

Roaming the Globe for Trifecta Investments

David Winters of Wintergreen Fund on the fund's investing criteria, Berkshire's purchase of BNSF, the growth opportunities in Asia, and a penchant for chocolate and jewelry.

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David Winters is the managing member of Wintergreen Advisers and portfolio manager of the Wintergreen Fund (WGRNX). He recently answered our questions on owning global businesses, the value of the Consolidated-Tomoka Land, and what makes the chocolate, jewelry, and cigarette markets so lucrative.

1. You have long been a big fan of the railways, and Berkshire Hathaway is among your top holdings. What do you think of its purchase of Burlington Northern, including the share issuance and price paid?

I do love railroads, and Burlington Northern is a first-class operation, providing coal, grain, and container freight rail service domestically to the lower-48 states. The ability to transfer goods in a container that doesn't need to be unpacked and repacked as the containers move from ship to train to truck provides the opportunity for significant cost savings for Burlington's clients.

During the last decade, Burlington has deployed meaningful capital to upgrade its engines, freight cars, and track infrastructure. At this time, the franchise is nonduplicable, which can be easily seen if you were to try to acquire equivalent, well-located land to parallel the company's tracks that connect many of the major cities in the U.S.

Warren Buffett has commented that Burlington was purchased at a full price. I think he is correct on this point, but I also believe it was a fair price for a solid investment that will allow Berkshire Hathaway (BRK.A) (BRK.B) to participate more fully in the upcoming turnaround in the U.S. economy and for decades beyond. It is important to note that this deal, because of the 50-for-1 split of Berkshire's B shares and the issuance of additional shares to pay for the purchase, has put many more shares into the market. This has added significantly to the liquidity of Berkshire stock and helped make it an attractive addition to the S&P 500. We believe Berkshire Hathaway continues to trade at a discount to its intrinsic value, albeit at less of a discount than existed before the deal.

2. You don't invest necessarily based on macroeconomic themes, but you do note that a lot of growth will come out of Asia. Can you comment on how that thought factors into your analysis of individual companies, such as Jardine Matheson, another top holding?

Recent studies indicate that the increased wealth in Asia during the last decade is the largest expansion in wealth ever reported during a single decade. My belief is that Asia will continue to grow and prosper, although clearly not all companies there, or in any other part of the world, can be expected to succeed. Wintergreen's investments are not limited to the companies that are part of an index. This gives us the analytical flexibility to identify companies that we believe can successfully participate in the long-term economic prosperity of the region with lower financial and operational risk than most. Although we cannot eliminate volatility, we try to use the market as our friend as we accumulate holdings at attractive prices during periods of market stress.

Wherever a company is located, our focus has been on finding companies that have the three characteristics we call the Trifecta: one, a business with good and improving economics; two, management that is focused on working for the long-term financial interests of all shareholders; and three, shares that are available at an attractive price. We believe a portfolio of holdings that meets these criteria increases the odds in our shareholders' favor.

For example, Jardine Matheson is a 178-year old Hong Kong-based conglomerate with a Scottish heritage. Jardine has several good businesses in Southeast Asia, including numerous food retailers, well-placed real estate in Hong Kong, and motorcycle and automobile manufacturing in Indonesia. These businesses have been able to capitalize on the increased affluence in Asia, thereby meeting the first criteria in our trifecta. Jardine also has a management team that is driven to create more wealth for all shareholders, and the stock is available at a price which is meaningfully discounted to our estimate of the intrinsic value of the businesses.

3. Wintergreen is one of a small group of mutual funds that owns Genting and Genting Malaysia. How did that company get on your radar screen, and why does it stand out?

Part of our ongoing work is to examine businesses globally and see if one type of business that is lucrative in one area of the world is also lucrative in other markets or countries. When we started studying the gaming industry we looked at similar firms around the world, and we came to the conclusion that Genting was one of the best-positioned companies. Genting owns a large stake in Genting Malaysia, and the two companies operate as a conglomerate with a gaming monopoly in Malaysia as well as palm oil plantations and energy investments.

Our positive view of the companies was confirmed when I went to Malaysia and saw their operations firsthand. The Genting and Genting Malaysia balance sheets and their competitive position made the companies stand out, as did the large amounts of cash flow they generate. These are family-controlled businesses with the family owning more than 32% of the equity of Genting. The family is highly motivated to succeed, and because they are a large shareholder, their interests are directly in line with those of outside shareholders. Most of the U.S.-based analytical community pays little or no attention to companies such as Genting and Genting Malaysia which are listed in Kuala Lumpur.

4. The fund is also among the few funds with any sort of meaningful investment in Consolidated-Tomoka Land, a company of which you altogether own more than 25%. What's there, and what extra responsibility, privilege, or challenge comes with being such a large minority shareholder?

We are attracted to undervalued assets. Consolidated-Tomoka (CTO) owns approximately 11,000 acres of land in Daytona Beach, Fla., which is on their books at 1902 prices, and the company has a portfolio of income properties that meets most of its current operational costs.

We take our fiduciary responsibility very seriously, both with Consolidated-Tomoka and with our entire investment portfolio. We often have an open dialogue with the management of portfolio companies who generally value feedback from investors. Usually, this is cordial conversation, but in this instance, it has at times been difficult. Wintergreen ran a proxy contest last year in support of improved corporate governance and a more independent board. A majority of shareholders joined us and supported these objectives. We view Consolidated as a company with the opportunity to write its own

future, and as a major shareholder, we want to make sure that future is well thought out and in the long-term interests of its shareholders.

Florida's population has grown dramatically in the last couple of decades. Daytona is one of the very few if not the only city on the east coast of Florida with thousands of contiguous acres of undeveloped land that abuts against the city's announced plan for future development. This is a prime opportunity, and one that cannot be duplicated anywhere else.

Go back in time and imagine you owned an 11,000-acre parcel of undeveloped land just beyond the developed portion of a city nearby your hometown. If you still owned a significant portion of those 11,000 acres, that land could be worth a fortune today, as the city most likely will have grown into the land. This is the opportunity Consolidated Tomoka and its owners have in Daytona because unlike many other towns, Daytona still has the ability to grow into this open land. The presence of major state roads nearby the company's land only adds to its long-term appeal.

Wintergreen's investors own more than 25% of this land just beyond the current development boundary of Daytona, a city that is well poised for growth when the real estate market turns around. Daytona is receptive to growth and development, and this huge tract of land is the only viable option for the city. Consolidated is in a great position to help design a spectacular future for Daytona and participate on the upside of this growth. Many towns in Florida have already experienced major growth, just as any number of towns in other states have grown and spread out beyond their former development footprint from when we were kids.

With the sharp downturn in the Florida real estate market, now is the time for Consolidated-Tomoka to develop a long-term design plan and use the economic slowdown to its advantage. In a number of years, we believe we will be able to look back and say that, just like the towns many of us grew up in, Daytona has had spectacular growth. With the benefit of careful development design and rational planning, you can well imagine what can be done to maximize the value of this company-owned land for all shareholders.

During the last few years we have and will continue to express our views to management through letters, 13-d filings, and, when necessary, proxy contests. We have had some success and believe

there is much more value in these 11,000 acres to be unlocked for shareholders. Our duty here and in other investments is to think and act like long-term owners of a portion of the business.

5. Your portfolio has a lot of exposure to chocolate, jewelry, and cigarettes. What's so great about those end markets?

There are some businesses whose products produce an immediate feel-good response for their consumers. Chocolate is that kind of product: It is a small expense that provides immediate pleasure. Both children and adults around the world crave chocolate every now and then, and it is a product which will never be supplanted by technological advancement. There is a smile in every bite of Nestle (NSRGY) chocolate.

Chocolate in general, and Nestle in particular, is a great business. Nestle is sold in more than 130 countries and enjoys streams of growing free cash flow in many currencies. Nestle also has pricing power because chocolate of a globally recognized quality can increase its price per serving over time. Additionally, Nestle is a significant manufacturer and distributor of infant formula, pet food, and bottled water in many countries. We believe Nestle meets the trifecta I focused on in answering your second question.

Jewelry's allure is all about human adornment which goes back to the beginning of time. In the time when hieroglyphics were the written word, we see evidence of jewelry's importance. Today, watches are loved by men and women not only as a way to tell time, but importantly as a way to express their individuality. In the Far East, where watch demand has been increasing over time, people generally enjoy owning a watch and often a collection of watches that are appropriate for specific types of occasions—work, dress, sport, and so on. Women and men in general love to look good and want to be thought of as attractive and successful. Jewelry is a way many people can add to their appeal, express love, or simply feel good. Our jewelry investments are capitalizing on the increasing demand and wealth creation in the Far East.

With respect to cigarettes, clearly we do not support or encourage smoking. We do, however, recognize the cigarette business as one with a steady, brand-loyal customer base and strong cash flows. It is a business that tends to be somewhat immune to the ups and downs of the economy.
