30 Years of Finding Alpha | Dan Loeb

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SUMMARY

The discussion centers on the evolving landscape of investing, particularly the increasing necessity for understanding technology and its impact on various sectors. The speaker emphasizes the importance of adapting investment strategies to incorporate technological advancements, especially in light of AI's rapid development and its implications for the economy and capital allocation.

- *Investors must now be tech-savvy as technology increasingly influences all sectors of the economy.*
- *Staying informed amidst overwhelming information requires a tactical approach, focusing on relevant economic indicators and trends.*
- *Key areas of focus include oil prices influenced by geopolitical events and the transformative effects of AI on industries.*
- *The speaker's investment style has evolved from a credit-focused approach to incorporating quality and thematic investing, emphasizing high-return businesses.*
- *Governance is crucial for corporate success, and effective boards should prioritize shareholder value while balancing other responsibilities.*
- *The speaker reflects on the importance of continuous improvement and learning from both successes and failures in investments.*
- *Future investment opportunities will likely arise from human behavior and market anomalies, despite the rise of AI in capital allocation.*
- *The speaker remains optimistic about the potential for technological advancements to create new jobs and opportunities, contrasting with more pessimistic views in the industry.*

There was a time when you could say, "I'm just going to punt on tech and focus on industrials and consumer and whatever." I think you have to be a tech person today. It's such a it's a big and growing and compounding part of the economy. It affects everything else. Hold on to your seats because things are only going to accelerate from here. You have to figure out the things that are most important and most relevant. Maybe that's where the human element comes in to understand and to be able to make those tough trading decisions when fundamentals are going one way and stock prices are going the other way. What a awesome opportunity to be able to incorporate everything that you can possibly know about the world that's relevant.

Dan, we've only been trying to do this for six years. >> Yeah, welcome. I've been excited to finally chat with you about all things markets. It's such a crazy time. And I was I was walking in here, I'm like, what am I actually the most curious about as it relates to how Dan runs his life? And one of the questions is the simplest which is in this time where there's more information than you could ever read literally what does your day look like to stay up to speed on all the investments that you've made the investments that you could make like what is your like today even just take today where it's the end of the day today how did you decide what to read who to talk to how do you stay on top of the fire hose >> I I I wish I could say I have a claude code that is organized all the information in one place and I go through it all. But, you know, I uh check the news and see what's relevant for the economy and and what's relevant for our positions. I try not to get too obsessed with the minute-to-minute stuff because that will drive you crazy. I try to be a little more tactical than strategic. But people will ask me about like macro, what's important? And I think when think people think about macro, they think about all the typical stuff that the government reports, growth, unemployment, inflation, rates, currencies, or where was gold? Where's crypto? And I think that all that stuff is trumped right now by two things.

>> Where's oil and that's going to be dictated by what happens in the war and geopolitics and what's happening with AI both on the spending front uh infrastructure and what's the impact of that going to be on society and on the economy. So those are the main things I'm focused on really trying to deeply understand >> and and what is your model of both of those things like what what would everyone's talking about this all day every day so like obviously these are two big issues do you feel like you need to have a just a clear view or a differentiated view like how do you process things as big as this where probably no one person can understand the whole thing >> you know I'm not like natively a tech person but I think given where the world is today I think there was a time when you could say I'm just going to punt on tech and focus on indust industrials and consumer and healthcare or whatever. I think you have to be a tech person today. It's such a it's a big and growing and compounding part of the economy. It affects everything else. So, I think as best as I can, I try to talk to smart people regularly. Jensen has laid out well and everybody kind of talks about the AI stack, you know, starting with uh power and energy at the bottom and you know chips and infrastructure and moving up through LMS and software and applications and how that plays through. And I think that's a good mental model to just think about all of it. And we've and we've played different elements of that through industrials and infrastructure and hyperscalers and things like that, but Look, I think right now I mean the sock the socks is up 40%. I I don't think I've ever seen an event like that. In fact, if you just go back a few years, semiconductors were kind of left for dead. They were like roadkill in the market. Like people were just not um thinking about them at all. And I think that all changed when Nvidia reported its March results three years ago. And I think you either were there or it's okay if you weren't. you could quickly play catchup and that was the big event and now of course it's sort of thinking about you know the Nvidia the tranium and the TPU ecosystems and how those play out and relative strength and how that plays through the different hyperscalers and then of course the foundational models.

I I try to think in terms of that stack, but I also think about what's going on in the probably the three most consequential companies today. Nvidia, Anthropic, and Elon World, you know, all of his companies collectively. I think there's a lot of ways to uh look through the prism, but for me, that's been an effective way to kind of think about how things flow through. >> How would you describe yourself as an investor? You have an early reputation for being this incredibly precise um ability to go through through things with sort of a forensic lens as an activist early in your career, but now third point is is sort of a a much bigger, broader, more diversified collection of, you know, 25 billion or so of assets. How do you think of yourself as stylistically as an investor? So the the roots of Third Point really come out of my experience as a credit investor and my time at Jeffre. And Jeff was like my uh laboratory for studying some of the best investors.

And my clients were people like David Ter uh at who had not yet started Appaloosa but started Appaloosa. guys like Eric Mitch who ran the trading desk at Goldman, firms like Angelo Gordon, Fereralon. So I was able to watch firsthand like how the best I guess at that point we would call them either distressed debt or event driven or risk arbitrage investors. So my natural first lens was to think about credit but on the equity side to think about it in terms of a hierarchy and a mental model. I completely thought about it through the lens of event-driven investing. So merger arbitrage a little bit off to the side because that's uh less directional. But on the non-merger ARB part, which is really just a mathematical exercise in earning a return and the risk that you're taking.

But terms of a fundamental investment lens, I I think it would be best characterized by those types of firms. And the best book, which I think is still relevant today, would be Joel Greenblat's book, the classic uh You can be a stock market genius. I think the original title was you can be a stock market genius even if you're not that smart. I think he took the >> cut it down a little bit. >> He took he took the that that part out because investors don't like to think of themselves that way. But a brilliant book and most of the people I know in that world kind of use that as their as their framework. Talked about things like spin-offs, demutralizations, privatizations, postreord equities. And that's how I thought about things. like I I was totally unfocused on business quality, the moat, return on capital. I barely even thought about relative multiples for different kinds of businesses. All I thought about is am I buying something really cheap that has the following characteristics?

a a new security is often created which is priced and valued at a very cheap price because of a lack of liquidity. So when a large company or any company spins off a subsidiary, especially in those days or part of the business, there's a new stock being born. Uh the existing investors at that point in time, especially usually mutual fund types or folks that didn't want to uh for whatever reason, it maybe wasn't in their sector, um they just weren't doing the work. So it would just routinely sell it. So there'd be this sort of liquidity gap. And if you could figure out the value of the business, those tended to be good good trades. And that was exacerbated by the fact that the management teams would go out in the case of a spin-off and do a road show that would present a very conservative view. Some might even say sandbag the numbers. Why? Because people are always creatures of incentives.

Their incentive package would be set at the time of the spin-off. So they would come out very conservatively. Um, but there's more. The companies themselves were inefficiently operated within these larger businesses. So margins were lower than they should have been. Sales were probably less. The management team didn't have the incentives to really optimize the businesses. So that was an incredible business model. And that dynamic that I just described, it applied to spin-offs. It applied to privatizations. It applied to demutualizations. It applied to newly created companies like Visa or Mastercard. So that was a beautiful business and it was sort of under appreciated for a long long time and you could generate really excess returns.

And then we would take that basic framework and start applying it to other things like um the synergies that come when you combine two companies in a major merger. You know something like Union Pacific North Southern things like that. from 1995 when we started the fund probably up until the early uh 2013 to 15 that was our bread and butter and how we thought about investing >> and what changed in that era and how would how would you describe that landscape today? Like does does Joel Greenblat's book still uh as valuable as it was when you first read it? Meaning are there are there opportunities like that that still exist? Are they too small for someone like you as an example?

>> No, they they ex they they still exist all the time. The real opportunity today is kind of o overlaying that uh understanding those types of opportunities and looking for uh something that combines that with business quality lens. So let's talk about how my business evolved and how we evolved. I think if you look at a lot of the people who have underperformed or haven't survived the last decade or so when people are really stuck on the idea of of deep value low multiples and being really stubborn about how they viewed businesses and less flexible about moving into higher multiple companies or growthier companies. We basically just started to look at companies that grew faster, that had better returns on capital, that were quote unquote quality businesses. That kind of opened up a whole new world for us. So I would call that kind of the other significant part of what we do, which was would be quality investing, thematic investing, and that's when we started to organize our team around industry experts and less generalists and less around the transactions. And if I uh would suggest a couple of books, I'm sure people have mentioned them and you may have I think you may have even interviewed some of the people who wrote them. Two of the most consequential books that I read that had the most influence on me in that area. The outsiders.

>> Sure. Wealth our next book. Yeah. >> So it talks about them more from the perspective of the managers who understand capital allocation along with great operations. So companies like you know Danaher, Transdime and and others. The most influential and eye- openening book to me was this book quality investing by Cunningham. And that I think really lays out the idea of super highquality businesses with good modes and high return on capital and that you might want to own for many many years. Now, what happened last year was really interesting because a lot of these companies that appeared to be super high quality, it's probably the worst year and going into the beginning of this year because the disruption of AI, a lot of these apparently highquality companies um very rapidly became less.

enterprise ready and stay focused on what matters most, your product. Visit works.com to get started. One of the most distinctive things about you and the business is how much of that you've done, how much changing of your stripes are evolving of your strategy you've done relative to others. And I'm curious, I'm assuming that's going to have to keep happening. The world's going to keep changing probably at a faster clip even than before.

How how have you done that? And how do you think about the conditions or the cultural touch points or like what what is the key to doing that well across 30 years now for you? I I I remember in 2013 I was in a room. It was a dinner in Davos, which I don't go to anymore. It was a Goldman Sachs dinner and Eric Schmidt was there and gave it gave a talk. And you go back to around 2013, it was a time of when you look back at it, it was almost quaint in terms of the technological innovation. This was probably around the time that maybe the Uber app, it was around the time that the Uber app came out and the iPhone was starting to >> explode. Yeah.

>> Explo I say explode, but it was starting to come up with some interesting apps which were starting to be adopted. The SAS revolution was sort of at the front end. Companies like Microsoft were starting to find their footings. Think about all the period from the.com bubble through the uh GFC. The '9s were a time of incredible techn technological innovation and yes stuff was happening but it wasn't I don't think we felt there was a lot going on. There are other things going on um in those years but it was you know the sexy industries at times were natural resources, energy, financial services. So he said to the room, it it will be your natural tendency to think that this increase in technological innovation and disruption and change that we've been experiencing for the last couple years is an anomaly and that things are going to go back to a kind of a steadier type of innovation and growth. Hold on to your seats. Goes things are only going to accelerate from here. And he was really right. And I think you could have said that again in 2017.

You could have said it again in 2020. I think you can really say that right now. Like it has just continued to logarithmically accelerate and we're going through something now where we're at the front end of AI. But I just think we're just going to have to learn to live with this. I don't know that ev from an evolutionary standpoint, our brains have been able to deal with things like social media and some of the other changes. I it's going to take a lot of work for us to just prepare ourselves as a species and even mentally how to ingest all this information. And Brad Gersonner uh talks about this book uh >> essentialism.

>> Essentialism >> and I think we also have to adopt this idea of essentialism because you can't do it all. You have to figure out the things that are most important and most relevant to what you do. >> I was going to ask like imagining 5 years hence or you know pick your period of time when it seems that we're destined for a world where no human will be anywhere near as good at ingesting you know pattern recognition synthesis of data analysis this sort of stuff like you could argue it's already here if you had the right like pipeline set up and the right data. What will be the role do you think of capital allocators in that kind of environment where I think about like your early letters that you wrote to some of these companies where you really had to pick your way through data sets and information and do some gum shoe type work um to find the data and that was you could earn a ton of alpha that way. Seems like we're destined for a world where like if something is accessible by a computer that's over. So what will be the remainder job of the capital allocator do you think?

>> I honestly I have no idea. I don't even know what it's going to look like in 6 months or a year from now. I think we're okay for the next couple of years. I think companies will need to raise money. The securities that are created from that will need to change hands somehow. People want to save. People want to invest. People need to borrow. And I think you always need some human interface in the middle of that. But how that's going to I think it's highly unlikely that there will be a completely you know AI managed capital system is your sense that there is a lot of opportunity to earn great returns still in this environment like the fact that socks is up 40% this year like it's we're several years into everyone kind of being aware that this thing is a is a big trend and yet you know still these things were up tremendously in year three or four.

>> I talk a lot about investment books. I think there there's so much wisdom in books for investing like one of my favorite books reminiscences of a stock operator guy who wrote it quotes uh I think it's from Ecclesiastes which says there's nothing new under the sun and human nature the question is will AI take human nature and the flaws in human emotion out of the investment process because there is a lot of um or might the AI even adopt some of that in under the under the name of you know risk management or managing downside or whatever. I mean in theory I guess it could take it out but if you go back to the it will test the theory that there's nothing new under the sun and the thing that that doesn't change is >> yes >> hysteras uh bubbles um panics and just the extremes of human nature both optimistically and pessimistically I mean you think about just this year why is the socks up so much well it's up so much because all the evidence has pointed to the fundamentals in um semiconductors, semi-cap equipment, memory, everything around it being super strong. So what happened? Expectations were too high and in the same way that Nvidia in after Q1 three years ago had this monster quarter people piled on.

and it kept going up. You had uh a couple of quarters in a row where it put up solid numbers, then shockingly good numbers and the stock tanked and then the whole sector went down and I think people were just scratching their heads saying why is everything why the numbers look so good and numbers keep going and and stock prices keep going down. And then the same thing happened with Micron. They had a phenomenal quarter up 80%.

You know, way ahead of expectations. The stock went up a little bit because expectations were too high and then it went down. Now that happens a lot. Happened to Meta a couple of years ago. They put up a good quarter. Um stock went up was like wy coyote. There was no one else to buy the stock. get tanked and you know so those things happen and I think that's what you know maybe that's where the human element comes in to understand and to be able to make those tough trading decisions when fundamentals are going one way and stock prices are going the other way and to be able to take the pain of losses in the short run. Um, I think you have enough the advantage that that someone like me and someone like me being a fundamental investor who doesn't make trading decisions based on computers, but is that there are still a lot of market irregularities caused by some very good strategies, but collectively they create these anomalies. So you have quants and CTAs, you have pods, you know, let's just talk about them for a second. They have a great strategy for them and their investors, but it causes some unusual behaviors because fundamental investors believe that when you know, as Warren Buffett would say, if a stock goes down, you celebrate it because it's a chance to buy more at a better price. They have uh risk metrics wi which have forced selling on the way down. And so they do the opposite of what it might be rational for their business model, but it's not rational for long-term investors. So you have a lot of these things that will continue to create opportunities, I think, for fundamental investors.

>> So it's so interesting to imagine where the source of potential outsized returns are human behavior, which as you said, maybe that changes how much that impacts prices and structural things like like these. and absent those two, maybe it would be a less exciting market or something like that. >> Yeah. But then, you know, you'll have corporate transactions that will create opportunities. It feels like there's always something. Uh there's failures, there's credit cycles, there's bankruptcies. Um it's hard to imagine the computers sitting on a creditor's committee and working through the capital structure and being able to transact. If you think about a continuum of public securities and private equity, the AI will not do private equity. You always need people to do deals. I think you will. And then you have the kind of the stuff in between that requires a lot of negotiation and human interaction and hightouch, you know, private credit or like I said before, working through a restructuring. You'll probably always need human beings to do that uh that part of the investment business. It seems like we're entering a time as well where governance becomes incredibly important especially in companies. I mean we saw this play out with open AI like in in in the public where the governance structure and the people on a board matter can matter tremendously to outcomes. This has been an area where you've spent a huge amount of time thinking writing investing you know a lot of your great successes have come in and around this topic. I want to ask all about governance. When did you first get interested in it? Like what sparked your >> Yeah. Where'd it come from?

>> Well, actually my my dad uh who was a securities lawyer was an expert on corporate governance and wrote books about it. Uh so I always heard about it at home. He's actually the first person I'd ever heard of who actually talked about corporate responsibility. He was on the board of Mattel and later William Sonoma. He would go visit these factories where they were sourcing their materials from and wanted to make sure that they were ethically sourced and the workers were treated well at Mattel or William Sonoma. So, he was really ahead of his time on that on that uh stuff.

>> What was he like as a person? >> My dad was a uh incredibly funny, warm, irreverent, really smart. He was the only son of two uh immigrants from Europe. My grandmother, his mother came from Poland. His uh in 1914, his father came from Romania in like 1898. Incidentally, his uh his mother's youngest sister ended up she was the first of that family that that was born in this country. Uh his her younger sister founded Mattel Toys. He was a self-made uh person. He went to UCLA, did well, went to Harvard Law School, and spent most of his career at one law firm.

>> I'm curious for you to sum up if you think about everything you've done in governance, what good and bad governance are, like just at the highest possible level. How do you think about it? >> We have an incredible system. Let's start with that. like the the there's something beautiful about the American capitalist system in the in the aspect of it that creates boards of directors that ultimately have a role within both capitalism and a in a democratic system where the board is responsible for and answerable to the shareholders is and is responsible for um accountability for the management setting strategy and the key key financial decisions. So we have a great we have a great system in place where the shortcomings within governance happen is when uh the board members lose sight of what their duties are as fiduciaries or the the composition of the board is such that they

aren't really equipped to carry out that duty because there is a lack of deep knowledge or intellectual or talent diversity on the board or they are thinking excessively about things other than their duty to shareholders. Not to say that the board doesn't have other responsibilities, but I think ultimately they should feed into creating shareholder value. If if you go go back to both Milton Friedman and things that Warren Buffett have said, of course boards care about the communities that they serve, the products, the employees, uh proper conduct, etc. All those things are very important and they are not inconsistent with creating shareholder value. In fact, it's part of creating shareholder value. But I think uh especially a few years ago I think it was the uh business roundt said we're no longer going to uh say that um the board's responsibility is primarily to drive shareholder value. It's this thing and that thing and the other thing. Well, I think it was a distraction from what their real duty is. And it didn't recognize how all these things of course go together, you know. So the bad bad governance I've seen is when from a number of things. One, they let their loyalty or relationship to a CEO who's not up to the job overshadow their duty to shareholders. That's probably the main thing because the CEO, you know, it's very important to understand the boards the boards don't run the companies. The the board's responsing company, the board is strategic, not tactical.

So they should be really focusing on those things. But if the company isn't isn't allocating capital well or isn't holding the management team responsible or there's some very obvious things that should be done differently, that's when we can come in. Most of the time in our experience is we've been able to work with existing boards in kind of redirecting them and offering solutions or sometimes we don't even have to get on the board to get those things done.

kind of an you hear about the extreme cases where we you have to or try to shake things up where we actually you know we have to our presence is needed on the board to do that. >> What have you learned about the power of writing in investing you're obviously extremely well known for some letters you've written to chairs of the board things like this uh throughout your entire career and I just know you're a writer. You've you've used writing in a lot of different ways. What is great writing to you and how do you use it?

All great writing is really about clear thinking and organizing your thoughts, communicating them to people in a clear way to get a desired outcome. I would say that you know you can also use writing to influence and you know in our case it's been helpful in um getting the attention of other shareholders sometimes the board itself shaking them up a little bit getting media attention focused on uh on a board I think about you know activism you've got a few different levers you can have uh you know financial lever by uh you know obviously we can make a a bid for the company you have uh legal levers proxy contests litigation uh information requests etc. Social pressure is actually a very effective way and I think the best way to uh to put social pressure on a company is through writing and PR efforts around the company. If I look across all the different activism that you've done, it seems like maybe there's an interesting theme of uh you going activists on places or people or companies that are quite hold themselves out as quite high status, but then they're not living up they're not living up to it. Whether that's ses or some of the Japanese conglomerates or just like certain CEOs and their family members on the board, things like this, there's like a status component that um would be deserved if being earned on an ongoing basis, but maybe the company wasn't. and and you saw that gap as an opportunity. Do you think that's like a is that a thing? Am I do I see a correct pattern?

>> That's interesting. Uh certainly was the case in Sabes. >> Can you tell that story? That's such a good story. Such an interesting one. >> I'll come back to the story about Sabes in a second. But I think all board all boards feel board members often feel a sense of status for being on these boards. And I think that in itself needs to be dispelled because I think if you're on a board because you are either getting status or you're getting income and that's your primary reason for doing it, not for representing shareholders, then that's where we come in to try to um disintermediate that um and take away some of the status or increase the cost of of doing that. Uh, you know, Southern Bees, I thought was just an interesting company. It was a pretty small company and a small target for us. It's actually a very good example of what you're talking about because although it was a public company, it wasn't really run for the shareholders. It was run because I think people did feel like it was a a high a high status business. Had been mismanaged. didn't really recover from an antitrust violation that spilled into kind of criminal charges brought against the company and some of the individuals.

And the business itself was a a a good business, but just run unbelievably unprofitably. and um you know had the company had been around since the 1700s and some of the business practices had not really been updated since that time. So we took a position we bought 9.9% of the company. We went after the the board but really just wanted them to implement some basic um you know business practices that we thought would be better. We didn't think the the CEO that was there had sort of come up. He was uh he didn't have a particularly deep knowledge of art. He came I think he came out of the rug uh division.

Didn't really have deep relationships with the collectors either. So we came in and um gave him a shot for a year and then um I think the board came to realize he wasn't the right guy. We brought in guy named Tad Smith who was terrific from MSG. Uh cleaned up the operations, improved the technology and then um they sold the company. >> Good result. >> Yeah. A good result. Do you think that there's a lot of that lurking out there today? Like if if one wanted to start a career and only do that, go find companies where it was kind of mediocre or bad management where if it was good management, the company would do way way way better. Do you think there's still a lot of that out there? There's probably some of that uh in the kind of sub2 billion market cap space and not necessarily even bad management but maybe B+ management, >> not optimizing.

What we're finding is that it's almost like a negative selection process. It's like we'd much rather invest in in a great company with awesome management that's doing all the right things and and cheer them on than kind of find something that but for you know mismanagement the company would be worth a lot more because what you find is that if um the things that you've identified are badly run then there's probably you know 10 times more things that are badly run. It just gets to be sort of a a morass.

>> One of the interesting things about their point is that if I understand it correctly, it's something like 60% credit, which I think would surprise a lot of people of just like the total assets. And also when you started, I think you started with no institutional investors. It was it was individuals, families, things like this. And it seems like you sort of have felt your way into the strategy. like the strategy as it exists today probably wouldn't go on like a clean PowerPoint deck if you were a new firm doing this from scratch. It would be hard to to pitch what you have now and I'm really interested by by that by a firm which has evolved into its model and um it's 60% credit today and it's a blend of other things and I'd love to just talk about that evolution and and why it is and the value

of that evolution versus like predicting okay here's exactly what we're going to do.

>> Yeah. Well, first of all, third point is a whole collection of businesses. My main focus is on the the hedge fund strategy >> which started at three million. It's now about $9 billion today. That fund itself is about 20%. It's about 30% credit in total. The rest of the portfolio uh I mean it moves all over the place. It it it is primarily equities and I think our equity book is generically around 110 long by 30 or 40 short but that can be all over the place. I mean I think at going into the war it was down we really dialed back our risk and we were I think for the first time since 2009 we did have more credit exposure than equity but we very quickly have taken that back up but we are the hedge fund we're still more equity than credit but across the fund we have um a CLO business with about $7 billion in it within thirdpoint itself we have about 30% of a which would make it uh close to $3 billion in structured credit and corporate credit, but that's within the hedge fund. And then we have an insurance company that we manage about a a billion dollars in credit for uh we have a a couple billion dollars in asbestous liabilities that we manage in its own pool and we just started a private credit business which is small.

What's the thread that unites all those things like asbestous liability and private credit and and corporates? Like it it it seems kind of all over the place. >> Well, we haven't even talked about the fact that we have a venture capital business, right? >> I've I've worked in venture capital. I've I've I've worked in risk arbitrage. I've worked in credit. I've worked, you know, in equities. And I think having a view of value and thinking about valuing enterprises whether there are earlier stage, mid-stage or mature businesses and looking to invest in whatever the fulcrum security is in that enterprise.

Obviously for an early stage company the only fulcrum is the equity. >> What does that mean fulcrum? Just define that. >> The one that's going to have the best riskreward. >> Got it. Yeah. It's usually used in terms of companies that have, you know, debt and equity. It's more in terms of like companies that have um they're going through sort of like a restructuring of some sort like do you want to be in the equity? Do you want to be in this junior debt? Do you want to be in the senior debt? Credit Swiss was going through its uh troubles and being bought by UBS. You could invest in the in the preferred shares.

You can invest in the hold co paper or you can invest in the opco paper which was most senior within the capital structure. The fulcrum there was actually the hold coat paper that had the most upside but the opco paper um also did well. The pref was wiped out. So that was you know the wrong place to be. There are always different interesting places within the capital structure to play and having a comprehensive view of these companies gives you a really uh great vantage point to make alpha generating investment decisions.

Let me give you two examples. We had a a a workable a good enough knowledge of Twitter and XAI to understand the equity value of both of those businesses. and without making a decision whether or not we wanted to own equity in XAI and having not participated in in in the Twitter deal. There were two financing transactions that came up. One for XAI and another one for Twitter. The Twitter debt was a resale of the financing debt that was offered when Elon bought the company. Morgan Stanley sat on it for a while. It was deep underwater. When it got close to par, they decided to sell it.

>> Most credit investors were really scared and nervous to buy that even though it was like 96 97 cents on the dollar. It was yielding around a 12% yield. We were comfortable enough with the underlying value of the business and with the fundamentals that we made that at that time our largest credit position. And then when uh XAI did a a debt financing, uh very few credit people wanted to play in that one because there was no cash flow, $2 million, $2 billion in revenues and a $20 billion uh enterprise value, but we were very comfortable that this was a real business. We looked at them as credit investors, but we also were able to bring in the resources of our kind of private investing knowledge. Yeah, it's a fascinating example of uh the value of seeing across the whole ecosystem and being able to invest however you want which which brings me to the question of as again as I understand it you're sort of still the single portfolio manager that sits on top of all these assets across all these different buckets like ultimately you have to make the decision to buy or sell something.

>> Let me just push back on that. I'm the portfolio manager of the hedge fund. >> Yeah. But um private credit, CLOS's operating structured credit, a high yield business, they all have their own PMS. I will come in if there's like an interesting opportunity like we superersize both of those both Twitter and XAI when I got involved, but I'm not even on the investment committees of those businesses. >> Yeah. Okay. So, so to zoom in on just a hedge fund where you're where you're the PM, you mentioned before, you know, you could be a great investor and not bother with tech like Warren Buffett style or something and now today the market's whatever 70% tech or depending on how you measure it.

>> What do you think of that complex of companies today, the sort of Amazon, Microsoft, Google, uh, you know, big big technology companies relative to the last 10 years of watching them and investing in them carefully? Like what what does the setup feel like to you today? >> I think the setup's great. I mean, you can still buy Nvidia. May maybe the multiple slightly higher right now. I I mean, there's such a catch-up trade in Nvidia at 15 times 27 12* 28 for the most dominant fastest I don't know if it's the fastest growing, but very fast growing company at its size. I I looked through our whole semis cap equipment hyperscaler um portfolio and I thought my my instinct was going to be okay we've got to take profits here. I I looked at the valuations I looked at their growth rates unless you are really draconian or negative and you think that somehow the AI world is going to roll over in 31 or 32. I think it's some of the most attractive. Yeah, I think it's the most attractive sector right now.

It's where the bulk of our capital is invested. >> As a person that was born in the sort of value discipline and and made a lot of money in that kind of investing, those people who tend to have not evolved as much would point to today and say, "Oh, it's just like another classic example of like a giant bubble in the making." Do do you feel seeds of that at all? other aspects of the market that feel euphoric or strange or out of >> you don't believe the capex numbers are going to yield a return then you would have to believe that they're just flushing money down the toilet and that they're not going to get a return because the earnings are really um strong and the multiples on that and they might say yes but the cash flow after capex is you know they're scoring but these are companies also that investing money off their, you know, for the most part investing money off their balance sheets and are generating enormous amounts of cash. So I it's very different from the dot bubble which we were short, you know, going into and had good numbers in those years. I just don't see you don't have the valuation bubble now on those companies that you had on on on those companies back in those days. You you you look at Anthropic's revenue growth and the adoption and the usefulness of its products and the anecdotes you hear about the next generation, you know, mythos and what that's going to do. You can make a good argument.

We're we're barely scratching the surface. I mean, the you know, there's so many layers of of corporations that have just they're just getting started. So, I'm in the optimist camp in in terms of seeing this as something that's going to play out. >> As your business scales up, everything gets more complex, especially your compliance and security needs. With so many tools offering band-aids and patches, it's unfortunately far too easy for something to slip through the cracks. Fortunately, Vanta is a powerful tool designed to simplify and automate your security work and deliver a single source of truth for compliance and risk.

There's a reason that ramp, cursor, and snowflake all use Vanta. It frees them to focus on building amazing differentiated products knowing that compliance and security are under control. Invest like the best listeners get a special offer of $1,000 off Vanta when you go to vanta.com/invest. I know firsthand how complex the tech stack is for asset management firms. And seemingly every new tool and data source makes the problem even worse, adding more complexity, more headcount, and more risk. Ridgeline offers a better way forward. One unified platform that automates away that complexity across portfolio accounting, reconciliation, reporting, trading, compliance, and more. All at scale. Ridgeline is revolutionizing investment management, helping ambitious firms scale faster, operate smarter, and stay ahead of the curve. See what Ridgeline can unlock for your firm. Schedule a demo at ridgeline.ai. What about the rest of the world? I'd love you to tell the Sony story, the story of going to Japan and spending so much time there and everything that you learned. Um, I think it's a really colorful, cool story, but it's also an excuse to ask about the rest of the world and and what you see going on there. I know you'd be willing to invest anywhere, whereas the American companies get basically all the attention in markets these days. So, yeah, whichever order you want to go, you can tell the Sony story first as just an example of this, but I'm just curious how you think about everything outside the US.

>> Israel is an interesting market. It's kind of a a nichier market and we had uh one one of our top investments there that despite the war has been one of the best performing stocks in our portfolio. But in terms of the big markets, yeah, there's a lot going on in Korea, Taiwan, Japan. I'm probably more bullish on them just in terms of a hunting ground to find great companies. The European markets are are just tough right now given the regulatory environment. They just have a different attitude about uh business and capitalism. And you know, we're invested in a couple businesses there, Rolls-Royce, uh ASM, ASML, but the companies that are in Europe dependent on the local economy are are more challenged.

>> Can you tell that Sony investment story and kind of everything you learned through that process and what you did? at I mean Sony was I mean at one point we owned 7% of Sony and there there's a list of companies that we at one point owned significant stakes in that had I not sold would be worth you know in in the mid to upper single digits billions of dollars. So >> I feel like I hear this all the time.

>> Yeah. I mean we all have that like we sort of took two two runs at Sony. The first time we invested in it was basically a conglomerate. It had obviously the main the Sony studios. It had semiconductor business uh a life insurance business obviously had all the consumer electronics. We advise them to uh separate these businesses. Certainly at a minimum take out the insurance business which had no place in it and we met with the

management team. Uh we had a big deck that we went through and um at the end of the meeting we told them in the interest of of transparency we shared our investment thesis with uh with the New York Times. Andrew Ross Sorcin wrote the story. They went into a panic when we told them about that and Andrew agreed to embargo the story until the Japanese market closed.

The story came out and they had pre-arranged um us to go on a tour of their kind of innovation center. So um but before we went on the innovation center when we told him that there was going to be a story they came out and his name was Kaz Harai the time he goes you told the New York Times I said yeah but just the New York Times nobody else. He says okay just the New York Times. So anyway it was like it it it was wild. We were walking around the innovation center and we're looking at our Blackberries at that time and it was just like the story went everywhere and anyway it ended up being a really good investment. They really pushed back on everything that we recommended until you know it took them about five years and I think one by one they've done many of the things they've broken out the semi business. they partially spun out or they plan to spin out their financial services business. The one thing I learned is that activism in Japan is really hard.

>> I'll tell you what's interesting about activism in Japan. Uh we on one of our first trips we met with the prime minister and we met with his right-hand man uh uh Sugosan and I told him I would write a paper explaining to him why uh activism was good for their good for Japan as a country and they had released something called the three arrows. was about fiscal, monetary and restructuring. And my suggestion was that they needed to include corporate governance and in particular a focus on return on invested capital as part of their three arrow strategy.

And I came back to New York. I met with Larry Lindseay and Neil Ferguson. We wrote a threeperson paper. They did most of the writing. Um, but we wrote a paper for AEI. It was then picked up as an editorial in the Wall Street Journal and they then adopted that. It was it was pretty cool. But the government actually really wants the companies to do this. It's really the management teams that are more entrenched because the shareholders and the government kind of want that.

And and you've really seen progress since we first went over there. They're breaking up some of these cross shareholdings. They're um penalizing companies that trade at discounts to book value. There's bunch of other things. So, I think, you know, they're definitely moving in the right direction. If you think about all the investments that you've made, is there any that stands out as the one that taught you the most just about like how this world works? I know I've asked this question a couple different ways, but I'm just always interested in these like instructive learning by doing versus by reading. You can read all these amazing books, The Outsiders and Joel Greenblat's book, and they're great, but it feels like part of investing is you have to get hit in the face or uh experience things to really embibe the lessons. Is there any investment through your career that stands out as as one like that?

I think investing in Danaher has been the most instructive because it really is truly one of the bestrun businesses. It was also one of the first experiences that I had investing in a super high quality business that internalized like some of the like best practices of creating a corporate operating system. My partner then, Munie, and I actually went to Danaher and uh got them to boil down their five-day DBS, Danaher business system training into a one-day >> uh thing for us. It was really instructive. It was a really really good investment for about four years by observing them by watching them kind of incrementally improve the business quality of the company by shedding lower quality businesses buying higher return on capital uh better quality higher margin businesses to shift from kind of general industrials into health care. I learned a ton and then stopped working as an investment and the you know because of COVID there were all kinds of irregularities like surges in orders and increases in inventory and then a correction for that and what you know all the benefits that they got from the surge in demand that was a tailwind became a headwind and they still haven't um really come out of it. It'll be interesting to see how they navigate, you know, AI in the next few years. We actually sold it um and recently with the recent selloff have gotten back in, but in a small way.

But I learned a lot about how really thoughtful businesses think kind of phil philosophically and deeply about their operating system about optimizing and motivating and inspiring their team and even the fact that they have a system in place and it's also been incredibly instructive watching the diaspora of executives. >> Larry Culp was there, right? >> Yeah, Larry Culp was there. Um there have been a lot of uh other the guy from Ingresol Rand which has been a well-run business.

>> If you had to sum up that one day, what was it? Just continuous some system for continuous improvement was the thing that you took away. >> Cult is a little bit too strong of a word to describe it, but they had a very strong corporate um identity and culture. It's one thing to say we are a Kaizen company and we're dedicated to continual improvement, but what they have is a whole system of implementing improvement across the organization.

And you know, one of my big takeaways from that day, there were a lot of things that I learned that day, but one of the things I I took away is that they would hold people very accountable and individually uh show when people were underperforming. But the interesting thing about it was that because these things were all addressable and fixable when they found someone that was underperforming, it was celebrated because instead of shamed because look, look what all these things you're doing wrong. We can fix those. And they did.

They do that over and over and over again. And they do it both in terms of operations, working capital. And it was really cool to just like walk around a place and everybody it was really um amazing how everybody's on the same wavelength trying to accomplish that. >> Can you talk about the insurance business that you've that you've built and acquisitions that you've done on the same point about like everyone talks about in investing the stuff you're putting money in far less discussion of like where the money's coming from and Apollo has certainly done this with Athen there's been a lot of cool innovation in in like the liability side. How how have you thought about it?

What have you done? What's the story? >> We actually started an insurance company, Denovo. It was 2010. >> We were backed by myself, uh, Kelso and Pinebrook, and we started a Bermuda based reinsurance company. And the thesis there when we started was we have an executive that will do these reinsurance deals. uh we will invest the float all all in third point and in treasury so sort of a barbell then we can defer taxes get leverage on our capital green light re at the time was trading at 140% of book value I thought this would be the future we'll just keep raising money for this vehicle the problem was that the reinsurance business took a sharp turn for the worse and we had some good years at third point but we were like you know scrambling to offset the losses from the insurance company. About 3 years ago, I said, "Well, we had the right idea, but we had the rout we had the wrong insurance vehicle.

We were doing PNC insurance. We really should have just done plain vanilla annuities basically." And problem is the annuity business though can't invest in the hedge fund. It can only do credit. Well, the good news is we had had about five years when the serious point stopped investing in my hedge fund, but we started investing in structured credit, corporate credit, and other things that were either rated or more appropriate for an insurance company. We've done two things since then. We mer we we merged our reinsurance company into a closed end fund that we had in the UK, Third Point Offshore Investors.

We reinccorporated that business from Gernzie to Cayman and we repurposed it from a closed end investor in my hedge fund into an insurance company. Still has some of the investment in the hedge fund, but it now owns our reinsurance company. That company will then be in a position to do more reinsurance deals, issue primary annuities, and then third point manages the money in private credit, structured credit, whole loan mortgages, um some direct lending in real estate, some investment grade, corporate debt, and private investment grade. But we also put the equity of that business in things like the junior tranches of structured financings. But we'll also be using it for growth equity investments.

>> What's the hardest investment lesson that you've ever learned? >> I would have to say our investment in FTX. It looked great. The you know company was growing fast. We could verify it all on the blockchain. uh we felt like we had some good company uh on the cap table with us. We did it. It just turned out there was just, you know, it wasn't what we thought it was. And, you know, it was painful because, you know, I think in general, one of the amazing things about our capitalist system and the ability to go out and that that venturebacked companies have this incredible ability to go out and raise capital for interesting ideas.

And I'd say, you know, most people are good actors with good intentions and we've rarely had any kind of like mishap. Doesn't mean that you don't do very careful due diligence. I will say that now our due diligence process, we definitely like check bank balances and do like the most basic due diligence that probably would have, you know, turned stuff up on on this. But um if if left alone or if he hadn't uh ended up being a crook or or very sloppy, the venture investments he made would have >> like the best venture investor of this era.

>> Cursor, philanthropic, Solano, everything he did. I mean, the guy had a great nose for value. So that was probably the the the the toughest the mistake that we made within the last two years. we obviously were looking for and we've made some great short investments in or so we've taken some great shorts in things that are being disrupted by AI but where we've made the mistake is that we're controversial but we thought we knew better that AI wasn't really going to you know affect this part of the infoservices business or these guys had pri proprietary information that's where we've made some mistakes now I still think there could be a shakeout. There probably will be a shakeout there where where there will be some phoenixes that rise from the ashes, but

that's been kind of the investment lesson of the last, you know, year or so.

>> How do you guide your team through this? You've got a bunch of extremely smart, ambitious, I'm sure, hungry analysts, investors, etc. What do you tell them going into this crazy uncertainty? >> Yeah, I mean, first of all, we all have to just, you know, start using it. The only way to get good at this is just to use it. And we have people at different levels. We have experts that we have brought on that are native computer scientists that are kind of coming at this as expert AI people who are working on specific projects. They're coaching the team, but we're also encouraging everyone to use AI and um find as many applications you can you can hire. And we do hire like system integrators. We have a system integrator working with us. We're starting a new insurance company. We talk about that a little bit later. You know, I'm obsessive about continual uh improvement both at individual level and organizationally. But Claude really is like a and it really enables you to be an individual self-improver. It it makes you very autonomous and like your ability is sort of like it'll give you back whatever you put into it. if you put a lot of time and energy and effort into it. So, I'm encouraging everyone to do that. And I think, you know, collectively, we're all sharing best practices and, you know, some people are running agents overnight and using tons and tons of tokens. Other people are uh probably more like me, just using it more for queries and things, but you know, we're all very involved with it.

>> Where do you feel like your in the firm's view is the most different from your peers these days? You know, I know you're close with lots of the great investors of of this era that run firms, you know, like this one. Um, everyone's trying to do the best they can. Where do you feel the most out by yourself or distinctive in how you view the world? I >> I I think we're probably more optimistic or or you say that maybe less pessimistic that there's going to be some kind of, you know, apocalypse from AI. Like I I'm still pretty optimistic that it will create opportunities and create jobs and create net jobs.

Obviously, it'll lose in some places, gain in other places. I think the the differentiator for us is that we can always uh we can always uh default into credit investing and when things get I mean we haven't been in a scenario where we had like a real credit cycle but I'm very comfortable investing in um incredibly stressed times. We really haven't had any since 2020. So going back to like COVID what the thing that we got really right because we had a good year that year but it wasn't because we piled into stocks we piled into you know IG credit when it was so maybe that's answering the question a little bit differently.

>> Why do you suppose more places don't do that? It seems like it would be an obvious thing to provide an advantage have more options for expressing a zoo. >> It's so different like I grew up in credit. I I worked on a trading desk. You don't just, you know, electronically trade bonds. You have to have relationships with these firms. You know, part of the reason for expanding into the the CLLO business is that we we had the high yield market, trillion half dollar market, pretty wellwired. We were sort of dabbling in the broadly syndicated loan market, which is another trillion half dollars. But we also have, you know, eyes on a $6 trillion structured credit market. But these are not markets that lend themselves to to tourism when the opportunities really come up. We're already there with the relationships and the understanding the companies.

>> What makes a great analyst today in any way that's distinctive from what made a great analyst 20 years ago

or something like that? Like how has that changed? If you if you picture like the most talented analyst here right now, whoever that is, what what are they like? Yeah, I think that the great analyst 20 years ago was like someone that could build a a model really fast and understand um some really complicated restructuring like when I was I'll use myself as the example of that ancient dinosaur of an analyst that used to be useful like when I was at Jeff Drexel went bankrupt and there was a thick disclosure understatement about 3 or 4 in thick on this bankruptcy of a company called Drexel Burnham and this thing got passed around and nobody could crack the code on this thing and I was relatively new and I knew I had to differentiate myself. So I just spent like a whole weekend studying this thing and ultimately that was one of the best investments ever in the history of bankruptcies was the claims on Drexel because people didn't understand the complexity of the different value pools and liquidations and the claims were overstated, the assets were understated, but it was super complicated and that was the kind of thing that differentiated the analysts of the 90s when I did that or even the 2000s. I think now it's somebody who's like a Gavin Baker type, a junior Gavin Baker, somebody who understands a company or understands an industry and understands the nuances of a technology. Let's get away from technology for a minute. Um, Casey's General Stores, like why was this one of the best performing stocks?

It looked like a, you know, it looked like a tech stock. Uh, it was because they were not a convenience store chain. and they were a pizza chain >> kind of masquerading as convenience stores. had an analyst who went to Texas and ate pizza and saw you know so that kind of an analyst today I think you know is what >> was different >> if you think about the next 10 years for yourself >> and everything going on in markets feel like we're all lucky to be alive to watch this era what excites you the most about this next 10ear period as an investor and you're lucky you have all these resources and you can invest in anything and credit, equity, whatever.

And then what worries you the most? >> The thing that worries me the most is just not having the time to do the things that I care about, you know, spending the time with my family or being able to go surfing and read books that I want to read. Um, not really worried about like the business. So you have good process, good, you know, invest things with good value. And the thing that excites me is just the the things that have excited me that kind of keep me going. I mean, God, what a what a awesome opportunity to be able to incorporate everything that you can possibly know about the world that's relevant. to study industries, to study technology, to study consumer behavior, to look at the US economy, look at politics, to travel to the Middle East, where which I think is probably the most vibrant interesting part of the world. I mean, who would have thought 20 years ago or even three years ago Bahrain, the Emirates, Saudi, Morocco, Azar Bjan would be better allies to the US than NATO?

>> Crazy. And who would have thought that their growth rates would weigh exceed them or that their, you know, growth and their embracing of technology. That's the stuff that keeps me going. It's like just being able to incorporate all these different things and also to form relationships with people that are doing interesting things. Jeremy O'Brien who founded Syquantum and talk about quantum computing or Elad Ros who started Next Silicon or the CEOs of the companies that we invest in. I've got to know Mitch Rails from Danahert.

>> It's so cool to finally hear about it directly and do this with you. When I do these, I ask the same traditional closing question of everyone. What's the kindest thing that anyone's ever done for you? >> Gosh, I you know, I

thought about that because I knew the question was coming and I had a lot of different ways to answer it. But before I answer that, I do want to talk about like the importance of kindness. And I know you know it's important because you ask this question every time you interview someone. And it's important on on many levels because I think if you kind of elevate kindness as a characteristic that you want to elevate in your hierarchy of things that you want to be honest and truthful and smart, clever, innovative, whatever.

Like I think kindness is it's it's it's it's very important. I think it goes with like forming deep relationships with people. I think kindness enables you to be empathetic. That enables you to connect with people to learn from them to be better as a human being and and ultimately I hate to sound crash but ultimately it will benefit your your your business. So I will say on on the kindness front, be kind to the people not just that will benefit from you. Be kind to people you have no idea how it will ever benefit you. And and and sometimes it will and sometimes it won't. Sometimes you just, you know, connect with someone who thinks you're a better person.

>> Good for its own sake. But anyway, I I I came down to my friend uh Carter who when I was, let's just say in between jobs before I started at Jeffre, I had about a six or nine month period where I wasn't working. And he let me sleep on his couch. And then when I got my job at Jeff, I suggested to him a bunch of different distressed debt situations. and uh he trusted me with a few hundred,000 of his money and then it turned into a little over a million dollars and then he then rolled that into my fund and uh it really enabled me to get my business started. So that was one of the kindest things. I want to say one other thing on the kindness topic. Gavin actually said this and I think he was quoting uh Palmer Lucky. He said, uh, the one thing money doesn't buy you is friends that believed in you when you had nothing.

>> It's a great line. Amen. Shout out to Carter, Dan. Thanks so much for your time. >> All right. Thank you very much. >> You know how small advantages compound over time? That's true in investing and just as true in how you run your company. Your spending system is your capital allocation strategy. RAMP makes it smarter by default. Better data, better decisions, better economics over time. See how at ramp.com/invest. As your business grows, Vant scales with you, automating compliance and giving you a single source of truth for security and risk. Learn more at vant.com/invest.

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