December 5, 2016

SuperInvestor INSIGHT

From the Editors of *Value Investor Insight*

UP FRONT

Swim Your Own Race

Jim Rogers was an early SuperInvestor, co-founding with George Soros the Quantum Fund, which Rogers has said grew 4,200% during the 1970s, vs. less than 47% for the S&P 500. He left the fund in 1980 at age 37 and has since traveled and lived around the world, often speaking publicly and provocatively about his contrarian macroeconomic and investing views.

We recently came across a book, *A Gift to My Children*, that Rogers wrote a few years ago to his young daughters, who he calls Happy and Baby Bee, offering life lessons to them as they make their way in the world. Not everything has an investing connection – his advice on boys, for example, "The basic principle to remember is this: They need you more than you need them" – but as the end of the year approaches and prompts reflection, we wanted to share a few of his key messages:

> I remember once reading an interview with American swimmer Donna de Varona, winner of two gold medals at the 1964 Summer Olympics. The reporter pointed out that earlier in her career, she had been a good swimmer, but not a great one. What happened? She replied: "I always used to watch the other swimmers, but then I learned to ignore them and swim my own races."
>
> If people around you try to discourage you from taking a certain course of action, or ridicule your ideas, take that as a positive sign. Sure it can be difficult not to run with the herd, but the truth is that most long-term success stories are written by folks who've done exactly that.
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> If and when you decide to pursue investing or whatever your fancy, do not underestimate the value of due diligence. If you just read the annual reports of companies, you will have done more than 98% of investors. If your read the notes of the financial statements, you will be ahead of 99.5%. Talk to customers, suppliers, competitors and anyone else who might affect the company. Do not invest unless you can say with absolute certainty that you are more knowledgeable about this particular firm than 98% of Wall Street analysts. Believe me, it can be done. But only with extra effort.
>
> If you stumble upon success in a bull market and decide that you are gifted, stop right there. Investing at that point is dangerous, because you are starting to think like everybody else. Wait until the mob psychology that is influencing you subsides. SII

IN THIS ISSUE

The SuperInvestors

SuperInvestor Insight tracks the activity of an elite group of value-oriented hedge-fund managers (plus Berkshire Hathaway), based on their holdings as filed in Forms 13F with the SEC. While specific investors will be highlighted, the focus is on drawing collective insight from this group of 30 of the world's best investors, which currently includes **William Ackman, Leon Cooperman, David Einhorn, Glenn Greenberg, John Griffin, Carl Icahn, Seth Klarman, Stephen Mandel, John Paulson, David Tepper, Jeffrey Ubben** and many more.

Response Times

With political uncertainty and valuations on the rise, SuperInvestors found situation-specific upside last quarter in such areas as spinoffs, legal troubles, under-pressure industries and old-fashioned earnings warnings. By Alex Dumortier

Affected as they are by government regulation, it's not surprising that healthcare stocks have reflected heightened uncertainty in the lead-up and aftermath of the U.S. presidential election. Beaten down during the campaign, they continue to underperform since the election as the fate under a Trump administration of all or parts of the extant Affordable Care Act remains decidedly unclear.

SuperInvestors last quarter [*see table below*] appeared to find the pessimism overdone in two healthcare-facility managers, **HCA Holdings** and **Universal Health Services**, in which six and four top investors respectively added to existing positions or established new ones. Hospitals have benefitted from Obamacare, due to increased demand from newly insured patients and a decline in uncompensated care, so any reversal affecting those metrics would likely be a headwind. Pressure on reimbursement rates is always a challenge, but the scope and depth of that pressure is also very much up in the air.

At the company level, HCA remains well positioned with strong market shares in growing markets in the Sun Belt. Universal Health Services generates half its revenues from behavioral-focused facilities, giving it less exposure to uncompensated care and lower capital-spending needs. In both cases, the shares don't appear expensive. HCA trades at 7x consensus 2017 EV/EBITDA estimates, a meaningful discount to peers and its own history. Universal Heath shares, at $124.65, are less cheap on an absolute and relative basis, but still trade at a 15% discount on forward earnings to the S&P 500.

Thanks to its global payment network, **Visa** has the type of elusive "economic moat" that is key to earning durable above-normal returns on capital. Such businesses rarely go on sale, but six top investors – three of whom established brand-new positions – found the shares well priced in the third quarter as legal risk appeared to spook the market. In the three days prior to the start of the quarter, grocery giant Kroger joined Wal-Mart in suing Visa over punitive changes in how debit-card transactions are to be processed. At the same time, a federal appeals court threw out the $7.25 billion antitrust agreement Visa had reached with millions of retailers, potentially intensifying a long-simmering battle between card networks and retailers over fees. Visa shares, currently trading at 23.1x 2017 EPS estimates, aren't

What They're Buying: Active Interest

Four or more SuperInvestors added to existing positions or established new ones worth at least $10 million in these stocks last quarter. New interest in Bank of America and Humana has proven particularly timely. Buys likely inspired by recent deal-making: HP Enterprise and Johnson Controls.

Company	Ticker	Industry	Price@ 12/2/2016	Q3 2016		# of Increased or New Positions	% Change In Shares Held – All Funds
				Low	High		
Apple	AAPL	Computers/Consumer Electronics	109.90	94.37	116.18	6	26.8%
Facebook	FB	Internet Services	115.40	112.97	131.98	6	(-7.0%)
HCA Holdings	HCA	Hospitals	70.31	73.24	81.79	6	25.9%
Visa	V	Payment Services	75.72	73.83	83.79	6	(-5.9%)
Alphabet Class A	GOOGL	Internet Services	764.46	699.00	819.06	5	0.7%
Bank of America	BAC	Banking	21.23	12.45	16.24	5	1,190.2%
Hewlett Packard Enterprise	HPE	Computer Equipment/Services	23.85	17.92	23.53	5	535.5%
Liberty Global Class A	LBTYA	Cable Services	29.67	26.16	34.63	5	22.8%
Yahoo	YHOO	Internet Services	40.07	37.06	44.92	5	15.1%
CommScope	COMM	Telecom Equipment	35.79	28.28	32.77	4	8.6%
Humana	HUM	Health Insurance	213.63	150.00	183.49	4	23.7%
Johnson Controls	JCI	Diversified Industrial	45.32	40.32	48.97	4	145.7%
Universal Health Services	UHS	Hospitals	124.65	118.04	138.77	4	215.6%
Williams	WMB	Energy Infrastructure	30.83	19.68	31.43	4	(-28.9%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of September 30, 2016.

cheap, but continue to trade near their lows reached in the third quarter.

If the five star investors who bought shares of **Hewlett Packard Enterprise** – four of which established new positions – did so at the start of the quarter on July 1, they've been well rewarded as the stock rose more than 20% in the quarter. In a return to its hardware roots after hiving off from former parent company Hewlett-Packard Co. a year ago, HPE is shedding assets with the same alacrity with which it had assembled them in its previous incarnation, now to focus on servers, storage and networking infrastructure. The market for now appears to have gotten behind the strategy, but it's fair to question whether SuperInvestors will see the company as a core long-term holding or more of a special situation tied to the spinoff.

Asset shuffling also likely drew top-investor attention last quarter to **Johnson Controls**, in which four such managers established or added to positions. The company in September completed its merger with Tyco International, and soon thereafter spun off its automotive seating business in order to focus on two segments: Buildings, which provides heating-and-cooling, security and fire-protection systems, and Energy, which is the largest producer of lead-acid automotive batteries worldwide. Star investors' vote of confidence that the way forward makes sense has so far been seconded by the market: At a recent $45.30, JCI shares are up more than 40% so far this year.

Among large brand-new buys in the quarter [*see table below*], Baupost Group bought into **Synchrony Financial**, the largest U.S. provider of private-label credit cards. The company's shares swooned in June after it raised its forecast for loan charge-offs, presenting what so far appears to have been an excellent buying opportunity. On the strength of better-than-expected Q3 earnings and the post-election strength in financial shares, Synchrony's stock, now at $34.50, is up 35% since the beginning of the third quarter.

In somewhat of a surprise, Berkshire Hathaway made **American Airlines** its top new position. (Delta Air Lines and United Continental Holdings were #2 and #3.) Warren Buffett at Berkshire Hathaway's 2013 annual meeting called airlines a "death trap for investors," but this latest foray likely reflects, first, that the new positions were taken by one or both of Buffett's hand-picked successors, Todd Combs and Ted Weschler and, second, that as price wars and unrestrained expansion have been replaced by a rational oligopolistic industry structure, investing in airlines may be less dangerous than it was.

Pershing Square Capital in describing its new stake in **Chipotle** cited a "strong brand, differentiated offering, enormous growth opportunity and visionary leadership" as key reasons it expected the company to rebound from its food-safety-related woes. With the stock trading at more than 40x expected 2017 earnings, the margin for error around the turnaround doesn't appear overly wide. SII

What They're Buying: Biggest New Bets

These were the 15 largest new positions established by individual SuperInvestors during the third quarter. New buys of financials Synchrony Financial, Bank of America and Citigroup appear especially well-timed so far. One surprising pick: Berkshire Hathaway's purchase of American Airlines.

Company	Ticker	Industry	Price@ 12/2/16	Q3 2016		Investor	Price vs. Q3 2016 High
				Low	High		
eBay	EBAY	Online Retail	28.42	23.30	33.19	Lone Pine	(-13.6%)
American Airlines	AAL	Airlines	46.10	27.12	39.52	Berkshire	17.1%
Perrigo	PRGO	Pharmaceuticals	85.96	82.50	99.14	Starboard	(-11.1%)
Synchrony Financial	SYF	Consumer Finance	34.49	24.83	28.89	Baupost	16.4%
Bank of America	BAC	Banking	21.23	12.45	16.24	Viking	23.2%
Apple	AAPL	Computers/Consumer Electronics	109.90	94.37	116.18	Third Point	(-5.3%)
Citigroup	C	Banking	56.02	40.03	48.18	Blue Ridge	15.1%
Chipotle	CMG	Fast-Food Restaurants	400.03	386.10	444.13	Pershing Square	(-7.3%)
Dunkin' Brands	DNKN	Fast-Food Restaurants	54.27	42.08	52.22	Eminence	(-2.5%)
Facebook	FB	Internet Services	115.40	112.97	131.98	Appaloosa	(-11.3%)
HCA Holdings	HCA	Hospitals	70.31	73.24	81.79	Brave Warrior	(-11.5%)
Dollar General	DG	Discount Retail	74.56	68.77	96.88	Maverick	(-20.7%)
Universal Health Services	UHS	Hospitals	124.65	118.04	138.77	JANA	(-11.6%)
Apple	AAPL	Computers/Consumer Electronics	109.90	94.37	116.18	Ivory	(-5.3%)
Johnson Controls	JCI	Diversified Industrial	45.32	40.32	48.97	Corvex	(-8.7%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of September 30, 2016.

Less is More

Top investors appeared to find discretion the better part of valor last quarter when it came to pharmaceutical-company holdings, while also taking some money off the table in certain of their technology and other winners. By Alex Dumortier

While SuperInvestors found opportunity in certain hospital-related stocks, selling outpaced buying elsewhere in the healthcare sector last quarter as pharmaceutical companies **Allergan**, **Shire** and **Teva Pharmaceutical** were among the most actively sold [*see table below*]. Each has been a prominent player in the buoyant dealmaking cycle that helped drive their share prices and those of others in the industry to all-time highs. As that cycle ends, the expected shift inward to a focus on operations, pipeline development and capital return doesn't appear to be generating as much investor excitement.

For Shire and Teva, whether that reticence proves deserved will likely hinge on their integration of large deals – Shire closed on its $36 billion acquisition of Baxalta in June, while Teva completed its $40 billion purchase of Allergan's generics business in August. Another key wildcard is the extent to which the Trump administration heightens or lessens the pressure on drug-price increases. For the time being, caution has been well founded as the shares of Allergan, Shire and Teva all trade well below third-quarter lows. Time will tell when they become cheap enough – all three trade for less than 12x estimated forward earnings – to again curry SuperInvestor favor.

After a multi-year run in the company's share price, four investors decided to sell **Take-Two Interactive**'s stock during the third quarter. The videogame maker has gone from strength to strength on the success of such game franchises as Grand Theft Auto and NBA 2K, but when two tweets from the company's Rockstar Games label that obliquely refer to an upcoming game sequel can cause the stock to pop 5% in one day – as occurred on October 17 – it's fair to ask whether enthusiasm hasn't started to overtake reality.

Long-time collective interest in online-travel company **Priceline** typically adjusts at the margin depending upon the short-term ups and downs in the stock. The shares came under pressure early this year when global economic concerns hit travel-related stocks. As those concerns waned, Priceline shares rose sharply, up nearly 50% from their February low through the end of the third quarter. Top investors sold into that strength, with four reducing or eliminating their positions, cutting the aggregate stake held by nearly one-third.

Collective ardor for **Coca Cola European Partners**, among the most actively

What They're Selling: Caution Ahead?

Four or more SuperInvestors reduced or eliminated their positions in these stocks during the third quarter. Pharmaceutical companies that are now focused inward appear to be less interesting than when they were doing deals. The quickest sentiment about-face: Coca-Cola European Partners.

Company	Ticker	Industry	Price@ 12/2/16	Q3 2016 Low	Q3 2016 High	# Of Decreased or Closed Positions	% Change in Shares Held - All Funds
Allergan	AGN	Pharmaceuticals	189.69	228.68	261.27	8	(-27.1%)
Alphabet Class C	GOOG	Internet Services	750.50	688.22	789.85	5	(-9.2%)
Microsoft	MSFT	Computer Software/Services	59.25	50.39	58.70	5	(-23.4%)
Shire	SHPG	Pharmaceuticals	174.80	184.70	209.22	5	(-11.2%)
Teva Pharmaceutical	TEVA	Pharmaceuticals	36.53	45.76	56.44	5	(-26.3%)
Charter Communications	CHTR	Cable Services	266.67	226.81	279.95	4	(-2.5%)
Coca-Cola European Partners	CCE	Beverage Distribution	31.52	34.22	41.29	4	(-27.0%)
Facebook	FB	Internet Services	115.40	112.97	131.98	4	(-7.0%)
Mohawk Industries	MHK	Flooring	190.00	183.90	216.58	4	(-33.3%)
PayPal	PYPL	Payment Services	38.62	35.72	41.30	4	(-24.2%)
Priceline	PCLN	Online Travel Services	1,473.00	1,245.51	1,481.78	4	(-32.0%)
Take-Two Interactive	TTWO	Videogames	47.46	37.64	46.78	4	(-28.1%)
US Foods	USFD	Food Distribution	23.32	22.90	25.83	4	(-4.8%)
Walgreens Boots	WBA	Drugstores	85.11	78.05	85.08	4	(-56.6%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of September 30, 2016.

bought stocks in the second quarter, didn't hold up well last quarter, as all top investors holding the shares reduced their stakes. The company formed in August when three Coca-Cola bottlers in Europe agreed to merge, forming the largest such bottler in the world with some $12 billion in annual revenue earned across 13 European countries. Selling looks like a clever decision so far – CCEP's earnings report in November was poorly received and its stock is down more than 20% since quarter's end – but the pessimism might indicate that the market isn't giving the company the chance to achieve merger-related gains, which is a multi-year endeavor. A conference call outlining management's 2017 outlook, scheduled for December 15, could be instructive in that regard.

Shares of flooring specialist **Mohawk Industries** hit an all-time high last quarter, which may explain the selling of its stock by four top investors. At 14.5x estimated forward earnings, however, the shares don't appear expensive for a company that is improving returns on capital and as a market leader is poised to benefit if the firming U.S. housing market has legs.

Despite the company consistently beating earnings expectations, **Walgreens Boots Alliance** shares have been stuck in neutral for two years and came in for collective star-investor selling last quarter. The pharmacy giant faces two major uncertainties: a potentially changing regulatory regime that could reduce drug demand from consumers dropping out of the health insurance market, and delays in finalizing its planned merger with Rite Aid, now expected to close by the end of January. Apparently deeming caution the better part of valor, four investors reduced or eliminated their positions, reducing their collective stake by more than half.

Among top sales of SuperInvestors [*see table below*], many no doubt reflected valuation concerns after strong runs in individual stocks. Lone Pine Capital, for example, unloaded its entire stake in defense contractor **Northrop Grumman**, whose shares returned 36% annualized over the five-year period through September 30. The market thus far hasn't shared Lone Pine's concern: Northrop shares are up 15% since the end of the quarter, pushing its valuation multiples across the board to the very top of five-year historical ranges.

Two successful activist campaigns ended during the quarter, as Pershing Square Capital sold its entire holding in **Canadian Pacific Railway** and Starboard Value exited its position in **Darden Restaurants**. Pershing Square's effort was notable for taking on an entrenched management and board at Canadian Pacific and instigating significant changes in both. Starboard similarly went after what it considered poor corporate governance at Darden, but took its activism to a highly detailed level, suggesting operational changes down to how bread was distributed in the restaurants and how water was boiled for pasta. Despite differing tactics, both campaigns worked out very well for shareholders in the respective companies. SII

What They're Selling:
Selling Out

These were the 15 largest individual positions eliminated for non-takeover reasons by different SuperInvestors during the third quarter. Canadian Pacific Railway and Darden represent two successful activist plays coming to a close. One untimely exit thus far: Baupost's sale of Citigroup.

Company	Ticker	Industry	Price@ 12/2/16	Q3 2016		Investor	Value @ 6/30 ($mil)
				Low	High		
Canadian Pacific Railway	CP	Railroads	151.16	127.02	157.34	Pershing Square	$1,267.4
Suncor Energy	SU	Oil & Gas	32.23	25.70	28.76	Berkshire Hathaway	$617.7
Northrop Grumman	NOC	Defense Contracting	250.87	206.69	224.12	Lone Pine	$588.4
Newell	NWL	Housewares	45.68	47.07	55.45	Viking	$482.6
Walgreens Boots	WBA	Drugstores	85.11	78.05	85.08	JANA	$381.3
Chesapeake Energy	CHK	Oil & Gas	7.23	4.13	8.15	Icahn	$312.7
CenterPoint Energy	CNP	Energy Infrastructure	24.10	21.97	24.71	Elliott	$280.9
Darden Restaurants	DRI	Restaurants	75.04	59.50	63.87	Starboard	$246.4
Lowe's	LOW	Home Improvement Retail	72.31	70.41	83.65	Third Point	$237.5
Air Products & Chemicals	APD	Indusrial Chemicals/Gases	144.55	137.31	157.84	Blue Ridge	$226.8
Aramark	ARMK	Food Services	35.15	32.88	38.30	Maverick	$226.7
Citigroup	C	Banking	56.02	40.03	48.18	Baupost	$219.0
Exxon Mobil	XOM	Oil & Gas	87.04	82.29	95.55	Highfields	$187.5
Comcast	CMCSA	Cable Services	68.78	64.27	68.36	Hitchwood	$176.0
Level 3	LVLT	Telecommunications	55.82	45.20	57.59	Ivory	$133.7

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of September 30, 2016.

Patient Capital

SuperInvestors' collective affinity for prominent players in the computer and Internet sectors at the end of the third quarter remained high; their interest in what appear to be rejuvenated energy and financial stocks, less so. By Alex Dumortier

While pharmaceutical giant **Allergan**, despite its flagging share price, remained the most widely held stock among SuperInvestors at the end of the third quarter [*see table below and Stock Spotlight on p. 8*], technology heavyweights continued to claim a significant portion of top-investor collective attention. While the companies' market positions and share valuations obviously vary, eight of the 20 most-held stocks – led by **Facebook**, Google parent **Alphabet**, **Apple** and **Microsoft** – are prominent players in the computer and Internet sectors.

Facebook and Google together command the lion's share of the digital advertising market, and with arguably strong competitive moats are typical core positions for top investors – depending of course on valuations at any given time. With Microsoft, whose shares increased nearly 35% over the 12-month period to September 30, there appears to be an increasing sense by top investors that the market may have already given CEO Satya Nadella's turnaround plan its full due. Last quarter five top investors reduced or eliminated their Microsoft positions and the collective share ownership fell by nearly a quarter.

The trend is the opposite for Apple, in which six SuperInvestors were buyers last quarter, bringing to eight the number who held significant positions at quarter's end. For such a giant company the shares still go up and down fairly sharply based on

What They Own: High On Tech

Five or more SuperInvestors held at least $25 million stakes in these companies as of quarter's end. Tech/Internet titans remain in high collective demand. Unfortunate given recent performance, only one bank (Bank of America) and one energy-related company (Williams) made the list.

Company	Ticker	Industry	Price@ 12/2/16	52-Week Low	52-Week High	# of Portfolios That Own	Price vs. 52-Week High
Allergan	AGN	Pharmaceuticals	189.69	184.50	317.48	11	(-40.3%)
Facebook	FB	Internet Services	115.40	89.37	133.50	10	(-13.6%)
Alphabet Class C	GOOG	Internet Services	750.50	663.06	816.68	8	(-8.1%)
Alphabet Class A	GOOGL	Internet Services	764.46	672.66	839.00	8	(-8.9%)
Apple	AAPL	Computers/Consumer Electronics	109.90	89.47	119.86	8	(-8.3%)
Liberty Global Class A	LBTYA	Cable Services	29.67	26.16	37.52	8	(-20.9%)
Charter Communications	CHTR	Cable Services	266.67	172.67	281.43	7	(-5.2%)
Liberty Global Class C	LBTYK	Cable Services	28.65	25.86	35.69	7	(-19.7%)
Microsoft	MSFT	Computer Software/Services	59.25	48.04	61.41	7	(-3.5%)
Visa	V	Payment Services	75.72	66.12	83.96	7	(-9.8%)
Yahoo	YHOO	Internet Services	40.07	26.15	44.92	7	(-10.8%)
Bank of America	BAC	Banking	21.23	10.99	21.94	6	(-3.2%)
HCA Holdings	HCA	Hospitals	70.31	60.07	83.69	6	(-16.0%)
Shire	SHPG	Pharmaceuticals	174.80	147.60	210.33	6	(-16.9%)
Williams	WMB	Energy Infrastructure	30.83	10.22	33.09	6	(-6.8%)
Coca-Cola European Partners	CCE	Beverage Distribution	31.52	31.37	54.54	5	(-42.2%)
Constellation Brands	STZ	Beer/Wine/Spirits	146.02	130.23	173.55	5	(-15.9%)
Hewlett Packard Enterprise	HPE	Computer Equipment/Services	23.85	11.63	23.90	5	(-0.2%)
Priceline	PCLN	Online Travel Services	1,473.00	954.02	1,600.93	5	(-8.0%)
Transdigm	TDG	Aircraft Components	245.27	180.76	294.38	5	(-16.7%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of September 30, 2016.

perceptions about the latest iteration of the iPhone, prompting debate over whether Apple has or hasn't lost its innovative touch. When market sentiment on the company ebbs, as it did at the beginning of the third quarter, the stock's low valuation – even now less than 11x estimated forward earnings, not accounting for a vast cash hoard – unsurprisingly seems to attract top-investor attention.

Based on their commonly held stocks, star investors at the end of the third quarter weren't particularly well positioned to capitalize on the significant short-term rerating of bank and other similar financial stocks that followed the U.S. election as the market reviewed its assumptions for economic growth, interest rates and banking regulation under a Trump administration. Only one big bank holding company, **Bank of America**, made the widely held list, but enthusiasm for it during the quarter was extremely high as four of the six investors buying it established new positions and the overall share exposure rose nearly 1,200%. That bet has thus far been well rewarded – BAC stock is up more than 35% from the quarter's end.

Top investors appeared similarly under-exposed to energy-related stocks, with **Williams** the sole representative of the sector on the most-owned list. The pipeline operator has had a rough year, as a merger deal collapsed, a new merger proposal floundered, and six board members resigned after failing to unseat company CEO Alan Armstrong. Despite the turmoil, Williams' shares have rebounded smartly on improved operations from as low as around $10 in February to more than $30 at the end of the third quarter. While activist Corvex Management remained the largest of six SuperInvestor holders of the company's shares, it did take money off the table during the quarter, reducing its shareholding by 55%.

Energy was better represented on the list of largest individual positions [*see table below*], which included **Pioneer Natural Resources** as the top holding of SPO Advisory and **Hess** as Elliott Management's biggest bet. Both stakes have likely caused not-inconsiderable portfolio pain, but patience has started to be rewarded – especially after OPEC's recent agreement to limit production – as Pioneer shares are up 50% so far this year and those of Hess have risen almost 20%.

Another example of patience rewarded: Shares of **Autodesk**, Eminence Capital's top holding, finally appeared to snap out of their doldrums in the third quarter. Like many software firms, it has been going through a business-model transformation focused on selling subscription-based services over perpetual site licenses. Tangible success on that front prompted company CEO Carl Bass to crow to *Barron's* in August that, "When people get around to believing the business-model transition is successful, they are going to wake up one day to find there is a large cloud business here." People do seem to be waking up: At a recent $70.50, the shares are up 70% from their February low. SII

What They Own: Largest Holding

These are the biggest individual positions held by 15 different SuperInvestors as of the end of September. Four sporting high-profile owners were food-related: Kraft Heinz, Sysco, Yum Brands and Restaurant Brands. The top holding furthest from its 52-week-high: Carl Icahn's Icahn Enterprises.

Company	Ticker	Industry	Price@ 12/2/16	52-Week Low	52-Week High	Investor	Price vs. 52-Week High
Kraft Heinz	KHC	Packaged Foods	80.91	68.18	90.54	Berkshire Hathaway	(-10.6%)
Icahn Enterprises	IEP	Investment Holding Company	56.45	42.50	72.60	Icahn	(-22.2%)
Baxter	BAX	Medical Equipment/Supplies	44.01	34.06	50.16	Third Point	(-12.3%)
Amazon.com	AMZN	Internet Retail	740.34	474.00	847.21	Viking	(-12.6%)
Microsoft	MSFT	Computer Software/Services	59.25	48.04	61.41	ValueAct	(-3.5%)
Sysco	SYY	Food Distribution	53.59	38.84	54.66	Trian	(-2.0%)
Yum Brands	YUM	Fast-Food Restaurants	62.42	46.44	66.15	Corvex	(-5.6%)
Restaurant Brands	QSR	Fast-Food Restaurants	47.71	29.28	49.12	Pershing Square	(-2.9%)
Humana	HUM	Health Insurance	213.63	150.00	217.80	Glenview	(-1.9%)
Charter Communications	CHTR	Cable Services	266.67	172.67	281.43	Lone Pine	(-5.2%)
Cheniere Energy	LNG	Liquefied Natural Gas	41.27	22.80	46.00	Baupost	(-10.3%)
Pioneer Natural Resources	PXD	Oil & Gas	187.55	103.50	194.78	SPO	(-3.7%)
Hess	HES	Oil & Gas	57.92	32.41	63.76	Elliott	(-9.2%)
Autodesk	ADSK	Software	70.57	41.60	78.58	Eminence	(-10.2%)
Shire	SHPG	Pharmaceuticals	174.80	147.60	210.33	Paulson	(-16.9%)

Sources: Forms 13F filed with the Securities and Exchange Commission for holdings as of September 30, 2016.

Side Effects

SuperInvestor opinions about pharmaceutical stalwart Allergan have been all over the map in the past year and a half. Might the investor discord over the stock signal that it's a good time to take a closer look? By Ted Crawford

Political and public outcry over aggressive pharmaceutical price hikes, such as those by Mylan for its EpiPen, has dramatically shifted investor sentiment within the healthcare sector over the past year. Stocks of managed-care companies such as UnitedHealth and Humana are near all-time highs, while an ETF of drug manufacturers such as iShares Nasdaq Biotechnology [IBB] is off nearly 30% from its summer peak. Uncertainty over how an incoming Trump administration might address pricing issues on the producer, provider and insurance fronts only heightens turmoil in the industry.

Through this transitional period, SuperInvestor opinions tracked by *SuperInvestor Insight* on industry stalwart Allergan, a global pharmaceutical company serving seven primary therapeutic categories including eye care, the central nervous system, gastroenterology and aesthetics, have been all over the map. For five straight quarters prior to the period ending on September 30th, the company made the quarterly lists of the most-bought, most-sold and most-owned stocks of top investors. Last quarter it was the most frequently sold stock, yet it still remains the most widely owned, held in volume in 11 SuperInvestor portfolios at quarter's end.

Stepping back from the recent machinations around its stock, Allergan's business appears well situated to capitalize on aging demographics and a growing social acceptance of aesthetic treatments across age groups. It has significant franchises in aesthetics as well as ophthalmology, both of which tend to be paid for out of pocket, insulating the company from reimbursement risk. These and other stronghold categories also appear less susceptible to economic weakness than one might expect. Through the 2008-2009 recession, for example, the company's eye, skin-care and Botox drug franchises all reported flat or growing revenues, and its devices portfolio in the breast and facial-aesthetics markets reported just single-digit percentage revenue declines that quickly reversed.

The company also has a history of expanding the markets for its products through innovation. For example, it has extended Botox beyond erasing wrinkles into therapeutic treatments for migraines, muscle spasms, excessive sweating and tremors associated with Parkinson's disease. Therapeutic treatments now generate more Botox revenue than aesthetic treatments. With penetration rates between 3% and 7% depending on the specific market, the flagship product has plenty of room for additional growth.

While the company's development pipeline would appear to lack potential blockbusters, it does include more than 70 mid-to-late stage products, most of which are in ophthalmology. A value investor could argue that risk is diminished by the potential for a significant number of smaller successes that, in aggregate, could generate material revenue growth. Rather than

INVESTMENT SNAPSHOT

Allergan
(NYSE: AGN)

Business: Manufactures, markets and sells specialty pharmaceuticals, the more prominent of which include Botox, dermal fillers and treatments for glaucoma and dry eye.

Share Information (@12/2/16):

Price	**189.69**
52-Week Range	184.50 – 317.48
Dividend Yield	1.5%
Market Cap	$71.15 billion

Financials (TTM):

Revenue	$16.70 billion
Operating Profit Margin	49.0%
Net Profit Margin	36.7%

Valuation Metrics
(@12/2/16):

	AGN	S&P 500
Trailing P/E	5.3	24.2
Forward P/E Est.	11.8	18.4

Largest Institutional Owners
(@9/30/16):

Company	% Owned
Vanguard Group	6.3%
Wellington Mgmt	6.1%
BlackRock	3.9%
Fidelity Mgmt & Research	3.6%
State Street	3.5%

Short Interest (as of 11/15/16):

Shares Short/Float	6.9%

AGN PRICE HISTORY

THE BOTTOM LINE

The core strength of the company's product franchises, modest wins from its drug pipeline and aggressive share buybacks could fuel mid-teens annual EPS growth for years to come. The prospect of such earnings growth translating into at least comparable returns on the stock likely explains why the shares are the most widely held by SuperInvestors.

Sources: Company reports, other publicly available information counting on the big blockbuster – which is more apt to be priced into the stock – low expectations and a lower-risk pipeline likely improve the investment case.

On the mergers-and-acquisitions front, CEO Brent Saunders, who previously served as CEO of Forest Laboratories and of Bausch + Lomb, has been following his previous playbook, preferring to pay up for lower-risk, later-stage assets rather than spend money on more speculative compounds. Last month Allergan announced three acquisitions for a combined $1.3 billion, plus milestone payments, adhering to such a strategy. Two of the acquired companies push Allergan into the potentially lucrative market for NASH, a common liver disease that results from obesity and diabetes.

With $27 billion in cash and marketable securities against $33 billion of debt, the company is well positioned to take advantage of reduced prices for pharma assets – including its own. Last quarter it repurchased $5 billion of its outstanding shares as part of an increased $15 billion buyback authorization, which amounts to nearly 20% of the current market cap.

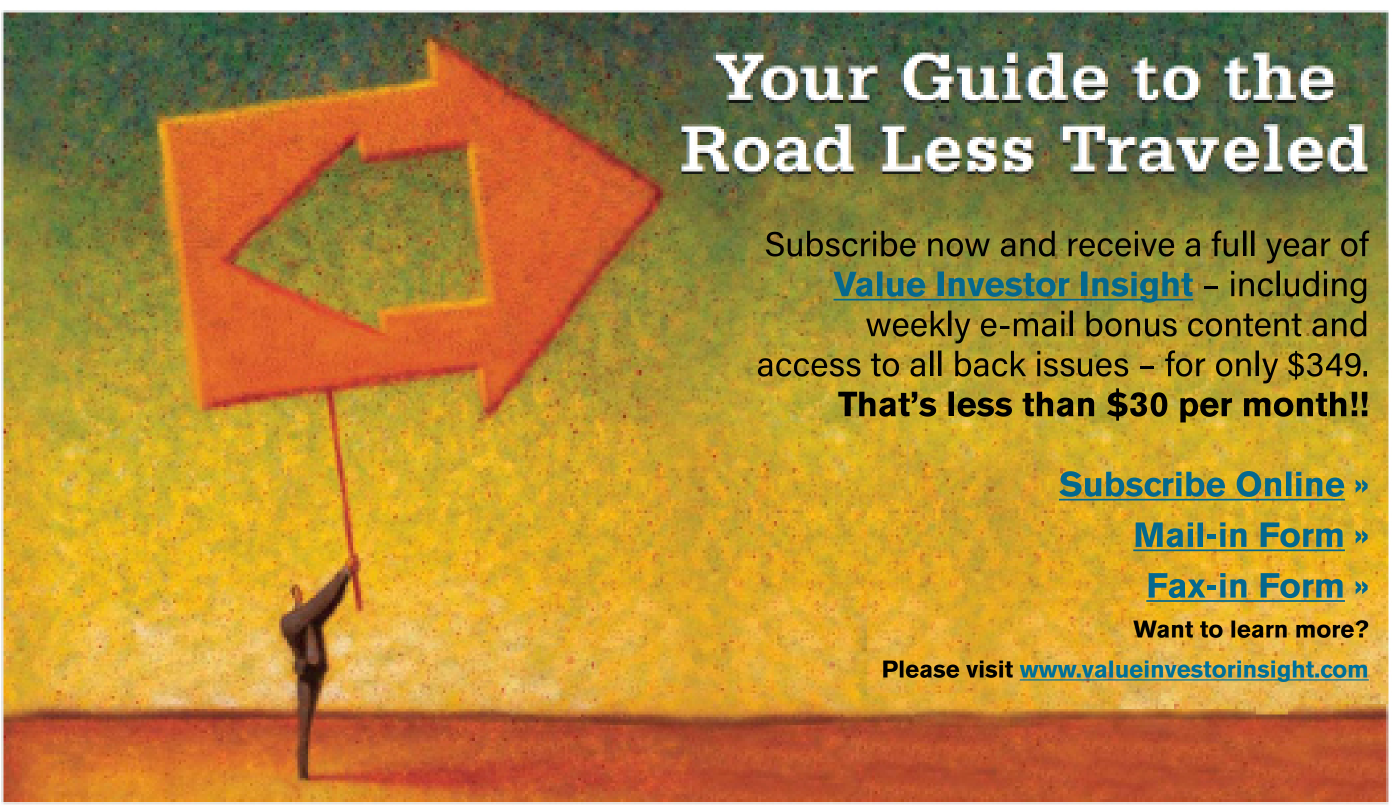
Saunders has also shown a nose for value in selling. His deal to sell Allergan's generics business to Teva Pharmaceuticals for $40.5 billion, or 15x EBITDA, closed in August, but the purchase price was set in July 2015, in the midst of the exuberance for pharma stocks.

ON FALLING FROM FAVOR:

It was only a year ago that rival Pfizer offered to buy Allergan for a full 90% premium to the current share price.

Despite the company's many merits, the bulls have continued to loosen their grip on its shares. That continued after the latest quarter's earnings in which revenue growth came in lower than expected, attributed to somewhat diminished pricing power and the impacts of patent expirations. But that masked some underlying strengths, namely that product lines representing 73% of total revenue reported double-digit revenue growth. The market remains unimpressed: at just under $190, the stock trades at only 11.8x consensus 2017 earnings estimates – a 20% multiple discount to large pharma-company peers who on average have half Allergan's expected earnings growth rate. It was only a year ago that Pfizer offered $363 per share for the company, in a tax-inversion deal that ended up being nixed by the U.S. Treasury Department.

Despite plenty of uncertainty, the case can be made that the market has overcorrected. It's not a stretch to assume that the strength of Allergan's core portfolio combined with opportunistic acquisitions and monetization of its late-stage pipeline can drive high-single-digit revenue growth for several years, which if share purchases continue, would likely yield mid-teens earnings-per-share growth. Even if the share-price multiple stayed where it is, that would yield an attractive annualized return on the shares. One recent buyer of note: CEO Saunders, who since earnings were reported in early November has made roughly $1 million in open-market purchases of the company's shares. SII



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