Invaluable Insights Webcast

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MH = Mellody Hobson, Co-CEO & President, Ariel Investments

RB = Rupal Bhansali, CIO, Global Equities, Ariel Investments

SC = Staley Cates, Vice Chairman, Southeastern Asset Management

MG = Mario Gabelli, Founder, Chairman, CEO, GAMCO Investors, Inc.

DH = David Herro, Partner, CIO – International Equity and Portfolio Manager, Harris Associates

BM = Bill Miller, Chairman & CIO, Miller Value Partners

DO = Daniel O'Keefe, Managing Director, Artisan Partners, Founding Partner of the Artisan Partners Global Value Team

JR = John Rogers Jr., Chairman, Co-CEO and CIO, Ariel Investments

00:00:04 JD: Good afternoon everyone and thank you all for taking the time to join us this afternoon for invaluable insights. I am Jenn DiGrazia, Head of Institutional Client and Investor Relations at Aerial Investments. Prior to beginning the discussion today I must read the following disclosures. “Equity investments are affected by market conditions. The intrinsic value of the stocks in which value portfolios invest may never be recognized by the broader market.

00:00:28 The opinions expressed are as of March 1st, 2022 but are subject to change. The information provided in this webcast does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security. Portfolio holdings are subject to change. The performance of any single portfolio holding is no indication of the performance of other portfolio holdings of any strategy or fund. And as always, past performance does not guarantee future results."

00:01:03 It is now my pleasure to introduce the moderator of Invaluable Insights, Ariel Investments' Co-CEO, Mellody Hobson.

00:01:13 MH: Thanks so much Jenn and welcome everyone. We are delighted to have you again with us today. Once again we brought together what we believe to be are some of the greatest value managers in the world. And we have gone through a period where they have discussed managing their portfolios through the pandemic and now well into the recovery and perhaps we're in a new phase of the market given the volatility that we've seen of late.

00:01:38 These individuals have as a group decades of experience. The average tenure of these managers, 35 years, and combined they manage over $350 billion. We conceived of this conversation during the worst of the pandemic when the market was in freefall and we experienced one of the fastest bear markets in stock market history. When we first gathered it's hard to believe it's been this long. On May 12th, 2020 the Down Jones was at 23,764. The S&P at 2870 and the MSCI ACWI at 573.

00:02:18 By our next conversation which was January 7th, of 2021, the market had already made big moves and both the international and U.S. Indices were well over 30 percent from the lows. And here we are today, March 1st, 2022, the Ides of March, Mardi Gras, so much happening today, here we are today with the Dow Jones swinging, and we know it's been very volatile, having closed yesterday at 33,892, the S&P at 4373 and the MSCI ACWI at 698.

00:02:57 As I've said before these value greats have striking similarities. They tend to have very high active share in terms of their portfolios. They tend to run relatively concentrated portfolios. While there's the occasional name that overlaps, and we're going to talk about some of those, they actually are very, very unique when you dig deep in terms of what they do and how they do it.

00:03:20 Once again let me introduce the panel. I'm joined by my teammate Rupal Bhansali of Ariel, Staley Cates of Southeastern Asset Management, Mario Gabelli of GAMCO Investors, David Hero of Harris Associates, Bill Miller of Miller Value Partners, Dan O'Keefe from Artisan Partners and last, but not least, John Rogers of Aerial. I listed a few of their accomplishments last time around and I actually think they're so remarkable, I'm going to do it for a third time, because they're pretty great.

00:03:55 Five of these managers, five, Staley, Mario, David, Bill, and Dan have received Morning Stars Fund Manager of the Year Designation. David and Dan are not one, but two time winners. And then let's take it up another notch, David and Bill are both Fund Manager of the Decade. So you've got everything under the sun there. Rupal and Mario are both members of the prestigious Barron's Round Table. And John and Mario are both listed in the book, the World's 99 Greatest Investors.

00:04:35 So here's what's going to happen for next 90 minutes I am going to moderate a discussion and the discussion I'm attempting to emulate a conversation we would have if we were sitting together. Now before we were socially distanced because the world was closed, the world is more open, but we're still not together.

00:04:54 So this conversation is completely unscripted, no one knows what I'm going to ask. Hopefully it will also be unfiltered. And I'm encouraging the managers to question and challenge each other. We had that happen before, I'd like to see it again. Last time we met I said that and "our common search for value is like a music genre and our individual portfolios are like our own songs."

00:05:21 I'm going to take this music analogy a step further, for this discussion it's the equivalent of a group of value managers sitting around and riffing. Riffing about the economy, the investment industry, individual stocks. Think of MTV unplugged. So our initial discussion will take 60 minutes and then in that discussion I will incorporate some of the questions that have been sent in advance and then I'll open it the discussion to live questions.

00:05:48 And this is how that's going to work. My colleague Jenn DiGrazia will select and read those questions at the appropriate time and as Moderator I do reserve the right to ask follow ups. So since we have a big group here and a lot to discuss I'm going to encourage and stress brevity. And I'll gently prod and not so gently prod if my colleagues are droning on a little too much.

00:06:14 In this conversation I plan to go from the macro big picture and there are certainly a lot of macro to discuss, even though this is a group of bottom up stock pickers. I'll go from the macro to the micro. The big picture, industries, individual stocks, you name it. And I always like to throw those personal questions in at the end, just for fun.

00:06:38 So we will also have the speed round. This time again I'm going to open with the speed round. And the reason I'm going to do that, I'm going to remind the managers of things they said last year and then ask some new questions. It's just gives us a really good framework of where there's agreement, disagreement, and gives me some points of departure.

00:07:00 So here we go. Okay. First question, and I will call on you just as I see you in the box for now. So first question, how many rate hikes will we have in the

United States this year? I'll start with John Rogers.

00:07:17 JR: I would expect to have four.

00:07:19 MH: Okay. Mario?

00:07:24 MG: I'd say four and the run off.

00:07:27 MH: Rupal?

00:07:28 RB: Six.

00:07:29 MH: Staley?

00:07:31 SC: Four.

00:07:32 MH: Dan?

00:07:33 DO: Five.

00:07:35 MH: Bill?

00:07:36 BM Five.

00:07:37 MH: David?

00:07:39 DH: I think rates are going up that's all that counts, but three. Four total, four total.

00:07:44 MH: Okay. So I'm going to ask you just to give me one word answers on these for now.

00:07:49 DH: Sorry.

00:07:50 MH: And then we'll have plenty of time to editorialize soon. Okay. Last time I asked you is the market too hot, too cold or just right. Now interestingly last January 7th everyone except for Bill Miller said too hot. And Bill said just right. So how do you feel these days? Rupal?

00:08:11 RB: Too hot.

00:08:13 SC: Too hot.

00:08:16 MH: Mario?

00:08:16 MG: Just right.

00:08:19 MH: David?

00:08:20 DH: Just right.

00:08:21 MH: Bill?

00:08:23 BM Just right.

00:08:24 MH: Dan?

00:08:26 DO: International, too cheap.

00:08:28 MH: John?

00:08:29 JR: Too cold.

00:08:32 MH: Okay. Will the Dow Jones industrial average be higher or lower a year from now? Now this is interesting. I told you the Dow Jones was around 23,000 in May of 2020, 33,892 yesterday. So the last time we did this, we've done this both sessions, the two bears, both times, were Rupal and Staley. So both times you said lower. So two times in a row. Everyone else said higher. So I wonder now, how do you feel about things? A year from now, where will the Dow be? Bill?

00:09:10	BM	Higher.
00:09:12	MH:	Dan?
00:09:12	DO:	Higher.
00:09:14	MH:	John?
00:09:15	JR:	Higher.
00:09:16	MH:	Rupal?
00:09:17	RB:	Lower.
00:09:18	MH:	Staley?
00:09:19	SC:	Tripling down to say lower.
00:09:22	MH:	Mario?
00:09:23	MG:	Higher.
00:09:25	MH:	David?

00:09:26 DH: Higher.

00:09:28 MH: Okay. Will the S&P 500 or the MSCI Index out perform this year? MSCI ACWI. So which one? Is it U.S. markets or international markets that will lead the way this year? Mario?

00:09:46 MG: I'm going to say international from today's close.

00:09:51 MH: Okay. John Rogers?

00:09:53 JR: The same as Mario.

00:09:55 MH: Staley?

00:09:56 SC: MSCI.

00:09:57 MH: Dan?

00:09:58 DO: International.

00:09:59 MH: Bill?

00:10:00 BM S&P.

00:10:03 MH: David?

00:10:04 DH: International.

00:10:05 MH: Rupal?

00:10:06 RB: International.

00:10:08 MH: Okay. We talked about energy last year. Interesting I asked buy, sell or hold? Last year Mario, JR, Rupal and Bill were buyers. David was a hold. Dan and Staley did not really give me an answer when I looked at the notes and I wonder what your thoughts are today. So let's keep in mind energy has surged nearly 50 percent over the last year and obviously it's on fire this year. So I'll go with John.

00:10:42 JR: It will be down from here.

00:10:44 MH: Staley?

00:10:45 SC: Sell.

00:10:47 MH: Mario?

00:10:48 MG: I can't do one word, but equipment suppliers up.

00:10:54 MH: Dan?

00:10:57 DO: Oil price will be down, I think.

00:10:59 MH: Bill?

00:11:00 BM Stocks up, oil price down. Oil stocks up, oil price down.

00:11:04 MH: David?

00:11:06 DH: It's a buy, sell or hold, right? Sell.

00:11:09 MH: Rupal?

00:11:10 RB: Sell.

00:11:11 MH: Okay. Last time I asked you Amazon or LVMH. Interestingly, Bill, Rupal, Mario and JR all said Amazon. Amazon for the last year is up about two percent. Staley, David and Dan all said LVMH. It's up 34 percent. Just keeping score, letting you know. I asked you to choose between Tesla and Daimler. Everyone picked Daimler. It was up 34 percent last year. And Tesla was up nearly 50. I asked you work from home or work from office. Three of you:

Staley, Rupal and Bill Miller said work from home. The others said work from office. I wonder has anyone changed their point of view of what you prefer. John?

00:11:57 JR: I like both actually. I enjoy both places.

00:12:01 MH: Mario?

00:12:03 MG: I prefer working at the office.

00:12:06 MH: Dan?

00:12:07 DO: Office by far.

00:12:08 MH: Staley?

00:12:09 SC: Still prefer home.

00:12:11 MH: David?

00:12:12 DH: Hybrid. Both.

00:12:13 MH: Bill?

00:12:14 BM Home.

00:12:15 MH: Rupal?

00:12:17 RB: Home.

00:12:18 MH: Okay. I'm going to weigh in on this one too. I'm all in on the office. Okay. Last year I asked you would large caps or small caps dominate? Bill, Dan, Mario, JR and David all said small. Rupal and Staley said large. Now here's the weird thing, if you look at the Russell 2000, value in the S&P 500, they were in shouting distance of each other. So here's the question, 2022 who leads? Dan?

00:12:48 DO: Large.

00:12:50 MH: Rupal?

00:12:51 RB: Large.

00:12:52 MH: Bill?

00:12:53 BM Small.

00:12:54 MH: David?

00:12:55 DH: Large.

00:12:57 MH: Mario?

00:12:58 MG: Small.

00:12:59 MH: Staley?

00:13:00 SC: Small.

00:13:01 MH: JR?

00:13:02 JR: Small.

00:13:04 MH: Okay. Now we're going to go fast with new questions. If you had to choose right now between where you're going to get out performance, developed or emerging markets? Mario?

00:13:18 MG: I'm going to say developed the way I define it.

00:13:24 MH: Okay. Dan?

00:13:27	DO:	Developed.
00:13:28	MH:	Rupal?
00:13:30	RB:	Tough one. I'm going to go with emerging.
00:13:33	MH:	Bill?
00:13:34	BM	Developed.
00:13:35	MH:	David?
00:13:36	DH:	Developed.
00:13:37	MH:	Staley?
00:13:39	SC:	Emerging.
00:13:40	MH:	John?
00:13:41	JR:	Emerging.
00:13:42	MH:	Okay. These will be quick. Meta or Microsoft? Rupal?

00:13:49	RB:	Microsoft.
00:13:51	MH:	Mario?
00:13:52	MG:	Neither. No point of view.
00:13:56	MH:	John?
00:13:58	JR:	Microsoft.
00:13:59	MH:	Staley?
00:14:00	SC:	Microsoft.
00:14:01	MH:	Dan?
00:14:03	DO:	I can’t call it Meta, I'm going to call it Facebook.
00:14:06	MH:	Bill?
00:14:07	BM	Meta.
00:14:09	MH:	David?

00:14:09	DH:	Microsoft, I guess. I'm kind of with Mario.
00:14:15	MH:	Okay. Walmart or Amazon? Bill?
00:14:18	BM	Amazon.
00:14:19	MH:	Dan?
00:14:20	DO:	Amazon.
00:14:21	MH:	Mario?
00:14:22	MG:	Amazon.
00:14:23	MH:	Rupal?
00:14:24	RB:	Walmart.
00:14:25	MH:	John?
00:14:27	JR:	Walmart.
00:14:27	MH:	Staley?

00:14:28 SC: Walmart.

00:14:29 MH: David?

00:14:30 DH: Walmart.

00:14:32 MH: Disney or Discovery? Mario?

00:14:38 MG: 12 months, Disney.

00:14:42 MH: John?

00:14:43 JR: Disney.

00:14:44 MH: Staley?

00:14:45 SC: Discovery.

00:14:46 MH: Dan?

00:14:47 DO: Disney, I guess. I have no idea.

00:14:49 MH: Bill?

00:14:50 BM Discovery.

00:14:51 MH: Rupal?

00:14:53 RB: No idea.

00:14:54 MH: David?

00:14:55 DH: Disney. But I have no idea either audience.

00:14:59 MH: Okay. Alright. Let's move into to some questions. So last time we Zoomed it was literally a day after the insurrection on our Nation's Capital. We were all reeling from that experience. This year it's not an insurrection, it's an invasion. And I want to start off by saying fun aside of those questions, our hearts go out with the people of Ukraine. This is a very serious moment in world history and so we want to let them know that we are with them.

00:15:31 I want to talk about the war because I think it has a lot of implications and this is one of the macro issues that is at hand and it is certainly twisting up the market these days. So let's start with the big question. How might this war impact the global economy? So I'm going to start with our international managers first, because you're watching these markets very closely. So David I'll start with you.

00:16:02 DH: I think a great deal of my answer depends on the longevity of the war. I think if this becomes short for either a good reason or a bad reason, the good reason being it's repelled and they go to the Peace Talks and there's a cease fire. The bad reason is because they've overwhelmed the Ukraine and take it over. If the war is relatively short, I think it will have a muted impact on the global economy.

00:16:27 If the war drags on then with this will come uncertainty, which will have reverberations of interest rates, etc., which will mean longer term impacts.

00:16:41 MH: Dan, what do you think about this?

00:16:44 DO: Well, I mean the biggest real risk is that you have a greater energy shock. I mean, the GDP of Russia is effectively irrelevant, you know, it's a 1.5 trillion dollar economy. Any company you look at Russia's basically, I mean, not any, but most companies, you know, Russia's like one percent or less of their revenue and profits. So it's really not a meaningful GDP driver. What is meaningful is that, you know, Germany derives 50 percent of its energy from Russian gas.

00:17:12 And if, the real bad scenario is Russia decides to stop selling gas to Europe and Europe will have to buy that gas somewhere else and it will drive prices way up and Europe will go into a recession. That is the immediate risk. I think, you know, on the opposite end of that risk is the fact that Russia, you know, 50 percent of Russia's exports are oil and gas and they certainly don't want to turn off the taps to Europe, because that's their hard currency, source of hard currency.

00:17:49 So, you know, that helps you sort of try to handicap the risk. But to me that's the real risk, you know, it just blows up energy markets and sends Europe into a recession.

00:18:01 MH: Rupal, what are your thoughts on the effect on the global economy?

00:18:06 RB: I agree with what Dan and David have said here, you know, it's going to be worse for Europe than it is for the rest of the world with respect to exactly, you know, the natural gas prices going up. And inflation has been higher for longer, which is what was bothering the markets to begin with. And both the Fed and the ECB seem to have been behind the curtain raising rates. This makes it far harder for them to normalize.

00:18:34 So I think it puts them in a very, very difficult position and therefore it puts markets in difficult position because markets for the last decade have relied on Central Bank intervention to serve as a backstop. I think that's going to be very difficult this time around. So I think in terms of the impact it's already clear the markets have voted, Europe has declined at a much faster pace than the U.S. markets.

00:18:58 Asia seems to be a bit more immune. You know, Asian markets have held up much better. Japan, China, etc. But I think if there's any good that comes out of this, because it's a really ugly situation it is that China takes notice and stops its aggression in the region, which has been a source of, you know, great discontent and frankly alarm for some people, both in the U.S. as well as in Asia.

00:19:26 So if, again, the right outcomes occur it would be those. I mean, that's just like a very long shot I must confess, but I think if the Russians thought and Putin thought that by engaging in this he was trying to put NATO at bay, I mean, that was his original intent, he has done the exact opposite. He has galvanized Europe. He has galvanized the NATO. He has, for the first time in the history of all generations, made Germany step up their defense spending budget, made Germany go on record saying that the North Stream 2 pipeline is suspended.

00:20:07 I think this is a game changer in terms of geopolitics. It can actually end up bringing the world together rather than tearing us apart.

00:20:15 MH: Okay. There is so much there and I want to go deeper in a number of directions that you went. So I'm going to come back to China. I want to come back to the galvanization point that you're making. I want to go just a little bit deeper on the economy and the markets and just get Staley's point of view since you look at the world as well and invest globally.

00:20:37 SC: Well, it is so strange to talk about the economic upshot of this when the human thing is so amazing and tragic right now. But I would echo the comments about the energy long term as well as short term. And, you know, this is going to beg some incredibly important policy decisions for those. If someone is a fossil fuel advocate it is time to think about do we do other stuff on in sending renewables and other alternatives to take away this guy's leverage?

00:21:07 And for those that are non-fossil fuel camp, do we think harder about, you know, bridging fossil fuels? So like it begs a lot more questions than answers. But that impact is just gigantic politically and with all the leverage that they have, you know, with this dependence on Russia.

00:21:27 MH: So let's talk about the volatility that's now in the market. And these days are crazy. The market seems to trade down in the morning and recover a bit, sometimes all the way by the afternoon. But certainly it seems to be ending better than it's starting most days. Mario, what are you doing in this kind of environment?

00:21:48 MG: Well, the mechanics of the market are obviously changed dramatically and between MOMO [phonetic], ALGO [phonetic], QUAN [phonetic] and other types of investing. If a company that I follow comes out with earnings of X and they and they expectation was X plus two percent, I step back and say, okay, this stock is going to drop a certain percentage and we step up and lower our bids and buy it.

00:22:12 So we have to take advantage of that market dynamics. Now, you know, so that's what we're doing on a short term basis. On a longer term basis we deal with markets up and down and look at the intrinsic value and look at whether we're buying cash flow minus cap X or a multiple of rising revenues at a multiple of revenues. And we've always been in the camp of looking at EBI Cap X and the valuations on that.

00:22:46 MH: John, what are these days like and how are you thinking through the volatility and how are you behaving right now? What are you actually doing?

00:22:57 JR: It's been an extraordinarily stressful period and, you know, it is heartbreaking what's happening around the world and you can't help but be captivated by all of the things that you read and have a chance to watch on television. But for us we do believe that as Warren Buffet often says volatility is your friend. It gives you an opportunity as Mario suggested to buy bargains when stocks are getting thrown away at prices that don't make sense and analysts extrapolating things that are not truly true and saying certain types of companies are more susceptible to earnings decline because of this war than reality would suggest.

00:23:35 So we're in there buying. We're doing research looking for names that have gotten beaten up the most. Today there's been names that you're just surprised by how there are declines. You know, companies like Mohawk, the carpet manufacturer or Northern Trust, the extraordinary bank in our hometown, you know, having really volatile days when the fundamentals of those businesses are exceedingly strong. So we're leaning in and looking at this for many, many opportunities to buy bargains.

00:24:04 MH: David, what about you, because you're trading around the world, how are you managing the volatility in these days? Do you have any special ways you deal with it?

00:24:16 DH: No special ways. It's the same game plan as what in essence I've been doing for 36 or 37 years is focus on what the underlying intrinsic value of business is. And if Mr. Market moves in a very violent and aggressive direction away from that or towards it, you react by adding or trimming. And in this case, recall that the value of business isn't just the next week or month or quarter, it's the present value of all future cash flow streams.

00:24:46 And so when the prices of some of these companies drop 20, 30, 40 percent in a couple of weeks, and the underlying intrinsic value you are convinced has not, then this provides an opportunity. And whether it's adding to existing positions, which we believe have been unfairly hit, areas like the European Financial Sector, or even adding a few other businesses, volatility does provide opportunity. But you have to have the nerves for it.

00:25:16 MH: Bill, I have to ask you a question about this. So I've been asking, John and I were talking about this morning, what is Russia's end game? They get ostracized by the world. How do they get back in? When you think of everything from the banking system to Swiss neutrality for the first time, what happens? How does that part end? Let's say the war ends, either way, what happens to Russia in this story?

00:25:45 BM That's something to share. I don't have any privileged access to their future. I would say from our standpoint the asymmetry between Russia and Ukraine in terms of just military capabilities coupled with the fact that the NATO powers are going to provide some help, but they're not going to send any troops nor have a no fly zone, I would guess that the war doesn't last very long tragically.

00:26:06 And so our operative assumption is that in a year the market will be looking forward to, you know, to the next year. So the beginning of 2023 it will be looking forward through that year and into 2024 and whatever is going to have happened will have happened. Unfortunately, the history of things like defaults, debt defaults where people say I'm never going to lend money to Argentina again. Well, yes, you will, because the situation, you're going to look at the situation that it obtains then.

00:26:32 I do think that Russia is in a very, very tough position. But I don't think it's going to be easy for the Western powers, depending on what happens in energy to maintain enormous amounts of pressure for more than I'd say six months or a year after the war ends.

00:26:47 MH: And does anyone think there's any chance that Ukraine end up in the EU?

00:26:55 DH: From what I've seen it will take a while, either way. They're kind of fast tracking it, but it will take a while for the Ukraine, just the mechanics of it.

00:27:03 MH: And how long does the Russian markets stay un-investible?

00:27:07 DH: I think as long as Putin's there it's un-investible. And I think the only resolution from the world against Russia is for Putin to somehow leave. As long as Putin's there it will, as of last week, it will be world against Russia, which is sad, because there's a lot of great Russian people who are paying the price. But that's going to be the way it is. There's going to be no soccer games, there will be none of this, until he's out.

00:27:34 MG: Yeah, my concern is that Putin does something that's, you know, hits this, somebody makes a major miscalculation and whatever we're talking about is not happening. But from the U.S. point of view you've got inflation.

Wheat and commodities and oil is about ten million of, 11.3 million of the barrels and, you know, we have to basically be sensitive about the environment, but we also have to be practical. And the practical side says we have to figure out how to move our energy resources on a more efficient basis.

00:28:11 So I'm not, you know, if I was … was he concerned about NATO capturing or working with Ukraine and is he trying to break that up? I don't know what he's doing and I'm not going to guess on that. But we'll stay tuned.

00:28:26 MH: Does anyone own any Russian stocks on the call? So Rupal, what do you think happens there?

00:28:34 RB: We have a very tiny position in Moscow Stock Exchange. Typically, whenever you have these sorts of crises. People are very averse to dealing with banks. They want a central clearinghouse and the Moscow Stock Exchange is owned by the Central Bank of Russia, so it becomes, it's sort of like, you know, using the Fed discount window. It's sort of like using the Fed as your backstop and clearing agent. That's what this particular entity tends to provide. And so its transaction activities tend to surge, you know, during moments like these.

00:29:07 So in that sense it's a hedge, but it's a very small position. And I concur with David and some others on this. Putin has essentially lost any semblance of good will that he may have had left around the world, including his strongest ally, China. So I think he finds himself in a very tough and isolated position here and frankly the only people who can get him out of his position, because I don't disagree, it will take him to go for things to normalize for Russia as a country. It's the people of Russia themselves.

00:29:43 MH: So I'm just going to do the question that is begged by the China piece of this. We're going to do a lot more on China later in this conversation. But with China having watched what is happening to Putin right now would they dare make a play for Taiwan?

00:30:01 DH: I think this definitely makes it harder for them. I don't think China wants to be ostracized by the world.

00:30:08 DO: Yeah, I don't think so.

00:30:11 MH: Any one see that being really possible or practical?

00:30:15 MG: You know, you've got the common prosperity and you have the One China and she's mined and on the other side if I would like to have a pro One China person running Taiwan, I want to wait until 2024 elections in that country. I clearly, I'm taking the temperature today and just like I have to sell some telephone companies that were Chinese, because they stopped trading and I couldn't own them, I have to do that with some of these telecoms in

Russia that we own. So it's an interesting time.

00:30:51 MH: I want to shift gears from the war to inflation, which may also again be a related line of questions, all things considered. So in our last conversation, John Rogers, you were the most vocal and adamant about impending inflation. Your quote was "I do think we will have higher inflation and higher rates will follow and they'll happen sooner, much sooner than most people anticipate. It will force the Fed's hand and it will be closer to a year, not two years before the Fed begins to raise rates."

00:31:25 Because last year at this time the Fed was talking about raising rates in two years and they had their point of view about inflation. So it seems you may be right based upon what the group has said about Fed actions that they're expecting this year. So that being the backdrop for all of you, but I want to start with John, how worried are you about inflation in the U.S.?

00:31:50 JR: We continue to be very, very worried about inflation in the U.S. We think this most recent shock just exacerbates the problems that we talked about last year and exacerbates them significantly. As you know we've been heavily impacted by Robert Aliber, esteemed retired professor from the University of Chicago Business School, an extraordinary international economist. And he's been very fearful about this for a long, long time.

00:32:17 And as you know we have many of our teammates and colleagues from Charlie Bobrinskoy and Tim Fidler and Ken Kuhrt and John Miller and of our portfolio management team. All are a sort of University of Chicago booth grants. And so we have sort of believed that this UFC model and perspective articulated by Bob Aliber was the accurate one. And I know many of you have seen Charlie on CNBC talking about this very aggressively for quite a long time.

00:32:45 So we continue to be quite concerned about inflation and thinking people are still anchored in the old days and can't see it rearing its ugly head and causing the kind of problems it's caused throughout history.

00:32:55 MH: So I want to ask a follow up to you, John, on that. Okay, you're worried, how do your worries translate into action? What are you doing as it relates to the portfolio?

00:33:05 JR: Well, what we've tried to do, depending on the different portfolio managers have done different things, and as you know we've gotten more diversified as the years have gone on. Charlie's portfolios have more commodity holdings in them than our traditional small limit cap value strategies have. Well, we've tried to do is buy companies that we think will have real pricing power and be able to do well in an inflationary environment.

00:33:31 And our favorites have been some of the companies, for example, that are in the consumer space, companies like Smucker's that make the jellies and jams and think they have real strong pricing power. We love, as many of you heard me talk a lot about Madison Square Garden Entertainment that owns Madison Square Garden. Lots of pricing power. There's [unintelligible] across the street from the Garden. I was at the Nick's game on Sunday and the place was packed and the energy is extraordinary.

00:33:58 MG: Thanks for the fourth quarter, John.

00:34:00 JR: Yeah, someday the Nick's will win again. And I'm convinced it's got to happen. But they really are iconic properties there. And we own Manchester United, another great sports, you know, international soccer brand. We think all these companies have tremendous pricing power. They'll do well in an inflationary environment and often they own their arenas that are like Madison Square Garden, midtown Manhattan. It should really benefit as real estate prices rise in an inflationary environment.

00:34:32 MH: Rupal, I want to ask you a question because John is talking about pricing power and it can show that you can have different points of view inside of a firm. You've had a different point of view about pricing power. You talk more about the ability to lower prices as being the thing that could be the game changer for the best companies. Using telecom as your example, how do you factor your point of view around pricing power or the ability to lower prices into this current inflationary environment? How do you think about that now?

00:35:04 RB: Sure. Look the conventional wisdom is that when you have inflation you own stocks with pricing power. I mean, that's sort of what everybody defaults to. The problem is all those stocks, you know, which are known to have pricing power already went up a lot and I'm going to chase a crowded trade. So you want to kind of get to solving the problem but in a different way.

00:35:24 So one way, for example, is to lower prices and give you more value for money. You know, you can give more for less. And Japan has done that very effectively. You just improve productivity, you improve the value proposition of your product. So very different ways to skin the cat. Another example is just, you know, improved price mix. Not just row pricing. So you can have a premiumization strategy where you make more value added product and you can charge a higher price, but it's a different product.

00:35:54 You know, Nestle, which is a food and beverage company in our portfolio, even within the coffee category does it extremely well. You know, you sell more Nespresso pods compared to regular Nescafe, you can have a very different impact on your revenues and margins. So I would say that the market always cottons [phonetic] on, to the most obvious way of owning something or of setting something and that gets overvalued very quickly. And to me that's then not a value trade.

00:36:20 I look for vicarious ways, you know, to achieve the same thing, because they are second order effects they take a little bit of time to play out. It takes time for the pieces to work out.

00:36:29 MH: So I want to go to Mario, because Mario I've read a lot of your writings about inflation in the 70s. We're at a 40-year high in terms of inflation in our lifetime, so modern day. And I want to get a sense from you of how this time may be the same or different, how you think about it having had that actual experience before? Not trying to say you're old, Mario.

00:36:53 MG: Mellody I've been investing since we've had 13 or 14 different presidents. Clearly, managements have to learn how to anticipate certain things and, you know, I listened today to three company conference calls and they didn't price right or they have contracts that they didn't anticipate, they're ballooning inventories, they're reshoring, they're vertically, trying to vertically integrate while Lynn Dakota [phonetic] is saying, well, no, you can't do it, blah, blah.

00:37:21 So then some even look at Lifo [phonetic] County versus Fifo [phonetic] and saying are why do I want to have my margins impacted by Lifo, because they're not thinking about taxes that existed. So then you step back and say, okay, what a company is going to do. So we had a director, we had a director, Mellody, that said once inflation gets out it's like toothpaste. Once it gets out of the tube it's impossible to put back in.

00:37:46 So if you're Powell and you're getting reelected and you see that and then on the other side you owe 30 trillion dollars to the government owes and it's two percent higher rates. That's 600 billion on top of a six-six, you know. So companies have to look at it like John just talked about Smucker's and said, you know, the encrustables will do well, Folgers has got some pricing power, some non-substitutions. And then you look at which companies can have products that the demand won't go down sharply if prices go up. How do they go to private label? But there's nothing new in doing this. It's fundamental research.

00:38:27 MH: Who thinks this is transitory versus permanent? Who has a point of view on that? Is this permanent inflation? Yes, David?

00:38:36 DH: I think there's both. There's both. There is the transitory, which was due to overly advocating demand policies over supply policies. And as the pandemic unwound complete incorrect economic policy, the supply curve, the supply side should have been focused on, not the demand side, number one. So that is causing transitory. And then permanent is you have too much fiscal stimulus in an environment where the velocity of money will stop falling.

00:39:12 Central Banks around the world were bailed out by low velocity over the last decade, which was caused by the recapitalization of the global financial system post the financial crisis. All these banks had to build reserves, three or four or five percent, 13, 14, 15. And now there is too much money in the system, especially when you have velocity picking up.

00:39:35 And so that is the structural aspect that has to be dealt with with monetary policy. So the solution is you're going to have to tighten monetary policy and you're going to have to advocate supply side policies. Move the supply curve to the right, not to the left, and quit fueling demand.

00:39:55 MH: Can you do that, David, just to follow up, without a recession in the U.S.?

00:39:59 DH: You can do that with smart policy. You can't, for instance, strangle energy producers. I mean, we have, we were talking about energy earlier, you can't strangle energy producers. This is a very important part. We are going to go through this transition, yes, in 20 or 30 years, but you don't immediately choke them off. I mean, this to me was one of the more absurd of the policy prescriptions that we've seen in the last 12 months. And energy is, fossil fuels aren't everything.

00:40:32 MH: So it's interesting wage inflation didn't come up. What about the wage piece, Staley? Was there somebody … was it Walgreens? I can't remember who said minimum wage at 21 an hour. I mean, just announcing. It was a number …

00:40:48 RB: Target, 24.

00:40:51 SC: Well, I was actually going to go there on the transitory versus permanent. I have a tough time defining permanent. But I certainly don't think we're in a transitory, because of the wage inflation. And from a bottom up perspective, which is everything we do and talking to companies constantly we hear overwhelmingly mid-single digit type raises, nothing to change that going forward in the future. And, you know, people sometimes don't focus on wages being like two-thirds of inflation. So it's incredibly important and it's the mindset as much as this year's rates.

00:41:27 But we're just seeing that across the board, so we're very worried about it and are trying to factor it in. I would actually be very curious, your frontline thought on this from Starbuck's. That's quite the episode.

00:41:43 DO: I wanted to just add a little something, I mean, if you think about the inflation conundrum in the following way, this is the way I'm thinking about it. It leads me to believe that, you know, inflation's going to be here for a while. When I talk to companies not only is there inflation, wage inflation, but there are just, there continues to be significant under supply of labor. And so if you're going to incentivize labor to continue to come back into the workforce and to hire people, you're just going to have to have more inflation. It's just kind of that simple.

00:42:17 DH: Wait a minute, Dan. Or you take away the reward for not being in the labor market.

00:42:24 DO: Well, that's basically our … that's already been taken away, at least in the immediate term. I mean, you know, all of the subsidies, the extra insurance. Certainly there are some benefits, like, you know, food stamps that have not normalized. But I think for the most part, you know, the wage subsidies and the income supports have largely, you know, been burned off.

00:42:46 And for whatever reason, there's a real shortage of labor and that's what's driving the wage inflation. And given how severe the shortages are I just think it continues.

00:42:58 DH: Yeah, but Daniel the labor participation rate is still way too low, which tells you there are still people on the sidelines. We're at near record lows. So there's still people on the sidelines.

00:43:10 MH: There's this great resignation. Is that just a moment? Or is this a movement? I mean, how do people stay out of work this long? What do they do? Bill, do you have a point of view here?

00:43:25 BM Half of them are people 55 and older, so that gives you a chunk right there. I think part of it is also the fact that consumer balance sheets are flush and that the stimulus money is flowing through and so people I think can stay out of work longer than they could have. I want to make a slightly different point though, because what's ironic to me about the whole discussion is with inflation that the market is always focused on where the sunlight is shining, or where the thing is shining, so President Obama some years ago said that inequality is the biggest moral problem of our time.

00:43:58 Well, now we have a labor shortage, we have real wages going up, we have the markets going, you know, sideways to down, so inequality is falling right now. But now no one is saying, hey, this is really good news, we're going to have, the real wages are going up for the worker and he rich people aren't getting any richer, so we're taking some of that pressure off. So I do think that we need to think about this from all sides.

00:44:19 MG: Mellody, you indicated to me that I was around in the 70s, but I was also around in the 40s. And at that time, we had lots of money saved coming out of the war and then a surge in demand for goods. And that's exactly what we had following May two years ago, in March, April, May, companies had cut back on inventory, cut back on cap X, looked at liquidity and they all surged.

00:44:46 And now they're willing to pay a price to get goods on time. That part of the inflation cycle should end. The second part however was what happened structurally in the 70s and that is what we're talking about right now and I'm in the camp that says that's not going to slow down. I think you're going to have that wage push inflation cost push. I go and fill up my car with regular at $4.00 a gallon and if I'm going to go buy bread and get killer Danes, because that's what somebody lies in the family, I'm going to pay $4.00 and change or $5.00. So I want to go home and ask for higher wages.

00:45:22 MH: Right.

00:45:23 MG: You've got that wage push. I don't know how it ends. But it has ended in the past and if interest rates go up and the ten year bond goes up, multiples are going to contract.

00:45:36 MH: So what about the fact that a lot of people are saying managers have never managed inflation? The CEOs of companies today. They've never worked in this kind of environment. They don't even have a playbook for it. Do you think about that or have these conversations with any of your portfolio companies?

00:45:55 DO: Well, that's not true. That may be true of a domestic U.S. company.

00:46:00 MH: That's fair, international has hyper-inflation at times.

00:46:04 DO: Yeah, the global, a multinational company with operations in emerging markets. I mean, the management of Unilever and Danone is used to dealing with inflation with a lot of experience.

00:46:16 MH: Does that give the international or global conglomerates an advantage here, versus the small caps, mid-caps?

00:46:25 DO: Well, I mean, managers move around, right? So if you look at a U.S. company where the CEO doesn't necessarily know much about, may not seem to know much about inflation, maybe she or he worked in a subsidiary where it did. So I think it's hard to generalize.

00:46:41 But the larger point is true, yeah. I mean, the ranks of managers are less experienced with inflation than they were in the '70s or '80s. Another interesting thing to think about is I don't think there's any bond manager alive who's ever managed through rising interest rates. And that's going to be an interesting one to watch. I mean, zero. I mean, is there a single bond manager alive who's managed through a ten year rising interest rate cycle?

00:47:12 MH: David, is the great resignation a U.S. phenomenon, or are we seeing it anywhere else in the world?

00:47:18 DH: It really seem to be more centered on the U.S. You see a little bit of it in the U.K., less of it in continental Europe. But yeah, the U.S., by the way, is one of the more flexible labor markets in the world too, which also makes it easier. The European and other labor markets aren't as flexible as the U.S. market.

00:47:44 And, you know, not all of it's bad. I think flexibility in the labor market in general is a good thing because then the resources flow to where they're being called. But you know, we'll see how much of this is permanent. There was pent up stability in the labor market, of course, but you almost would expect some variability.

00:48:05 MH: Dan, were you going to say something?

00:48:07 DO: I was going to say in my opinion one of the reasons for the difference between what's happened in the U.S. versus Europe, for example, with respect to this idea of a resignation is the way the government aid was distributed. In Continental Europe, people kept their jobs, they just went home and the government picked up their paychecks.

00:48:27 And so when it was time to come back from work, the connection between work and the individual had not been severed and they simply came back to work. In the United States, that connection was severed and the subsidies were distributed through the state unemployment systems and it was just sending money directly, sever the link between the person and the employer. And as a result of that, you know, an individual has to go out and now find a new job and that's very different from Europe where that connection was never severed.

00:48:55 MH: That's an interesting point. One other question I have to ask before we move on, is this idea of the labor environment. The worker seems to hold all the cards. We have conditions of employment now around hybrid work schedules and the like. What does that mean for U.S. business, or businesses globally? Is again, it's a moment, or is it something you're thinking about now in terms of the companies that you own, and is there the possibility of contagion?

00:49:23 Now maybe it's not the same in the rest of the world because we have work weeks that are very different in other countries, but how do any of you think about this shift that we've had in just the workplace, the work conditions, the workers' rights, the union movement, all of that going on at once? Rupal?

00:49:48 RB: I'll take a stab at that. I think –look, we've talked so much about labor in the developed markets and the implications in the U.S. and Europe. I think there is actually a very salutary effect of work from home in emerging markets. Remember, emerging markets, their biggest bugaboo has been that they lack infrastructure. You know they lack a good way to even commute to the office, to the workplace.

00:50:12 And now with the arrival of 5G and broadband, they can actually work far more effectively and productively at home and I think a whole bunch of service industry offshoring and outsourcing I think is going to happen on the back of that.

00:50:27 I grew up in India. I remember very distinctly in the early '90s when the Indian government finally, the only infrastructure investment they made was in telecommunications. And the moment we were able to communicate, you got the entire sunrise IT industry which really began the whole wave of offshoring of IT to remote locations.

00:50:52 I think that's something that can happen in other service industries, and I think it's actually very bullish for labor in emerging markets, which otherwise had to immigrate to find a better work opportunity. And there are lots of barriers and issues and now you can stay in the same house with your family, with your friends, with your culture, with everything else, but you now can get a foreign job sitting at home because of broadband. So I think don't underestimate the positive power of this in some parts of the world.

00:51:18 MH: That's a great point. Let's move on to some industries, because I think there's a lot going on in various industries. I want to start with media because all of you have or many of you, let me not overstate, many of you have media holdings as big positions. And I saw everything from Viacom CBS now, of course, Paramount Global, Madison Square Garden, MGM, Discovery.

00:51:43 When just looking through your portfolios, I saw lots of names. Some of you overlap in this regard. I want to start with the media space because it's a big sector and we've seen international content rise dramatically, Squid Game as an example, huge, huge hit in the world.

00:52:05 What is happening with the media space in your mind? And Mario, you've had such a reputation in this regard. There's been the consolidation, streaming is huge, direct to consumer. I mean, there's so many things going on. What do you think is the most significant thing going on right now in media and how is that going to play out?

00:52:27 MG: Well, I'm going to hitchhike on Rupal's comment and that is the power of the digital transformation. Taking data and content and making it available instantly on a global basis and cutting down the time. And that opened up a lot of opportunities in the last 20 years. So the digital revolution.

00:52:45 But then you look at whether it's music. I still have some vinyl records. But Spotify and the content companies, how does that work, how does the modern music act play out? When you look at the notion of 7.3 billion people and how do we reach them, how does Netflix do it?

00:53:07 Then you sit back and you look at the hydra, which is a Greek mythology, one body and a lot of potential heads. So the amount of money that is going into content. Look at the body of it and then say which part of the head gets it, is it direct to the consumer?

00:53:27 And today, for example, (unint.) suggested that MGM may not be able to be sold to one of the large companies. Are they fighting vertical integration? Discovery comes up for a transaction. Clearly in the American system if a company makes a mistake, like AT&T did, they spin it off.

00:53:49 So Discovery is going to be spun off. There's about 700 million shares now outstanding. They got to get 1.7 billion shares being given to AT&T and distributed. That's why that distribution has to work through the system because they're going to give it to their shareholders who are not going to want to own it.

00:54:07 And that'll take a while. Meanwhile, Disney has Avatar coming up in December and the last time Avatar came out, it was like a $3 trillion dollar box office. So you get a lot of moving parts. So from my point of view, who's making the content, give it to the customer at a price that they want it, in a way they want it, whatever device, whatever medium, whatever time and then produce it at the lowest possible cost. So nothing changes.

00:54:31 MH: So some are saying that we may one day just have three or four big streaming players who are ultimately content players. The content bidding war has gone up. The amount of money being spent on content is huge now.

John, do you think that that is a possibility we wake up one day – and the other part of this, and I'm sorry to add a second part of the question, now just in terms of streaming services, there are so many. You know, everyone hated, they wanted to cut the cord. They cut the cord, but it may be more expensive.

00:55:08 JR: Right, right. As we've talked to our media experts and made all of our calls and having all of our meetings, it's more and more clear to us there's going to be three or four ultimate winners. And we know Apple will be there, you know Disney is going to be there.

00:55:24 We think Paramount Plus will be there and Paramount Plus has so many great brands, CBS brands for news and sports. They've got Nickelodeon, they've got all the Viacom products. They are just – and all, of course, the Paramount library, the CBS library, all of those things that are so extraordinarily valuable.

00:55:43 And when you can put together the live sports with that iconic library, we think they will be, ultimately have a chance to be one of the three or four survivors. If they don't, someone could come in and consolidate them. And there's always rumors that a lot of these large technology companies like Amazon and others are going to want to make a play to be one of the aggregators of all of the content that's out there and make it simple.

00:56:08 So at the end of the day, it is going to be consolidated. We want to be, we think, with the institutions that have them, the deepest library, have the best content, have the most ability to have live sports and news that will keep eyeballs geared toward their situation.

00:56:23 So these stocks, again, are just so cheap. They've gotten crushed here as people don't believe in them. Many are selling less than times next year's earnings. And then finally, they also have lots of hidden assets out there that people don't even know about. Paramount Plus, Paramount Global has things like Pluto, which is a great, great, great brand. Showtime is a great brand, Simon and Schuster is a great brand. They own real estate all over the world and they have all kinds of international capability for all of their products. So we think it's a story that's not as well understood, and it's our favorite, by far, media name.

00:56:55 MH: Okay, let's move on to travel and leisure because all of you had, Bill you had airlines, Staley, you have Hyatt, John, you had Vail. Bookings was Rupal and I think David or Dan, I can't remember, you all were playing a recovery in travel and leisure. So I want to start with Bill. Why don't you start and just give us a sense of where do you think that recovery is?

00:57:24 BM It's very early. I was in Las Vegas last week and they just lifted the mask requirements. The casinos were absolutely packed. I think we're going to see that all over. Business travel is going to take a while to come back. That's not a contrarian opinion. But I think that – the consumer balance sheets the way they are and the lack of travel that occurred, I think we've got many years ahead of us with that. So we have a pretty big position in those so-called opening names, Norwegian Cruise Lines and Delta and a variety of other names.

00:57:58 MH: Staley, you have Hyatt as one of your top holdings. Where are they, especially as it relates to business travel recovering, which is just barely there, right?

00:58:08 SC: Right. And as Bill said, I don't think a lot of people are looking, I don't think a lot are looking for business to be back where it was, but the leisure thing is just more than offsetting. I mean, it's roaring back.

00:58:21 MH: Isn't the business spender much more under – it's a bigger ticket? Isn't the business spender a bigger ticket?

00:58:30 SC: In the inter-continental, yes. Less so on the U.S. part, which is also going to kind of, may almost merge with the leisure as people are doing more work at home and then they get together on a business thing more often I think those lines will blur. But I think the leisure outlook improvement is a bigger deal than not getting back on the business side.

00:58:51 Another weird one on the travel for us is we own Melco, which is Macau. And the lockdowns in China have been so much more severe that while Vegas has come roaring back, as Bill mentioned, Macau has not. And that gets into different stuff I'm sure we'll talk about, about China. But as far as just travel being back, the lockdown situation is a lot different over there.

00:59:14 MH: Yeah, I was going to ask about that because someone has Bookings, or a couple of you have Bookings. Dan?

00:59:20 DO: I have bookings in Expedia and I agree with Bill. And one of the interesting layers to the travel, online travel agents, like Bookings and Expedia, is that if there's inflation in, say, hotel room rates because labor, for example, or just strong demand, Bookings and OTA, which don't have a lot of labor costs because they're technology businesses, essentially, that inflation is automatically passed through because right there in a percent on the ticket.

00:59:53 So you have built in automatic inflation protection that some of the underlying assets don't necessarily have. And so if you see – I do believe that there will be, you know, there's a lot of pent up demand for travel and you can see that when you study the results of these businesses.

01:00:11 As soon as things open up, people are just desperate to travel and experience life again. And with all the savings, particularly in the U.S., I think you could very quickly get past 2019 levels. And then if there's inflation on top of that, the OTAs will benefit through a commission on higher room rates.

01:00:31 MH: So it sounds like there's an overall bullishness around the travel and leisure space, so I'm going to move on to tech. Because we all know that seven stocks dominated the S&P 500's return last year. They are now 29 percent of the benchmark. And we had a crack with Meta and I wonder is that a stock-specific crack or is that the industry and how will higher rates affect the multiples of these high flyers?

01:01:01 So two of you own Meta, Dan and Bill. Bill, why don't you give us your point of view of these tech giants. And I know your point of view has been a bit different than a lot of the people on this Zoom.

01:01:16 BM So we own Meta. I mean, the question, that's down 40 percent this year alone and it trades at a lower enterprise IB multiple than IBM. So I think that's well reflected in Meta. The issue is, you can't get at those cash flows because Mark Zuckerberg controls it and he does have this vision, which may or may not be correct.

01:01:32 But the spending there seems to us quite excessive, but we also believe it's in the price. We own Google, which we think trades at a market multiple. It's far better than a market company. It's market value IBDA is not compelling. And

Amazon, which goes off and on our largest position, it's our largest position again.

01:01:52 And Amazon, when we do the valuation on Amazon, you do it in a variety of different ways, but we have AWS and the advertising business alone worth about where the stock is. You get global retail and logistics for free. Amazon's under-performed for about a year, a year and a half right now.

01:02:06 And that's about as long as it typically goes. The CapX is high currently, but that's going to be rolling, that's going to be rolling over. So we think that's a low risk and it's a low beta way to actually get good returns without a lot of risk.

01:02:22 MH: And Dan, what's your perspective on this? Is Meta just a stock-specific issue in terms of how it's come down, or do you think there's a bigger tech story there? These stocks have defied gravity for reasons that make total sense, low rates, perfect for the position for the pandemic and the needs of consumers during the time. But how does this play out to the rest of the industry?

01:02:47 DO: Well, I mean, the reason Meta is down – god, I hate that name – the reason Facebook is down is because there was a change in the IOS privacy rules. And so what that effectively meant was Facebook was not able to track user activity across apps which made the traceability and therefore the ROI of its customers' advertising spend less measurable.

01:03:14 It doesn't mean that the ROIs are unattractive; they're less measurable. Now you know, Facebook still grew, has been growing its revenue. I think the two years stack is like 60 percent, which is not dissimilar from Google. But they anticipate a slowdown as a result of ad budgets rolling over into this year with those IOS changes.

01:03:38 Now I do think that in this new IOS world Facebook's business model is less robust than it was in the old world. However, I don't know that it's meaningfully competitively disadvantaged versus a lot of the other advertisers. And I do think that the ROI that it presents to other, to the advertising base, is still very attractive.

01:04:04 And I mean, it's a 3 billion user base and advertisers are going to want to access that. So you know, the multiple is now 13-ish times earnings looking out 18 months. So it's very cheap. It's not as great a business as it was, I don't think, but it's still an excellent business. And, to Bill's point on the spending, you have – I'm not going to quote the number because I'm not sure of the accuracy, but you have billions and billions of dollars on this whole Meta idea being spent.

01:04:38 And if it doesn't work out, you know, your margins are going to skyrocket as it tails down. And if it does work out, then you're creating value out of what is now a capitalized cost into perpetuity depressing the equity value.

01:04:51 MH: So –

01:04:52 RB: I have a different take. I was just going to weigh in, because the question was, is this a tech sell-off, or is it a company-specific? If you look at the common denominator of the three stocks that have corrected the most, which is Facebook, Meta, Amazon, as well as Google, all three of them, because Amazon is a very substantive sponsored ad business.

01:05:16 They're all advertising-related business models. And I think that TikTok, which is going to be a big shock because it has yet not unleashed its ad inventory relative to its user engagement profile in the U.S. market like it did in China. It completely upended the ad revenue source for Tencent and Alibaba, et cetera, and Baidu. And I think that's the other fear that's playing out. So I would not underestimate the impact of TikTok.

01:05:48 MH: So Rupal, I wanted to actually, and stay with me, I have a point of view on this as well, I wanted to try to tie this story out in tech to what's going on in China. So is China just ahead of the rest of the world in terms of what it's done with regulating its tech internet giants and it's coming for everyone else?

01:06:10 Or, based upon what China did, does the rest of the world say you know, we're not trying to blow up these giant companies. What do you think happens there? I mean, just gave your point of view about what China did with Alibaba, with Baidu, with Tencent and the others.

01:06:26 RB: I think you hit the nail on the head actually with your question. I think China is ahead of the game, and the rest of the world will follow. Because what was happening and the intervention by China, even though it seems like a shock to the market, actually is very targeted. Has a very specific agenda, very transparently laid out.

01:06:46 And that is twofold. One, that the companies had benefitted from the economic prosperity that the government had created through this improved economic landscape and the internet companies are not reinvested to make China stronger in the technology piece and in the areas that it wanted to be strong in.

01:07:07 Baidu was the exception. They are the only ones that have actually reinvested. But companies like Alibaba and Tencent were focusing much more on consumerism rather than, again, the kind of investment China wanted in AI, 5G and all sorts of technologies. That's just China, it always intervenes in the economy to steer it.

01:07:28 To read across to the global markets has much more to do with the regulation that affects companies in the internet sector which operate in the B2C business model. And I think that's sort of been, not interpreted quite well. The markets, they think it's across the board, the entire internet sector.

01:07:47 Actually, it's the B2C. And wherever there were companies who were not treating either their customers or their suppliers, just like we find in the case of Alibaba, there were practices where the suppliers weren't happy with them, the merchants were not happy or the consumers were not happy with the education companies. That's where China has intervened.

01:08:05 And that same kind of regulation is actually underway at the state level even in the U.S. You know, when you think about Uber, when you think about the regulations that are facing the drivers and whether they are independent contractors or they're actually employees. This is the kind of thing that China is moving on with respect to (unint.) on and we saw that happen in California.

01:08:25 So actually, China is just more ahead of the curve finally now. They were actually behind. And I think even in Europe and the rest of the world people will play catch-up upon regulation.

01:08:34 MH: While we're on the subject of China, I just want to ask about its zero-COVID policy. How do you think that zero-COVID policy actually affects the global economy? So some people are saying that the good part about it is, it throttles demand a bit, which helps tamp back on inflation. Because if China were going full force, we'd be even in more trouble.

01:08:57 Others are saying holding back China's growth actually negatively impacts the rest of the world and keeps us going at a slower pace than we need to. David, do you have an opinion on this, the zero-COVID policy and if it's good or bad, or maybe you're indifferent to it?

01:09:17 DH: No, it's what is to be expected from an economy run by a command economic structure. They want to show, similar to the regulations by the way, they want to show who's the boss and so they exercise this authority. Is it good? I really don't think it's good because you're not going to stop it, first of all, as we all know. That's not going to stop it.

01:09:42 And number two, the impact on the global economy will heighten the supply chain issues that we are already experiencing. Now they've managed to do workarounds this, but I think most importantly it's not a good policy because it's just an authoritarian move that is not at all collaborated by proper signs. And you know, they're going to learn. They're now pushing Hong Kong into this. I feel sorry for Hong Kong. I used to go there a couple times a year over the last thirty years. And it's never going to be the same place, because they're now in charge.

01:10:24 MH: So let's talk about the risk premium on Chinese stocks. Dan, you've written about it in your letters. You said, there's a higher risk premium on owning Chinese companies. Does it give you pause to own them? Or do you say, I just have to factor it in and accept it?

01:10:41 DO: Well, there should be a higher risk premium, you know.

01:10:46 MH: Did it get higher?

01:10:48 DO: Well, I mean, just to give you an example, I mean Alibaba trades for a single digit multiple of free cash flow and three or four times EBIT. So, you know, it's the largest e-commerce company in the world that is levered to digitization and the expansion of the increasing wealth of the consumer and middle class in China.

01:11:10 So, it's probably excluding a few Russian stocks, it's probably the cheapest company in the world. I mean it's one of the cheapest stocks I've ever seen, especially for a business of that quality with that financial strength. So, the risk premium is through the roof. And you know, when you're evaluating it you have to ask yourself, what has actually happened with regulation in China? What has the Chinese government actually done, right?

01:11:38 Because everyone just goes, oh my god, regulation, the Chinese government. But you look at the facts, what have they done? Well, they've intervened on merchant exclusivity so they've made platforms more competitive. They've intervened on payments exclusivity, so they've made payments systems more competitive. And they've intervened on network exclusivity to make networks more interoperable and more competitive.

01:12:04 None of those things are irrational and none of them are outside the bounds of what any developed world regulator would like to do, but cannot because they have to do it through the legislative process which takes a longer time and it's harder. So we don't view what has been done as irrational, albeit it's happened within the context of a command economy where they can do whatever they want.

01:12:25 So we don't see a hand that is trying to destroy these business models. We do see in the case of Alibaba which we own and have been buying, we infer that the Chinese government is encouraging them to make investments in some new areas that benefit certain sectors of the economy, but which also look like they may be reasonably viable business models over time.

01:12:53 And if those investments were excluded, you know, the EV even multiple would go down by another 40 percent, because they're consuming 25, 30 percent of their profits on some of these investment areas. Which they just recently said, and this is significant, they're going to start to taper.

01:13:11 So, you know, it's an extraordinarily cheap security, I think more than discounting the fact that it's in China. I think there's a lot of cyclical pressure on the business as well because of the zero COVID policy. You know, the business is effectively stalled. And as the Chinese economy recovers, I think that business will come back.

01:13:31 MH: So, Staley do you think the zero- COVID policy changes after the big meeting in the fall, that they rethink that and it unleashes some growth in China?

01:13:45 SC: I do, and I think some of it may be related to that. Some of it could be political and not just medical. Some of it is less confidence in vaccine. But yes I do think that lifts after, say, November. I think one other kind of follow up to Dan's point is that, if you reverse engineer this to say, what is Mr. Market saying about these discount rates? It isn't just the high-profile things like Alibaba.

01:14:08 Like if you look at CK Hutchison, that is there, Berkshire Hathaway, the old Cheung Kong. That is at five times earnings. So it's like much slower growth, but well-diversified, very blue chip owners and quality of businesses. It's a PE of five. So, I mean you have to approach this with discount rates are up across the board, we think they deserve to be, and you just have to deal with it.

01:14:31 And 'm not sure, pushing back a little bit on Rupal and Dan, that some of it does to me get into overreach. More than, some of it is very logical regulatory. Some of it has gone into the weeds enough to be a little bit worrisome and just kind of be another reason to use a higher discount rate.

01:14:51 MH: While we're still around the world, I just want to ask about Russia. Mario, a question came through, you own Russian stocks and they're saying what will you do now, how will you manage or dispose of them or what's your plan?

01:15:04 MG: Vion (ph.) has – they operate the wireless communications in the Ukraine and in Russia. The stock is 55 cents, down from a couple of dollars. And when you multiply it out, you know, the risk of loss versus something that can triple or quadruple overnight is de minimus. So we're not doing anything. In fact, we've probably, depending on taxable accounts and depending on how we handle that structure.

01:15:36 Then you have some companies in Stockholm that, let's say own a piece of some of the wireless companies. Those we would look at as well. And so we're not walking away, but we may be forced to walk away as what happens with the New York Stock Exchange when they said if you own these Chinese companies, you got to sell them, or we're going to stop trading in your stock and one of them closed their mutual funds. We'll see.

01:16:01 MH: Okay, let me ask you a question, John. What industry or what stock would you absolutely not touch right now? I want to ask a few of you that, just you couldn't pay you – not for you.

01:16:15 JR: For me, the companies that are tied to the cryptocurrency world. You know, everywhere I go, when I go and speak to students, they want to talk about cryptocurrency. My favorite pizza delivery guy wants to talk about cryptocurrency. All the signs are saying that this is a bubble that's going to crash eventually. So I would stay away.

01:16:42 MH: Only you have a favorite pizza delivery guy, John. Bill, you see this differently, so I just want to have you taxiing on that. You call bitcoin digital gold. I just wonder what your thoughts are on crypto and FT, et cetera, because you have written also a lot about having a different point of view. I sort of lump all of that together, maybe unfairly, and maybe you don't. So give your perspective, Bill.

01:17:08 BM Sure. So I'll just give you some data here. So Russia who's central bank now has gotten their reserves frozen up to a point, 16 percent in U.S. dollars, 32 percent in Euros, 22 percent in gold. Gold's the only thing on their reserves now that can't be, I'll say, manufactured or made worthless by governments.

01:17:41 So I would guess that the move in bitcoin in the past week or so has in partly because if you don't have a reserve currency, and there's only about 100 countries in the world that don't have reserve currencies, you might want to think about as having part of your assets a particular, just say an economic instrument which cannot be touched by governments and which basically is impervious to government behavior.

01:18:06 I think it's still a very asymmetric trade. The adoption is tiny right now. And I was amused at Charlie Munger, who has a very colorful way to describe crypto and bitcoin, but Charlie said – well, the one thing you can be sure of is you have a Fiat currency that's going to be worth zero in a hundred years.

01:18:26 Well, the one thing that you can be sure of is that, I don't know what crypto is going to be worth in a hundred years, but it's not going to be inflated down to any level; it's got a fixed supply. So it's just going to be supply and demand.

01:18:36 MH: So to call it as I see it, you really were big on bitcoin last year. It was up 63 percent last year, down this year some. But you obviously made a very strong call there and you were right, so we'll see how this plays out. Mario, anything that you just will not touch, you say no way, I don't want anything to do with it.

01:18:58 MG: Well, I'm not a buyer, I'm a buyer of defense stocks on a global basis, but not any Chinese defense companies.

01:19:06 MH: Well, you can't own those, right? Okay.

01:19:10 MG: Look, we basically like to buy, like looking at the future of EV, we like to buy companies that are selling at a rational multiple and can benefit from that. You know, when you look at cycles like the auto eco system, you've had two deals announced in the last week, takeovers by private equity.

01:19:31 They're buying traditional kind of auto parts, conventional auto parts companies that have some EV exposure. So the question for me, why do I want to own certain types of companies where you're basically betting that they will be the new future of the EV world, and it doesn't make sense. It's much like John was talking about in other areas.

01:19:55 MH: Well, now that you've actually said the words private equity, I want to ask David how is private equity, and it's just surged over the past decade, how has it changed public equity investing, if at all?

01:20:11 DH: It has, because I hear this all the time from our managements that their M&A is stunted by private equity willing to pay higher prices. So there's more demand for some of these smaller listed companies or even private companies as a result of private equity. And this makes it harder for them to do sensible M&A.

01:20:34 So I think this has been one of the bigger factors. And by the way, one of the kind of hidden factors is a lot of the more talented managers can make a lot more money in private equity. And so often you see good talented people leave public and go to private, especially in like banking, the financial sector in Europe because there's, in essence, a ceiling put on total compensation for these people.

01:21:04 MH: Well actually, let me follow-up on that super quick, David, because you have such a huge weighting in financials. I look through your top ten and you've got a lot of big financial names in that top ten. So how does that factor into your thinking about those financials? I see Lloyds, B&P, Paribas, Alliance, Credit Suisse. You've got a whole list there. So how does that factor in as you think about private equity, shadow banking that is resulting from private equity? How does that affect some of those names?

01:21:37 DH: Well, private equity has kind of helped them de-capitalize. Because as capital weights have changed, that is not only the banks have to increase capital, but what was considered capital and how capital was measured has changed. So things with high capital weights, which unfortunately made them profitable, and the banks had to get rid of so as to hit their capital ratios, often private equity was there to buy these things.

01:22:08 So they became a nice fluid market to buy and sell some of these assets which had high capital requirements. So on the one hand, they kind of worked complimentary to the banks. But I think this exposure to European financials is more of a function of we're coming to the end of this ten year lower for longer, as I mentioned earlier, the re-capitalization of the global financial system.

01:22:37 Where banks going into the global financial crisis had equity ratios, tier one ratios of 4, 5 percent. Now it's 13, 14, 15. So they had to build that up. That just didn't happen by magic and now where most, if not all of these, are well over-capitalized. Very important is that means the capital they generate can now either go to the owners or go to grow their business.

01:23:00 And in fact, they're doing both. All of these major financials – Lloyds, Intesa, Alliance, B&P – all announcing huge stock buybacks, increased dividends and probably more lending. So after a ten year drought, I think now is the time to really gain exposure to these European financials.

01:23:23 DO: If that's true, it's very, very bad for the private equity industry.

01:23:28 MH: Interesting. John, what do you think about that?

01:23:30 DO: When I got into this business, private equity was willing to pay four times IBDA for a business. They were the low bidder, right? And as interest rates have gone to zero and now steeply negative in real terms, that's a completely different environment for private equity. Now they're the highest bidder. So if interest rates go the other way, their business models are much less attractive.

01:23:54 MH: The two people on this phone who respond, on this Zoom who own KKR. John, I know you own KKR. Mario, are you the KKR owner as well?

01:24:04 MG: No, I couldn't hear you, but from the point of view of the PE world, when you listen to the institutions that want to add to it, they mark to markets, to public markets, but they mark to model or whatever someone is giving them.

01:24:16 So there's a huge lag effect on how they report results, and that gives them a feeling of stability in periods like now. And they're giving money to the PE world. And as Dan indicated, and as Staley stated, the same thing. The exit multiple in three or four years from now is not going to be the same as the entry multiple. But it's such a long lag time until these institutions look at those dynamics.

01:24:43 MH: John, given your ownership of KKR, do you agree?

01:24:47 JR: Well, I would say from owning it, I mean, we believe in KKR and still believe that Henry has a great model there and the team, the next generation of leaders. But we all serve on a lot of investment committees and as we all know, all the money is flowing toward alternatives, all the talent, as someone earlier mentioned, is moving towards alternatives, so as particular private equity.

01:25:06 So I'm hopeful what's going to happen is so many of our companies that have not participated or gotten very cheap in this market, they're buying back a lot of stock. And they're looking at possible exit strategies through private equity over the next couple of years. They see that as the endgame because there's all these cash you're paying high prices for public companies who are divisions of large public companies.

01:25:27 MG: Yeah, but only KKR, John, you can buy it at a discount from what a PE firm would pay. You buy it with liquidity and you're not paying one and twenty. So why not participate in the private equity world by owning those managers, you are doing, yeah.

01:25:43 JOHN HERRO: A great stock.

01:25:43 MH: Let me ask you a quick question, and we're going to go to a speed round. Anyone finding any value in the special purpose acquisition companies (SPAC) crash?

01:25:51 SC: We weirdly have one already in the pipe. I thought this would take longer for anything in SPAC to turn up, and we actually talked about this in the last call. But it's interesting. I think there have been great managers and great companies showing up; we just thought the prices would never ever ever got – well, not ever, but it would take quite a while. And so we actually have one in our pipeline.

01:26:14 MH: Anyone else finding any value in SPAC crash?

01:26:18 MG: Well, you can buy the SPAC at the initial public offering (IPO) price, strip the warrants out, cash it out when they do the deal and you can make a T-bill rate of return, plus. Duh.

01:26:29 MH: So did you do that, Mario?

01:26:31 MG: And you have optionality. What?

01:26:33 MH: Did you do that?

01:26:34 MG: Yeah.

01:26:35 MH: All right. I want to go to the speed round. We only have a few minutes left. And I did, the questions that came in, I incorporated them along the way here. I'm going to go fast. So early riser or night owl, Rupal?

01:26:48 Rupal: Night owl.

01:26:51	MH: Staley?
01:26:51	SC: Night owl.
01:26:53	MH: Mario?
01:26:54	MG: Both.
01:26:56	MH: Of course. David?
01:26:58	DH: Sadly, both.
01:27:02	MH: Bill?
01:27:01	BM Night owl.
01:27:04	MH: Dan?
01:27:03	DO: Early.
01:27:05	MH: John?
01:27:05	JR: Neither.

01:27:11	MH: I don't even know what that means. Okay, bookworm or podcast junkie. John?
01:27:17	JR: A bookworm.
01:27:17	MH: Dan?
01:27:18	DO: Bookworm.
01:27:19	MH: Bill?
01:27:20	BM Bookworm.
01:27:22	MH: David?
01:27:22	DH: Books.
01:27:24	MH: Mario?
01:27:27	MG: Annual reports.
01:27:28	MH: Staley?
01:27:28	SC: bookworm.

01:27:30	MH: Rupal?
01:27:30	RB: Book.
01:27:34	MH: Okay, herbivore or carnivore? Staley?
01:27:38	SC: Carnivore.
01:27:40	MH: Mario?
01:27:40	MG: Carnivore.
01:27:42	MH: David?
01:27:43	DH: Carnivore.
01:27:44	MH: Rupal?
01:27:45	RB: Herbivore.
01:27:46	MH: Bill?
01:27:47	BM Carnivore.

01:27:49 MH: Dan?

01:27:49 DO: Both.

01:27:57 MH: John?

01:27:57 JR: Carnivore.

01:27:59 MH: Gym rat or couch potato? Mario?

01:28:03 MG: Say that again?

01:28:05 MH: Gym rat or couch potato.

01:28:10 MG: Couch potato.

01:28:12 MH: Rupal:

01:28:12 RB: Couch potato.

01:28:15 MH: David?

01:28:16 DH: Gym rat.

01:28:18 MH: Staley?

01:28:19 SC: Something in between. I don't know what it would be called.

01:28:21 MH: Bill?

01:28:22 BM Yeah, I'm non-binary there.

01:28:25 MH: Dan, I know the answer.

01:28:27 DO: Gym.

01:28:28 MH: John?

01:28:28 JR: Gym rat.

01:28:32 MH: Beatles or Rolling Stones? Bill?

01:28:34 BM Rolling Stones.

01:28:35 MH: Dan?

01:28:37 DO: Beatles.

01:28:38	MH: Staley?
01:28:38	SC: Stones.
01:28:41	MH: Mario?
01:28:41	MG: Beatles.
01:28:43	MH: John?
01:28:45	JR: Beatles.
01:28:47	MH: David?
01:28:47	David Hero: Beatles.
01:28:47	MH: Rupal?
01:28:49	RB: Beatles.
01:28:52	MH: Okay, Michael Jackson or Prince? Mario?
01:28:57	MG: I'd go with Michael Jackson.

01:29:00	MH: Dan?
01:29:00	DO: Prince.
01:29:07	MH: Bill?
01:29:06	BM I'm just going to defer to you, Mellody, so I'll give you Prince.
01:29:11	MH: Inside joke. Rupal?
01:29:17	RB: Well yes, Michael Jackson.
01:29:20	MH: Staley?
01:29:20	SC: Prince.
01:29:23	MH: Who did I miss, Dan?
01:29:24	DH: David – Prince.
01:29:27	MH: David, okay. The last one –
01:29:30	RB: You missed John.

01:29:30	MH: Oh, John. Yes, you're right, John. John, what's your answer?
01:29:38	JR: Prince.
01:29:38	MH: All right, the final one, Star Trek or Star Wars? Dan?
01:29:49	DO: I love you, Mellody – Star Wars.
01:29:50	MH: Bill?
01:29:50	BM Star Wars, no question.
01:29:52	MH: Mario?
01:29:55	MG: Never a doubt, I surrender, Star Wars all the time.
01:29:57	MH: Rupal?
01:29:58	RB: May the force be with you.
01:30:01	MH: David?
01:30:02	DAVID: Well, of course, Star Wars.

01:30:03 MH: Staley?

01:30:05 SC: You actually think anybody on here would say Star Trek? Star Wars.

01:30:10 MH: Okay, that is our time. I know John's answer. I want to thank all of you for all of your great answers and going deep on some of these issues that are pressing at this moment. It's been an extraordinary time in investing over the last couple of years and you are some of the best in the world, so it's a pleasure to be able to engage. Thank you all for tuning in and maybe we will see you again. Take good care – everybody be safe.

01:30:40 ALL: Thanks.

01:30:43 JD: The invaluable insights discussion has now concluded. Thank you for attending today's presentation. You may now disconnect.

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