Graham & Doddsville

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An investment newsletter from the students of Columbia Business School

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Eagle Capital Management

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Adrian Meli

Alec is a Partner and Eagle's Managing CIO. He joined the firm in 2010. As Managing CIO, Alec oversees Eagle's portfolio and leads the firm's investment team. He was formerly the Director of Research at Corsair Capital Management. Over his career, he has led investments across a broad range of the economy. Alec received his Bachelor of Science in Commerce with a concentration in Finance from the McIntire School of Commerce at the University of Virginia. He has earned the Chartered Financial Analyst designation.

Adrian is a Co-CIO of Eagle Capital Management LLC. He joined Eagle in 2008. As Co-CIO, Adrian oversees and adds portfolio positions, contributing to the overall portfolio construction. He formerly worked at Farley Capital. Adrian graduated magna cum laude and Phi Beta Kappa with a Bachelor of Arts degree in Economics and Psychology from Williams College.

Editors' Note: This interview took place on April 10th, 2026.

Graham & Doddsville (G&D): Adrian and Alec, welcome to the Graham & Doddsville newsletter and thank you for coming. Why don't we start with Adrian - you studied Economics and Psychology at Williams and have mentioned your love for how the two intersect in Behavioral Finance. Were there specific thinkers, books or ideas that stuck with you and still influence how you think about the markets?

Adrian Meli (AM): I wish I'd been wise enough back then to develop a fully formed mental model, but I wasn't. I loved social psychology and certain thinkers really stuck with me. Kahneman on judgment and decision-making, Cialdini on influence and persuasion, and people like Dale Carnegie, and more recently Will Guidara, who wrote *Unreasonable Hospitality*, which has become one of my favorite books. These thinkers come at human behavior from very different angles but are exploring the same underlying terrain. It all connects to investing because markets are aggregations of human emotion. We're all irrational, every one of us. The fun, intellectual challenge is figuring out how to short-circuit that irrationality in yourself and how to read what others are doing.

The main difference between then and now is that I'm much more receptive to my own biases and limitations. Back then, I probably thought I could just learn the theory and apply it. Now I'm more comfortable sitting with my own blind spots and trying to manage through them, which is harder and more humbling than reading a book about it. In effect, I'm always hoping to see the world a little more clearly.

G&D: Alec, over to you. You studied at the McIntire School at UVA, which has a deep pipeline into finance. Was investing always your plan?

Alec Henry (AH): I started at UVA as a chemistry major. I found I liked learning the science, but the lab work was a little tedious. I was also studying Economics, and the way people make decisions seemed so dynamic and interesting to me. In a lot of ways, market economies are like biological ecosystems, they're complex, competitive, and adaptive. Some trends are predictable; others hit like a meteor. 99.9% of species that ever lived are extinct, and the same is true for businesses. It simply happens on a much faster timescale. I just fell in love with sorting out the signal from the noise.

G&D: Adrian, you've described going back to the 13Fs from the late 1990s and early 2000s, trying to reverse-engineer why the best investors made certain bets. Can you name a few you were studying and what you learned from them?

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AM: It felt like a bit of a treasure hunt back then. Early in my career, I was still finding my sea legs, so to speak. I was drawn to a wider range of investors, from concentrated, long-only managers to a variety of hedge funds. The exercise was to try to piece together the rationale behind each position.

What were they seeing that made this worth a large bet? I would do background research, build out models, and then stress test the assumptions. Maneuvering within the models turned out to be the most valuable part of the exercise for me. Changing growth rates, duration, margin structure, and capital intensity and watching how sensitive the output was to each variable was all illuminating.

It taught me how a levered equity shrink works and what that does to per share value over time. How pricing power changes the economics of a business in a fundamentally different way than unit growth. It also taught me that even the best investors are wrong an awful lot. You have to develop your own conviction.

In the end, each of us has to find an investment style that works and fits our unique temperament. This was part of the process of finding my own way.

I think a pretty good principle across all walks of life is to learn from the best, take what resonates, and then develop something that's genuinely your own.

G&D: You've described the early hedge fund years as a great time to learn with an enormous alpha pool, a broad mandate and smart people around you. What's an early investment that didn't work and what did it teach you?

AH: One of my early investments was a dry bulk shipping company called Jinhui Shipping. These ships carry cargo such as coal, iron ore, and grain. This was in early 2004, when the market was tightening and China's growth began to impact commodities. On our math, when we marked things to market, the stock was trading at two times earnings, as charter rates reset to higher spot prices. What happened was that, after initially rising, there was a tiny blip in demand and the stock plunged by more than 50%.

I wasn't fired, but I learned a valuable lesson about cost curves. Dry bulk shipping has a flat cost curve. Once a ship is built, it costs little to operate and it lasts for decades. In a commodity business, you generally want to own low-cost producers that operate in a market with some steepness to the curve. You make money across the cycle and that steepness creates a forcing function that limits price declines because high-cost producers stop operating. With a flat cost curve, tiny changes in the supply-demand balance can cause enormous swings in price. It's a bad industry structure, and it's nearly impossible to forecast effectively. And then, of course, right after we sold, the stock went up tenfold as China really did get going. Then it fell 90% during the financial crisis, and over the last 20 years it's gone up and down, but it's basically flat.

G&D: Sounds like a great learning experience. Moving on to the investment philosophy and strategy at Eagle. The firm's letters describe three categories of opportunity: High free cash flow businesses with modest growth, companies with underappreciated long-term earnings power that look expensive today, and steady compounders. Was that the framework that was always in place, or did it develop as an opportunity set changed?

AH: Our fundamental approach hasn't changed. We are trying to buy an

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attractive business at a high yield relative to our view of its normalized earnings power. But the form it takes varies widely, and this was a way of trying to explain that. So sometimes we're buying something that looks expensive on near-term earnings, like Hilton during the pandemic, Alcoa a year ago before supply and demand tightened, or Humana today. At other times there's already a high earnings yield, but there may be some debate about durability. Capital One might be a current example. At other times, the valuation falls somewhere in between, like the London Stock Exchange Group. It's trading at a modest multiple for an excellent business where we think both the earnings power and business quality are a fair bit higher than the market's current view.

In an ideal world, we're selecting among the cheapest stocks in the market based on their 10-year forward P/E, so we don't focus a lot on the next 12-month earnings yield. If you had perfect information on the 10-year forward P/E a decade ago, this would've included a mix of semiconductor stocks and homebuilders, two very different areas.

Turns out, the cheapest stock that we owned was Amazon, which appeared to be our most expensive at the time. It was far cheaper than it looked because the market was capitalizing the wrong margins. You can win by buying a classic value stock or what appears to be more of a growth stock. There are multiple paths to victory, and we're agnostic about which way we go.

G&D: Over the past decade, Eagle moved from large US technology platforms to some international names more recently. How conscious are those shifts? Is there an internal conversation where you say that the opportunity set is rotating or does it happen organically, one name at a time?

AM: It's organic, but of course if certain factors are driving dislocation, multiple new positions can pop up in the same area at the same time.

We're looking at assets all over the world and the return streams available, searching for dislocations wherever they are. Sector or asset class specialists can be experts within their domain, and that's genuinely valuable. Our approach tries to marry a generalist framework with a pragmatic specialization, and over time that combination tends to surface outliers. If you're covering one sector and you're long/short, you can capture spread within that area. But if you're long-only within a single sector and you're not comparing those names against a broad enough opportunity set, you can miss better risk-adjusted opportunities elsewhere.

Assets get dislocated for all kinds of reasons: a cyclical issue in an industry, retail fund flows creating distortions, a market structure quirk, or sentiment that's run well ahead of or behind fundamentals. By covering a broad enough range of return streams, we think we're well positioned to spot asymmetric situations. The goal, the North Star, so to speak, is to compound at double digits over time and be robust to a wide range of outcomes. We don't want to be a factor bet. If you can just recreate what we're doing through a factor, you don't need us. Thus, when we find a new area of dislocation, if the returns are additive to the portfolio, we get the benefit of diversification as well. As with any position, the more capital we've already allocated to an area, the higher the bar for each incremental dollar we put there.

G&D: Following up on that topic, with the so-called ongoing "SaaS-pocalypse",

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we know there can be many different views on tech companies. Are you looking into any specific names?

AM: We're of the view that AI is genuinely innovative new technology that's going to change a lot of things. The future is probably murkier today than it has been in the recent past. It would be foolish to assume that any of us knows exactly how it's going to play out. Alec and I have been following AI for years. We first met with Astro Teller, who runs Google X, over 15 years ago. He came into our office and talked to us about self-driving cars and the like, and we thought it was going to happen much sooner. We had an early investment in Google and much of it was premised on their ultimate AI leadership. In general, AI has taken longer than we originally thought, but it's been faster over the last five years. We're going through a period where models continue to scale and there haven't been any major blips yet in terms of model improvement.

Anyone can listen to podcasts by Demis Hassabis, Sam Altman, or Dario Amodei and hear their latest views. They don't always agree. Right now, there's broad agreement that the new models continue to scale at impressive rates. Still, it's hard to know what this will look like 24 months out.

I think the market is pricing certain assets like it's almost a certainty, more than a possibility, that something bad will happen to them. And we think a lot of assets will get disrupted, but that doesn't mean it's uninteresting to look at assets that are down a lot. You could buy an asset that's trading like there's a 10% probability that the moat is still intact in 5 to 10 years, when the actual chance is much higher. You have to look at the risk-reward of each asset.

I wouldn't want to paint a broad brush across all of software or services. Certainly a lot of disruption will happen in those areas, but if you really believe the maximalist AI case, there's going to be a lot of disruption elsewhere that people aren't talking about as much. If there is superintelligence, how many businesses realistically won't get disrupted? It's better to be honest with yourself and acknowledge there's a wider range of outcomes today. We need to price that in, and we need to be opportunistic.

This is going to create issues for different investment businesses. I'll give you a quick example. Imagine you are running an LBO fund right now and are going to make a 10-year investment in a business. It's hard to change your mind in that structure. Being liquid is going to be helpful because we will learn a lot as weeks and months go by. Eagle's approach is to try to have humility about this. This is a big change. Let's take a step back, look at each asset, and see what we can conclude about the way things are changing and then make the best risk-adjusted bets possible.

G&D: We're keen to ask about how you find ideas. We found your discussions on capital flows, passive indexing, and hedge fund trends very insightful. Do you use these as a framework to source ideas? Is this a quantitative process or more qualitative?

AH: It's not systematic, but we are trying to understand the big changes in market structure. The important shift to be aware of now is that over the past five or six years, individual stocks and sub-sectors have become much more prone to both positive and negative overreactions.

To step back briefly, in 2020 there was no price too low for travel stocks and pandemic losers, while companies like Zoom or Peloton traded to absurd levels. To put that in context, I think Zoom at the peak had a market cap that is comparable to where SAP's market cap is today and probably something like five times Workday's current market cap. At the time, back in 2020, we attributed it

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to the market not knowing how to price a hundred-year event. Now we see it as an early indicator of this changing market structure. Then in 2021 we had the meme stock and SPAC craze. In 2022, when war broke out, we had "regime change," and some of the internet giants, like Amazon, Meta, or Netflix, declined significantly while the commodity complex exploded higher on mostly temporary shortages. More recently, we have the AI trade and some of the AI maximalist-type claims and debates. The picks and shovels are doing great while perceived losers gap down on a Twitter post as the market tries to sort this out.

The reason you're seeing this degree of reaction, and why it's been magnified, is the change in market structure. Passive has taken so much share of the market; there are fewer active market participants setting price. Passive takes price, active sets price, and that's fine and good so long as the remaining participants are sufficiently diverse and wise.

Over the past decade, multi-managers have significantly expanded their footprint. They operate with leverage, tight risk frameworks, and tend to cut losers quickly. And a lot of those strategies have a *de facto* earnings momentum at their core. Systematic quant strategies typically incorporate momentum as well. Growth managers have outperformed value managers, and flows have followed suit; growth investors tend to operate with a momentum bias. Finally, retail is playing a bigger role and tends to chase momentum.

The result of all that is that we've got less diversity, and momentum is playing a more dominant role than in the past. We've been monetizing this over the past several years, and we think it'll keep offering good opportunities for the foreseeable future. It's uncomfortable at times. Adrian just went over what that means today, which includes picking through some of the perceived losers in AI. But it's increasingly valuable to mine controversial or underexplored areas for great assets and then harvest the results as earnings growth unfolds, because, over time, stocks overwhelmingly follow earnings.

G&D: You run a concentrated portfolio of roughly 30 stocks with average holding periods of five or more years. That means you only need to buy five or six new names a year - a luxury compared to most managers and means each new position is immediately a large weight. How many ideas receive deep work and don't make the cut? What are the most common reasons an idea doesn't make it to the portfolio?

AH: We might run a real process on 50 ideas over the course of a year. Some are an easy pass, a few we'll buy, and most will remain on the shelf. The market is pretty efficient.

It's rare to find the right combination of great business, attractive price, and some kind of controversy or misperception where we feel like we can be variant enough to have a competitive advantage. Because a lot of the work we're doing is long-term in nature, it remains relevant for some time. An idea we work on this year may plant a seed that we can harvest in 2027 or 2028.

G&D: Could you walk us through how an idea moves through an analyst's desk to a funded position? What does the internal debate look like and who makes the call?

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AH: Most of my time is spent co-diligencing ideas with analysts on the team. I try to play the role of thought-partner, devil's advocate, coach, second pair of eyes, etc. What that means in practice is, for a live, highly actionable idea where we're critical path to a decision, I may be on 80% of the calls with the analyst. For something further off, it may only be 20%. For any idea, there are a few fulcrum issues that will make or break the investment, and we want to make sure we have the right ones identified. After we have that, we want to see whether there's a plausible path where we might be able to get to a differentiated answer or perspective.

We analyze the data and facts as best we can. We make extensive calls: management, former employees, customers, competitors, suppliers, consultants, regulators, whoever can help us improve our answers. We try to play out the game theory of various players. We think about the medium and long-term industry structure or technology change. We try to put ourselves in the position of running or competing with the business.

And, along the way, the analyst has built the model, written up the company, and presented it to the rest of the team. We share and iterate across the team, rather than coming at the end with a neatly finished product. And throughout, we're judging whether to keep moving forward or to put a pin in it and prioritize something else. At some point, a handful of times a year, when we know enough, it's compelling enough to initiate a position. That's all highly informed by the analyst's view, but it's a CIO decision.

G&D: Adrian, you once described Eagle as being "pretty snobby about accounting". Where do you think the Street's accounting is most consistently wrong? And where has that gap created the most opportunity?

AM: I probably should have used a different word. What I meant to say is we care about it. Accounting matters. We think through businesses with respect to their ability to generate free cash flow over time. In other words, how much money can we take out of a business, whether by free cash flow, asset sales, leverage, or other means. There are obvious things we normalize for such as stock-based compensation, recurring restructuring charges, abnormally low tax rates, below-market interest cost on debt, and odd depreciation and amortization schedules. The list goes on. It all sounds obvious, but not focusing on the cash is a mistake many of us make early in our careers.

As an example of this, I would get pitches 15 years ago from an analyst on net-nets in Japan. Let's say a company had a hundred dollars of cash on its balance sheet, and it was trading at $40, a 60% discount to its cash. It sounds like a great deal, but this business had no dividend and a 3% return on equity. Fast forward 10 years, what's the asset worth? Was it a good investment at that 60% discount, or were the shares appropriately discounting a low ROE and no cash generation? That's what I mean by focusing on the cash.

The underlying principle is we're doing our best to not trick ourselves or stretch to buy into a position. If you're going to own a stock for 5 to 10 years, you are the business owner. Stocks tend to follow earnings over time, and earnings growth is ultimately a function of free cash flow generation, not reported figures dressed up with adjustments. Nobody knows the precise value of a company. We're trying to approximate it as honestly as we can and update our priors over time. That's very hard to do if you're working with funny accounting. Applying consistency and using the same framework across positions allows us to compare different return streams without asterisks.

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Where the Street tends to be most consistently wrong is in accepting company-friendly adjustments as a matter of habit, treating things as non-cash, and therefore ignorable, when it's really a very real economic cost to the owner. None of this may matter if you sell the stock in 10 weeks, but it's very likely to matter if you hold it and sell it in 10 years.

G&D: If you hold a stock for 5 to 10 years, you're almost guaranteed to live through at least one CEO transition. How do you underwrite that risk? Is there a case where you loved the business, but the management situation kept you out or pushed you to sell the position?

AH: Great firms tend to have great teams running them. Because we're an important shareholder in most of the companies we own, we typically have a good opportunity to get to know the key people. We also spend a lot of time talking to former employees to try to build a mosaic of the culture. Frequently, we like the business and the price, but we're not sufficiently confident or comfortable with management.

When there's a leadership change, we take a similar approach to underwriting a new investment. You want to see the individual's track record, their way of thinking, and their orientation towards change. If you own a company for six months, it's almost random whether management helps or hurts. If we end up owning a company for seven or eight years, in some cases longer, management's going to have to make several critical decisions. That's going to include allocating a substantial portion of the company's market cap between buybacks, M&A, CapEx, and discretionary operating investments that flow through the P&L, such as R&D. One of the things we've learned over time is that a great leader will still struggle to fix a bad business, but a bad leader is capable of screwing up almost anything.

G&D: Moving on to stock-specific questions, SAP (FWB: SAP) is one of the rare large-cap European technology names in a predominantly U.S.-centric portfolio. What was the original insight that made you comfortable owning an ADR in a German enterprise software company? Was it the cloud transition, the switching costs or something else entirely?

AH: SAP is one of the most dominant and entrenched businesses on the planet. It has low churn, good pricing power, and high complexity for the customer to switch. We've admired it for years, but it was usually priced at a premium. It was well understood; in fact, it even had a bit of a scarcity bid being a great tech company in Europe. High switching costs and customer risk aversion are strengths for retaining business, but they can also be obstacles to moving the product and customers forward. As a result, SAP's cloud transition arrived late, began awkwardly, and is proceeding gradually. This set up an unusual opportunity to buy an extraordinary franchise on depressed earnings.

G&D: We would love to delve deeper into how you analyze the cloud transition. A few other companies went through these transitions and were punished on the margins and by the market. Could you give us a sense of how you went about underwriting this margin trough? How did you gain conviction to believe management's projections and implications of where the business was going to reach by the end of the transition?

AH: I'd characterize it as a journey versus destination bet. SAP's transition to the cloud depressed near-term revenue by substituting an upfront license and

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maintenance model with an ongoing subscription model. At the same time, R&D ramped because it needed a lot of new engineering for the new products. The revenue trajectory decelerated, costs rose, and margins declined significantly, but the total revenue and monetization over the cycle for a customer doubled. This is happening mechanically over a decade. As revenue re-accelerates, it carries high incremental margins, so margins expand and earnings grow substantially. From where we stand here today, the business should more than double EPS over the next five years. There will be fluctuations as customers move a little faster or a little slower, but the destination is reasonably clear.

I'd say our view was partially informed by management, but customer and consultant discussions were more influential, alongside us building our own bottom-up model of the different product lines and cost structure. In fact, we felt that management's early guidance was likely conservative, and that seems to be playing out.

G&D: SAP’s Joule AI copilot and broader business AI strategy has become a significant part of its growth narrative heading into this year and next one. How much weight do you put on AI optionality when sizing a position like this? Is it a free call option or does it move your base case estimate of intrinsic value?

AH: AI is a disruptive technology in this industry. It's deflationary for engineering costs, and it'll change many workflows for how software is used. I don't think AI is a free option for these companies. It's something that the entire industry will incorporate, and it's something that the entire industry is going to experience creative destruction from.

AI is widening the distribution of 5- to 10-year outcomes for these businesses. In some cases, the central tendency shifts to the left, and then in others it's stable or even shifts right. The entire space has sold off over the past year. Our view is that the recovery will be more heterogeneous than the decline. Many businesses will be impaired, but a number will likely benefit. For SAP, given that it has an entrenched position, its range of outcomes is widening less than most, and the stock seems dislocated relative to that range. We think it's priced for a 10th-15th percentile outcome rather than something closer to the 50th percentile. That doesn't mean we can't lose, but a portfolio of bets like this should do well.

SAP may become an even bigger business than we expect if it can successfully build and deploy agents within its ecosystem that deliver real customer value. Alternatively, it may grow slower than we expect if disruptors capture most of the upside and chip away at the periphery of the company's footprint. A module like Concur is not nearly as protected as SAP’s ERP software. Importantly, the downside case for the company is muted, as it's unlikely that the core will be significantly disrupted. It's probably more of an issue of at what rate the business grows.

G&D: Let's discuss Danaher (DHR), a company whose reputation needs little introduction. Was the spinoff the catalyst for you to look at Danaher again, or had you been interested before that?

AM: We’ve followed Danaher forever. We built a large position in GE at the end of the last decade when Larry Culp came in. We had been big fans of his, Danaher, and the Rales brothers for a long period of time. Historically, the stock has often priced significant optimism into it. The spinoff wasn't a catalyst for us per se, but we also didn't own it prior to the spin.

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There are real pros and cons to conglomerates. They often trade at a discount to intrinsic value precisely because they have a mix of assets that are harder to underwrite and breaking them apart can be a catalyst.

Simpler, more focused businesses are easier to diligence and to hold with conviction over time. In Danaher's case, we like the end markets the company is exposed to today more than we have in past iterations of the business.

G&D: There was a destocking cycle that was painful at the sector level. Revenues dropped 20%+ in some quarters, which is unusual for what is supposed to be a highly recurring consumables business. What did your diligence tell you about the normalized demand versus the COVID-era pull-forward, and how did that influence your timing?

AM: We had history in the sector through our ownership of Thermo Fisher Scientific over the years. We bought it right after the GFC and sold it at probably the worst possible time right before COVID hit. We continued to follow the space closely through the peak and through the trough, which gave us a useful lens into what normalized demand looked like versus the pull-forward. With many businesses that pulled ahead earnings through COVID, we would go back to 2019 levels and trend forward from there using normalized growth rates, seeing how far off current revenue and earnings were from where we thought they should be. That exercise gave us a reasonable sense of the magnitude of the overshoot and how long the digestion period might last.

We didn't buy Danaher until last year, at the end of the destocking cycle. It trades at a mid-single-digit free cash flow yield on still-depressed earnings near the trough of the cycle. We think revenue growth and margins are heading higher. Combined with Danaher's strong free cash flow conversion and balance sheet, EPS has the potential to grow at an attractive rate for years to come.

G&D: If you're going to be a long-term owner of Danaher, it's critical to have a view on the Danaher Business System, and whether you think it can continue to be a serial acquirer. How did you go about evaluating whether these aspects are more fragile than they might sound, and how did you gain conviction on these parts of the thesis?

AM: There's no perfect answer to this. We talk to management, make calls, gather industry data, and look at quantitative evidence. Cultures are difficult to change for better or worse over time, and our belief is that DBS is institutionalized. We're fans of the Danaher culture. That said, as the company becomes larger and the M&A opportunity set isn't as strong, it's fair to ask whether the culture can add as much value as it has historically. In Danaher's case, beyond having a terrific business, we think their long-term focus, culture, and management are strengths. It probably doesn't show up in our IRR analysis as much as it shows up in our thinking about the likelihood of receiving that IRR over time.

G&D: What's the hardest valuation call you've had to make: a name that looked expensive by every traditional metric but where you still sized it meaningfully?

AM: The truth is that public markets are competitive and tough. If any of us can sort the stocks of the world by low P/Es or high revenue growth in three minutes online, that shouldn't add alpha. And it doesn't. Being a value investor shouldn't mean owning statistically cheap stocks.

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I sometimes describe it using real estate as an analogy. If you compared an apartment in Manhattan to one in a small town with less economic opportunity, abundant land, and lower construction costs, most people would agree that the Manhattan apartment at $500 a foot could easily be the better deal than the other at $400 a foot. People are funny about stocks, though. It's too easy to just cite a P/E multiple and stop there.

We try to think through normalized earnings per share five to seven years out and solve for underpriced earnings streams. We want our time horizon to be long enough that earnings growth does most of the work, and that the earnings themselves are reasonably forecastable. If you're putting a multiple on 18-month earnings, the multiple you choose drives much of the return. It strains credibility to say earnings are precisely forecastable 15 years out. Our five-to-seven-year window balances this tension.

Netflix is a good example of something we bought years back that we felt was genuinely misunderstood. Everyone anchored to the current expensiveness. We looked at it differently. Margins were low, but Netflix was able to consistently raise prices while still growing subscribers meaningfully. We had an increasing-returns-to-scale hypothesis, but as a smell test we did the following exercise. To make the math simple: if you had 200 million subscribers and raised prices $2 per sub per month, that's nearly $5 billion in additional EBIT per year. You knew that was possible for them to do. Of course it would slow subscriber growth, but when you ran that exercise, Netflix was already trading at close to a terminal multiple for the business.

Our view was that normalized margins were north of 40%. We also believed that content and marketing spend were intentionally high and imprecise, that they were trying to scale aggressively ahead of competition before right-sizing long-term. Even more critically, from our conversations with management, we felt confident they cared deeply about profits and getting margins higher. Reed Hastings used to say something to the effect of that he had two religions: customer satisfaction and operating income. Everything else is a tactic. There are plenty of tech companies that could make more money if they chose to. We felt confident Netflix actually would.

G&D: Looking at Eagle's team, most of the members came from hedge funds, not from long-only mutual funds. Those can be seen as very different training grounds. What made you gravitate towards the hedge fund profile, and is there something that the traditional long-only training develops that you find yourself having to build into your team?

AH: Hedge funds have generally had higher compensation models and more focused boutique investment cultures, so the talent pool has tended to be richer. This is a generalization and certainly not an absolute. Whether from hedge funds or long-only funds, we meet many incredibly talented and passionate people when we're recruiting. Because we're a small team with real scale, we can be competitive with comp despite charging lower fees than hedge funds, so it works from a business model standpoint. I'd say the other dynamic that influences our thinking is that higher-turnover strategies provide more live-fire reps.

Eagle is a wonderful seat for analysts. They can pick their spots and truly do long-term investing, but I don't think it's the best model for training a junior analyst, and that might be true at some other long-only funds as well. Market feedback is really useful, so we like hiring people who have had a lot of reps, who've made and lost money, and have also seen the constraints of a shorter-term capital structure.

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The paradox we're solving for is finding individuals who have the intensity to turn over a lot of stones but also have the patience and disposition to be comfortable acting infrequently - it's hard to achieve that balance.

G&D: Your 1Q25 letter opened with: “Be careful not to overreact”, referring to the technological and geopolitical changes we're seeing in the world. How do you do this in practice? For example, let’s take Anthropic’s announcements which triggered the software sell-off last year or the volatility from the Iran conflict this year. Can you walk us through what the first few hours after news like this looks like at Eagle? How does the team come together and how quickly does debate turn into action?

AM: In broad strokes, events like these don't create immediate activity. If something significant breaks overnight or early morning, Alec and I might be on the phone before we're in the office, but if you were sitting in our office during one of those days, you probably wouldn't notice a dramatic change in the atmosphere. Maybe a little more energy in the debates. Everyone's scanning for dislocations in real time, deliberately, not reactively.

If we're doing our jobs, we've already been contemplating many possible future states of the world before they happen. When something material changes, whether it's the world itself or our understanding of a specific business, we need to take that into account. The goal is to update existing frameworks, not scramble to build one from scratch.

We strive for an environment, as Alec said, that has the patience of a long-term investor yet also the intensity of some of the highest performing hedge funds. Those two things are intentional by nature and getting that balance right is something we work hard at each day, and days like the ones you're describing are exactly when that balance matters the most.

Volatile stock prices are ultimately our friend. High prices give us the opportunity to exit; low prices give us the opportunity to buy. I don't want to give the impression that these events don't matter. They do. There are always things happening that shift our view of businesses and return streams; some just matter a little more than others. When you see a period of heightened volatility, the big impact is that our portfolio will likely turn over a little more than usual, because more of our names hit prices at which we want to act, whether buying or selling.

G&D: Eagle has been around since 1988 and you’ve talked about building the firm to last beyond any one person. If you fast forward a decade, what would make you feel like you had succeeded in this chapter?

AH: First, generating world-class absolute returns for clients. When we talk about Eagle's performance, we overwhelmingly talk about it in terms of rolling decades, much like vintages of a private equity fund. Over the next 10 years, we want to deliver an excellent vintage. Second, we're going to continue to develop the next generation of investors here. We've got a terrifically talented team, and it will be even stronger in a decade.

G&D: In your mind, what is the single most important thing that investors are mispricing today?

AH: You could have an interesting debate around particular sectors, but I might pull out further and look at the big decisions that people putting money to work are making. I would say private equity charges enormous fees to access private-market beta: it's probably 300 to 500 basis points after accounting for

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management and performance fees. It is sufficiently competitive now that, without strong net flows, the industry is unlikely to generate the exits that it needs to deliver good returns, especially when the beta is so expensive. Yet, allocators have near record high exposure to the asset class.

By contrast, public market beta is nearly free, but free may not be cheap enough. The S&P has 40% of its market cap in 10 companies. It's increasingly not a broad reflection of the U.S. economy, so the thesis of getting a slice of GDP is a little less true. It is both more concentrated and more expensive than it has been in the past. At the same time, there are many individual companies with good prospects at attractive prices. You have this weird dynamic where allocators are near their highest-ever allocation to passive beta in public markets at the same time as, *ex ante*, the risk-reward for that asset is poorer than ever. That is, the reward is a lower expected return, and the risk is more concentration. In theory, you should own less, and yet most own more.

If we go back to this vintages idea, both private and public equity beta seem reasonably likely to disappoint over the next decade.

G&D: We have seen the rise of "pod shops", passive money, and all sorts of things that seem to draw people away from traditional fundamental investing with a long-term view. How would you advise young people or early-career aspiring investors to think about building their skillset to win a seat like the one at Eagle?

AM: Unfortunately, I agree with your framing of the issue. When Alec and I started our careers over 20 years ago, indexing was a much smaller part of the market and there were far more fundamental, long-term oriented seats. It was so much easier to enter the industry. There was enormous demand for analysts.

On the one hand, we think it's creating white space for Eagle, as our competitive set has shrunk. On the other hand, it's worse for the industry broadly. From a business perspective, we'd rather see 100% of the market active and capital still flowing there, but it's not the world we live in. Indexing was a terrific invention. We've long been fans of it for a portion of an individual's assets. But there's always room in equities for people who are genuinely trying to add value. The core mission of Eagle is to generate a differentiated return stream that's additive to our clients' portfolios. Given the broad opportunity set in public equities, the highest quality companies in the world, and enormous volatility in single stocks, there are always interesting things to do.

If I were building a career from scratch today, I would focus first and foremost on artificial intelligence. People earlier in their careers are typically more facile with technology and don't have legacy habits to break. You can be differentiated versus incumbents. The gap between junior and senior analysts will surely narrow as AI matures, and people who use it will be able to accelerate past many more experienced investors. That's a huge opportunity for each of you and, at a minimum, should meaningfully increase an individual's marketability to an investment firm.

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AI is going to change so much that it's difficult to predict what the asset management industry looks like in 10 years, but I'm confident that learning to use AI in investment research will position someone favorably in long-term investing and across many other fields as well. My general advice would be to lean into the change and try to take advantage of what lies ahead. It's human to sometimes long for the past, but the truth is, this strikes me as an exciting time to start a career.

Incorporating AI into your workflows and thinking might let you leapfrog current industry participants, or it might help you find an entirely new path or disrupt somebody else. I think this is about as good a time to come out of school as any because AI is going to create tremendous opportunity for people who embrace it.

G&D: That's an encouraging message to end on. Thank you both for joining us for this interview.