

What is an Owner-Operator?

Owner-operator companies are businesses that are managed and run by their founders and/or largest shareholders. Such companies represent a large and growing share of our highest conviction investment ideas. Owner-operator management is an attribute that we have studied since our inception 20 years ago. Rather than rewarding themselves with extravagant cash compensation packages, such managements generally pay themselves modestly, and build wealth through the long-term appreciation of their companies' stock price. This effectively aligns management's interests with those of shareholders, frequently referred to as having "skin in the game."



Opportunity in the Current Market Environment

While such companies have frequently been valued at a premium to their agent-managed peers, many are currently trading at or below our estimate of intrinsic value. We believe there are many reasons for this shift:

- The tendency of owner-operators to make long-term decisions that may negatively impact short-term results, resulting in more variable earnings and stock prices, is unappealing to some investors, who are seeking to decrease volatility in their portfolios following the financial crisis of 2008.
- Indexed products such as exchange-traded funds continue to garner a large share of inflows, as many investors believe that these products will exhibit lower volatility. Most major indexes utilize a float-adjusted market cap weighting methodology. This means that insider holdings are removed from the market capitalization of the constituent companies. As a result, owner-operator companies, which have sizeable insider holdings, are systematically under-represented or omitted from major indexes and the products that track them.

We believe owner-operators have a distinct management style that contrasts with that of the typical agent manager, and contributes to long-term shareholder wealth creation by these companies.

An Attribute for Long-Term Outperformance

Owner-operator companies possess several attributes that can lead to excellent long-term returns. These attributes are reflective of owner-operators' extended investment horizon and vested interest in building value in their businesses.

Alignment of Interests

Owner-operators maintain significant common equity interests and frequently use the constituent companies as the primary means of creating significant personal and shareholder wealth.

Opportunistic Asset Allocation with Long-Term Focus

By virtue of owner-operators' significant financial interests, managerial decision-making is characterized by greater freedom of action, resulting in an enhanced ability to focus on building long-term business value (e.g., shareholders' equity).

Access to Capital

Owner-operators have exhibited a history of sound decision-making and, therefore, are able to access capital on more favorable terms in comparison to agent-operators.

Informational Advantage

Owner-operators' successful long-term track records make them desirable business partners, resulting in an enhanced network of business relationships and access to superior deal flow.

Owner-operators Vs. Agent-operators

A quick look at the insider ownership levels at owner-operator companies held in the investment products managed by the subsidiaries of Horizon Kinetics LLC and agent-operator companies in the S&P 500 Index is telling:

Insider Ownership Percentage for Largest Horizon Kinetics Holdings

Company	Owner-operator	Owner-operator ownership %
Howard Hughes Corp	William Ackman	13.2%
Liberty Media Corp.	John Malone	43.1%*
Icahn Enterprises L.P.	Carl Icahn	86.8%
DreamWorks Animation SKG Inc.	Jeffrey Katzenberg	61.3%*
Agent-operators in S&P 500 Index		0.04%

* For Liberty Media Corp: 43.1% voting power; Mr. Malone owns 2.2% of the company's Class A shares and 88.8% of the Class B shares. For DreamWorks Animation SKG: 61.3% voting power; Mr. Katzenberg owns 11.9% of Class A shares and 100% of Class B shares.

The chart above reflects the percentage of inside ownership each owner-operator has in the companies listed. The agent-operators in the S&P 500 Index represents the inside ownership percentage for all agent-operator companies within the S&P 500 Index.

Source: Horizon Kinetics, Bloomberg, Factset, Company Reports

Each of the owner-operators listed above has a history of success in his field, and each has created significant value at the company listed above. We believe that investing alongside these individuals allows us to gain exposure to their superior investment capabilities. Over an extended time horizon, we believe this will allow us to generate above-market returns.

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