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Where did you initially learn about Value Investing, and what drove you pursue a career in the sector?

My journey started back in the early- to mid- nineties. At that time, I was still living in Belarus. I was running a number of different businesses there. But, none of those businesses had the hallmarks of businesses that I would be willing to engage with for the rest of my life. So, in the background, I kept looking for things that I could want to do long-term in the business field. One day, I picked up a copy of the Forbes 400 magazine and I said, "Let's go through all the names in the list and see if maybe I can get an idea of the type of business I want to be in for the rest of my life." One of the people that jumped out at me when I read that was Buffett. He was quoted in that issue saying something to the effect of, "I'd like to remain in the business for about five to six years after I die." I thought to myself, "Well, that must be a pretty good business." After that, I started to read more about Buffett and value investing and it really went into overdrive when I went to Western Kentucky University to do my undergraduate degree in finance. That's when I set up an account and made the decision to get into value investing in a more real-life sense. About six years after that, I had accumulated a pretty good track record, and I used that to market 3G when we started in 2004.

You started out in the States, is that right?

Yes, I was based in Saint Louis for a while. Once I graduated, I worked for what is now Wells Fargo as an equities analyst, back in 2000. While I was doing that, I was also pursuing my CFA, and I was also doing my MBA at the University of Chicago. So, a couple of times per week I'd fly to Chicago and back. I actually ended up devising a way to get paid to fly. There was a way to do it where you could earn $25 per flight. For every four flights, you'd get a voucher, and you could sell that voucher for more than the cost of four flights to Chicago. Those were the times!

How did you eventually come to end up in Toronto?

Our early clients were Canadian hockey players. Between my partner and I, one of us had to be around Toronto just to sort of hold their hands for the first few years, and I volunteered.

Since inception in 2004, your fund has outperformed the United States and International markets by 3% and 6% per annum respectively, something that less than 1% of money managers worldwide are able to accomplish. What has contributed most to this impressive success?

If you look at the last 10 years, over which time we started our transition from the U.S. only to a more global approach, we outperformed by a more significant margin. Over the past decade, we outperformed the S&P by about 6%, and the MSCI by 12%. I would attribute that outperformance to the fact that we had the emotional resilience to stay rational during the times of stress and during the times of euphoria. Now, everyone is going to tell you that they stay rational when things are tough and they have a plan. But, as Mike Tyson said, "Everybody's got a plan until you get punched in the mouth." I think, in our case, we have a track record of being "punched in the mouth" and still sticking with the plan. If you look at our performance back in '08 and '09, things were tough in the U.S., and yet we invested. We went in big and it worked out for us. We've done the same in Russia and Eastern Europe in '13 and '14, and in Brazil in '15, and in Turkey.

Related to emotional resilience, what do you do when your investors or clients do not have the same emotional resilience as you do?

Well, we don't take them on. We interview clients and we have a lockup structure such that, if do not have the emotional resilience to stay in for the long-term, you won't invest with us. We have turned down people in the past and will turn people down in the future. We have a system such that clients can only withdraw their money once every two years, on December 31st. Whoever does not pass that test, whoever does not have the emotional resilience, does not get to invest with us. On a different note, we try to educate investors and explain that they shouldn't be looking at day-to-day, month-to-month, or even year-to-year fluctuations; those are irrelevant. They have got to be looking three to five years out, at least. It registers with some people, and doesn't with others. We still try to get the message out there.

As quantitative trading becomes increasingly popular, what role do you see computers and technology playing in Value Investing in the future?

I think where technology is going to help is that it's going to make it easier to access data. You will have more data, and you'll get it in a more timely fashion. That is going to be a big plus. You are going to be more productive as an investor. However, I don't think that computers, at least not in the next 50 to 100 years, are going to be able to convert raw data into knowledge. For that, you need to decide which data are relevant. You need to analyze the data in a situational context. Computers are not going to be able to do that for you. So, there is still a place for humans. I also think the rise of techn ology will present new challenges, at least for some people. If you look at what's happening with data, for example. There's so much of it now that people are basically drowning in data. There is a "data overload factor." The question is, "Are people going to be as good at deciding which data are relevant and which are not?" That's going to present a challenge which they didn't have in the past. Secondly, we may have a challenge of 'digital amnesia'. As a result of the proliferation of Internet human beings are beginning to store more data externally (i.e. on a computer rather than in one's memory). That leads to 'digital amnesia' and makes it harder for people to analyze data in situational contexts, which is key to converting raw data into knowledge. If you are unable to do that, it is going to be harder for you to make a judgment about the value of the business. Those are going to be two challenges that investors didn't face in the past.

Can you speak to some of the changes you have seen in the investment environment since you began 3G Capital and what implications these changes have for investors?

I have seen a lot more people go into value investing or investing in general over the past twenty years. The environment has gotten much more competitive, so there are many more brains following probably the same number of investing ideas, if not fewer. However, most of the talent is going into the developed markets space with much fewer peo- ple going into the emerging markets space. The implication is that, if you want to generate good returns, all other things equal, on average, you are probably better off applying your talents towards the emerging markets, which are much less researched.

About 90% of 3G Capital's assets are invested in companies outside of North America and Western Europe. You attribute this to more attractive valuations in lesser-known and more inefficient economies globally. How do you counteract or mitigate the risk associated with investing in these geographies?

When it comes to investing, one must be aware of the risks any time they invest in any asset class in any market. You're going to have to look at the underlying assets, the nature of those assets, and you'll have to look at the price. Then, dependent in on the interplay between those two factors, an asset in an emerging market could be less risky than an asset in a developed market. Or vice versa. Or it could be about the same level of risk. You must look at the specific case, and look at the nature of the asset and at the price you're paying for that asset. As far as making a blanket statement and saying that investing in emerging markets poses more of a risk than investing in developed markets, well I would say that if you talk to people who live in those emerging markets, they certainly perceive all the markets outside of their market as riskier than theirs. To people in Russia and Turkey and Brazil, anything outside of Russia or Turkey or Brazil is risky. Many of us have a significant my-side bias, so I wouldn't necessarily say that just because I don't live in Brazil, it has to be riskier than Canada. It could be, but it doesn't always work that way.

Are the regulatory bodies and the accounting standards drastically different from here to, say, Turkey?

They are. However, if I compared regulatory bodies in certain sectors of the economy in Turkey versus, say, the United States, I would say that in those specific sectors the regulatory bodies in Turkey are actually *more* robust. Further, sometimes the local accounting standards in the emerging markets could be *more* conservative compared to the US GAAP. And in many ways, the government in Turkey is going to be more business friendly than the United States gove- rnment, with respect to certain industries. Again, this is not to sugg- est that Turkey is a more advanced country versus the United States. Nevertheless, there are certain segments where you will find things that are actually pretty eye opening.

To what extent do you conduct value analysis of a company's environmental, social, and governance factors into your assessment of quality and risk in a business?

It's part of the big picture, so we look at all those factors. To the extent that you're not fulfilling your obligations on those fronts, especially in some of the non-U.S. markets, you might be in trouble with the government or regulators so that definitely factors in.

We often hear that, when one goes into more risky markets or emerging markets, investors often run into issues of liquidity. How do you think about liquidity risk in these instances?

We have the luxury of not having to worry about it too much because we have this two-year lock up; we don't have to jump in and out on a daily basis. We think in terms of years, if not decades, so for that reason liquidity risk is not really an issue.

You have likened emerging markets to the state of the U.S. stock market in the fifties. "Old Buffet" used to invest opportunistically; in beaten-down stocks, making asset-based valuations, and now the "Modern Buffett" buys companies that are more sustainable and will return cash to perpetuity; he makes more free cash flow based valuations. Do you find that is the case outside of North America still?

In non-Western markets, we have seen businesses selling at prices that imply they are 'cigar butts'. But then if you look at the underlying business, it's very high quality. We invested in a company in Estonia for four times earnings, or twice earnings excluding cash, arguably a total asset play. It had a 15% dividend yield. The company had something like half of its market cap in cash. Despite that, they generated return on equity above 25% and had growth as far as the eye can see. They had 15-20% margins through thick and thin. It was a wonderful business. It was priced as if it were some kind of windmill in the middle of nowhere. We try to be in places where you don't need to compromise at all between the quality of the business and the price you pay for it. People ask whether it's better to buy a fair business at a good price or a good business at a fair price. I think if your investment universe is broad enough, you can find enough ideas that you will not need to compromise.

Certain value investors sit on cash when they can't find attractive investment opportunities, given that they would rather have the benefits of optionality. However, given your flexible mandate, does that mean your fund typically sits on a lower proportion of cash during expansionary times? How do you think about optionality during recessionary times?

Our cash management is a function of how many ideas we have available to the extent that we can find good ideas to fill up the portfolio, we'll have zero cash regardless of economic cycle. Whether the economy is contracting or expanding is of no consequence to us. On average, we'll probably carry less cash than some of the other managers because our investment universe is so much broader and we'll have more choice, and likely more ideas to fill up our portfolio with.

We've heard from previous speakers at the Centre that they wish they could go into emerging markets because there is so much more opportunity there which they're not able to access because of the language barriers and other factors. They have said that especially in India, for example, it would really help if you were able to speak the language and be on the ground there to research companies in-person. Do you have an active research process in which you fly out and research these companies "on the ground"?

I have a somewhat jaded view of that style. We have done a few visits and did not find them particularly useful. You fly in, and you meet the CEO and the guy is tall or short or wearing an expensive suit or a cheap suit and it doesn't really matter. You see the plant and it's an old plant or a new plant or a small plant or a big plant. Again, does it really matter? I do not think that the things that really matter can be assessed by flying in and speaking with a manager. That's why we rely a lot more on the "intelligence network" we have established around the world on the ground. We have people that can tell us, as locals, what the advantages and disadvantages are. They can tell us this from the perspective of someone who lives and breathes there on a daily basis. Let's say that we did a project where we're looking at Chinese banks. We'd talk to people who used to be involved with those types of banks on a managerial level, people who audited those public banks, et cetera. That would give us a much better picture than just talking to the CEO. At the end of the day, the CEO is always going to tell you that everything is going well.

Would you equate the CEO's role with that of a salesperson for the company?

Well, if you put yourself in the shoes of the CEO, and you're talking to an investor, there is nothing at all to gain from being negative. What is the benefit you can gain from telling the investor what is "under the hood"? Nothing. Talking to the auditors, not necessarily just for that company, but those who are active in that specific market, in that specific business segment, they're going to tell you a lot more about what is under that hood.

Some value investors say that tech and value investing are mutually exclusive. Do you agree with that statement or not? Have you made any investments in the tech sector or do you anticipate investing in tech in the future?

That is a difficult question to answer because how does one define what constitutes technology? We own businesses that are involved in making underwear. You could consider that a technology-based business because you need technology to ensure that business runs. At what point do we cross the line between being an underwear business or a technology business? We also own some banks. Those businesses are heavily reliant on technology. Are they technology businesses? Are technology and value investing mutually exclusive? I think the better question to ask is, not related to technology *per se*: "Can you analyze a given business and predict its industry dynamics over the next decade?" Whether a business is defined as a technology company or not is irrelevant. All businesses that are being invested in are reliant to some extent on technology.

A long-standing criticism of crypto currency has been that it has no intrinsic value, and therefore is a bad investment. Many have compared what we are seeing today to the tulip mania. What are your thoughts on crypto currency and do you see a future in which it could be widely adopted?

If you and I were to get together and come up with a crypto currency, and call it "IveyCoin," we would get a piece of paper, and we'd write down "100." And then we say that we can exchange that for real dollars. That's all there is to it. The question is: why would you expect someone to buy into that? Why would what you have arbitrarily written on that paper be more trustworthy than the Canadian or U.S. dollar? For that reason, I don't think that crypto currencies will keep going up in value in the future. I suppose that it's a good currency for people in the contract killing or drug dealing businesses because the recipient can't be tracked. At the same time though, you must think about what the governments' response will be. It's a money laundering paradise. There is a very real risk that the government is no longer going to allow this type of payment. I know we all like to make fun of the shortcomings of various governments, but still, there is probably more trustworthiness in a given government than in a given anonymous crypto currency creator. I don't think it will have a good ending, but we'll see how it plays out.

What do you think about the underlying Blockchain technology's potential to have widespread implications across businesses and industries? Do you see that technology being successful going forward?

I don't know a lot about it, honestly. It appears to be more useful than crypto currencies for sure. I can see its applications in banking and other industries. It seems to have more underlying value.

Who do you admire as an investor?

The Chandler brothers. They took a ten million dollar family fortune and, in twenty years, turned it into a five billion dollar fortune. They did this with no outside inflows, basically all just compounding. They do the same thing that we at 3G do. They have gone all over the world, they found countries that were going to hell in a hand basket, and they bet big and they compounded at a very high rate for a very long time. They run a fund called Sovereign and keep an extremely low profile. They were [featured in the Institutional Investor in 2006] and that's a great story on them. They're based in Singapore and Dubai, one brother in each.

What advice would you give to someone embarking on a career in finance?

I would say, look for a specific segment within finance that you really enjoy doing and try to learn as much about that as possible. It is a pretty broad field, so the best thing to do would be to find a niche where you wouldn't mind spending as much as 24 hours a day.

We hear from a lot of value investors, 'Know what you know and work off of that,' because what you 'know' will likely become what you specialise in. Are there industries or business models that you like to stick to or that you find your fund has a lot of stake in compared to others?

We are comfortable investing in businesses and industries in which we feel that we are reasonably able to predict the outcome, at least over the next ten or twenty years. These tend to be industries that exhibit *leadership longevity*. We look at the number one and number two in a given industry and assess the turnover of those players over time. In an industry where you see turnover every two to three years, we are going to be less comfortable than in industries in which those players tend to stay in the lead for ten or twenty years. In the latter cases, there is probably something inherent to those industries' economics that is conducive to leadership longevity. There are lots of industries like this, but it is important to note that this longevity can fluctuate; it's a dynamic process so you have to keep learning and finding new things every day.

Would "number one" and "number two" be exemplified by, say, Coke and Pepsi?

Yes, and also by the likes of Fruit of the Loom and Hanes. Again though, you cannot systematically assume that industries that exhibit these characteristics will remain intact indefinitely. Newspapers exhibited all these great characteristics and then the Internet came along and the advantages associated with newspapers collapsed. Sometimes, newer industries will have just as volatile dynamics. If you look at the handset cellphones space, in the past, Nokia, Motorola, et cetera; the leaders would change all the time. And then, Apple came along. Industry leadership longevity has improved because the focus is no longer on handsets; it now includes the ecosystem surrounding the handset itself.

When seeking out investments, do you actively pursue sector or geographic diversity?

I would love to diversify, but unfortunately it is not possible. We have a hard enough time finding one or two ideas per year. If I were to say that my investments had to all be in different sectors, then I would probably find a new investment idea once every five years. At the end of the day, if we can find great businesses at great prices, we don't feel that we need to have ten different investments in ten different industries. Typically, we have found that an industry falls out of favour and then we purchase quite a few names in that industry. One has to be cognizant that, often times, when people talk about diversifying, they end up doing it solely for the sake of doing so. Munger says that diversification can be like taking a cup of honey and a cup of sand and mixing them together. In the end, you end up with two cups of sand!

In typical finance classes, students are taught how to go through a 10-k and assess the business risk of a company. How do you approach reading a 10-k and assessing business risk?

There are a couple angles to business risk. First, we look at the industry and the business's place within the industry; this is where we spend most of our efforts. We want to ensure that the industry has dynamics such that the business will be able to be successful over the next five to ten years. There isn't really a mechanical way to discern this. You need to build on your past experience and your learning from fields that are not even necessarily related to business. Angle number two: you need to go through the list of risks that the business can potentially be exposed to. Once you start investing outside of the U.S. and Canada, this list grows and you need to become better versed on specific geopolitical risks, internal country risks. If you invest in a great Syrian business, it won't matter if the whole country collapses. In contrast, the pricing part of the risk equation is much more mechanical.

Based on that answer, would you say that you and your partner have a very firm grasp on macroeconomic factors as well?

It depends on what you mean by macroeconomic factors. I do not think that we are concerned with the rate of GDP growth. If we are looking at investing in different geographies, we need to be weary of potential conflicts between countries. I find it helpful to read into the history of various countries to get a grasp of stability and how it all works. Sometimes I even overdo the background research component because I enjoy doing it so much. If you pay a low enough price, you likely don't need to know as much as I often do, but I enjoy the learning aspect a lot.

What does your ideation process look like?

Well, I am probably going to disappoint you with my answer. My screening process is super un-scientific. When the crisis hit in Brazil, and we saw the media commenting on it being the worst since the great recession, we pulled out a stock manual on Brazil. We went from A to Z reading about all the publicly traded companies in Brazil. We've done the same in Turkey, South Korea, Russia, Eastern Europe, China, and others. If there is a crisis, it is likely that there will be some attractive assets going on sale. After going through the stock manual cover-to-cover for the country in which the crisis occurred, I might come up with ten to fifteen names to "sink my teeth into" and research further. After the crisis in Brazil, I came up with two very promising names. Then, one of these names got disqualified from consideration because I didn't like the changes to the company's culture that I had witnessed. These changes didn't manifest themselves in the company's financials - the numbers still looked good - but I didn't like the risk that these numbers could deteriorate as a result of the changes. So we ended up investing in one name in Brazil and we made three to four times our money on that. In *Snowball*, Alice Schroeder asks Buffett, "How did you end up investing in South Korea?" And Buffet replies, "One afternoon, I received a stock manual on South Korea. I just flipped through the pages. In three hours, I came up with twenty names. I invested the money in my personal account in those twenty names." He made four times his money in five years or something like that. All it took were a few hours on a Sunday afternoon. With 3G, it's a little but different because we feel like we need to dot more of the I's and cross more of the T's, but essentially the idea generation process is the same. Screens aren't going to tell you anything about the quality of the business, and that is the most important part. It is going to tell you some statistic, but nothing about the strength of the business competitively. It normally takes me about twenty seconds to determine whether a business is one that I am interested in researching further.

Do you have any personal biases as a value investor? For example, one value investor that we have interviewed told us that he was vulnerable to a regency bias in that he was very excited about his newest ideas and did not give enough thought to stocks he already owned as a result.

I had a reluctance to even consider investing in companies based in Eastern Europe and Russia. Many other US-based Eastern European investors I met have had the same bias. I always wrote off Belarus and the surrounding countries as an investment destination because when I left the country the whole region was in shambles and so I thought it to be very risky. Then, I learned that Li Lu invested in Russia in 1996 and I thought that maybe I had been wrong. Maybe there were viable investment opportunities in Eastern Europe. That's when I set my dogma aside and started researching the facts. My partner Cory Bailey, who was born in Union, Missouri, also helped me get rid of that bias by providing an 'outsider's' perspective.

It sounds like a lot of work to keep up with different companies and the geopolitical risk associated with all the different countries you're invested in being just two people.

Well, we never want to have a large team, ever. I structure my life such that there is not much else that I need to do other than keep an eye on those things. I find that I have enough time during my day because we don't need to market our firm, or meet with investors. We have certain partners that I haven't even talked to for maybe ten years, and they have no interest in talking to me. I call them and they don't call me back! They have maybe a couple million dollars invested with us, yet they could care less about getting an update from me. They're better off if we just spend all our time looking for ideas. We have help from our intelligence network as well, so that's a good shortcut. I think we'll keep our team at two for the next 50 years. After which, I think I'll be done. Well, I guess I'll remain in the business for about five to six years after that!