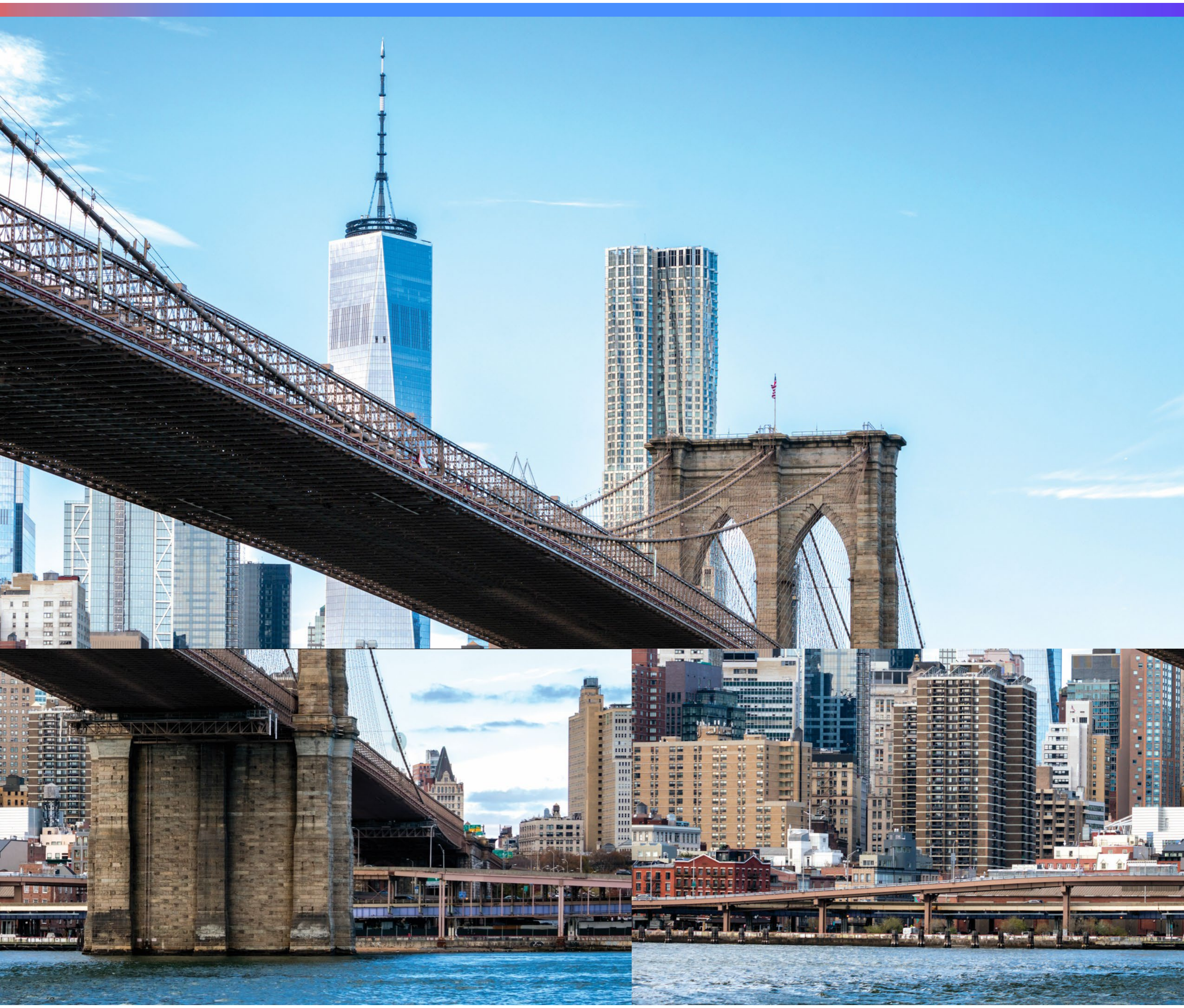
A history of Mutual Series



Throughout its 70-year history, Mutual Series has been innovative. Founder Max Heine was an early practitioner of what would come to be known as value investing, focusing on cheap stocks, bankruptcies, and restructurings. His protégé Michael Price would pioneer investing in new areas of the market, such as merger arbitrage and taking shareholder activism into the mainstream. More recently, Mutual Series has continued to evolve alongside a changing global economy and increasingly efficient financial markets to find value opportunities wherever they exist.

1930–1980

1930 1940 1950 1960 1970 1980

1930s

Max Heine takes his first job on Wall Street at broker firm LJ Marquis.

1934

Max Heine emigrates from Nazi Germany for New York; Graham and Dodd's Securities Analysis first published.

1949

Heine launches Mutual Shares Fund to invest for family and friends in the German refugee community.

1970

Penn Central goes bankrupt.

1975

Heine Securities is incorporated, serving as the investment advisor for the Mutual Series fund; Michael Price joins.

Max Heine: A value investing pioneer

Value investing, as Mutual Series would come to practice it, got its start during the Great Depression. After the stock market crash of 1929, Columbia Business School professors Benjamin Graham and David Dodd laid out a framework in their seminal *Securities Analysis*, published in 1934, advocating investors should focus less on earnings trends and spend more time analyzing and valuing the operating business itself. They suggested that investors might be able to take advantage of any disconnect between where a security price was trading and the fair value of the business, particularly in areas of the market that may have fallen out of favor with investors.

The same year that *Securities Analysis* was published, one of the value philosophy's early practitioners, Max Heine, arrived in New York after fleeing Nazi Germany. He had been detained by the Nazi brownshirts in law school and his parents sent him to New York fearing he would eventually be arrested. He arrived at a time when unemployment was still rampant and many of the industries, like the railroads, that had thrived through the 1920s were teetering. Heine made his way to New York and began to put those principles from *Securities Analysis* into practice.

Heine, who had studied law in Germany and was a mediocre student, took odd jobs after arriving in New York, including working at a department store. Not long after, Heine took his first Wall Street job at brokerage firm LJ Marquis & Co. and began a long career looking for opportunities in areas of the market others were unwilling to pursue. That came to encompass both cheap stocks and bankruptcies.

1940s: Riding the rail bankruptcies

At his first job on Wall Street, Heine was given significant latitude. Left to find interesting opportunities on his own in the 1930s and 1940s, Heine zeroed in on one of the Great Depression's many casualties—the railroads. The severe economic contraction and plummeting passenger and freight volumes put significant pressure on railroad earnings. Meanwhile, new competition from cars and trucks were adding to the stress on the railroad industry and a slew went bankrupt.

Heine, however, saw value. Some of the railroads were so broke, he observed in a later interview, they were giving the bonds away.[1] He focused in on the prime railroad bonds for lines like the Erie and the Seaboard that were trading at just cents on the dollar, making the careful calculation that as the economy emerged from the Depression, rail activity would bounce back. It did, and the investments began to pay off. Railroad operators also had been developing their properties, further boosting the value of their assets.

Bankruptcies were largely the rule in the 1930s and Heine didn't just focus on the rails. His wife's uncle gave them $1,000 as a wedding present in the late 1930s to buy furniture. Instead, Heine put it into some struggling companies. First, he bought shares of Advance-Rumely, a farm equipment maker that was selling below what it had in cash on the balance sheet. After taking that profit, he bought National Electric Power bonds that were later liquidated at a gain. Only then did he buy the furniture, he recalled in a later interview.[2]

1. Phalon, Richard, "Max Heine: 'Getting a dollar for 50 cents,'" *Forbes*, March 29, 1982.
2. Vartan, Vartanig G., "Asset Value as a Cushion," Market Place, *New York Times*, February 26, 1985.

After cutting his teeth on the railroad bankruptcies in the 1930s and 1940s, Heine established the Mutual Shares Fund in 1949 to invest for his friends and family, mostly fellow German refugees. It was one of the early US open-ended mutual funds and Heine focused on cheap stocks, bankruptcies and other reorganizations, and merger arbitrage. Given the nature of some of the special situations that Heine tended to invest in, he wanted investors with patience, since it could take a decade for a bankruptcy or reorganization to work itself out.

In seeking new opportunities, Heine was meticulous. He liked to do thorough research in areas of the market that were largely overlooked and where he could generate an attractive return, regardless of market fluctuations. He often said he wanted to buy a dollar for 50 cents. That approach has been a cornerstone of Mutual Series' philosophy for over 70 years.

1970s: Penn Central goes bust

The lessons Max Heine learned in the 1930s and 1940s came in handy in the late 1960s and early 1970s. The US rails broke again. In 1956, the Eisenhower administration signed the law kickstarting construction of a massive expansion of the country's interstate highway system, and the rail system faced more intense competition.[3] Additionally, regulations kept railroad operators from boosting rates to respond to changes in market conditions. Unions also insisted on guaranteed jobs for all their workers. Earnings were suffering and when the economy weakened, railroads' cash began drying up.

Nearly two dozen railroad operators declared bankruptcy between 1970 and 1973. Penn Central Transportation was the biggest failure. When it filed in June 1970 it was the biggest bankruptcy in US history. Although these railroads were facing greater competitive pressures, the businesses had value. Heine, and his railroad bond analyst and trader Hans Jacobsen, calculated the miles of track, the value the scrap steel could be sold for, and which other railroads might have wanted to pick off a piece of the network. He also knew the value of their extensive property assets.

When Penn Central went bankrupt, it had billions of dollars in assets, but the securities had a market value of nearly zero. Heine bought the debt securities when they were trading at 10 to 15 cents on the dollar in 1974.[4] In early 1976, the rail business was reorganized, with many of the railroad assets of the bankrupt Northeast railroads merged into new companies, Conrail and Amtrak. What was left at Penn Central were a rail line, unused tracks, railcars, and sizable property assets, including warehouses, terminals, a pipeline (Buckeye Pipeline), a California refinery (Edgington Oil), a Florida homebuilder (Arvida), and an amusement park chain (Six Flags). Penn Central's last rail line, the Pittsburgh and Lake Erie, was later merged into CSX. In late 1976, Penn Central bonds were trading at about 4 cents on the dollar, but over the next 18 months they jumped tenfold to over 45 cents on the dollar by March 1978.[5]

> **"If you buy cheap enough and you get value you almost always come out right."**
>
> **—Max Heine**

In 1978, the final reorganization plan was approved.[6] Creditors would be paid in a series of cash and securities, with 10% of the claims to be paid in cash and 30% in mortgage bonds, 30% in preferred stock and 30% in common stock. Similar settlements were reached with other bankrupt railroads that Heine had invested in.

"If you buy cheap enough and you get value," Heine observed in a 1982 interview with *Forbes*, "you almost always come out right."[7]

The returns Heine was able to realize on these investments caught the eye of other investors on Wall Street who had long ignored the potential returns in bankrupt companies. Heine had helped jumpstart distressed investing as its own discipline that would mature over the next two decades.

The 1970s also set the stage for an expansion of the business in the 1980s and 1990s. In 1975, Heine established Heine Securities, serving as the investment advisor for the Mutual Shares Fund. That same year, a recent University of Oklahoma graduate, Michael Price, joined the firm.

3. Association of American Railroads, "A Short History of US Freight Railroads," April 2021.
4. Phalon (1982).
5. Allan, John, "The Opportunities in Defaulted Bonds," *New York Times*, March 19, 1978.
6. Milletti, Mario A., "For Penn Central Creditors, a 400-page Revamping Plan," *New York Times*, March 28, 1978.
7. Phalon (1982).

1980–2000

1980

Heine Securities launches Mutual Qualified Fund.

1982

Michael Price becomes full partner in Heine Securities.

1984

Philippe Brugère-Trélat joins Heine Securities.

1985

Heine Securities acquires Mutual Beacon Fund Inc.

1986

Peter Langerman joins Heine Securities.

1987

Michael Price becomes chief operating officer of Heine Securities and president of the firm's three mutual funds—Mutual Shares, Mutual Qualified and Mutual Beacon; Storage Technology emerges from bankruptcy.

1988

Price becomes sole owner of Heine Securities.

1990

Mutual Series gets involved in Sunbeam following the company's 1988 bankruptcy.

1992

Mutual Global Discovery launched.

1996

Mutual European Fund launched; Price pushes Chase Manhattan to merge with Chemical Bank; Heine Securities sold to Franklin Templeton.

1997

Mutual Financial Services Fund is launched.

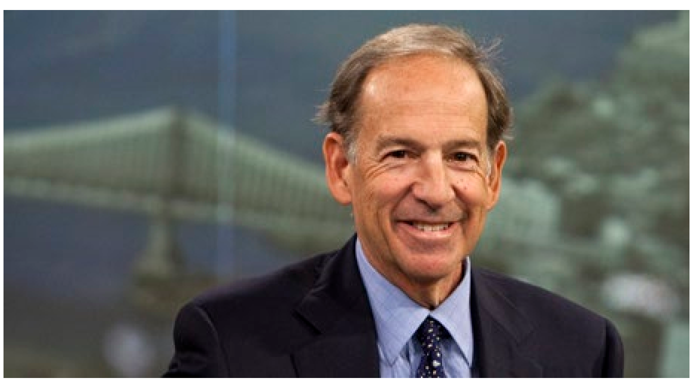
1998

Michael Price resigns; Peter Langerman becomes CEO of Mutual Series.

Michael Price: Tackling new opportunities

After graduating from the University of Oklahoma, Michael Price came to Heine with an "intense interest in merger arbitrage." While Heine was erudite and avuncular, Price was brash and competitive. Price quickly became Heine's protégé, taking a more active role in looking for new investment ideas for the funds and by 1982 he was a full partner. By the mid-1980s, Price had become well-known on Wall Street for pursuing an active approach with company managements to get them to unlock value for shareholders and for investing in merger deals and a wider array of distressed securities. He was also able to exploit informational deficiencies and had a canny ability to find areas of the market that were ripe for value investing but that others were simply not paying attention to.

Price also saw the benefit of combining value stocks, merger arbitrage and distressed investing. "In the first year or two, I realized there was a real connection between all three," he said. "You put a portfolio together that combines those three approaches, it tends not to perform with the action of the stock market but with the events and how they come out when the bankruptcy ends and the merger goes through, when the value of the stock is realized, either marked up or taken over."



This innovative approach was both crucial to performance and would further set Heine Securities apart from other value mutual fund managers on Wall Street. Although there were small merger arbitrage shops and a handful of people doing distressed investing in the early 1980s, no one was combining all three in the same fund, Price observed.

Cheap stocks

When buying value stocks, Price took his cues from Max Heine. He wanted to do thorough research to come up with the fundamental value of the company, or what a reasonable buyer might pay for it. That, he believed, was a good indication of value. Once an analyst understands the fundamental value, he wanted to buy that stock at a 50% to 60% discount. As Max had long said, "buy a dollar for 50 cents." Cheap stocks alone were not enough. Price needed to see a catalyst, such as a merger, a spinoff, or management change, that would unlock this value for shareholders.

Pitching new stock ideas to Price could be a daunting prospect. At his seat at the head of the trading desk, he would pepper analysts with incisive questions about their new idea. Those analysts who didn't have an answer to his questions had to go back and do more work. If he didn't like the answers, the idea was dead, but if he was convinced of the merits of the investment, he would start buying it for the funds. More than one former colleague noted that he could quickly get to the essential elements of the investment story and characterize it in an easy to understand and straightforward way.

With all the information and conversation about stocks and investments flowing around the room, you could not help but learn new things, one junior analyst at the time noted.

Turning bank loans into equity

While the senior bonds were Max Heine's focus in the railroad bankruptcies of the 1970s, the bankruptcies and restructurings of the 1980s and 1990s were more complicated and Heine Securities faced greater competition from other investors looking to emulate Mutual Shares Fund's strong returns.

One place Price was able to find value was in bank loans. Banks were often willing to offload what they saw as underperforming loans at steep discounts. And with fewer investors analyzing these securities and the relative difficulty in buying and later selling them, Price was able to swoop in and pickup loans made to struggling companies at prices low enough that they could generate attractive returns even after a lengthy bankruptcy process. "He would offer to pay the bank 75 cents on the dollar," retired Mutual Series chief executive Peter Langerman said in an interview, "and then he'd be active in the restructuring, usually coming out of the bankruptcy as a majority shareholder."

One of his first major forays in the bank loan market came in 1984 when he bought up the loans of AM International, a bankrupt mimeograph machine manufacturer. Success there led to other bank loan deals, including the purchase of bankrupt disk drive manufacturer Storage Technology's loans and bonds. He first got involved with Storage Technology in 1985 and by 1986 had amassed a sizable portion of the debt, giving him significant clout in the bankruptcy reorganization plan. After Price and his lawyer, famed bankruptcy attorney Harvey Miller, negotiated an acceptable reorganization plan with Storage Technology's chief executive, Ryal Poppa, the company emerged from bankruptcy in 1987. Price's negotiating prowess impressed Miller, with Price attributing this skill to the time he spent working in the garment district during vacations from college.

Price paid about an average of 47 cents on the dollar for his debt holdings.[8] A series of bank loan bankruptcy deals followed.

> **"We had much less competition. We had some of the markets like the bank loans in default for ourselves."**
>
> **—Michael Price**

Price was again applying Max Heine's time-tested practice of deep original research to uncover hidden value in overlooked or out-of-favor areas of the market. Banks eventually wised up, and Price later conceded that the opportunities for the lavish returns when he began this strategy had begun to diminish by the 1990s. The more intense competition in the bankruptcy market also forced Price to look at different approaches to create new securities, from rights offerings to straight cash infusions.

M&A booms in the 1980s

In addition to distressed securities, Heine Securities invested in merger arbitrage opportunities throughout the 1980s and 1990s. The 1980s saw significant merger activity, as a few important trends collided: the rise of the junk bond and the use of leverage to fund takeovers, the breakup of many large conglomerates, and a changing view of corporate governance.

The greater availability of capital made financing a takeover easier and fueled the 1980s M&A boom. While deals were plentiful, as with the distressed investments, Heine and Price would do the research on the target firm to understand what accounted for the spread between the offer price and the share price, the probability that a deal would close, and what a potential return would eventually look like. Mutual was active in both the arbitrage on announced deals and in pushing managements to pursue a merger as one way to unlock value for shareholders.

Active engagement

Michael Price was at the forefront of pushing management teams to unlock greater value for their shareholders over his tenure. "Michael Price was instrumental in taking shareholder activism mainstream," Langerman said. "It was a key component of the value with catalysts approach. It was also a lynchpin in creating better corporate governance practices."

8. Rosenberg, Hilary, *The Vulture Investors*, John Wiley & Sons, 2000.

Mutual Series had long advocated for company managements to undertake steps that could help unlock value. While Michael Price was more visible and outspoken in talking to companies about where he thought they could be doing better by shareholders, Mutual's activist approach goes much further back. The firm had a lawyer in the 1960s and 1970s who would sue companies that Heine and later Price thought were being bought out at an unfair price.

In the 1970s, Price observed these types of deals were happening far too often because the market had come under significant pressure following the oil embargo. "You could not give common stocks away, no matter what the balance sheet looked like, no matter what the value was," he said. In that environment, some companies took advantage of the lower prices to go private for much less than they were worth, Price said. But while the suing companies worked when the fund was small, as it attracted more assets in the late 1970s following years of strong performance, Price said Mutual needed to change approach.

"I realized I'm going to run a mutual fund. It's getting bigger. I'm not going to be suing people. We basically walked away from that, but we did get involved."

In 1987, Price became Heine Securities' chief operating officer and the president of its now three mutual funds—Mutual Shares, Mutual Qualified Income Fund (launched for institutional investors in 1980) and Mutual Beacon Fund (acquired in 1985). After Max Heine died in 1988, Price became president, chief operating officer, chairman, and sole owner of the company. Over the next decade, Price was active in pushing several big companies to shakeup their businesses and do more to unlock shareholder value.

"There were a lot of deals where we tried to throw our weight around," said Price. Changes in the US Securities and Exchange Commission (SEC) rules about how shareholders could talk with each other and vote further allowed Price to be more active in pushing for changes to unlock shareholder value. In 1992, the SEC eased proxy voting regulations, letting shareholders talk to one another more freely to improve proxy voting and reduce solicitation costs. Price credits these changes for allowing him to be more active in challenging managements he felt were falling short.

"We were not going to get pushed around by management," Price said. Active engagement had become, and remains, a key part of the Mutual Series culture.

> **"Michael Price was instrumental in taking shareholder activism mainstream. It was a key component of the value with catalysts approach. It was also a lynchpin in creating better corporate governance practices."**
>
> **—Peter Langerman**

Chase Manhattan

The ability to marshal other shareholders to push management to make changes was in full display when Price and Mutual began advocating for changes at Chase Manhattan in the mid-1990s. The firm was just coming off a successful campaign to push bank Michigan National to sell to National Australia Bank in 1994-5 to unlock shareholder value. Price and his bank analyst, Ray Garea, then set their sights on Chase Manhattan.

Garea's analysis of Chase Manhattan, the country's sixth largest bank at the time, was that they could be better organized, and the market was not fully valuing the various parts of the business such as mortgage lending and credit cards. Chase Manhattan, run by Chief Executive Officer Thomas Labrecque, wasn't receptive to a breakup. After an initial unsuccessful meeting with management, Mutual continued to purchase shares in the bank, eventually building a 6.8% stake. Price and Mutual filed a 13D form with the SEC, a requirement when a shareholder owns 5% or more of a company's stock, arguing that Chase's assets were worth much more than where the shares were trading.

Price was also nimbler than management when pursuing changes. The new proxy rules allowing greater communication between shareholders, meant Price could schedule meetings with other shareholders to make his case, and often did so well before management. Chase hired lawyers and tried to keep shareholders from calling meetings. But the pressure continued to build as many Wall Street analysts soon began seeing value in Chase, particularly if it merged with another money center bank. Eventually, Chase agreed to sell itself to Chemical Bank in 1996, and the stock price surged. Activism and taking advantage of new rules around proxy voting helped Price unlock greater value from his investment in Chase.

In an interview for the book *Investment Gurus* Price said, "We perform well because some of our stocks have these catalysts…Until there's a catalyst the value is not going to get realized."[9] In many cases, Price was the key to unlocking that value.

9. Tanous, Peter, Investment Gurus: *A Roadmap to Wealth from the World's Best Money Managers*, New York Institute of Finance, 1997, page 42.

Two missteps

Not everything was as successful or went as smoothly as Chase Manhattan. Price notes a couple of misfires, including Macy's and Sunbeam. There were some large "deals that worked and then they didn't," he recalled.

Macy's

One that worked and ultimately didn't was an investment in department store RH Macy & Co. In 1986, fearing that the company might be the target of an acquirer, Macy's management approached several large investors, including Michael Price, to fund a management-led leveraged buyout. The deal was valued at about $3.7 billion and consisted of 347 executives including Chairman and CEO Edward Finkelstein. Things worked out for a couple of years.

In 1988, Macy's got into a bidding war for Federated Department Stores. It lost but came away with two US chains from Canadian company Campeau, expanding its US footprint.

Eventually, Macy's needed more money and in 1990 Finkelstein went to Price and some of the original investors, to put in more cash. Price and Mutual Series wrote off that investment in 1990, resulting in a small loss on the investment.[10] The debts were ultimately too much for Macy's to service and facing slowing growth the company was forced into bankruptcy in early 1992.

Sunbeam

The Sunbeam saga saw a series of chief executives fail to put the kitchen small appliance manufacturer back on the right track after its 1988 bankruptcy. Price, who got involved in 1990, said his biggest mistake was hiring Al Dunlap to try to turn the company around. The company had emerged from bankruptcy and went public as Sunbeam-Oster in 1992. After two chief executives failed to get the company moving in the right direction, Price brought in Dunlap, who specialized in turning around struggling companies. At first, Dunlap's restructuring was successful and both profits and the share price rose. Dunlap's brusque style, however, had its detractors. After an unexpected loss in the first quarter of 1998, Dunlap was fired. "We bought it very cheaply and made the mistake of hiring Al Dunlap to run it," Price said. "And we had to ask him to leave."

In a statement at the time, Peter Langerman, who was appointed chairman following Dunlap's exit, said, "The outside directors have unanimously taken this decisive action because we have lost confidence in Mr. Dunlap's leadership."

Going overseas

Michael Price also took Mutual Series international. Price was curious to see if the success Mutual Series had in the United States in the late 1970s and early 1980s could be replicated in Europe. In 1984, he hired Philippe Brugère-Trélat, who was well-connected among brokers and bankers in London. That hire expanded the company's universe of potential investments. Brugère-Trélat was working for a French private bank, Banque Worms, in London in the early 1980s when a mutual friend introduced him to Michael Price. After Francois Mitterrand came to power in France, he began nationalizing private institutions, including Worms, pushing Brugère-Trélat to look around for something new to do. Brugère-Trélat wanted to work in the United States and after Max and Michael decided to give investing in Europe a go, he joined the firm.

In the early years of European investing, Mutual focused on the United Kingdom, then France and Germany, before later turning to Italy, Belgium, and Denmark. Mutual found opportunities across the region, as it was less sophisticated than the United States and there were plenty of inefficiencies to fix—from family-controlled conglomerates to state-owned businesses that could improve their operations.

Early UK successes

The firm had early success in London, finding opportunities in investment trusts, conglomerates, and banks.

Investment trusts, a type of closed-end fund, first caught Price's attention. He recalled that some New York investors were buying closed-end funds that were trading at steep discounts to their underlying assets. Investment trusts are a primary UK investment product that were first established in the 19th century and allowed people of more modest means to collectively invest in the markets. Usually, a UK merchant bank issued and managed these funds. In the 1980s, this neglected area of the market had become terribly inefficient, Brugère-Trélat recalled.

10. Rosenberg (2000).

The company’s major foray into the investment trust market was with Winterbottom Investment Trust. The fund invested all its assets in major US oil companies like Exxon, Texaco, and Getty, and had some cash, but was trading at half the value of the underlying holdings. Investors could buy all the US oil majors essentially for half price. Mutual took a big stake in Winterbottom and pushed for a liquidation.

The investment shook up the staid City and brought renewed attention to the investment trust market. Within a decade, many of the inefficiencies that had existed in the mid-1980s had dissipated and the value opportunity disappeared.

Price and Brugère-Trélat would go to London four times a year, and slowly began to find other opportunities that US investors had not yet caught onto, particularly among London-listed **industrial conglomerates**.

“One day I'm literally on the floor of the stock exchange, and one of our brokers walks up to me and says, ‘I have something for you,’” Price said. “There’s a big block of Lonrho for sale. Lonrho was a conglomerate that had amazing assets all over the world, run by a very controversial~~,~~ person named Tiny Rowland.”

Lonrho’s assets included a UK newspaper, car dealerships, and African plantations and mines. Rowland also had close connections with leaders across Africa. Based on a sum-of-the-parts analysis, the stock was trading at a 40%-50% discount, partly because Tiny Rowland and the company were not part of the London establishment. The early meetings between Price and Rowland were tense, Brugère-Trélat recalled, as both sides were trying to feel each other out.

In one trade in 1985, Mutual grabbed about 6% of Lonrho, Price said. A Kuwaiti investor had sold his stake in the firm. “It caused quite a stir, eventually we pushed the company to realize a lot of the asset value,” Price recalled. “We did a lot of those deals over there.”

Eventually, Mutual Shares had amassed a 10% stake in the company. That disclosure spurred more analysts to begin looking more closely at Lonrho. An Australian billionaire, Alan Bond, eventually made an offer for Lonrho and Price used the jump in the stock price to exit the position.

Within the **banking** industry, Mutual Shares got involved with Midland Bank. The bank had some missteps in the United States, it had a low return on capital and “its assets were not made to sweat much,” according to Brugère-Trélat. The bank was trading at a significant discount to fundamental value and Price and Brugère-Trélat believed there was plenty of value if management would just do more to improve performance. Activism had come to London. Midland worked to become more efficient and in 1987 Hongkong and Shanghai Bank (now HSBC) took a stake in Midland before buying it outright five years later.

Opportunities on the continent

In Germany, Price and Brugère-Trélat managed to unlock value in utility WEBA, which had a range of assets from power generation and distribution to real estate and coal mines. Although management had several stakeholders to focus on, after meeting Price they did work harder to unlock value. Additionally, they did a better job communicating the stability of their earnings. They had a pricing clause that allowed them to raise prices every year, which many investors hadn’t been focusing on, Brugère-Trélat said.

AP Moller-Maersk, the big Danish shipping conglomerate, was also a target. At the time Mutual Series got involved, the company was family run with a massive shipping business, oil and gas assets, and a supermarket chain. Although the company was family run, it hired a new CEO from outside the family, and that created the opportunity for Mutual Series to engage with the company to push it to shed its non-core oil and gas and supermarket assets to unlock value.

As the interest in Europe expanded, Price brought in another analyst, David Marcus, who found attractive investment ideas in the Nordic countries and Mutual soon became one of the largest US investors in Sweden.

Mutual Global Discovery was launched at the end of 1992 to take advantage of the opportunities in Europe that US investors were overlooking. “There are bunches of interesting companies in Europe that trade for 30% or 40% less than where US stocks are, and they have better balance sheets, conservative accounting and pretty smart managements,” Price said in a 1995 interview.[11] In 1996, the Mutual European Fund was launched to capitalize exclusively on potential value opportunities across the region.

11. “Underperforming Firms Are Made to Work Wonders for Heine Securities,” *Baltimore Sun*, August 27, 1995.

Canary Wharf

Mutual's unique approach to finding value was on full display in the deal for Canary Wharf, a massive commercial development project in an area of London known as the Docklands.

In the late 1980s, Canadian development company Olympia & York, run by Paul Reichmann, began construction on the site. By 1991 the first buildings, including One Canada Square, the tallest office building in London at the time, were completed.

However, by the time tenants began moving in, the London commercial real estate market had crashed, with a glut of new space both in the Canary Wharf development and in the City contributing to the weakness. In May 1992, Olympia and York Canary Wharf filed for bankruptcy after the banks would no longer extend it any additional credit. In 1993, Lloyds put together a rescue package.

The site continued to struggle over the next few years and Price eventually saw an opportunity after Reichmann approached him about buying up the loans. When Reichmann explained the opportunity to Price, Price again showed his knack for getting to the heart of the story. "You have developed real estate, you have tremendous rights to develop real estate and you also have big tax credits," he said of the Canary Wharf investment. But the total price for the loans was going to be too steep for Mutual alone, so Price lined up a consortium that consisted of Laurence Tisch, who ran Loews and had been a co-investor on the Macy's buyout, Saudi Arabia's Prince Al-Waleed bin Talal, and Swiss investor Edmund Safra.

The group bought out the banks and restructured the investment. The property market and Canary Wharf began to recover over the subsequent years as more tenants moved in. The new Canary Wharf entered the FTSE 100 Index in October 2000.

Economic concerns eventually drove the shares lower, and Canary Wharf began to see takeover interest. An 11-month battle that pitted Paul Reichmann against another major shareholder, New York diamond tycoon Simon Glick, ensued. Eventually, Morgan Stanley bid vehicle Songbird Estates won out and acquired the company for £1.7 billion.[12]

12. "Songbird Swoops on Canary Wharf," BBC News, May 21, 2004.

2000–present

2002

Langerman leaves Mutual Series to head the NJ Division of Investments.

2005

Langerman returns to Mutual Series as CEO.

2017

Franklin US Value Team is integrated into the Mutual Series platform.

2020

Langerman retires and Christian Correa becomes president, chief investment officer; Grace Hoefig becomes director of research.

2000 2005 2010 2015 2020 2022

Adapting to changing markets

In 1996, Michael Price sold the firm he worked at and had become synonymous with for two decades to Franklin Templeton. When looking at potential offers, Price wanted to find a good home for Mutual Series and believed Franklin was a perfect acquirer. “They let us continue to do what we did with no interference while I was there,” he said. “They were terrific partners.”

Price and several of the top executives eventually left the firm completely a few years later. In 1998, Peter Langerman became the CEO of Mutual Series and in 2001 he became the chairman of the fund boards. He left the firm in 2002 to serve as the director of New Jersey’s Division of Investments, before returning to Mutual Series in 2005, as chairman, president, and chief executive officer. Of the turnover, during those years, Langerman noted that several of the analysts and PMs wanted to run their own investment firms, and the Mutual pedigree meant a lot.

The personnel changes also coincided with some major shifts in the US economy and the equity markets that pushed Mutual Series to continue to innovate in how it thought of value investing, adapting the core principles of Max Heine and Michael Price to a changing world.

Markets are much more efficient than they were in the 1970s, 1980s, and 1990s. Instead of having to write to a company for their annual report, or trek to the New York Stock Exchange to make a copy of one, financial reports are a click away and anyone can find them.

Competition has increased and it is now more unlikely to find areas of the market that have not been thoroughly researched and monitored, in the way that railroad bonds under Heine and bank loans under Price were generally ignored. And computer algorithms can recognize any potential market disparities and act on them in seconds.

Meanwhile, some of the major trends working in Mutual Series’ favor in its earlier history have given way to new ones. Companies have become leaner, there are fewer opportunities to push either industrial conglomerates or family-run businesses to shed underperforming assets and restructure in ways that would unlock greater shareholder returns in the way that there were in the 1980s and 1990s. There are fewer opportunities to wring value out of companies through reorganizations, asset sales, and mergers. The bumper returns Price and Heine realized on distressed investments and merger arbitrage spreads have dissipated—a function of greater information availability, increased competition, ultra-low interest rates, and tight credit spreads.

How companies are analyzed and valued has also changed. Four decades ago, the US economy was more heavily tilted toward financials and old-line industrial firms with hard assets that were easy to understand and assign value to. The growth of the US technology sector and the push toward digitization across a host of industries has made valuing intangible assets more critical to figuring out what a company is worth.

Nonetheless, markets remain imperfect and the Mutual Series approach of looking for overlooked or misunderstood companies that are trading well below where they should be still holds. As Mutual looks to the future, it has embraced new quantitative tools to complement existing fundamental analysis and help with portfolio construction decisions.

The firm also continues to remain actively engaged shareholders in pushing for managements to take steps to unlock shareholder value. Mutual has influenced boards to rein in excessive bonus payments in the face of a weaker share price and have held management teams accountable for failed investments and for allocating resources into more productive areas of the business.

Mutual Series continues to stay true to the concepts of value first laid out by Max Heine, and later Michael Price, doing original work to find new opportunities wherever they may lie and working with management when necessary to create a catalyst for greater value creation.

IMPORTANT DISCLOSURES

All information provided is for illustrative purposes only. The views expressed are those of the investment manager and the comments, opinions and analyses are rendered as at publication date and may change without notice. The underlying assumptions and these views are subject to change based on market and other conditions and may differ from other portfolio managers or of the firm as a whole. The information provided in this material is not intended as a complete analysis of every material fact regarding any country, region or market. There is no assurance that any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets will be realized.

Past performance does not indicate future results.

WHAT ARE THE RISKS?

All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. Investments in foreign securities also involves special risks, including currency fluctuations and economic as well as political uncertainty. These and other risks are described more fully in the fund's prospectus.

Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. To obtain a summary prospectus and/or prospectus, which contains this and other information, talk to your financial professional, call us at (800) DIAL BEN/342-5236 or visit ***franklintempleton.com****. Please carefully read a prospectus before you invest or send money.*

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