VALUE VS. GROWTH:
Looking Beyond the "Spots"

Weitz | INVESTMENT MANAGEMENT

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Cheetahs and leopards. Two species of big cats that, at a glance, appear to be two very similar animals. The same can be said for value and growth investing. But looking beyond the "spots" reveals several critical distinctions.

In the African Savanna, it takes strength and resilience to survive. The same is true of the asset management industry, which is constantly adapting to new challenges and opportunities such as AI-driven technological advancements and shifting market dynamics post-pandemic. There are parallels to be drawn between the animals that inhabit the wild grasslands and the investors navigating today's complex terrain.

What do wild cats have to do with value and growth?

For example, consider the behavior of two wild cats: the cheetah and the leopard. Using these two big cats as examples, we can create a helpful analogy of the important differences between value and growth investing in a modern context. When you look at the two animals, it's easy to be confused about which is which. After all, cheetahs and leopards are similarly sized animals with similarly spotted coats. But when it comes to cheetahs vs. leopards and value vs. growth, when you look beyond the superficialities of the two species, the differences are clear.

Perhaps the most important distinction is found in how the two animals hunt. Cheetahs are the fastest animal on earth, relying on sheer speed to catch their prey. They hunt in broad daylight and are most successful on wide-open, unobstructed areas of land. In today's market, cheetahs could be likened to aggressive growth or momentum investors.

Please don't confuse us for cheetahs - even if some of our "spots" look the same.

As value investors, we see ourselves as leopards. Leopards hunt at night, using camouflage and stealth to assess their prey. Leopards are willing to hunt from trees, tall grass, and underbrush – and they're not afraid to wait for long stretches of time until they find the right opportunity. And when it finally comes time to strike, leopards favor ambushes and surprise attacks. It's the leopard's systematic method of hunting that thrives in a world of patience and long-term vision.

The leopard's method of hunting is reminiscent of our quality-at-a-discount (QuaD) investing approach. At Weitz Investment Management, our team regularly tracks companies for months or years before making a purchase. When the time is right – that's when we pounce. We'd also

Appearances can be deceiving.can be deceiving.

In another case of just looking at the spots, we'd like to examine two companies where we found value, despite two completely different classifications.

For example, JP Morgan was classified by Morningstar as a Large-Value stock and was the consensus long among large banks – the stock "everyone" owned in the sector. We first bought shares at a time when the stock price was driven down by investors' worries about what the flat-to-inverted yield curve might mean for the economy and bank earnings. These were valid concerns for the short term, but they had little bearing on JP Morgan's franchise value or long-term earnings power. With dividends, the stock delivered strong returns in the months after our purchase. JP Morgan was a clear case of value hiding in plain sight.

On the other hand, Salesforce – one of the world's most successful software as a service (SaaS) companies – was classified as Large-Growth by Morningstar at a time when SaaS stocks have been absolute stock market darlings. When Salesforce bought data analytics leader Tableau, many investors thought the company had gone "ex-growth," and dumped the stock. But we saw an opportunity in Salesforce and bought shares. After following this premium-quality company for several years, we were finally able to add it to our portfolio on our terms. And as investors realized Tableau's strategic fit, the stock drifted higher.

The experiences of the securities discussed in this section are not necessarily representative of the Adviser's stock purchases over time. They are included to further illustrate the point laid out in the main article of a disparity between labels and reality.

like to note that leopards are truly resilient creatures that enjoy much longer lifespans than cheetahs in the wild. Similarly, QuaD investing, intelligently applied, is a durable approach that never goes out of style.

Growth Potential: A Key to True Value.

Of course, animal metaphors aside, value and growth investing are – in many ways – joined at the hip. A growth investing strategy focuses on a company's future potential, even if that company's stock currently costs more than what it's currently worth. In other words, growth investing is like buying a dollar bill for two dollars, with the hopes that it will one day be worth three.

Growth potential (or lack thereof) is a critical component of our assessment of intrinsic value. But the hallmark of value investing is in identifying disparities between a company's present price and its potential future cash flow. We look for stocks that are priced for less than their actual worth. Value investing is about finding a dollar bill that can be bought for 80 cents – or less.

It's simple, but not easy.

If it were easy, everyone would do it. Where we truly set ourselves apart is in our ability to identify companies with strong leadership and outstanding long-term prospects. We think like business owners, and when we evaluate stocks, we take a research-driven approach to determine what a rational, private buyer would be willing to pay for the whole company. We focus on creating high-conviction, actively managed portfolios that emphasize growing, and protecting, capital.

Unlike growth investing – which is heavily influenced by human behavior, economic events and current sentiment – our value investing philosophy is built on the belief that a company's intrinsic value is not determined by market events and news headlines. We analyze the current headwinds and tailwinds affecting stocks in our investable universe, but we're not interested in making decisions based on macro-economic predictions. We believe that when you collect quality stocks **at a discount** – good things happen.

But that's not to say we turn up our noses at growth. Companies with rapidly growing free cash flows are worth more than slower growers – when the cash flow is generated in a capital efficient manner. We love growing companies (and own some great ones), but we leopards are careful about the price we pay for our prey. It's all about buying businesses at a discount to their intrinsic values.

At Weitz, we firmly believe in our value-based approach to investing. We don't want to chase hot performance. We will always rely on focused research and discipline to wait for the right opportunity to strike, just as the patient leopard waits for its prey. As Warren Buffett (another leopard) said, "Games are won by players who focus on the playing field, not by those whose eyes are glued to the scoreboard."

IMPORTANT DISCLOSURES

The opinions expressed are those of Weitz Investment Management and are not meant as investment advice or to predict or project the future performance of any investment product. The opinions are current through 10/01/2024, are subject to change at any time based on market and other current conditions, and no forecasts can be guaranteed. This commentary is being provided as a general source of information and is not intended as a recommendation to purchase, sell, or hold any specific security or to engage in any investment strategy. Investment decisions should always be made based on an investor's specific objectives, financial needs, risk tolerance and time horizon.

As of 9/30/2024, the following portfolio companies constituted a portion of the net assets of Conservative Allocation Fund, Large Cap Equity Fund, Multi Cap Equity Fund, and Partners III Opportunity Fund as follows:

- Salesforce, Inc. 0.0%, 0.027%, 0.0%, and 0.0%.
- JP Morgan Chase & Co.: 0.0%, 0.0%, 0.0%, and 0.0%.

Holdings are subject to change and may not be representative of the Fund's current or future investments.

Investors should consider carefully the investment objectives, risks, and charges and expenses of the Funds before investing. This and other important information is contained in the prospectus and summary prospectus, which may be obtained at weitzinvestments.com.

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