This post by Tom Russo has been excerpted from a letter of Semper Vic Partners.

Heineken stands out… as it surfaced several examples of how the protection of the Heineken family voting control of the public company, Heineken N.V., has enabled Heineken's chief executive officer, Jean François van Boxmeer, and his teammates to make right decisions about how to best invest deeply for future long-term wealth of the Heineken family and shareholders of their public company fortunate enough to be treated as equal partners by the family.

I am reminded of how important the family orientation was at Heineken when I reflect back on my first visit to their headquarters in the late 1980s. When I first visited corporate headquarters in 1986, I was greeted by then Director of Economic Financial and Information Affairs, Mr. Jan Beks, who, following my introduction, looked me directly in the eyes and asked me, "Why are you here?" He meant me no ill will, he just thought it odd that an outside investor, and even more odd, an outside investor from the United States, would come to visit what was then run entirely as a family-controlled company.

Indeed, Chairman Freddy Heineken expressed this long-term focus of the company around the same time when asked at his then advanced age why he continued to work so hard. Mr. Heineken responded by pointing to a ten-year-old boy playing in a nearby sandbox and said, "To make my grandson, Alexandre's grandchildren rich."

I knew that I had come upon a group of like-minded family owners and non-family management when I reflected on both of those developments. This is how I began an association with Heineken, on behalf of my investors, which has remained unbroken now for over 30 years. During this time, Heineken's share price has advanced over 25 times, compounding at an annual rate on a total return basis since 1991 of over 15 percent. Heineken shares have been amongst my top ten holdings consistently since the 1980s and remains roughly seven percent of Semper Vic's assets today. Even though Heineken's share price has advanced steadily over decades due to the success of investments made along the way, I do believe that Heineken's best years are ahead of it.

We have owned, over this period, almost exclusively the Heineken Holding N.V. company shares of Heineken. Heineken Holding N.V. controls the public company, Heineken N.V., through its majority share stake. In turn, the Heineken family (and its affiliates) has controlled the Heineken N.V. company through majority control of the Heineken Holding N.V. company.

Ironically, for over 30 years, Heineken Holding N.V. shares have often traded at a discount to the operating company shares which they control. The discount has exceeded 15 percent, in some instances, even though every share of Heineken Holding N.V. economically represents a share of the more expensive public company holding.

Better alignment, reduced valuation! As is the case with Heineken Holding, I often find that I have been able to invest in family-controlled companies at discount valuations when compared to shares of their competitors in similar businesses whose share registry is fully open, without such family control. This is so, even though it is my belief that we increase,

not decrease, the chance of successful returns when we “partner” with wise, able, long-term-minded families who treat outside shareholders as partners. I believe that, through such carefully selected family- controlled holdings, we have reduced agency costs and better aligned the interests of management with my long-term investors.

While I relish our long-standing ability to acquire shares in family-controlled public companies whose businesses typically enjoy better prospects for compound growth in intrinsic value on a per share basis, I find it puzzling why so many investors prefer the seemingly “professional” activities of non-family-controlled companies. I attribute the discount to investors’ general unwillingness or inability to believe that they can distinguish between family-controlled companies, where the family provides management the “capacity to reinvest” for the longest term without regard to near-term profit disruption, from those where the family treats the public company as its own personal piggy bank from which they can extract personal gain not shared equally with public shareholders whose interests they are duty bound to represent.

Company research can reveal whether families in control of public companies are fair and shareholder-minded from those prone to self-dealing plunder. I believe that time spent with management of such family-controlled public companies can reveal whether they believe the family’s presence to beneficially extend their reinvestment resolve. Where such resolve is fortified, I believe managements’ ability to profitably build future value is magnified multifold.

Harnessing the power of such family control has become increasingly the focus of Berkshire Hathaway’s investment activity. The search for new, large, privately held, family- controlled companies is the focus of most of Berkshire Hathaway’s “elephant hunting” these days. I perceive that Berkshire seeks out such family-controlled businesses when searching for companies to acquire wholly. Berkshire Hathaway seeks out such companies when doling out capital to subsidiary companies seeking to expand their own businesses through acquisition of their privately held competitors, suppliers, etc. Such formerly family-controlled companies enter Berkshire with good habits developed over years of reinvesting to make owners more long-term rich over time rather than participating in the quarterly earnings race, which ultimately diminishes the long-term value of public companies lacking such long-term focus.

Back to our Heineken Holding N.V. company investment. Three examples arose over the past six months that recognize how valuable it has been for Heineken’s management to have had the ability to invest properly for the Heineken family’s long-term wealth even when their action (and in some cases, indeed, their lack of action) placed them squarely out of step with Wall Street analysts, leaving their shares underrated as Wall Street expressed displeasure over diminished near-term prospects.

Heineken’s first example has been its relationship with Brazil. Brazil is one of the world’s top five markets for beer. Indeed, one formerly mainly local brewer, AmBev, today has grown beyond its borders to become AB InBev, by far the largest and most global brewer in the world. For years, Heineken management has been excoriated for not having a broad beer strategy for this important market. Five years ago, Heineken management received

particular Wall Street heat for failing to dare to be great when Brazil’s second largest brewer, Schincariol, was offered for sale. Heineken management, criticized for unwillingness to act to grow Brazil, retreated to a strategy to grow Heineken brand slowly in high-end markets of Brazil, passing on the purchase of Schincariol, as they felt the price Kirin paid, over $4 billion, vastly overvalued the business.

Fast-forward to today, Kirin indeed overpaid. Kirin could not successfully run the acquired business given the demands and reality of a relatively complex and peculiar market structure. After four years of mismanagement and after hundreds of millions of dollars of operating losses, Schincariol offered what remained of their mistakenly acquired Brazilian business sale. Four years later, and for a mere $1.1 billion, Heineken acquired the money-losing business from Kirin.

Heineken acquired the business with enthusiasm borne by several factors. First, Heineken management knows how to run businesses in quirky, demanding markets like Brazil as they do so around the world in similarly challenging settings. Second, the acquired company will allow Heineken to more rapidly expand its already spectacular business it has built over the past five years for brand Heineken at the high end of the Brazilian market. Through the efforts of Heineken’s existing Brazilian subsidiary, Kaiser, Heineken already sells over two million hectoliters of green-bottle brand Heineken in Brazil. Finally, Heineken could not have been happier with the price it now paid for Schincariol.

It is because Heineken management knows that they have the “capacity to suffer” the significant investment (possibly as much as $1 billion), which they will need to pass through the acquired business’ income statement over the coming years to restore best practices, that I believe they were able to acquire the business at such an attractive upfront acquisition price in the first place. Other potentially interested bidders would have blanched at the burden of passing through as much as $1 billion over coming years likely required to right-size the acquired operation.

Heineken management need not face such fears, secure in the knowledge that they have like- minded owners willing to invest in building the acquired business, expanded as it will be with Heineken’s own portfolio in Brazil. Heineken management’s “capacity to suffer” through near- term burden will deliver them long-term gains on the total investment they will be fortunate enough to have made in Brazilian beer markets once the integration is complete.

Second, Heineken management was able to endure the potential risk to their own careers at Heineken of an opportunistic takeover offer over the past 18 months. As a result of significant corporate turmoil following the premature passing of the former chief executive officer of our SABMiller long-standing investment, SABMiller found itself in the uncomfortable position of being a takeover target of AB InBev. Amongst their investment banker’s recommendation for defense was a plan for SABMiller management to take over Heineken, hopefully finding refuge from a hostile takeover by launching a hostile takeover of its own.

SABMiller, however, failed to fully recognize the obvious benefit with which the Heineken

family possesses in the form of 50.1 percent of the vote, which effectively allows them to block such unwelcome offers without reproach. Heineken management, secure in the knowledge that they would be protected against such advances, did not have to take any short-term steps designed to buy votes from fickle institutional investors. Indeed, the Heineken family “just said no” fully rebuffing SABMiller’s entreaties. Management was able to continue to invest in an unchanged manner throughout the “siege,” without harming long-term prospects to promise near-term better results, as other managements would have had to do if they lacked shareholder control such as that held by the Heineken family.

Heineken’s third example of management’s “capacity to suffer” surfaced when I visited with Heineken management in Vietnam. Vietnam stands for the perfect sort of market wherein Heineken has enjoyed both the “capacity to reinvest” and the “capacity to suffer,” Heineken only re-entered Vietnam as recently as 1994 and endured substantial upfront investment costs through its affiliate, Asia Pacific Breweries, to gain early leading market awareness. More recently, Heineken bore the risk of near-term declines in market profitability as they repositioned their Heineken and Tiger brands to create a new price tier at the high end of Vietnam’s beer market. Heineken prices were increased while Tiger prices were slightly reduced. Tiger’s repositioning, though margin reducing in the near term, has resulted in accelerated growth of both repositioned brands and increased profitability for the market overall.

Heineken’s family control and influence suffuses their Vietnamese operations. In the main factory, signs designed to encourage workplace safety express gratitude from the Heineken family of just how highly they value careful workplaces. They look out for their employees as evidenced by prominently displayed posters at Heineken’s Vietnam brewery entrances extolling the virtues of a safety-conscious workplace. In the main factory, Heineken’s Vietnamese teams have won Heineken’s award for most productive breweries worldwide, as they strive to invent ways, year after year, that allowed them to increase total brewery output two to three percent a year merely by running operations more effectively and efficiently. This added volume, I believe, is a return on the investment the family has made over years signaling to their workforce their care and appreciation. Finally, Heineken’s Vietnamese operations benefit from having rewarded management for working within the parameters of developing markets to insure that they take advantage of their coveted route to market advantages. Heineken alone has the market share density to allow its informal network of motor scooter-enabled agents to deliver from factory to consumer, and back to factory, reusable glass bottles of Heineken.

The velocity of the network that can reuse returnable glass bottles (RGBs), 30 or 40 times per bottle, drives economics that are amongst the most favorable in the entire Heineken global network. Indeed, as a result of Heineken’s willingness and ability to invest organically behind market-leading position, Vietnam today ranks as Heineken’s second most profitable beer market in the world. This is despite the fact that neither Vietnam’s consumer disposable income levels, nor population levels, would naturally deliver such profitability. It is the result of deep market investments in brewing, brand management, and route to market logistics that drive Heineken’s Vietnam market shares and outsized market profitability.