Value Investing in Global Context
Lessons Learned…and Unlearned

Ben Graham Center's
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- *3G Capital's performance figures presented herein represent net return of 3G Capital Partners LP ('Original Fund') from its global strategy inception date until the inception date of 3G Capital Partners II FGR ('Parallel Fund'), and net returns of the Parallel Fund subsequent to that date through September 9, 2022. Net return reflects the experience of an investor who came into the Original Fund at inception, subsequently transferred into the Parallel Fund at its inception, and did not add to or withdraw during his entire tenure*
- *Global strategy inception date is January 1, 2009 as prior to that date the Original Fund's geographic focus was largely limited to North America*
- *The returns for 3G Capital are presented before foreign dividend tax withholding*

3G Capital at a Glance

- Global value investing specialist
  - We invest in undervalued businesses around the world
  - Universe includes Frontier, Emerging, and Developed markets
  - Focus on industry leading businesses selling at single-digit multiples

- Have been in business for over 18 years
  - Principals Pavel Begun and Cory Bailey have nearly half a century of investment experience combined

- Track record of significant outperformance of the international benchmarks
  - Annualized return since global strategy inception of 13% for 3G Capital vs. 6% for MSCI ACWI ex-USA Index

Lessons Learned… and Unlearned

- Value investing maxims – developed through many decades of investing in the United States
  - Ignore macro and politics and just focus on the economics of the business
  - Stick with industry leaders who are laser-like focused on the core business and avoid diversions into unrelated fields
  - Assume rapid growth is necessarily not sustainable
  - Invest in such a way as to avoid risk

- Would the maxims be different if value investing was born and developed in a vastly different environment present across many economies around the globe ?

Maxim - Ignore Macro and Politics !

"We will continue to ignore political and economic forecasts which are an expensive distraction for many investors and businessmen."

Warren Buffett

- Over the past century the United States has been the preeminent economic and military power in the world
- Insulated from outside influences and from within devoid of excessive government meddling
  - Other countries could not impact the US standing either through economic or military action due to the sheer heft of the latter
  - Culture of freedom: political arguments are generally not settled at the expense of business matters; government is dealing with business in a light-touch manner
- The outcome has been significant growth and stability
- A US-based investor could have safely ignored macroeconomic and political considerations and just focus on the economics of the business

Query - Ignore Macro and Politics ?

- Most countries around the world are significantly less powerful than the United States both economically and militarily
  - Other countries can significantly impact the range of economic outcomes and even societal outcomes in case of military action
  - Political and business spheres may be tightly intertwined such that political disagreements can have major economic consequences
  - The governments may behave in a heavy-handed manner with respect to businesses to extract ‘social service’ or ‘personal service’ benefits
- Economies are subject to a much wider range of economic outcomes
  - At extremes can have a defining impact on individual businesses
- Global investors should be mindful of macroeconomic and political considerations in addition to researching the economics of the business

Maxim – Focus on the Core Business !

"In life and business the goal is to build a circle of competence and then operate within it."

Charles Munger

- Great many fortunes have been made by investing in enterprises singularly focused on their core business
  - They achieved competitively-advantaged mastery of their domain to dominate it and avoided venturing outside the circle of competence
  - The long list includes McDonalds, Johnson & Johnson, Intel, Boeing, Coca Cola, and many others
- Generations of value investors built their methods around the stay-within-the-circle-of-competence approach

Query – Focus on the Core Business ?

- However, some businesses, primarily outside the United States, created a lot of value using the opposite approach
  - Rather than mastering competitively-advantaged domain dominance they mastered competitively-advantaged approach and successfully applied the approach across the constantly expanding number of domains
  - The much shorter list includes companies such as Amazon in the United States, Samsung in South Korea, BYD in China, Kaspi in Kazakhstan
  - For example, Amazon mastered their approach centered around customer service obsession and technology-driven innovation to dominate their original circle of competence in online bookselling, and then successfully applied it to a range of other industries such as cloud, where competitive leadership is driven by the same factors
- Investors should consider broader definition of competitive advantage
  - Include those businesses which have the ability to successfully apply their competitively-advantaged approach outside the original circle of competence

Maxim – Rapid Growth is not Sustainable !

"…history shows how difficult it is for large companies to hit 15% target in earnings over any extended period…"

The 15% Delusion

Fortune Magazine

- It is impossible for fast growth to persist according to the extensive research done by the article's author
- Since most businesses grow at less than 10% over the long-term one should not ascribe any extra value to high-growth businesses

Query – Rapid Growth is Not Sustainable ?

- The study was done with respect to the United States businesses
  - Conclusions regarding growth sustainability may lead to the wrong decisions outside the United States
- Countries undergoing rapid economic transformation from planned economy to market economy may have a century of growth compressed into decades
  - Inherently exhibit higher economic growth
- Leading businesses within the above economies can capture a larger share of the growing pie quicker
  - The diffusion of business know-how is much more uneven in many emerging economics compared to the United States
  - Hindsight enables faster consolidation by building better from the ground-up
- Faster economic growth combined with faster market consolidation makes fast business growth sustainable
  - Take fast growth into consideration in the course of business assessment

Maxim – Invest as to Avoid Risk

- Risks defined as events which may cause a permanent loss of capital
- Traditional value investing approach calls for deliberately avoiding the risks one identifies
- However…

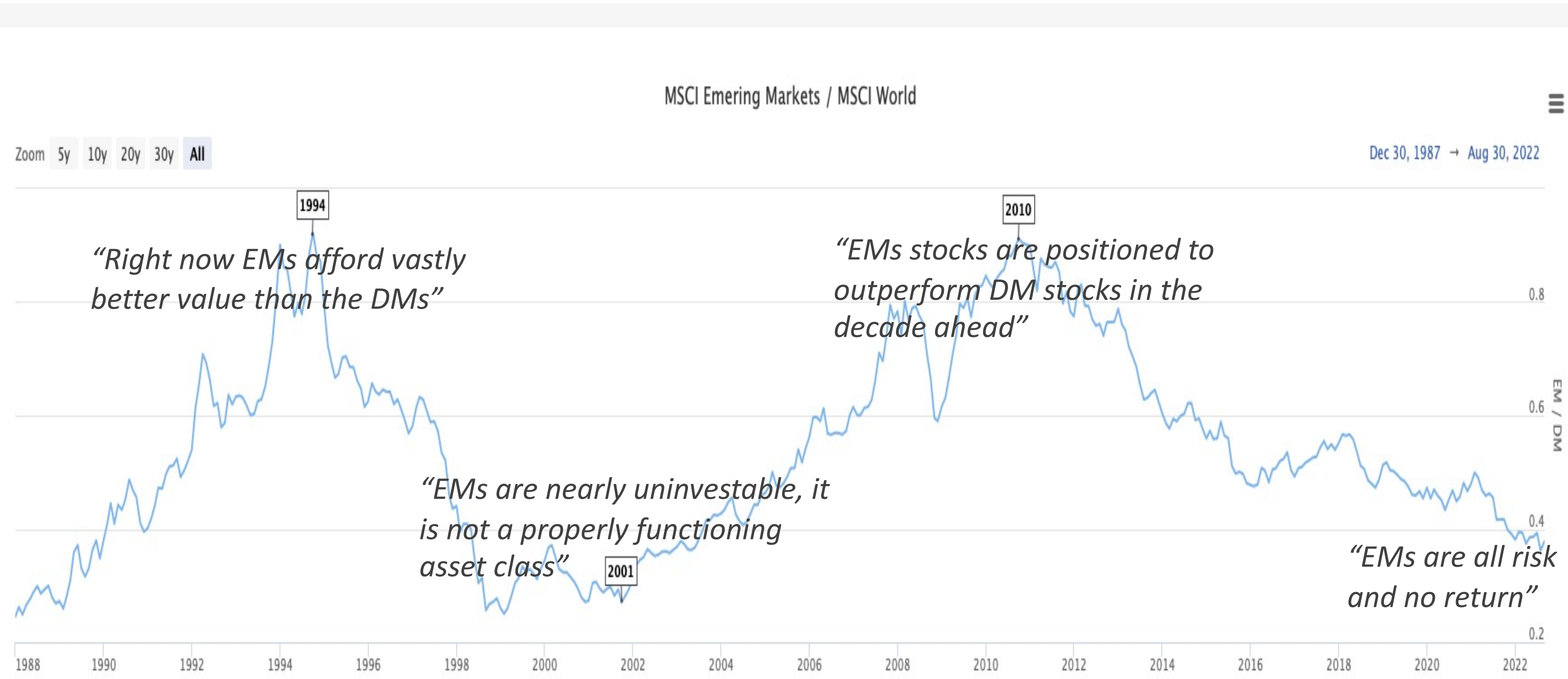
“Assuming risk is absolutely essential if you want a chance to be superior.”

- Howard Marks

- Einstein’s inversion:
  – Avoiding risk will necessarily lead to zero value-added
- Conclusion:
  – Active manager goal should be to assume risk, not to avoid it

Historical View of Risk in Global Context

- In reality, the opposite happens…



The Way To Think About It

- There is a notion that there are ‘risky’ investments and ‘riskless’ investments
- Avoiding ‘risky’ and embracing ‘riskless’ leads to inferior investment results
- There is risk attached to any investment, be it Turkey, textiles, Big Tech, or chocolate
- Key is not avoiding risk, but rather managing risk

The Way To Think About It

- Every day we all go to work, but that entails risk
  - When you cross the street you can get hit by a car
  - Not a trivial risk – according to CDC the odds are 1 in 4,292 in a given year, or 1 in 80 over one's life
  - But we don't just sit at home and avoid venturing outside !
- Why ?
  - We need to earn a paycheck
  - We need necessities of life
- Risk cannot be avoided if we are to get what we need so we manage it instead
  - Observing traffic signals
  - You look before you cross to double check
  - Take detours to avoid busy intersections
  - Importantly – we have to price risk – only take it if there is a reward
    - Paycheck, delicious food, or a hot date

The Way To Think About It

- Global investing is very similar to the road-crossing situation described
- Risks cannot be avoided so don't even try
- However, risks can and should be managed
  - Calculable risks – understand what the implications might be if the risk comes to pass
  - Manageable risks – understand the impact of the implications if the above risk comes to pass
  - Paid risks – insist on getting paid to the extent commensurate with the risk
- Important difference between crossing the street and investing !
  - In the road-crossing situation you can only make a mistake once
  - In investing you can improve your risk profile by diversifying

Questions ?

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