Overview and Summary of Remarks by a Panel of Value Investors featuring Martin J. Whitman (Third Avenue Management), Christopher H. Browne (Tweedy, Browne Company), Jean-Marie Eveillard (First Eagle Funds), and Mario J. Gabelli (Gabelli Asset Management) Delivered at The Third Avenue Management Investor Conference and Luncheon November 4, 2004

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[Ed. Note: We admire and follow a relatively small handful of intelligent investors. In the large universe of money managers, there are only a handful of folks that we really admire and emulate. We were pleased therefore to have the opportunity to hear from four notable value investors including Marty Whitman, Chris Browne, Jean-Marie Eveillard and Mario Gabelli at a recent event in New York City. The format for this high powered gathering of accomplished value investors was a panel moderated by Jason Zweig of Money Magazine (Jason is also the editor of the recently released revised edition of Ben Graham's The Intelligent Investor) . Because of the unusual opportunity to hear from and see the interplay between these four value investing luminaries, I took the time to take notes on the discussion. We hope this latest addition to our series of articles and transcripts related to intelligent investing and value investing will be helpful to other investors seeking knowledge about these topics. As usual, this is a selective and personal record of what was said and so should not be taken literally. For more information on value investing, we welcome you to visit our website at www.ridgewoodgrp.com. If you have questions or comments, write to us at info@ridgewoodgrp.com]

After a few brief comments, moderator began by asking a series of questions to the panel:

Question from Jason Zweig (moderator): How do each of you define Value Investing? How do you practice Value Investing? Can you discuss ways in which your practice of Value Investing may be different than that of others on the panel?

Martin Whitman: Value Investors are more price conscious. What we do at my firm (Third Avenue) is to focus primarily on those businesses that are extremely well capitalized and try to acquire these businesses at a discount to their readily ascertainable asset values. To some extent, this is similar to a Graham and Dodd approach. However, Graham & Dodd missed the very important factor of the quality of the assets. They really focused more on quantity rather than quality of assets when seeking a discount. We focus on quality because our experience is that superior managements can and will be opportunistic. Markets are inherently inefficient over a cycle (e.g. 5 years). A good management team can take advantage of these market inefficiencies to grow or build value over time. However, this is also where we are prone to screw up the most

– it is easy for us to get the quality of the management teams wrong and we do make this mistake. The thing that is wrong with our approach to investing is that we would be unlikely to get the type of pricing that we are attracted to unless the short-term outlook for a given company were relatively poor. Also, conservative management teams, the type of teams that we look for, usually don't need money so that limits the universe of investment opportunities as well. So in summary, our view is that after quantitative cheapness or value, the three next most important things are management, management, and management.

Mario Gabelli: I like to shop at discount stores, even now, because I just love good bargains. What we try to do at my firm (Gabelli Asset Management) is to focus primarily on private market value in our appraisals of businesses. I like companies where you are getting something for free (he mentioned one example where cash and a public stake makes up most of the value which means another business is thrown in for free in the current valuation of the stock). Once we know that something is available at a discount to private market value, our next consideration is to determine the catalyst to unlock value and think about the margin of safety. This approach has been around for a long-time, at least since the 1934 edition of Securities Analysis by Graham and Dodd. Our unique contribution is that we focus on the private market value of a business in a negotiated sale situation. I'd also like to comment on the whole hedge fund thing. I recently read about the guy (from Goldman Sachs) who right out of the box has raised a $5 billion hedge fund. With all the money running around chasing hedge fund opportunities, I am going to take this opportunity to announce today that I am starting my own hedge fund with a 3% management fee and a 90% carry (evokes laughter from the audience). I'm serious! (more laughter). Actually, given the crazy fees in the hedge fund world, the people up here on this platform and others like us are absolute bargains!

Chris Browne: Our firm (Tweedy Browne) looks at things pretty similar to the way Mario just described it. It's a lot like how real estate agents appraise houses. In fact, Investment Bankers are nothing but overpaid real estate agents (laughter). When you want to sell your house, you go to a real estate agent and what do they do? They look at other similar houses selling recently in the neighborhood to figure out what your house is worth. You can do the same thing with companies (Editor's Note: Comparable Companies Analysis is the technical term for relative public company valuations and Comparable Deal Analysis is the corresponding term for relative private company valuation analysis). So we are basically just looking for houses selling at an x% discount to the private market value. I'd also like to point out that there are two components of return in an investment, #1.) The growth in value due to the earnings/dividends and what happens to earning and/or dividends during your holding period and #2) A speculative component based on how those earnings are capitalized, i.e. what happens to the P/E ratio during your holding period. It is our view that most companies we look at today are trading at or above value, and so there is an important part of the value being derived from that second (speculative) component of a higher than normal PE.

Jean-Marie Eveillard: I'd like to start by saying that I often get asked by financial planners how much of a given client's assets should be in growth investments and how much in value investments. My response to this question is to point out that Warren Buffett became the 2nd richest man in the World by following the principles of value investing. While some credit obviously goes to his own innate abilities and perhaps his partner(s), a lot of credit should also be assigned to the fact that he adopted the most sensible framework for investing, i.e. Value

Investing. However, I would like to point out that Value Investing today is a big tent with a variety of practitioners which I would divide into three main buckets, namely:

#1) Old Value (Graham)
#2) New Value (Buffett)
#3) New New Value (Miller) – also can be labeled Post-Modern Value

(Editor's Note: Some Value Investors scoff at category #3 and dispute that it actually qualifies as Value Investing).

Even though we have a lot of respect for Bill Miller and his approach, at my shop, we have basically spent our time focusing on the space between Old Value and New Value. Over the years, I'd say we have been more in the Old Value than the New Value camp. We tend to look at what a "somewhat knowledgeable investor" would pay for the company today. Most of the money is made buying at a discount and then letting this discount decrease over time. Sometimes, the odds are good that a given company will continue to grow its value by creating value in the future, so the discount may not narrow, it could even widen and it would still be a good investment over the long-haul. However, I must add that in these situations, we do this with some trepidation because we don't have Buffett's skills and strengths in terms of implementing this type of New Value investing as well as he can and does. Also, value investors tend to have lower turnover and tend to be longer-term holders of investments.

Martin Whitman: Jean-Marie mentioned the word growth in his opening comments. On Wall Street, the problem with growth is that it usually connotes "generally recognized growth" which means that you are already paying for it upfront. This factor, that the anticipated good growth is already priced into the stock makes it a lot less interesting (as an investment). I think that everyone on this panel buys growth companies from time to time, but this is the key consideration. We want growth without paying full price for it. (Editor's Note: There are multiple essentially equivalent ways to state this important concept – one, which I credit to Mike Mauboussin, is to use an expectations model to state that there is no opportunity to make money when current expectations already reflect the foreseeable future growth today. Other equivalent ways to state this same concept are that the odds of success or the risk reward are not favorable or that the price discounts the future prospects efficiently).

Q: Can each of you talk about mistakes you have made and how one can distinguish between an investment opportunity offering a growing margin of safety on one hand and a value trap on the other hand?

Jean-Marie Eveillard: There is no such thing as a value trap. This is a myth or misnomer that the media and others talk about. However, there are mistakes. I have made bad investments, not because they were value traps, but because I failed to understand or analyze the value correctly. Some things I have learned to avoid or be wary of are #1.) If there is a lot of debt, a small error in our appraisal of asset values can be fatal because leverage magnifies mistakes and #2.) You can fail to recognize poor managements – managements teams can be empire builders and destroy value or they can hide liabilities off balance sheet and these types of things can be fatal as well.

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Martin Whitman: I agree that there is no such thing as a value trap. We own multiple securities so if we do not do well across a portfolio of investments, it is not because they were value traps, but because we probably did a poor job as analysts. However, the benefit of owning well capitalized companies (per their motto of Safe and Cheap) is that the mistakes hurt you less and they don't generally wipe you out completely.

Chris Browne: I've never made any mistakes, some things just failed to turn out the way we expected in advance (laughter). Actually, one type of mistake is failing to own enough of a good value. Obviously, things happen in this world and no one can control every important factor that is going to have an impact. The benefit of the Value approach to investing is that it minimizes and/or prevents disaster scenarios when things do not go quite as well as expected.

Mario Gabelli: If you owned one of those Internet bubble companies in late 1999, you could have lost 99% of the value of your investment in the next few years, and gone bust, so you had no margin of safety. If you own value, the price can still fluctuate up or down around value, but it is unlikely that you would be in that wipeout type of situation. I can think of an example of one company we owned where the sum of the parts of the company was worth around $65 per share and the price was like $30 so we bought at a steep discount to value. However, they hired this new CEO with a big head and he sold off some of the assets too cheaply. 5 years later under his watch, it was still trading at the same $30 per share. The company finally made a change at the top (with some encouragement from our firm) and put a new guy in charge and the company has subsequently performed fairly well. The broader point is that sometimes, managements don't harvest the underlying value, sometimes they lose their bearings and sometimes we may even have to help management gets back their bearings.

Q: When do you sell?

Martin Whitman: The trouble with value investing is the difficulty of knowing when you should sell. For example, there is one company I can think of that we owned for 3 years and in that time, it doubled in value so we sold it. It then tripled from our sale price in the next 6 months. In general, we don't like to sell a good company unless it becomes grossly overvalued or, barring that, if it is a forced sale in a resource conversation transaction like a merger or tender offer or buyout. We don't like to sell just because a good company becomes slightly overvalued. This is especially true for a firm like ours where the pool of money keeps growing and we need to find ways to put new money to work (which can become more challenging with size).

Chris Browne: The theoretically correct answer to your question is to sell the security when it reaches your appraisal of fair value. Still in life, if you have children, you don't kick your best performing child out of the house. You do sell if you need that capital for another opportunity which is even more attractive than the one you are selling (Ed. Note: Obviously though it was not said, need to consider impact of taxes since relative IRR of new investment has to be even greater to overcome drag of paying taxes on investment being sold). If a great business can grow its value 15% a year, then that might be one worth holding on to for some time. We had a client who inherited 500K about 54 years ago and is now worth about $1.4 billion and has not paid $1 in capital gains tax in the last 54 years (Room goes silent).

Jean-Marie Eveillard: I agree with both Chris and Marty. As value investors, we often sell too soon. This is one of the reasons I have decided to retire next year. In general, it is a good idea to

own good companies for the long-term. Two circumstances in which to sell are: #1.) An otherwise good investment gets to a truly outrageous bubble kind of value or #2.) You make a mistake and you sell – you need to be humble enough to recognize the mistake which means you need to sell – perhaps at a loss – then move on to something else. Value Investors don't usually do well during bubble times because they tend to sell when something gets overvalued (unlike momentum investors), but in a bubble, overvaluations can continue to rise and last for sometime.

Mario Gabelli: Our goal generally is to make a 10% real rate of return, i.e. Inflation plus 10%. Given the smaller (market cap) companies that we often like to buy and own, it can take one or two years for us to accumulate a position. So we model the intrinsic value of a company over at least the next five years or longer.

Q: What types of investors are best suited to be your clients?

Chris Browne: For us, it is like the old commercial for SYMS – an educated consumer is our best customer. Expectations today among investors may be unrealistic. Over the last 42 years, equities returned something like 10 or 11%. However, if you break that down a bit, you notice that in the first half of that 42 year period, earnings growth was the more important driver of returns, and in fact, PE ratios shrank while earnings increased. In the second half, however, earnings growth was actually slower than in the first 20 years, but the PE expansion more than compensated for that and so the total return was quite attractive over that entire period. We want investors who have realistic expectations and who know and accept that there will be turbulence in the markets over time.

Mario Gabelli: We think the next 10 year will bring returns in the 7 to 9% range (and we just recently revised this estimate upward from the original 6 to 8% estimate we had). Our ideal clients are business owners. We like investors who are patient, focused on absolute returns, and know that it is a good idea to own good businesses for the long-run. Our retail funds are more of an average and are managed right down the fairway. By the way, our publicly traded asset management company is a short and so is AMG (the owner of Third Avenue). (some nervous giggles at his directness and candor)

Jean-Marie Eveillard: In a sense, I think our funds are much less expensive high quality hedge funds. What I mean by this is that all of us are focused on absolute returns and have been able to provide such returns for some time. We don't charge the type of expenses and fees that hedge funds charge. However, as fund managers, we do have to deal with inflows and outflows everyday and this can be a handicap. Despite our quality, we suffered from nearly 50% redemptions in the late 1990s.

Martin Whitman: We like investors that are total return focused and cannot do a lot for those wanting current income or cash income. I'd also like to say that the word "risk" should never be used without an adjective in front of it, i.e. there is business risk, market risk (usually on a short term basis), etc. Any investor who is focused on market risk, as opposed to business risk should not invest with us, because we don't pay any attention to market risk.

Q: If you were speaking to a potential investor who did not have access to your 10 year performance track record, how would you explain to them regarding why they should invest with you?

Martin Whitman: Well, my wife has a lot of money and she is happy to have me manage it and she says it is for three reasons: #1) I'm smart #2) I'm not greedy and . . . I can't remember the third one (laughter). Oh yes, #3.) I'm honest. I always say that we are too dumb to cheat. We are not traders. Before I got into the mutual fund business, I was an expert witness. I have always thought that mutual fund regulation was, on the whole, really terrific. Mutual funds allowed a lot of smaller investors to benefit and also allowed people like the four of us on the panel to get really rich (laughter). The mutual fund structure gives the average investor a fair shake. Despite the recent mutual fund scandals, funds are probably the cleanest and safest operations anywhere on Wall Street.

Jean-Marie Eveillard: I would say that in our case, we have a sensible approach. I would tell them to look at Buffett, who deserves some of the credit for our approach to investing. It is surprising that more people have not adopted this approach. We work hard and while we make mistakes, we also have some skill.

Mario Gabelli: We are working everyday with our Graham & Dodd approach focused on fundamentals. It may be boring, but it works. If you want excitement, we are not for you. It is a bit like watching grass grow. Investing involves probabilities, and even the best hitter of all time (Ted Williams) only batted .400 so we make plenty of mistakes and misses.

Chris Browne: Well, I would say that we invest alongside our investors. It is important to ask any money manager, where is their own money invested. If it not side by side with the client and they are smart people, then you should be asking them where their own money is invested. That is a telling question.

At this point, the Moderator, Jason Zweig, Invited the Audience to Ask Questions of the Panel of Value Investors so the remaining questions came from members of the audience

Q: I would like any of you to name one investment you made in the past that turned out to be a lemon and describe it and what went wrong?

Martin Whitman: By far the one that comes to mind is an investment we made in Japan a few years back that turned out to be an outright fraud. It was a company audited by one of the big four accounting firms. It could have happened to anyone, but we did fail to recognize it in advance and so we lost on that one.

Q: What impact does size have on performance? Does growth in assets inhibit you and if so in what way? What about succession?

Mario Gabelli: Investing is an art rather than a science. There are lots of examples where funds got bigger or original super investors left and still the performance continued to be good. Two examples that immediately come to mind are Mutual Shares after Michael Price left (replaced by David Winters) and Magellan after Peter Lynch left (replaced by Jeff Vinik). However, you don't have to look hard because there are countless other examples. (Editor's Note: Mario failed to mention that there are probably even more, and more persuasive, counter-examples).

Martin Whitman: Size is of no particular consequence. At my firm, we have 15% of our assets in distressed segment. In this segment, size is probably an aid to performance, because in distressed companies, it is actually helpful to have a big enough position to make you a large, active, and squeaky wheel as an investor. We like to buy performing loans that give us more than 50% of a class so that we can block proposed changes to an indenture. In effect, this is a quasi-control business. Also, we have a deep team here, most of them smarter than I am so I am not worried about succession.

Q: In the past 10 years in particular, there has been a proliferation of information technology and efficient access to information, has this made life easier or harder?

Chris Browne: It is true that information is more readily available today. But relatively speaking, it is always been a level playing field for quite a while. The key is not ACCESS to information, but how you PROCESS or USE that information to make investment decisions. Given the increased quantity of information, figuring out what to focus on, i.e. distinguishing between meaningful and meaningless information is probably more difficult than ever.

Martin Whitman: I like to say that we are always the last to know (laughter). It is the quality of how you use the information that really matters. One historical event that occurred after Graham and Dodd published their book is that in 1964 because of legal changes, companies were required to disclose a lot more and better information leading to an information explosion. Disclosures are much better, but not everyone really knows how to use all this information better. Graham & Dodd should be revised to reflect this change. It is the quality of the analysis and not the information alone that really make the difference.

Q: What would you tell a new investor who brought a new portfolio to you today? Should they jump into the market and fully invest?

Jean-Marie Eveillard: None of us run index funds since we each research and buy specific securities rather than the market. So in general, the market environment is not as consequential. Even in periods of vast overvaluations, we can find some good values to invest in. So my answer to your investor would be to find a value manager and invest in value. You can do this yourself, or you can find a good manager who understands and implements value investing on your behalf and then this is a proxy or surrogate for doing it yourself.

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