. We want the best of both worlds. I think we've learned the importance of the qualitative side of owning a business and partnering with great people who can grow that free cash flow per share, over the long run.

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Have you seen a shift towards growth at a reasonable cost where you're investing in companies that are great, like Alphabet, but they might be more on the growth side? How does that still fit into like a value investment philosophy?

I think when we bought Alphabet, for some of the numbers reasons I talked about, that was a value investment. No doubt. I think we've learned over time, that once you get that initial value investment right and after a company and an analyst have earned the right, to keep owning something. We learned not be too quick to sell a great 80 or 90-cent dollar. So that's kind of holding at a reasonable cost. But when you start straying a little bit, that can be dangerous. We're not doing that.

We've definitely seen a lot of contorting from folks in the value world who explain away how something that's 25-30 times earnings on not-depressed margins can be a "value stock". That one's tough for us. Even Alphabet last year, while it had a higher-looking P/E on stated earnings than when we bought it, when we still held it, we thought we had a pretty reasonable multiple on the core business. Driverless cars and their cloud business and other unique things weren't making money and they were worth big numbers. You need to adjust for that. But ultimately, even then, we felt it traded on through our values. So, we're value investors. You need to be careful when other terms start getting in there, but those are some lessons we've learned along the way.

What is your strategy when evaluating a company's competitive moat?

I feel like, in a way, we're not trying to bring any new radical insights here beyond Porter's Five Forces: a lot of common sense about the kind of business you'd want to be in long term. But there's definitely different types of moats. Some of the better moats out there have strong brand power. They have high returns on incremental capital. They might have extremely high barriers to entry from replacement costs. We can get wary of moats that are maybe too artificial: something like a regulated utility or some weird quirky law or something that was in place. We'd rather have a natural moat.

After we've done these quantitative and, from afar, qualitative measures of moats, a good way is to talk to people who know more about things than we do. When we talk to a management team and we ask which company they'd like to invest in regardless of price that's not their own, that's a pretty good answer for a moat-y company usually. When we ask somebody who they'd be afraid of competing with, usually you'll hear about a company with a strong moat. Again, we try to put ourselves in the shoes of a customer, competitor, supplier, and talk to all those people too. When we get that mix of quantitative measures - again, high return on incremental capital, pricing greater than CPI - and combine that with this qualitative analysis, then we're pretty sure that thing has a moat.

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On your website, it says that the analysts at Southeastern are generalists across industries. Some investors talk about the value of covering a single industry and developing deep expertise in that one industry. How do you feel about that claim?

Yes, we are all generalists. I think we'll most likely stay that way for a few reasons. We think that it leads to a better debate amongst the team. You can have a lot of viewpoints coming in and nobody's talking past each other. If everybody were just living in this silo - this is the cars guy, this is the food guy - how do you even have a debate like that? But when everybody can go across industries, that just leads to better understanding and interesting analogies across industries as well. How is a Coke bottle like a cable TV company or something like that - that's just good stuff.

Practically, it leads to better devil's advocate work because nobody has an excuse for not being the DA when everybody can go across sectors. Also, it leads to more discipline because if people are in these specialist silos, and this guy is the car guy, he's always going to feel like we need to own a car stock, right? Maybe sometimes, we don't need to own a car stock? Maybe sometimes we need to own two or three? We need to stick to our discipline and take what the market gives us. It's a lot easier to do that as generalists.

And finally, it just leads to a more interesting, more fun place to work. That's going to give us better talent versus if we're just sticking people into silos and saying, "you only need to do this one thing". We feel like we get better folks if they have more freedom.

Southeastern invests in Europe, Asia and North America. A lot of those regions are quite different. How do you assess country's specific risk and what are some common pitfalls you see for foreign investors when they're deploying capital in a region they may not be as familiar with?

Originally, when we got into investing in a big way outside of the United States, it was in the late- to mid-1990s, in the wake of the Asian financial crisis where there were big Ben Graham type bargains in Asia. It was readily apparent. So, you could send people out on airplanes from Memphis and make it happen. But we also knew starting then that we should start building out this worldwide network because having over 45 years of history and having built a Rolodex all over the place, usually we know people in a given region or we have people who lived there or been there who are close to us. That's important because if you're the Patsy at the poker table and don't know it, in some foreign country, you can definitely get undressed quickly. We don't want that to happen to us.

Certainly, that will lead to some countries that have a much higher bar to invest in than others. It'll also lead to an even more intense focus on partnering with great people. If you're going into a country where you might have less familiarity, you really need to check these people out and that they have a good track record and incentives. They're going to be on the ground, working for you there, and you need to be able to trust them. So much of it gets back to discipline, and even if something is mouth-wateringly statistically cheap in a given region, if we can't understand it - the business and/or the people - we just don't have to do it.

Long term investing styles can also be applied to the private markets very well. What do you think the pros and cons of

being a private market vs public market investor are?

This is kind of like active-passive or value-growth. I mean, we're talking about it today, after a pretty strong stretch for the private markets. But also, like I said about index investing, there are, in theory, a lot of virtues to private investing. You don't need to listen to the market every day, you can make positive changes to a company that you own all of, out of the spotlight, and that's nice.

But again, I come back to how much price matters. Back in the old days of KKR and all these guys, they paid six- or eight-times EBITDA on depressed margins. They put some leverage on it, fixed it up, and a few years down the road, they'd sell it for more than that. Well, now, you're paying like a teens multiple on EBITDA and this EBITDA really isn't all that depressed. Interest rates are as low as they've been in our lifetimes, which has also been a great tailwind for the private guys. It's hard to get too excited about where you go from there. And then, another interesting public versus private thing is the classic Ben Graham analogy of Mr. Market as this person who kind of goes crazy from time to time. That's a gift to the forward-thinking, long-term thinking public company. When Mr. Market gets bummed out, we buy the stock. The company can buy its shares in cheaply and grow its own value per share. The market gets all excited about everything, we move on to the next thing. And the company can issue shares. But that can be hard to live with if you don't have that kind of long-term value mindset. So paradoxically, that can be very attractive to folks who want one mark a year for a private investment and you get to make-up that mark. That's kind of a strong word, but you don't have to just take what the market gives you on December 31; you have some leeway yourself in setting that.

There's also this notion that private investing will lead to "lower volatility". Well, actually, when you look at actual volatility and liquidity, these private investments are way less liquid than public investments. And because, in a lot of these leveraged buyout transactions, there is more leverage than their comparable public peers, their actual, real-life business volatility is significantly higher than ours. But again, because they only have one or four prices per year, that's pretty different than us with 365 prices per year and really, it's more like 365 times however many minutes the market's open. So, it feels more volatile, but actually over the long term, it's a gift and it's a good thing to invest in the public markets.

That was what attracted me to it, getting to buy bargains and not having to negotiate these private transactions from sellers who know way more about the business than the buyer usually. We could be buying something because some index fund dumped it or some company missed a quarter or something, even if it's great for the long-term or the management team is misunderstood. We just think we get better, higher quality securities, and better bargains that way.