UNIFORM INVESTING GENIUS

Four Great Investors' Philosophy and Current Portfolios Analyzed

GAAP Loses to Uniform Analytics Every Time

JOEL LITMAN | ROBERT SPIVEY

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Foreword

Accounting Matters

Thank you for signing up for this eBook, and for your interest in Uniform Accounting (UAFRS) and Valens Research.

Our core goal at Valens Research is to democratize access to the cleaned-up accounting analytics that the great investors use to be able to deliver alpha.

Nine of the top 10 investment managers, and 200 of the top 300 read our Uniform Accounting work regularly. The biggest investment managers understand the importance of looking at adjusted accounting analytics. The (adjusted) numbers speak for themselves.

Traditional accounting analytics offer an incomplete picture to real corporate profitability, growth, valuations, and risk. Accounting rules and management discretion in interpreting them create significant issues.

Under Uniform Accounting, over 130 different key adjustments are made to the as-reported GAAP and IFRS accounting statements of over 32,000 companies globally, to correct these distortions.

Under a Uniform framework, issues with comparability for companies across different countries and accounting standards, in different industries, and even with changing accounts over time, are now comparable. This enables investors to better understand their opportunity costs, enabling them to make educated investment decisions.

The chapters that follow highlight examples of how Uniform Accounting informs how investing greats construct their portfolios. As importantly, the analyses show how without Uniform Accounting, these investing greats look like they're making questionable portfolio construction decisions, when they're really just seeing through the noise of distorted accounting statements.

Did a Hedge Fund Legend Play in the 1932 World Series?

It's game 3 of the 1932 World Series, and the score is tied 4-4 in the 5th inning.

October baseball is always special, but an at bat in a tied game in the World Series is a true pressure cooker.

Babe Ruth strode to the plate for the Yankees, facing the Chicago Cubs in Wrigley Field.

As he takes strike one, the Cubs bench players are jeering at him, and the Wrigleyville faithful are screaming any insult they can think of.

Ruth doesn't tune them out, instead he steps one foot out of the batter's box and points the head of his bat to the deepest part of center field. He steps back into the box.

He takes strike two.

The fans, the players, the atmosphere only gets louder. They smell blood.

Ruth steps out again. And he again uses his bat to point to the Exact. Same. Place. He's calling his shot!

He steps back into the batter's box… and Charlie Root throws a curveball that never makes it to the catcher's mitt.

Instead, it ends up over 440 feet away into the center field stands. Exactly where he said he would.

The Yankees went on to win the game 7-5, and to win the series also. And baseball fans have loved telling that story every day since.

That story has such staying power because of the improbability of it. It's easy for a pitcher to say after a no-hitter that he felt like something special was going to happen as he warmed up that afternoon. It's easy to look back and call David Ortiz one of the most clutch players of all time after he helped

the Red Sox win 3 world series. But to be able to call your shot, not just that you were going to get a hit, but that you were going to hit a home run, over right center field, is near impossible.

Which is why it's so impressive that sixty years later, Seth Klarman did the exact same thing. And its why he's a legend in his field, almost to the scale Babe Ruth is in baseball.

Seth Klarman didn't play in the World Series for the Yankees or hit a home run in Wrigley. He's actually a minority owner of the Red Sox, so the idea of him playing for the Yankees is rather ironic.

But Seth Klarman has been a wildly successful investor. His fund Baupost has produced 20% returns a year since 1983. He's outperformed the market by almost 4x since he started the strategy.

But what's impressive isn't just that he has had such phenomenal returns. It's that he told everyone how he was going to get those returns before he did.

Long before Klarman became a billionaire, he wrote a book called *Margin of Safety*. The name is an homage to Ben Graham's *Security Analysis*.

In the book Klarman laid out his value investing philosophy and how he would pick stocks. He laid out his exact strategy that would eventually lead to Baupost's phenomenal performance. He called his shot, and then he delivered 4x the market's performance.

Klarman and Baupost are still picking stocks today and doing an amazing job.

Part of the reason they remain so successful is because Klarman has as much skepticism about as-reported accounting metrics as we do here at Valens.

Klarman has regularly railed against the issues with as-reported accounting metrics. He has mocked investors who use metrics like EBIT and EBITDA to value companies, because of how distorted they are. He's said things like:

> *"Those who used EBITDA as a cash-flow proxy, for example. Either ignored capital expenditures or assumed that businesses would not make any, perhaps believing that plant and equipment do not wear out."*

At Baupost, they are focused on the real operating profitability of companies, not the inaccurate noise of as-reported accounting metrics.

Because of Baupost's strong research, their analysis unsurprisingly lines up with Valens Uniform Accounting. To show what we mean, we've done a high-level portfolio audit of Baupost's current portfolio, based on their most recent 13-F (see Exhibit 1.0). This is a very light version of the custom portfolio audit we do for our institutional clients when we analyze their portfolios for torpedoes and companies they may want to "lean in" on.

Using as-reported accounting, investors would be scratching their heads at the companies that Baupost is buying. The average company in their portfolio has return on asset (ROA) levels well below cost-of-capital levels, according to any model. Specifically, the average as-reported ROA for their portfolio is just 3%.

But once we make Uniform Accounting (UAFRS) adjustments, we realize that the returns of the companies in Klarman's portfolio are much more robust. Once the distortions from as-reported accounting are removed, we can realize SS&C Technologies (SSNC) doesn't have a 4% ROA, it's actually at 75%. Another great example is Fox (FOXA) The company is generating ROA levels at 37%, not below average 7% levels.

If Baupost was looking at as-reported metrics, they would never pick most of these companies, because they look like bad companies and poor investments. <u>For the average company, as-reported ROA understates profitability by roughly 15%</u>.

Exhibit 1.0: Economic Reality of Baupost Group's Equity Holdings*

Ticker	Company Name	The Baupost Group Ownership Level ($m)	Uniform ROA FY0	As-Reported ROA	As-Reported ROA Distortion
EBAY	eBay Inc.	1949	20%	9%	11%
INTC	Intel Corporation	1189	11%	10%	1%
QRVO	Qorvo, Inc.	855	6%	7%	-1%
FOXA	Fox Corporation	830	37%	8%	28%
VSAT	Viasat, Inc.	761	1%	1%	0%
MU	Micron Technology, Inc.	499	3%	4%	-1%
MPC	Marathon Petroleum Corporation	402	0%	-2%	2%
PCG	PG&E Corporation	355	3%	2%	1%
NXST	Nexstar Media Group, Inc.	316	19%	6%	12%
FB	Facebook, Inc.	287	34%	14%	20%
SSNC	SS&C Technologies Holdings, Inc.	243	75%	4%	71%
LBTY.A	Liberty Global plc	198	1%	3%	-2%
VIAC	ViacomCBS Inc.	187	29%	6%	24%
TBPH	Theravance Biopharma, Inc.	180	-8%	-42%	34%
GOOG.L	Alphabet Inc.	179	21%	9%	13%
	Average		17%	3%	14%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Baupost Group's 13-F Filing

But Baupost isn't just finding companies where as-reported metrics misrepresent a company's real profitability. The reason Baupost has such phenomenal returns is because they're also identifying companies where the market is significantly undervaluing the company's potential. This is where Klarman's "Margin of Safety" comes into play. They are buying companies that the market has low expectations for, that they think the companies can exceed.

Exhibit 1.1: Earnings Growth Expectations for Baupost Group's Equity Holdings*

Ticker	Company Name	The Baupost Group Ownership Level ($m)	2 Year Uniform EPS Growth (FY2/FY0)	Market Expected Uniform EPS Growth	Uniform EPS Growth Spread
EBAY	eBay Inc.	1949	24%	-1%	26%
INTC	Intel Corporation	1189	-10%	-5%	-5%
QRVO	Qorvo, Inc.	855	76%	33%	43%
FOXA	Fox Corporation	830	2%	-13%	15%
VSAT	Viasat, Inc.	761	94%	58%	36%
MU	Micron Technology, Inc.	499	146%	21%	125%
MPC	Marathon Petroleum Corporation	402	NM	-359%	NA
PCG	PG&E Corporation	355	NM	13%	NA
NXST	Nexstar Media Group, Inc.	316	22%	1%	21%
FB	Facebook, Inc.	287	10%	6%	4%
SSNC	SS&C Technologies Holdings, Inc.	243	-2%	-4%	2%
LBTY.A	Liberty Global plc	198	103%	52%	51%
VIAC	ViacomCBS Inc.	187	-1%	-7%	6%
TBPH	Theravance Biopharma, Inc.	180	NM	-193%	NA
GOOG.L	Alphabet Inc.	179	16%	8%	8%
	Average		40%	-26%	66%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Baupost Group's 13-F Filing

This table shows three interesting datapoints:

- The first datapoint is what earnings growth is forecast to be over the next two years, when we take consensus Wall Street estimates, and we convert them to the Uniform Accounting framework. This represents the earnings growth the company is likely to have the next two years

- The second datapoint is what the *market thinks earnings growth is going to be* for the next two years. Here we are showing how much the company needs to grow earnings by in the next 2 years, to justify the current stock price of the company. If you've been reading our daily and our reports for a while, you'll be familiar with the term embedded expectations. This is the market's embedded expectations for earnings growth

- The final datapoint is the spread between what the company could do, if the Uniform Accounting adjusted Wall Street estimates are right, and what the market expects earnings growth to be

If the spread is highly positive, that means a company is undervalued, and the stock is likely to rise if the company delivers on what earnings are forecast to be. If the spread is highly negative, that means the company is overvalued and will fall if the company hits on estimated earnings growth rates.

For context, the average US-listed company (above $1 billion market cap) has an EPS growth spread of 5%. For the average company, the market is undervaluing their earnings growth by 5%, which is basically fairly valued. For most companies, the market gets it right, and correctly prices the company's potential.

But Baupost is finding companies the market is MASSIVELY undervaluing. The market is mispricing the average Baupost company's earnings growth by 65%+. For some companies, like Micron Technology (MU), the market is undervaluing the company's earnings growth by 125%. The market is expecting Micron Technology to have modest earnings growth over the next 2 years, when they're actually forecast to rocket.

Baupost is even finding megacap names with significant mispricings. Liberty Global (LBTY.A) is priced for earnings to expand by 52% a year the next 2 years. It's actually forecast to grow 103%.

There are some names that we'd recommend Baupost review in their portfolio if we were meeting with their PMs. One name that jumps out off the bat is Intel (INTC). For Intel, the market is pricing in 5% annual earnings shrinkage right now, but the company is actually forecast for Uniform Accounting EPS to shrink by 10% a year over the next two years.

But for the most part, Baupost gets it right. And they get it right because they're not trusting the as-reported accounting statements, and they are following the maxims that Klarman wrote long before he became as successful as he is today.

It Took a Maverick to Uncover This 7x Return Investment

When Mark Cuban bought the Dallas Mavericks on January 4, 2000, the team had had a 240-550 record the prior 10 years.

Through the entire 1990s, the team went to the playoffs once, in 1990. They lost all 3 games in that playoff series. Mavericks fans had not seen a playoff win in over a decade when Cuban bought the team.

And yet, Cuban paid an eyewatering $285 million for the franchise. At the time, no one had ever bought an NBA franchise for more than $200 million. His acquisition raised more than a few eyebrows.

Who buys one of the most poorly run franchises in the league, in a football town, for 40%+ more than anyone had ever paid for another NBA team?

But Cuban understood something important.

The Mavericks' worth had nothing to do with their record the past 10 years. What would matter is the potential growth drivers he could unlock in the business going forward.

That would determine whether he was overpaying for a trophy asset, or he was as savvy with this purchase as he had been in building Broadcast.com and selling it to Yahoo for $5 billion.

Cuban was an avid basketball fan. He had courtside seats next to the Mavericks bench before he ever became an owner. He had done his research. He could see opportunities to unlock, to justify the value of his investment.

He saw where he would drive growth in the business, and how he could make a significant return on his investment. He was confident in betting on growth when others were just focusing on valuing the business as it was.

He started by focusing on filling up the arena. He sold seats in the nosebleeds for $8 a game to get people in the door. He knew he'd make up the money on concessions. He raised the high demand courtside seat

prices 10x, from $200 a seat to $2,000. People still came, they wanted to be on TV.

Importantly, he also invested in the team itself. The way to make real money on the team wasn't to starve the product and wait to make money on the broadcasting and ticket sales as they stood today–it was to drive growth in all sides of the business by investing to facilitate that growth.

The team had a core of Steve Nash and Dirk Nowitzki, who had both joined the team prior to Cuban buying the team. He surrounded them with the players they needed. When the team needed rebounding, he brought in Dennis Rodman, the seven-time NBA rebounding champion.

His investment yielded a return on the court. The following 10 years, the Mavericks didn't have a losing season. They won the NBA championship in 2011. But just as importantly, his investment benefited the business' ability to throw off revenue.

He also had great timing. Cuban purchased the team just when the industry he had made his money in, media and the internet, were making the league more international. They were also making overall fan engagement in the league stronger.

This meant bigger broadcasting deals, and new lines of revenue for the league as a whole. Lines of revenue that would trickle down to the Mavericks.

Cuban's focus on investing in growth in the business, and his timing in riding a macro wave have led to the Mavericks value rising to $2.3 billion today, according to Forbes. That's a 7x+ return for Cuban from his investment 19 years ago.

That is the kind of return you only can generate if you are comfortable betting on growth.

Buying a value stock, a company that is trading at 50% of its intrinsic value, can lead to a stock doubling. But it's almost impossible to find a company that is intrinsically undervalued 7x what it is worth, based on current cash flows.

Only by finding investments that can transform their cash flows, can one generate 7x returns.

Few investors have more impressive track record finding growth investments than Richard Driehaus. For context, in the 1980s, a dollar invested in the Russell 2000 would have turned into $4.65. For Driehaus' fund, that same $1 would have turned into $24.65. That's a 5x higher return.

He's kept on producing returns like those since.

Ever since Driehaus read John Herold's *America's Fastest Growing Companies* he'd embraced the idea that the best way to find companies that could massively outperform was to find companies who could grow.

As Driehaus himself has said:

> *"One market paradigm that I take exception to is: Buy low and sell high. I believe far more money is made by buying high and selling at even higher prices."*

Driehaus doesn't trouble himself with P/Es. If a P/E is high, but the earnings growth means the company can deliver, and already is showing strong results, his fund will jump in.

He doesn't spend his time understanding what the company is worth and if it's intrinsically undervalued. He focuses on if the company has positive operating momentum, and the ability to drive growth that can look like Cuban's 7x return…or more.

Said differently:

> *"I believe you make the most money by hitting home runs, not just a lot of singles."* - Richard Driehaus

Driehaus understood, and his firm still understands, that traditional valuation metrics, and the traditional valuation process for those who use as-reported accounting metrics, is deeply flawed. And so, they focus on identifying companies that those methodologies have missed.

One of Driehaus Capital's flagship funds is the Driehaus Small Cap Growth Fund. While as-reported methodologies may distort these companies' performance, looking at Uniform Accounting analysis can start to unlock the power of Driehaus' strategy.

To show what we mean, we've done a high-level portfolio audit of the Small Cap Growth Fund's current portfolio, based on their most recent 13-F (See exhibit 2.0). This is a very light version of the custom portfolio audit we do for our institutional clients when we analyze their portfolios for torpedoes and companies they may want to "lean in" on.

Using as-reported accounting, investors would be scratching their heads at the company's that Driehaus is buying. How can they think that these companies are good growth candidates, when these companies cannot even earn cost-of-capital returns? On an as-reported basis, these companies average a 4% return.

Growth in below cost-of-capital return businesses is value destructive. This isn't the type of growth that the market would reward. If the Driehaus funds invested in poor performing companies, they wouldn't be able to produce the outsized returns they are known for.

But once we make Uniform Accounting (UAFRS) adjustments, we realize that the returns of the companies in Driehaus' portfolio are much more robust. Once we make these adjustments, Tencent (SEHK:700) doesn't have a 7% ROA, the company's operating return is really almost 124%. Additionally, Alibaba (BABA) doesn't have a 5% return, it's really 119%.

Exhibit 2.0: Economic Reality of Driehaus Capital Management Equity Holdings*

Ticker	Company Name	Driehaus Capital Management Ownership Level ($m)	Uniform ROA FY0	As-Reported ROA	As-Reported ROA Distortion
TSM	Taiwan Semiconductor Manufacturing Company Limited	419	5%	14%	-9%
SEHK:700	Tencent Holdings Limited	197	124%	7%	117%
BABA	Alibaba Group Holding Limited	195	119%	5%	114%
KOSE:A005930	Samsung Electronics Co., Ltd.	125	6%	6%	0%
NKE	NIKE, Inc.	87	20%	9%	11%
NTRA	Natera, Inc.	86	-21%	-18%	-3%
MELI	MercadoLibre, Inc.	79	-15%	1%	-16%
SWTX	SpringWorks Therapeutics, Inc.	78	-35%	-6%	-29%
AMD	Advanced Micro Devices, Inc.	61	8%	11%	-3%
GTLS	Chart Industries, Inc.	60	14%	3%	11%
AHCO	AdaptHealth Corp.	59	47%	5%	42%
V	Visa Inc.	57	40%	11%	28%
MU	Micron Technology, Inc.	57	3%	4%	-1%
NEM	Newmont Corporation	55	4%	5%	-1%
ECOM	ChannelAdvisor Corporation	54	17%	7%	9%
	Average		22%	4%	18%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Driehaus Capital Management's 13-F Filing

If Driehaus was looking at as-reported metrics, they would never pick most of these companies, because they look like bad companies and poor investments. Not viable platforms to build growth of. For the average company, as-reported ROA understates profitability by almost 20%.

That being said, there are some companies that Driehaus might need to do greater research on. Uniform Accounting shows these companies are poorly performing companies that may not be the growth engines the fund is looking for.

Specifically, SpringWorks Therapeutics (SWTX) doesn't have a -6% ROA, they have a -35% return. Similarly, MercadoLibre (MELI) is still a below cost-of-capital return business, even after making Uniform Accounting adjustments.

But Driehaus isn't just finding companies where as-reported metrics mis-represent a company's real profitability. The reason Driehaus has such phenomenal returns is because they're identifying companies with good businesses with massive growth opportunities.

This is where Driehaus' goal of buying high and selling higher comes into play.

Exhibit 2.1 shows three interesting datapoints:

- The first datapoint is what earnings growth is forecast to be over the next two years, when we take consensus Wall Street estimates, and we convert them to the Uniform Accounting framework. This represents the earnings growth the company is likely to have the next two years

- The second datapoint is what the *market thinks earnings growth is going to be* for the next two years. Here we are showing how much the company needs to grow earnings by in the next 2 years, to justify the current stock price of the company. If you've been reading our daily and our reports for a while, you'll be familiar with the term embedded expectations. This is the market's embedded expectations for earnings growth

- The final datapoint is the spread between what the company could do, if the Uniform Accounting adjusted Wall Street estimates are right, and what the market expects earnings growth to be

Exhibit 2.1: Earnings Growth Expectations for Driehaus Capital Management's Equity Holdings*

Ticker	Company Name	Driehaus Capital Management Ownership Level ($m)	2 Year Uniform EPS Growth (FY2/FY0)	Market Expected Uniform EPS Growth	Uniform EPS Growth Spread
TSM	Taiwan Semiconductor Manufacturing Com	419	NM	-1%	NA
SEHK:700	Tencent Holdings Limited	197	36%	24%	12%
BABA	Alibaba Group Holding Limited	195	4%	7%	-3%
KOSE:A005930	Samsung Electronics Co., Ltd.	125	54%	3%	51%
NKE	NIKE, Inc.	87	38%	21%	17%
NTRA	Natera, Inc.	86	18%	-245%	263%
MELI	MercadoLibre, Inc.	79	NM	-266%	NA
SWTX	SpringWorks Therapeutics, Inc.	78	122%	-251%	372%
AMD	Advanced Micro Devices, Inc.	61	100%	46%	54%
GTLS	Chart Industries, Inc.	60	21%	16%	5%
AHCO	AdaptHealth Corp.	59	247%	13%	234%
V	Visa Inc.	57	18%	24%	-6%
MU	Micron Technology, Inc.	57	146%	21%	125%
NEM	Newmont Corporation	55	11%	16%	-5%
ECOM	ChannelAdvisor Corporation	54	7%	7%	0%
	Average		63%	-38%	101%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Driehaus Capital Management's 13-F Filing

The average company in the US is forecast to have 5% annual Uniform Accounting earnings growth over the next 2 years. The Driehaus fund is identifying companies that are growing 63% a year the next 2 years, on average. The fund is clearly meeting their growth mandate on a Uniform Accounting basis.

But not only is Driehaus Capital identifying companies that have stronger EPS growth than the average US company on a Uniform Accounting basis, they're finding companies where the market is mispricing that earnings growth.

On a median basis, the market is pricing these companies to have a 38% shrinkage in earnings. On both an average and a median basis, the market is massively understating how much earnings growth these companies will have.

These are the kind of companies that don't just double, they produce 7x returns or more.

One example of a company in the Driehaus portfolio that has massive growth that the market is mispricing is AdaptHealth (AHCO). AdaptHealth is forecast to have 247% Uniform earnings growth, but the market is only pricing the company to have 13% earnings growth each year the next two years. That is a massive pricing dislocation the market is going to have to react to.

On the other hand, there are some names we'd recommend Driehaus review in their portfolio if we were meeting with their PMs. One that jumps out is Newmont Corporation (NEM).

The market is pricing NEM's earnings to grow by 16% a year over the next two years. However, analysts are only forecasting earnings to grow by 11%.

But for the most part, Driehaus gets it right. And they get it right because they're not trusting the as-reported accounting statements. Their focus on

understanding growth better than anyone else is likely to continue to power strong returns and our Uniform Accounting portfolio review shows it.

One of the Greatest Hedge Fund Managers Ever Lost His Investors More Than He Ever Made Them

In March 2000, Julian Robertson made the decision to return all Tiger Management's investors' money. He shut down the hedge fund.

One of Tiger's funds, the Jaguar Fund, had dropped 14% in the first 2 months of the year, having lost almost 18% since late 1998. After a $2 billion loss on a bad bet in the Japanese yen in 1998, Tiger had steadily seen investors leaving, and taken on losses, seeing the firm's AUM drop from $20 billion in 1998 to $6.5 billion at the time Robertson decided to close the doors.

Robertson and Tiger had been one of the early stars of the hedge fund world. He took $8 million in capital in 1980 and turned it into over $20 billion by the fund's 1998 peak.

But Robertson was too early to the party of shorting internet stocks. His dogmatic value-based philosophy on investing led him to be long old-economy companies in the late 1990s, in the face of a rampant growth-focused bull market.

It meant that when he reached his peak in AUM, that was just when he started losing money. And because of that timing, many have said he actually lost more money for investors than he ever made them in the prior 18 years.

Ironically, March 2000, when Tiger threw in the towel, was the market peak, and Robertson ended up being proven right.

He made plenty of money after 2000, as he remained short the internet bubble with his own money, but his investors never got to participate.

But that's not that most important thing that came out of Tiger Management. The most important thing was the group of investors that Robertson mentored at Tiger and sponsored to grow after Tiger's demise.

He had built an all-star team at Tiger. They matured under him at Tiger, absorbing his deep fundamental research perspective. Importantly, with his help, they also learned his mistakes in the dot.com bubble, and understood the importance of timing their investments to avoid being right too soon as Robertson had been.

In the aftermath of the dot-com bubble, Robertson sponsored several of his former employees setting up their own hedge funds. He would provide them with initial capital for a stake in their fund. He would continue to mentor them. And he would help them create a network of Tiger Cubs, that would share ideas and research, much like they had inside of Tiger Management, to maximize returns.

These great investors include brand names like Samlyn, Maverick, Lone Pine, HealthCor, and Coatue. Hedge funds that are amongst the most respected investors today.

However, most would agree the most successful, and largest, of the tiger cubs is Chase Coleman and his Tiger Global.

Coleman and Tiger Global follow in Robertson's fundamental research driven footsteps. Their strategy is not as simple as focusing just on value companies, like Klarman at Baupost, or growth companies, like Driehaus. Their goal is to find great thematic ideas that are mispriced by the market, which can run the gamut of deep value, value, GARP, and growth names, depending on the market context.

When looking at Tiger Global's holdings, anyone using as-reported accounting metrics would likely be scratching their heads. Coleman and his firm are focused on the true fundamentals of companies when they are looking for mispriced firms. Using traditional as-reported accounting metrics, the fundamentals and KPIs for businesses don't line up with the accounting. It is only once those holdings are looked at with a lens that better represents economic reality, and lines up with the KPIs and real fundamentals, that their investments become apparent.

To show what we mean, we've done a high-level portfolio audit of Tiger Global's top holdings, based on their most recent 13-F (See exhibit 3.0). This is a very light version of the custom portfolio audit we do for our

institutional clients when we analyze their portfolios for torpedoes and companies they may want to "lean in" on.

Exhibit 3.0: Economic Reality of Tiger Global Management's Equity Holdings*

Ticker	Company Name	Tiger Global Management Ownership Level ($m)	Uniform ROA FY0	As-Reported ROA	As-Reported ROA Distortion
JD	JD.com, Inc.	4062	28%	2%	26%
MSFT	Microsoft Corporation	3043	34%	13%	22%
AMZN	Amazon.com, Inc.	2072	11%	5%	6%
FB	Facebook, Inc.	1971	34%	14%	20%
UBER	Uber Technologies, Inc.	1645	-42%	-8%	-34%
CVNA	Carvana Co.	1619	-13%	-8%	-5%
RBLX	Roblox Corporation	1607	-43%	-13%	-30%
CRWD	CrowdStrike Holdings, Inc.	1538	-5%	-3%	-3%
TDG	TransDigm Group Incorporated	1096	53%	6%	47%
BABA	Alibaba Group Holding Limited	1093	119%	5%	114%
WDAY	Workday, Inc.	1071	5%	-1%	6%
RNG	RingCentral, Inc.	1058	11%	-4%	15%
PTON	Peloton Interactive, Inc.	935	3%	4%	-1%
NOW	ServiceNow, Inc.	882	20%	2%	19%
SPOT	Spotify Technology S.A.	882	19%	-3%	22%
	Average		16%	1%	15%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Tiger Global Management's 13-F Filing

Using as-reported accounting, investors would be scratching their heads at the companies that Tiger Global owns. These don't look like companies with strong fundamental tailwinds that are ready to unlock significant value. The average company in their holdings has a sub 2% ROA on an as-reported basis. Several of their companies have negative ROAs.

But once we make Uniform Accounting (UAFRS) adjustments, we realize that the returns of the companies in Tiger Global's portfolio are much more robust. Once we make these adjustments, the average company has a 16% adjusted ROA. Companies like Microsoft (MSFT) don't have a 13% ROA, they have a 34% adjusted ROA, robust profitability. TransDigm's (TDG) ROA isn't 6%, it is 53% and rising. Their investments in JD.com (JD) and Alibaba (BABA) make sense, as these companies don't have 5% or below ROA, JD.com's ROA is 28%, and Alibaba's is a phenomenal 114%.

If Tiger Global was looking at as-reported metrics, they might be concerned that the accounting metrics are warning them that the fundamental tailwinds they think they are seeing aren't actually producing. For the average company, as-reported ROA understates profitability by over 15%.

That being said, there are some companies that Tiger Global might be betting on that aren't actually seeing the fundamental tailwinds they think they're seeing. Uniform Accounting shows these companies are poorly performing companies that may not turn out to be winners.

Uber (UBER) doesn't have a -8% ROA, they have a -42% return. Similarly, Roblox (RBLX) is still a below cost-of-capital return business, even after making Uniform Accounting adjustments.

On a Uniform Accounting EPS growth perspective, Tiger Global's ideas look a bit more conflicted. Some of the names look significantly undervalued, while others look overvalued. But this makes sense, when you look at it in the context of their strategy. Often, they are attempting to identify companies with key value opportunities being unlocked that even sell-side analysts are not fully capturing yet. Since forecasted EPS growth is based off of adjusted analyst estimates, it would make sense that if analysts haven't spied the inflections, these names wouldn't all look great.

As Robertson himself has said:

> *"If it's in the headlines, it's in the stock price."*

If analysts already are telling the market what's going on for the company, it's probably already in the stock price.

Exhibit 3.1: Earnings Growth Expectations for Tiger Global Management's Equity Holdings*

Ticker	Company Name	Tiger Global Management Ownership Level ($m)	2 Year Uniform EPS Growth (FY2/FY0)	Market Expected Uniform EPS Growth	Uniform EPS Growth Spread
JD	JD.com, Inc.	4062	48%	15%	33%
MSFT	Microsoft Corporation	3043	15%	13%	2%
AMZN	Amazon.com, Inc.	2072	23%	29%	-5%
FB	Facebook, Inc.	1971	10%	6%	4%
UBER	Uber Technologies, Inc.	1645	NM	-205%	NA
CVNA	Carvana Co.	1619	-37%	-235%	198%
RBLX	Roblox Corporation	1607	NM	-268%	NA
CRWD	CrowdStrike Holdings, Inc.	1538	NM	-363%	NA
TDG	TransDigm Group Incorporated	1096	21%	9%	12%
BABA	Alibaba Group Holding Limited	1093	4%	7%	-3%
WDAY	Workday, Inc.	1071	-9%	66%	-74%
RNG	RingCentral, Inc.	1058	NM	91%	NA
PTON	Peloton Interactive, Inc.	935	193%	108%	86%
NOW	ServiceNow, Inc.	882	14%	53%	-39%
SPOT	Spotify Technology S.A.	882	113%	124%	-10%
	Average		36%	-37%	73%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Tiger Global Management's 13-F Filing

This table shows three interesting datapoints:

- The first datapoint is what earnings growth is forecast to be over the next two years, when we take consensus Wall Street estimates, and we convert them to the Uniform Accounting framework. This represents the earnings growth the company is likely to have for the next two years

- The second datapoint is what the *market thinks earnings growth is going to be* for the next two years. Here we are showing how much the company needs to grow earnings by in the next 2 years, to justify the current stock price of the company. If you've been reading our daily and our reports for a while, you'll be familiar with the term embedded expectations. This is the market's embedded expectations for earnings growth

- The final datapoint is the spread between what the company could do, if the Uniform Accounting adjusted Wall Street estimates are right, and what the market expects earnings growth to be

The average company in the US is forecast to have 5% annual Uniform Accounting earnings growth over the next 2 years. Tiger Global's holdings are forecast to outpace that, growing at 36% a year the next 2 years, on average. They are definitely identifying companies that have tailwinds to drive growth.

On average, the market is pricing these companies to shrink earnings by 37% a year. The median company in this portfolio has 73% mispricing between forecasted earnings growth and what the market is pricing in.

If analysts are right about these companies, they may be significantly undervalued.

Additionally, if the market is already pricing the average company in the portfolio to do what analysts expect it to do, and the company exceeds expectations, Tiger Global will be rewarded.

A good example of this is Carvana (CVNA). Carvana's Uniform Accounting earnings shrinkage is forecast to be around 37% a year going forward. The market is pricing the company for 235% Uniform EPS shrinkage, so if analysts are right, the company is undervalued. Similarly, Peloton (PTON) is priced for 108% EPS growth, and Uniform EPS growth is forecast to be 193%.

On the other hand, there are some names that look like they might be fairly valued at best, even if Tiger Global was right, and analysts are wrong, because market expectations are already so high. Amazon is an example of this, with modest 23% EPS growth forecast the next 2 years, versus market expectations for 29% growth. Similarly, ServiceNow (NOW) is priced for 53% growth, but analysts are forecasting 14% EPS growth. Even if analysts are wrong about ServiceNow, upside is likely limited.

However, for the most part, Tiger Global is positioned how they want to be. They are positioned in names with winds at their back, strong economic moats. They're also positioned where they want to be, companies that are mispriced if Tiger knows more than the analysts that cover them do, which is where they make their bread and butter.

Just like Robertson, Coleman is comfortable betting against the market, and uncovering unique value. And Uniform Accounting analysis confirms it.

This Professor is the Indiana Jones of Finance, and Uniform Accounting Shows how His Fund is the Holy Grail of Investment Strategies

In Raiders of the Lost Ark, Indiana Jones is teaching an Archaeology 101 class before Marcus Brody comes to him to send him on his quest to find the Ark of the Covenant.

His students hung on to his every word, not just because they wanted to excel in the class, but they wanted him to grade their exams. They even tried to break down his door to get him to do that after the lecture was over.

While they viewed Indy as a teacher—and a hard one to pin down at that—little did they know where Indy had been before, or where he'd go after.

They didn't know that Indiana Jones had been an adventure-driven archaeologist for years, from his youth when he found the Cross of Coronado, to having recently survived a temple run at the Temple of the Chachapoyan Warriors.

They also didn't know where Indy would be heading when he snuck out the window of his office, off to find the Ark. In a future adventure during World War II, he would successfully discover and identify the Holy Grail in a race against time against the Nazis.

In much the same way, one wonders if the students at Jim Simons' class at Stony Brook University in Long Island knew who they were studying under.

After Simons graduated MIT and Berkeley with a PhD in mathematics, he contributed to develop a great deal of research on manifolds and characteristic classification work. These are complex areas of geometric studies.

This work lent itself to cryptography, and so his work caught the attention of the National Security Agency (NSA). They wanted Simons to work as a code breaker, which he did, for the NSA and Institute for Defense

Analyses (IDA) until 1968, when he joined Stony Brook's faculty, eventually becoming the chairman of the math department.

But it is what Simons did after he left his students at Stony Brook full time that is impressive.

Much like Indiana Jones, Simons set off to find the holy grail…and found it.

Simons found the holy grail of investing, an investment strategy that could generate returns so massive that even after steep fees, it would trounce the market and rarely have negative returns.

Simons founded Renaissance Technologies, one of the most respected quantitative hedge funds in the world, in 1978. It was originally called Monemetrics, before it changed its name in 1982.

Renaissance's flagship Medallion Fund, which has been closed to outside investors since 1993, and has not had any outside money at all since 2005, did 98.2% in 2008 when the S&P was down 38.5%.

It has produced an annualized 66% gross return since 1988, and a 39% net annualized return even after the funds significant fees. Over the 12 years from 1993 to 2005, the fund only posted 3 down quarters.

It is arguably the most impressive track record in the entire investing industry.

Simons built Renaissance on a few key principles.

The first was a deep focus on pattern recognition analysis, similar to the type of work his thesis was on, and that he worked on in the realm of cryptography.

The second principle was to stay as far away from MBAs and those with a Wall Street background. Instead, Renaissance is sometimes stated as having one of the best math and physics departments of any institution, academic or corporate, in the world.

Simon's view is that the groupthink across Wall Street on how the market should work, the relationships assets should have, and the type of education and information that is useful are part of the reason the market is sometimes as inefficient as it is.

Instead, bringing knowledge from its physics and math PhDs, Renaissance has been analyzing correlations and relationships between markets, corporate fundamentals, and various datasets for decades. Renaissance was working with petabyte-sized databases long before big data was a term used in business and in investing.

Even as other quantitative investors have attempted to catch up to Renaissance, the company's strategies and research continues to unlock significant value.

Renaissance's focus is not having analysts actively picking stocks. The firm's quantitative strategies identify stocks and other assets to buy and sell operating off the company's research.

But even without active stock pickers, looking at the stocks Renaissance's process identifies to generate alpha is instructive.

It is an interesting exercise to see if Uniform Accounting lines up with the quantitative strategies Renaissance is using.

We've conducted a portfolio audit of Renaissance's top holdings, based on their most recent 13-F.

We're showing a summarized and abbreviated analysis of how we work with institutional investors to analyze their portfolios.

Unsurprisingly, for the most part, Renaissance's analytics appear to be steering the portfolio to companies that Uniform Accounting metrics highlight are much higher quality, and have higher potential, than the market and as-reported metrics imply.

Because Uniform Accounting metrics do a better job of identifying real corporate performance than as-reported distorted metrics do, UAFRS is more likely to identify candidates to generate alpha.

Even though Renaissance is coming at identifying those companies from a very different direction, their process is unsurprisingly identifying the same signals UAFRS does.

See for yourself below.

Exhibit 4.0: Economic Reality of Renaissance Technologies' Equity Holdings*

Ticker	Company Name	Renaissance Ownership Level ($m)	Uniform ROA FY0	As-Reported ROA	As-Reported ROA Distortion
BIDU	Baidu, Inc.	1864	38%	3%	35%
VRSN	VeriSign, Inc.	1166	224%	28%	196%
BMY	Bristol-Myers Squibb Company	1159	34%	4%	31%
TGT	Target Corporation	1096	13%	9%	5%
PANW	Palo Alto Networks, Inc.	1085	22%	-1%	23%
TEAM	Atlassian Corporation Plc	1002	-14%	0%	-14%
MNST	Monster Beverage Corporation	976	143%	18%	125%
KR	The Kroger Co.	936	4%	4%	0%
ETSY	Etsy, Inc.	836	12%	13%	-2%
BIIB	Biogen Inc.	798	25%	11%	14%
ZM	Zoom Video Communications, Inc.	768	25%	13%	13%
VRTX	Vertex Pharmaceuticals Incorporated	764	25%	18%	8%
MOH	Molina Healthcare, Inc.	745	12%	7%	4%
UTHR	United Therapeutics Corporation	716	15%	9%	7%
FTNT	Fortinet, Inc.	698	28%	8%	20%
	Average		40%	10%	31%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Renaissance Technologies 13-F Filing

Using as-reported accounting, investors would be scratching their heads at some of the companies that Renaissance owns.

The average company in the portfolio displays an impressive average Uniform return on assets (ROA) at 40%. That's well above the current corporate average returns. On an as-reported basis, many of these companies are poor performers with returns below 5%-6%, and the average as-reported ROA is only 10%.

On an as-reported financial metric basis, it would appear that Renaissance was identifying companies that were primed for an inflection in returns based on Renaissance's other data, not that they were identifying strong companies.

However, once we make Uniform Accounting (UAFRS) adjustments to accurately calculate earning power, we can see that the returns of the companies in Renaissance's portfolio are much more robust.

In fact, looking at the companies that Renaissance is buying on a Uniform basis, it's clear Renaissance is buying companies with strong economic moats that will keep on performing well in this mid-to-late cycle environment.

Once the distortions from as-reported accounting are removed, we can realize that VeriSign (VRSN) doesn't have a 28% ROA, it is actually at 224%. VeriSign is a strongly-positioned software security company that is both growing and producing impressive profitability for shareholders.

Similarly, Monster Beverage (MNST) ROA is really 143%, not 18%. Renaissance's quantitative strategy sees its strong profitability and visibility of earning power.

Bristol-Myers Squibb (BMY) is another great example of as-reported metrics mis-representing the company's profitability. If Renaissance's model was powered by that data, it wouldn't be identifying the company's strong fundamentals.

BMY doesn't have a 4% ROA, it is actually at 34%. Renaissance's system appears to understand that the market pessimism for the company is overblown and that the company's real fundamentals are strong enough to warrant upside.

The list goes on from there, for names ranging from Palo Alto Networks (PANW) and Blogen (BIIB) to Fortinet (FTNT), Zoom (ZM), and Baidu (BIDU).

If as-reported metrics tracked the economic reality that Renaissance is identifying using their models, these companies wouldn't show up in its portfolio, because they look like bad companies and poor investments.

But to find companies that can deliver alpha beyond the market, just finding companies where as-reported metrics mis-represent a company's real profitability is insufficient.

To really generate alpha, any investor also needs to identify where the market is significantly undervaluing the company's potential.

Renaissance is also investing in companies that the market has low expectations for—low expectations the companies can exceed.

Exhibit 4.1: Earnings Growth Expectations for Renaissance Technologies' Equity Holdings*

Ticker	Company Name	Renaissance Ownership Level ($m)	2 Year Uniform EPS Growth (FY2/FY0)	Market Expected Uniform EPS Growth	Uniform EPS Growth Spread
BIDU	Baidu, Inc.	1864	2%	-13%	15%
VRSN	VeriSign, Inc.	1166	8%	19%	-10%
BMY	Bristol-Myers Squibb Company	1159	24%	-18%	42%
TGT	Target Corporation	1096	-2%	2%	-4%
PANW	Palo Alto Networks, Inc.	1085	8%	29%	NA
TEAM	Atlassian Corporation Plc	1002	NM	-270%	NA
MNST	Monster Beverage Corporation	976	6%	8%	NA
KR	The Kroger Co.	936	14%	8%	NA
ETSY	Etsy, Inc.	836	-25%	85%	-110%
BIIB	Biogen Inc.	798	-16%	-17%	1%
ZM	Zoom Video Communications, Inc.	768	198%	94%	104%
VRTX	Vertex Pharmaceuticals Incorporated	764	2%	-5%	NA
MOH	Molina Healthcare, Inc.	745	15%	1%	14%
UTHR	United Therapeutics Corporation	716	8%	-10%	18%
FTNT	Fortinet, Inc.	698	19%	24%	-5%
	Average		19%	-4%	23%

**Portfolio holdings as of April 2021*
Source: Valens Research Analysis, S&P Global Marketing Intelligence, Renaissance Technologies 13-F Filing

This chart shows three interesting data points:

– The first datapoint is what Uniform earnings growth is forecast to be over the next two years, when we take consensus Wall Street estimates and we convert them to the Uniform Accounting framework. This represents the Uniform earnings growth the company is likely to have, the next two years

– The second datapoint is what the market thinks Uniform earnings growth is going to be for the next two years. Here, we are showing how much the company needs to grow Uniform earnings by in the next 2 years to justify the current stock price of the company. If you've been reading our daily and our reports for a while, you'll be familiar with the term embedded expectations. This is the market's embedded expectations for Uniform earnings growth

– The final datapoint is the spread between how much the company's Uniform earnings could grow if the Uniform Accounting adjusted earnings estimates are right, and what the market expects Uniform earnings growth to be

The average company in the US is forecast to have 5% annual Uniform Accounting earnings growth over the next 2 years. Renaissance's

holdings are forecast by analysts to outpace that, growing at a healthy 19% a year the next 2 years, on average.

Renaissance's system is not just finding high quality companies; it is finding mispriced companies.

On average, the market is pricing these companies to shrink earnings by 4% a year, below market averages. These companies are intrinsically undervalued, as the market is mispricing their growth by 23% on average.

These are the kinds of companies that are likely to see their stocks rally when the market realizes how wrong it is. Without Uniform numbers, the GAAP numbers would leave everyone confused.

One example of a company in the Renaissance portfolio that has growth potential that the market is mispricing is Bristol-Myers Squibb (BMY). Bristol-Myers's analyst forecasts have 24% annual Uniform earnings growth built in the next two years, but the market is pricing the company to have earnings shrink by 18% each year for the next two years.

Another company with similar dislocations is Zoom (ZM). Market expectations are for 94% growth in earnings. However, the company is actually forecast for Uniform EPS to grow by a robust 198% a year. If it can deliver on this growth, there's more upside, even after how far the company's stock has rallied the past few years.

Yet another of the fund's largest holdings, Baidu (BIDU), which is priced for a 13% decline in Uniform earnings, when they are forecast to grow by earnings by 2% a year.

Unsurprisingly, considering the quantitative nature of the strategy, there are very few companies in the portfolio that look misplaced in this strategy. Only one name appears to have a significantly negative dislocation between what the market is pricing in and what is forecast.

Etsy (ETSY), who we mentioned previously, is forecast to see Uniform earnings shrink by 25% a year going forward, however the market is pricing the company for massive 85% annual earnings growth.

This doesn't look like an intrinsically undervalued company. If anything, the market looks significantly too bullish.

But for the most part, Renaissance's quantitative portfolio looks like a high quality, undervalued set of stocks with businesses displaying strong earning power. It wouldn't be clear under GAAP, but unsurprisingly,

Uniform Accounting and a system built to deliver alpha see the same signals.

About Valens Research

In 2009, just as the dust was settling from the last major equity and credit market crises, we launched a boutique research firm with the intention of breaking Wall Street's biases and broken incentives.

- GAAP and IFRS have failed to provide rules for reliable financial statement reporting

- As-reported macroeconomic analysis is not grounded in economic reality

- Stock analyst recommendations are not based on disciplined financial

- Credit agencies have been set up to grossly fail in their responsibilities to investors and the public markets

We sought to provide investors and company analysts with a source of information that changed all that. The integrity of Valens Research is founded in our disciplined processes and analytics. No "star" analysts. No corporate advisory relationships.

No-nonsense opinions and recommendations. We provide industry expertise and proven, back-tested data, with offices worldwide, a team of over 100 trained accounting analysts, and a comprehensive online database with over 8,000+ companies and growing.

Our Methodology and Results

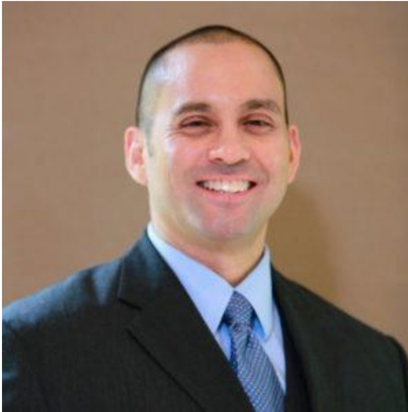
Today's largest broker/dealer organizations do not provide adjusted, forensically audited research to Wealth Advisors and Financial Planners. They give advisors what everyone else on Wall Street gets; research that is put together based upon REPORTED financials from companies, not ADJUSTED financials that have gone through extensive screening and forensic accounting.

GAAP accounting guidelines allow companies to do all sorts of things to their books. Unfortunately, most, if not all research is produced based upon misleading figures. You know it. We know it. And Wall Street knows it.

Valens Research rips apart the financial statements of over 8,000+ companies globally, line by line, to uncover GAAP and IFRS distortions using UAFRS principles. We apply over 130 individual adjustments, cleaning up distortions related to R&D, Operating Leases, Stock Options, Excess Cash, M&A PP&E and Earnings, Goodwill, etc.

The results of this process are telling. Since we started highlighting our conviction long ideas three years ago, the average weekly idea has outperformed the S&P 500 by 2.6% quarterly, or by nearly 11% annually.

About the Authors



Professor Joel Litman
Chief Investment Strategist

Professor Joel Litman is the Chief Investment Strategist advising institutional and individual investors in equities, corporate credit, and macroeconomic strategy. He is also the President and CEO of Valens Research as well as a member of the Board of Directors of COL Financial Group, a leading brokerage firm in Asia.

Litman has been on CNBC, quoted in Barron's and Institutional Investor, and interviewed in Forbes. He has published in Harvard Business Review, is a top contributor to SeekingAlpha, and co-authored the highly-acclaimed book, DRIVEN: Business Strategy, Human Actions, and the Creation of Wealth.

Litman has taught or guest-lectured at Harvard Business School, University of Chicago Booth, Wharton, LBS, SAIF Jiao Tong, and others. He is a Professor at Hult International Business School, a Financial Times and Economist top-ranked international MBA program. He conducts seminars regularly for financial and industry conferences around the world such as CFA and CPA chapters.

Litman is chair of the UAFRS Advisory Council, which spearheads usage of Uniform Adjusted Financial Reporting Standards (UAFRS) – also known as Uniform Accounting. He helped build Credit Suisse's HOLT University and the Center for S.E.V. and MBA Concentration at the Driehaus College of Commerce at DePaul University.

Past employment includes Credit Suisse, Diamond Tech Partners (now PwC), Deloitte, and American Express. He is a member of the CFA Institute, the global association for investment professionals, and the Association of Certified Fraud Examiners. He is a Certified Public Accountant (CPA), received a BS in Accounting from DePaul University,

and an MBA/MM from the Kellogg Graduate School of Management at Northwestern University.

Litman's philanthropy is focused on community development through scholarships, job training programs, and extensive microfinance lending–particularly in the Philippines.

About the Authors

Rob Spivey
Director of Research

Robert Spivey is the Director of Research at Valens Research. He is actively involved in delivering credit and equity analyses, idea generation, and client servicing based on UAFRS.

He is heavily involved in the development and management of the Valens Research application (app.valens-research.com), a tool Valens has developed to allow investors to integrate the UAFRS framework for investment analysis into their process on a daily basis to improve investment insights and decision making.

Spivey has held Assistant Portfolio Manager and Analyst positions and has experience at The Abernathy Group, Legacy Capital Management, Credit Suisse, and Gillette.

Spivey has leveraged his experience on both the buy-side and sell-side of finance and opportunities to work in both the credit and equity markets to gain a unique perspective of how markets work together and can offer contrary signals. His experience in communicating analysis to some of the largest investment managers in the world, working as a generalist analyst at a hedge fund, and to helping manage portfolios on the buy-side has helped give him a wide-ranging perspective on investing and identifying market mispricings.

Spivey is a CFA Charterholder and member of the CFA Institute. He received a BS in Business Administration with a concentration in Finance and a minor in Philosophy from Northeastern University in Boston.