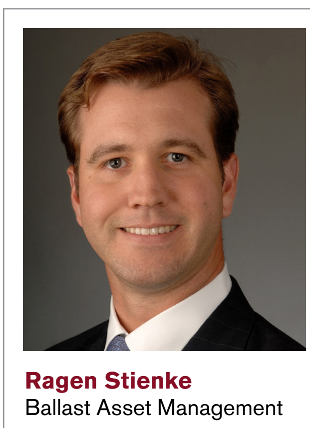
Value Investor INSIGHT
The Leading Authority on Value Investing
October 31, 2018

Seeing Around Corners

His strategy and process have little changed since he left Westwood Holdings to start Ballast Asset Management in 2015, but Ragen Stienke has found one pleasant change to his day-to-day routine. "I can devote more time now just to managing the portfolio and picking stocks," he says. "You don't realize at a bigger firm how easy it is to get pulled away from that."

When he left Westwood, Stienke was managing $3.5 billion and the "SMidCap" mutual fund he ran over ten years beat its Russell 2500 benchmark by 180 basis points per year. Still seeking companies for which there are "undeservedly low expectations," he sees value today in such areas as laser systems, shoe retailing and data analytics.

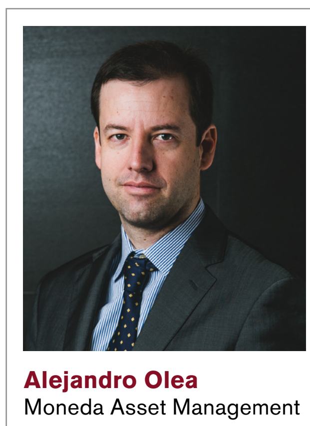


Ragen Stienke
Ballast Asset Management

Skilled Translation

While U.S. equity investors have enjoyed a ten-year bull market, the ride has been rougher for Moneda Asset Management's Alejandro Olea. He launched the firm's Latin American equities strategy just before the crisis and for years has been navigating macroeconomic and political turmoil in the region. "Yes, we haven't always had the wind at our back," he says.

He has ably managed the storm, earning since 2008 a 2.5% net annualized return, 650 basis points better than the benchmark MSCI EM Latin America Investable Market Index. Though always wary, he and co-manager August Petrillo see plenty of upside today in such areas as cell towers, e-commerce, financial services and tortillas.

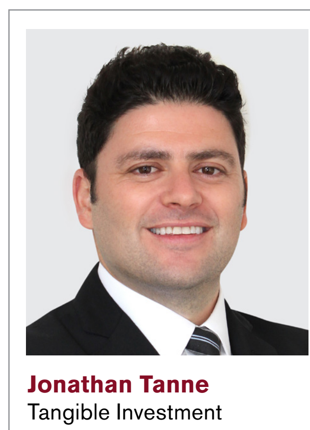


Alejandro Olea
Moneda Asset Management

The Road Less Travelled

Born in South Africa, raised in Australia and trained as an accountant, Jonathan Tanne crossed paths in 2009 with a billionaire global investor as a result of their shared interest in dirt-cheap Australian real estate trusts. That led to a job scouring the globe for public and private investment opportunities before Tanne launched London-based Tangible Investment Management in 2012.

Befitting that eclectic path is an eclectic portfolio – "Usually when people see my top positions they've never heard of them," he says – which has so far earned a net annualized 22.0%, vs. 9.5% for the MSCI World index. Among areas of interest today: Russian banking, U.S. pharma and industrial-commodity bets in India and China.



Jonathan Tanne
Tangible Investment

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Investor Insight: Ragen Stienke

Ragen Stienke of Ballast Asset Management describes why and how he assesses the downside first when researching a company, how he tries to keep emotion out of decision-making with companies he owns, how he estimates risk exposures at both company-specific and portfolio levels, and why he believes Coherent, DSW and Teradata are mispriced.

What's often going on that leads to the "undeservedly low expectations" for companies you tend to find attractive?

Ragen Stienke: There are any number of reasons why expectations might be lower for a company than we believe they should be. It may be a structural change within an industry with benefits the market is slow to recognize. It may be a threat of product, service or technology obsolescence to which we think people are overreacting. It may be a restructuring at a company that to us offers better-than-expected margin improvement. Maybe there's a regulatory issue that is either less onerous or more beneficial than commonly assumed. Maybe the business is fine but boring, so nobody seems to be paying attention.

You talk about the importance of boiling an idea down to a bullet-point explanation of exactly why you want to own the stock. Why is that so important?

RS: Most of the time we look more closely at a name and determine the same thing the market has. But we'll invest when we have a testable thesis derived from observable fundamentals like demand changes, industry consolidations, product launches and price increases, and when those observable fundamentals tie into specific value drivers like sales growth, margin expansion and return on investment.

Behavioral finance teaches you that as analytical and rational as you might be in your initial fundamental analysis, once you own something emotion can inappropriately hold sway. Say you own a pharmaceutical company whose drug you were counting on getting approval for a particular use doesn't get that approval and the stock falls 30%. Now you really don't want to sell it because it's down so much and, hey, look at all the other drugs in the pipeline that should be very valuable.

We've learned over time that kind of thesis drift is a great way to lose money. We do a post-mortem every January where we look at all of our trades throughout the year and we now have empirical data going back more than 10 years. One key finding has been that in cases where our original investment thesis has been violated, 80% of the time the stock over the next year underperforms on an absolute basis, relative to the market and relative to the rest of our portfolio. By being very specific on exactly why we own a stock and summarizing it in a sentence or two, we can easily test that against new information as it comes in. If any central thesis point is violated, we sell no matter what.

ON BECOMING ATTACHED:

In cases where our original thesis has been violated, 80% of the time the stock over the next year underperforms.

How do you tend to find these undeservedly-low-expectation stocks?

RS: That's actually a difficult question to answer. We do screens like everyone else where we look for companies with high returns on invested capital and great balance sheets trading at attractively high free-cash-flow yields. I would tell you, though, that screens are often more a tool for writers' block than anything else.

Most of our sourcing of ideas comes from just being in the flow of information day to day. You read a lot broadly, you read a lot about specific industries, and you read and listen to annual and quarterly earnings reports and the related conference calls. You go to conferences and just generally talk and listen to people. Say you're listening to a company talk about a new product and how they decided to use a different material to produce it. Maybe finding out more about who produces that material leads to something interesting.

Give an example of a recent purchase, what prompted the idea and what is going on that makes it interesting.

RS: This is a smaller-cap name for us, but a good example would be AstroNova [ALOT], which is in a number of businesses, many of which revolve around printing. We first came across it at an industry conference, where we got interested in listening to the new CEO, a Danaher alumnus, talk about the company and what he thought he could do with it.

The company fit the profile of what we find interesting in multiple ways. It sells flight-deck printers used in aircraft cockpits, which some people think is a buggy-whip business but users tell us is the better option and one that is often required by regulation. The business also earns recurring revenue, as AstroNova provides paper, ink and maintenance for the machines.

There's a commercial-printing business, which you can think of as large versions of desktop printers that are used to in-source the printing of relatively short runs of things like labels for microbrewed beer or specialty foods. Here we expect them to benefit from the secular change going on particularly in packaged foods and beverages away from big legacy brands and more toward specialty products.

There's also the potential for margin improvement by streamlining what has been a loosely run family-controlled business, and the potential to improve top-line growth by reinvesting strategically in more advantaged businesses. We're more conservative in our models, but management has laid out a path to take margins

from 5% to 12% and to deliver annual revenue growth of at least 15% over the next three years.

You mentioned that AstroNova, with a market cap of around $135 million, is at the small end of your investible universe. What's more typical?

RS: Our investible market-cap range is from $100 million up to $10 billion at purchase, but we've found our sweet spot in terms of alpha generation has been in companies with $1 billion to $5 billion in market value. One requirement of the companies we invest in is relative stability in revenue and cash flow, which you're more likely to find in mature companies with multiple product lines and built-out recurring-revenue streams. That's less prevalent in very small companies – AstroNova is pretty unique in that regard.

You're quite literal when you say you assess the downside first when researching an idea. Describe that.

RS: We first consider the reasons the market believes the company is in trouble and try to quantify the downside stock price if the market is right. Say the product does become obsolete, or Amazon does come into the market to compete, what is the worst-case scenario for the stock price? If our analysis indicates the stock could fall more than 30% or so from the current price, we don't invest. Or if we can't quantify the downside, we don't invest. In either case that's regardless of the upside.

To give a classic example, the Spring of 2009 was a target-rich environment and many ideas had extraordinary upside if and when the economy stabilized. Industrials were a great example, where you could reasonably envision 400-500% upside. But many of them were hitting debt covenants or you could see they only had liquidity to make it for another few quarters if the economic picture didn't improve. Too often the ultimate downside was 100%, so even with fantastic upside potential those were companies we weren't going to invest in.

You bought into advertising-technology firm Criteo [CRTO] earlier this year after its stock had fallen more than 50% since last October. How did you quantify the downside there?

RS: The company uses machine-learning algorithms coupled with large volumes of granular shopping-intent data to deliver programmatic, personalized and targeted advertising plans to its clients. It's kind of the Switzerland of ad-tech, where online services' companies are motivated to provide it with information while advertising clients see it as an independent third-party providing valuable insight with clear return-on-investment metrics.

ON "CONVICTION":

When I hear that, it means to me the way I feel about something more than what the analysis is telling me.

While we see Criteo as an undervalued growth company with a secular tailwind and technological and structural moats, what has tanked the stock is everything you've heard over the past six to nine months on privacy. We don't believe that impacts them to any material degree, because they are not dealing with the type of specifically identifiable information that has been compromised or that regulators may want to protect. But even if there is a material impact from new regulation or changes in industry practice, we can't see the stock trading above a 20% free-cash-flow yield on current numbers. There are a number of examples in cash-flowing but challenged technology companies where at 20% free-cash-flow yields something happens – usually financial or strategic buyers coming in – that puts a bid on the downside. That's especially true for companies like Criteo that don't have debt. With the downside from today's price [of $20.60] significantly less than 30% and the upside in our base case closer to 200%, we think the stock is quite attractive.

Assuming the downside is contained, what types of reward-to-risk profiles are you looking for?

RS: Through our fundamental research and valuation work we're creating extensive financial models to calculate a fair-value price target based on earnings and cash-flow expectations. We want to be able to get to an asymmetric reward-to-risk ratio of at least 3:1 on our upside and downside targets.

I would emphasize that we're not weighing probabilities of any given outcome. At the simplest level, we're saying we'll do well with a coin flip between upside and downside – we'll generate alpha because we make at least three times as much when we're right as we lose when we're wrong. I've built a lot of probability trees in my life and I've come to realize that's where behavioral pitfalls can really come into play. You're placing confidence intervals and probabilities on things that aren't so much being calculated, but are based on feelings. When I hear "conviction," that means to me the way I feel about something more than what the fundamental analysis is telling me. By keeping feelings out of it we believe we're mitigating overconfidence bias.

We also ideally want to see optionality we're not paying for from things like restructuring, new products or margin improvement. For AstroNova, for example, our price target is in the low-$40s [versus today's price of just under $19], which assumes they make some headway on margin expansion and on top-line growth, but well below in both cases what management makes a credible case it can deliver. If they actually do hit their targets, the share price will be significantly higher than our base case. We believe we're getting that optionality for free.

Describe your broader investment case for laser manufacturer Coherent [COHR].

RS: Coherent produces more than 1,000 different laser models for a variety of ap-

plications in microelectronics, medical instrumentation, materials processing and scientific research. Roughly 50% of total revenues come from microelectronics end markets such as the production of flat-panel displays and semiconductors. This business generates higher margins due to relatively less competition and the higher value of the finished products.

The smartphone industry is undergoing a significant transition away from liquid crystal display (LCD) technology, where Coherent was a small player, to organic light-emitting diode (OLED) technology, where Coherent's lasers have a huge head-start over the competition. Apple first commercialized OLED technology with its late-2017 launch of the iPhone X, but disappointing sales of that model hit Coherent's shares hard – they're down more than 50% in the past year – as the market seems to have concluded the price of the phone was the big issue and that the OLED screen was an important cause.

There are two primary components to our thesis. First, our research suggests that OLED technology is very much here to stay and is likely to become increasingly pervasive as its flexibility, contrast qualities and power-consumption advantages are further developed and as the costs to produce the technology come down. Following a decade of dominance for LCD, we believe the electronics industry is in the early innings of a shift to OLED.

We also believe that many other parts of Coherent's business have bright futures that are largely being ignored by the market. Because of their better speed, precision and efficiency, lasers are increasingly displacing conventional technologies in a number of production applications. For example, the company is starting to take increasing share in the metal-cutting market, where margins should continue to improve as the installed base grows. Another great thing about the business in general is that every piece of laser equipment sold creates recurring demand for consumables and maintenance that amounts to an additional 20-25% of the revenue generated on the sale.

How concerned are you that the declining costs for OLED technology will put pressure on Coherent's margins?

RS: The cost curve for OLED is directly tied to manufacturing efficiency. Samsung is currently the only supplier of OLED displays, but as additional production capacity comes on and throughput across the industry increases, the cost of using OLED will come down. We don't expect that to result in Coherent's margins being squeezed, as its technology is critical to the production process and we believe for some time it will remain leaps and bounds ahead of the competition. It has won favor with the vast majority of the OLED variations that are under development or being contemplated.

The shares have been on a roller-coaster ride – mostly steeply down – over the past year. How are you looking at upside from today's price of around $124?

RS: We expect trailing twelve-month EBITDA of $550 million to grow to nearly $800 million by 2021, driven primarily by increased OLED penetration and by operating leverage across the company's

INVESTMENT SNAPSHOT

Coherent
(Nasdaq: COHR)

Business: Designs, manufactures, sells and services laser systems that are used primarily by end-user manufacturers of microelectronics and medical equipment and devices.

Share Information (@10/30/18):

Price	**123.63**
52-Week Range	115.53 – 329.00
Dividend Yield	0.0%
Market Cap	$3.00 billion

Financials (TTM):

Revenue	$1.93 billion
Operating Profit Margin	24.0%
Net Profit Margin	12.8%

Valuation Metrics
(@10/30/18):

	COHR	S&P 500
P/E (TTM)	12.4	21.7
Forward P/E (Est.)	10.1	16.4

Largest Institutional Owners
(@6/30/18 or latest filing):

Company	% Owned
T. Rowe Price	11.1%
Vanguard Group	8.9%
BlackRock	8.1%
Eagle Asset Mgmt	4.7%
OppenheimerFunds	4.5%

Short Interest (as of 10/15/18):

Shares Short/Float	8.5%

THE BOTTOM LINE

The company's stock has been slammed as the new display technology its laser products help produce has been slow to gain traction. Ragen Stienke believes that negativity is short-sighted and that the company can sharply increase earnings over the next three years. At 12x EV/EBITDA on his 2021 estimates, the stock would trade at around $400.

Sources: Company reports, other publicly available information

divisions. If that happens, rather than trade where it is today at the low end of the stock's 7-13x trailing EV/EBITDA multiple, we think the shares can re-rate to at least 12x, which would translate into a stock price of closer to $400. That's a pretty dramatic increase from today and we don't believe we have to accept much downside risk in return. We just believe the negativity in the stock has been way overdone.

Any store-based retail investment today would also seem to qualify as contrarian. What do you think the market is missing in footwear retailer DSW [DSW]?

RS: The company was founded in the 1960s as the shoe licensee for the Schottenstein-controlled Value City department-store chain, and it now has 515 large-format stores selling women's, men's and children's footwear and accessories across the United States. The Schottenstein family, which we very much admire, is still actively involved in the company – Jay Schottenstein is DSW's executive chairman and the controlling shareholder of its super-voting stock.

As you might expect, the major investor fear here is that Amazon and its online footwear retailer Zappos will inexorably take share from DSW. Our basic premise is that there is a sufficient subset of customers who simply prefer to try on shoes in stores before they buy that DSW's in-store option will remain highly valued. Footwear is very different than buying books or music, both of which were more easily displaced by online competition. Another key is that DSW, with its roots as a close-out merchandiser, typically has at least comparable, and often better, prices than even online retailers like Zappos. Close-outs aren't a high share of DSW's revenues, but keeping that channel open still attracts deal-conscious consumers.

The company's margins have declined by several hundred basis points over the last five years. Is that Amazon taking its toll?

RS: The optics on margins have clearly contributed to the share-price decline, but we don't think investors are taking the time to see the progress the company is making beneath the surface. Under Schottenstein's leadership, it has invested heavily in technology infrastructure and logistics so that the store base legitimately doubles as an online fulfillment center. People talk about "omni-channel" capabilities, but we think they're real for DSW and give it an advantage over online sellers who don't offer the option of purchasing or exchanging merchandise in stores.

We're starting to see these efforts bear fruit – EBITDA margins have increased by about 100 basis points since 2016, and we expect that to continue as the company further leverages its investments. Cash flow is also increasing as working-capital efficiency improves and as the large technology investments made in recent years wind down significantly.

Is there an opportunity to capitalize on the struggles of other brick-and-mortar retailers as well?

RS: We think so. Many brick-and-mortar retailers haven't been able to invest enough to bring their inventory-manage-

INVESTMENT SNAPSHOT

DSW
(NYSE: DSW)

Business: North American retailer of footwear and accessories through some 1,000 brick-and-mortar outlets as well as online; main retail brand is DSW Designer Shoe Warehouse.

Share Information (@10/30/18):

Price	**27.28**
52-Week Range	17.75 – 34.63
Dividend Yield	3.8%
Market Cap	$2.19 billion

Financials (TTM):

Revenue	$2.93 billion
Operating Profit Margin	6.8%
Net Profit Margin	0.1%

Valuation Metrics
(@10/30/18):

	DSW	S&P 500
P/E (TTM)	n/a	21.7
Forward P/E (Est.)	14.6	16.4

Largest Institutional Owners
(@6/30/18 or latest filing):

Company	% Owned
BlackRock	12.7%
Vanguard Group	9.5%
Dimensional Fund Adv	8.4%
Fuller & Thaler Asset Mgmt	5.3%
State Street	2.8%

Short Interest (as of 10/15/18):

Shares Short/Float	9.0%

DSW PRICE HISTORY

THE BOTTOM LINE

Ragen Stienke argues that the nature of shoe buying and the company's investments in building out legitimate "omni-channel" sales capabilities position it well to fend off online competition and take share from offline competition. At 7.5x EV/EBITDA on his 2021 estimates, the company's shares would trade at $45, a 65% premium to today's price.

Sources: Company reports, other publicly available information

ment systems into the 21st century, which compounds the problem of declining mall traffic. Department-store chains, which typically have large shoe departments, are closing stores at a fairly rapid clip. Payless ShoeSource, which sells mostly in malls, emerged from bankruptcy last year after shutting down close to 20% of its stores. As an off-mall retailer that has made the investments necessary, we think DSW is well-positioned to absorb market share from weaker competitors.

At a recent $27.25, how inexpensive do you consider the shares?

RS: There could be a near-term hiccup from increased tariffs, but we expect roughly 5% annual top-line growth and operating leverage to result in a 50% EBITDA increase over the next three years. If we're right and the shares on our 2021 estimates trade at 7.5x EV/EBITDA – in the middle of the historical range – the stock would trade at $45. Given the depressed multiple today of 6x trailing EBITDA and the mid-teens free-cash-flow yield, we think the downside is limited here as well.

You own data-analytics provider Teradata [TDC], where revenues have declined for four years while "big data" is considered a growth market. What's going on?

RS: That's the perfect setup for what we believe is a mispriced stock. The company provides data-analytics software and hardware to primarily *Fortune* 500 companies. It's transitioning from a perpetual-license model, where revenues are front-loaded, to a subscription model with revenues evenly distributed over the life of a contract. The income-statement optics of that transition aren't attractive, but given how many software companies have successfully made the change it's surprising to us that the shares haven't been more resilient.

Could the transition be masking deeper problems?

RS: We think management does a very good job of giving like-for-like numbers in their quarterly conference calls that allow us to determine if revenue declines are simply optics or something worse. From that we don't see any problems beneath the surface.

There is an outdated view that Teradata's strength is primarily in processing structured data, such as from a retailer's point-of-sale system, and isn't as adept in processing unstructured "big data." We believe their cloud-based offering for unstructured data analytics has turned a weakness into an opportunity That was validated earlier this year when tech-research firm Gartner named Teradata a leader in the analytics market due to its ability to accommodate a diverse range of both observational and non-relational data types, including from sensors, images, audio and video.

One of the company's strengths is the consultative approach it takes with clients, unlike competitors like Cloudera [CLDR] that offer analytics systems and largely leave customers to figure out how best to use them. To give an example, Teradata will work with an insurance company to analyze claims data in order to more efficiently focus investigations on the subset of claims most likely to be fraudulent,

INVESTMENT SNAPSHOT

Teradata
(NYSE: TDC)

Business: Provides data-analytics software and hardware as well as associated consulting services primarily to large and medium-sized enterprise customers worldwide.

Share Information (@10/30/18):

Price	**35.41**
52-Week Range	32.84 – 44.27
Dividend Yield	0.0%
Market Cap	$4.22 billion

Financials (TTM):

Revenue	$2.20 billion
Operating Profit Margin	3.5%
Net Profit Margin	(-2.9%)

Valuation Metrics
(@10/30/18):

	TDC	S&P 500
P/E (TTM)	n/a	21.7
Forward P/E (Est.)	22.5	16.4

Largest Institutional Owners
(@6/30/18 or latest filing):

Company	% Owned
First Eagle Inv Mgmt	14.2%
Vanguard Group	9.2%
BlackRock	8.3%
Wellington Mgmt	7.1%
Columbia Mgmt	4.1%

Short Interest (as of 10/15/18):

Shares Short/Float	12.3%

THE BOTTOM LINE

The financial-statement optics of its transition to a subscription-based revenue model are obscuring the company's highly attractive overall franchise in a data-analytics market with a long and wide runway for growth, says Ragen Stienke. He believes EBITDA can more than double by 2020 and, if it does, his target price for the stock is around $65.

Sources: Company reports, other publicly available information

yielding significant cost savings and loss prevention. We think that partnership mentality drives very strong customer loyalty. They don't disclose specifics, but we believe renewal rates are above 90%.

At around $35.50, how mispriced do you consider the shares?

RS: The company is well along in its business-model transition, with 60% of revenues now recurring, moving up to 90% over the next two years. The positive effects of the transition should become increasingly manifest, with revenues returning to growth, the market paying a higher multiple for recurring revenues, and the move to a cloud-based offering reducing costs and opening up a new market of smaller potential customers.

Because the business-model evolution has temporarily depressed profits, we believe the roughly $425 million in estimated company EBITDA for 2018 can increase to $900 million by 2020 as the transition becomes largely complete. For comparison, the company earned $800 million in adjusted EBITDA in 2015, and we believe profitability will improve as it becomes a subscription business. At 12x EV/EBITDA – the stock has traded as high as 16x – on our 2020 numbers the shares would trade at around $65.

One thing I'd add is that, as often happens in technology, the hype over something like big data can get ahead of the reality. The market gets too excited in the early stages of a new trend, and that leads to disappointment against inflated expectations. We think that's helping create the opportunity here. We'll find out as the actual impact of analytics applied to big data starts to really live up to the hype.

Describe your selling discipline.

RS: We've spoken about selling when our initial investment thesis has been violated, but we'll also sell if a stock achieves our target price or if companies on our watch list are more attractive and we want to make room. We'll also adjust position sizes based on an evolving reward-to-risk ratio or changing fundamentals. For example, it's not a rigid rule, but a 3:1 reward-to-risk is likely to have close to a 3% position, a 2:1 reward-to-risk around a 2% position, and a 1:1 reward-to-risk a 1% position.

We noticed you sold in short order out of dental-product distributor Patterson [PDCO]. Why?

RS: It's quite rare for us to buy something one quarter and sell it the next, but it proves our discipline when we think our defined thesis has been violated. Our case for Patterson was that while the market believed Amazon was a real competitive threat in the dental-supply space, based on our research we thought the actual amount of business that would move was limited and that the after-sale service Patterson provided was highly enough valued that customers were unlikely to give it up. A second key piece was that the company had gone through a very difficult ERP-system implementation that went over budget and skewed inventory levels and generally hurt operating efficiency. We thought that was behind them and that the benefits of the new system would start to replace the costs.

ON TECHNOLOGY INVESTING:

The market gets too excited early on, but disappointment against inflated expectations can create opportunity.

What changed was that when the company announced its second-quarter results, management admitted seeing pricing pressure throughout their consumables' product lines, which appeared to show that even if customers weren't prepared to go to Amazon, they were prepared to use the threat of that to push down prices across the board. The company also reported that inventory levels went up significantly for the second quarter in a row, which called into question the efficacy of the new ERP system. Finally, it set up a new accounts-receivable facility during the quarter and cited that as a driver of cash-flow growth. We don't consider factoring receivables a real component of operating cash flow. In the end, our bullet-point reasons for buying the stock no longer seemed valid, so we didn't hesitate to sell.

You mentioned earlier doing regular post-mortems on your portfolio activity. Have you tweaked any parts of your strategy or process recently as a result?

RS: This is a learning business, so we should always be looking to improve on the way we do things. I'd mention a couple things we've done since starting Ballast. Based on our selling experience, we don't trim positions quite as quickly as we had historically. There were times when we let the absolute level of a stock-price increase influence the selling decision more than the actual reward/risk asymmetry in the stock. We're saying more often, "Don't be afraid to be right."

We're also trying to take as big of a position as we plan to in a stock as early in our ownership as possible. In our highest reward-to-risk stocks we generally want to own up to 3% positions at purchase, but we'd often start out at 2% or less and add to it as things were playing out in our favor. We've concluded it's better to own what we're going to earlier, when it's likely the most asymmetry exists.

Can you describe briefly how you approach managing risk more at the portfolio level?

RS: We have an internally developed risk model that breaks down each company's financial exposure to fundamental factors we consider important. Those factors have to do with things like geography, end markets, cyclicality, commodity prices, interest rates, consumer spending, government spending and so on.

The output of the model allows us to estimate our exposure to a variety of risks on a company-specific and aggregate-

portfolio basis. Today one front-and-center risk is tariffs, for example, with the primary impact being on the Chinese economy. Geographically our exposure to China is low, but you also have to consider that the country is the marginal consumer of things like oil and copper and metallurgical coal. We have to take into account our exposure to those things if the Chinese economy weakens.

So how exposed are you to rising tariffs?

RS: The revenue and profit exposure on a gross portfolio basis today is about 16%. When we go deeper to consider the extent to which our companies have pricing power or other advantages that mitigate the impact of tariffs, we believe our net exposure is closer to 2.5%.

What has surprised you the most since taking the entrepreneurial route and starting your own firm?

RS: The best surprise has been the amount of time I can spend now on managing the portfolio and picking stocks. Part of that comes from surrounding myself with great people who allow me that luxury, but sometimes when you work at a big company you don't realize all the different things you can get involved in that take time away. They can be very good things, like sitting on the business-management committee or sitting on the risk-management committee or getting deeply involved in hiring. I just have fewer distractions now pulling me in different directions. I'll hope, and I believe, that will translate into results. VII