

THE ADVISOR



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EDITORS NOTE

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Pete Knerr D'12, Director of Research

Passing the Baton

Distinguished alumni, faculty, and students, I would like to take this opportunity to introduce the new portfolio managers of Darden Capital Management. These twenty new managers and three leadership team members took over the investment responsibilities on April 1st and hope to continue the strong performance of the previous group (see [page 15](#) for a full listing of the new DCM leadership). The new team members bring with them professional experience in roles across the financial industry, including investment banking, trading, equity research and investment management. We are also fortunate to have diligently earned professional designations and advanced degrees, in addition to the skills of several CFA charter holders and candidates.

Our investment group is both honored and grateful for the opportunity to serve the Board and the Foundation and will work diligently to develop and execute our best investment ideas with the highest level of conviction and responsibility.

The next year is shaping up to be a busy one for the club. We are planning several DCM sponsored guest speakers, the Annual Stock Pitch Competition in October/November, and several networking events and training seminars aimed at giving first years a better understanding of the asset management industry. We also have been very involved with Darden faculty planning the University of Virginia Investing Conference (formerly the Value Investing Conference) and are excited to send some of our members to both the Alpha Challenge (at UNC Kenan-Flagler Business School) and the MBA Stock Pitch Competition (at The Johnson School at Cornell University).

In closing, we would particularly like to thank the class of 2011. They left us with well thought out and positioned portfolios and we look forward to the challenge of meeting the standard they set. Further we particularly thank them for all the guidance and advice they offered us as first years. Navigating the first year at Darden can be as choppy as managing an investment portfolio through a turbulent market and we hope to pass on all our predecessors taught us to the class of 2013. We look forward to a great year.

Chris Reese D'12, Chief Investment Officer

A Letter from the Chief Investment Officer

As I reflect on the five months since the class of 2012 assumed control of Darden Capital Management, I'm reminded of an old Wall Street adage about investment strategies: "they work, until they don't". Clearly the events of the last few weeks have taught us all how true this can be. As just one indicator, the S&P 500 index, which had closed at 1,325 on March 31, 2011 as DCM's current management took up the reins, has been beaten back 15% to 1,123 as of Friday, August 19th.

And yet, despite the pain of watching losses accumulate both in the markets and in DCM's funds, I am also reminded of advice I was given by a long-time industry veteran on getting through times like these: "the reason value investing works is because it doesn't always work".

Though it is true that nearly all "investment strategies" post large returns at some point in a market cycle, it is our fundamental belief within DCM that only value investing, in the tradition of Graham / Buffett / Klarman, has both the proven long-term track record and the sound analytical underpinnings to warrant both its study and application. I am delighted to confirm that, despite the ongoing market correction, DCM's resolve to continue following the principles of value investing remains steadfast. This is not to say we invest only in mature companies with no future growth prospects but instead that we recognize, as Warren Buffett does, that "growth and value investing are joined at the hip" and as such insist on a healthy margin of safety.

With this in mind, it is prudent that we take stock of DCM's current portfolios and gather our thoughts for the year ahead.

In the post-Lehman era, DCM has built, and we as its current managers have inherited, an overall portfolio that was fitting for the times. Since the S&P 500 hit its intraday low of 666 on March 6, 2009, massive monetary stimulus from the Fed, in the form of zero interest rate policy and quantitative easing, not so much tempted investors back into the markets as dared them not to buy high-risk assets in the hopes of high returns. And what were these investors rewarded with? Not so much high returns as massive returns. From the March low, the S&P 500 gained nearly 80% in just over a year to April, 2010, at which point it suffered a 15% correction through most of 2010 and then charged back up another 33% to a peak of 1,363 on April 29, 2012. All in, the index more than doubled.

Within DCM, we were fortunate not to heed the Fed's siren call and completely abandon our investment principles, but we certainly were not immune to the quest for returns through risk-seeking behavior. As such, our current portfolio reflects a growth bias and desire to benefit from the consumer-led US economic recovery that Fed intervention sought to foster. It is unfortunate to say that this scenario looks increasingly unlikely in the light of current events in the economy and markets. Though we do not question the long-term strength of the US economy, it looks increasingly likely to us that continued muddling through will be the path forward for US and global economies. While this is nothing new for the economy, it has come as news to the financial markets.

With this outlook in mind, and looking forward to the coming year at the helm of DCM, we are reminded that it is in turbulent times like these in which Mr. Market is at his most depressed of manic-depressive states. As such, it is our intention to wait patiently for Mr. Market to provide us with a wide array of opportunities to buy great businesses at cheap prices.

At a more granular level, next year we will look to continue to avoid weak companies and speculative growth prospects and remain focused on quality companies (i.e. high quality of earnings, high ROIC, strong growth prospects, enduring competitive advantage, etc.) available for purchase at compellingly low valuations thanks to the existence of a multitude of motivated sellers who mistake price volatility for true fundamental risk.

While we unfortunately are less likely to see returns over the next year that resemble those realized by DCM managers in the past two years, we do believe strongly that our efforts to reposition the portfolio will bear fruit in the form of strong returns over the next 2-3 years while also greatly reducing the risk of permanent capital impairment in the portfolio.

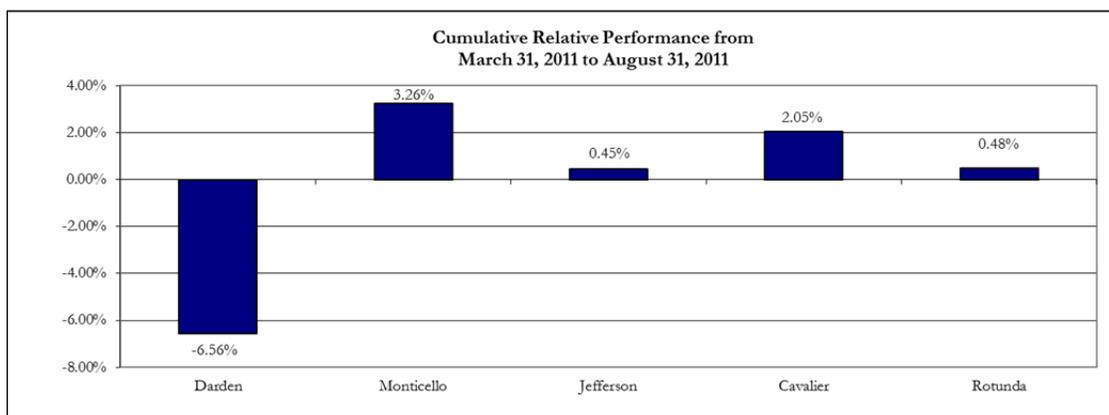
As always, we are grateful for the bond of trust that has created and allowed for the continued success of DCM. It is an honor to serve the Darden community as both stewards of its capital and contributors to its legacy.

Sincerely,

Chris Reese

Chief Investment Officer

Fund Performance and Summaries



Darden Capital Management Monthly Report

August 31, 2011

Fund Performance and Asset Allocation

	Darden	Monticello	Jefferson	Cavalier	Rotunda	Russell 1000	S&P 600	S&P 500	MXWO World
Cumulative Return since March 2011	-17.74%	-6.01%	-7.77%	-5.21%	-6.78%	-7.69%	-11.18%	-7.26%	-9.27%
Relative Over/(Under) Performance									
Russell 1000	--	--	-0.07%	--	--				
S&P 600	-6.56%	--	--	--	--				
S&P 500	--	--	--	2.05%	0.48%				
MXWO World	--	3.26%	--	--	--				
Monthly Return	-7.15%	-4.17%	-7.32%	-4.48%	-4.77%	-5.76%	-7.20%	-5.43%	-7.26%
Relative Over/(Under) Performance									
Russell 1000	--	--	-1.56%	--	--				
S&P 600	0.05%	--	--	--	--				
S&P 500	--	--	--	0.95%	0.66%				
MXWO World	--	3.09%	--	--	--				
Asset Allocation									
Equity	83.0%	90.3%	85.9%	85.8%	65.6%	100%	100%	100%	100%
Fixed income amounts	--	--	--	--	--				
Fixed Income	0.0%	0.0%	0.0%	0.0%	0.0%				
Cash and UST amounts	283,942.20	113,572.97	191,501.99	173,189.98	248,507.89				
Cash and Short-term US Treasuries	17.0%	9.7%	14.1%	14.2%	34.4%				

University of Virginia Investing Conference

at the Darden School of Business

November 10 & 11 • 2011

The Political Cycle, Political Change and Investing

The first 100
registrants will receive
a complimentary copy of
**Lords of Finance:
The Bankers Who Broke
the World**
by Liaquat Ahamed

FOR DETAILS AND TO REGISTER:

www.darden.virginia.edu/UVIC

Interview with Mark Boyar

Mark A. Boyar is the President of Boyar Asset Management, Inc. a Registered Investment Adviser. Also, for the past 36 years, he has published a monthly research report entitled, Asset Analysis Focus (AAF), which identifies and evaluates companies that Mr. Boyar feels are intrinsically undervalued. AAF currently has in excess of 75 institutional subscribers.

Mr. Boyar earned a B.S. degree from C.W. Post College of Long Island. He is a member of the New York Society of Security Analysts and the Federation of Financial Analysts.

Darden Capital Management (DCM): I want to talk about your background. You worked in audit for Price Waterhouse. How did you become interested in investing as an auditor?

Mark Boyar (MB): I began my career at Price Waterhouse, as an auditor, probably because my father was a CPA; clearly I had no passion for accounting. However, I always had a love for the stock market, having purchased my first shares when I was thirteen. The other problem was when I began my career in 1969 a great bull market was coming to end and there was reluctance for firms in the financial sector to hire. I was lucky I met Stanley Nabi, a well-known analyst, and the head of a small research team at Schweickart & Company, a modest size broker dealer. Stanley offered me a job. I resigned from Price Waterhouse, took a sizable pay cut and my career on Wall Street began.

DCM: So how did that lead to you publishing your research?

MB: Sometime in 1971 or 1972 I was recruited by Coenen & Co., a fast growing investment bank and research boutique. A couple of years later I came up with the idea to publish a subscription based research publication that focused on businesses selling below their intrinsic or private market value. In 1969 the market was clearly overvalued and the Dow had reached 1,000 for the first time. By 1973 or 1974 it was cut in half, and stocks were becoming very inexpensive. Individual stocks were even more compelling; quite a few had lost 80 percent of their value. I thought that maybe it was a good time to compile a screen of businesses that were selling below book value (in the early 70's book value was much more important than it is today). You have to remember that nobody had personal computers and calculators were relatively new, so all of this had to be done manually. I went through S&P tear



Mark Boyar – President of Boyar Asset Management, Inc.

sheets, which gave statistical information on every company listed on the New York stock exchange, American stock exchange and the OTC (now the NASDAQ). What I learned was there were a very significant number of businesses selling at very large discounts to their stated book value. I then decided to take it one step further and take the balance sheet and tear it apart and reconstruct it to see the kinds of disparities that existed between stated book value and intrinsic value. Companies were clearly selling at wide discounts to book value, but the magnitude of the differential between book and intrinsic value was even more startling. I was convinced the time was right for such a research publication.

For example, Tiffany & Company, the world renowned jeweler, had a market capitalization in 1975 of roughly \$24 million. There were 3 million shares outstanding, and the stock was selling for \$8 per share. The building they owned on 57th street was worth more than the entire value of the whole businesses.

DCM: Not to mention the value of their diamonds.

MB: Exactly. Their great franchise also was valuable and obviously not reflected on the balance sheet. In a relatively short time thereafter, they were bought for around \$40 per share by Avon, which was very close to the intrinsic value we had come up with. So it went from \$8 to \$40 within a short period of time.

DCM: So you have this list of companies that you think are completely undervalued based on their intrinsic value. How did you go about taking that list of companies and turning it into subscribers for your research service?

MB: We started publishing in January, 1975 and the service grew basically by word of mouth. Some of the early subscribers included a fund in Canada called the Cundill Value Fund, run by a fellow named Peter Cundill. It was a small fund at the time based in Vancouver. He called me and became one of my first subscribers. There was a very well-known family in France that heard about the service. I happened to be going to Paris so we met there and their bank became a subscriber. The first big institutional subscriber to the service was Fidelity.

DCM: So when you started off these first few years and were trying to attract the Fidelity's of the world, were you much more concerned with your track record? Did you take fewer risks to ensure you had a stronger track record to build up your client base? Has your research changed as your client base has grown?

MB: In the beginning there were so many businesses selling below our estimate of their intrinsic value. You felt like a kid in a candy store. In fact in the first issue of our research service we said this could prove to be one of the best buying opportunities one would experience in their lifetime. It was kind of prophetic in terms of timing. It was certainly a lot better than my timing in terms of when I began my Wall Street career. With the benefit of hindsight my entry turned out to coincide with the beginning of the longest bear market in terms of duration since the great depression. Was I taking more risks? No, I don't think so, but I had a lot more opportunities. We wrote about a lot more companies per issue than we do now. We currently focus on three companies per issue versus six in the early days. Each write-up was less detailed, but due to the opportunities it was important to discuss a lot more companies.

In some ways today's environment mirrors what transpired then. Many stocks are inexpensive, not nearly as cheap as they were in 1974, but there are still many bargains out there. Just as was the case in the mid 1970's individual investors are risk averse and have abandoned the stock market. I started the business with three people.

Initially I approached Coenen with my business plan. As is the case when things look the bleakest risk taking was on hold. Most firms were in survival mode. Major brokerage firms were cutting research staffs. Coenen thought the idea had merit but was unwilling to support my effort. I was young, a bit naive and in my mind failure was but a remote possibility. Initially I went on my own. However, an old line brokerage firm Moore & Schley Cameron & Company who had recently spun out their institutional business offered me desk space, and a secretary in exchange for me doing all of our brokerage business through them. I did that for a number of years and then parted from the company. I was now completely on my own.

DCM: And then in 1983 you started Boyar Asset Management. What motivated you to branch out beyond just research?

MB: I was managing money for friends and family. People came to me and said, you created a unique research product and we like the style with which you're looking at businesses. Why not start a money managing business?

DCM: Were there additional difficulties when starting your asset management branch?

MB: It was less difficult because I already had a recurring income stream, which could support my money management business. Although, I could not use my track record from research for money management: however, we had a well-established investment strategy and an investment style that was unique. The thing we're most proud of is approximately 40% of the companies we have published on have ultimately been acquired by third parties. So there's almost a one in two chance that what we write about eventually gets taken-over. It's not that we are looking for mergers and acquisitions candidates, but we are using the same methodology and same metrics as buyout shops.

DCM: So over the past 25 years or so, your firm has grown quite a bit. What has allowed Boyar to grow other than solid, fundamental research?

MB: First, I never wanted to be the biggest money manager in the world. I wanted to provide exceptional research, which was as good or better than anyone else's on the Street.

The research would drive the money management business. I think the research that we do is exceptional and gets better and better each year. Solid research over time drives performance and allows us to add clients to our money management business. It's also important to not give up. This business is incredibly stressful and it's a constant roller coaster. Go back to 2008-2009. It was horrendous, but it created great opportunities. The crash of 1987 was a terrible period of time. The 1990's had the resolution trust created because of all the real estate problems in the country. You're going to have a lot of bad periods and it's easy to say you've had enough but without adversity and steep market declines you could never capture outsized gains in the ensuing years. From time to time, I might have said that I would like to quit but I never gave up. I continued working. I love the search and the chase. Even today it still excites me when I find businesses selling below their intrinsic value. It's incredibly rewarding and intellectually very stimulating. Passion, excitement, and intellectual curiosity have helped drive the growth of the business, and, yes, competitiveness to continually improve the investment process. Furthermore, we thought a businessman's approach to investing would attract an entrepreneurial clientele.

DCM: Speaking of the chase, idea generation can be difficult for young investors. How do you go about generating investment ideas? What's the beginning of your research process?

MB: Warren Buffett said it best, "I get paid to read." I come to the office every day and I read. I go home and I read. I'm always trying to find something that might become a good investment idea. There is no systematic approach to finding intrinsically undervalued companies. If you think about it, you can run all the screens you want. You can run all the models you want. Everyone runs those screens and models. Some utilize them better than others. But you will never find a Tiffany & Co. that owns a building on 57th Street from a screen. It is done by me walking down 5th Avenue and wondering who owns the building. Another example is Madison Square Garden being spun out of Cablevision. You have to have curiosity to wonder what else does MSG own. They own the Knicks, the Rangers, MSG Network, the air rights to MSG, they have long-term leases on Radio City Music Hall and they have no debt outstanding. If you do a sum of the parts valuation on MSG you will see the parts are worth considerably more than today's price.

I remember when my son was in school, there was a company called Scholastic. Every month, kids came home with a list of books to buy. I thought this was a great business. There are no salesmen. The teacher is the salesman. The school gets compensated by getting free books. What a great business. There was a company called Binney & Smith, which might not mean much to you, but they owned Crayola Crayons. Stokely-Van Camp was more than baked beans. I found out they owned Gatorade and that was worth more than the entire value of the whole business. What sets us apart from others is curiosity and the ability to find these things that are not readily apparent. That's the key. My advice to anyone doing this is to be extraordinarily curious, be patient and read a lot. Constantly read anything you can get your hands on. You never know where your best ideas will come from. Talk to everyone. I talk to the subscribers to our research service. They may tell me about a specific stock and I'll do the work on it. I have found that the more difficult a company is to find in terms of what its various businesses are, the greater disparity there is in terms of where it trades versus its intrinsic value. The most obvious ones don't perform as well. Everyone uses the same screens so the disparities are not as good. There's a lot of trial and error, rolling up your sleeves and looking for these things. Unfortunately there is no systematic approach. If it was easy everyone would be rich.

DCM: You have been intellectually curious your entire career. Have technology increases changed your methodologies?

MB: Technology helps you run screens. However, technology will not lead you to a Tiffany or a Stokely-Van Camp. Screens don't do that. I'm sure Warren Buffett uses screens, but he loves Cherry Coke so he invests in Coca-Cola. It's like Peter Lynch says, invest in what you use. The ideas that are more abstract usually work out the best. Companies with multiple businesses under their umbrella, where you can split the business into different parts are great. Cablevision owned a cable company, AMC and MSG. They split them out into different pieces and eventually the pieces will be worth more than the whole. More importantly, there's a chance that each one of these independent businesses can be sold to somebody. You might say, why did the Dolans split the company in three pieces? Maybe he is thinking of selling Cablevision and using the family's proceeds to take Madison Square Garden private?

There was a company called Whitman that owned Midas Muffler, Pepsi America (at the time the largest independent Pepsi-Cola franchise), and they owned Hussmann, a commercial refrigeration company. Hussmann was ultimately acquired by Ingersoll Rand. We got a very nice price for that business. Pepsi America was acquired two years ago by PepsiCo. Now we think there's a good chance that Midas may be bought in the future. If it isn't, it's still a very undervalued business. It sells for a relatively low multiple to free cash flow. There was a company called U.S. Shoe that had 3 disparate businesses. But the one that was worth a lot of money was Lenscrafters. You would never have any idea they owned Lenscrafters by utilizing a screen. So we suggested to management that they split the company into three pieces but they wouldn't split it up. A company called Luxottica, which was the largest eyeglass company in Europe, made a tender offer for the whole business at a significant premium to where we bought it and wrote about it. You wouldn't find any of these examples on computer screens. Technology is great for certain things, but it hasn't been able to discern these things yet.

DCM: How have increases in capital affected your business?

MB: When you grow a business, certain things happen that you'd never expect. I was managing approximately \$20-25 million for a brokerage firm that was acquired by a large bank. Certain individuals at the brokerage firm didn't want to work for the bank, so we kept their \$12 million. Meanwhile, we have \$12 million from this bank and we are running the money for two to three years and we can't get in touch with anyone to tell them who we are. So we're running the money and they didn't know who we were.

For them, that was a very small amount of money. One day we get a call from them and they say, "We don't know who you are, but you're our best money manager. We'd like to come down and talk to you." They came down, kept us, and we had a good five or six years working with them. One of those years was very good and all of a sudden we had money pouring in. By then we were managing a few hundred million dollars for them. They put some caveats on how we could invest the money. Sometimes we like to go 50-60% in cash if we don't like the market, but this client made us stay at least 80% invested at all times. The year we had the outsized gain, we told them that this wasn't the time to give us new money. I was having trouble finding investment ideas.

The bank said I was their best money manager, and their advisers had chosen us to manage their clients' money. The money kept coming in and we had a high cash position in our other clients' accounts and we had a bad year, so all of a sudden the money started flowing out. This is when the bank decided to divorce themselves from outside managers and kept almost everything in house so we lost that account. I knew that was hot money in the sense that it could leave as easily as it could come in. There was no loyalty at all, which is how it works with institutions. If you keep money five to six years, you are doing really well. I never added to the staff as a result of that. So we made a lot of money, but I never viewed them as a real long-term client

. At the moment it is difficult to get new investors. After all the market has gone nowhere for ten years. Furthermore, investors have been burned by multiple bubbles during that time frame. First you had the internet bubble, followed by a housing bubble, and then a financial bubble. Right now investors find safety and comfort investing in ten year treasuries that yields just over 2%. They can sleep better at night. In the 1974-1982 period you had the same thing occur. Investors lost a great deal of money following the great bull market of the 1960s. They fled the market in droves, and it took them more than a decade for them to come back. The Dow hit 14,000 approximately seven years ago and the NASDAQ hit its zenith of 5,000 approximately ten years ago. So we are getting closer and closer for a new group of investors willing to come into the stock market. Although stocks are not nearly as cheap as they were in 1975, stocks are inexpensive. When that occurs we will really be able to grow our business.

DCM: Can you describe the relationship between the money you manage and your research? What percentage of companies that you publish research on is you invested in?

MB: Probably 80-90%. Every year we come out with the "Forgotten 40," which are 40 ideas that we believe have the best opportunity for capital appreciation in the coming year. Last year's list included Limited, Saks, Cablevision, Marriot, Ameriprise, Playboy, Carnival, MGM, CBS, UPS, Comcast, Midas, Home Depot, Heinz, Walt Disney, Travelers, Callaway, etc. We invest in a large majority of those so 80-90% is probably accurate.

We don't equal weight them because certain stocks you want a higher weighting because you feel they'll perform better for whatever reason. Diversification is interesting. You look at mutual funds with hundreds of names in their portfolio but they behave much more like an index fund. You want diversification, but you don't want to own the zoo. Ideally, if I were running this for just myself, I'd probably only have 10-15 names in my portfolio. For clients, we have 20-35 names.

DCM: Have the needs of your subscribers changed over time?

MB: It's more what we've done to make the research better and more appealing. Most portfolio managers have a very limited time horizon to own a stock. What we try to do in addition to writing about stocks that are intrinsically undervalued is to determine if there is a catalyst or a trigger. What is going to make the stock appreciate? One of the great catalysts for us is to find an octogenarian who is a large shareholder in a company with no heir apparent to take the business over. This works most of the time for us. We have lots of octogenarians on our list now. Cablevision is controlled by Charles Dolan, who's 80 years old. The owner of CBS is in his 80's. The catalyst is quite important in these cases. The family is more likely to sell the business before the owner passes away. What we try to do in each instance is to tell a story. I don't want something that is just cheap by the numbers; I want to know what is going to propel it upwards. You can own the cheapest stock in the world, but it needs to go up over a relatively short period of time so you can get a decent return. Finding these catalysts are critically important now.

Also, the quality of our research is much better than even five years ago. It's very detailed and we spend a lot of time explaining why we believe the stock will go up. Company description isn't as important. Why will it grow and what will unlock the value? Will it spin off a division? We did a lot of work on Clorox before Icahn took his recent stake in the company. We did it when the stock was in the low 60's. Our conclusion was it was worth \$85 per share. There were a lot of ways to get to that value. Some involved selling off brands that were not achieving acceptable returns. That's something we have gotten better at. Telling the story and explaining why the stock will go up. Understanding what the asset components are of the business and examining comparable companies. How will management unlock the value? So we go into great detail about this in our research. A company like Meredith owns *Lady's Home Journal*, *Better Homes, Garden Magazine* and a lot of other great magazines. What's interesting about Meredith is they figured out ways to create additional revenue streams from the magazines they own. For example, if you go into Wal-Mart, their garden centers are named "Better Homes and Garden" and Meredith receives royalties from that. That's a very interesting business model. It's something you don't think about when you look at a publisher. It's a creative and unique way to add significant amounts of income. You can't see that by running screens. You need to read the 10-K and do your homework.

DCM: Thank you very much, Mr. Boyar.

Pete Lee D'12, Senior Portfolio Manager, Rotunda Fund

DCM in Omaha

On April 30th, six DCM members were fortunate enough participate in the annual pilgrimage of 30,000-plus investors and enthusiasts to Omaha, NE for the Berkshire Hathaway Annual Meeting. It was a great opportunity to witness firsthand the hometown of the “Oracle” and to hear insights directly from Warren Buffett and Charlie Munger themselves.

The meeting itself was held in the main arena within Omaha’s Qwest Center to accommodate those in attendance, and downstairs were booths representing various Berkshire Hathaway’s portfolio companies and investments (ranging from Borsheim’s and See’s Candy to GEICO and NetJets). Lasting over five hours, the structure consisted of Buffett and Munger answering questions from a trio of financial journalists and Berkshire shareholders (picked via lottery). Below are some of the main topics touched upon during the course of the meeting:

Thoughts on effect of the end of QE2 on the economy and the stock market:

Buffett stated that there is no secret what they are going to do. QE2 was the most advertised open market purchase in history in terms of both timing and the amount purchased, and as a result the impact is already discounted. There is no reason why the end of the program will cause any significant changes in the markets. Yes a huge market force will be withdrawn as \$600 billion of demand is gone, and it will be a different market, but that truth is already incorporated in the markets.

What sector or asset class would you invest in if you were going to live another 50 years:

He said that he would have to pick a sector large enough that an investment in it would make a difference to BRK’s portfolio, and that it would probably be something in the technology field. Buffett then stated that this is not going to happen – if he could be an expert in the tech field that would be terrific, but he just doesn’t have the expertise. His view is that tech is going to be a huge field with huge winners and a lot of losers. But it will be much tougher to pick these winners in tech than picking winners in the integrated oil industry.

Thoughts on the future of the U.S. economy despite its current problems, and why Buffett is so optimistic:

Buffett stated that we have a system that has been tremendously successful, and that the standard of living has improved 6 – 1 since the 1800s. It’s a great system that just gets gummed up a lot. Growth may not be a straight line, but the power of capitalism is incredible. Fiscal policy does have utility, but capitalism is the driver.

Whether or not BRK would consider paying a dividend:

BRK will pay a dividend when it has lost the ability to invest \$1 in a way that creates more than \$1 in present value for the shareholders. At this point they would likely pay out 100% as dividends. Every dollar that has stayed with BRK has grown much more than it would have if it had been paid out as a dividend. As such, it is much more intelligent to leave the dollar in. Munger went on to add, “There is nothing wrong with selling BRK stock to buy jewelry if you do it in the right place” (with the right place being Borsheim’s – a BRK company).

BRK has large positions in Wells Fargo (WFC) and US Bancorp (USB). On the revenue outlook for these banks in the event of a tough economy:

These are among the best large banks, if not the best, in the U.S. They are different from some other money center banks even though they are very large. In terms of banking as a whole, profitability will be considerably lower in the period ahead in comparison to the early 2000s. This is because of reduced leverage, which is a good thing for society. Banking is a fundamental business. Losses are going down and the worst is likely past. If banks are just smart on the asset side (especially since money is so cheap and because of the implicit government guarantee) America should be a great place to lend money. BRK has added to its position in WFC and both companies are great institutions. But they will not earn 25% on tangible capital, and they shouldn't either.

- Both Buffett and Munger recommended reading the M&T annual letter from CEO Bob Wilmsers as well as JP Morgan's letter from Jamie Dimon

BRK's stock has barely kept up with inflation. Why has BRK not invested in commodities?

Buffett thought that the questioner was right about the risks of inflation, but people have to consider which of the three major categories of investments would offer the best protection against inflation. The first is anything currency denominated, and any currency-related investment is essentially a bet on how a government will behave. It is easier to work with a currency that is declining in value than one that is appreciating. As a class, currency-related investing (unless you are getting paid really well) does not make sense. The second category is comprised of items that you buy that don't produce anything. You hope someone will pay you more for the item later. The classic case is gold – if you take all the gold in the world and put it into a cube, it would be 165K tons and would be about 67ft on each side. If you had it you could put a ladder up, climb on top, and think that you are king of the world. You can fondle it and polish it, but it isn't going to do anything. All you are doing when you buy gold is betting that someone else will pay you more to own something that doesn't do anything. You are betting not only how scared people are about paper money now, but also how much people will be scared years from now. The third category is producing assets. You decide how much you will pay based on how much the asset will deliver over time. These are the kinds of assets that appeal to Buffett and Munger. The productive assets at BRK that generate capital can be used to buy more productive assets. Munger noted that he finds it peculiar that people buy an asset that works only if the world really goes to hell, and he didn't feel that it is a rational thing to do.

What would Warren and Charlie like to be remembered for in 100 years?

Buffett said that he really enjoys teaching and likes meeting students. Munger said that he wants to be known for fortune fairly won and wisely used.

Alex Townsend

Credit Acceptance Corp. (CACC)
May 20, 2011

Investment thesis: CACC has accumulated decades of customer and loan performance data specific to the subprime auto segment to which it lends. This data, along with the company's strong relationships with its dealer network, allows CACC to make profitable loans while experience minimal credit losses. CACC has grown diluted EPS at a CAGR of 29% between 2001 & 2010. The company generated a pre-tax ROIC of 26% in 2009 & 2010. CACC has a track record of high quality earnings and growth, yet it trades at a depressed multiple

Industry Dynamics:

- The market for originating and/or purchasing auto loans is highly cyclical and competitive. When pricing is attractive, new entrants come to market. There is a subsequent increase in loan volumes, which worsens pricing, forcing marginal players out of the market
- Auto loan market has traditionally been serviced by the financing arm of large auto companies, such as GM and Ford, and large commercial lenders, such as Bank of America and Wells Fargo
- CACC's closest competitor, AmeriCredit (ACF) was purchased by General Motors in July 2010 at 15.3x TTM earnings

Recent Developments:

- CACC is increasingly shifting focus away from its purchase program, where it fully purchases loans from auto dealers. This segment currently represents just 8% of its receivables
- Consumer loan volumes were up 37% YoY during Q1 2011 and dollar loan volume was up 59%. Competition is coming back into this market but CACC has yet to see a notable impact on pricing
- In what is a relatively low-variable cost business, CACC is seeing lower operating expenses as volumes

Investment Snapshot

Credit Acceptance Corp. (NASDAQ: CACC)

CACC is a specialty finance company involved in the business of providing auto loans to a lower credit quality consumer base. They provide a cash advance for the right to service the underlying loan. As customers make payments, CACC is reimbursed for its collection costs, charges a service fee, and recovers its initial dealer advance.

increase, strengthening margins and its ROIC

Variant Perception:

- CACC screens to many as a spread play; the company borrows money at one rate, and lends at a higher one. Although these mechanics are part of its business, what differentiates the company is its ability to consistently make profitable loans. It is able to do this by relying on decades of data and experience, specific to the subprime auto segment
- The company is also seen as vulnerable to an increase in short-term rates and given the near-zero current rate environment, many believe there is only risk to the upside from here. In truth, CACC has locked in attractive longer-term rates by partaking in longer-term debt issuances
- CACC is also off many investors' radars due to its heavy insider ownership and limited float. Founder Donald Foss owns just over 40% of the company's shares and private investor Thomas Smith owns close to 17%. Both investors are involved with and committed to the company's long-term success

Catalysts:

- The financing arms of large auto companies have traditionally been more profitable than their manufacturing divisions. In the vein of GM's purchase of ACF, a large auto company could look to acquire

Share Information (as of 8/17/2011)

Price	\$72.52
Market Cap	\$1.77BN
Shares outstanding	25.59MM

Valuation

- Trades at 9x DCM forecasted NTM earnings of \$8.09
- Historical Trading Multiples: 13.6x P/E pre-crisis, 11.5x P/E post-crisis
- Base Target Price: \$93; based on 11.5x multiple on NTM earnings
- Upside Target Price: \$110; based on PEG ratio of 1.0x, long-term

CACC in order to expand their financing operations

- CACC management has stated that it will opportunistically choose to repurchase shares when it feels its share price is below intrinsic value. In February 2011, CACC launched a tender offer to repurchase 1.9MM shares at \$65.63, representing under 7% of shares outstanding at the time but close to 17% of the actual float. The company does not actively state what it believes to be the intrinsic value of its shares but a similarly large repurchase would be a notable catalyst

Risks:

- Exposure to potential increases in short-term interest rates and a general flattening of the yield curve
- Reliance on debt funding to run its core business, CACC needs a healthy and functioning capital market in order to thrive
- Previously noted competitive industry dynamics result in a cyclical, which although difficult to fully avoid, CACC has historically been able to largely mitigate

For questions, comments, or to view the full report, please contact Alex Townsend at

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Patrick Mullen

LiveNation (LYV)

August 18th, 2011

Investment thesis: LYV is well-positioned to capture the impending upswing in the concert industry, wring value out of the recent merger, and exploit increasingly attractive international markets. The new firm's vertical integration will allow it to capture larger margins at each step of the value chain and further solidify its relationship with "the fan". Unlike most other businesses, live concerts and events are non-duplicable and the consumer has an overwhelming emotional connection to the product.

Industry Background:

- During 2009 in the U.S. 42 million individuals attended a live concert, roughly 21% of the U.S. population.
- The global primary ticketing market grew at a 3.3% CAGR during the 2005 to 2009 time period, with \$96.1 BN in sales in 2009.
- The live concert market is highly concentrated with very few competitors—LYV controls nearly 70% of industry revenue and while all its competitors are 20% or below.
- *Ageing:* acts have generally been ageing (average age of top 10 acts has increased from 42 to 47 over the last decade). Correspondingly, fewer young people (age 12 to 24) are attending concerts now than a decade ago.
- *Touring:* more artists are touring more often. With the dramatic decline in physical CD sales, artists have correspondingly increased their touring to make up for lost revenues.
- *International Expansion:* the number of global markets that can support "arena-level" attendance for major artists has increased dramatically over the past 20 years and will continue to do so into the foreseeable future.

Merger:

- LYV was created from the \$889 million merger of Live Nation and Ticketmaster on January 24th, 2010. The merger received enormous

Investment Snapshot

Live Nation (NYSE: LYV)

Live Nation is the largest ticket selling, concert promotion and artist management firm in the world, selling over 150 million tickets, promoting 22,000 concerts, partnering with 850 sponsors and averaging 25 million unique monthly visitors to its website during 2009.

Share Information (as of 2/24/2011)

Price	\$10.30
Market Cap	\$1.87BN
Shares outstanding	173.57MN

Valuation

Target	\$16 - \$18
Target EV Multiple:	7x
DCF - \$17	
	10% WACC
	3% long term top line growth

- public attention and was intensely scrutinized by the United State Department of Justice due to antitrust concerns.
 - Ultimately, the DOJ approved the merger on a number of conditions. Ticketmaster was required to license its software to a competitor, AEG, Inc., and Live Nation was directed to sell Paciolan, its ticketing division, to Comcast-Spectacor, a subsidiary of Comcast Corp. The DOJ also pledged to monitor the firm for 10 years in order to prevent anti-competitive "bundling" of services and prohibited the firm from retaliating against venues that choose to sign ticket-selling contracts with competitors.
 - The estimated cost synergies are \$40 million annually and significant potential revenue synergies exist.
- Variation Perception:**
- *Virtual monopoly:* lack of major competitors and control of value chain will allow margin expansion because of reduced buyer/supplier power; strong pricing power
 - *Data-mining:* E-commerce database of 200 million fans will generate significant cross-selling once fully integrated (loyalty cards, targeted e-mail lists, etc.)
 - *International opportunities:* the number of major international markets is growing and these markets generally provide higher margins than domestic markets.
 - *Content Cycle:* Trend towards increasing tours amongst artists and compression of the content cycle
- (time from discovery to album to concert) allows for greater
- *Timing:* Stock trading at cyclical low due to recent sharp decline in 2010 ticket sales/concert attendance, part due to postponed tours (see: Fleetwood Mac, Kenny Chesney, U2)
- Risks:**
- Department of Justice scrutiny for "anticompetitive practices" over the next 10 years
 - Uncertainty regarding contracts with ticketing clients including artists, sports franchises
 - Continued deterioration in concert industry performance due to weak macroeconomic factors and an overall shift in attendee demographics.
 - Competition from AEG and Comcast-Spectacor could prove stronger than anticipated
- Other:**
- *John Malone/Liberty Media:* Liberty Media, an investment firm with an excellent track record of success, holds 18.1% of outstanding shares and two board seats

For questions, comments, or to view the full report, please contact Patrick Mullen at MullenP12@darden.virginia.edu

Sam Glasgow

Supervalu Inc. (SVU)

March 3, 2011

Investment thesis: *Supervalu has ample free cash flow to continue to pay down debt over next few years. Essentially this is a public LBO that has substantial cash generating abilities. As debt is paid down value will accrete to equity even with a declining enterprise value.*

Positives

- The larger pending maturity in 2013 will likely force management to remain serious about debt paydown. If paydown continues to meet/exceed expectations, will likely provide short-term upside to the stock. In order to get refinancing and good pricing, the market will want to see that SVU is serious about debt paydown
- Possibility of large asset sale of underperforming (EBITDA neutral or negative unit) that provides cash for debt paydown

Risks

- Supervalu's dividend policy might interfere with its ability to adequately service debt (currently paying \$147/yr). Mgmt will likely be very reluctant to shave dividend
- Margins and SSS continue to depress rapidly resulting in negative reaction from the market
- Serious deterioration results in covenant breach (unlikely)

Company overview

- Supervalu Inc. ("SVU" or "the Company"), a Delaware corporation, was organized in 1925 as the successor to two wholesale grocery firms established in the 1870's
- SVU is one of the largest companies in the United States grocery channel. SVU conducts its retail operations under the Acme, Albertsons, Bristol Farms, Cub Foods, Farm Fresh, Hornbacher's, Jewel-Osco, Lucky, Save-A-Lot, Shaw's, Shop 'n Save, Shoppers Food & Pharmacy and Star Market banners as well as in-store pharmacies under the Osco and Sav-on banners. Additionally, the Company provides supply chain services, primarily wholesale distribution, across the United States retail grocery channel.
- On June 2, 2006, the Company acquired New Albertson's, Inc. consisting of the core supermarket

Investment Snapshot**Supervalu Inc. (NYSE: SVU)**

SUPERVALU INC. (SUPERVALU) is a United States grocery channel. SUPERVALU conducts its retail operations under a number of banners. Additionally, the Company provides supply chain services, primarily wholesale distribution, across the United States retail grocery channel. The Company leverages its distribution operations by providing wholesale distribution and logistics and service solutions to its independent retail customers through its Supply chain services segment. It operates in two segments: Retail food and Supply chain services.

Share Information (as of 3/3/2011)

Price	\$8.15
Market Cap	\$1.73B
Shares outstanding	212.2M

Valuation

Target	\$15
Margin of Safety	\$10.50

businesses formerly owned by Albertson's, Inc., operating approximately 1,125 stores under the banners of Acme, Albertsons, Bristol Farms, Jewel-Osco, Shaw's, Star Market, the related in-store pharmacies under the Osco and Sav-on banners, 10 distribution centers and certain regional and corporate offices. As part of the acquisition, the Company acquired the Acme, Albertsons, Bristol Farms, Jewel, Osco, Sav-on and Shaw's trademarks and tradenames. The acquisition greatly increased the size of the Company.

- Retail Food
 - The Company conducts its Retail food operations through a total of 2,349 traditional and hard-discount retail food stores, including 855 licensed Save-A-Lot stores, located throughout the US. The Company's Retail food operations are supplied by 23 dedicated distribution centers and nine distribution centers that are part of the Supply chain services segment providing wholesale distribution to both the Company's own stores and stores of independent retail customers.
- Supply Chain Services
 - The Company's Supply chain services business primarily provides wholesale distribution of products to independent retailers and is the largest public company food wholesaler in the nation

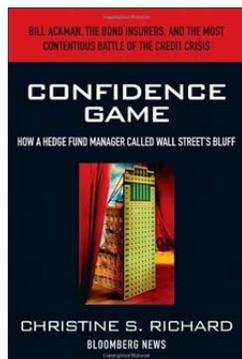
Valuation:

- Target Valuation
 - \$15 price target (~80% upside)

- SVU on a multiple basis of projected 2013 EBITDA
- Assume consensus estimates play out over the next two years on top-line growth and EBITDA margins
- Using consensus as a base line and recent history of debt pay down, SVU will easily be able to generate enough cash flow to pay down debt over the next two years. This deleveraging will in turn provide significant upside to equity (~80% at current levels)
- Margin of Safety
 - \$10.50 price target (~25% upside)
 - Assuming even further deterioration of top-line growth as 1) Continued price competition hurts volumes and 2) SVU looks to close down more non-performing locations, I assume sales decline -3% in next two years versus consensus of -1.7% and +0.5%
 - I have also taken significant haircut to consensus projected 2013 EBITDA of 1,767. Assuming EBITDA margins collapse towards Kroger's margins in the long-run as SVU invests more on price I arrive at 2013P EBITDA of 1,594.
 - Even with draconian assumptions to the business, SVU will most likely be able to generate significant cash to pay down debt in the future. This additional value will in turn accrete to equity

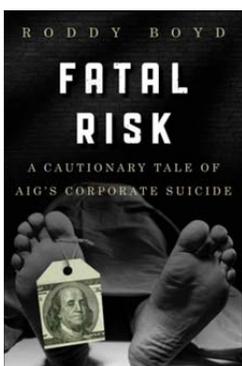
For questions, comments, or to view the full report, please contact Sam Glasgow at GlasgowS12@darden.virginia.edu

DCM Fall Reading List:



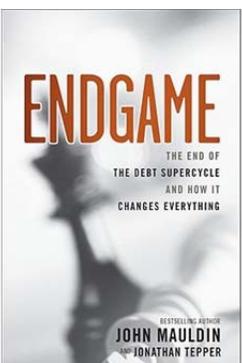
***Confidence Game*, Christine S. Richard:** The collapse of America's credit markets in 2008 is quite possibly the biggest financial disaster in U.S. history. *Confidence Game: How a Hedge Fund Manager Called Wall Street's Bluff* is the story of Bill Ackman's six-year campaign to warn that the \$2.5 trillion bond insurance business was a catastrophe waiting to happen. Branded a fraud by the *Wall Street Journal* and *New York Times*, and investigated by Eliot Spitzer and the Securities and Exchange Commission, Ackman later made his investors more than \$1 billion when bond insurers kicked off the collapse of the credit markets.

- Unravels the story of the credit crisis through an engaging and human drama
- Draws on unprecedented access to one of Wall Street's best-known investors
- Shows how excessive leverage, dangerous financial models, and a blind reliance on triple-A credit ratings sent Wall Street careening toward disaster



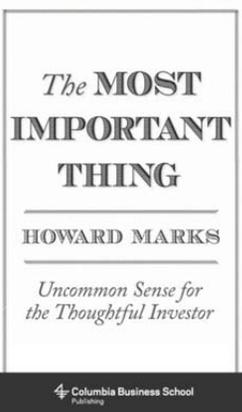
***Fatal Risk*, Roddy Boyd:** From the collapse of Bear Stearns and Lehman Brothers, the subject of the financial crisis has been well covered. However, the story central to the crisis—that of AIG—has until now remained largely untold. *Fatal Risk: A Cautionary Tale of AIG's Corporate Suicide* tells the inside story of what really went on inside AIG that caused it to choke on risk and nearly bringing down the entire economic system. The book

- Reveals inside information available nowhere else, including the personal notes and records of key players such as the former Chairman of AIG, Hank Greenberg
- Takes readers behind the scenes at the U.S. Treasury and the Federal Reserve Bank of New York
- Details how an understanding of risk built AIG, but a disdain for government regulators led to a run-in with New York State Attorney General Eliot Spitzer



***Endgame*, Jonathan Maudlin:** Greece isn't the only country drowning in debt. The Debt Supercycle—when the easily managed, decades-long growth of debt results in a massive sovereign debt and credit crisis—is affecting developed countries around the world, including the United States. For these countries, there are only two options, and neither is good—restructure the debt or reduce it through austerity measures. *Endgame* details the Debt Supercycle and the sovereign debt crisis, and shows that, while there are no good choices, the worst choice would be to ignore the deleveraging resulting from the credit crisis. The book:

- Reveals why the world economy is in for an extended period of sluggish growth, high unemployment, and volatile markets punctuated by persistent recessions
- Reviews global markets, trends in population, government policies, and currencies



***The Most Important Thing*, Howard Marks:** Informed by a lifetime of experience and study, *The Most Important Thing* explains the keys to successful investment and the pitfalls that can destroy capital or ruin a career. Utilizing passages from his memos to illustrate his ideas, Marks teaches by example, detailing the development of an investment philosophy that fully acknowledges the complexities of investing and the perils of the financial world. Brilliantly applying insight to today's volatile markets, Marks offers a volume that is part memoir, part creed, with a number of broad takeaways.

Marks expounds on such concepts as "second-level thinking," the price/value relationship, patient opportunism, and defensive investing. Frankly and honestly assessing his own decisions—and occasional missteps—he provides valuable lessons for critical thinking, risk assessment, and investment strategy. Encouraging investors to be "contrarian," Marks wisely judges market cycles and achieves returns through aggressive yet measured action. Which element is the most essential? Successful investing requires thoughtful attention to many separate aspects, and each of Marks's subjects proves to be *the most important thing*.

Incoming Fund Managers:

Darden Fund

The Darden Fund is a small-cap fund that seeks to maximize returns through disciplined fundamental research and analysis. The benchmark for the fund is the S&P 600.

- Sr. Portfolio Manager: Alex Townsend
- Portfolio Manager: Matt Dougherty
- Portfolio Manager: Jeff Hughes
- Portfolio Manager: Chris McCann

Monticello Fund

The Monticello Fund uses fundamental analysis to identify and invest in companies that are well positioned for growth but inexpensively valued.

- Sr. Portfolio Manager: Tim Reid
- Portfolio Manager: James Barter
- Portfolio Manager: Ivaylo Dimitrov
- Portfolio Manager: Mi Zhou

Jefferson Fund

The Jefferson Fund seeks to generate excess returns through a value-based strategy with a concentration on companies with market capitalizations between \$200 million and \$5 billion.

- Sr. Portfolio Manager: Scott Headd
- Portfolio Manager: Matt Alley
- Portfolio Manager: Dave Cahoy
- Portfolio Manager: Patrick Mullen

Cavalier Fund

The Cavalier Fund is a long / short equity hedge fund that focuses primarily on domestic equities including small, mid- and large capitalization companies.

- Sr. Portfolio Manager: J. David Maynard
- Portfolio Manager: Sam Glasgow
- Portfolio Manager: Raul Orillac
- Portfolio Manager: David Silbering

Rotunda Fund

The Rotunda Fund is based on the core belief that sustainability research provides valuable and unique insights into a company by exposing risks, highlighting strengths, and underscoring growth opportunities.

- Sr. Portfolio Manager: Pete Lee
- Portfolio Manager: Mevilton Dsouza
- Portfolio Manager: Ben Pfinsgraff
- Portfolio Manager: Stephanie Yeung

THE ADVISOR

The Advisor is a publication of the Darden Capital Management Club at the University of Virginia's Darden School of Business. Darden Capital Management operates four student-run investment funds for the Darden School Foundation with approximately \$6MM in assets under management.

To learn more about Darden Capital Management and the Darden School of Business, please visit: <http://student.darden.virginia.edu/dcm/new> and <http://www.darden.virginia.edu>

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