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We are pleased to bring you the following interview with Pablo Gonzalez, founding partner and CEO of Abaco Capital, based in Madrid, Spain. The conversation was originally published in Spanish on MOI Global en Español.

Pablo Gonzalez is one of the foremost value investors in Spain, having amassed an impressive long-term track record. He has been a participant in The Zurich Project, hosted by MOI Global.

Ezra Crangle, MOI Global: Please tell us about your education and career.

Pablo Gonzalez: I graduated as an Engineer with a Major in Agricultural Infrastructure and obtained a Master´s Degree in IESE Business School.

Once I finished my MBA, I began my professional career in the financial sector, where I have been working for more than thirty years.

I started as an options and futures trader at Banco Santander in Madrid, becoming the head of the unit. I was then given the opportunity to move to New York in the Propietary Trading unit of the bank.

Thereafter I moved to Nomura Securities, also in New York, and to Credit Lyonnais Securities in London later on. For more than twelve years in both entities I was the Director of Proprietary Trading.

Following those years of experience, I thought it was time for me to undertake the project I really believed in, building on what I had learnt for years. The long-term Value Investing philosophy had proven to be profitable in most long-term periods of time in history and I was willing to work with it.

This philosophy is not only the most rationally optimal to me, but it fits perfectly with my character and personality. So it all made me finally decide to launch Abaco Capital in 2007, the asset management firm where I have been working ever since.

Besides managing Abaco, I am involved in the Investment Committees of some Endowments and Family Offices.

MOI: What investment criteria do you use at Abaco Capital? How has it evolved over time?

Gonzalez: We invest in shares and corporate bonds of companies whose businesses we understand very well, always doing so with a long- term vision.

To select our fixed income investments, we focus primarily on the balance sheet´s strength. For us, the key is the value of the company´s assets and what they are worth in case of liquidation. We are also very keen to understand how these assets are financed and get to know if there are any hidden liabilities.

We invest in companies in which our estimated liquidation value is at least 2.5 times the amount of the net debt outstanding. We give a lot of importance to the position our bonds hold in the credit ladder, as well as to the payment calendar.

We are very flexible in the type of bonds we buy, which in my opinion is a competitive advantage. We are quite opportunistic and analyze the whole capital structure investing in the product that makes sense in each moment. We buy convertibles, hybrids, coco´s subordinated, senior, or collateralized bonds depending on what the best option is each time.

Given our approach we tend to focus on companies that own tangible assets, such as buildings, land, ships, pipelines, and other types of infrastructure assets.

On the other hand, in equities we have evolved during the last years to focus on companies with outstanding businesses. We center our attention on the qualitative aspects on the business as well as on the cash the company can generate. We buy the companies once we prove ourselves they are cheap.

These opportunities usually arise because of the cyclicality of the business or when the short-term outlook is affected even though the medium and long-term aren't.

Other times opportunities appear when the enterprise, the industry, or the country where it has a strong competitive advantage go through conjunctural problems.

We look for companies with a strong competitive position, which have a good management team and the capacity to grow in their franchise, even if that growth is cyclical. Most of the companies in our portfolio are leaders in their sector or in the niche where they operate.

MOI: How do you generate investment ideas?

Gonzalez: When it comes to finding ideas, we have a variety of sources.

In many cases we find opportunities in companies we owned in the past, and we sold when they reached our intrinsic value. Occasionally we get the opportunity to invest in them again. This happens quite often in highly cyclical companies.

We keep a list of companies we like to follow. It is formed by enterprises with outstanding businesses and strong competitive advantages whose shares aren't cheap at the moment. We follow them on a quarterly basis, to make sure we are ready if the opportunity arises. Most of the companies in the list have already been part of our portfolio at some point.

In other cases, we find ideas talking to other investors, who have a similar way of thinking and with whom we like to share opinions, we like to attend to events where we can learn and contribute with some of our experience. MOI is an excellent source of new ideas too.

Sometimes, being in touch with companies can be very helpful as well. We usually ask management teams about other enterprises in their industry, no matter if it is a competitor a supplier or clients that have outstanding profiles and can be interesting to us. And we also do this when studying the competitive dynamics of the industries, we don't only focus on the company we are analyzing, we try to keep our eyes open when comparing it to its principal competitors, and other companies it works with.

We are also attracted by stocks that have fallen sharply in the last three to twelve months in different markets. We look for cheap opportunities, so this is always a good reference to start.

However, all the mentioned ideas are only the base line of our investment process. Only one out of three ideas end up in the portfolio. The ones that have a high-quality business with strong competitive advantages but don't have an attractive price are added to the list I mentioned before.

MOI: How important is management for you? How do you value it? Any CEO you admire personally?

Gonzalez: The quality of the management team is essential to us and is a filter in our investment decisions. Nowadays, we do not buy shares in a company where we don't think we are investing with a great team.

In equities, we look for managers that have a stake in the business and whose interests are aligned with ours. We make sure they have a successful track record operating in the industry as well as in capital allocation, which plays a great role in long-term profitability. And their integrity is critical, we pay a lot of attention to their track record treating minority shareholders in the past.

In fixed income, the most important factors are integrity and prudence in capital allocation. We feel more comfortable when there is a family or a controlling shareholder with a long-term vision of the business.

Francisco Jose Riberas Mera (Gestamp) and Anton Pradera (President of CIE Automotive and Global Dominion), are two clear examples of managers we admire. Not only are they excellent at running their respective companies but they also are completely aligned with shareholders' interests and determined to create value for them in the long term.

MOI: How do you find a balance in your portfolio between having the right concentration in your best ideas and the necessary diversification to avoid the risk of drawdowns?

Gonzalez: In Abaco Global Value Opportunities, we can go up to 100% in Equities. Twenty positions represent at least 75% of the fund.

We have two restrictions imposed by the regulator in Spain. We cannot buy more than 10% in any given company and the sum of the positions with a weight of more than 5% cannot add up more than 40% of the fund.

So, normally five or six positions represent a bit less than the 40%.

In the other fund, Abaco Renta Fija Mixta Global (max 30% Equities, 70% Fixed Income), we have the same positions in equities than in the other fund that can go up to a 30%. In addition to that, we invest opportunistically in 20 to 25 bonds where we know the principal is assured and we can add a good return.

MOI: Tell us about one or two of your biggest investment mistakes. Do you regret not buying any companies?

Gonzalez: In fixed income, we lost money in 2010 when we bought a bond issued by Telemar, under the New York law. This company had been bought years before by OI, the brazilian telecom company that was merged with Portugal telecom.

Telemar had a very profitable business and moderate amount of debt, but the parent company failed, and even though Telemar was doing very well, the restructuring of the parent was under Brazilian law. Even though Telemar bonds were backed by Telemar assets, under Brazilian law these assets could not be taken as collateral.

We learnt about the importance of understanding that it is not only key to comprehend the national legislation under which the bonds are issued but also the local law of the place where the assets that cover the debt are held.

I also remember when we bought Día, a Spanish supermarket chain with a relevant position in Spain and Portugal. This company had an important presence in emerging markets with very promising margins and growth perspectives. The company was trading at a huge discount, so we considered this an important margin of safety before investing. The mistake here was that we entered before the reference investor was fully committed to the company and aligned with the minority investors´ interests. Even though we recovered nearly our full initial investment, it was an important lesson for us to learn that we must be perfectly aligned with the reference investor or the management of the company.

One company that I regret not having bought when I analyzed it is Trupanion. This company has an important presence in the North American pet insurance market. Trupanion provides medical insurance for typical pets. This sector is widely underpenetrated, so the potential market size is huge. Moreover, the company had deep veterinary relationships that helped their important collection of data. The CEO & founder of the company was fully involved in the company and the returns on invested capital were quite good. However, the company was trading at a high multiple, and we underestimated the growth potential of its business model.

MOI: Which superinvestors do you admire most?

Gonzalez: The two investors I admire most are Warren Buffett and Charlie Munger. I believe that besides being outstanding investors, they are great teachers. I try to read, listen and think about everything they write and say. There is true wisdom in it.

In addition, I admire and try to learn from Seth Klarman and Joel Greenblatt. Our fixed income analysis approach is based on Seth Klarman's framework.

MOI: Please share a couple of books or publications you have read recently that have helped you improve as an investor.

Gonzalez: Two books I find very useful to improve as an investor are *Decision Making and Rationality in the Modern World* and *The Rationality Quotient*. They help you think about how to measure and improve your rationality.

Also on this subject, the book by Peter Bevelin, *All I Want To Know Is Where I'm Going To Die So I'll Never Go There*, is full of wisdom and really useful advice.

MOI: Anything else would like to add for our members?

Gonzalez: I would add that doing your analysis in depth and buying with a margin of safety are extremely important, but probably your rationality, character, and emotional stability to buy when everybody is selling and to maintain your conviction in periods of underperformance are even more important. And those, are the qualities that you can and must improve to become an exceptional investor.