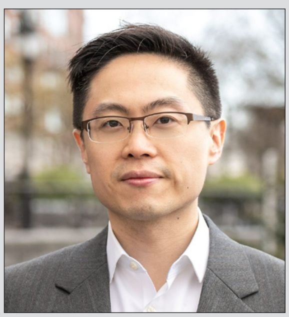
THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Lennar and KKR: Quality Businesses Trading at Attractive Valuations

LARRY PITKOWSKY is the Co-Founder, Managing Partner, and Portfolio Manager of GoodHaven Capital Management. Mr. Pitkowsky is also the Chairman of the Board and President of the GoodHaven Funds Trust, which oversees the GoodHaven Fund (GOODX). Prior to founding GoodHaven Capital Management, Mr. Pitkowsky was affiliated with Fairholme Capital Management, and from 1999 through 2008 held a variety of roles at FCM, including Analyst and Portfolio Manager. In addition, for most of the period from 2002 through 2007, he was named Portfolio Manager of FCM's affiliated Fairholme Fund and also served as Vice President of Fairholme Funds, Inc., the parent company of the Fairholme Fund, from March 2008 through January 2009. Mr. Pitkowsky has more than 30 years of experience in securities research and portfolio management across a wide range of companies and industries.



ARTIE KWOK is the Managing Director and a Partner at GoodHaven Capital Management. He joined the firm in April 2014 and is a senior member of its investment team. His responsibilities include the firm's investment process that encompasses idea generation, investment analysis, and portfolio construction. Prior to joining GoodHaven, Mr. Kwok served as an Analyst at Green Eagle Capital, a long/short credit fund adviser, and at HSBC Asset Management where he focused on various distressed and restructuring investments. He began his career in the Financial Institutions Group at Bear Stearns & Co., where he helped to advise companies on mergers and acquisitions, strategic alternatives, and capital raises. He holds a Bachelor of Science degree in Electrical Engineering from Washington University in St. Louis and an MBA from Columbia Business School, and has more than 15 years of relevant industry experience.

SECTOR — GENERAL INVESTING

TWST: A good place to start is with an introduction to GoodHaven. What would you like readers to know about the firm's history and its business today?

Mr. Pitkowsky: GoodHaven was launched at the very end of 2010 by myself and my now-retired partner, Keith Trauner, after we had left Fairholme Capital. Markel Corporation, which is one of the preeminent property and casualty insurance firms in the United States run by Tom Gayner — who's one of the preeminent investors in the United States — has been our anchor investor and minority partner since the beginning.

We set out to try to compound everybody's capital at as attractive a rate as we can while taking less risk, owning a concentrated portfolio of primarily common stocks. The period which we like to call GoodHaven 2.0 began at the very end of 2019, when we went through a reorganization and I became sole Portfolio Manager. Not long after that, Artie became a partner in the firm.

We set out from that point forward to further refine what we were trying to accomplish from day one: invest with a value mindset, deliver attractive long-term results for our fellow clients and fellow shareholders, and do it by taking less risk than the market averages. We try to be crystal clear about what we're doing and why we're doing it. So far, so good.

We continue to have a wonderful relationship with Markel. I'm fortunate that Artie's been on the investment side with me now for quite a while.

TWST: You mentioned owning a concentrated portfolio. The GoodHaven Fund (GOODX) at the end of the second quarter had 20 holdings. Is that a typical number? And why so concentrated?

Mr. Pitkowsky: I've always been a concentrated investor in all the machinations of where I've been managing money. We would frankly like to know more about our top couple of ideas in a very deep sense than know a more modest amount about a longer list of holdings. Good ideas are rare. They're hard to come by. When we find one, we want to make sure to make it count from a standpoint of portfolio impact.

We like to have a very deep understanding about the companies and industries we invest in. We feel it is helpful to be able to behave opportunistically during periods of volatility, of which there are more now than there have ever been. Owning a shorter list of things, we feel, allows us to do that. We're also trying to have a differentiated portfolio and striving for strong long-term performance. So, we're not desirous to just mimic an index of any sort.

Mr. Kwok: The only thing I would add is, we strive to own what we consider good businesses with long-term tailwinds versus what is traditionally the deep value of owning statistically cheap securities. We strive to buy quality businesses where we like the long-term dynamics and growth, and purchase with a strong margin of safety.

The process is never-ending. Once we own something, the process is still never-ending to learn more, look under every rock all the time, and make sure the thesis for why we bought the thing is evolving well.

We find ideas from any place under the sun. We read a lot, and of course we keep an eye on all the major developments out there in the world. Then we really dig in. We'd be very happy if our business cards said "business analysts." We really want to try and understand what we own. We don't need that many things over any given period of time to have an impact on the portfolio.

By the way, we like being a contrarian. It's always interesting to look at areas that are unpopular, out of favor, feared, and hated. It's not, by and of itself, an investment approach; it then has to meet the other filters. But it's a fun place to start looking, because very often you get attractive prices in out-of-favor areas. But again, as Artie articulated, we're primarily looking to buy good-quality businesses with attractive long-term growth prospects, run by talented people.

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We view having that concentration as our risk mitigant, so to speak. Owning a small collection of businesses that we know very well, we find that better than significantly more positions.

TWST: Tell us a bit more about your investment process. What are the critical elements there, from how you approach idea generation all the way to buy and sell decision making?

Mr. Pitkowsky: It starts with how we define and think about what we consider to be value investing. We start with the vantage point of looking to invest with a margin of safety. Anything that we buy, we want to feel like our analysis has shown us that we're buying something at materially less than its underlying intrinsic value.

Secondly, we want to focus on buying a part of a business. We're not looking to be active traders or buy something at a certain price because we can sell it for a little more over a short period of time.

Thirdly, as Artie articulated, we like to buy good quality. There's nothing inconsistent in value investing with trying to own good-quality businesses that have good long-term growth prospects, have some tailwinds, and are run by talented people. We just want all that at a bargain price.

We've been around, especially me, for a long time. There's a long list of companies and industries that I've observed, kept an eye on, and owned in the past. The world is our shopping list, so to speak. It's just a matter of something appearing in the market at a price we feel gives us a margin of safety and the potential to earn attractive long-term returns.

It has to be an industry and a company we understand, or we think we can understand. There's lots of industries we don't understand and lots of companies we don't understand. Most things we look at, we pass. Either we don't find the business attractive, we don't find the people running it to be our type of people, or the price is just not attractive. If price is the only issue we'll keep an eye on it.

TWST: Are you able to tell us about a couple of examples of stocks in the portfolio? Why were they attractive when you first entered the position, and how has the investment thesis played out?

Mr. Pitkowsky: Absolutely, and within the appropriate confines of what's been disclosed publicly in the portfolio.

We've had an investment for some time in **Lennar** (NYSE:LEN), which is the second-largest homebuilder in the United States. We feel that the thesis is evolving well, and it is currently an out-of-favor industry, given where we are in the cycle.

1-Year Daily Chart of Lennar Corporation

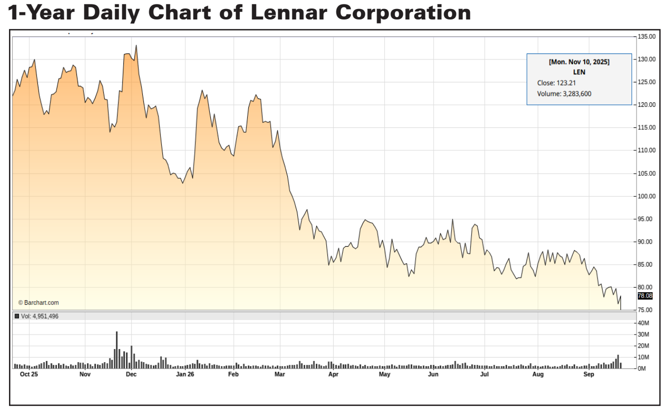

Chart provided by www.BigCharts.com

What attracted us to the company a bunch of years ago was that they were clearly number one or number two in almost all of their important markets. You had an owner-manager in Stuart Miller, who has roughly a 10% ownership of the entire operation.

Our thesis was, we thought that over time they were going to continue to evolve the business away from being a capital-intensive business of owning a lot of land to an asset-light manufacturer and seller of homes. They have embarked on that and have successfully spun out all of their land holdings into a company called **Millrose** (NYSE:MRP). They have been repurchasing shares at a very aggressive pace. They've bought back 3% of the shares year-to-date and 9% since Q1 2025.

The shares were cheap when we first got involved, and we feel they're quite cheap today.

For the long-term outlook, we do feel there's plenty of credence that single-family housing in the United States still has a lot of demand. You're going through a part of the cycle where there's a lot of headwinds: affordability is rough, mortgage rates have ticked higher, all kinds of things. But when you look at the business today, we see a business selling right around book value, where returns on equity are going higher. We feel it's a very attractive multiple to what we think normalized long-term earnings will be.

Management, which has a history of being very sensible allocators of capital, obviously feels the same, as they continue to shrink the outstanding shares, which we think will turn out to be a very value-creating thing for remaining owners over time.

That's how we got involved, that was the thesis, and the thesis is evolving well. It looks to us like an attractive opportunity again.

We liked how they ran the business. We also thought they were doing a solid job for their investors, and we think that has all evolved very well. It looks to be, on a go-forward basis, very attractive even today.

1-Year Daily Chart of KKR & Co Inc.

Chart provided by www.BigCharts.com

At the time we bought it, by the way, it was a period of great market weakness, great concern about financial companies and so forth, so it was an attractive entry point. You've had a period very recently where there's been some clouds on the horizon that's provided an attractive entry point.

"KKR now has $800 billion in AUM, and that has grown three times since just 2020 alone. If you went back 20 years, it's an even more dramatic number. The thesis has played out beyond what we originally anticipated, but it is a good example of a really quality business."

Mr. Kwok: I think that was a good example of us realizing a bit of the tailwinds and what was seen for a while as just a purely cyclical business. It's still cyclical, but we had noticed what could be a significant change in the operating model of the business and what had become a more sensible industry among the key players. We're willing to hold through a business' cyclicity because we feel the thesis is intact. It's a different model, and they'll earn better returns on capital, like Larry said.

TWST: That's a great example. Is there a second one you would talk about?

Mr. Pitkowsky: As the period that we call GoodHaven 2.0 began, right before the tragic COVID period came into place, we made a bunch of portfolio changes during that market and economic period of weakness. One that we added to the portfolio then, which we think is attractive today, is **KKR** (NYSE:KKR). **KKR** is one of the biggest alternative asset managers. It had its beginnings as a traditional leverage buyout shop, a private equity shop.

We thought at the time, and we feel even more strongly still, that the company had evolved to where they had many more attractive lines of business than they were given credit for beyond the traditional buyout business, which they were very good at. Real estate, credit, non-U.S. investing — Artie will fill in some more of the details there. We thought their ability to continue to grow assets under management on a go-forward basis was attractive.

Mr. Kwok: As Larry said, it is another example of where we were able to buy what we consider a very durable business at a very attractive price when we first got involved.

The variant perception we had at the time was they had all these different businesses, particularly away from the core buy-out business — which included credit, real estate, and infrastructure — and all these different funds that they were able to raise capital for. The institutional demand for private markets was really accelerating, and we know now in hindsight that continues to grow.

KKR now has $800 billion in AUM, and that has grown three times since just 2020 alone. If you went back 20 years, it's an even more dramatic number.

The thesis has played out beyond what we originally anticipated, but it is a good example of a really quality business. For different reasons, it had traded at a very attractive multiple. It's an owner-operator mentality; insiders and employees own a third of the shares. The Co-CEOs are lifelong employees at **KKR**, and they were both instrumental in building the franchise during their tenure there. During the recent weakness, the Co-CEOs and the insiders bought back $50 million worth of stock, which is pretty substantial.

Mr. Pitkowsky: Bought for themselves, not bought back for the company. They made open-market purchases for themselves, in aggregate, of about $50 million worth of shares

Mr. Kwok: The piece that's a durable business is, more than half of their AUM is in perpetual, long-dated capital, so there is a very sticky management fee part of the business, and then there is a more episodic, timing-related type of incentive fee.

We feel comfortable in the near to medium term **KKR** can earn approximately $7 to $8 per share, and where the stock trades, it's a very attractive multiple and valuation. It's evolving better than we had thought and continues to be undervalued, so it's one that we really like.

Mr. Pitkowsky: Artie used the phrase"variant perception," which I think he invented, meaning, to strive to earn outsized returns over time, it often helps to have a different view than the rest of the consensus. If your different view on the upside turns out to be correct, you'll get some kind of a re-valuation over time in addition to the stock price just following the results of the business. So, to potentially get outsized returns versus everybody else, it often helps to have insights that the company has positive attributes that are not yet recognized or assumed.

We think in both of these instances, we've had and continue to have a different forward view. In **KKR**, when we made our initial buys, we certainly had a different view than the consensus, and we think we still do. Again, both of these examples are well-run, good businesses, high returns on underlying capital, but at different points they have been available at very attractive prices. We like to have our cake and eat it, too.

The underlying economy itself, there's more volatility, more volatile fiscal policies and geopolitical things going on than in the past. We're playing the long game and trying to look beyond whatever volatile fiscal or geopolitical things are going on on any given day.

The market volatility is the new normal, and it appears to be here to stay. You just have a lot of non-fundamental investors in the marketplace, and you have a lot of short-term focus things. That's life, but over a long period of time, the stock prices will follow long-term fundamentals.

We are the clients and we are the shareholders; this is not an academic exercise. We will strive to use it to our advantage, and we think we've done a solid job of that so far.

TWST: Earlier you talked about how knowing much more about a smaller number of businesses helps reduce risk. Is there anything else you'd add about your approach to ongoing portfolio management and risk management?

Mr. Pitkowsky: What also helps, what we believe is a helpful risk management tool, is we eat our own cooking. We put in our letters how much the internal folks own in the fund. I don't have any outside investments of any magnitude. Everything my family and I have is alongside the clients and shareholders in the vehicles we've got here at GoodHaven.

"Recessions, we haven't had one in a while, but I feel confident in saying we will still have them from time to time. We always ask ourselves, 'How's this company going to do the next time there's a real period of economic weakness, and do they have the wherewithal to work through it and maybe even use it to their advantage?'"

TWST: You had mentioned how we seem lately to be experiencing more periods of volatility than ever before. I imagine that's something that works in your favor. What does it mean for you and your opportunity set?

Mr. Pitkowsky: It's a very good question, and we've been writing about it. We write a letter for the public fund twice a year, and we've been saying for some time that, years ago, stock prices were much more volatile historically than the underlying businesses they represent. But we think today there's a lot of stock market volatility and there's also a lot of business volatility.

Stock market volatility, there's an enormous amount of trading done on a daily basis on the stock exchange that is from non-fundamental/long-term investors. That includes quants, high-frequency trading, factor investors, and all the passive money. These big hedge fund shops, by their nature, are very short-term oriented, by and large.

Without being critical — there are a lot of ways to get to heaven, I wish everybody well — I think with that volatility you see very big moves on a day-to-day basis in individual securities in different circumstances.

We have and continue to strive — and we have written about this, because it's how we behave and how we actually feel — to use volatility to our advantage, to buy things at an attractive price that the market is giving us and to sell things at an attractive price. We think we've done a solid job of that.

That doesn't guarantee anything in terms of results, but it does guarantee a shared experience, and we think that's a helpful risk management tool.

Mr. Kwok: I'll add a few things from a portfolio perspective. We generally strive, when we're looking for quality businesses, for ones that don't have a lot of debt, or have very manageable leverage on their balance sheet, that they can withstand cycles over a period of time. That's important when we're going through the investment process.

The second is sizing. That's something we discuss a lot, how we size the positions, even in what we consider a concentrated portfolio. We think that's important: what the potential scenarios are of different economic environments and how that impacts how we view sizing of a particular position.

Mr. Pitkowsky: I think that's a really important point. When we look at companies, we're always asking ourselves a couple of things.

Recessions, we haven't had one in a while, but I feel confident in saying we will still have them from time to time. We always ask ourselves, "How's this company going to do the next time there's a real period of economic weakness, and do they have the wherewithal to work through it and maybe even use it to their advantage?"

Because they happen. Nobody's going to tap you on the shoulder; we don't believe that the ability to predict those types of macroeconomic things exists with any degree of accuracy on a regular basis. We just want to make sure, as Artie articulated, that our companies can withstand and maybe even do some things to come out of a difficult period better on the other side. That's really important.

We also feel today that the portfolio we've constructed in the fund is trading at a materially lower multiple than the market, with almost as good growth prospects, and with businesses we feel very good about how they're going to look over the long term.

It's harder out there for businesses to maintain a competitive advantage. The world is more competitive, business is more competitive, and things are moving fast. We feel we've constructed a portfolio of companies that we feel confident in what those businesses will look like three, five years down the road.

TWST: I won't ask you to make predictions, but would you share any thoughts or expectations for the market environment overall, and specifically for value investing, in the next few quarters? Anything you're keeping an eye on?

Mr. Pitkowsky: One of the things that we've tried to make clear in our communications with our fellow clients and shareholders is, to translate macro views into portfolio management is not our thing, and it is very hard to do.

We don't think we have any ability to predict stock market direction over the short term, the level of interest rates over the short term, or the GDP growth in the economy over the short term. So, we stick to trying to opportunistically own a small handful of companies that we do think we have an ability to really understand where they're going and buy them at an attractive price.

The economic backdrop at the moment is OK. There are some obvious pockets of speculation in some areas. There are some new things that are happening that are fascinating. Interest rates are where they are. We feel we just have to continue to look for attractive things to own, assuming the backdrop we're looking at is what it is for a while.

Mr. Kwok: The only thing I would add on the value investing question is, as Larry mentioned, our portfolio currently trades approximately eight turns below where the S&P trades on a forward earnings multiple. Yet if you look at the five-year compounded earnings growth on a weighted average on our portfolio, it is similar to the S&P. It is an interesting statistic.

We can't predict when the market will correctly value the companies we own that are trading well below intrinsic value. What we focus on, as Larry mentioned, is making sure our companies are performing well and the thesis is progressing along. We feel confident about the long-term potential of the companies in our portfolio.

Mr. Pitkowsky: After GoodHaven 2.0 got rolling along, we had a whole bunch of years of material outperformance for a while, and lately we've lagged. But we don't pop the champagne and get overly excited after a bunch of years of strong outperformance, and we don't get overly despondent in any way over some periods of underperformance. That's part of the long-term process. We do note the portfolio seems quite attractive, as Artie noted with those metrics today.

The idea of value investing — If you and four friends were going to buy an apartment building and you said, "Well, let's see if we can buy it at less than we think it's really worth and pick out one that has a solid long-term outlook," nobody would ever say, "Oh, that sounds like a stupid philosophy. Let's overpay dramatically and hope we can sell it the day after to somebody else, even though the underlying economics are bad."

If you sat down with a bunch of people and you gave them those two philosophies, I don't think there'd be any takers for the second one.

Everybody in the industry can overdo it on what you call things. But trying to buy things with a margin of safety, with good long-term fundamentals, with some tailwinds — how could that ever go out of style? That doesn't mean that you outperform in every period. It's not that complicated: you have to be right, and the analysis has to prove itself out over time. Why would that ever go out of style, philosophically?

TWST: Thank you. (MN)

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GOODHAVEN
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The Fund is non-diversified, meaning it may concentrate its assets in fewer individual holdings than a diversified fund. Therefore, the Fund is more exposed to individual stock volatility than a diversified fund. The Fund invests in midcap and smaller capitalization companies, which involve additional risks such as limited liquidity and greater volatility. The Fund may invest in foreign and emerging market securities which involve political, economic and currency risks, greater volatility and differences in accounting methods. The Fund may invest in REIT's, which are subject to additional risks associated with direct ownership of real property including decline in value, economic conditions, operating expenses, and property taxes. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment in lower-rated, non-rated and distressed securities presents a greater risk of loss to principal and interest than higher-rated securities. **Past performance does not guarantee future results.**

Fund holdings are subject to change. Click **here** for top 10 holdings.

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Margin of Safety is the difference between an investment's estimated value and its intrinsic value.

The S&P 500 Index is an unmanaged, market-capitalization-weighted index of 500 leading U.S. companies. The index is commonly used as a measure of the U.S. equity market and cannot be invested in directly.

KKR had approximately $800 billion in assets under management as of June 30, 2026.