

High Conviction

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In Porter & Co.'s *High Conviction*, we recommend what we consider the ultimate "no-brainer" investment ideas.

These are opportunities where our conviction level is so high that we'd be prepared to invest 100% of our capital into a single *High Conviction* recommendation (though we do not recommend this approach to asset allocation). These businesses aren't merely good, or even great... they're fantastic. Demand for their products is so entrenched – the moat, whatever form it assumes, is so broad and deep – that their success is not just likely – it's inevitable.

High returns on invested capital and a wide moat insulating their businesses from competition means that inevitable companies can compound at faster rates and outperform over the long term. That is... with one important caveat – that you pay a sensible price to own them.

And therein lies the challenge...

These long-term wealth compounders are world-class businesses, and because of that, they generally trade at premium valuations.

But every once in a while, an outside event – like a financial panic or a deep recession – provides the rare chance to buy top-shelf merchandise at bargain-bin prices.

To be clear, a high-conviction opportunity isn't necessarily about *how much* a share price might appreciate – but rather, the *probability* that a share price will rise steadily over time. Sometimes, these situations may only result in a modest average annual gain... but it comes with far less risk than your average investment.

We added **Philip Morris International (NYSE: PM)** as **our first High Conviction position** in August 2024. We explained why like this:

"The "new" Philip Morris is disrupting the status quo and leading the tobacco industry toward a new era of safer nicotine consumption. The company owns the world's most popular, less-harmful alternatives to cigarettes and chewing tobacco, known as "smoke-free" nicotine products. And unlike the traditional

tobacco business of selling “cancer sticks,” which is in long-term decline, Philip Morris’ smoke-free business is booming. The sales from this segment have exploded from zero in 2014, to nearly 40% of the company’s \$35 billion in total revenue last year. This has transformed Philip Morris from a stagnant, old-economy tobacco company into a growth stock.”

Shares of Philip Morris are up 43% since we added them to our *High Conviction* portfolio just over a year ago. We added **The Hershey Company (NYSE: HSY)** to the *High Conviction* portfolio in March 2025 – shares are up about 10% since then.

The opportunity we’re presenting in this issue is quite the opposite of these two existing *High Conviction* recommendations. Philip Morris and The Hershey Company are two of the world’s most well-known and established brands.

This company we are recommending as a *High Conviction* trade has been around since the 17th century, but few know about what the company does or about its stock.

It’s called **Mitsui & Co. (OTC: MITSY)**.

It is an ancient Japanese conglomerate that owns virtually nothing openly or directly. It follows the single most important law of power, just as Sun Tzu taught: the ideal general “*wins without a battle*” by focusing on long-term advantages rather than short-term clashes.

This business is a master of discretion and a master at accounting... being able to accurately value each portion of a corporation’s capital stack. And most of all, it is the uncontested master at long-term strategy. It does not measure results quarterly. It measures results by the century.

And by doing so, it maximizes its return on invested capital in ways no other business in the world can. Most of all, it does not lose money, nor does it allow any business difficulty to distract it from its goal, which is the long-term appreciation of its capital.

Mitsui Isn’t A Normal Holding Company

It is part of Japan’s strategic plan to acquire and retain critical energy, metals, and food. That’s why it is granted capital at remarkably low rates. It is a family-led, 400-year-old conglomerate, backed by the full power of Japan’s government, and is the world’s most formidable, long-term investor.

Mitsui’s investing is a lot like Warren Buffett’s, except instead of the insurance companies putting up the free capital, in Japan it’s the banks and the government.

Mitsui's core cultural strategy is based on a pragmatic willingness to *compromise* and *adapt* when direct confrontation would lead to certain defeat. And it never lets its opponents forget that Mitsui is eternal. Lose as many battles as necessary as long as you win the war.

To understand Mitsui today, one must trace this thread back through Japan's turbulent history, where the company evolved from a merchant house into an institution that not only survived sovereign threats but shaped the nation's destiny.

The roots of Mitsui's resilience trace to 1673, when Takatoshi Mitsui opened a drapery shop in what is now Tokyo. By the early 1700s, the Mitsuis had expanded into money-lending and exchange services, functioning like banks before formal financial institutions had emerged. It was their banking prowess, and the information advantages this gave them that transformed them into one of the most powerful families in the world. Think the Japanese version of the Rothschilds.

In 1694, Takatoshi established the family's set of 17 principles that have guided Mitsui for over three centuries.

The full list is as follows:

- **Rule 1:** The family business shall be managed collectively by all branches of the Mitsui family, with no single branch claiming ownership
- **Rule 2:** Family members must prioritize the prosperity of the house over personal gain
- **Rule 3:** All major decisions, including marriages and adoptions, must be approved by the family council to maintain unity
- **Rule 4:** Frugality is essential to preserve capital – avoid luxury and extravagance
- **Rule 5:** Diligence in business is mandatory – laziness will not be tolerated
- **Rule 6:** Education of heirs should focus on practical skills for commerce, not scholarly pursuits
- **Rule 7:** Disputes among family members must be resolved internally, without involving outsiders or courts
- **Rule 8:** The family reserve fund must be maintained for emergencies and business expansion
- **Rule 9:** Branches must contribute a portion of profits to the central family fund
- **Rule 10:** To avoid conflicts with business interests, no family member may engage in politics or hold public office
- **Rule 11:** Adoption of capable non-blood relatives is encouraged to bring fresh talent into the family

- **Rule 12:** Business risks should be shared among branches to distribute potential losses
- **Rule 13:** Innovation in business practices is encouraged, but only after careful consideration
- **Rule 14:** Family members must live modestly, setting an example for employees
- **Rule 15:** Succession should favor competence over birth order
- **Rule 16:** The family must adapt to changing times while upholding core principles
- **Rule 17:** These rules are eternal and must be passed down unchanged to future generations

These rules ensured Mitsui could survive any challenge without fracturing, a quality that mirrored Japan's cultural emphasis on group harmony and endurance. By the mid-1800s, Mitsui had become Japan's wealthiest merchant house, with annual revenue that dwarfed major feudal lords.

Its enduring role in Japan's history earned Mitsui a special role in Japan's society. It is very much a "shadow state" – the corporate arm of the empire.

In 1872, Mitsui founded Japan's first private bank, Mitsui Bank, with ¥2 million capital – about \$200 million today – to stabilize the currency amid inflation from new paper money. The bank financed railroads, like the Tokyo-Yokohama line, and telegraphs, laying the foundation for modern connectivity. Mitsui monopolized key trades: by the 1880s, it handled 80% of raw silk exports, a vital foreign exchange earner equivalent to oil today. In 1889, it acquired the Miike Coal Mine for \$30 million in today's money, Japan's largest at 1.5 million tons annual output, powering steel mills for ships and weapons. By 1912, it controlled 15% of Japan's total corporate capital, employing tens of thousands.

And throughout this incredible, multidecade transformation, its house rules ensured continuity: decisions required family consensus, preventing the infighting that doomed rivals. This structure reflects Japan's collectivist culture. Group harmony trumps individual ambition.

Why Japan Is A Special Place

Deep inside the ethos of Mitsui lies a profound truth: Japan, an island nation, depends on trade for its existence. As long as Mitsui ensures access to trade and success in trade, it will remain – and it will remain more powerful than any political tide or economic depression.

Mitsui's historical pragmatism finds a modern echo in Warren Buffett. Buffett knew essentially the same thing: the business of America is business. As long as he could deliver investment excellence, his power would never wane.

Over his career, Buffett transformed a struggling New England textile mill, Berkshire Hathaway, into a nearly \$1 trillion conglomerate that mirrors the structure and strategy of Mitsui & Co.

Just as Mitsui and its peers have built vast trading networks using low-cost capital to invest across industries, Buffett has built Berkshire as an American version of these entities: a global powerhouse that uses its financial might – its insurance float – to stack leading business after leading business, producing unmatched returns on invested capital.

Thus, it was hardly a surprise when on August 31, 2020, Buffett announced his investments in a number of Japanese trading firms. Berkshire disclosed approximately 5% stakes in each of the five major Japanese conglomerates: Itochu Corporation, Marubeni Corporation, Mitsubishi Corporation, Mitsui & Co., and Sumitomo Corporation.

And keeping the low cost of capital strategy in mind, he borrowed virtually every penny he invested via the issuance of low-cost yen bonds at rates as low as 0.5%.

Buffett's rationale: Hey, if the Japanese people want to print trillions of yen and let me borrow it to buy their greatest assets, then I'm going to make the best of it.

By October 2025, these positions had appreciated about 117% to \$30 billion, making them Buffett's largest ever investments outside of Apple (AAPL) and American Express (AXP).

These investments have also delivered \$2.1 billion in cumulative dividends net of interest costs. Seeing these results, Buffett has been increasing his stakes in the strongest of these firms, like Mitsubishi (to 10.23%) and Mitsui & Co. (above 10%), citing their resemblance to Berkshire itself.

Although overshadowed in scale by his Apple investment, given that 100% of the capital into these Japanese firms was borrowed, this could be Buffett's greatest ever investment. And its real value won't be fully appreciated for another 20 or 30 years.

Mitsui Is A Real Powerhouse

Of course, Mitsui's secret sauce is low-cost funding, often backed by Japan's government financial institutions, enabling high return on invested capital ("ROIC") with minimal overhead. ROIC, a measure of how efficiently a company generates profits from its capital, averages 12% to 15%, far above global

conglomerates like General Electric's historical 8% to 10%, because it avoids heavy operational burdens by holding minority equity positions.

Last year Mitsui & Co. produced \$88.7 billion in revenue on \$106.7 billion in assets, achieving a 11.9% ROIC.

A great example of how it builds global revenue streams was its 2001 investment in Penske Truck Leasing ("PTL"). It leveraged JBIC loans (70% of the capital required at 0.5% rates) for a \$1.185 billion stake in PTL, allowing Mitsui to extract \$300 million to \$400 million in annual dividends *without capex*. Government export insurance covers 90% of overseas risks, socializing costs while Mitsui privatizes gains from PTL's 440,000-truck fleet. Likewise, Mitsui's *keiretsu* with Sumitomo Mitsui Bank offers \$5 billion in low-rate facilities, which has funded its 32.7% stake in IHH Healthcare, Asia's largest hospital operator – pretty much the best *forever* business I can imagine.

Thus, once again, Mitsui is leveraging its close relationship with the government to finance and build out key pieces of infrastructure at a reasonable profit. Never too greedy. Never on the frontpage. And never engaged in conflict or brinkmanship.

Buffett's Berkshire parallels this: its \$168 billion insurance float in 2024, costing under 1%, funds investments like Apple (\$200 billion stake), compounding at 15% ROIC. And, likewise, Buffett sits behind management teams. He wasn't tarnished by Wells Fargo's antics. He guards his reputation as his most valuable asset. Everyone thinks he's a saint. He never engages in criticism or conflicts.

And that's the magic. Ultra-low cost of capital. High-quality earnings from ultra-stable industries. Staying out of the press.

And, like Buffett in his early days, Mitsui & Co. has even structured its portfolio so that, despite having large stakes, it doesn't have to pay for capital expenses or corporate overheads. That means its income from these ventures tend to be badly mispriced on its books, so something we'll analyze below.

Offloading Risks To The Public

At its core, Mitsui has perfected a system that ingeniously leverages public institutions to socialize the costs of its capital and its risk taking, while channeling the resulting profits into its companies.

This mechanism, honed over generations, allows Mitsui to access near-unlimited funding at negligible rates and to deploy it into high-return assets with minimal personal exposure.

It's a model of remarkable efficiency, enabling consistent compounding that few Western conglomerates can match, and it underscores why firms like Mitsui & Co. generate ROIC of 12% to 15% – far above global averages – while maintaining low overhead and capex.

To grasp this strategy, consider the absurdity of the scale: companies like Mitsui, with \$106.7 billion in assets, borrow at rates as low as 0.4%, effectively free money when inflation hovers around 2%.

This results from the deliberate outcome of Japan's intertwined public-private ecosystem. The Bank of Japan ("BOJ"), the country's central bank, plays a pivotal role through its quantitative easing ("QE") programs, initiated in 2001 and expanded massively after 2013 under Abenomics. By purchasing trillions in government bonds – \$4.5 trillion on the BOJ's balance sheet as of 2025 – the central bank suppresses yields, allowing corporations to issue debt at rock-bottom costs.

For Mitsui, this translates to 10-year yen bonds yielding 0.4% to 0.5%, compared to U.S. conglomerates paying 4% to 5% on similar debt.

Public data from the BOJ shows that QE has injected over \$5 trillion into the economy since 2013, indirectly subsidizing corporate borrowing by keeping rates artificially low.

This public lending platform minimizes operational overhead: Mitsui & Co., for instance, captures returns from PTL's \$300 million to \$400 million dividends without having to manage 440,000 trucks. Equity-method accounting books proportional profits without consolidating debts, inflating ROIC by avoiding full capex burdens.

For investors, this asymmetry is gold: low effective costs (0.4% debt versus 12% returns) create a moat few can replicate. Berkshire's insurance float – \$168 billion at negative cost – mirrors this, but Mitsui's government ties add scale. This strategy, blending public support with private efficiency, explains why Buffett is drawn in, particularly to Mitsui and Mitsubishi, trading at discounts to their real-world asset values.

Why Mitsui & Co Is High Conviction

In an era where central banks flood the world with paper money, eroding its value through inflation and debasement, Mitsui & Co. stands as an alchemist of capital, transforming ephemeral credit into tangible, long-lasting assets.

As global investors flee fiat currencies – seeking refuge in gold, real estate, or crypto – the value of Mitsui & Co., which masters this conversion, is poised to soar.

True wealth accrues not from speculation but from owning undervalued claims on productive assets, patiently unlocking their potential.

This is precisely how the very rich stay rich and grow richer: by acquiring dollars of hard assets for dimes, using mechanisms that shield them from volatility while compounding quietly.

Mitsui, for instance, officially trades at a price-to-book (P/B) ratio of about 1.0x – meaning \$1 of assets for \$1 of price. But our sum-of-the-parts analysis suggests an intrinsic value 1.4x higher, or 40 cents of upside per dollar invested. This isn't just a bargain. It's a vehicle for transforming worthless paper credit into hard assets worldwide, managed by masters of long-term wealth preservation.

Mitsui & Co. Public Market Valuations

Segment	Multiple	(\$billions)	ROIC	Investments
Mining	8x	\$21	14–16%	Vale stake
LNG	16x	\$24	14–17%	Minority stakes
Trucking	16x	\$30	18–21%	Penske trucking
Hospitals	11x	\$8	11–13%	IHH (Asia's hospital leader)
Chemicals	11x	\$7	12–14%	Specialty trading
Steel	8x	\$2	9–10%	Minority stakes
Innovation	18x	\$11	16–20%	Venture, digital investments
Total		\$106		

Buying Mitsui & Co. fits Buffett's early investing strategy like a glove: its \$71 billion market cap lags a \$100.7 billion sum-of-the-parts valuation. But unlike 1950s "cigar butts" – a term coined by Buffett to describe his early investing approach of buying deeply undervalued, low-quality companies, like a discarded cigar butt one could pick up for free and enjoy one last "puff" – Mitsui has much more than one final puff left to give: it compounds at 12% ROIC via capital-light stakes, turning paper discounts into perpetual wealth.

This low-risk/high-reward profile makes Mitsui & Co. a legendary Buffett outcome in the making.

If you own this stock, never, ever sell it.

Action to Take: Buy Mitsui & Co. (OTC: MITSY) up to \$550 per share

Or buy Mitsui & Co. on its local Tokyo Stock Exchange (TSE: 8031 JP) up to ¥4,200 per share. For instructions on buying international stocks, [click here](#).