COMMENTARY

A Report of TIFF EDUCATION FOUNDATION

2009 Edition 2

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TEF **TIFF Education Foundation**
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a registered investment
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a mutual fund family
open primarily to charities

Highlights

Third of Five. On July 22, 2008, the TIFF Education Foundation (TEF) hosted in Cambridge, MA the most recent edition of its highly idiosyncratic Endowment Management Seminar series. Modeled loosely after the broadcast series *Inside the Actors Studio*, this event mimicked its predecessors in that it comprised interviews by TEF president David Salem — a suspect substitute indeed for James Lipton of *ITAS* fame — of five highly respected institutional investors. This *Commentary* comprises the transcript of David's interview with Seth Klarman, president of the Baupost Group, a Boston-based hedge fund that manages over $16 billion on behalf of individuals and institutions. The final two interviews from the July seminar will be published in coming weeks.

The Road Ahead. Seth Klarman, a talented and experienced hedge fund investor, offers herein insightful comments on what it's like to run a multi billion-dollar investment firm and what it takes to find and retain the best and the brightest for his firm. Further, he discusses compensation structures, perpetuating his firm after he's done working, and the single best decision he's ever made.
Seth's capsule biography appears at www.tiff.org/TEF.

Better Later, Period (.)? Although staff's competing professional priorities are the chief reason underlying time lags between TEF seminars and publication of interviews comprising same, such lags are virtuous in at least one narrow sense: they permit readers to gauge the enduring soundness of interviewees' remarks against the background of events that have unfolded during such intervals. Our view, admittedly biased, is that Seth's comments documented here have enduring value.

About TIFF

Mission. In 1991, a network of foundations founded a cooperative-style investment organization whose structure and eligibility criteria have evolved over time but whose core mission has not. Known colloquially as TIFF, this organization seeks to improve the investment returns of endowed charities by making available to them a series of multi-manager investment vehicles plus resources aimed at enhancing fiduciaries' knowledge of investing.

Means. The organization comprises three regulated entities at present: a tax-exempt private operating foundation whose d/b/a (TIFF Education Foundation) is more descriptive of its focus on education than its formal legal name (The Investment Fund for Foundations); TIFF Investment Program (TIP), an SEC-regulated mutual fund family; and TIFF Advisory Services (TAS), a taxable non-stock corporation and SEC-registered investment advisor that administers all investment vehicles bearing the TIFF name. As noted at left, there is substantial but not complete overlap among these three entities' boards.

Inquiries. For more information, please call TIFF at 610-684-8000 or visit www.tiff.org/TEF.

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Genius Defined

David. I'm really delighted to welcome to the stage someone I've known for a very long time, Seth Klarman. I'm fond of teasing Seth that in the more than 25 years since we attended classes together at the business school across the river, he's been able to hold just one job, which was a job of his own creation. Who said genius is the ability to invent one's own occupation? By that standard, Seth is a genius. That leads to my first question for him because I think many folks in the room, yours truly included, spend an awful lot of time trying to identify human beings who are capable of performing the art of investment management well and distinguishing luck from skill in doing so. Seth's background is quite unusual in that he was hired at a very early age, right out of business school, to manage a portfolio. So what I'd like him to start off with is an explanation of why he thinks the folks who hired him right out of business school to manage their personal wealth did so and, of course more importantly and to the point, what he looks for in identifying investment management talent. Seth, welcome.

Seth. Thank you, David. It's great to be here. First of all, slight correction. I wasn't technically hired to manage an investment portfolio. I was hired to be part of a team that would attempt to figure out exactly what we were going to do over time.

David. Even worse!

Seth. Yes! But I think the notion that somebody would trust a 25-year-old to manage a portfolio is probably a stretch, so I just want to be fair about that.

David. Yep.

Seth. I think in many ways it's hard to put your finger on exactly what would cause you to trust somebody and envision them as the person you'd want to bet on for the future. We're hiring analysts, not portfolio managers, so I need to make that distinction clear. We look for people with a whole variety of characteristics. In a sense, we've realized that the process is one of winnowing out rather than winnowing in. At the end of the day, we may still decide that even though we haven't rejected someone on any particular characteristic, we still don't want to hire him or her. But mostly we find reasons not to like them, especially because we start with a very large pool. So we're looking for, obviously, raw intelligence. Willingness to be a team player is very important, especially these days — or at least until recently when people would leave after a year or two of experience and start their own funds. We want people who want to be part of a team. We also place huge emphasis on values and ethics and ask interview questions designed to get at those two issues to see if the interviewees have a way of thinking that would suggest whether they are morally blind or not. There's something called ideational fluency that basically measures innate curiosity and how your mind presents options in response to a question or problem. If your mind doesn't come up with a lot of different options, how are you going to figure out what's wrong with an idea or what you should be worrying about in terms of a hedge or something like that? So we try to identify people with broad ideational fluency. Just plain common sense is also important. At times we find people who are brilliant but lack common sense. So there's a whole variety of characteristics. I think to take the next step and be a portfolio manager you need both a sense of history and a vivid sense of risk. When Warren Buffett put out a job description for his replacement, he said, "This person will need to be able to imagine things that have never happened before." I think that's very, very important. So I would say that there are some people who just have a special something, a flair for getting to the heart of the matter better than just about anybody else. We've had a number of them go through our firm over the years. A broad curiosity blended with some contrarianism and a sense of what makes you money is the right combination of traits. Also, understanding the value of optionality is important. Some of the best investments that we've ever done — I think most people have ever done — aren't necessarily attractive in their own right. They're attractive because the upside versus the downside is compelling, rather than being right that the earnings would come in a certain way. Hunting for an extremely mispriced risk-and-return scenario takes skill and determination.

Full Price

David. How often do you find mispriced talent?

Seth. I would say we're not really looking for mispriced talent. I'm happy to pay full price, and I've sometimes intentionally chosen over the years to pay people more than absolutely necessary. I think in the talent search for investment professionals, for example, there's a big gray area between the least you can get away with and the most you could possibly justify; and that might be many hundreds of percent different.

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And frankly, it's true for operational talent, too. I hate turnover; I really value long-tenured people. So I'd rather pay up for people that I might be able to attract to make their entire careers at our firm rather than try to be cheap about it and hire bargains but ultimately pay the price for that in turnover or other things.

Timely Turnover

David. So two related questions. Your track record speaks for itself, so obviously you've done a terrific job in magnetizing talent at Baupost. But what's the hit rate — with hit rate defined as identifying really good people that you bring in who actually work out? The related question would be: is there a point at which turnover sinks below prudent levels? Do you actually need to have some ferment and change in the ranks?

Seth. I guess I would say that, at times, turnover is beneficial. I was confronted earlier this year with a request from one of our partners for a leave of absence. He had a project he wanted to work on outside of the immediate investment field, but it was a busy time in the capital markets. We were extremely busy, and I felt that it was inappropriate. But I also felt that it wouldn't be a terrible thing if he was so driven to do this project that he wouldn't be able to commit himself fully to our business, which I believe should be our staff's number one priority other than their families. Everyone's interests change, and you have to allow for that. So I'm not trying to keep people when they're no longer interested or motivated. I think you run the risk of decreased motivation, too, as people reach the higher net worth stage and later stage of their careers. I don't see that with our people, but I can imagine that. I keep vague track of the second and third homes, which eventually people will want to spend time at. I think that's something to at least keep an eye on. That all being said, I think turnover is terrible not just because you've taken the time to train people and not necessarily gotten a lot of value out of them. It's really bad because there's something about the facility of communication with longstanding partners. When people have worked together for a long time, they have shared institutional memory and can communicate in shorthand. To be able to say, "I think this is just like that, from eight years ago or 12 years ago," is hugely beneficial. When that knowledge walks out the door, and even more dangerously, when new knowledge that you're not familiar with walks in the door, it's very hard to think about where the trust is. Trust has to be earned, not just given. So that's what I will never understand about how the new instant five- and ten-billion-dollar firms build a team of 50 or 100 people who've never worked together, who don't have any of the history. I guess it's possible I overrate this, but I also think it must raise the risk level because you just don't know who's got a personal agenda that's different than the firm's agenda, and who's really tough to work with even if they're a great investor, those kinds of things.

Talent Hit Rate

David. So I'll ask again about the hit rate for employees for your firm, and while I have my mouth open, I'll also ask what your hit rate is in successfully identifying managers for your foundation.

Seth. I'd say for employees on the investment side, which is where I'm involved in the recruiting, the hit rate's really good. About eight or nine out of 10 are keepers, and we haven't counseled anybody out in probably four years. So we're very happy about that, and we work very hard at it. We usually interview 25 to 50 people for every one we make an offer to. Luckily, we get a high percentage of the ones we make offers to because of our reputation and I guess because of the relatively few funds up in Boston. In terms of money managers for the foundation, like running a portfolio, we've been very successful in most of the identification of managers, which mostly I do through people I know. I do have some of that long experience watching and observing them. The biggest three or four manage half the money — I'm not afraid to concentrate — and those are the best performers most of the time. Back to an earlier part of one of the questions, one of the things that's vastly different from being an analyst to running your own fund — and I can't emphasize this enough — is that they comprise incredibly different skills. The inability to think about risk the right way may not matter at all for an analyst. We're not asking for their judgment on risk, we're asking for analysis and facts, and then secondarily, their opinion. It's the portfolio manager who eventually needs to be able to identify risk, whether it's an excessive concentration, a failure to diversify, a failure to hedge, or a failure to understand the risk that is sitting right on your shoulders and you don't realize it. Failure to recognize those things can kill people. I think we've had a few analysts that have disappointed, but no real disasters. But I have observed people that have had shockingly bad judgment in running a portfolio at other firms, and I think those almost could never have been identified *a priori*. The hard thing to swallow is the realization that your very smart analyst is not able to think well about the bigger task.

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Art, Science, or Craft?

David. The next question is one that I've asked other folks who've appeared on this stage over the years. I get asked the question a lot when I go out and talk to groups of college students or graduate students. They ask, "Is investing an art or a science or a craft?", where craftsmanship is defined as the ability and willingness to come to work every day and do the same thing over and over again. How would you answer this question as it applies to what you do professionally? Art, science, craft: what's the balance among the three?

Seth. I would say art first and foremost, craft second, science third. To me, the science of valuing things and of identifying when things sell at a discount is as straightforward as could be. It's almost a commodity these days; when you hire business school kids, they all know how to do that. There are nuances and places they might make mistakes, but I think that's the easiest part, albeit for a layperson it might seem like the hardest part. I think there is a big element of craft in showing up, especially for a value investor where part of the game is discipline. It's like Warren Buffett says, you are in a game with no umpire and no called strikes so you can keep the bat on your shoulder for a long time. So the craft of showing up and saying, "Nope, nothing interesting today. Nope, still nothing interesting," is really important. There are other parts that are also like a craft, such as hiring, which is tedious, as you know. One year we interviewed over 50 people and made no offers, so it was like waiting for a cheap stock. You're waiting for something, and unless you have a massive hole that you have to fill, you have no urgency, so it forces you to have that long-term, craft-like perspective. I think, ultimately, the nuances I was talking about — the ability to distill two or three major themes out of an investment and get right to the heart of the matter — is truly an art. Some of our best analysts can get up to speed in a day or two on something they've never heard of before. This is a world where many people have chosen to specialize, to have silos, to have narrow areas of extreme expertise. That's a legitimate choice, and many of the best long-short funds, for example, have their pharmaceutical analyst and their oil and gas analyst and their financial analyst. We respect that, but we think more value is added by being generalists and seeing opportunities from a broader perspective. If you have silos, you're going to own things only within those silos. If you have the broader perspective, you can say, "I don't even like stocks, I'm working on distressed debt," or something like that.

Contribution and Compensation

David. This brings us logically to something you and I have talked about at length off-line, which is, how do you compensate people? The two extremes would be the hedge fund that says to everybody, you eat what you kill. So you're going to be paid on your specific deals. The opposite extreme, of course, being that everybody shares in the proceeds in one pot. How exactly have you structured it at Baupost?

Seth. Over the years, as we have added more investment people and stronger contributors across the firm, we have evolved to a system where the partners would strive for equality with each other. I'd be higher but they'd be in a range with each other, and the younger and less experienced ones would rise up toward equality. That probably is closer to my personality than anything else — let's do this together, let's make it work. There are huge advantages to not keeping track of each person's individual contribution in terms of letting capital slosh back and forth so that no one person hogs the capital. In terms of senior people bringing younger people into the firm, if you're forced to share too much of the credit, what's your incentive to bring in younger people? In terms of helping other people out within the firm, whether they know a management team, or whether you've got some experience in an industry, you ought to share your experiences to make the decision-making process more efficient. If you have the pure silos for compensation, there's very little incentive to share information that could improve the overall result. The problem is, if over time the contributions aren't equal, equal compensation will adversely select the people who are contributing less. We have evolved over the last several years to a structure with a ratio relationship between the partners, and then we have a bucket of additional compensation that goes to exceptional performers. There are various tweaks and nuances. What I don't think I've done all that well — and I think it's probably because it's impossible — is I haven't been able to predict the future year after year. So, as performance has been increasingly variable among the partners, I've had to tweak the compensation scheme each year. I think it would be better to have a system that didn't change, but I also think it would be suicide to have had a system that never changed. So we keep thinking about it. What's great about our team is that I think most people feel like the firm is bigger than themselves. They're not looking to start a firm, and they really enjoy working at our firm. Also, I think by bending over backwards to be fair and to not hog the money myself, I think everybody feels pretty good about

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a system that gives them a lot of compensation, even if it's not exactly the right amount.

Big Pay Packages

David. While we're on the topic of compensation, I'm going to give you an opportunity to get into big trouble with one of your major clients at Baupost. A founding member of the TIFF board caused quite a stir not long ago when he said to the *New York Times* that, in essence, he deplored the choice that some of his former peers had made to leave their CIO posts at major endowments to start for-profit money management firms of their own. I'm referring of course to David Swensen, and I'm interested in your reactions to his very public assertion that the intrinsic awards of steering a major endowment or foundation ought to be sufficient to magnetize top talent and it therefore renders unnecessary big pay packages. What are your thoughts on that issue?

Seth. First of all, I'm a big fan of building Swensen Hall at Yale to recognize the largest contributor to its success and endowment. I agree with David. I have believed that working at Yale or Harvard is actually a dream job. I had conversations with Jack Meyer and Mohamed El-Erian when they were at Harvard, in which I told them that I thought they would be able to attract talent easily and that they wouldn't have to compete with hedge funds for the best people. A stable base of capital with no requirements to market or run operations allows people who want to focus on investing to just invest. That's a huge deal for a lot of people who may not want to focus on the other things or may not be good at the other things. I think now, especially, there's probably a lot of investment talent that is struggling to run their $50 million or $100 million or $150 million fund who might think having a senior portfolio management job at Harvard or somewhere like that would be a great deal. I also think that some people have to get making a lot of money out of their systems; maybe David just never had to do that. But I do think that having a career at a place like Harvard or another institution would be as big a contribution to society as being a philanthropist or many of the other things people could do. We see huge numbers of Goldman Sachs partners going into government and a variety of other public service jobs, and we'll continue to see people who want to give back to society.

Elusive Balance

David. You're coming implicitly to another elusive balance in our business. We talked earlier about the elusive balance between the classic eat-what-you-kill versus one pot of compensation for everybody. A second elusive balance is that between investing and all the other stuff you need to do if you're fairly senior in a money management firm. You and I both have a passion for baseball. You look at pro baseball, and you don't see the best players in their primes taking on managerial and administrative roles. And yet, in our business, that tends to happen. Why?

Seth. You're seeing me as player manager?

David. Yeah.

Operations Guru

Seth. First of all, I believe you're going to ask me a question later about the best single decision I've ever made.

David. Go ahead and answer it right now.

Seth. It's part of this question.

David. Go for it.

Seth. I've thought about this a fair bit. The best single decision I have made at Baupost was hiring our CFO 18 years ago. The reason it was a great decision, aside from being a great guy and a great partner, is the fact that he was as good as me, and that let me focus on the parts of the business that I was interested in and that I would be particularly good at. I would not be good at deciding which IT person to hire or which technology system to use or which space we should use for our next expansion. So he's fabulous, and that has let me not pay a huge amount of attention to operations. I sit down with him all the time. I ask him questions repeatedly, especially the ones related to significant risks that could really affect the firm.

David. You ask him where his second and third homes are situated, right?

Seth. I know — he only has one other one. I think he just committed to a third, so that's actually a problem.

David. Better keep an eye on that.

Seth. What I used to ask him is, what if two people run off together? How's our money? What if Boston is nuked or the building blows up? He's got

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answers for all of that, and we've worked together on all of that. Now I ask him, what if he gets run over by a bus, and he's given me very good answers for that; luckily we have people internally who could step in and do a great job in his absence. And the fact that we've been closed for most of our existence has also allowed me to not focus on marketing. We don't spend a lot of time in client meetings — I think, historically, that's probably 1% or 2% of our time, at most. That let me focus the great majority of my time on investing. I think that I do a good job of delegating, so that as we've grown, I've been able to bring other people into the loop and to give them serious responsibility. I continue to do this. We have a long-term goal of a transition that would involve me not being involved because I regrettably won't live forever. I think it would be a fine goal to have Baupost succeed after I'm not there, so over the next 10 or 20 years, we'll transition to a Baupost without me. That's something that I think we have to start planning for today to achieve that goal over that time frame.

Long-Term Goals

David. I can see why it's a fine goal but do you in your own mind regard it as an essential goal? Will you consider yourself a failure if you're lying on a beach 30 years from now and Baupost doesn't exist any longer?

Seth. No. I think it's something to strive for, particularly for the two most important constituencies: the employees and the clients. We don't need to do it for me. We need to do it because we've built something special; when I have lunches with various people around the firm — and I do that quite a bit — what I hear is that joining our firm changed their lives. I don't want to un-change their lives if I don't have to. The other thing about the culture we've built is that it's been internalized down several layers within the company, so it's a very special place. It may not be in the exact same shape and form that it is today, but I believe that ex-me it's still one of the premier investment firms around and should survive and probably will. So I think this will be very worthy of my attention. If it doesn't happen, as long as we haven't blown up and we've just said, "We're closing the doors, everybody go off on your own," we will still have been a success.

Real Return Assumptions

David. I want to talk a bit about the current market environment; and I want to do so in a manner that underscores what I think many in the room know, which is I try to scrupulously avoid asking questions that presuppose on the interviewee's part, an ability to forecast the [near-term] direction of anything, because I just don't think that's a profitable endeavor. So in answering, you'll keep that in mind, I'm sure. But I want an answer by way of reference to a survey of seminar participants that our staff helped conduct in the last week or so. We hit them with a question via email that read as follows: "Assume hypothetically that you have unilateral control over an endowment and were offered the opportunity to swap the entire endowment for a contract from a risk-free creditor to get a guaranteed return with no possibility of default. Assume further a 50-year holding period. What would be the minimal guaranteed real return that would induce you to make the swap?" We surveyed all the registrants for today's session and the median answer — the real return — was 6%. The arithmetic average, which by definition is unweighted by the assets that the answers represent, was 6.8%. FYI, the low was 2% and the high was 13%. I'm sure that person will never be admitted as an LP at Baupost. My question to you is simply: is the 6% an achievable number over a time horizon appropriate to a perpetual-life charity?

Seth. Six real?

David. Six real.

Seth. I don't love getting into this because it involves too many assumptions, and every aspect of the question is difficult. You know, locking it up for 50 years means that you don't have the chance to enter a market at the 1933 low, so there are just a lot of issues. It also raises the question of what inflation is, to figure out what real is, and I'm in the camp that says that the official rate of inflation is maybe understated. So it's just very hard to think about that. What I would say is it's more likely that a decent return will be attained from today [July 2008] than if we'd met a year ago, even though the numbers people had suggested a year ago might have been even higher than these numbers.

Cash Cushion

David. One of the distinguishing features of Baupost's stellar track record is the fact that you've accumulated wealth despite or maybe because you've held very substantial cash reserves over time. You think, as an investment professional, that there are two plausible reasons why you might hold cash reserves: first, to cushion losses in the event of a downturn, and second, which I would ask you to speak to, is to have dry powder to shoot off when others don't. So how do

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you think about cash, and in particular, what does your successful tendency to hold a lot of cash tell us about the institutional policy formulation process that tends to lead to a zero allocation to cash, if not negative cash, in the case of the big tax-exempt institutions?

Seth. I think there's a tendency in the modern world of people wanting their money to be working hard, and I joke that our money is like a couch potato by comparison. In my opinion, the market tells you when to buy things. And when things are really cheap, on a Graham and Dodd valuation basis, you should like them more. And when they're really expensive, you should like them less. One of the hard things about institutional asset allocation models is that they don't necessarily vary all that much based on price. So these models — I'm not an expert on this by any means, nor do I employ such models — may have said that private equity a year ago was as good as private equity 20 years ago, and whatever number was in there stayed in there at least from five years ago to four years ago to three years ago to last year. Clearly, when people are paying higher and higher prices, and there's more and more competition, that's probably a less-good time to be doing something. If I had a quibble with the allocation models, I would say I would rather tweak them for what I know bottom-up. We almost never have any shorts at all, except for maybe 1% in holding-company-type trades (long the parent, short the subsidiary). We have a mental hurdle rate that says we ought to get paid for the risk of that investment, and if it's low-risk we ought to get a good return, and if it's medium-risk we should get a really good return, and if it's high-risk we should get a great return. Even if those move around a little bit based on where the world is, our discipline is to not invest when we don't see pretty good bargains and pretty good potential returns. I have had friends at other hedge funds say to me, "You have a better model, but we can't do this with our clients. Our clients just would not understand." The truth is, some of our clients don't understand, but we've worked really hard over time to explain it and to educate them to our way of thinking. It isn't the only way of thinking, but it's how we approach it. So I wouldn't want the crowd here to think, "Well, we need to start going to 50% cash sometimes." I don't know what everybody should do. I just know that because I sit at a really interesting desk where a lot of really interesting bottom-up ideas cross my plate, I can tell very quickly, do we have no opportunities? Do we have a few sparse opportunities? Do we have a flood of opportunities? If we have a flood, we probably want to raise the bar or we're going to spend every nickel and then wonder what do we do with the next opportunity. There's also something about the engine of creating opportunities that needs some cash to function. You'd hate to tell a great real estate partner or a great broker, "You know, that's a really interesting opportunity; I'm glad you have this billion dollars of assets for sale at a ridiculously low price, but I'm sorry, we're tapped out today." That's not a good answer. When you've worked really hard to cultivate relationships, you'd like to feed them, so you in some sense always want to have some buying power.

Sustainable Spending

David. So you make a compelling case that achievable rates of return vary over time with economic cycles and external factors. If an institutional spending rate is theoretically pegged to achievable rates of return — and that's assumedly what Congress had in mind in 1969 when it said to private foundations, including your own, you have to pay out 5% per year — there was a lot of chatter about that as a long-term sustainable rate. Doesn't it therefore follow that all these institutions actually ought to have time-varying spending rates as well?

Seth. My bias on the investing side of this is yes, but in some sense, if there was an intelligent way to do that, I would be in favor of it. At the same time, I am somewhat of a believer that the problems in society are growing faster than the money is compounding, and so I would be in favor of more up-front spending at a higher rate. That 5% is a minimum. Most people think of it as a maximum or as a strict rule. So I would personally favor that for the good of society.

Best Job in the World

David. I want to turn to a few personal questions, because we're almost out of time, sadly. I'll start with one that I've not posed on this stage before. **If** you could do anything other than manage money for a living, and make twice as much doing it as you do now, what would you do?

Seth. I would be very pleased with myself if I could slam dunk a basketball, but... You know, I've said over and over, I have the best job in the world. I get to do something that is interesting and ever-changing and therefore ever-interesting, working with great people in a great culture. I get to do things like this from time to time. I get to teach from time to time. I get to write a book and communicate frequently to my clients. So, I have the best deal possible. People often say to me, what would you change about Baupost? I answer, well, if I

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would change it, I should change it, because as president I have the ability to do that. So, I have nothing I'd rather do other than slam dunk a basketball.

Role Models

David. Do you have a personal role model and a professional role model, if they're in fact different?

Seth. I'm not used to black-and-white answers on these sorts of questions, but what I came up with on this was Warren Buffett. He has been a wonderful role model even though I know him only a very tiny bit. He was a role model long before I ever met him. What I think he's done wonderfully, in the tradition of Benjamin Graham, is he is a brilliant investor, and he's a teacher. He teaches us through his writings, through his interviews, and through his behavior. I think some of the best things that any investor today can read are his early partnership letters. The world is totally different, but there's wisdom in them for the ages. As he says, an investor needs to be able to confront things they've never seen before. I think an investor today could learn a lot by seeing what the environment was like when there was less competition and when securities were of different kinds of companies, and to also understand the cycles of history. Virtually none of the companies that Buffett owned from the '50's and '60's, the little oddball things, are recognizable today. The eras pass and change but the fundamental principles don't. Also, he has a thoughtful opinion on almost everything, which is a way of living in the world. It's a way of asking, what do you want to read? What do you want to know about? What do you want to be an expert on? He seems very balanced in that way. I had one concern up until recently — I thought he was setting a bad role model as a philanthropist until he did one of the most philanthropic acts in history. I thought, if people will go to Omaha and 20,000 people will order a Cherry Coke and a steak because he does, maybe he should start giving more money away and they would do that, too. So I think that he came around to that. I have never discussed this topic with him, but it makes me admire him even more that he came around to that and did try to influence and suggest actively that others do that. I would also just say that my old boss, [value investor and Mutual Shares Corp. founder] Max Heine, was also an important model. He was a very gentle man and a wonderful person in the way he treated people. While he had this huge intellect, while he could have been a tough boss, he was instead a sweetie. I would also say I've learned a huge amount from my father-in-law, and I see it by watching his daughters love him. I gather that he wasn't quite as lovable growing up, and yet to be in that position so that my kids would feel that way about me would be something worth emulating.

Getting the Job Done

David. I have one more question. What's the most memorably impressive display of grace under pressure you've witnessed in real time – in person or on TV?

Seth. Three things came to mind, and oddly two of them had to do with golf. I'm not a golfer, and I'm not even that big of a fan. But one of them was watching Tiger Woods win a tournament with a broken leg. I thought, every time he swings the club he's wincing in pain, and he's somehow able to put that out of his mind and do what he needed to do. It was just a remarkable display. The second was the Ryder Cup, which I happened to attend in person — I saw Tiger on TV. The US was way behind, and on the final day, in a team way, every person played out of their minds and they pulled it out in the end. It was a very emotional day. Again, being a big baseball fan as you are, I would never have thought my best sports day might be a golf event. The third — and maybe you'll throw me out of the room — but I'm thinking about General [David] Petraeus [commander of US forces in Iraq]. He's not been on talk shows, he's not been a big mouth, he's not been bragging. He took a job that all of us probably would have said, "No way" to. He's basically executed it under ridiculous criticism, under a huge amount of scrutiny in an impossible situation, and he's just gotten the job done, as far as I can tell, as far as any of us can tell, to this point. That's as much pressure as a person could possibly have, and a magnificent display of executing.

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