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TWO YOUNG MEN IN A HURRY ARE GOING PLACES—FAST!

BY JONATHAN BARNES

Pavel Begun, CFA

For as long as Pavel Begun, CFA, can remember, he has been in business and success in business was always his dream.

But the future co-founder of 3G Capital Management, a global value-oriented hedge fund, certainly had a humble beginning. Growing up in Belarus, he picked strawberries and apples in his grandmother's village and sold them at the produce market 30 kilometers away.

"When I was five or six," he recalls, "I would collect scrap metal and melt it, then sell it to kids in my neighborhood." By 14, he'd found a better model—as an intermediary in the market for steel bars, selling to the manufacturers of steel-reinforced concrete. Begun and a friend worked the phones 8–10 hours a day, taking breaks only to attend class.

Occasionally, they had to skip a class to call a customer. Begun would make the calls in a low voice, pretending he was older. If he had to arrange a delivery in person, he'd tell customers that "Mr. Begun" had sent him. Soon, he was making several times the combined salary of his parents.

His favorite enterprise in the "Belarus businesses" was an accounting journal he started when he was 17.

"We gained market share from competitors who were very well established," says Begun. "They weren't 17-year-olds. They had huge organizations behind them, but we were able to gain market share because we had an innovative distribution system."

"In Belarus, the chief accountants had to file tax returns in person on certain days each month at Belarus Tax Services offices," Begun explains. "So you would have these guys lining up. We hired students to hand out journals to everyone entering the tax offices around the country."

Begun finished his college education in the United States—on a scholarship. By 2001, he was working full-time as an analyst for A.G. Edwards in St. Louis and studying for the CFA exams while attending the University of Chicago for his MBA.

"I didn't want to give up professional work experience," says Begun. "I figured if you do your MBA full-time, you're going to be out of the loop in terms of getting practical knowledge. I would register for a Friday night class in Chicago and then two classes on Saturday. I would take the three-hour classes that covered a whole week's material. I'd leave work around noon in St. Louis, hop on a plane to Chicago

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and be in class from six to nine, then I'd sleep in the hotel and be back in school from nine to four." By Saturday night, he was back in St. Louis.

"For almost three years that was my schedule," he recalls. "After work, I'd have dinner, and then I'd be reading and typing and thinking." He studied for the CFA exams on the plane.

"I'd rather do things as quickly as possible," says Begun, "and whether that's difficult or not is kind of secondary. I wanted to have my MBA and CFA when I was still pretty young, because once I got older—when I was 24 or 25—I wanted to fully dedicate myself to my professional career. I just said to myself, 'Whatever it takes. If it takes me 30 hours of studying a week, that's what it takes, and if it takes me 40, I'm going to have to find time to do it.'"

Begun's work ethic paid off, as he graduated from Chicago with honors. But it almost didn't happen. The university initially rejected his application because of his youth, as he was only 22.

He called the program's administrative office and was told he needed more experience—perhaps he could apply next year. "But when I worked in Belarus," says Begun, "it was full-blown professional experience, and yes, I was pretty young, but wouldn't that make me an even more appealing candidate?"

"I just started calling them and saying it didn't make sense to me," he recalls. "In the end, they got tired of me, and they said I should talk to the dean. I kept calling until he picked up, because it was just going to voice mail and normally people don't call you back about a request like that. So, I just called until he picked up. I explained my rationale, and he said since I was so persistent he would meet with me. One Saturday, I flew in and we went out to lunch. And in the end he said he'd make an exception for me."

After graduation, Begun founded 3G Capital Management with his partner Cory Bailey, who shares Begun's passion for value investing in the style of Warren Buffett. Quoting Benjamin Graham, Begun says, "You are neither right nor wrong because the crowd disagrees with you. You're right because your data and reasoning are right." That was also the philosophy that my dad taught me as a kid, and that's the cornerstone of the value investment philosophy we're pursuing now."

"We started out totally with zero," says Begun. "Cory and I, we don't come from wealthy backgrounds. We don't have wealthy family or friends, but we knew what we believed in and what we wanted to do."

The two rented a \$400 basement office "in a B class building," says Begun, "so you can imagine what it was like—no natural light, just a complete bunker."

"We would have clients come to us and say, 'You're just two 25-years olds in a basement – how long are you going to last? And we'd say, 'Well, we *are* going to last!' And two years later, they were sending us the checks."

Since 3G's inception in July 2004, assets have grown to around US\$10 million, from a start-up of a couple hundred thousand dollars. Returns have averaged 16 percent per year, despite an average cash position of 25 percent.

"Cory and I almost feel like 3G is our baby," says Begun. "In the past, I never felt anything like that toward a business. Now, I feel like I'd love to do this until the day I die. My retirement day would be, I guess, the day I die."

