

# THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

## Buying Great Businesses at a Fair Price



**DAN HANSON, CFA**, is Portfolio Manager with Jarislowsky Fraser Global Investment Management and leads the firm's U.S. equity strategies. He is a partner and a member of the firm's investment strategy committee. He previously spent 10 years at BlackRock where he managed the fundamental research process on \$23 billion AUM, and was the manager and architect of the BlackRock Socially Responsible Equity portfolio. He spent six years at Bear Stearns. He is a founding member of the board of the Sustainable Accounting Standards Board. He is a graduate of Middlebury College and has an MBA from the University of Chicago.

### SECTOR — GENERAL INVESTING

#### TWST: What are your responsibilities at the firm?

**Mr. Hanson:** I lead our U.S. equities strategies as well as our sustainability investment strategies. In addition, I co-manage our global portfolios. As a firm, we manage a total of about \$30 billion in client assets, \$5 billion of which is in U.S. equities and \$3 billion of which is in sustainability and values-based mandates.

#### TWST: Could you tell me a little bit about the history of the company and its philosophy?

**Mr. Hanson:** Jarislowsky Fraser has been in business for 60 years. We are privately held and headquartered in Montreal. We were founded as a research boutique and have a single investment philosophy: We buy great businesses at a fair price. We take a research-driven, bottom-up approach to identifying high-quality businesses, and invest with an owner-orientation and intrinsic-value approach.

#### TWST: And what do you think makes it unique?

**Mr. Hanson:** A few things make us unique. One, we have been doing this for 60 years with a singular investment philosophy. We started in 1955 as a pure research boutique, and that research heritage to identifying high-quality businesses is a part of our DNA. Two, we take a long-term, ownership attitude to investing in public equities, and as such, we take an engaged governance approach. Third, we are independent thinkers.

#### TWST: When you look at stocks, what are some of the things that you're looking for?

**Mr. Hanson:** When we look at any business, any stock, we look at it as a business investment. I think we've got a due-diligence approach that in many ways is comparable to a private equity or a corporate M&A approach, where we're very much looking at the intrinsic

value of the business, a bottom-up fundamental approach. We look at primary research sources to really size up the quality of the business, to look for enduring drivers of success. And all of that is to say we take a long-term ownership attitude. Our typical holding period is seven to 10 years or greater.

And so we're high-quality managers, but what's really different is that in practice our approach has demonstrated value add through multiple economic cycles and multiple environments, which provides us with a different perspective than many competitors in the market. I'll elaborate a little bit more in terms of what makes us different and what drives our fundamental approach. I would say that in having a bottom-up fundamental approach to how we think about quality — quality of management is our real hallmark to how we think about identifying great businesses.

When you think about the traditional approach of financial analysis, a Graham and Dodd sort of numbers-driven view is a part of identifying high-quality businesses. And you see that in our portfolios in terms of return on equity being better than the market, and balance sheets and debt are cleaner and more favorable relative to the market. Those are some quantitative markers of quality, but we think equally important are the qualitative markers, such as a company's culture and the management team.

One of the things that Stephen Jarislowsky, our Founder, said when teaching securities analysis in the 1950s to his class, that we continue to abide by today, is the idea if you are looking at just the financial picture, that's like a doctor looking at the X-ray of a patient. You've got a whole host of aspects of the patient's health — the skin and the bones and the muscles and everything else, the biological functioning — that you will miss if you only have the X-ray. It's the same thing when looking at a company, looking at the culture, looking at the human

resources' capability, and ultimately, the management is a really vital part of what's going to drive future success, and a big part of what we're focused on in identifying a management team that can maintain and deepen that sustainable competitive advantage.

So not just sizing up today's management team, but sizing up what we think is likely going to be the quality and the behavior of future management teams. That's all part of what we think we need to make an appraisal of as long-term investors. We want to own stocks for many years, so beyond just bench strength, we're making a bet on the next generation of management. So in terms of the market today and opportunities we see to identify great businesses, I'd love to share some ideas with you. **Comcast** (NASDAQ:CMCSA) is a good example.

**TWST: And why is that?**

**Mr. Hanson:** Comcast is a good example we think where the company has a strong competitive advantage relative to its competitors. It's got a technology and a scale advantage that allows it to invest to further differentiate the value it brings to its customers. It's got, we think, a culture of innovation that gives us comfort they're going to continue to invest and maintain that advantage.

Driving all of that is, we think, a management culture that comes from the leadership. The Roberts family has played a huge role in building this business over decades and has brought huge value by bringing in a world-class professional management team. The likes of Steve Burke running the broadcast assets, Michael Cavanagh just joined

valuation that's modest and fits the bill of a better-than-average business at very much an average valuation.

**TWST: Do you think they are well-suited for the options that people have to get programs — maybe via their computer?**

**Mr. Hanson:** We think they are well-positioned strategically by virtue of having both the pipes and the content. With the NBCU acquisition from **General Electric** (NYSE:GE), that uniquely gives them a strategic position of just not being a dumb pipe. They also have the scale to negotiate favorable terms in getting good content and, as mentioned, the technology investments they've made by virtue of their scale. Yes, we think they're well-positioned to go to where the puck is going well ahead of their competitors.

**TWST: Do you want to mention a second company you find interesting?**

**Mr. Hanson:** So within the consumer landscape, the worlds that are under attack by online competition, sales are migrating from physical stores to **Amazon** (NASDAQ:AMZN) and other online channels. We find that often inverting a situation can highlight opportunities and help to understand the issues. So in the context of the

online world taking over, we've seen a number of business models that have proved very resolute. **Costco** (NASDAQ:COST) and **TJX** (NYSE:TJX) are two that I would highlight where we see both companies delivering a value proposition to customers that's resulted in consistent sales increases, and we think a continued runway for growth and competitively differentiated models.

### Highlights

*Dan Hanson discusses Jarislowsky Fraser Global Investment Management. The overarching investment philosophy of the firm is to buy great businesses at a fair price. Mr. Hanson identifies high-quality companies through a research-driven, bottom-up process. According to Mr. Hanson, there are three things that make the firm unique: their 60 years of experience with a singular investment philosophy; their long-term, ownership approach to investing; and their ability to think independently. When identifying stocks, Mr. Hanson uses primary research sources to size up a business and look for enduring drivers of success. He also believes a quality management team is a hallmark of a quality business.*

*Companies discussed: Comcast Corporation (NASDAQ:CMCSA); AT&T (NYSE:T); Verizon Communications (NYSE:VZ); General Electric Company (NYSE:GE); Amazon.com (NASDAQ:AMZN); Costco Wholesale Corporation (NASDAQ:COST); TJX Companies (NYSE:TJX); Dollar Tree (NASDAQ:DLTR); Home Depot (NYSE:HD); Family Dollar Stores (NYSE:FDO); Alphabet (NASDAQ:GOOG); The Coca-Cola Co. (NYSE:KO) and PepsiCo (NYSE:PEP).*

***“So not just sizing up today's management team, but sizing up what we think is likely going to be the quality and the behavior of future management teams. That's all part of what we think we need to make an appraisal of as long-term investors. We want to own stocks for many years, so beyond just bench strength, we're making a bet on the next generation of management.”***

as CFO, and we think that's illustrative of just a best-in-class deep bench for great management strength and something that we think is going to be a source to further their edge relative to competitors in the traditional telecom space, the likes of **AT&T** (NYSE:T) and **Verizon** (NYSE:VZ) — we don't think that they can have the same kind of nimble entrepreneurial attitude.

So Comcast has got a great competitive position. They have technology and scale and, importantly, a great record for capital allocation to benefit shareholders — and all of that, we think, at a

In the case of **Costco**, ultimately, it's about value to the customers. You see behind the cash register in any **Costco** a pledge that their first priority is to their customers, their second priority is to their suppliers, to be a good partner, and thirdly to their employees. And if they get all the above right, they know that the business and shareholders will get a fair return, and we think they've really lived by that framework. In our mind, that's a great example of how environmental, social and governance integration or sustainability can inform analysis of a business to really identify a deep moat.

In the case of **TJX**, they've got a unique ability to deliver a treasure-hunt shopping experience to customers who come back. And you see it in the traffic, which has been remarkably resilient through economic cycles and through the increase of online shopping activity. **TJX** has really built a unique supply chain and purchasing organization. It's a capability at scale that has proven to be responsive to consumers' and shoppers' needs, and will uniquely continue to deliver value to customers.

#### 1-Year Daily Chart of Comcast Corporation



Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

***“Retailing has always been ferociously competitive. And today, with instant information, social media and online competition, it’s even more so the case. In any investment, we look for an underlying source of value. In the case of a retailer, the value they’re delivering to their customers needs to be a key proposition.”***

**TWST:** Do you think with the companies that you’ve mentioned that it’s an illustration that it’s not enough for a retailer to just have brand recognition; they have to offer more to the consumer today?

**Mr. Hanson:** Retailing has always been ferociously competitive. And today, with instant information, social media and online competition, it’s even more so the case. In any investment, we look for an underlying source of value. In the case of a retailer, the value they’re delivering to their customers needs to be a key proposition.

**Costco** drives almost all of its profits through membership fees. They do a phenomenal job at sourcing and passing the savings along to their customers, which is a great value proposition model. In the case of **TJX**, value to the consumer is in the DNA of the company. When they started out, the department stores had much stronger pricing power. That power has eroded the department store, but **TJX** has continued to add value to customers.

A couple of other retail investments would include **Dollar Tree** (NASDAQ:DLTR) and **Home Depot** (NYSE:HD) where, in different ways, we think they are uniquely insulated from competition. In the case of **Dollar Tree**, because of the low price point, they have a unique model, and it’s consistent with the theme of a consumer that wants to see value. In the case of **Home Depot**, because of their scale, there is enormous operating leverage to improvements in the U.S. domestic building activity, and they’ve got a record of delivering value to their customers through their unique, essentially, distribution assets.

So the common thread is value to the customer, and with that, they’ve got a moat around their business. In the case of **TJX**, it’s a

supply-chain capability. In the case of **Costco**, it’s a relationship of trust with their customers. In the case of **Home Depot**, in part because of their physical infrastructure and the first-mover advantage, they have all the best real estate locations in the country. And in the case of **Dollar Tree**, incremental to the price point, they have the integration opportunity with **Family Dollar** (NYSE:FDO), a recent acquisition where we think the **Dollar Tree** management team expertise will allow the company to deliver strong results in a way that leaves them less beholden to the macroeconomic environment.

**TWST:** Did you want to mention another company that you find interesting?

**Mr. Hanson:** **Google** (NASDAQ:GOOG) is worth highlighting. **Google** is a dominant player in search. Because of their scale and technology and ability to continue investing, they’ve built a moat, which we think continues to get larger by virtue of their scale and investment. They’ve got a culture of innovation that we find highly compelling. And what they’re doing is providing, again, value to their customers. If you’re a user of Google Search, you want fast, relevant results in a noncluttered user experience.

But the majority of **Google’s** revenue is driven by customers of their advertising capabilities. And that’s where we find very compelling the long runway of growth, as the advertising pie continues to shift from

#### 1-Year Daily Chart of TJX Companies



Chart provided by [www.BigCharts.com](http://www.BigCharts.com)

traditional media to more effective forms of digital media. That’s a long runway of growth. **Google** has proven that they can add value to advertisers and demonstrate the value.

And so all of that in context of a business that we think is run by a management team that has earned our trust. We find that leadership at **Google** has done a phenomenal job in terms of capital allocation, being stewards of the business, being forward-looking. Last year, the transition to the **Alphabet Holding Company** structure, we think, shows great maturity, and a proactive attitude around running the business, driving greater transparency and accountability to business units. We think it’s the kind of structure that will drive continued success going forward as future initiatives deliver results.

**TWST: How do they make sure that they are not going to lose market share to, let's say, a newer company that might appeal to Millennials right now or to other markets?**

**Mr. Hanson:** The overwhelming opportunity is of a market share shift from traditional media to a digital media for advertising. And so we're still in early to mid-innings of what should be a very long runway of a secular growth from traditional print and television media. **Google** is going to win its fair share of that business by virtue of the value they are providing to customers. There are other digital players, particularly in the social-media space, with a lot of focus around various successes there in grabbing eyeballs.

But it's not just about grabbing eyeballs, it's about translating that eyeball share to a business model of delivering value to advertisers, in the case of **Google**. And so we don't view it as a zero-sum game. There can be other forms of social media and online activity that are also successes, and we don't think that impairs **Google's** ability to both continue delivering growth in its core search capabilities as well as in other growth initiatives. But what we like about **Google** is that it is run as a business with a mind for overall returns, and the way they do that is delivering business results.

**TWST: Looking at some of the bigger trends, I understand that you had managed the BlackRock Socially Responsible Equity portfolio. Just how important is socially responsible investing today?**

**Mr. Hanson:** We see the interest in sustainability, ESG investing, socially responsible investing — pick any label you want. The interest has absolutely exploded. And you can see the surveys. Millennials as a generation and the public at large, the confidence in the integrity of financial markets is at an all-time low. And so the desire to align investing outcomes with also taking the high road has captured a lot of interest. And we see those goals as naturally complementary.

We invest in high-quality businesses. We view ESG issues, sustainability, socially responsible investing, all as a lens through which to think about quality. We published a paper in 2013 entitled "ESG Investing in Graham & Doddsville," which makes the point in some detail about how we think environmental, social, governance and sustainability issues generally are very complementary to our approach of identifying high-quality businesses. So we think it's an area of interest that's here to stay, but we do think that there is still a learning curve for asset owners to be able to thoughtfully integrate sustainability interests with their investment approach.

Our approach is ingrained with our high-quality investment philosophy, so it's not an afterthought or something that is bolted on. Today, what makes for a high-quality business indisputably needs to include an understanding of ESG issues. Just to follow on the relevance of socially responsible investing, an example comes to mind of a stock we exited in institutional portfolios the past year, **Coca-Cola** (NYSE:KO). One of the concerns we have about the business is the negative trends on carbonated soft drinks, which are a result of society's increasing health and wellness concerns, which have been a huge challenge for **Coca-Cola**. It's among the reasons we found the long-term prospects for the business un compelling in light of a demanding valuation.

**Pepsi** (NYSE:PEP), on the other hand, is a business we own where they likewise have some exposure to this negative CSD volume trend, but we think management is very mindful of those

issues, and so they have very proactively expanded their portfolio of beverages to include capabilities that are much more in synch with the health and wellness interests of the consumer. And then, at the same time, they have a much more diversified portfolio relative to **Coca-Cola**. In **Frito-Lay**, they've got a world-class snacking business, which is really a gem of a business that we think is underappreciated. And that, in my mind, is an example of how, regardless of whether you wear the label of sustainability as an investor, having an understanding of those issues can be very helpful in illuminating both risks and opportunities.

**TWST: Overall, given the volatility that's going on in the stock market in the month of January in the United States, do you have any basic advice for investors as they look at 2016?**

**Mr. Hanson:** In terms of trends in 2016, clearly, there is a lot of angst around slowing global growth. There is a lot of handwringing around the death of the commodity super cycle, and you see that in commodity prices generally as well as energy. Many market observers would say a significant global slowdown is being priced in. Our take is that high-quality businesses — real franchises — will continue to deliver value through the cycle.

When the market sells off broadly, there are cases when the baby gets thrown out with the bathwater, and so we look for opportunities to invest in great, high-quality businesses that are differentiated, that aren't just plays on the global macroeconomic cycle. But with risk assets selling off generally, a risk-off world can create an opportunity for investors that are willing to be independent, disciplined and take the long view. The trick is that many investors purport to be long term, but we all know that in reality, markets tend to get hijacked by emotions, and the whole discipline of behavioral finance has come out of that issue.

The average pension fund manager holds stocks for 18 months. The average retail investor, including mutual funds, holds stocks for just over 12 months. And so where the average or marginal investor has such a short-term time horizon, to be able to take a long-term view as an investor can be, we think, a real source of sustainable advantage, and so that's our approach as investment managers. We would encourage asset owners, whether they are institutional, pension fund or retail — if they take a long-term view and they enable their asset managers to take a long-term view, and they walk the walk, not just talk the talk, that's likely to continue to provide an edge.

**TWST: Thank you. (ES)**

**DAN HANSON, CFA**  
**Portfolio Manager**  
**Jarislowsky Fraser Global Investment Management**  
**609 Fifth Avenue, Suite 1104**  
**New York, NY 10017**  
**(212) 951-1086**

**Head Office:**  
**1010 Sherbrooke St. W., 20th Floor**  
**Montreal, QC H3A 2R7 Canada**  
**(514) 842-2727 | [www.jfglobal.com](http://www.jfglobal.com)**