ValueInvestor INSIGHT

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Investor Insight: Robert Robotti

Robert Robotti of Robotti & Co. explains why he believes the fundamental strength of many old-economy businesses has structurally improved, why the recovery in the U.S. housing market still has a long way to run, where he's finding head-shakingly low valuations, and why he sees particular upside in Westlake, Subsea 7, Interfor and West Fraser Timber.

INVESTOR INSIGHT

Robert Robotti
Robotti & Co.

Investment Focus: Seeks often-cyclical companies when the market's view of the evolution of the particular cycle at hand appears to differ markedly from his own.

He's a dyed-in-the-wool value investor with a track record going back 42 years – his firm's longest-lived fund since 1980 has earned a net annualized 12.1%, vs. 10.6% for the Russell 2000 – but Robotti & Co.'s Bob Robotti is still like a kid in a candy store when talking about the investment opportunity he sees today. "For the businesses we own the fundamentals are so powerful and the misvaluations are so dramatic, how can that not be exciting?"

His core argument is that "old economy" businesses in the U.S. and elsewhere have dramatically changed for the better in ways that investors obsessed with the next new thing are missing. That's translating into outsized potential upside, he believes, in such industries as chemicals, lumber, building products and energy services.

You've been speaking about the "revenge of the old economy" as a central theme reflected in your investment portfolio. There may be a lot to unpack there, but describe what's behind that.

Robert Robotti: Interest rates have dominated the financial landscape for years as governments everywhere have consistently driven down rates and flooded the world's economies with liquidity in an effort to trickle up into improved economic activity. You can debate how successful that's been – I'd argue it's been an abject failure with severe unintended consequences – but the result has been artificially depressed interest rates that everyone seems to have come to believe are now normal. The actual novelty of that really has been lost on investors.

One important impact has been a frantic search for yield by investors, squeezing them into longer-duration assets such as the large-cap stocks of companies that could grow in a chronically low-growth environment. They've been sucking in huge amounts of capital and the valuations more than reflect that. Higher investment returns attract even more capital and the up cycle rinses and repeats.

So over now a long period, capital has shifted to the new economy led by the FAANG stocks and away from what is considered the old. What we've seen then in a number of businesses that produce, distribute or service physical goods – think building materials, chemicals, steel, some areas in energy – is a dramatic restructuring of industries where capital investment has been relatively scarce. The core of our "revenge of the old economy" thesis is that in a number of these industries the competitive environments have structurally changed after years and years of downsizing, consolidating and underinvestment. These industries still produce vitally important products, but now will do so in a less cyclical and more disciplined way. We think that changes the game for the companies in these markets, making the record earnings many are realizing today more sustainable and capable of further growth.

But if you look at the valuation multiples at which their stocks trade, no one seems to believe. We own a number of companies that trade at single-digit P/E multiples. It makes sense for a company to trade at 5x earnings because we all know it's a crummy, cyclical commodity business and earnings are just going to go down again like they always have, right? We're saying in many cases that's not right, that in an industry now with only two or three major players operating near capacity, where adding capacity is more difficult and where capital is being more rationally managed, pricing power isn't going to go away easily. That's a fundamentally different scenario than the one that has existed for a long time.

People act like this type of thing just doesn't happen, but it does and has many times in the past. One obvious example would be the rail-transportation industry in the U.S., which was a classically horrible, capital-destroying business when I got out of college. Today, the remaining railroad competitors operate in monopoly and duopoly markets and offer low-cost, energy-efficient transportation services with strong economics. That's not going back to the way it was.

Walk through some more recent representative examples of industries you believe have fundamentally changed.

RR: Let's look at the history of building-products distribution in the U.S. Not so long ago there were mom-and-pop local lumberyards spread across the country that sold lumber and other related products to two primary customers, new home builders and repair-and-remodel consumers. The consumer side consolidated first, with the mom-and-pop distributors being replaced by Home Depot and Lowe's, which now dominate the industry and maintain huge barriers to entry.

Accelerated by the severity and length of the cyclical downcycle in homebuilding after the financial crisis, you've seen the same dynamic playing out for the segment of the industry that distributes building materials to professional builders and contractors. We've long held a position in Builders FirstSource [BLDR], which after its merger in 2020 with BMC Stock Holdings solidified its position as the leading U.S. supplier of building products, prefabricated components and value-added services to the residential construction, repair and remodeling markets. With that merger, it meant that four of the industry's top five competitors as recently as 2015 were now one company.

That consolidation has dramatically changed the scale, scope and capabilities of Builders FirstSource and means it can offer differentiated benefits to both its suppliers and end customers. Even before the U.S. housing market started to turn – a process we still believe has plenty of running room, by the way – its competitive advantages had grown more identifiable and clearer. At the same time, its earnings power and the sustainability of those earnings have significantly improved in a way that isn't transitory. We've taken a lot of profits in the stock over the years, but it's still our largest position. [*Note*: Bob Robotti first recommended Builders FirstSource in the August 31, 2011 issue of *VII* at a price of just over $2. The stock closed recently at nearly $73.]

Another good example of a fundamentally changed industry – also related to housing – would be the manufacture of oriented strand board (OSB), which is a wood composite that can replace plywood to build homes and is also used as the wood framework in furniture.

The price of OSB struggled for over a decade after the financial crisis as the housing recovery muddled along, so capital left the industry, older mills were shuttered, companies with weak balance sheets were acquired by stronger competitors, and extremely limited incremental capacity was built. The result is that North America barely has enough OSB capacity to satisfy housing demand today – and that's with 1 million single-family-home starts, which is still below the 1.1 to 1.2 million level that is the 50-year average in the U.S.

ON U.S. COMPETITIVENESS:

Certain U.S. businesses are increasingly advantaged, especially where energy is an important input cost.

We would not argue that price volatility has left a business like this, but we believe the dramatic increases in the prices for OSB over the past two years are the result of structural changes – decades in the making – which should make them more sustainable. Yes, there will still be pricing volatility, but around a much higher average, with more time spent above that average price. That is benefiting a company like West Fraser Timber [WFG], which bought Norbord – the leading OSB producer in North America and a long-time portfolio holding of ours – in a deal that closed last year. It's a big reason we own Louisiana-Pacific [LPX], which is also converting commodity-OSB production capacity to capacity for its value-added OSB siding business. Efforts like that improve the industry supply/demand equation in general, and should specifically drive earnings growth for Louisiana-Pacific.

L-P is actually an interesting and representative case in terms of valuation. The company is growing and has net cash on its balance sheet. It's not spending capital to increase its overall OSB plant capacity, but has instead over the past five years bought back 40% of its outstanding common shares with free cash flow. But the stock trades at a trailing P/E of 5x. A 20% earnings yield? How can that be in today's interest-rate environment? People say earnings are just going to go back down as they always have. I'm saying it's a growth company with a deep-value multiple.

I'll give you one more general example, this time in the chemical industry. The chloralkaline process produces two commodities – caustic soda, which is used to make detergents and has other important industrial applications, and chlorine, which is used to make intermediate plastics and end products like PVC. The chloralkaline market has consolidated to three players who meet roughly 70% of total demand. They now focus more on profitability, producing to match market demand rather than trying to steal volume from competitors by cutting prices. That has turned out to be a boon for the market leader in the space, Olin [OLN], which bought the "commodity" chloralkaline business that Dow Chemical wanted to sell after merging with Du Pont. Westlake Chemical [WLK], which we'll talk about in more detail later, benefits from this new industry dynamic as well.

I should also mention another aspect of the chloralkaline story that is applicable to other markets as well. Some 80% of the variable costs in the chloralkaline process are energy costs, which are substantially and sustainably lower for domestic producers due to North America's plentiful natural-gas supplies. This cost advantage is particularly pronounced versus other developed countries, notably coal-burning China. This gives U.S. producers, already benefitting from a more rational domestic market, a competitive advantage to capture export business as well. In general, North America's independence in natural gas will be important as the world increasingly recognizes natural gas as a critical bridge in the long-term energy transition underway.

On the subject of global trade, does your case for U.S. industrial companies rest on less freely flowing international trade?

RR: China was able to perform its economic miracle because its businesses were able to produce goods that consumers in developed economies wanted, and they were able to produce them at a much lower cost than anywhere else. As inexpensive Chinese goods became pervasive around the world, that had a dampening effect on inflation almost everywhere.

There's plenty of reason to believe that dynamic is over. Chinese labor costs have gone up significantly. As its economy has grown, internal demand for everything from basic materials to end manufactured products is increasing. When the low-cost producer suddenly starts to see its costs of goods increase, its competitiveness is likely to change. So my argument is based more on economics than on trade disruptions, which may very well happen. I believe U.S. businesses in certain areas are increasingly competitively advantaged on a global scale, again, especially for industries where energy is the most important input cost.

We're assuming at least in the relatively near term you also have a sanguine view on the overall demand environment?

RR: There was already evidence of much better supply/demand balance in a number of industries prior to the pandemic, which translated into strong pricing power and high returns earned as the recovery out of the pandemic began. That recovery is still underway, and also don't forget all the fiscal stimulus still on the way for infrastructure, alternative energy and elsewhere. We think the demand environment is still generally going to be positive in the near to medium term. Even if that turns more quickly, we think through-the-cycle profitability in the areas we're invested in will be much higher than historically experienced and currently expected.

Housing-related stocks have been prominent in your portfolio for some time. As the story has gotten a bit more traction, are you still as bullish as you were?

RR: We are at a different point, but we don't at all think the thesis has fully run its course. In the 10 years post the financial crisis, an average of 640,000 homes per year were built in the U.S. That's the fewest number of homes built in any decade since the numbers were first reported in 1968. That's as the population has increased, so estimates are that we're still a few million homes under-built.

ON THE OPPORTUNITY SET:

We're invested where it has been lonely and uncomfortable, and where valuations today are extremely modest.

There have been transitory factors that have overcome the population demographics that would have suggested higher demand: millennials postponing starting a family, the student-debt burden, a trend toward urbanization, and just the hangover from the housing-centered financial crisis. We'd argue all that postponed demand rather than eliminated it, and the onset of Covid accelerated the return to at least historical levels of demand. Increasingly, the idea of having your own home, your own backyard, having a study, being able to work from home – all those things matter. Higher mortgage rates may have an impact here and there, but we still believe there's a multi-year period of continued housing recovery ahead, driven by demographics above all else.

We noticed a number of manufactured-housing companies in your portfolio. What's the background there?

RR: This is an industry, like a lot of those we're talking about, that has consolidated and increased efficiencies, while also delivering a higher-quality product that addresses the significant issue of housing affordability. Starter homes are cookie-cutter, whether they're built on site or made in a factory, except that the one done on site costs 30-40% more and takes a lot longer to complete.

These companies – we own Cavco Industries [CVCO], Skyline Champion [SKY], Nobility Homes [NOBH] and Legacy Housing [LEGH] – are now sold out for at least six to nine months and we think that dramatically increased building costs today have made for a tipping point in acceptance of manufactured-housing alternatives in what has been an extremely old-fashioned business.

These stocks, by the way, don't trade at the highly discounted valuations we're seeing elsewhere. But given the industry's evolution and cost dynamics, we think there's a long runway of sustainable earnings growth and that the stocks of the manufactured-housing players are still quite interesting.

You mentioned Westlake Chemical earlier, which just changed its name to Westlake Corp. Describe your broader investment case for it.

RR: Westlake is a leading global manufacturer of chemicals, vinyls and polymers. They're a big player in polyethylene, the most common plastic packaging in use today. I highlighted their large chloralkaline business, where they're now one of the three biggest industry players. In addition, after buying a North American division of Boral Ltd. last year and combining it with existing operations that sell vinyl trim, roofing and PVC products, more than 30% of the company's revenues currently come from building products. The name change was meant to highlight the breadth of its business today.

One distinguishing characteristic here is the Chao brothers, Albert and James, who founded the company with their father and have run it for the past 25 years.

They still control roughly 70% of the stock and have a tremendous long-term record not only in generating free cash flow but also in redeploying it at high rates of return. They have consistently grown different businesses in step form, and those businesses often interrelate, with base materials produced in one used as feedstock into another. They're really just like exceptional, disciplined value investors, and they almost always have cash on hand and plenty of debt capacity to take advantage of opportunities that come along.

With the Boral acquisition, Westlake is well positioned to take advantage of the positive secular trends in the homebuilding and home repair and remodeling markets. There are significant cost and supply synergies in integrating the new business, but the bigger appeal is the opportunity to add a number of siding and window products with strong market shares to the company's building-products offer. This takes it a big step further in becoming more of a products company, which tend to earn higher valuations from the market than the typical chemical firm.

If you go down the line of the company's main businesses, the dynamic I spoke of earlier where markets have consolidated and are now structurally much improved is very much in evidence. Westlake is also a big beneficiary of low natural gas, ethane and electricity prices in the U.S. In markets where prices are set by the marginal producer, the cost advantage of having lower input costs than your competitors should have a highly positive impact on profitability.

At a recent $110, how cheap do you consider Westlake's shares?

RR: I don't think it's very complicated. The stock trades at a trailing P/E of 7x, for a business that is very well run and that we believe can compound earnings at more than 10% annually. Just looking at the fundamentals, this is a company that could easily trade at 15x earnings. If earnings grow as we think they can, we'd expect the stock to re-rate pretty materially.

We're assuming our discussions earlier about oriented strand board and about housing are relevant to understanding your interest in lumber company Interfor [Toronto: IFP].

RR: Very much so. Interfor is a leading lumber manufacturer that has actively been acquiring and integrating competitors, three of which in 2021 alone. The first was the acquisition of a sawmill in South Carolina for nearly $60 million. The next, for $375 million, was the purchase of four U.S. sawmill operations from Georgia-Pacific. Then in November the company increased its total lumber capacity by another 25% by buying EACOM Timber for $490 million from private-equity firm Kelso & Co.

In addition to M&A, over the past several years you've seen industry production capacity move from British Columbia, where the regulatory and natural environments – think beetle infestations – have not been kind to the timber industry, to the Southeastern U.S. The net result, however, is that there's been no addition to industry capacity over that time, and we don't expect much net capacity to be added from here. When demand took off from

INVESTMENT SNAPSHOT

Westlake Corp.
(NYSE: WLK)

Business: Producer of chemicals, vinyls and polymers as well as finished building products such as siding, roofing and PVC pipe used in residential and commercial construction.

Share Information (@2/25/22):

Price	**110.05**
52-Week Range	78.06 – 111.48
Dividend Yield	1.1%
Market Cap	$14.08 billion

Financials (TTM):

Revenue	$11.78 billion
Operating Profit Margin	24.1%
Net Profit Margin	17.1%

Valuation Metrics
(@2/25/22):

	WLK	S&P 500
P/E (TTM)	7.1	23.8
Forward P/E (Est.)	7.9	19.5

Largest Institutional Owners
(@12/31/21 or latest filing):

Company	% Owned
Victory Capital Mgmt	3.2%
Vanguard Group	3.1%
Dimensional Fund Adv	1.8%
BlackRock	1.0%
T. Rowe Price	1.0%

Short Interest (as of 2/15/22):

Shares Short/Float	4.4%

WLK PRICE HISTORY

THE BOTTOM LINE

The company's traditional chemicals-based businesses have structurally improved and its now-large building-products franchise is well positioned in a strong U.S. housing market, says Bob Robotti. But the stock trades at a trailing P/E of 7x, which is less than half what he would consider reasonable for a company with its earnings-growth potential.

Sources: Company reports, other publicly available information

INVESTMENT SNAPSHOT

Interfor
(Toronto: IFP)

Business: Canada-based manufacturer of lumber products that is aggressively expanding its manufacturing footprint primarily in the U.S. Southeast and Pacific Northwest.

Share Information
(@2/25/22, Exchange Rate: $1 = C$1.27):

Price	**C$38.90**
52-Week Range	C$22.75 – C$44.56
Dividend Yield	0.0%
Market Cap	C$2.37 billion

Financials (TTM):

Revenue	C$3.29 billion
Operating Profit Margin	34.4%
Net Profit Margin	24.9%

Valuation Metrics
(@2/25/22):

	IFP	S&P 500
P/E (TTM)	3.1	23.8
Forward P/E (Est.)	3.5	19.5

Largest Institutional Owners
(@12/31/21 or latest filing):

Company	% Owned
Letko, Brosseau & Assoc	10.8%
Pictet Asset Mgmt	5.2%
Dimensional Fund Adv	3.9%
RBC Global	2.8%
IG Investment Mgmt	2.7%

Short Interest (as of 2/15/22):

Shares Short/Float	n/a

IFP PRICE HISTORY

THE BOTTOM LINE

Supported by its increasingly strong market position and the continued vitality of the U.S. housing market, Bob Robotti believes the company can earn in free cash flow over the next four years its entire current market capitalization. "Given our understanding of the company and its business," he says, "that valuation doesn't make much sense to us."

Sources: Company reports, other publicly available information

housing in 2020, that helped fuel the dramatic increases in lumber prices that made the news. Even though prices have come back, they have stayed much higher than they were entering the pandemic.

Our basic case here is similar to others we've discussed. The competitive environment has changed, becoming more consolidated and rational. That means that the cycles shouldn't be as pronounced as before and that profitability for the bigger players has been enhanced. Layer in a tailwind for housing and we think Interfor's prospects are much brighter than seems to be priced into its stock.

What do you think is priced into the stock at today's C$39 share price?

RR: I don't know exactly, but it's clearly not our expectation that the company over the next three or four years can earn in free cash flow the entire current market cap. If it takes four years, that's a 25% free-cash-flow yield. Given our understanding of the company and its business, that type of valuation doesn't make much sense to us.

Is the story essentially the same for West Fraser Timber, which you mentioned earlier as a big player in OSB?

RR: After its deal to buy Norbord closed early last year, we continued to hold the West Fraser shares we received for our Norbord stake. I'm starting to sound like a broken record: Industry changes over the past two decades have altered the supply/demand equation in favor of lumber, and particularly OSB, producers. That advantage has legs, which will allow companies like West Fraser – whose business is roughly 60% lumber and 40% OSB – to generate significant free cash flow and earn above average returns on capital.

The substantial OSB piece adds a different element than with Interfor, which is a positive for the business. OSB continues to take share from other building products and is finding new uses. We also think OSB has considerable potential to grow and take share in Europe, where West Fraser – through the Norbord acquisition – is well established.

With the shares now at $97.70, is there a similar story here on valuation?

RR: The multiples are miniscule. The stock trades at less than 4x trailing earnings. It's at 2x this year's free cash flow and maybe 5x next year's. As with Interfor, we think free cash flow pays for the entire current market cap in the next three to four years. In a world with 2% 10-year Treasuries and a 20x forward P/E for the S&P 500, that's remarkable.

What will they do with all that cash? There may have been a time when a lot of it would have made its way to expanding production capacity. We don't think those days are coming back. Far more likely is that the company will continue to buy back a lot of stock and will probably pay out special dividends from time to time.

We haven't spoken about an energy company. Describe the upside you see in energy-services firm Subsea 7 [Oslo: SUBC].

RR: This is a business we've known for a long time, a global leader in the engineering and installation of offshore oil and gas development projects. The industry is down to two real global players who

INVESTMENT SNAPSHOT

West Fraser Timber
(NYSE: WFG)

Business: Diversified producer of lumber, plywood, oriented strand board, newsprint and other wood products with over 60 facilities in the U.S., Canada, the U.K. and Europe.

Share Information (@2/25/22):

Price	**97.66**
52-Week Range	61.36 – 101.83
Dividend Yield	1.0%
Market Cap	$10.62 billion

Financials (TTM):

Revenue	$10.52 billion
Operating Profit Margin	37.6%
Net Profit Margin	28.0%

Valuation Metrics
(@2/25/22):

	WFG	S&P 500
P/E (TTM)	3.7	23.8
Forward P/E (Est.)	9.1	19.5

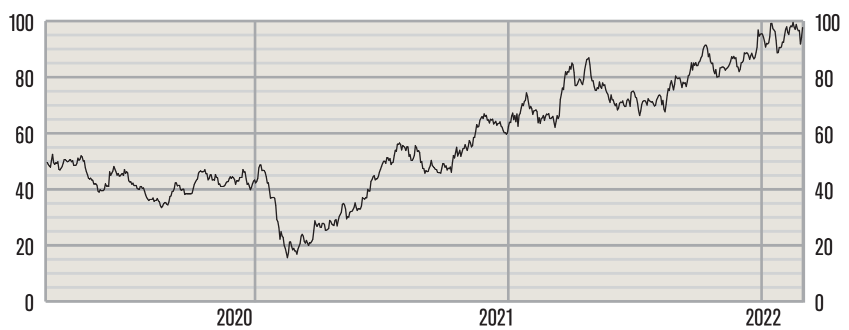
Largest Institutional Owners
(@12/31/21 or latest filing):

Company	% Owned
Pictet Asset Mgmt	5.7%
Fidelity Mgmt & Research	4.4%
Bank of Montreal	3.5%
Vanguard Group	3.1%
Royal Bank of Canada	3.6%

Short Interest (as of 2/15/22):

Shares Short/Float	0.6%

WFG PRICE HISTORY



THE BOTTOM LINE
Changing lumber-industry dynamics for the better and the company's strong position in the expanding global market for oriented strand board would imply for it much brighter future prospects than are built into its share price, says Bob Robotti. On next year's estimated free cash flow, the stock today trades at a free-cash-flow yield of around 20%.

Sources: Company reports, other publicly available information

can deliver projects from soup to nuts: TechnipFMC [FTI], and Subsea 7, often partnered with Schlumberger through the OneSubsea Alliance.

As the world shifts from hydrocarbons to renewable energy, we're in the camp that argues this transition, by necessity, will take a very long time and will require increased production – particularly of natural gas – to bridge the old energy regime to the new. We expect an important share of the new production to come from large offshore fields that have already been identified, but that now with technology and process improvements from companies like Subsea 7 are increasingly economic to develop. That's not just at today's higher oil prices – although that certainly helps – but in many cases at oil prices as low as $40 per barrel. Development of LNG transportation and technology is also making natural gas in general more economic to develop, as it's now more easily sold elsewhere.

As oil prices have increased, the pipeline for Subsea 7's traditional oil and gas business has grown nicely. We don't see that as a short-term phenomenon. We're also high on the company's growing exposure to alternative energy, which is a testament to management's nimbleness in pursuing new markets. Close to 20% of the current backlog is for the building and installation of offshore wind platforms, mostly using already existing equipment and taking advantage of in-house engineering expertise. They've also through acquisition added a variety of new wind-related capabilities, including things like the installation of ocean-bottom-affixed foundations, substation installation, turbine installation and transport capability to move fabricated components from Far East shipyards. As another example of new business in the alternatives space, Subsea 7 recently won a $150 million contract to capture CO2 from an onshore cement plant and sequester it off the coast of Norway.

The share price at a recent 60.75 Norwegian kroner – or $6.95 for the U.S. ADR – is down more than 40% from its price at the beginning of 2020. What upside do you see from here?

RR: The relative performance of the stock, particularly as oil prices have risen, has been horrible. Part of that may be as simple as the time lag between the company winning a contract and having it start to generate revenue. New business has been picking up fairly recently, so there hasn't been much to show for all that yet. I would also mention that Subsea 7 over the past year has been winning less than its fair share of contracts. Some might see that as a negative, but I'd argue that shows they're being smart about how they're pricing. If we, and they, are right about demand going forward, they'll be happy to have the capacity available at what should be higher prices. Their discipline may be working against them in the short term, but we don't believe it will in the long term. If you talk to management about what things look like in 2024 and 2025, they're quite upbeat.

We believe the company's earnings power has substantially improved from what it was in the last real upcycle in 2013-2014, when without one-time events it was earning over $2 per share. The industry has consolidated further. They've

INVESTMENT SNAPSHOT

Subsea 7
(Oslo: SUBC)

Business: Engineers, constructs and services offshore platforms used in the exploration, development and production of oil and gas as well as in the production of wind energy.

Share Information
(@2/25/22, Exchange Rate: $1 = NOK 8.83):

Price	**NOK 60.78**
52-Week Range	NOK 58.04 – NOK 97.86
Dividend Yield	0.0%
Market Cap	NOK 18.09 billion

Financials (TTM):

Revenue	$4.66 billion
Operating Profit Margin	6.9%
Net Profit Margin	(-1.5%)

Valuation Metrics
(@2/25/22):

	SUBC	S&P 500
P/E (TTM)	n/a	23.8
Forward P/E (Est.)	17.0	19.5

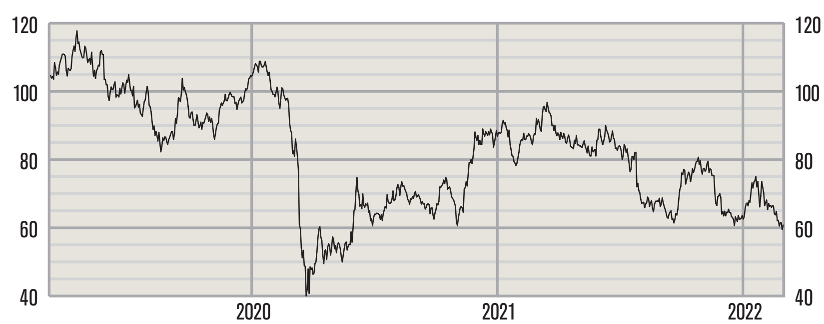
Largest Institutional Owners
(@12/31/21 or latest filing):

Company	% Owned
Folketrygdfondet	7.7%
BlackRock	3.8%
Trinity Street Asset Mgmt	2.6%
DNB Asset Mgmt	2.5%
Eleva Capital	2.3%

Short Interest (as of 2/15/22):

Shares Short/Float	n/a

SUBC PRICE HISTORY



THE BOTTOM LINE

Bob Robotti believes that due to industry consolidation and the company's ongoing new-product and new-market development that its earnings power is 50% higher than it was in the last real upcycle for oil and gas. Based on its recent U.S. ADR price of $6.95, the stock today trades at only 2.3x his roughly $3 per share estimate of normalized earnings.

Sources: Company reports, other publicly available information

expanded capabilities to capture more of a project's value. They've developed new business lines. We think in the next few years earnings power will approach $3 per share. That's against a stock in the U.S. that trades at less than $7. You don't have to be overly optimistic about the multiple the business would deserve at that level of earnings and the resulting return on capital to see pretty substantial upside in the share price.

Energy-services stocks in general have significantly trailed some of the substantial increases in commodity prices we've seen. That makes sense if you're convinced commodity prices will just go back down. As I hope I've made clear, I think the market is to a significant degree overestimating the likelihood of that happening.

If the underlying elements of your broader views here turn out to be wrong, why might that be?

RR: We've spoken enough over the years that you'll know my timing in trying to understand and respond to secular industry changes and the macroeconomic environment has not always been ideal. That's hurt our relative performance in recent years, particularly given our exposure to conventional oil and gas companies.

We'll of course make mistakes, as all investors do, in individual names for individual reasons, but if things generally don't play out the way we expect, I believe it again will be a function more of timing than our just being flat-out wrong. People love to jump on the winning bandwagon, but we're very consciously invested where it has been lonely and uncomfortable, which is where valuations today remain extremely modest. I think the tide has already turned in a number of these businesses, for fundamental economic reasons, and it's not coming back in again any time soon. I hesitate to say it's obvious and people are just blindly ignoring it, but I honestly believe it's obvious and people are just blindly ignoring it. VII

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