

Tales From the Proxy...Cont'd.

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Colfax Corporation (Ticker: CFX) is a diversified industrial company whose present day life is cursed by the “next Danaher” label due to the presence of one Mitchell P. Rales, co-founder of both Danaher and Colfax.

We have studied Colfax for years, and while we get its “Danaher Business System” (DBS) model, we have simply never been in love with the business mix, which is decidedly un-Danaher in terms of end markets, margins, and returns. Nonetheless, the price in the fourth quarter of 2015 created a margin of safety and we were owners...and nearly doubled our money in an impressively short (for us) period of time. At \$40, one must either truly be a believer in the “System” or anticipate a massive cyclical rebound in some areas that seem hard to see happening. We are no longer owners.

But we “hand-check” the company quarterly, which is where we came up with the following jewel. Thirty plus years ago, Thomas S. Gayner was a stockbroker who used to pitch the then-tiny Markel Insurance on bond ideas. He eventually went in-house to Markel to run their investments. Markel Corporation (Ticker: MKL) is now a \$13 billion dollar global company, partly built on the back of owners with integrity and a terrific investment record by the aforementioned Gayner. He is now Co-CEO. I met him and his wife 30-ish years ago at an insurance conference and you simply cannot find a more decent and highly qualified business and investment person with which to associate. So how in heck did he receive a 27% NO vote on his re-election to the Colfax Board?

	VOTES FOR	VOTES AGAINST	ABSTAIN	BROKER NON-VOTES
Mitchell P. Rales	110,686,947	1,903,388	57,326	4,394,299
Matthew L. Trerotola	112,376,066	214,088	57,507	4,394,299
Patrick W. Allender	91,999,684	20,590,413	57,564	4,394,299
Thomas S. Gayner	81,417,369	31,209,688	20,604	4,394,299
Rhonda L. Jordan	106,615,099	1,276,618	4,755,944	4,394,299
San W. Orr, III	111,427,019	1,163,282	57,360	4,394,299
A. Clayton Perfall	91,127,542	21,455,758	64,361	4,394,299
Rajiv Vinnakota	106,615,873	1,275,656	4,756,123	4,394,299
Sharon L. Wienbar	106,875,022	1,016,895	4,755,744	4,394,299

Answer: The disaster entitled “Outsourced Corporate Governance” in the form of Institutional Shareholder Services (ISS) and Glass, Lewis & Co. Those who are raking in money in passively managed funds do not differentiate between companies’ values and people, and thus outsource their votes to outside firms. These firms—who have at various times recommended AGAINST re-electing Warren Buffett to the Boards of several of his holdings—are concerned that Mr. Gayner is “overboarded” and thus a NO vote is a simple box check for those who aren’t paying attention. Gayner sits on Markel, the two split companies that were Washington Post, Colfax, and the Davis Funds. Okay, give up the Davis Funds. But who would turn down a chance to work the Raleses? Graham and the Buffett crew?

I am more worried about this election trend than Russian issues.

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