

# COOK & BYNUM CAPITAL MANAGEMENT, LLC

*“In the short run, the market is a voting machine,  
but in the long run it is a weighing machine.”*

*— Benjamin Graham*



**As the supporting scaffolding was removed following the completion of a Roman arch, the engineer responsible for its construction was required to stand beneath it.**

**This approach ensured that the engineer had a fully vested interest in designing and building the arch with a substantial  
*MARGIN OF SAFETY...***

# Cook & Bynum: *Concentrated, Global Value Investing*

- **Cook & Bynum Capital Management was founded in 2001**
  - \$250 million in total AUM
  - Single, pure value investing approach used in our mutual fund and private accounts
- **We designed our flexible mandate with a goal to maximize returns over 30-year periods**
- **We believe in aligning our interests with those of our investors by investing substantially all of our investable net worth in our funds**



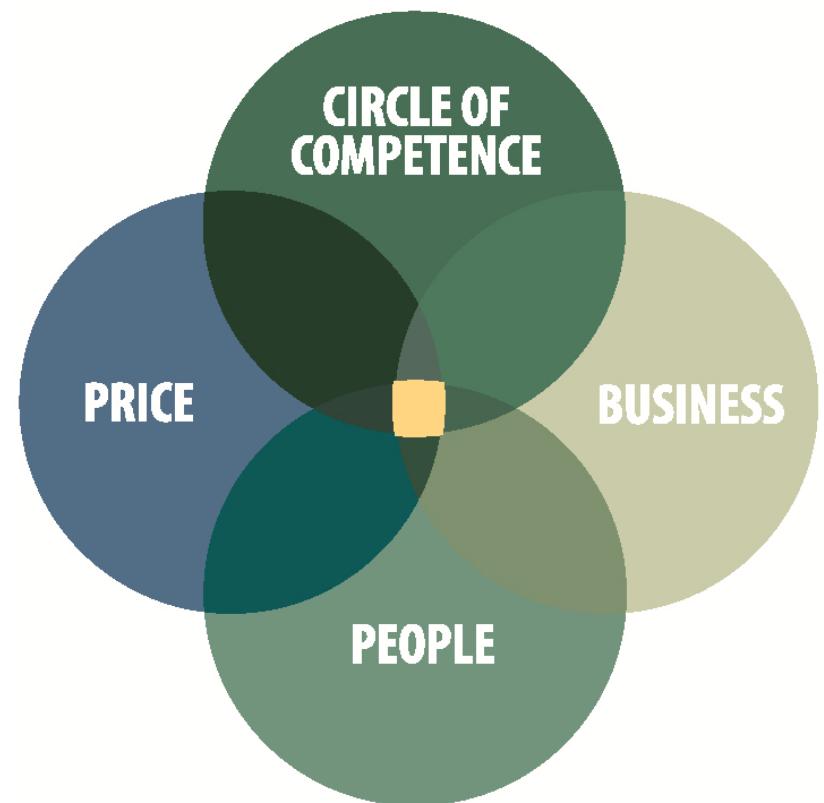
**Richard P. Cook:** Richard co-founded Cook & Bynum Capital Management in 2001. Before forming the firm, he worked for Tudor Investment Corporation in Greenwich, Connecticut. Richard attended Hampden-Sydney College where he graduated *summa cum laude* in three years with a B.S. in Mathematics, Applied Mathematics, and Economics and was a member of Phi Beta Kappa. Richard now serves on the Board of Trustees of Hampden-Sydney.



**J. Dowe Bynum:** Dowe co-founded Cook & Bynum Capital Management in 2001. Before forming the firm, he worked as an analyst in the Equities Division of Goldman, Sachs & Co., Inc. in New York, New York. Dowe attended Princeton University where he graduated with a B.S.E. in Operations Research & Financial Engineering and a Certificate in Finance. Dowe serves on the boards of the Glenwood Autism & Behavioral Health Center and the Mountain Brook City Schools Foundation.

# Our Investment Approach

We seek to minimize permanent capital loss and maximize long-term returns by investing in a *select few domestic and foreign businesses* that meet our core criteria:



# We Focus on Remaining Within Our Circle of Competence

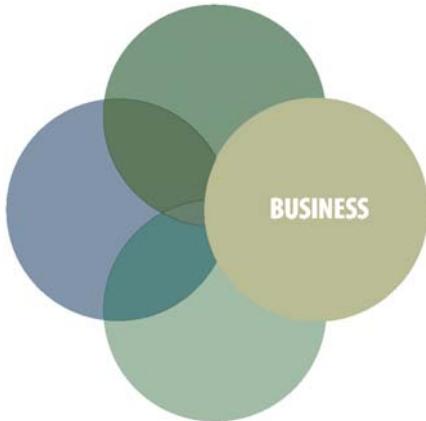


*“It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”*

*– Mark Twain*

- Only invest in businesses in which we are capable of understanding the core economics
- Be disciplined about what we do and do not know, while working to prudently expand our circle of competence
- Always examine the psychological factors at work to avoid fooling ourselves

# We Buy Businesses, Not Pieces of Paper



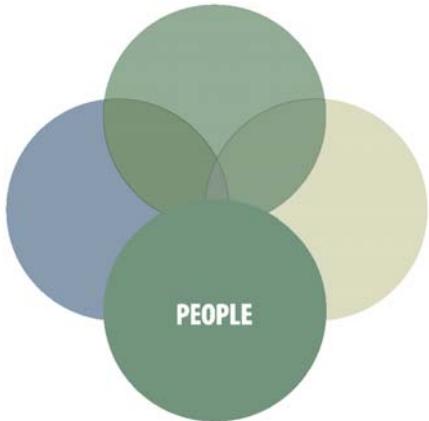
*“A great business at a fair price is superior to a fair business at a great price.”*

*– Charlie Munger*

- Seek companies that have durable competitive advantages (“moats”) that allow them to produce predictable cash flows and earn high returns on equity for extended periods of time

- Prefer conservative balance sheets

# Critical to Choose the Right Partners



*“Associate yourselves only with those people you can be proud of whether they work for you or you work for them.”*

*– S. Truett Cathy*

- Businesses must have trustworthy and capable managers who think and act like long-term shareholders
  - Prefer executives who invest a substantial portion of their own net worth in the company
  - An important indicator of management integrity is conservative, easily understood accounting
- Evaluate capital allocation through the use of marginal free cash flows (dividends, stock buybacks, or reinvestment)

# Price Is Imperative



*“Confronted with a challenge to distill the secret of sound investment into three words, we venture the motto, ‘Margin of Safety.’”*

— Ben Graham

- Convert GAAP to “real” owner-earnings
  - Adjust for maintenance capital expenditures, working capital needs, interest, stock options, off-balance sheet/pension liabilities, etc.
- Project real owner-earnings into the future and discount them to the present using a reasonable rate
- Insist on a margin of safety by paying substantially less than our conservative appraisal of its underlying intrinsic value

# We Search Globally For Investments

- There is no substitute for being “on the ground” globally to assess a company’s relationship with its customers, competitors, suppliers, etc.



# Risk Is The Permanent Impairment of Capital

**Volatility ≠ Risk**

*Daily prices are irrelevant to long-term compounding of capital*

**Volatility = Opportunity**

*Irrational prices allow us to buy cheaply and sell dearly*

**Risk = Business Performance**

*Risk is that a business significantly underperforms our expectations*

# We Prefer to Concentrate More Capital In Our Best Ideas

*“To suppose that safety-first consists in having a small gamble in a large number of different directions...as compared with a substantial stake in a company where one’s information is adequate, strikes me as a travesty of investment policy.”*

— John Maynard Keynes

# Investing is Maximizing the Geometric Mean

*Big Number × Big Number × Big Number × Ø = Ø*

## Kelly Criterion

$$\text{Position Size} = \frac{\text{Edge}}{\text{Odds}} = \frac{\text{Expected Return}}{\text{Range of Outcomes}}$$

- » *The larger the expected return, the bigger the position size should be*
- » *The larger the possible range of outcomes, the smaller the position size*
- » *“Zeroes,” which represent permanent capital loss, are critical and should be avoided*

# Concentrated, Global Value Investing

Track Record of  
Outperformance Since  
Firm's Founding in  
2001

Consistent, Disciplined  
Application of Single,  
Pure Value Strategy

Concentrated Portfolio  
with Willingness to  
Hold Cash in the  
Absence of Compelling  
Investments

Opportunistic Mandate  
to Invest Across All  
Geographies, Cap Sizes  
and Industries

Partners Are Fully  
Invested Only in Cook  
& Bynum Investment  
Vehicles

# Stay in Touch with Cook & Bynum

*Please contact David Hobbs @ 205-533-8400 or  
david@cookandbynum with any questions*

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- We share recent news and portfolio updates in our **C&B Quarterly** emails.
- **C&B Notes** is a forum where we share articles and ideas that influence our thinking and worldview. Like Charlie Munger, we believe investing demands a broad study of disparate disciplines to create the "latticework of mental models" that is required to make sound investment decisions.

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