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*(These notes are to the best of my recollection and trusty ink pen. Discrepancies are due to my error in understanding & transcribing.)*

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* Return On Invested Capital (ROIC) is the primary test of a business’ moat.
* Moats general:
  + Capitalism works and competition reduces profitability… but some *stay* profitable
  + Moats are strategic business characteristics
    - Sustainable returns are more important than the ‘highest’ returns
    - Ex. Crocs (CROX) vs. Nokia (NOK) and Kinder Morgan (KMP) vs. Union Pacific (UPC)
* 5 Sources of Moats (Morningstar)
  + Network Effects
    - The value of the service grows with additional users (circularity builds)
    - Ex. Mastercard (MC), Visa (V), E-Bay (EBAY), and Facebook (FCBK??)
  + Cost Advantages
    - Economy of scale in distribution/manufacturing; Low cost resource base
    - Ex. Compass Minerals (CMP), Ultra Petroleum (UPL)
  + Intangible Assets
    - Brands & Pricing Power - Sallie Mae (SLE) vs. Hershey (HSY), and Sony (SNU) vs. Tiffany (TIF)
    - Patents - Pharma
    - License & Government approvals – Casinos
    - Corporate Culture – Helpful, but not the strongest by itself
  + Switching Costs
    - Time=Money, Money=Time – Consumer & Bank sectors especially
    - Ex. Oracle (ORCL), Autodesk (ADSK), Micros Systems (MCRS), Intuit (INTU)
    - *My note: coming from the architecture & engineering field, I can attest to ADSK’s dominate position.*
  + Efficiencies of Scale
    - Limited market size; A new entrant would drive profits below cost of capital for all participants – Airports, Racetracks, Pipelines, Defense, Lubrizol
    - More modest profitability
* Morningstar Moat rating originated from Buffett
  + 1999 Fortune article
  + Measure by ROIC vs. WACC
  + Wide (10%), Narrow (50%), None (40%)
  + More moats in Consumer, Defense, Healthcare, Financial Services
* Morningstar is currently working on explicit listings of companies’ competitive advantages for use in reports:
  + Multiple, smaller competitive advantages is better than one larger one
  + Best competitive advantage is Intangible Assets
    - Ex. Healthcare patents, Consumer brands
  + Least stable competitive advantage is Network Effects
  + Efficiency of Scale resulted in best market return past few years – likely due to Utilities
  + Switching Costs & Network Effects both seen on the most positive outliers – Apple (AAPL)
* Wide Moat Focus Index – Morningstar
  + Roughly 120 ‘Wide Moat’ out of S&P Index
  + 20 cheapest chosen
  + Equally weighted and re-balanced quarterly
  + Fun fact: Telecom has *never* been in it
* Q&A
  + Wide Moat Focus Index turnover?
    - Around 150%, average 5-6/20 each quarter
  + Track record of actual management compared to back testing?
    - They back tested to 2002. They started actual managing in 2007.
  + Narrow Moat/Wide Moat differentiation?
    - Comes back to sustainability of competitive advantages; (+/- 10-15) years (narrow) and greater (wide)