THE MANUAL OF IDEAS ™

Value-oriented Equity Investment Ideas for Sophisticated Investors

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"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Investing In The Tradition of Graham, Buffett, Klarman

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When asked how he became so successful, Buffett answered: "We read hundreds and hundreds of annual reports every year."

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About The Manual of Ideas

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.

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- ▶ Exclusive Interview with Josh Shores of Southeastern
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Josh Shores, Southeastern Asset Management

With compliments of The Manual of Ideas

Premium feature:

Watch a video recording of this interview in The Manual of Ideas Members Area at www.manualofideas.com/moima

Interview with Southeastern's Josh Shores

We had the distinct pleasure of catching up with Josh Shores at the offices of Southeastern Asset Management in London in May. Josh is an integral member of Southeastern's investment team, having been with the firm since 2007. He has twelve years of investment experience and holds a BA (Philosophy and Religious Studies) from the University of North Carolina. Southeastern, founded in 1975, is led by famed value investors Mason Hawkins and Staley Cates.

The Manual of Ideas: Such a pleasure to welcome Josh Shores, Southeastern Asset Management. Josh, thank you for hosting us here in your wonderful offices in London.

Josh Shores: Thank you, John. Good to have you today.

MOI: Very excited to speak with you about the investment approach at Southeastern. You've been at the firm a number of years. You are based in Europe now, and so perhaps just to get started you could tell us a little bit about your journey as an investor and your focus at Southeastern.

Shores: Sure, I'd be happy to. I have somewhat of a typical value guy story where I became interested in the markets as a teenager and was in university, studying philosophy, and had a good friend who knew I was interested in investing. He invited me to an investment club, which led me to Roger Hagstrom, which then led to classic Graham and Buffett, reading *Security Analysis* and reading all of Buffett's annual letters.

I would say it was a Damascus road type of experience. I knew I was interested in investing and finance, and the philosophy, the "big ideas" aspect of value investing appealed to me – understanding the idea of thinking and acting like an owner, buying with a margin of safety, the classic value tenets. These core truths really resonated with me and from that time it was a journey where I knew this was what I'm going to do. It's as much a passion and a hobby as it is a livelihood. The intellectual discovery part of it and the excitement of it has continued to this day.

"Being an owner and acting like an owner means you concentrate on your best ideas, and you are engaged in your companies and have an active dialog with them, just as you would be if you were an owner of those companies on a private basis…"

MOI: Obviously, Southeastern is a great place to practice that kind of an approach. I really put it in that small pantheon of firms that do invest and act like owners because of the size of the capital at your disposal and also the concentrated approach you take to these businesses. Tell us a little bit about that and how it may differ from firms that deploy capital more broadly across many different companies.

Shores: Mason is definitely one of the greats. Before I was at Southeastern, I had started a company with some other people to put this stuff into practice, but I always knew there were a couple of places I would pull up and leave in a heartbeat to go work for, and Southeastern was one of them. I was reading Mason's letters from Day 1, all the way back, and thought, "This is a company that does it right, that thinks correctly and the philosophy is spot on." Mason is most well-known for his business, people, price paradigm, and for his focus on thinking and acting like an owner. It's such a pervasive thing within Southeastern. We're a 100% employee-owned, private company. We are the largest investors in our products, and we can't own equities outside of our funds.

We're 100% aligned with our clients and think and act like owners in everything we do. We apply that same paradigm to any company we're looking at. Clearly you've got to have the good business aspect and the margin of safety from buying at a discount. That goes without saying. The focus on thinking and acting like an owner is a nuance that I think Southeastern puts into practice in a special way. Part of that comes into play with our concentration. A lot of our products have 20 names in them, which seems concentrated to a lot of people. To us, actually we would rather be more concentrated than 20, because if you've got a handful of your best four, five, six ideas, let's own those, but for many clients you have to be a little more diversified.

Being an owner and acting like an owner means you concentrate on your best ideas, and you are engaged in your companies and have an active dialog with them, just as you would be if you were an owner of those companies on a private basis and had a long-term time horizon. Our average holding period is five years, but we've had things we've owned for 10, 15 years. If you can buy that great business, partner with great management, add a good margin of safety by investing at a discount, and have it grow and compound for years and years, that's the ideal. Mason's seen it all over his 40 years in the business. He's seen every cycle, '73-'74, the bottom in '82, the '87 crash, the dotcom peak and crash and then the Global Financial Crisis. To be able to learn from a guy like that who applies value so purely has been one of the great opportunities in my life, and I'm very appreciative of it.

MOI: When you say 'people' being one of the three focus areas when evaluating a potential opportunity, just give us a little more context on what it is you look for and how you find these people that you want to partner with.

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Shores: Just as we, in running Southeastern, think and act like owners, we want to partner with people who think and act like owners, and ideally are big owners. As a rule, we see very different behavior from people who are owners and people who are agents. We're trying to find a person that operates the business well, or a situation where there's a partnership involving a great capital allocator and a great operator. That can be very powerful, operating the business like an owner, thinking about value creation and extending the moat of the business on a perpetual basis, but at the same time, allocating capital well, because the balance sheet and the cash coupon of a business over the five, ten years we're going to own it are going to drive the outcome as much as the discount to the share price when we initially bought it.

MOI: Now in the US, some of the best owner/operator CEOs, if you will, or capital allocators, they're becoming more known within the value community. In Europe, it's still a bit of a hunt, so can you give us some insight into how you find these people in Europe and perhaps mention a few of them that you respect in particular.

Shores: I would say that's accurate; that Europe is much less competitive from the value perspective and also from a structural perspective. The US is 15 years or so ahead of where Europe is in a lot of ways on awareness of these types of CEOs because they certainly do exist. Trying to ferret them out is a networking process, where it's important to be here on the ground, in my view. We've had an office in London since 2001, and we've built out a fairly substantial network in Europe where we have a pretty good idea of who's who in different places.

Very importantly, we can triangulate on somebody. Not just go in and have a meeting with them and say, "We like that guy, we're going to partner with him," which is very hard to tell from just one meeting. But when you talk to the people who worked with him at a prior company, did a deal with him, who are on the board with him, and customers, you really start to understand what the person is really like. I think you can have a higher degree of confidence on how they're going to behave and if they truly are owner-mentality type of operators.

In Europe, we've found some of those people. Some that we've partnered with over the last several years include Rafael del Pino of Ferrovial who's been a phenomenal partner. John Elkann at Exor has been a phenomenal partner, and we love finding CEOs like that. With those two in particular, we had an opportunity to buy shares on a deeply discounted basis, particularly in '11 and '12 when people were very concerned about Europe from a macro perspective. We don't discount the impact of macro concerns, but we try and take advantage of them when you can find a really good businesses, with good people, available at a good price because people are concerned about the macro.

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At Ferrovial, for example, even though they do have a Spanish construction company, the value is predominately in the UK and in Canada. They had a net cash balance, but you couldn't short the bank, and they were one of the biggest constituents of the Spanish index. The price got pounded day after day, so we were able to buy a significant chunk at a discount to value. We were the largest shareholder after del Pino's family, and we just stood back and said, "You're doing a great job," and encouraged them.

We were always engaged because if you're an owner and you're thinking and acting like an owner, you have to be engaged with management and with the companies you own. It's the logical extension of the Ben Graham paradigm of saying: "Investing is most rational when it's most businesslike."

If I'm thinking like a business owner, then of course I have opinions about how the capital should be allocated and, of course, I have questions about the operational strategy. We're very clear that we're not business operators. We want to be careful about thinking we know things we don't and straying into the field of the true business operators, but when it comes to capital allocation and how to think about expanding the moat, that's where we try to get involved.

MOI: How does that process work because I can imagine a lot of or some management teams might be a little hesitant to engage with a large shareholder that is an investment firm because of the reputation of some in the industry for just being very aggressive and also short-term-oriented when it comes to capital allocation decisions, so how do you build that credibility where they will actually view you as a long-term partner and not just there to profit from a short-term bump in the stock.

Shores: It takes patience and time, I would say, and then proving it out. You're correct, in my view, that what we would think of in the US as your stereotypical engaged investor isn't as successful in Europe. Here it's much more working behind the scenes, working in concert with management as a friendly, long-term owner of the business, but with ideas. In terms of how you get management to accept that, a lot of it is a self-selection process. The managements we're hoping to discover are by nature more welcoming to this type of engagement and this kind of dialog.

Hopefully, the track record we've had, going all the way back to the founding of the firm, and having the same philosophy for those four decades, is credibility-building. When we talk to a management team, we suggest they talk to people we've partnered with. Management gains an element of trust through that network, just the way we gain an element of trust by looking at them through that network.

MOI: How do you think about capital allocation? Let's say there is a company, what's the thought process, the framework that you would lay out for them in terms of take that free cash flow the business throws off and then what? How would you make those decisions?

"M&A sometimes gets a bad name, especially because on a big transformational M&A basis, we know that doesn't work out very well, but there are some business models where bolt-on M&A is highly accretive."

Shores: At the highest level, it's maximizing the risk adjusted value creation per share over the long-term. If there's an investment decision to be made that's going to depress earnings for the next 18 months, but greatly increases value over the next five years, that's great. That's what we want management to do and maybe we can even help them do that if other people are giving them a hard time. There's a lot of applications of that, but the top level paradigm comes back to that value creation per share in the least risky way possibly over the long-term.

MOI: To get a little bit more granular, how do you then make the decision? For instance, are you going to take that dollar of free cash flow, reinvest it in the business versus make an acquisition versus buyback the stock versus pay a dividend? Just help us understand some of the thresholds or tradeoffs there.

Shores: I think that our job, especially as investors, is to be comfortable that management philosophically gets that, just like we do as investors. We have to see if management gets it the same way because, as I alluded to earlier, I don't bring the expertise on operating an industrial company to evaluate whether the return on one project they're proposing is superior to another. We want to make sure we partner with managements who are stacking up all the uses for capital in the right way. They're going to make mistakes, but if they philosophically are coming at it from the right place, that's what's most important.

Determining the best use of capital is based on the IRR of the project. Expanding the current moat of the business is typically the least risky way of growing organic value on a whole company basis, so if you've got good organic investment opportunities at high rates of return, pursue that first. M&A sometimes gets a bad name, especially because on a big transformational M&A basis, we know that doesn't work out very well, but there are some business models where bolt-on M&A is highly accretive.

Where it comes to buybacks, it only makes sense if the shares are really cheap. If you're buying back at 50% or 60% of what the business is worth, that's a phenomenal IRR. Going on offense when the shares are cheap and compounding because it's the best return is the lowest risk way to do it, but buybacks are also a great way to destroy value. The gigantic amounts of buybacks that we're seeing right now – there were $550 billion worth last year in a richly valued market – that's value destructive. That is poor allocation of capital, and so when we talk about buybacks, it's only within the context of shares being really cheap and it being the best IRR available at the lowest risk versus organic investments or bolt-on acquisitions.

MOI: On the topic of moats, that is where you start getting into the business itself and some of the strategic decisions for the business. Tell us a little bit about what are some sources of moat that you are particularly fond of that you think have sustainability embedded in them because a lot of moats tend to be fleeting and you're left with a very little moat after a few years, so how do you think about sustainability?

Shores: That's a great question. It's something we spend a lot of time thinking about, and you can come at it from a couple ways. One is just looking at what's worked in the past. Sustainably, has this company generated high margins and high return on capital, because if you have a long track record, odds are it's going to continue.

Once you've got the pool narrowed down, it's impossible to know the future, so a good rule of thumb is to not pay too much times this year's predictable free cash flow coupon. If the investment, for example, is based on the moat being so good that the company is worth 25 times free cash flow, then maybe you would feel comfortable paying 18 times or 19 times free cash flow, theoretically, on that basis, but then there's much less margin of safety. Whereas, if you're buying something at 12 or 13 times free cash flow or even better, there are multiple ways to win. You don't have to be right on your predictions of the future because, let's face it, that is a very difficult thing to do. So the first rule of thumb is to not pay a lot for anything you're buying. You don't have to swing at every pitch, and sometimes that means you're waiting for a long time for the fat pitch.

"…the most durable moat in my experience is economies of scale."

As far as places to look, the most durable moat in my experience is economies of scale. That could be local or global economies of scale, but I tend to love a local economy of scale coupled with a global economy of scale because then you can really get that – to steal a Munger term – lollapalooza effect of the local compounding with the big picture savings that come from the global scale.

One that we were on eight years ago, before the industry really figured it out, was the testing and inspection space. You could have local economies of scale because once you get a lab built in an area, it's not really economical for somebody else to come in. There's only so much volume and it's a lab utilization business, particularly on the testing side. Inspection and certification is a bit different, but the paradigm holds. You can plug that into a global network that brings the scale of cheaper central overhead, more efficiencies on sourcing and CAPEX, all the things that come with that, and then the crosspollination of sending customers to this lab from these relationships over here, and bringing the testing expertise of this lab and rolling it out in different places globally, so it's this virtuous circle. Now, that's been very well discovered and TICs are kind of a darling right now, but seven or eight years ago it was an undiscovered situation.

Cement and aggregates also very much fit into that high barrier to entry, high moat type of business. It is a cyclical market, so ideally you would have the high moat, high barrier to entry and lack of cyclicality, but as Buffett would say, "I'll take the lumpy 15 over the smooth 10," and we've taken that in cement because it's an irreplaceable asset. It can only be shipped economically within a certain radius, so you tend to have a local monopoly in that area. Even when volume falls off a cliff, we've seen pricing stay steady, even in '08 and '09. It has a lot of good business characteristics. We could go down that list all day with the kinds of things that we're looking for, including branded products, increasingly.

MOI: Now when you get involved in cyclicals specifically, it seems like timing of when you get involved is pretty important there. Do you drive the timing based on the valuation of the business, or to what extent do you try to figure out where we are in the cycle and buy it close to that trough?

Shores: That's an interesting way to think about it. From a portfolio perspective, you probably wouldn't want to build a whole portfolio of the same type of cyclically exposed companies. A lot of it is time-horizon-dependent. If you have a ten or fifteen-year time horizon, you're not as concerned with something that operates on a five-year cycle, but most investors these days don't have a longer time horizon. If an investment is on a five-year cycle, and you have a one-year time horizon, you probably shouldn't be investing in it. We have a longer time horizon, and do try to take into account where we are in the cycle, but we give full allowance to the fact that we can't predict the future.

We really like some cyclical industries like hotels and cement and aggregates, where that cycle can provide good opportunities to buy, and we know it's a good long-term, wide moat business. But, we're not going to get it right all the time. We're not going to hit the bottom, and we're not going to top tick it, but the price should dictate. So if you know what the assets are worth, smoothed over the cycle, and you're watching this sine wave, and at the bottom of the cycle you've got the opportunity to buy, do you take another 15% down? Who knows, but we let the price versus the value dictate that timing more than trying to call what the macro cycle's going to be.

MOI: When you have a business like hotels, let's say, where there's different layers of value or where you can look at, for example, like you've got the brands, you've got hotel management and you've got the real estate aspect. Is there one of those that you in particular like to look at? Do you seek all of those in one business?

"We really like some cyclical industries like hotels and cement and aggregates, where that cycle can provide good opportunities to buy, and we know it's a good long-term, wide moat business."

Shores: We are more bottom-up than top-down, so we're a little bit agnostic about that. If we're getting an opportunity to buy something that's a mix of owned hotels, fee streams from managed hotels, and real estate assets, that could be really interesting, especially if the right management is in place who's going to go take advantage of that and realize that value. We're not a specialist, industry silo investor, which I think is a real advantage of Southeastern. We wouldn't be like a real estate expert trying to look in the hotel space because then we're limiting ourselves to investments where there's a significant real estate aspect. Whereas if you're a generalist who has a decent understanding of the different aspects of the business, that provides much wider opportunity sets.

It might be the investment that's most complicated that provides the most interesting upside, because there are a lot of opportunities to do creative things and the market can't discount that simply. The one that is a pure, managed hotel, fee stream company, or the one that is a pure real estate REIT type company, the market is going to be more efficient in evaluating that. With a more complex structure, where you have to do the work to understand what's going on, that's probably a better opportunity, particularly if you have the opportunity to partner with management who understands that and is going to take advantage of it.

MOI: How do you think about competitive advantage or moat in a business like hotels that doesn't have huge barriers to entry, let's say, and you've got these emerging companies like TripAdvisor essentially ranking things where maybe that erodes brand loyalty a bit? What do you find attractive about the business itself?

Shores: It's important to not fool yourself. If you are a private equity investor and you're taking a hotel company private at a negotiated, fair price, you'd better spend a lot of time thinking about what the marginal impact is going to be from TripAdvisor or some other disruptive element because you're all in at a fair price, probably with a decent chunk of leverage.

We don't have to swing, so we're going to bring a private equity mentality of thinking and acting like an owner within the constraints of the public space, but trying to buy with a huge margin of safety when there's an opportunity. A lot of the unknowable stuff about the future becomes less important if you've paid 50% or 60% of ultimately what you think something is worth on a conservatively appraised basis.

One of my favorite examples of this recently is in one of the classic books that's impacted me, *Fooled by Randomness*, which is Nassim Taleb's first book before *The Black Swan* and some of the ones that were more popularly received. His archetype of a durable business is a London black taxi driver. If you want to make a consistent, steady, living without a lot of variability, drive a black cab in London. That was true for decades, going on a century if you go back pre-cars. Now you've got the Ubers of the world that are causing a lot of angst and disruption in that space. Even what ten years ago was an archetype example of a durable industry is under attack in this brave, new world. I like the math of not having to pay a full price or overpaying, where I'd better be right on everything that we predict in the future. I would much rather buy something in the public market at a massive discount and not have to worry as much about the impact of all these unknowable developments.

MOI: The flipside of these unknowable developments and technology innovation is that there are some great businesses coming up the curve that even value investors have found to be potentially good investments. I'll just cite Google or Apple as examples. To what extent do you try to look at those types of companies that seem to have a great business today, but perhaps do not have a decade-long track record of historical performance that you normally would require?

"This is a learning game of increased pattern recognition over time."

Shores: Personally, I still think of those as too hard, and I'm not saying that should apply for everybody who believes in a value philosophy, in the least. Clearly, there's a model of investing in developing companies that's been very, very successful. It's a different model than what we try to apply, but when it comes to more mature companies, whether it's a Google or an Apple or a Facebook or an Amazon, I think there's opportunity there. Let's just say it's outside of my circle of competence.

MOI: Well, Buffett has said it's not important how big that circle is, but staying within that. Perhaps tell us a little bit about what are some ways that you have been expanding the circle over time or some advice you could give to our members about ways to expand one's circle of competence and keep accumulating knowledge because it is all cumulative.

Shores: That's what it is. This is a learning game of increased pattern recognition over time. The more knowledge and experience that you can cram in to apply going forward, the better. What I love about investing is the intellectual exercise of discovery, particularly if you're a generalist value investor, because you are learning about different industries, different people, different applications. There are all kinds of cross-fertilization, cross-disciplinary analogies and learning lessons. I've operated all over the world. I've done a lot in Japan, South America, Europe, the US. Nobody has a monopoly on creative ideas or knowledge, and there's nothing new under the sun. Oftentimes, what you're seeing that seems a brave, new world has happened somewhere before. So, whether it's through actual travel and experience, whether it's through reading and having an open mind and a natural curiosity, accumulating that knowledge and experience across industries, disciplines, fields of knowledge is critical.

It's amazing how useful philosophy, what I studied in university, or medicine or the mental models that come into play closer to home in economics apply to all these investing opportunities that we see every day. The investing is almost an output of the learning process. What I'm looking for with somebody that I would be hiring is just a natural curiosity, a natural desire to learn, that it is a hobby as much as it is a job. For it to be sustainable, it's got to be fun. For it to be fun, you really need to enjoy what you're doing every day. Get into a job that you love what you're doing, that you're inspired by what you do and that you're unconstrained enough to really explore and learn and grow.

You can learn something from everybody, from the taxi driver who takes you here to the CEO of a FTSE 100 company. Sometimes you'll learn more from the taxi driver, but soaking it all up, applying it in a cross-disciplinary way, that's how I find ideas bubble to the surface. We run all the screens and we've built our own bespoke ways to quickly screen through anything in the world and get all the information that we want, but ultimately, to be able to interpret that information and see if something's interesting, it's practice, it's pattern recognition.

That's the artistic side of what we're doing, cramming loads of information in, and then doing appraisals over and over again with really good feedback, which for me comes from the two of us here in London, two people in Singapore, and the rest of the analysts in the US, Mason at the top with Staley Cates who's been there for nearly 30 years right with him. I wish I could give a more formulaic process for the way we look at the world, but literally it's go read and learn and do it for the next decade or two, and you'll be surprised at where you end up.

MOI: With the lattice work of mental models as the foundation and this generalist view, over time what have been some areas or industries or sectors or types of business models that you found yourself gravitating toward because you just found them to be a great source of potential opportunity?

"The concept is that the first several years are not going to look good on an income statement basis, but I'm locking in great cash flows for the next two decades."

Shores: A very relevant one is what we can simplistically call a razor/razorblade model. It's the idea of where the accounting doesn't capture the value being created from locking in a long-term stream of service or parts business from having sold the razor. It's a loose analogy because you can apply it in a lot of different ways. The concept is that the first several years are not going to look good on an income statement basis, but I'm locking in great cash flows for the next two decades. Great model, but the market hates it right now because the accounting earnings are bad, particularly if you're in a ramp up or growth stage. However if you're looking past that to the value creation, there can be huge opportunity. That's one that we're seeing more and more examples of.

MOI: Essentially where perhaps you have a large upfront cost to acquire a customer and it's expensed through the income statement, but then once you have that customer, it becomes a recurring stream of revenue.

Shores: Correct, but even the recurring stream might not properly go through the income statement. One example I'm thinking about in particular is where the accounting is vague and the income statement is not going to tell you the truth for about ten years, but the cash flow statement gives a lot more clarity. And then there's understanding the economics that are underneath it. You might have five years of high expense of acquiring those customers, and then you might have chunky amortization charges going to the income statement on the development costs and the customer acquisition costs for the next five years. At the same time, you've been locking in high NPV [net present value] customer contracts, but they're not going to flow through the income statement until the stock price is already way up here because the market has figured it out.

MOI: How do you make sure you are being conservative enough to where you're not giving them too much credit for that stream that's going to come in the future? I recall back in the first internet bubble, there was AOL that kind of had loosely defined that kind of a model, acquiring a customer and then having that stream and the investors at that time gave them too much credit for that.

Shores: Well, the accounting went the other way on that one. The income statement looked okay and the cash flow statement was abysmal.

MOI: Right, but the NPV really is solidly positive.

Shores: Experience, having people you can bounce ideas off of who are going to tell you if you're being too aggressive, and I would say ultimately thinking and acting like an owner. My colleagues and I, we all have our own money invested in this. I'm truly looking at investments from a dispassionate eye of do I want to own all of this business? If I could buy all of this at this price, is this the price I'd want to pay? What do I think the whole business is worth and, oh, is this the management team that I would like to have run it if I owned 100% of this?

It's amazing how honest that keeps you when you think about putting in your own money. Does that mean you won't make a mistake? No, but the key is if you're going to make a mistake, which you are, to not lose badly when you make a mistake. There's the double fooling that can go on. Shame on you if you fool yourself on the business case and the durability of the moat on something that has heavy operating leverage, and at the same time has a financially geared balance sheet. It's too hard – just pass on that. That's where the not having to swing, being willing to accumulate cash, having the structure in place to be able to wait for the fat pitches, is absolutely critical.

MOI: To what extent are you solely focused on the business itself, the bottom-up versus, let's say, having a view on specific countries or even saying, "We don't look at a country because it's simply too risky politically or otherwise?"

Shores: We do cut some companies off on the political risk spectrum where we just say, "You know what? Rule of law is not trustworthy enough, property rights are not trustworthy enough, much less minority shareholder protection." Don't go there, especially in a hyper concentrated portfolio, the way we're trying to run things. You just don't want to have that exposure. We're not saying there can't be opportunities in those countries if you are that kind of an investor. We're simply saying that for our approach, we'll carve off some part of the world and say, "This is too hard." Once we've taken that part off, we're pure bottom-up.

"We do cut some companies off on the political risk spectrum where we just say, 'You know what? Rule of law is not trustworthy enough, property rights are not trustworthy enough, much less minority shareholder protection.'"

Now we do take into account the inflation rate in countries and any potential currency mismatches. We saw that dramatically recently with the Swiss revaluation. You've got to be aware what kind of exposure a Swiss euro, cross-denominated company might have. We're thinking about that from our bottom-

"People talk about Europe and treat Europe like a block in an asset class. You can do that to a degree in the US. You can't do that in Europe."

up perspective. We're less likely to say, "I think this is going to happen from the top-down. Therefore, let me go figure out how to express that theme by buying these companies." That's not what we do. We're, "I want to buy great companies from the bottom-up and let's take into account all this important macro stuff at the same time."

MOI: Have you found some countries to be particularly good in terms of being hunting grounds for the kinds of companies you're looking for?

Shores: I think in Europe right now, it's a really good place to be looking. There are really good companies that are still sleepy, and there's a perspective that, particularly on the continent, it's very hard to be an owner-oriented investor in these companies because there's this historic mentality that shareholders are more of a nuisance than anything else. I don't think that's entirely accurate. It's changed a bit, but also there's the nuance of each local market being different, and you need to have the local network in place to be able to intelligently evaluate opportunities in France or Germany or Switzerland or Austria. People talk about Europe and treat Europe like a block in an asset class. You can do that to a degree in the US. You can't do that in Europe. Each country has its own different rules, regulations and accepted behavior, so you have to know how to navigate and partner with the right local people to get around those issues. But once you've figured that out, that's actually an opportunity because not knowing that is a barrier to entry.

In the US you can apply the same mental model broadly across the gigantic market that is the US, but so can everyone else. In Europe, you have specialists in different countries who know them well, but they're only looking at that specific country. Maybe the opportunity set is rich enough in that country and that's great for them. But, we think we have the opportunity to look across countries and go from place to place as the opportunity set dictates, and know how to navigate those local markets because we've been doing it a long time and because we're friendly, long-term, respected shareholders.

MOI: We always like to ask for book recommendations, so as we finish up here, perhaps you could tell us about some potential reading that has been helpful to you on your path.

Shores: Well, the most recent investing-related book that really impacted me was *Dream Big*, the story of Jorge Paulo Lemann and his partners at 3G, which is just a phenomenal read. I would definitely recommend that. There's a lot that they believe that really resonates with how we view the world at Southeastern – empowering people, having people think and act like owners, obviously optimizing cost management, which is what an owner does. Being a history guy, I've been on a long-term kick on Lincoln and some of the big ideas that came out of the 1850s and 1860s, so *Abraham Lincoln: A Life*, by Michael Burlingame I recently finished. Then I've been in a big US Civil War three-volume set by Shelby Foote for a while now. It's relevant because it's the same paradigm of thinking across countries and mental models, and thinking across epochs, at what was prevalent 100 or 200 years ago, or even going back to the classics. I find that hugely enriching and would certainly encourage people to go pick up some good tomes of history.

MOI: On that note, Josh, thank you so much for your time and the insights.

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