We had the pleasure of speaking with Larry Pitkowsky, managing partner and portfolio manager of GoodHaven Capital Management. The conversation took place at the end of August 2022.

In the following wide-ranging interview, John speaks with Larry about his path in investing, the investment strategy of GoodHaven, the types of businesses Larry has found particularly rewarding from an investment perspective, his thoughts on portfolio concentration and risk management, and three ideas that illustrate GoodHaven's investment approach.

John Mihaljevic, MOI Global: It is a great pleasure to welcome to the conversation Larry Pitkowsky, co-founder of GoodHaven Capital Management.

Larry, I look forward to talking about your investment approach, philosophy, and perhaps a few ideas as well. At the outset, would you mind sharing a bit about your path in investing and the genesis of GoodHaven?

Larry Pitkowsky: Thank you for having me, John. Some people love to talk about their life story, and while I don't, I'm more than happy to do it for you and for the benefit of the MOI folks.

I was an undergraduate student getting a degree in accounting with no real passion for accounting. I developed an interest in the financial markets. I wasn't exactly sure what to do with it, though it was clear I found it much more interesting than a traditional path into the accounting field.

I decided to become a stockbroker, which I enjoyed a lot. I was able to build up a business and continue to explore what the world and the financial markets held. In the meantime, I self-taught myself security analysis. Along the way, I had a brokerage business. It was a mishmash of all kinds of things. I was very fortunate in that I had as part of the clientele some legendary value investors who were a bit older than me. Somewhere along the way, it dawned on me that I was making suggestions on some arcane ideas to them that they were finding interesting. Instead of suggesting ideas to them, maybe I should try and build an asset management business in some fashion.

I moved around to a firm where I could build a small asset management business while still making a living doing all of my normal brokerage things. I started to build that; then, at some point, I joined Fairholme Capital right after it had started. There, I took with me the asset management business I had built. Along with Keith and Bruce, we built a nice business. We did a very good job for clients and shareholders in the time we were all together – 1999 through 2008, when Keith and I became less involved day to day.

Then the two of us decided we would like to build our own firm and launched GoodHaven with the backing of Tom Gayner and Markel in the spring of 2011. We were very fortunate that when we had the idea to launch GoodHaven, Tom said, "Come on down to Hondos in Richmond, Virginia. We'll have a steak, and we'll talk about it." We did, and we're forever grateful that Markel became our minority partner, and anchor client.

I think we did a very nice job for a while. We had some very solid years with a bit of an uneven period there in the middle. In mid-2019, all of the key people – myself, Keith, Tom Gayner, Dan Gertner, and the team at Markel – were open to making some changes in the structure of GoodHaven. We figured out how to do that in a way that everybody was comfortable with. As 2019 ended, Keith retired from day-to-day activity and remains a supportive minority partner. Around that period, Markel increased the assets we managed for it. I became the majority controlling partner and sole portfolio manager at the very end of 2019. That began what I call GoodHaven 2.0. More recently, in the beginning of 2022, our longtime senior analyst Artie Kwok became a managing director and a minority partner.

I think it's been an interesting path. I'm very fortunate to have the opportunity that is in front of us. I believe everything that has happened before has provided the opportunity for what is to come as we continue to build GoodHaven 2.0.

MOI: Thank you so much for providing that background. I believe many of our members have been aware of your path and GoodHaven for quite some time. Tom Gayner and Markel are part of the community, so philosophically, there's a lot of overlap here.

Pitkowsky: Can I do a quick advertisement for Markel?

MOI: Sure.

Pitkowsky: For anybody out there who has a large, profitable, private business that is looking for a home, you should call Tom because our experience through all these different moments with him and the Markel team has been nothing but spectacular. I think that as good as they look from the outside they are better once you get to know them. If anybody thinks they have a large business that Markel Ventures might be a good home for in some fashion, I encourage them to give Tom a call.

MOI: Terrific. I'd love to talk a bit about some of the key principles that will guide GoodHaven 2.0 going forward. How do you see the firm evolving over time?

Pitkowsky: If somebody were to stop me on the street and say, "Could you tell me in a few simple words, without industry jargon, what the heck it is you're trying to do for clients?" I would say, "We're in the generating-strong-returns-for-clients-without-taking-a-lot-of-risk business." You can create a 50-page PowerPoint around that, but that's the business we're in. By the way, I think that's the business most people who are sitting in my shoes are in, or maybe should be.

I joked in a recent letter that somebody once asked how to describe myself to their clients. It was a financial adviser who was going to give us some money. I said, "Smart, honest, and very good-looking." He said, "No, Larry, I meant what box are you in? Are you SMID? Mid-cap value? Large-cap value or whatever?" I offer that little backdrop because I think it's been very important here at GoodHaven 2.0 to step away from some of the industry jargon and remember what we're trying to accomplish for clients and ourselves and how and with what risk mentality.

I also think it's been important – and I've tried to write about it the last couple of years – to remember what value investing is and what it is not. Value investing, in my opinion, is the search for investments where you have a large margin of safety between your purchase price and the intrinsic value. It is making sure you remember the markets are there to serve you, not to guide you, to focus on the fundamentals, to be long-term oriented, and then to come back to point number one, which is to invest with a margin of safety. It also is completely consistent with value investing to invest in high-quality companies that earn good returns on capital and are growing and well-managed.

What value investing does not have to be is having a draconian and negative view of the world. It does not necessarily mean you have to buy the cheapest statistical securities available, regardless of their quality. It does not mean you have to have a macro view of everything going on in the world. Those are not necessarily what the tenets of value investing are about.

In a couple of recent letters, I attached a letter I wrote back in 1998 to my then-fledgling clientele talking about owning high-quality companies but with a margin of safety that earn good returns. At GoodHaven 2.0, which started right as the pandemic hit in early 2020, we used that awful moment for our society and the market collapse in that period to try and upgrade the portfolio a bit, keeping some of those things in mind.

MOI: Would you mind expanding on your investment philosophy a little? What are the types of businesses you have historically found most rewarding for your investors?

Pitkowsky: When I'm looking for something for the portfolio, the first thing is whether it is a business that we have an ability to picture what it will look like three, four, five, or seven years down the road. Do we feel we have some understanding of where the business and the industry are headed? That right away rules out a lot of things that you don't have a view on or shouldn't really have a view on. I think it's an enormous mistake in life to have an opinion about everything, especially when you're investing.

(1) Do we have a view of where the business is headed in the future? (2) Is it a business that earns above-average returns on capital employed and on equity? (3) Is it run by a management team that we feel is treating the shareholders reasonably well?

Then the question is whether you have a view that's a bit different from everybody else's. Most of the time, to get an above-average return or performance, it's nice to find something you have a view on or an insight into that differs somewhat from the market's. That's the opportunity.

Then, you have to say, "That's all great, but what is the stock market giving me as an entry price?" A lot of the time, it's not giving you a price that you feel provides you with a margin of safety or will allow you to earn an above-average return, so you stick that on the shelf and say, "That's an interesting company." I might say, "Let's keep an eye on it; who knows?"

That is the type of mindset we're looking at for the bigger holdings and for most of the portfolio. We will also do an occasional true special situation, arbitrage and liquidations, distressed debt, a workout of some sort where those all of those quality things don't align but there's an attractive return we think we're going to earn with a margin of safety due to some idiosyncratic situation .

What we're trying to avoid is what I would call – with my undue sophistication – the stuff in the middle. We're trying not to put together a portfolio of somewhat statistically cheap, not-great businesses run by not-great people but where the entry price in relation to earnings and free cash flow looks good. We'd rather not have it. We'd rather be patient and put together a portfolio of above-average businesses run by above-average people but still with a material margin of safety or something that's truly a special situation. We're trying to avoid all this stuff in the middle. In the last couple of years, we've been able to do that.

By the way, the GoodHaven Fund put out its semiannual report very recently. Though I'm not super obsessed with short-term numbers, for the last six months, a year, two years, and since we did the reorganization, we're ahead of the S&P, in some of those periods by a material amount. We've still got work to do to improve our since-inception numbers, but we've regained a lot of ground and will continue to stay at it.

MOI: Maybe it would be instructive to discuss a couple of ideas that illustrate the approach, if you don't mind. Anything you'd care to talk about today?

Pitkowsky: Before I do that, John, I want to add in a couple of other tenets or process things that I consider very important. One, when I look at the portfolio today, we're trying to have our cake and eat it, too. The portfolio is trading at a much lower PE multiple than the S&P with much better growth characteristics. We do try and concentrate.

Concentration is important to us. In the public fund, the top 10 holdings are above 60% of the portfolio. We are wired for concentration. The way I see it, you either are or aren't. The price volatility that comes with concentration does not bother us. I'm much more comfortable knowing a lot about a smaller number of things and trying to make great ideas work.

We have tried to renew our focus on some other things at GoodHaven 2.0. As Peter Lynch said, it's a huge mistake to "water the weeds and cut the flowers." There are a lot of bad sayings on Wall Street, but "you can't go broke taking a profit" is one of the worst. Lots of people do not get the long-term result from a good business they find because they sell it along the way. We've done some of that in the past. I was there in the room, but I'm trying to remind us that we've got to be very careful about doing that. A lot of times, being patient over long periods of time – as long as the business continues to deliver – is how you make exceptional returns.

The business of constructing a portfolio is not an IQ contest. There's a lot more art than science involved. Everybody gets news right away. Even things like expert networks are very widely disseminated, and financial statements are immediately disseminated. The decision-making, how you read the tea leaves, how you find an occasional insight about where the puck is going in a certain industry of business, how you put that into practice , and how you construct the portfolio size-wise – these are very important things.

Idea-wise, it's interesting. First, we've had some material exposure in and around the housing market for a while. In the fall and winter of 2018, we made some of our first purchases in Miami-based **Lennar** (NYSE: LEN), the second-largest public homebuilder. What we saw then was a business we thought was becoming better, so to speak. We thought there was going to be an eventual plan to become a more asset-light company, to focus on having less owned land, more option land, trying to improve the returns on capital and on equity, and bring down the leverage (Lennar had additional debt from the acquisition of CalAtlantic). We also thought there was a potential tailwind as single-family housing in the United States was underbuilt. We also thought the management team was the best in the business – Stuart Miller as a founder and Chairman, Rick Beckwitt, and Jon Jaffe as co-Presidents.

We made it a reasonable-sized holding. We focused on the Lennar B shares, which are ironically super-voting shares. They have a ten-for-one vote, and yet they consistently traded at around a 20% to the A shares because they're not quite as liquid. That worked very well. We wrote to clients and shareholders over a year ago and we said something like, "It's the summer of 2021, and the single-family housing market in the United States is rocking and rolling, but we're telling you now, one of these days, it's going to slow. When it happens, that is not the time to reassess how we feel about having Lennar as an important holding. That time is now, while there's euphoria and the headlines are great. We're telling you we're willing to own it through the cycle."

By the way, I don't have some special love for the housing sector. If you were to go read my friend Roger Lowenstein's wonderful book *The End of Wall Street*, he retold a story I told him about our suspicions –which proved founded – about the speculation in the housing market before the Great Financial Crisis. It's not like it's an industry I have some predilection to love, but I think it has changed. In the case of Lennar today, if you were to say to yourself, "Let's assume deliveries, average selling prices all come down in the high single digits next year from where they've been recently. Let's assume gross margins go back down to the mid-20s from the high 20s. What might the company earn?" Well, it might earn $12.00 instead of $16.00 bucks a share this year.

At the end of the day, everything depends on what the stock price is. Lennar B shares are trading at $62.00. Even if you've got a material slowdown – which is obviously happening, as we said it would a year ago – the stock still looks very attractive from here. The company has done better than we ever thought as far as its move to a more land-light strategy which has the benefit of providing downside protection in a weaker environment. Optioned land is now over 60% of the total supply of homesites versus half of that at the end of 2019. Lennar has repurchased stock opportunistically, and it's going to spin off by around year-end some non-core assets, which should improve the return on equity and capital even further.

This has been a winner for us. I think it is emblematic of the types of things we look for and is as interesting today as it was then.

Another idea that is interesting today is **Exor** (Italy: EXO), the Agnelli family holding company run by John Elkann, the grandson of the patriarch, Giovanni Agnelli. The company is well-known for some of its historic large underlying investments, including Fiat Chrysler (now called Stellantis). It owns a big part of that and a big part of Ferrari and CNH, the tractor company.

We are not by nature super focused on looking for things trading at discounts to NAV. We are first looking for situations where we think intrinsic value is moving forward and where there are strong underlying businesses run by good people. We're not looking for subpar businesses that might be cheap on a sum-of-the-parts basis.

Here, we get to potentially have our cake and eat it, too, because Mr. Elkann has articulated a very interesting go-forward strategy. The company is clearly focused. It has just closed the sale of PartnerRe, so it has an enormous amount of cash. Cash might now be as big of a part of NAV as the Ferrari stake is, and Exor is doing more in sectors such as healthcare and luxury. Mr. Elkann is clearly looking to own high-quality, great companies. He's articulated it well in his writings, and the topper is you've got in excess of a 40% discount to stated NAV with all of that quality and a long-term record of growing NAV at close to 20% between 2009 and 2021 – much greater than the benchmark.

We like all of the qualitative attributes. Mr. Elkann has proven himself over the last couple of decades, we like where he's headed with the business and capital, and it's cheap in a very material way.

Lastly, over the last couple of months, we bought some shares in **Goldman Sachs** (NYSE: GS). We've had some wonderful experience in this sector. We've been a large owner of Jefferies for quite a while, and I'm an enormous fan of Rich Handler and what he's done and continues to do. It's a top holding for us.

We have an understanding of the industry – besides having been in the industry – and we decided to add Goldman recently. For many years, the return on equity at Goldman has been somewhat lackluster. David Solomon and management recently articulated that their goal is to get return on equity and return on tangible equity to between 14% and 16% and 15% and 17% in the not-so-distant future. They are focused on expanding the wealth management platform and have made a lot of investments in the consumer bank. We'll see how that goes. Now, they're also focused on expanding the asset management business. They've laid out a path to improve the return on equity. We were able to buy shares at what we think looks like probably a little less than what tangible book value will be at the end of the year.

It's obviously a dominant, strong banking and trading franchise which has been going through a period of lower profitability than you've had over the last couple of years, which is perfectly normal. Nobody was expecting that to continue. Also, being a bank holding company – which Goldman is – means there's an enormous amount of regulatory scrutiny; there are stress tests and different kinds of examinations. We find that somewhat comforting even though it may be a very time-consuming thing for management because we feel a lot of looking under the hood helps to offset some of the outlier risk issues that exist in running any kind of a leveraged financial institution. Those are the ideas.

MOI: Let's follow up on those. Housing is a very interesting sector that I think investors have found rewarding over time. I'm curious how you decide to own Lennar versus another homebuilder. What is the process for choosing among the available companies there?

Pitkowsky: We've kept an eye on all of them. It's fair to say the company that has been the most aggressive and more focused on returns on equity and returns on capital and having less land has been NVR. I think it ended up with a premium multiple because of it. We looked at the rest of the landscape and did some digging.

Of all the wonderful historic investment books, Phil Fisher's writings were always amongst my favorite. It's still fun after all these years to go out there, talk to people in different industries, and do a little scuttlebutt, as Mr. Fisher called it. We felt the management at Lennar was exceptional. We thought where they were focused geographically made sense, and the price was also super attractive. The company had taken on additional debtfrom the acquisition of Calatlantic, the pro forma company became one of the largest homebuilders in the country

What's the opportunity set in front of you? We looked at it and asked "Do we have a bit of an edge in understanding the people in the company? Do we like how they're situated? What are they saying about improving the underlying returns?" We thought it was the setup we were most comfortable with, and we're very happy with that decision.

There are some other well-run companies in the sector, but we've been very happy. We've also had the chance to buy the Lennar B shares, which consistently traded at mid-teens to 20% discount to the A shares. They have the same economics and more votes. It was just an opportunity that was available to us because we're not moving around $50 billion of capital at the moment.

MOI: With regard to Exor, how do you see the mix of the portfolio evolving over time? Is there capital available now that needs to be deployed following the PartnerRe sale?

Pitkowsky: Sure, an enormous amount – almost $9 billion of capital. Again, the proceeds from PartnerRe are around the same as the Ferrari stake. Those are the two biggest investments. Then you have Stellantis and CNH.

Exor has got an enormous amount of capital to deploy and an enormous discount from underlying NAV. It has been doing things. It acquired 10% of Institut Mérieux and 45% of Lifenet Healthcare. It made an investment in Christian Louboutin. It also has a venture arm which is investing in growth companies at a smaller scale. There's enormous optionality.

I think it's important to realize that Mr. Elkann is not like some people running holding company structures, tracking stocks, or being super obsessed with the NAV discount every moment of every day. He has been opportunistic and repurchased shares when the discount is wider. He's aware of it. He obviously gets it. He's John Elkann, but he's not waking up every day saying, "My God, if I don't get that discount lower, I'm going to be distraught ."

You have to be comfortable with his being opportunistic and well aware of it, but he’s also much more focused on continuing to find great businesses run by great people with great brands that Exor can grow over time. We’re comfortable with that strategy. He’s articulated it very clearly for anybody who wants to read, but the optionality is there, and a discount is there.

By the way, Stellantis – the old Fiat Chrysler which merged with Peugeot, call it the third-biggest underlying piece – is potentially in and of itself unbelievably cheap. Reasonable people might debate whether Ferrari is undervalued or not, but I would not bet against Ferrari at all. Stellantis in and of itself is very cheap, so you have a discount upon a discount.

MOI: Finally, on Goldman Sachs, my question would be around the culture. To what extent do you feel there’s still a partnership culture in place at Goldman?

Pitkowsky: If I might digress for a moment, our looking for and finding some more financials to do has been interesting. In the spring of 2021, we said to people we had some exposure to so-called financial companies in a couple of different ways. We had a bunch of property casualty insurance companies, including Alleghany, which now is about to be taken over by Berkshire. We commend, by the way, the job Jeff Kirby did as chairman of the board in helping to create value over time for owners.

We said, “If interest rates should ever go up and spreads in certain trading areas should ever improve –because both of those things had been somewhat lackluster when we wrote this in the spring-summer of 2021 – there’s a bunch of financial companies for which it would be better, and it’s definitely better for certain aspects of property and casualty insurance where you have a big interest income line as a large part of the income statement.” Goldman then had the trading banking bonanza that happened in the last couple of years.

From what we can tell – and we try and poke around as much as we can – it seems to still be a collaborative and focused culture that continues to evolve given the size of the organization. We think management has articulated a path forward to try to have an earnings stream that’s a little less volatile, and I think that is part of the reason for slightly more of a focus on the asset management and the wealth management part of the business, maybe the consumer bank to some extent. We will see how it evolves.

We have observed closely how good a job Rich Handler has done at continuing the culture at Jefferies and it’s important. So far, Mr. Solomon appears to have been doing a very solid job and has put forward some goals, but I think when you pay an attractive price, we’re looking for things where it’s “Heads, I win a lot; tails, it works out okay.” Given the price we paid for Goldman, should it remain able to grow the business over time and improve those returns on equity and tangible equity, we’re going to do great. If it can’t quite get there given the price we paid, we’ll do okay.

MOI: You talked about portfolio concentration, which I think resonates with a lot of our members because there’s such a strong case to be made for allocating more to your best ideas. Could you talk a little more about how you view risk within the portfolio and whether you have any guidelines or rules of thumb around exposure to various sectors or anything you would highlight on that portfolio and risk management front?

Pitkowsky: Artie and I talk about this all the time; we're really operating in a parimutuel system. Those of us who are value investors wake up every day looking for a three-to-two horse that's going off at 15-to-one odds. Then, when you occasionally find that horse, that is, something you truly feel is mispriced or misunderstood, you want to make it count sizing-wise.

Having said that, I'm especially careful about having things bigger in size be things that I'm totally comfortable can withstand unusual economic environments. Right after GoodHaven 2.0 began in 2020, the economy was partially closing, the markets were cascading, and liquidity was drying up everywhere. I looked around and said, "There are things to do. We have some cash, but this could go on for a long time. This is unprecedented. This is not normal." In the new investments we made – and we made a lot of them – I was trying to make sure they could live through a treacherous environment for a while. That's how we think about big holdings.

As for concentration, we have a public fund and separate accounts that live by different guidelines and rules, but in the public fund, we can have two 25% positions at cost. Then, we have a certain other regulations as far as what we would call the top bucket half of the portfolio.. If you look at the the separate accounts, they don't necessarily abide by those same constraints. If you look at the portfolio today, in the public fund, we have two positions, one mid-teens and one is low-teens, and then we have a few others hovering around the 5% or 6% range.

To be comfortable with concentration, first I have to answer the question whether I think something does have the balance sheet and the financial structure to withstand unusual things because unusual things don't announce when they're coming. Secondly, you must be comfortable with portfolio volatility. Lots of people say they're comfortable with portfolio volatility, but when they do have portfolio volatility – which is inevitable – if you have your top ten holdings in more than 60% of the portfolio, you're going to have idiosyncratic portfolio volatility even if everything fundamentally is going wonderfully. For a lot of people, it doesn't jive with their temperament.

Temperaments are a hugely important thing. We're all wired how we're wired. I happen to be very comfortable with these levels of concentration. I try and articulate to clients and shareholders where we're going with concentration and what we're comfortable with because I would never want anybody who was not comfortable with it, but it makes perfect sense to me that great ideas are rare and to achieve a different result from the market, you have to do something different. I think that's one of the things that sets us apart.

MOI: Thank you, Larry. Before you go, is there anything else you'd like to add to this conversation?

Pitkowsky: One thing we didn't cover when we talked about what value investing is and isn’t is that the distinction between growth and value investing often gets mislabeled. Obviously, whether a business or an asset grows is a component of a company’s underlying vale..

When you think to yourself, “I believe I’m buying something with a margin of safety, and I’m giving some consideration to how I think it’s going to grow,” what you really have to do is ask yourself, “How likely do I think that is, and why do I feel comfortable with thinking this business is going to grow and not be disintermediated or interrupted in some material way?” In my view, to separate, to say that value investing can’t involve a growing high-quality business is a huge mistake.

Larry Pitkowsky co-founded GoodHaven Capital Management in late 2010 with Keith Trauner, created and began managing the affiliated GoodHaven Fund in April 2011. Larry currently serves as the sole managing partner and portfolio manager.

Prior to forming GoodHaven, he was a consultant to Fairholme Capital Management for approximately two years, and from 1999 through 2008, he held a variety of roles at Fairholme and its affiliates, including analyst and portfolio manager. In addition, for most of the period from 2002 through 2007, he was a portfolio manager of FCM’s affiliated Fairholme Fund.

Larry was also vice-president of Fairholme Funds, Inc., the parent company of the Fairholme Fund, from March 2008 through January 2009. Larry has more than thirty years of experience in securities research and portfolio management across a wide range of companies and industries. Larry has been quoted in a variety of business media, including Forbes, Fortune, The New York Times, and Reuters.