

Exor: Concentrated Private Equity Portfolio

Steven Wood presented his in-depth investment thesis on Exor (Italy: EXO) at European Investing Summit 2016.

Exor is an Italian holding company that has some parallels to Berkshire Hathaway in the earlier years. Unlike Berkshire today, Exor trades at a discount valuation of 0.8x price to NAV. Meanwhile, the company has powerful drivers, including cheap reinsurance capital, a value-added investor at the helm (John Elkann), less investor competition, exceptional operational management teams, a focus on returns on capital, and a concentrated, contrarian investment approach. Exor derives only 4.4% of revenue from Italy. The biggest assets are Partner Re, Fiat Chrysler, Ferrari, and CNH.

About the instructor:

Steven Wood, CFA founded Greenwood Investors in late 2010 based on core beliefs that great returns are generated through a concentrated global portfolio of special situations and deep value opportunities, and cannot be generated by being overly concerned with month-to-month returns. We believe investors should have full transparency and liquidity and we share our research with our sophisticated investors, who in turn provide invaluable insights that help us hone our portfolio. Prior to founding Greenwood Investors, Steven worked with notable investors at Carr Securities, Kellogg Capital Group, and Aslan Capital in distressed, deep value, and special situations strategies. Through frequent marathons and by being the sole US-focused analyst in Leveraged Finance at RBC Capital Markets during the peak of the LBO boom, Steven has developed a high pain tolerance, a pre-requisite for value investing. Dissatisfied with just one view of the world, Steven received a bachelor of arts from Tulane University in Economics, Political Economy, and International Relations.

The following transcript has been edited for space and clarity.

Shai Dardashti: It's a real honor to welcome Steven Wood, Founder of Greenwood Investors, here with us in his office in New York City sharing his perspective for European Investing Summit 2016. Steven Wood founded Greenwood Investors in late 2010 based on core beliefs that great results are generated through a concentrated global portfolio of special situations and deep value opportunities. Steven previously worked with notable investors at Carr Securities and Kellogg Capital Group. He's done quite a few amazing presentations in the past. We're quite eager to hear what he has to say right now. Steven, please go ahead.

Steven Wood: Thanks for having me and it's a pleasure to be here. I'd like to just jump right in and talk about why are we even looking at Europe right now. Why now, and specifically why Europe, particularly with all the negative headlines we're seeing with Deutsche Bank, Brexit, Italian Referendum, etc.? The Equity Risk Premium in Europe has never been wider and it's driven in part by high cost of equity, but also the unprecedentedly low interest rates. Even when we talk about the Brexit Crisis in 2011/2010 Equity Risk Premium was nowhere near how it is today. I remember in 2012/2013 how people were justifying the U.S. SNP because of the Equity Risk Premium relative to the bond yield. This has never happened before, what we see here in Europe. At the same time, capital is basically free for European issuers. Capital is free, yet capital intensive businesses have never been more hated, which is somewhat ironic; right? Henkel and Sanofi just issued negative rate bonds. Partner Re, which is related to the entity I will discuss with you today, issued 10-year capital at 1.3%. It, actually, for insurance reasons counts as equity capital because it's so long-term and low rate, which is unbelievable. Let's go back to Brexit and this is all illustrative and this is how I think about

the world. Going into Brexit we were very well-hedged. I was actually at a Manual of Ideas Dinner a few nights before and it was consensus in the crowd that, basically, UK was vote to remain or remain in. The market had attached. The in-trade odds were about 92% that the UK would vote to stay within the Eurozone. Polls were suggesting it was really just a coinflip. There was a gigantic divergence between market expectations and reality. The same thing has happened in the opposite direction for Italy right now. Italy is going to have a referendum. Right now, the actual polls suggest it as a coinflip except for the fact that most market expectations are significantly negative that basically the Italians will not vote for this other referendum, which I'm about to explain. What that has done has created a significant opportunity, I think. Let's talk about the Italian situation. They're going to vote on reforming the Senate and also increasing the ability of the government to rule when a majority is formed; basically, turning it into a UK style parliament. They've had 60 governments in the last 60 years and what they're trying to do is create some sort of stability so that they can actually really continue passing these economic reforms that Renzi has already implemented. What has happened is the yes vote here - this is yes to political reform. This was a very uncontroversial measure, 70% of people excluding undecideds supported it a year ago. The Prime Minister, Matteo Renzi, right here made a poor political calculation and decided that he was going to attach his reputation to the passing of this legislation. This is really Constitutional Reform, actually, is what it is. His 30% approval rating blended with this 70% yes vote; now, we're basically at a coinflip as to whether or not this reform will pass. He said he will resign if the reform does not pass, which, basically, throws Italy into a technocratic government for the next year and a half. The President is most likely going to reappoint Renzi if he steps down, except for he probably will have no mandate to continue passing economic reforms. This is not as severe as any sort of Brexit. This has none of those repercussions, but what it does do is signify a continuing inability for an Italian government to have any sort of staying power. This lady right here is the current Roman Mayor, and she is from the basically Italian Tea Party - blend Communism with Tea Party, it's called the Five Star Movement; this is her party, Virginia Raggi. She has lost a tremendous amount of, basically, political goodwill as her entire aides, her entire cabinet - everyone has deserted her. The typical city services, like even just trash collection, in Rome have basically stopped so the trashcans are overflowing. It has become kind of a disaster. This was their Tea Party's first basically test as to whether or not this new political party can rule and the outcome has been decidedly negative. At the same time, Renzi is repositioning it and saying there will be no early elections; so, if you vote this down this is not a vote against me, this is now a vote about whether or not you want a technocratic government for a year and a half or you want reform. Sorry that was a bit of a longwinded way, but that's sort of driving a tremendous amount of political risk right now and it has driven this, which is Global Equity Allocations to Europe, Middle East, Africa have almost never been this underweight. The equity fund flows into Europe have been significantly negative over the last year and this is always like a counter indicator; it's a contraindicator. The markets always bottom at the point at which this chart would basically bottom. The flows have driven the returns. This is global equity markets. All of these markets highlighted in red are European markets. Italy is, of course, the worst performing index and most of the European indices are the worst performing in the world so far this year. Let's just take a step back, last year the bottom of this chart was Russia, Brazil, Argentina and they are now at the top end of the chart because they have all had political revolutions or some stabilization of politics; actually, with the exception of Russia, of course. All I'm saying is typically in the SNP the worst performing indexes or sectors become the best performing sectors. The worst performing sectors in the world typically become the best performing sectors in the world on a forward-looking basis. It is contrary and it doesn't feel good to own Europe right now, but it is absolutely statistically the best time to be looking at Europe. At the same time, the Cape Ratios - here's the Global Cape Ratios, everything in green is European. You can't look for cheap global markets without looking at specifically Italy, Spain, Portugal - the peripheral nations. At the same time, you have these cheap valuations and you have this capital flight - capital is free, but it is also fleeing - and the fundamentals are incredibly strong. Spain/Italy have hit unprecedented highs in consumer confidence this year. These are leading indicators. Consumer confidence normally leads

durable goods purchases by six to nine months or so. They hit all-time records earlier this year. France continues to improve. Germany looks pretty good. The only thing that doesn't look good is UK. That's why we think with the malaise coming in UK in the fourth quarter, four of the largest automakers already sounded the warning bells, we think that as the electoral calendar goes forward in Europe the UK will be the redheaded stepchild and everyone will look at it as something they don't want to replicate. We think, actually, the Brexit vote will strengthen the European Alliance. We think that also the Deutsche Bank problems will also strengthen the European Alliance, perhaps eventually forming the banking union. Now, within Europe how do you want to position yourself? Here is Labor Cost Indices between Italy and Germany. Italy has perennially had higher inflation. They come into German monetary policy and then all of a sudden they're tethered to very low inflation monetary policy. The [inaudible 00:09:12] can't devalue against the Deutsch Mark. What happened is this inflation kept on going and kept outpacing German labor inflation until, basically, the Brexit Crisis in 2010. That's when, basically, the markets imposed deflation on Italy. If you look at this most recent period of time, Italian wages have deflated significantly. At the same time, Merkel has very smartly pushed higher German wages, which will end up proliferating throughout the EU. This chart is kind of complicated, but it looks simple. It's basically the difference between Italian Labor Wage Indices and German, as well as the difference between Italian unemployment and German unemployment. All this is saying is that as Italy lost labor competitiveness to Germany the unemployment rate relative to Germany also increased. This has a 96% correlation with a 12-month lag, which means, basically, if it was a drug the FDA would approve it. You can't find correlations this high in economics, I would challenge you. What this says is because of the German inflation relative to the Italian deflation unemployment will be surprising to the downside, but on the better side in the next 12 months in Italy. Actually, if you just look at the most recent unemployment report it beat by 20 basis points. This will continue and the consumer confidence number is already telling you this. People are feeling better because it is now cheaper to make things in Italy. Within Europe we would suggest you would overrate Italy periphery and you would underrate Germany. You have rising profit margins in Italy thanks to the deflationary forces whereas it's the opposite in Germany. You have lower absolute wages. You have a lower tax rate in Italy. They're lowering it to 24% next year from 27% this year. You have significantly better valuations. You have better sentiment from a market perspective. You even have better corporate governments. In Germany, most times the Boards have labor union representatives on the Board. I've yet to find any Italian corporate governance structure that is not sort of very pro shareholder value oriented. I think you have in the worst-case scenario, where the EU does end up breaking up, you're basically overrating Mexico and you're shorting New York, essentially. Why do you want to have a manufacturing business or base in a currency that can appreciate 30%, 40%, 50% in a matter of months? If you look at the Brexit scenario, actually the companies that did the best in the wake of Brexit are manufacturers or people that drive most of their income internationally, but make things in the United Kingdom. What I'm going to pitch to you is very much an international play that is now being penalized by being involved in Italy. All I'm telling you is in addition to all the points I made on Germany versus Italy, Italy has a much longer way to go on the upside because their durable goods purchases got absolutely obliterated in the last 10 years. I think it's creating a fantastic opportunity, particularly in companies in Italy where I think corporate governance is significantly better than France, but even better than Germany, and in many cases even in the United Kingdom. Our idea for you that we'd like to go through is - we call it Lollapalooza. It is basically - well, we'll talk about it. It is a confluence of value drivers that has been penalized in a very illogical way. What if you could get 3G, Markel, Berkshire, but you could get it at a price at which Ben Graham would love. Obviously, today this isn't possible. Anything 3G has touched is almost at 30x forward earnings; trailing it's like 50-60. Berkshire and Markel trade significantly above book value, which correctly so, at least for Berkshire. If you comb the world and particularly look in Europe for the next Berkshire and you compare Berkshire's early track record to current track records that are available you can find that Exor has actually in the first seven years of its existence has been outperforming Buffet's early track record, both from a relative and absolute basis; and, Exor trades at a 20% discount to its book versus

Berkshire at a 35% premium. Like I said, there are so many it's a lollapalooza of factors that make, I think, Exor a great long-term investment to have on your radar. I think it's a great short-term investment due to the market sentiment and valuation, and particularly the valuation of its underlying holdings; but, I think if you're under 60 years old today the Chairman of Exor is only 40. Throughout your entire professional life this guy will be moving and shaking all the time, so it's best you start to get to know him now. We think that there's a fairly good chance that he becomes one of the Bill Thorndike outsiders. He's just added reinsurance capital. He is not competing against 3G. He's not trying to be Buffet. He's not even competing against him on the types of candidates he's looking at. He's very concentrated and contrarian. He only focuses on return of investment capital, pretty much. He focuses on culture, but that kind of ties more into he is phenomenal at getting great management teams. If you actually look at history the Agnelli's were the prime connectors between the Kennedy's and the Churchill's. They've been a middleman for so many prestigious families. They were part of the building that we're in. They were part of the Rockefeller Center Real Estate Group, essentially. The connections are unparalleled. When I talk about one, in particular, I think it'll become tangible. If you look at the underlying revenue from Exor only 4.5% comes from Italy, so the fact that this is trading down with Italian financials is kind of a joke. It is at a very healthy discount. The discount has come in quite a bit. It is now just north of a 20% discount to the NAV. We doubled our position when it went to a 40% discount earlier this year, but we have not trimmed. It's still our largest position and because even though the discount has narrowed I think the underlying holdings are at sort of unprecedented lows right now, in terms of their valuation. Now, I don't want the discount to narrow. I'm not trying to pitch you here that this is going to go to zero or maybe go to a premium, even though it could. It should probably over time because they have durable competitive advantages against Berkshire, namely tax rate, but also legal. When we first bought Exor - the dates here are wrong, we'll fix it for the presentation that goes out - when we first bought Exor it was trading at a 35%-40% discount to NAV and John Elkann was buying back a significant amount of stock. I can't think of a better way to add value than to buy your own portfolio at 40% off. That's an overnight accretion. Here's what Exor looks like today. It's been fairly simplified over the last 5-10 years. Exor's current NAV is about 45 euro per share, it trades at 35 hence the 20% discount. It is mostly now the old Agnelli family's investments, plus a reinsurance company, Partner Re. There is some amount of net debt they will be deleveraging, although I think they, hopefully, will be having to rethink now that debt capital is essentially free; hopefully, they don't actually de-lever. Just really quickly, Exor's history so far has been they drive a significant competitive advantage by not having quarterly calls and setting quarterly guidance. They behave as a private equity or private company should behave, which is making investment decisions for the long-term. That has manifested itself. They bought Cushman-Wakefield at the top of the global real estate cycle in 2007, and if you just compare the returns relative to the peers they have significantly outperformed their peers. Jones Lang LaSalle is actually not a gorilla, so it has a similar base from which to grow from. It's not just that Cushman-Wakefield was smaller and had a better base. If you just look at the recent economist transaction they went from 4% to 45% over the last year. Well, the last 10% that they just increased their stake from required zero cash out the door. They sold their building in London, did a sale-lease back, and did a stock repurchase from external investors and were able to take their economic interests up by a third, zero cash out the door. I joke around that there's a scene in the Big Short - - actually, let's go back to this first real quick. The last thing, John Elkann will always have an edge on Buffet because he is a disciplined seller. When things reach very high out valuations, like SGS - it was in the mid-teens at EBITA multiple - he sold it. Ever since he sold it, it's been flat to negative. He's been particularly great at timing his transactions and because of that he can reallocate capital to the best opportunity instead of, perhaps, getting stuck on Coke, which I'm sure Buffet would have sold quite a while ago had he had the chance. Again, when they sell something it comes at a 1.3% tax rate, not a 35% tax rate. That is a sustainable advantage. I joke around, I just made this parallel a couple of weeks ago in my head, but there's a scene in the Big Short where Steve Osmond or Steve Carrell walks away from the table and says short everything that guy has touched. Well, I think after you meet with John Elkann you think the opposite, it's just

basically buy everything that this guy has touched. Structuring this economist transaction with zero cash out the door and then the Fiat-Chrysler buyout of Chrysler when they used Chrysler's own balance sheet to pay for the minority interest. We'll get to that in a minute. For other investors that kind of look for a catalyst there are a couple of catalysts for their underlying investments down the road. I'm glad that the capital markets are unaware of major transactions and major things that could be happening in Exor's future because it's basically not priced in; but, they have a history of significant special situations. They have consistently spun out non-core holdings to shareholders to achieve their own valuations. There's been a tremendous amount of M&A within their portfolios. They have, perhaps, the best industrial restructuring manager of all-time, who is a dedicated advisor to Exor. No matter what happens with Fiat-Chrysler he will be around going forward to help with turnaround strategy for Exor's next major acquisition. They've been very proactive in supporting share repurchases when valuations have gotten sort of silly. Ferrari just put a shareholder buyback plan in place and they actually have a very good history of business building. They are not just financial engineers. First, let's talk the major holding of Exor partner, it is the reinsurance company. Over the last 20 years, Partner Re has had, basically, the same underwriting results that Berkshire Hathaway has been able to achieve and they're average duration of their liabilities is around two and a half to three years. This is not sort of, like, lowering your expected loss ratios to sort of pump up your near-term earnings, this thing cycles through within two to three years. You know whether or not they're a good underwriter fairly quickly. It is not a life insurance liability where 20 years, 25 years it is going to take. You could just, basically, be insolvent the whole time. In orange here has been Partner Re's results and in blue here has been Berkshire Hathaway's results and what that averages out to is about the same pre-investment combined ratio. Now, I say pre-investment because Berkshire has clearly had Buffet and had the phenomenal investment track record that he has benefitted from. You are taking away the efficient capital markets theory from Partner Re and you're putting in a contrary concentrated investor. From an underlying business perspective though, Partner Re is just as attractive as Berkshire Hathaway and, basically, all at a 98% combined ratio, 98% or 99%, equates to a negative 1% cost to capital; so, it's basically free capital, which is not novel today but, eventually, it will be somewhat useful. Exor owns 100% of this business. If you look at what they paid it looks like they paid 8% premium to book value of Partner Re when, in actuality, Partner Re had so many reserve redundancies that they actually paid like a 15% discount to the underlying economic book value of the business. What's interesting is we think it's a great time to be looking at reinsurance. Not only is it a defensive business, all of them have started to benefit from financials price to books going down, capital get reallocated to the reinsurance industry because it is a defensive noncyclical sector. It has its own cycle, of course, and I think that cycle is bottoming because capital has been leaving the industry. In 2016 you are seeing another reduction of capital from an external capital coming in. Now, clearly, reserves have been building on people's balance sheets. There is excess capital in the industry, but from a third-party, nontraditional source of capital that's been leaving. I think if given the chance, again these dates are wrong, but this is the trailing 10 years of their major reinsures. If given the chance I think Exor would not have moved on Partner Re so swiftly, but it turned out to be fairly lucky timing because ever since they announced the acquisition, and then they closed it roughly the same valuation when they first started going after it, the reinsurance premiums or the price to books have all, actually, moved above one. They were systemically below 1x for the last few years and now because of the defensive rotation into them -- he wouldn't have been able to get the same price today had he wanted to. I think it's stabilizing. Let's take the worst part of the segment, this is Florida Catastrophe Reinsurance. This is bottoming. They price it every June and the June renewal rates were down 3%. What's interesting is the bottom is happening above the other cyclical bottom in the late 1990s, and we're probably one hurricane away from the industry pricing normalizing back to better levels. If he's buying something below book today at a 10% earnings yield, at the bottom of the cycle there's a fairly good chance that it's going to be above the 8%-10% rate of return that he thinks he's going to get. Basically, in a nutshell, Partner Re he paid a fair price at the cyclical bottom. I think reinsurance pricing is definitely stabilizing. That's not a question. Whether it improves from here is

probably going to take some sort of catastrophe, unfortunately. The specialty lines – Partner Re actually has around a 10% exposure to catastrophe, everything else is specialty. Their actual probable maximal loss is not – for them, they’re prepared to take a billion-euro hit. That’s like a Fukushima, plus a Katrina, plus an earthquake in L.A. – if that were to ever happen. They are incredibly well-capitalized and ready for that. Most of what Partner Re is, is specialty lines of reinsurance and that’s why they’ve been able to generate that sustainable advantage relative to all the other reinsurers from an underwriting record. The great thing is they don’t have quarterly calls anymore, so they no longer have these quotas that they have to meet. If the reinsurance pricing gets bad they don’t have to write it. There is no such thing as poor incentives anymore. I think you’ll find, if you get to know John, one of the things he focuses on most is actually proper incentives, which, as Wells Fargo is showing us, is quite, quite, quite important. I don’t think free capital is always going to be so ubiquitous, so this will have some attractiveness over time. It’s a defensive business model that is, basically, going to offset some of the cyclical exposure Exor has elsewhere. This is where, I think – this is one of the reasons why Exor being run by a descendant of an Agnelli is very important. John has talked about this publicly, it’s no secret, Ajit Jain at Berkshire Hathaway, probably regarded as the best reinsurance underwriter in the world, he was actually the personal advisor to John on this Partner Re transaction. The gift of the Agnelli connections comes through getting the experts to advise you on what you should do going forward. With that said, let’s move on to Fiat because I don’t want to get this too long. Fiat is, basically, run by a capital junkie and I think a very idiotic and mad industry. What this just incessant focus on capital allocation has done even though his stock is trading at 2.5x earnings, 2.5x, it’s trading at 1/3rd the valuation of GM, even though that’s the comp that we’re using here, Sergio Marchionne has outperformed his peers by a longshot. It is also a capital junkie that no one believes because in orange here is what his plan is for EBIT and in blue here is what the capital markets think he’s going to deliver. The capital markets almost put him in the penalty box because he’s overpromised such great numbers that they just can’t believe that Fiat would ever produce something like this. Now, in all actuality, and this what the bears always say – he’s missed targets. He has missed targets. He missed the old timetable from the Alfa Romeo launches. He presented this a month before we found out that the Greek government was lying about the deficit and caused the entire Eurozone to go into this tailspin. If the European market, particularly the Italian market, gets cut in half are you going to actually dedicate the same amount of capital to an industry that just got cut in half? I wouldn’t do it; right? That capital was redirected to a strengthening market at the time, and this is 2010, which was basically buyout Chrysler as quickly as possible. What they did is Fiat outlaid \$3.7 billion U.S. Last year, we estimate, Chrysler’s free cash flow was \$3.7 billion, so it was 100% cash on cash return, which is way better than anything he could have done with Alfa Romeo. Why I like Fiat now, despite the industry basically flatlining in the U.S., is very company specific to Fiat. They’ve got new product that everyone ignores, a lot of their ancient vehicles are getting refreshed and we’ll go to that in a minute. They still are reaping the benefits of the commodity savings because there is about a 12-month lag on commodity depreciation rolling through the part suppliers and then there’s going to be significant interest savings from their balance sheet normalization. Just a couple of key products, Alfa Romeo, Maserati, there’s a new Jeep that’s going to be launching in a couple of months; actually, I think it’s launching in I think a month in Brazil. There is a new European model called the Tipo – it’s basically the Dodge Dart. All of these bring an incremental \$1 billion to \$1.6 billion in incremental EBIT over the next 12 months. You have these ancient vehicles all getting refreshed over the six months. Right now, there is \$700 million of extra incentives on these vehicles. We’re talking 35% discounts on them. As these vehicles get refreshed, those incentives go away. The commodity savings are incredible. We’re talking a \$2.8 billion tailwind if they were to capture it all. They’re not going to capture it all, but even if you think a 25% pass through you’re capturing \$700 million in commodity tailwinds. Very importantly, they have now consolidated the Fiat and the Chrysler balance sheet and they’re moving to a net cash position by – they say 2018, but it’s really 2017. This is our numbers not their numbers. Your interest is actually going to be basically cut in half from 2015 to 2017. All of that, basically, means that all of those drivers are 75% of last year’s EBIT. No matter what happens in

China, U.S. incentives or whatever you've got 75% of last year's EBIT incremental to the story with just those four things. I can keep on going with a China expansion, a Brazilian recovery, Italy looks very good right now from an auto sales perspective. No one even realizes this, they will be below - - they will have a net cash position by this time next year and this is the primary reason Behr shorted it - it's got debt, it's in Italy, it's got heavy exposure to the U.S. cycle, which they think is flatlining, and it's got these ridiculous targets out there that no one believes, so just short it. Short it at 2.5x earnings, that's really smart. What's interesting is that once this balance sheet flips to a net cash position their argument is basically done. Right now, and I'm not assuming multiple appreciation here, even if the multiple doesn't appreciate you've got earnings more than doubling over the next two years. The current share price of five-fifty or six or whatever it is should be low teens even if we just keep 2x earnings. It will go to low teens at 2x earnings, which is kind of hard to believe. If we use GM's consensus long, Buffet and everyone loves it, you start talking about five to six times the kind of return that you see from today's stock because of where it has been so penalized. It is, in my opinion, the best management team in the business. It's not the best collection of assets you'd want to have, but it's certainly the best management team. I think if you're going to ride through any type of cycle there is probably only one person you really feel really comfortable at the helm of your company and that's Sergio Marchionne. Let's talk about some of the recent issues. The German Regulator is trying to accuse Fiat that their _____ X, the 500 X, is noncompliant and they have some sort of defeat device. All this is, they've done multiple third party audits now, all this is is that the European regulations allow for the emission controls to drop off at certain temperature levels and those temperature levels ended up being not too cold, so you do have emissions getting worse in lower temperatures. All of them do this and this is completely within the balance of the legality of the European Union. What's really interesting is I believe this German Regulator is watching the accelerated market share losses of Volkswagen, which fair disclosure were short, and trying to pull someone else into this mix so that maybe Volkswagen's accelerating market share losses can somewhat stop. The day after he met with Fiat and they all agreed on how to resolve the issue going forward he created these incremental headlines that he's going to the European Commission. He's being very duplicitous behind closed doors and it's basically just creating a lot of noise. Fiat has been third party audited. There are no defeat devices here. In fact, if you look at its real world emissions relative to everyone else them and Toyota are the most matched between lab and real world. It's actually Opel, Daimler, Volkswagen, Audi that are the worst from a mismatch perspective. Also, in the U.S. they had, we knew this for a while, they were pushing these 50, 60, 70 consecutive months of year over year increases in their sales. What that did is they pushed some dealer to self-register, which is actually legal in Europe and, apparently, Chrysler has been doing this for 20 years; but, they would self-register and then reverse those sales at the end of the month so they could hit these numbers of year over year increases. There is a criminal investigation ongoing. Reid Bigland looks like the most likely candidate of someone that may end up resigning as a result of this scandal. The company thinks that they're totally fine. Even if the company loses Reid I don't think it's a big deal for the company. Sergio is not implicated at all in these investigations. Now, let's talk about a couple of the good things. Samsung is looking at their parts maker, Magneti Marelli. They make LED lights. They make infotainment. They make a lot of the sensors. A lot of the electronics in the car. Samsung is interested in buying out parts or all of this group and Sergio has said he will not sell it for under three billion euro, which would only be like 8x EBITA. That wouldn't be a ridiculous valuation. Three billion euro is 35% of the current market cap. Magneti Marelli generates 4% of the operating income, so it would literally de-lever it overnight. I mean, it would be like 1 billion of net debt left and by December it would be zero, and you're only giving up 3%-4% of the operating income of the group. They have a history of doing this. I still can't believe that this many people are shorting it. He just recently upgraded and confirmed his 2018 targets. They are very confident in achieving them. Of course, if the U.S. goes into a financial crisis and our star gets cut in half, like that's off the table, they will still do very well in that; in fact, because of the drivers I just told you about if you flow those drivers through and say Alfa will go reasonably well, the Maserati looks like it's doing well, they're going to refresh the

Jeep – all that, if I just say GM is a fair price what kind of scenario does that mean for Fiat’s current price? What is the Fiat share price banking in right now? It’s basically 12% U.S. unemployment, which is SAR at 12 million down from 17 today. The current valuation already is basically banking in a total evaporation of U.S. sales. When we first invested in Fiat in 2012 same thing. We, basically, were going to make money if Italy left the Eurozone because we would own Ferrari. That was always the case. We paid three-thirty, I think was our average cost basis. The current price of Ferrari is around 45 euro per share, so four-fifty per Fiat share. In that scenario where they would have left the Eurozone we would have made money. I think the same thing here. Even if the U.S. goes into a recession I think you still make money with Fiat, and actually a recession would be fantastic for Fiat actually doing something transformational in the space. I think that they want to get toward a very consolidated industry that makes the most efficient car. That’s not a secret. All their peers think that they can basically become the next Samsung or Apple and they don’t believe that there is a really high likelihood of that actually happening. MNA is probably off the table until China blows and we think China’s auto sales are blowing up; unless they extend the tax cuts China’s auto sales will start blowing up in January 2017 right in conjunction with these Chinese New Year and Fiat has basically minimal exposure here. That would basically bring, I think, GM back to the negotiating table if they start losing a significant source of their income. Let’s move on to CNH and I’ll be quick here. Basically, CNH is a very simple story. They have been underproducing relative to demand because they’re trying to clear out dealer level inventories. Even if you don’t have a recovery in ag you probably have a recovery in CNH, which has started manifesting this year; but, they have particularly great comps in Q3 and Q4 of 2016 because they underproduced so significantly relative to demand last year. Corn is still below the breakeven price. It trades at, like, \$3.20 a bushel right now and the breakeven price is around \$4 a bushel. The current corn prices are not sustainable and they will lead to – there’s basically like a shadow inventory of corn of basically farmers that are locally storing it. Once that gets cleared out I think you’re talking meaningful recovery in corn prices. At the same time, the open interest on CBOT futures is actually very negative. This chart is reverse chronological, unfortunately. We’re having some formatting issues, but this is right now. You’re talking about a significantly net short open interest on CBOT futures. CNH on top of that is the most short ag company in the world, despite the fact that they have a better mix of sales because they have Iveco trucks. Your incremental margins when you have a recovery are what – what is this 4x where the current margins are, so there is significant upside optionality where, basically, EBIT doubles even if just their combine sales go back to midcycle levels. I’m not talking 2015 – 2015 was pretty much the top, 2014/2015. That’s CNH. There’s significant upside optionality, but you are probably waiting another 6-12 months before you get corn prices sustainably above \$4. The other major holding is Ferrari. Now, is Ferrari a luxury company? This sold for the same price as this – this is a Picasso – and this Van Gogh. I think it is – we’ve said that they manufacture art, but don’t even take my thoughts on it. Literally, look at every single one of their limited editions and if you would invest in the SNP 500 or just bought the car you would have compounded your money in every single scenario except for the F40. You would have compounded your money better. The red right here is the Ferrari Limited Edition and the gray right here is the CAGR of this SNP over the time. They’ve all beaten the market and because of this they’ve created this cult that there is no such thing as no demand for these limited editions because people do understand not only are they collecting, but these are collectibles that appreciate in value. Let’s take the worst performer, the F40. They were only supposed to produce 400 of them, they produced like 1400 of them. They kept the run going. Even then in the most recent decade the F40 has trounced the SNP 500. What other products can you think of, literally, that appreciate in value after the sale? I mean, these are the only ones that we could really think of, basically some LVMH products and the Hermes bag. We think in addition to this appreciation they have exhibited – this is 2008/2009 – through the recession they grew. All luxury automakers shrank; in fact, Bentley, Lamborghini, which you’d typically comp to Ferrari went down 40%-60%. This is not a luxury automaker. They’re not even in that market. What’s really interesting is because their waiting lists have stretched to beyond 12 months they’re slowly raising their deliveries to 9,000 from 7,000 a year and a half ago. As they do

this, the incremental margins on these cars are 75%. You don't take a significant increase in vehicles to get them to significantly increased EBITDA and then, at the same time, probably not this year but in the 2017 context their capital spending will be declining significantly and so free cash flow is going to be more than doubling and you're basically trading on a forward basis. You're trading at a 10%-12% free cash flow yield for Ferrari right now for a recession proof business. Here is, basically, the valuation landscape in the luxury market. On a forward looking basis Ferrari is the cheapest luxury peer. There is Ferrari in a nutshell. Putting the pieces together for Exor remember this NAV that I showed you. If I just basically take fair value - take Fiat put it at GM valuation levels for all their 2017 numbers, let's take CNH and put in some sort of mild ag recovery, let's get the free cash flow to double and put it at a 6% yield for Ferrari and keep Partner Re the same. Now, Partner Re should be compounding probably around 10% a year, but who knows. There is catastrophic risk there, so you never know. If I just forecast forward this is what the portfolio looks like, NAV set to more than triple and, as you can see here, Fiat will become a much more meaningful part of Exor's portfolio, which is exactly why to combat the next recession they want to merge with another partner. What's baffling to me is that the GM management team was just told that they could increase their cash flow by \$10 billion, which is well above their free cash flow and they won't even discuss it. It's interesting; I mean, they're not pushing it anymore because they're basically going to wait until China auto sales implode or we have a U.S. recession that forces them to the table but, again, if you're going to own an automaker there's no cheaper one and then there's no one that's growing their earnings as much as FCA, and you have the best in class management team that will pull rabbits out of hats, such as the Morelli sale to Samsung. Even if we go into recession, first of all you're price forward with Fiat, but second of all it's actually a recession that brings about some really value creating opportunities. I think an investment in Exor is really right in every way. I think the timing is perfect for FCA and CNH because they're set to significantly outperform expectations; actually, the same with Ferrari. Their strategy now that they have Partner Re they have significantly lowered their cost of capital and Exor has a history of going into businesses and turning them around. It's not, I say 3G style - they don't do the zero cost accounting, but they do go in, they have world class manufacturing, which is basically kaizen and Toyota, Toyota's kaizen strategies. They'll go in and they'll basically take a 30% stake in another major company and turn it around and create these incredible returns that they've been able to generate over the last 10 years. From a pricing perspective, you get all of this at a 20% discount versus everything in the U.S. at a premium, despite the fact that they have significant competitive advantages versus their U.S. peers. I'm going to leave you on this thought, value investing is a great industry because you can learn from other's mistakes, not just your own. This is my mentor, Wally Carucci, which Shai mentioned earlier was from Carr Securities. His dad was best friends with Ben Graham and so he has a very old history of value. Wally owned - actually, he knew Buffet. Buffet worked at Carr Securities for a summer to learn markets and so, obviously, everyone knew he was brilliant after he left. When he went and acquired Berkshire Hathaway Wally owned 20,000 shares at a cost basis of \$7. In one of Buffet's Annual Letters he wrote that the price of Berkshire was significantly above book value, which basically meant there was a lot of good news baked into the price and so Wally thought he was being cute. He was like oh, he's telling me I should sell it, so Wally sold his shares at around \$35 a share and his opportunity to cost was well north of \$2 billion by doing that. If you agree with me that Exor has some of the same drivers except for the fact that they're not just trying to duplicate what Berkshire's done, which won't work, you can't duplicate what he's done in the past; but, he has all of the same value drivers. My one thought to leave you with on Exor is, basically, you don't touch this thing. Even though the discounts now we're not touching this thing. We're setting it and forgetting it. Thank you for your attention. Sorry I was a little longwinded, but we can go to some Q&A with Shai here.

Dardashti: Steven, you briefly touched on the fact that you've done a lot of work going back quite a few years. Can you elaborate on the journey you've taken to get to this point?

Wood: It's a long journey. If you know me at all, you know I've been touting Fiat since 2012 and it's like god, can this guy move on? I'm not married to Fiat; in fact, we significantly cut it when we doubled our position in Exor. I think Exor is, first of all it's more tax efficient. I'm not going to sell Exor in a long time whereas Fiat is – automakers are never really a set it and forget it kind of trade. I think the better management makes it more of a set it and forget it trade but, still, it's a cyclical. The hard thing for me, the thing that I guess I messed up is we looked back at old cycles and we looked at trough multiples. Now, normally at old cycles the earnings go negative so there is no such thing as a PE. What I basically was taking was I was saying I don't think Fiat is worse than GM or Ford. Literally, if you look at the revenue mix it is the same revenue mix as Ford, which is disaster management team. Anyway, I basically was taking on a relative value basis Fiat's numbers, which every time they report a quarter we're within 1% of what they're reporting even though it's 20% above where the street is. Every time they report they're blowing it out of the water, but the stock just doesn't behave. The stock has now gotten to the point where, I'm not kidding, it's on a trailing basis, it's at 2.5x earnings. GM and Ford are at 6x-7x. I never really thought that Fiat would get to these levels. That's a great question to ask yourself; right? If you just went to cash what would you buy? I would, actually, still buy Fiat because I think you're already baking in a recession and I think that all of these low volatility 35x-40x earnings companies, I think they have multiple compression on the order of down 50%. Their earnings won't change. The cyclical earnings will change, but guess what a midcycle multiple on an auto company used to be, at least, 13x earnings. Take 13 times what they're going to produce in 2018, which is five euro per share. I can't even do the math that quickly, but you're basically talking 100 euro per share if that was actually on midcycle multiple. It's trading at five right now. That's almost like lottery ticket style option for five, but the Fiat story has evolved, basically, like they've overdelivered on their plans but the market has been very underwhelmed. CNH is kind of a little bit more by the book. The cycle went down, the thing traded down in line with the cycle; but, because it's so short and the cycle has started to recover because they've underproduced relative to demand for so long the stock's starting to work again and they have a buyback in place as well. Exor, we first created our position in Exor after they sold SGS. Their old portfolio mix would have had a large SGS position, which is the third business I think Sergio Marchionne turned around. It's a test and measurement business. It was trading in the mid-teens and I think it was 15x-16x EBITDA. I wasn't comfortable with the portfolio and I wasn't going to get cute and short out the portfolio of Exor. Right after they sold that, that's when we came in on Exor; it was about a 40% discount. It narrowed to a 10% discount and then after the partner reacquisition it came back into a 40% discount where we took the opportunity to double it again. Like I said, if you don't like Exor now at a 20% discount or you don't like Italy – well, no one likes Italy – I still think this needs to be on your radar screen because there will be times where there are great times to buy Exor. I, personally, think this is one of them. This is going to be, as it already has been for the first seven years of its existence, it is turning into a compound machine and it is something that because of the active selling discipline, again he's not going to own Fiat-Chrysler forever. He won't. He will take care of the portfolio management for you and because of the relationships that the Agnelli's have always had you can better believe that any negotiating table that's being had, whether it's Uber, Apple or anything, they're going to be there. That's how the story has evolved, the discount ebb and flow. I, personally, think the European holding companies, and I have a suspicion you're going to hear from another person on another European holding company. I, personally, think this is a generational opportunity to own something. They have better taxes, better legal structures, and they're able to outperform all of their publicly reporting peers because they don't give a rat's about quarterly numbers. Because of that, it's just so easy to compete against people who have to basically invest on a 90-day basis.

Dardashti: If we focus on Exor and think over a three to five-year time horizon, what risk factors are top of your mind?

Wood: I think the biggest risk factors from Exor's perspective is a loss of a key manager. Sergio

Marchionne smokes a lot, if he has a heart attack and dies those 2x earnings go to 1x earnings, probably. I mean, he's been so fundamental; 300,000 people in the world wouldn't have jobs if it weren't for Sergio Marchionne. Equally as well, Exor, I think, you really need John Elkann at the helm of Exor to love Exor. I think some of his family members are really talented in their own ways, but not in capital allocation. John is particularly good at reading management teams and capital allocation. I think of the real fundamental risks of Exor as unexpected management changes. Now, they believe their business to be somewhat like incubating management teams. This is one of the things that Fiat always prides itself on, but they are also doing it with some of their smaller investments that you don't even hear about. They are basically testing people's ability to continue to pull rabbits out of hats. There is a deep bench at Fiat. If Sergio died tomorrow, I hope Alfredo Altavilla would take over Fiat-Chrysler. Alfredo, he's a magician. He got Europe profitable I think almost two years before anything else was profitable. He was fundamental at negotiating the Chrysler transaction with Sergio. He's 5-10 years younger than Sergio, but you have a deep bench of people waiting at the helm to take over Fiat-Chrysler. Obviously, aside from that is you've got the cyclical risks. I think China auto sales they've been pulling forward demand for the last 12-18 months. Their short-term tax cut is about to expire in December. China auto sales is probably going to look pretty bad. The U.S. incentives have gone up, so I think the amber light is flashing on U.S. I think amber lights can flash for five years, it doesn't actually mean that the end nigh, but I don't think you have a material step up in U.S. auto sales; but, I do think you have a material step up in European and Brazilian auto sales and that is more impactful to Fiat than almost any other automaker and there is almost no exposure. They are launching Jeep in China right now on a localized basis. The word for SUV in China is Jeep. It's got the brand respective, sort of like a Land Rover here. If anything, China's going to be a source of strength, ironically, for them versus it's probably going to be a source of pain for everyone, particularly the Germans. Again, if you think back to your sector allocation within Europe I wouldn't want to be Germany right now.

Dardashti: The time we have left I'd love to explore what resources you found helpful to understand Exor that might be a bit difficult to track down, but you somehow came across.

Wood: That's a great question. I'm not sure if they have transcripts, but I'm sure there are recordings. Every year in June John Elkann does a conference call with investors and analysts, and really anyone can ask a question. It's not like the U.S. where only their buy rated analysts gets to ask a question. Next June, you can chime in. You can see him at Berkshire Hathaway meetings and stop him and ask him a question. He's more accessible than you would think. The conference calls he does every June really gives you a great insight into his thought process. One book in particular, if you like Italy at all I think Mondo Agnelli by Jennifer Clark is a fantastic book about Italian history. I learned so much just about Italian history through the wars because really this family has been at the heart of building Italy into an actual respectable economy. If you look at the GDP per capita of Rome and north it's the same as western Germany. Really, that was in very large part thanks to the Agnelli's. Fiat actually invented the first jet engine. I mean, they had Avio, which produced parts of jet engines. There is a significant history there. That Jennifer Clark book there are a great couple of chapters on Sergio Marchionne where just from a management case study I would go and read those chapters. What he did when he came in when Fiat was almost bankrupt I don't even want to spoil it for you. I've actually already used it as a mental model to think about another company that [inaudible 00:59:03], which is Rolls Royce. The CEO of Rolls is doing exactly what Sergio did and I would have not even known that had I not read Jennifer Clark's book. You know what else is really interesting? Sergio Marchionne has given - if you want to dive deeper into Fiat, just YouTube Sergio Marchionne Commencement Addresses and then there are a couple of speeches that he's given at universities. This guy is a philosopher so whenever he speaks when he's at his leisure, or even if you look at just a plant opening there's all this YouTube footage of him. Just go and you can see what motivates him. What motivates him is yes, attractive capital returns, but it is also doing stupid things better and this industry is doing a lot of stupid things. I mean, investing in Lyft - I don't even want to go into autonomous, but Lyft is a promise of endless

losses. I'm not sure why capital allocated there is worth your time. That's a whole other discussion. I think what's interesting is autonomous will be dramatically changing the industry and I think you have a lot of Asian and some European companies that probably won't make it through basically the shift to autonomous. Fiat is working hand in hand with Uber, Google, Apple - well, they're talking with Apple. I think even though they're not investing in stupid technology; I mean, GM spent \$1 billion on Cruze and all they bought was a few engineers. Really? They are not going to sink money into stupid things, but they're going to be at the forefront of whatever anyone else has they'll copy that. They've done a good job of that. I think it's interesting because Fiat is almost like it's going to be the person that rolls up the industry. I think some people think that the auto industry could go toward a Boeing and Airbus model. I think you know who you want to be involved with in that scenario and who you don't. And, who you don't would basically be the people who are not going to be driven by this capital junkie and who are probably going to be the prey. They just kind of come in to, just like kind of how Honda's coming in on Mitsubishi. I think Fiat will be there because at that point they'll have - - I mean, in the next 12 months they will have a net cash position, so their balance sheet is going to be strong enough that they can be the acquirer; they don't have to be acquired. I think you have this interesting thing developing. Mondo Agnelli and I think the YouTube videos of Marchionne are great for Fiat; I'm sorry, Mondo Agnelli as well for Elkan, but also the June presentations that are on Exor's site. Let me think about...that's probably as extensive as you could get from a public domain perspective. Go to Berkshire Hathaway and find him because he's there. What I love about that is that you have this manager that is humble enough to want to keep learning from others instead of thinking that they've got all the answers and the solutions. I think this is, you know, they have world class manufacturing at CNH and Fiat, which is basically just continuous improvement. I think Exor's got continuous improvement, they've got low overhead. I mean, I don't think there is any other European holding company - I mean, Berkshire does it, Markel does it, so a couple of insurance companies do it, but there is no European holding company that benchmarks themselves to a stock index. These guys are doing it because they want to absolutely outperform. When you only have a portfolio of five or six names it's so much easier to outperform something than if you have a Markel type portfolio of hundreds and thousands. With that, do you have any other questions?

Dardashti: The last question is how could people reach you if they have questions?

Wood: How do you reach me? Swood@gwinvestors.com or 212-920-4207. I'd love to hear any feedback on this, particularly I really like criticism so if you think I'm so stupid for X, Y, Z I'd love to hear from you. I will not get offended because that's how I try to improve my decision-making process.

Dardashti: Thank you for your time and thank you for sharing your wisdom.

Wood: Pleasure to be here. Thanks.

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About the instructor:

Steven Wood, CFA founded Greenwood Investors in late 2010 based on core beliefs that great returns are generated through a concentrated global portfolio of special situations and deep value opportunities, and cannot be generated by being overly concerned with month-to-month returns. We believe investors should have full transparency and liquidity and we share our research with our sophisticated investors, who in turn provide invaluable insights that help us hone our portfolio. Prior to founding Greenwood Investors, Steven worked with notable investors at Carr Securities, Kellogg Capital Group, and Aslan Capital in distressed, deep value, and special situations strategies. Through

frequent marathons and by being the sole US-focused analyst in Leveraged Finance at RBC Capital Markets during the peak of the LBO boom, Steven has developed a high pain tolerance, a pre-requisite for value investing. Dissatisfied with just one view of the world, Steven received a bachelor of arts from Tulane University in Economics, Political Economy, and International Relations.