



**CONTENTCRUNCH**

# Billionaire Bill Ackman's Key to Long Term Investment Success

## Early Entrepreneurial Ventures

- Bill worked for Let's Go Travel Guides and made \$14,000 in a summer.
  - The company tried to limit his sales because he was making more money than the manager.
- He bought a stereo with his earnings and then had to pay taxes.

## Early Career

- He worked for his dad arranging financing for real estate developers but wanted to be the investor.
- He and a business school classmate raised money by cold-calling people on the Forbes 400 list.
  - They asked for \$500,000 from each person.
  - "they like the psychological benefits of being an early investor"

## Rockefeller Center Investment

- He bought a stake in a \$1.3 billion mortgage on Rockefeller Center when the Japanese were selling US real estate.
- He called every billionaire on the Forbes list to find a partner to buy control of the mortgage.
  - He met David Rockefeller, Jerry Spire, and Joe Steinberg.

## **Activist Investment in Wendy's/Tim Hortons**

- Pershing Square's first activist investment was in Wendy's after an article in Barron's mentioned how cheap Wendy's stock was.
- They bought 10% of Wendy's, which owned 100% of Tim Hortons.
  - They believed Tim Hortons was worth more than all of Wendy's and wanted to split the two companies.
- After management ignored them, he got Blackstone to do a fairness opinion on Wendy's spinning off Tim Hortons.
  - Steve Schwarzmann signed off on the opinion.
  - The company stock doubled six weeks after they split the company.

## **Activism Today**

- He has "retired" from public company activism because Pershing Square is now well-known and people take their calls.
- He believes activism is a positive thing and has transferred his activist tendencies to X (formerly Twitter).
  - He is a big free speech person.

## **Investment Philosophy**

- He looks for "super durable companies" that can generate cash flows over a long period.
  - "The value of a financial asset is the present value of the cash it generates over its life."
- He seeks businesses that don't require much capital investment but earn a perpetual growth annuity.
  - Examples include Tim Hortons (franchise royalties), Universal Music (music royalties), and Hilton (hotel royalties).
- He believes Uber is also an annuity because they get a royalty for providing the platform and demand.

## **Chipotle Example**

- Chipotle didn't look cheap when Pershing Square bought it due to a food safety crisis.
- He believed they could fix the food safety issues and change the course of Chipotle's history.
  - The stock is up ninefold since they bought it.

## **Howard Hughes Investment**

- Pershing Square typically buys minority stakes in companies and helps them become more successful.
- He admires Warren Buffett and Berkshire Hathaway.
  - Buffett started a small partnership in 1955 and began buying a stake in a "crappy" company by 1962.

## **Buffett's Berkshire Hathaway**

- Buffett started with a textile company that was "really cheap" in 1968.
- He bought an insurance company and a bank, eventually building a trillion-dollar business.
- The speaker considers Buffett an "unofficial mentor" and read his letters, Graham Dodd, and Forbes.

## **Howard Hughes Corporation**

- Pershing Square owns 47% of Howard Hughes, a company that "basically builds and owns cities."
- The plan is to compound at a high rate over a long period of time and buy companies instead of stocks.
- The goal is to replicate Buffett's model, but starting with Howard Hughes instead of a failing textile business.

## **Insurance Company Advantage**

- Berkshire Hathaway has a profitable insurance company whose assets are invested in common stocks.
- Insurance companies owned by a larger company have more investment flexibility than standalone insurance companies.
- Regulators set minimum capital levels, but rating agencies are critical for insurance companies.
  - Diversified holding companies provide credit support to their insurance subsidiaries.
  - This allows for more flexibility in investing assets.

## **Pershing Square and Howard Hughes**

- Pershing Square is well-capitalized with \$30 billion of assets and owns 47% of Howard Hughes.
- Howard Hughes has \$5 billion of equity capital.
- Pershing Square started an insurance subsidiary within Howard Hughes to have similar investment flexibility as Buffett.
- Pershing Square's 21-year investment track record is about 23% compounded return without fees.
  - Since having permanent capital, it's been about 27-28% compounded return over the last 8 years.
- The strategy is to make money on both the liability side (insurance) and the asset side.
- 47% of Howard Hughes is held by Pershing Square affiliates, with the balance held by the public.

## **Fannie Mae and Freddie Mac**

- Pershing Square has been a long-term shareholder of Fannie Mae and Freddie Mac.
- They were short Fannie and Freddie going into the 2008 crisis but bought back in 2012.
- The government's interest in Fannie and Freddie is worth nearly \$300 billion.
- The goal is for the companies to emerge from conservatorship in a way that protects the 30-year mortgage and doesn't increase mortgage costs.
- Fannie and Freddie are better capitalized now than in the past and will emerge from conservatorship with at least 2 and a half percent equity relative to their guarantees.
- They buy conforming mortgages, package them into trusts, sell securities backed by them, and guarantee the securities, collecting a fee.
- They will emerge with a couple hundred billion dollars of equity.
- They have about \$7 trillion of guarantees and significant cash flow.
- They have the ability to call upon preferred senior preferred stock from the government.
- They have an implied government backstop due to their systemic importance.
- They can be run more effectively as profitable enterprises.
- Rating agencies have indicated that privatization would not lead to a downgrade.
- Fannie Mae and Freddie Mac securitizations are arguably safer than US government guarantees.

## **Career & Challenges**

- Speaker discusses how life doesn't go in a straight line, referencing a period around 2014 when an activist investor was "out to destroy" him.
- He explains that his previous structuring saved him, referencing Warren Buffett's partnership model where investors can withdraw funds. This is problematic for long-term investors.
- A bad investment in Valiant Pharmaceuticals (down 85%) and negative media attention led to others, including Carl Icahn and Elliot, putting "the squeeze on them."

- He borrowed money to buy control of his investment vehicle, describing it as "our first step toward permanent capital."

## **Securing a Loan from JP Morgan**

- Despite his speculation going down and personal life in transition, he secured a \$300 million loan from JP Morgan to buy back his stock.
- He had a history of never defaulting on loans and always honoring agreements.
- "I was the largest unsecured borrower from JP Morgan as an individual uh for that for that moment."
- He emphasizes his loyalty to JP Morgan, even agreeing to pay a higher rate on a line of credit when the bank requested it due to regulatory changes.

## **Making Progress During Difficult Times**

- During a period of fund decline (down 30%), negative press, litigation, and divorce, he focused on making "a little progress every day."
- He advises against looking back and getting discouraged, instead focusing on the next step.
- He highlights the importance of health: "zero sugar...exercise, nutrition, sleep" and surrounding oneself with supportive people.
- He met his current wife during this difficult period, emphasizing that "love saves us all."

## **"Brad Pitt Moment"**

- Describes a "deepest darkest moment" with fund decline, litigation, and personal liability with Valiant Pharmaceuticals.
- He met Ner Oxman, who he describes as "gorgeous and brilliant and like the most loving warm person in the world."
- She was at MIT, and Brad Pitt visited her lab, leading to a period of no communication and concern that "Brad Pitt's going to steal my girlfriend."
- At the same time, Elliot Associates was building a stake in his public vehicle, threatening to put him out of business.

## **Revelation After October 7th**

- Speaker had a positive education experience at Harvard but noticed a change after his daughter graduated, particularly regarding negative reactions to capitalism.
- October 7th was bad, but October 8th was worse due to student responses; 34 Harvard student organizations blamed Israel entirely for Hamas's actions.
- Speaker learned of an ideology dividing the world into oppressors and the oppressed, with oppression linked to intersectionality.
- DEI, initially seen as positive, became a harmful ideology where success is viewed as a zero-sum game.

## **Harvard's Mismanagement**

- Harvard has mismanaged itself by not growing its student body significantly (only 4% in 35-36 years) and increasing foreign student percentage to 27%.
- There has been massive growth in administration and overhead, while faculty appointments have remained flat for 15 years.
- Funding for this has come from the endowment, federal funding, and alumni philanthropy.
- Harvard has \$8 billion in debt, with 80% of the \$53 billion endowment in illiquid assets like real estate and private equity.

## **Endowment Issues**

- Harvard is reliant on short-term funding from the government and donors.
- Operating expenses have been financed by borrowing money, leading to \$8 billion in debt.
- The value of the \$53 billion endowment is questionable due to illiquid assets.
- Endowment managers invest in illiquid assets to appear less volatile, potentially to keep their jobs.

## **Governance and Potential Solutions**

- Harvard is managed by a 13-person board that elects itself, making outside challenges difficult.
- The speaker suggests the chairman of the board should resign, and the president should apologize to the White House and commit to fixing issues like free speech and anti-Semitism.
- The administration may announce a deal with another university on free speech and anti-Semitism, leading to Harvard losing federal funding.
- The speaker is optimistic about resolving trade issues and avoids blaming the science faculty for Harvard's problems, but holds the faculty responsible for the institution's issues.