

This was a great interview with value investor Seth Klarman on a variety of topics. We got it transcribed below:

Billionaire Seth Klarman: Leadership in Investing and Life



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Interview Transcript:

Interviewer: Hi. Good morning. Welcome. So, as you can see, today's a little bit of a different structure. I'm not gonna be doing my court sprints, as I do each week. It is a real honor to have Seth Klarman here, today. I can only begin to

imagine how busy you are, Seth, so thank you very much for making the time and sharing some of your experiences with us today.

Seth Klarman: Sure.

Interviewer: So welcome. Alright, so here is what we're gonna do today. I have a list of questions that I put together based on a lot of the things that we discussed in the class, based also on some of your questions to me. So, why don't we start, first ... ? You know, we read your bio, I'm sure a lot of us including myself googled you, but why don't you tell us what your business is about?

Seth Klarman: I run an investment firm. We started our firm when I was graduating from business school in 1982. We started with \$27 million dollars under management that belonged to three well-to-do families, and today, with more people and more staff, more clients, we have about \$6 billion dollars. We continue to follow the same investment philosophy. A very risk averse, value-oriented philosophy, and that's our firm.

Interviewer: Yeah. Wow. \$6 billion, that's almost as large as the Harvard endowment.

Seth Klarman: Not quite.

Interviewer: Getting there. So, how many people work in your firm currently?

Seth Klarman: We have about 60 people, about half of that on the investment side of the firm, and about half of that on the back office or administrative side of the firm.

Interviewer: Right, and so you're leading 60 people and interacting with a lot of clients, as well. As you know, this is a class on leadership. What is your management and leadership style, and how do you do it?

Seth Klarman: It's a great question. First of all, I think one of the things that, maybe this makes me different from a lot of people in my position, but I don't think a whole lot about being a leader most of the time, that I go to work, I know what my responsibilities are, other people know what theirs are, and we just try to do our job. Our goal for our company is to be excellent. Not to be the biggest, not to be the most profitable, to do the best possible job, and we turn away clients, we've been close to new clients for years. We don't charge the highest fee we could get away with charging, we keep our fees where they've been for years and years.

So, a lot of what drives us is that determination to do an excellent job, to be proud of what we do. If I had to pick one thing that characterizes my management or leadership style, I think it's probably do unto others, and I have ... I feel like I can step into other people's shoes, and understand what would they like, what would make them feel good about working at our company, what would feel like inappropriate requests, a double-jeopardy situation where I held them accountable for something more than fairly so, and so I think a lot about how to get the most out of people, how to motivate them to work in the firm's best interest, and how to do it while they feel great about doing it.

Interviewer: So I'm trying to see a picture; you come to the office in the morning, and then, I mean, what does it look like? What does your work day look like?

Seth Klarman: Well, one of the great things about the investment business is you don't know what your day's gonna be like 'til you get in, that you could think, "Today I'm gonna focus on this," but then the markets change or some news development happens, and all of a sudden you're focusing on something else, that, when our firm was much much smaller, in the early years, I would be not only the president of the firm, but also the only investment analyst of the firm.

Today, we have almost 20 investment analysts, and so I have stepped back from following positions myself, and have seen the younger people in the firm grow, and develop, and in some cases, become partners, in the firm, so I'm still the gatekeeper, if somebody wants to make an investment, they have to get it through me, but I'm not initiating ideas, or if I am initiating, I'm handing them off and then they're coming back. My day could involve anything from sitting down to talk about investments in a variety of areas. Our firm is global in scope, and we cover public markets and private markets ranging from debt, to equity, to real estate, to private investments.

So it could be a broad variety of investments. I could be talking to clients or meeting with clients, working with staff across the firm, interviewing for new staff, and once in a while, teaching or doing some other community activity.

Interviewer: So, you know, again, you're incredible busy, and yet you do philanthropic work, and you spend a lot of your time there. First of all, where do you find the time, and second, why do you do it?

Seth Klarman: Yeah, there's an old saying that if you want something done, ask a busy person to do it, and I guess there is some shred of truth to that. I just feel a huge obligation to give back. I know I'm very lucky, that I'm lucky to have been able to start a business, and for the business to have been successful.

Some of it's due to hard work and skill, but some of it is due to the right place and the right time, and I think that all of us have an obligation to leave places better than when we got there, whether it's an institution like Harvard or whether it's the world, and so I feel like with the economic opportunity that I've had, and the opportunity to play a leadership role in making the world a better place, that I couldn't live with myself if I weren't working hard both on the business front, but also on the philanthropic front.

Interviewer: And what do you see your role on the philanthropic side ... so, it's donating money would be one, but I know you're involved beyond that.

Seth Klarman: I'm a really big believer in leading by example, so, first and foremost, I think you can't expect other people to give of their money or their time if you're not doing that. I also think it's just a natural sense that I have that you would wanna match your money with your time, so where you're spending a lot of money, investing a lot of money into the future, you probably wanna give time to make sure the money's well-spent, and vice versa, if you're spending a lot of time, it probably makes sense that those would also be among the places you're giving the most money to have the most impact of your time.

I also think that, probably, as a philanthropic leader, one of the things I can do best is lead by example in the sense that sometimes organizations are stuck, sometimes people wanna do more but they haven't been asked the right way, or they haven't been inspired the right way. Something as simple as I joined the board of my daughter's school a number of years ago. The largest annual gift, I think, was \$10,000 dollars a year. For a school of their reputation, and knowing what other schools do, I thought \$25,000 dollars wouldn't hurt the top echelon of donors, and I was in a board meeting that actually had a leave, and I dramatically said, "I'm leaving now, but before I do I'm raising my annual gift to \$25,000, and I hope other people consider doing that, too."

And I heard the next day, that after I left eight of them did. So just breaking a log jam, if you will, sometimes is the most powerful thing. Anybody could've done it, but somebody had to do it.

Interviewer: Right, so like anchoring the expectations higher than they were before.

Seth Klarman: Mm-hmm (affirmative). Right.

Interviewer: That's great. I know you also teach a class, or you taught a class at HBS. What was the class about, and also, why did you do it?

Seth Klarman: I teach a guest class here and there at HBS, and at several other business schools in the northeast, usually a one-day based on what I do, and I had the chance to teach a semester class in 2002, and I decided to teach a ... it was a seminar based on real-life investment examples. Timely, would you buy this, would you sell it short, how do you wanna think about this exact situation? And next week, another real situation. That particular class was interesting because it was kind of unique, that, to wrestle through I think it was 13 real situations, in real time, not knowing how they turned out. Anybody can look at a case study and say, "Well, I know how New Coke turned out."

It's different to talk about 13 examples and not know the answer, and that's part of what's fun about investing, too, is you can think you've seen it before, but not exactly that way. And I did it for the same reason that I thought it would both be interesting, and it would be another different kind of way to give back, kind of like today, that if this is useful to anybody, I'm happy to give the hour and talk about leadership.

Interviewer: So, it's very interesting. So, you described the class as hands-on, real time, and in many ways, this is what we try to achieve in this class, for it to be not just a theoretical class where there is a lecture and they read papers, but actually to have hands-on, real time experience. So, for example, they're all part of coaching groups. But this is just the beginning. They're going out to the world, some here are seniors, or they're not. How would you recommend that they continue developing as leaders in the workplace, day to day? Because it is a lifelong journey and process.

Seth Klarman: I guess the first thing I'd say is that a leader, to me, has ... you gain your credibility to be a leader not because you've got the loudest voice, or because you're issuing orders, but because you have credibility, but you gain credibility by being right, so you kind of have to demonstrate it over time. You gain credibility by having knowledge, so accumulating knowledge, attention to detail, and time, as much as anything, goes into that, that you can't just instantly show up and be expected to have the credibility.

Beyond that, I think moral values are incredibly important, that we run our firm ... we've actually borrowed two lessons from Warren Buffett, who I think has really good ideas for how to think about certain things, and the ideas are what he calls the football field test, which means you wanna play the game in the middle of the field, that it's easy to get near the sideline, but sometimes you can step over the sideline and go out of bounds, so stick to the center of the field where you can't get into trouble.

And the other is the Wall Street Journal test, which basically is don't do anything that you wouldn't be happy to read about tomorrow morning, or to have your mother read about tomorrow morning in the Wall Street Journal, that you'll always want your mom to be proud of you.

Interviewer: Yeah, so that's sort of an ethical test, that you say, "Will it stand?"

Seth Klarman: It's an ethical test, but I think that's part of leadership, that too many organizations ... we read everyday about the Enron trial, too many organizations didn't have moral leadership at the top, and I think those things do, the culture and values, do come from leadership at the top.

Interviewer: The culture and values. Can you say more about that? So, what culture would you want to create in an organization? What values are the most important for you to communicate down?

Seth Klarman: Well, I think, in a broader sense what I said before about excellence is, to me, the important thing, that investing is a funny business, that it is a very quickly changing landscape that you don't just show up and the same kinds of investments that were interesting yesterday are also interesting today. So you need to be prepared to move quickly. I believe you need to be able to work as a team, and that's one of the values of our firm.

And it's much harder to manage, by the way, a team. It's easier to say, "You run some money, you run some money, you run some money, and we'll talk once a year." It's much harder to get people to collaborate, but the collaboration, I'm convinced, results in lower risk, because each person might be able to help us reduce the risk of what we're doing, or see a flaw in what we're doing, and it enhances the return, because the collaboration also likely leads to the capital going to the best ideas, not just mediocre ideas.

But in particular, I mean, I see leadership and espousing values as being one and the same. I don't think you can separate them.

Interviewer: You know, one of the things that we talked about in this class and read about is the importance of trust, and how does a leader build trust? Because this is the number one thing that employees look for, and what you said earlier, it takes time to build it.

Seth Klarman: It takes time to build it, that one betrayal of trust can set you back an enormous amount of time. I would say the other thing, in terms of time, that it's probably pretty unique to me in how I think about running our business, but I spend a huge amount of time with people in ways that other leaders of similar firms to mine I don't think would even dream of spending their time. To illustrate, every three months, every quarter, I sit down with the entire firm, other than the investment team, and talk about our investments, that it seems to me that part of the fun of being an investment firm is understanding now just mailing the monthly statements, or answering the front door when people come for a meeting, but understanding not only that the firm is successful, but why it's successful.

Why are we buying, all of a sudden, stocks in South Korea when we didn't used to do that? Or, why are we suddenly buying real estate in India when we didn't used to do that? And so I think simply spending the time and paying the attention to get everybody up to speed helps create a firm where everybody's on the same page, that as the leader, you want each employee to go the extra mile for the firm, that if it got really busy they'd stay late without grumbling about it, if there was a risk of a mistake they'd spend the extra time to check and double check and make sure there wasn't a mistake.

A firm like ours can sink or swim not just based on the investment success, which, obviously, if we're unsuccessful at investing over time, we will not do well, but if somebody in the other part of the firm, if somebody mails your statement, as a client, to somebody else, people start wondering what kind of shoddy practices we have. If your statement gets mailed to you, but it's missing a zero, that would create all sorts of issues. So, people paying attention to details at every level of the firm is important, and I wanna create as much of an environment as possible where people are committed to the excellence that matters throughout the firm.

Interviewer: So, when you started off, and you opened your own firm, who did you look up to for examples? You mentioned two things that you learned from Warren Buffett, but who are your role models? Who do you respect as leaders?

Seth Klarman: You know, I don't think when we started the firm I could point to a particular person and say, "I modeled this after them." I did model a lot of what we did after the investment philosophy first espoused by a fellow named Benjamin Graham, who I never met, who passed away in the '70s, but who was kind of the intellectual father of value investing.

Seth Klarman: But who was the intellectual father of value investing, and my old boss Max Heine, who I actually dedicated my book to that I wrote in the early '90s. Max Heine was a German immigrant in the 1930s, eventually was

schooled in value investing, was an early investor in some of the railroad bonds, railroad bankruptcies in this country and I learned so much from him. I learned the philosophy from him, and in terms of the values of the firm, I think it was ... also, I do think you can learn as much from what people aren't doing as from what they are doing. So, in terms of people who I currently admire as leaders, I try to think about this, you told me you might as that question, somebody like Martin Luther King is an example of somebody who overcame odds, who showed tremendous moral courage and personal courage, and did it in a striking contrast to the way that some people do it with non violent approach. He's such an inspiration to what can be done and the power of the right thing to triumph with enough power, and enough force, and enough numbers behind it.

In today's political world, I thought of somebody like Senator Lieberman who, while you may not agree with his stance on the Iraq war, he's basically become a pariah in his own party standing up for his beliefs. I think any, especially in a world where we're filled with a world of politicians that don't stand up for what they believe and cower at the thought of any kind of difficult decision, here's someone brave enough to stand up for what he believes. I thought, not in a business sense, 'cause I don't know him in a business sense, except for what I read, but somebody in the philanthropic world is Bill Gates. There is an example of somebody with the values of how lucky he is and how he's responsible for making the world a better place. He's had the vision, the same kind of broad, deep vision that he's had at Microsoft, in terms of curing entire diseases. I also think that his vision is the kind of thing that can set an example for other gazillionaires to try to change the world instead of hogging their money to have a higher spot on the Forbes list.

Interviewer: Yeah. Speaking of philanthropic work, there's a lot of work at the business school and also, more and more here at the college about social enterprise, bringing practices from the for profit sector, applying it to the not for profit sector. What are some of the things that you think the not for profit sector, the philanthropic sector can learn from business?

Seth Klarman: In the organizations that I'm most involved with, I actually see enormous parallels between how we run our firm, or how we would want to run our firm and how they run theirs, that some of the day to day issues are exactly the same. You have people to hire, you have people to pay, you have people to try to retain, and in fact, you're doing it on a much lower salary base so it's harder in some sense. I think all of the organizations that I get excited about, have really charismatic leaders, people who others would want to work for and to go the extra mile for. So, I think those kinds of things are really important, that a leader ... I mean, another example would be, a leader does not take credit, a leader gives credit.

Credit's one of those funny things that the more you give, the more you end up getting back even despite that, but a real leader is quick to give everybody credit around them, that empowers them and that also makes them feel good. And eventually, as the ultimate leader to be surrounded by people like that, ends up being to your credit too, but you have to do that and the successful not for profit sub scene. It's the same way, but it's also a team approach just like our firm, that not for profits have to run as a team I think, to be doing their good work, that I think the obvious biggest difference is not for profits are not for profit, they're not profit maximizing. I believe, like our firm, that there are other values that are just more important and I push them very hard to think about remembering their core values, not losing sight of ... not listening to consultants all the time, not looking for every last efficiency, but rather maintaining their excellence, keeping ...

One of the things that's easy to lose sight of is the cost of training and retaining people, the turnover is the enemy of our business. It is so expensive to spend days and days looking for somebody great, getting them up to speed, and it could be years before somebody can contribute in our firm. I think it's similar at a not for profit in many ways, so that keeping the people you have happy, making sure they have good benefits if the salary's not gonna be huge, at least do what you can to help them out. And ultimately, also being flexible enough to do the humane thing. Somebody's had a crisis in their family, they should just get time. These are parallel, if they can't afford medication, buy them medication, if they need some extra intervention, arrange it for them if necessary. Those are exact parallels between our company and a not for profit, you have to put the people first.

Interviewer: Great. Can you give us an example of a not for profit that you're involved with?

Seth Klarman: My longest involvement has been an organization called Facing History And Ourselves. Facing History is a teacher training organization that uses difficult histories like the holocaust and other genocides to get students to confront their own life in a historical context. In other words, to understand the impact of racist jokes, or ethnic jokes to stand up to perpetrators, to people who are committing crimes, or doing the wrong thing, to say, "Not in front of me, you don't." And to find a bravery that they might not have had, a moral courage that they may not have had. The history of the holocaust is full of very small steps that people imagined that Hitler came to power and said, "Let's kill all the Jews and homosexuals and gypsies." That's not what happened, but gradually, slowly, through a democracy at first, they pass laws, they change the rights of people and that students ultimately, through this organization, I think are led to understand that they can have an impact on the world, that through each small act of moral courage, the world over time is changed.

Interviewer: Okay. Now, if you don't mind, let's get a little bit personal.

Seth Klarman: Perfect.

Interviewer: We do it a lot in this class. We're talking in the class about the importance of focusing on people's strength for each one to understand what he or she is good at, to appreciate it in the two senses, first of all, be grateful for it, and also appreciate like money appreciates, make it grow. Maybe you can talk a little bit about yourself and what you see as your strengths as a leader, what do you think your added value as a leader is, and also what things are you working on to improve as a leader.

Seth Klarman: The strengths, I think some of them I talked a little bit about. I think the ability to have empathy and step in other's shoes is important, I think ultimately being right is really important in our business, that if I were doing everything else well, but had bad investment instincts, that ultimately I wouldn't have any credibility to lead. So, I think those things are important. Investing is also a very complicated business, where at the core, people are turning over, in some ways, their most valuable asset other than their children to you and they're trusting you. Trust is a critically important word and it's an honor, you can't have anything greater than the trust of another person. It's something that once you've earned, you can also lose and it's important to, I think, be consistent, be stable, be trustworthy.

In terms of the weaknesses, there probably a very long list. I think the obvious one is, I'm not a big fan of delivering bad news that it's very hard to tell people they're not doing as well as you need them to do. Sometimes, it's despite tremendous effort to do as well as they need to, that we have simply found over time that not everybody works out, that some people can't get outside the box, they lack imagination, they don't have good instincts. In fact, part of what we do is contrarian, you need to be a contrarian to succeed at our firm, some people just aren't thinking that way, they tend to take comfort by being part of a group, we take comfort by being apart from the group. So, delivering the bad news is always difficult, sometimes we try to temper it with a balance of good news and bad news, and ultimately, if things don't work out, you have to let people go and that can be ...

Although, I think I have learned over time, people tend to sense that bad news might be coming, that it's not as big a shock to them as you might have thought, nevertheless, it's a very hard thing to do. Also, especially, I care about our people, I care about every one of them. I've usually been involved in interviewing them and making the hiring decision and working with them closely over time, so acknowledging that it didn't work out is emotionally hard.

Interviewer: Yeah. How do you do it? Because again, one of the things we talked about here is that to be an effective leader in the long run, you have to, you have no choice but to deliver bad news. The concept that we use in this class is borrowed from Emerson who says that in a friend, he's not looking for much of concessions, but rather for a beautiful enemy, a person who will challenge them and tell them the truth essentially. So, I know that we all work on something throughout the semester and many students and myself too, were working on being able to deliver bad news. So, how have you improved over the years? Or what advice can you give us?

Seth Klarman: I think one of the most important things is, recognizing that dealing with a problem can have such huge benefits, that the personal angst and inconvenience of having to deliver bad news right now that you're fired, is more than overcome by the relief that it probably is and the benefit that it probably is to everyone else in the organization. That if you have somebody that is simply not getting the job done, other people probably have to cover for them, work extra hard 'cause they're not carrying their load, that's not fair. So, as a leader, you want to be fair, carrying someone who isn't cutting it, ultimately isn't fair to everyone else. It's a technical leadership term, but if the person were, let's say an asshole, that getting rid of somebody like that is a breath of fresh air for the rest of the company.

We've had an example of that in the past, where even though the person was very talented, they were extremely difficult to be around and letting them go, let the company move on. We also are in a business where we don't have infinite capacity for staff, we have a very flat structure where I interact with the other senior investment people who interact with the junior investment people. There's not a lot of leverage and if there's somebody taking up a seat who's not productive, or less productive than they oughta be, or difficult to manage and requiring a lot of extra time and attention, that, that is a seat that is failing to deliver on its potential. So again, that way, it's not fair to the organization over time to not take action.

In terms of the specific, if I have to deliver bad news, I guess I'd say I think about in my head, the three or four main things I want to get across in that interview. Sometimes you need kleenex because it's emotionally tough for them, other times like I said, they're not that surprised and it goes surprisingly well. Again, we try to be humane, we give them extra time, we give them parting compensation for leaving, but we have gotten better at making the tough decision. Small problems tend to only fester and become bigger problems if they're not dealt with.

Interviewer: Yeah, it sounds like you're doing two things in terms of looking at the whole system and saying, "How is the organization hurting?", as opposed to just focusing on one instance right now. Also, you're looking at the larger system picture over time, so both in terms of the whole organization, also temporally.

Seth Klarman: Right. You're reframing.

Interviewer: Reframing, so zooming out.

Seth Klarman: Yes.

Interviewer: Makes sense, great. Now, you talked about empathy, and again, one of the things that we talked about here is that ultimately, the most important quality for leaders are the emotional intelligence qualities, empathy being probably the highest on the list. Can you develop that? I mean, have you seen people who have worked for you for whom it was perhaps not a strength, but they were able to improve over time?

Seth Klarman: Yeah. I think the answer is absolutely yes, that my CFO has been with me now for 15 years. His immediate preceding job was Bank of Boston where they were ... that would be in the early '90s, where there were a lot of bad lows, a lot of problems, and they were working constantly, just all weekend, all night. He was looking for a change which was great, but he came in with a very hard driving attitude and really pushed people and rubbed some people the wrong way. Over time, I think in particular, both just talking and reminding him of the firm's values again and again, and showing him the benefit of the firm's values in terms of long retention of people, in terms of very happy people, people who would go the extra mile, that I think he was able to learn and modify his management style.

So now, he is often the one coming to me and saying, "I think we should increase our maternity leave. I think we should have a sabbatical type of program for people that have been here more than 10 years, et cetera, et cetera." So now, he has been turned into a completely different type of manager and leader who is thinking about what would be the best thing for his people.

Interviewer: Let's imagine that I'm a 22 year old graduate of this class and I'm coming to you for an interview, what would you be looking for when you hire a 22 year old?

Seth Klarman: We probably mostly hire 24 year olds, so we would probably say, "Go get two years of experience on somebody else's nickel and then call us." But if we did talk to you, I think this would apply for any age, this is what we're looking for in people. Obviously intelligence matters, facility with numbers matters, but we're looking for a team player, we're looking for intellectual honesty, that's probably one of the most important things. Somebody who, if they made a mistake can admit they made a mistake, somebody if it wasn't their idea, knows that it wasn't their idea.

We're looking for somebody with a good sense of humor, that gonna be together probably more hours than you're with your own family and you need to laugh during the day, you need to have fun during the day. Some firms describe it as the airplane flight to China test, that if you wouldn't want to sit next to this person on a flight from Boston to China, you probably don't want to hire them. They're straightforward characteristics, but not just, "Are you a brilliant investor?", because we want people who want to be at our firm and will be team players.

Interviewer: Looking back on your-

Seth Klarman: Well, the other advice I'd give, 'cause you were touching on that. The advice I'd give to 22 year olds would be, remember the two ethical tests that I just gave. And the other would be to get a good mentor, to find a place to work where they care about you, you're not just a cog in a machine, you're not just a person to be hired and then move on in a couple of years. But some place that if possible will nurture you and be interested in your development, will uniquely focus on what it is that would give you a great experience. Those jobs obviously are in a dime of dozen, but if you can find one I think it really sets you on the road to success.

The last point I'd make would be people that themselves are good, moral, decent people, that one of the things I was very fortunate with at my current firm was when I left business school to help started that I didn't own the firm. I was, actually not a shareholder at all the first day and I worked hard and we produced good results and eventually I had the opportunity to buy pieces of it and then control of it. That would only be possible if I were involved with people who were decent, moral people who did the right thing.

Interviewer: What experience looking back on your new career do you feel good about? Something that as a leader when you think about and it makes you smile?

Seth Klarman: That's great. Not all of you are from Boston, but you probably all understand that we are a long suffering baseball fans and spent 86 long years between championships. In 2004 when the Red Sox got into the playoffs and seemed like they might go onto the World Series, we basically made the decision to buy every single person in the company a ticket to a playoff game. We went on eBay and we paid a fortune, but in retrospect, even at the time, we knew that this was different than if you just handed everybody a \$1,000 bonus. This was the order of magnitude different, that everyone at our company went to the Red Sox the year that they won it all. I still smile at that, it was exactly the right thing to do.

Interviewer: Yeah, that's great. And again, as you said, communicates to the people in the organization that ...

Seth Klarman: And we treated everyone, that was the investment partners and the CFO, and it was the person we'd hired one week earlier who was working at the front desk. Everyone went.

Interviewer: That's great. Now can you tell us about a mistake that you've made as a leader and what you learned from it?

Seth Klarman: I think the real mistake I made was when I referred earlier to the difficult person that we ultimately had to let go, that I tolerated them because they were a brilliant investor far too long and it started to poison the well. It led to all sorts of turmoil and difficulty in the firm and ultimately financial losses as well related to some of their moral character. It was a breath of fresh air at the day they were gone, but I stood over it for way too long and didn't take action, because losing a talented investor also hurts the firm. I was so caught up in the short term hurt of losing their talent that I wasn't focused enough on the longterm benefit of not having them around.

Interviewer: The interesting thing that we've seen here, we've looked at many leaders, some of them actually came and spoke here, and we saw very different styles. You have your very distinct style as a leader, we had a person by the name of Tony Schwartz visiting here who is very ongoing and he literally did sprints on the stage. We had Wendy Kopp who had a very unique style [inaudible 00:37:49] teach for America. You look at the style of Clinton or Martin Luther King or a Joe Lieberman, you compare it to other leaders, politics or business. These leaders are successful, you're successful, and yet so different. Is it possible, and I don't really have the answer for this, but is it possible to find commonalities among successful leaders? And we're talking not just leaders who were able to come to the scene like a shooting star and then get out like a falling star, but leaders who lasted? What would you say are their common characteristics, if there are any?

Seth Klarman: I thought about when I listened Joe Lieberman that you could argue that he's not a good leader, because he's lost the credibility in his party and I decided that what I cared about more than that was doing the right thing. It seems to me that a leader's not afraid to fail, not afraid to lose some of their supporters or to lose some of their business profits if that's what it takes. Right now we're dealing with the challenge of a very expensive and very competitive investment environment where most investments have gone up a lot. There are a very few bargains of the like that our firm would usually wanna find. I think all firms at our business face the same issue, do you pretend or convince yourself that paying more for something is okay, because it's the only thing out there to do? Or do you run the risk of holding a bunch of cash and maintaining your standards, which you sense is the right thing to do, which endangers your business, because holding a bunch of cash looks to clients like you're not really doing anything?

Like Lieberman, I guess, I made the decision that I would rather lose our business from trying to do the right thing. In other words, return every nickel to people if need be, because they want it back 'cause we're not finding investments, than pretending to find good investments, buying them and losing a bunch of people's money and returning it by losing it. I think that in my way that certain values are more important than other values. In terms of parallels, I think a lot of the kind of people you named are charismatic, that charisma can be used for good and it can be used for bad and I think it's incredibly important that we find leaders that also have a moral compass and use it for good. We should hope that most of them do so on their own, but we should demand that of our leaders.

Interviewer: What about a leader or someone who doesn't have the presence, the charisma that Martin Luther King has, what should that person do as a leader, or focus on, or how can that person be successful as a leader?

Seth Klarman: I think that leaders get credibility from a lot of different things that if ... It's very hard to ... Charisma's also something we can't measure and say, "You're a three, I'm a six," who knows what that means. I think that attention to detail, hard work, consistency are things that anybody could do. I'm sure that the leader of an accounting firm is not the most charismatic person we've ever seen, and yet there're probably people at the firm that would do anything to ... If that person said, "Charge through that wall," they would do. I don't know that charisma's incredibly important, but certainly in the identifiable leaders that we can sit here and chat about, most of the ones that come to mind will have that certain special charisma, that certain strength of character that let's the stand up and say, "This is wrong, we're not gonna do it this way. I'm gonna lead you over here." I don't know how to ...

I also think there is a clearly as a serendipitous aspect to that, that the same way that we know that presidents get rated by historians, that the presidents that are always top rated face a gigantic challenge. Some people just don't face a gigantic challenge during their watch and so I think there is some luck of the draw in terms of what challenges you will face and it's who can say ... The other thing by the way, and I think this is also a critical thing, is a good leader is ... Probably every person in this room in their lives is finding ways to avoid problems, that part of my job is to not lead us into investment trouble or problems with our clients or a maturity, a liquidity mismatch between the investments and the clients wanting their money back. It is very hard to measure the avoided cost of avoiding a problem, and leaders deserve credit for things no one can measure in that respect. A leader who's on their watch goes through nothing

particularity difficult, things continue as they were, which is successful, might have been the best leader of all, but it's impossible to know what might have happened if they hadn't been so careful and so excellent.

Interviewer: Right. J.P. Morgan has a quote, he says, "I can do the work of a year in nine months, but not in 12." Meaning that he needs time aside, time for reflection. Would you agree with that or not? And if so, how do you do it in this fast paced world? Many of the students here, especially those going through recruiting, investment banking, consulting, 80 hour weeks.

Seth Klarman: Yeah. I totally agree with that quote. I think I have justified it to myself, 'cause sometimes I need to justify it to myself, that what I'm trying to do is a marathon and not a sprint, that investing lends itself to sprinting, that you get measured frequently. A lot of my competitors measure their performance every single day. I sorta laugh about that. In fact, they have it at real time, you can look at your computer at any moment and say, "We're up 32 bases points today." What I don't like about that is what are you gonna do with that information, that we're down 40 bases points already this morning, let's work harder or let's do something. That's not what investing is. So remembering that it's a marathon and not a sprint and maintaining that focus on what you're really trying to do and what's noise is incredibly important.

I do think recharging your batteries, getting a healthy distance from what you're doing every so often, and also being a whole person that nobody ... Nobody wants a leader to be a workaholic drone that ... In human life, that you have to find a balance and multiple interests and to avoid burning out. What kind of leader would you be if you burned out after five or 10 years. I think developing all of yourself with philanthropic interests and personal interests and putting family first are all critical aspects for a leader. By the way, those are examples that you've set for other people, so that everyone in our firm is comfortable working out of the company, gym during the day if they feel like it, is happy to leave to go to see their kids at a school performance and is making sure that they take their vacation time too. I'm delighted that if I set any example in that regard, that people have followed it.

Interviewer: Again, 22 year olds who are coming out of college, very competitive environment out here. Many want work-life balance. Many are looking for more than just working, the 80, 90, sometimes a 100 hours. Is it possible to be successful, and yet have this desire?

Seth Klarman: I think it's absolutely possible. I think, first of all, working a couple of years at that pace is not the end of the world as long as it leads to something better. When I was graduating business school there was a huge peer pressure to go to an investment bank, that the goal of every single person in my class of 82 HBS seemed to be working for Goldman Sachs. When I looked around and I had those interviews to see what everybody else was so excited about, and you looked at the partners, I thought there was huge information there, that the partners were basically a 100% male, almost a 100% divorced, almost a 100% fat and almost a 100% bald, and that didn't seem like something to give away your best 10 or 15 years, and then you'd be so lucky as to join that group. When I had the opportunity, with the very uncertain plan of a star-up firm that I didn't own any of, to see what it would become and whether it would be successful, I never [inaudible 00:46:57] chose it, partly 'cause I was excited to stay in Boston and not get caught up in the rat race in New York.

I also thought I'd be good at certain things. Competing a 100 hours a week won't be one of them, because there'll always be someone else that can do a 110 hours. But being recognized for what the things I can bring to the table are, in terms a certain investment perspective, a certain discipline, a certain risk aversion that maybe other people didn't have would be a good thing. All I would say is try to hold out. If you have to work for a couple of years to get the next offer or to get into business school, fine. But remember, your goal's not to be working a 100 hours a week, your goal is to get into a situation that recognizes you for who you are. If you ever are going to work that hard, try and have it be on your nickel, try to be an entrepreneur, and at least you're doing it for you, not for somebody else who ... You can hold you a better accountable than you can hold a boss accountable. And if you do work that hard at least the rewards will also go to you, so if you can, be an entrepreneur, especially if you're gonna work that hard.

Interviewer: Seth, you've been a role model to me and I want to thank you for spending the time with us here today.

Seth Klarman: Thank you.

Interviewer: Thank you. Thank you very much.

Seth Klarman: You're welcome.