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EP 139 | Global Equities: Scuttlebutt, Reverse Roadshows, and Bathroom Lists

[00:00:05] Anum Siddiqui:

Hi everyone, on this episode of the podcast, I sit down with Analyst, Manar Hassan Agha. We started off the conversation by unpacking the different elements of our investment process. Manar speaks to how the global equity team sources new ideas and provides the background on a few different parts of the intensive analysis we conduct on the businesses we own.

What I came away with from this part of the conversation is that while having a clear set of items to follow is an important part of the process, the degrees of nuance and materiality when conducting investment research are also just as crucial. Manar and I also talk about the areas in which the team has been making improvements, along with a qualitative risk assessment that was conducted.

Finally, Manar shares some of his summer book recommendations. As always, I hope you enjoy the episode.

[00:01:01] Disclaimer:

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[00:01:15] Anum Siddiqui:

Today on the podcast we have Manar Hassan-Agha, an analyst on our global equity team. Manar, thanks for joining us today.

[00:01:24] Manar Hassan-Agha:

Thanks Anum. And thank you for not butchering my name. That was awesome.

[00:01:28] Anum Siddiqui:

I thought today we could start off the conversation with a part of our investment process, which actually kicks things off, and that is the idea generation part of the process. Finding new ideas.

You're an analyst on our global equity team, which means you have the widest universe possible, so I think it would be interesting to hear how you go about finding new ideas and leveraging from the broader investment platform.

[00:01:57] Manar Hassan-Agha:

This is an important top-of-the-funnel question and I think I have an interesting analogy for that. We think of it in two contexts. So, one is a vulture—we try to feed off the platform. (A vulture is a scavenger in the bird universe.) And then an eagle. So, we do our own hunting.

This is kind of unique to global equity in the sense that we're an unconstrained universe and we're also unconstrained in terms of geography and size that we can invest in. And we have, you know, seven different equity strategies and we're enabled by one shared investment philosophy, so we can have kind of that vulture where we're feeding off the platform.

There's also one kind of knowledge base, which we call M42. And our equity strategies are not siloed, so, we speak to each other and we use the same language and the same tools. We have this scavenging skillset, and then we also have this predatory skillset where we go out and do our own hunting. And then the platform can also feed off of that.

[00:03:00] Manar Hassan-Agha:

Novo Nordisk is a company in the [Mawer] Global Equity strategy. And we were vultures in that case. Whereas more recently we initiated on a company called Publicis, which is an ad agency company where we were kind of the eagles on the idea generation and we used reverse roadshows and various other tools.

But one thing I wanted to quickly mention is, how do you make sure that you mitigate the risk of withholding information from the Research and employee teams? We have broad ownership and skin in the game, so we're independently owned, but we have, you know, one third of our employees with ownership, there's no incentive to not put all information and knowledge on M42 for example, and so we can leverage that database.

[00:03:46] Anum Siddiqui:

Thanks for the context. And it's always good to get a reminder of our ownership structure and how it works in our favour.

That's one part of our investment process, but another part of our investment process—and where I believe the Research team spends a lot of their time—is on an area called the "Bathroom List." Now, if you're a listener that is curious about that term, what we mean by that is, you know, similar to when you go into a Tim's [Tim Horton's] or an airport bathroom, you'll see a list on the wall of when the last time the toilets were scrubbed or floors were mopped. Similarly, the Research team has elements of their research process or due diligence process, I should say, which must be checked off in a thorough manner.

And I just wanted to talk about a couple of those elements of the bathroom list. We don't have to go through all of them, but one part of the due diligence process that I think is particularly interesting is the scuttlebutt process. And I know this has been discussed on previous podcasts, but perhaps you can talk about why the team goes through the scuttlebutt process and what that looks like.

[00:04:57] Manar Hassan-Agha:

Yeah, that's awesome. And you know, on the bathroom list—you'd be pretty annoyed to walk into the washroom and it said, you know, the bathroom was last done on August 8, 2022, right? So, we try to revisit our thesis and our diligences every year.

In terms of scuttlebutt, so this is interesting—[it's] where you go out, speak to a competitor, speak to current or ex-employees, and you're trying to get a more honest assessment of the company, because we talk to the management teams, but we don't really necessarily trust management teams. We hear it from the horse's mouth, but we also like to get validation [and] verification from elsewhere. I'll give you a few examples.

We talked about Publicis, which is this kind of integrated ad agency, and I spoke to a competitor of Publicis, one of the large ad agencies, and a few kind of, let's call it confirming points of evidence [came up]. One is that they've led the change of transforming their business to an integrated business.

So, there's about a third in each of these categories for Publicis. Creative—that's where, you know, think of it like Mad Men, Don Draper coming up with the carousel.

[00:06:05] Manar Hassan-Agha:

Then you have a third in the media. They buy $1 out of every three U.S. advertisement dollars. And they're the broker effectively, on those media dollars. So that's a scale business. And then you have the last third in this kind of hybrid data/IT consulting business. And a long time ago, these ad agencies were in silos and Publicis led the charge in transforming that to an integrated business and in that case, kind of positioned themselves with their clients as transformation partners. And so they're doing creative media and data and IT all together, improving their value proposition as an agency for their clients.

A few other insights coming from the competitor—they highly respect Publicis and they would invest in it with their own dollars. You know, kind of leading the change in transforming the business. You're kind of seeing that playing out in Publicis' current numbers. So, that was [a] kind of confirmation.

[00:07:00] Manar Hassan-Agha:

A few others—we talked to the ex-CEO of Keurig for JDE Peet's and they provided some confirmation that the portfolio is a highly diversified and very valuable coffee brand portfolio, which is integral to the process.

But a few things I want to mention about scuttlebutt in general—you need to be cognizant of assessing the noise/signal depending on a few things. Who are you talking to? You know, is it a disgruntled employee? Is it a competitor with no incentive to say something bad or good? Kind of more candid and more honest. Does the narrative match the numbers? So, you get these narratives from different scuttlebutt and you kind of assess that and you're like, "oh, that's interesting, you say that the coffee portfolio is excellent and diversified," but you know, trust but verify, right?

[00:07:53] Manar Hassan-Agha:

You go back to the numbers [to see if] that's playing out in the numbers. Maybe the gross margins are high, so that shows that there is a valuable portfolio of brand. Also, you got to consider your sample size. How many [people] did you speak to? How many Ns did you collect? And out of the Ns you collected—so you talked to a competitor or scuttlebutt—is there clustering? Are they all saying the same thing and in the same direction? That would increase the signal/ratio of your scuttlebutt.

You [have to] balance all of this as you're collecting this information, weigh that signal and the noise of that information, and then just kind of balance the risk of increasing your conviction, without increasing your accuracy. So, this is a thing in horse betting—there was an interesting chart where you can see as pieces of information you collect increases, your accuracy never changed, but your conviction did.

So, you know, that's a very dangerous place to be—is a place where you're increasing your confidence without increasing your accuracy, because that leads to overbetting.

[00:08:58] Anum Siddiqui:

Interesting. Yeah, I can appreciate the benefits of scuttlebutt, but the nuance that it brings with, like you said, who you're talking to—an ex-employee, a competitor, the sample size. Thanks for making that clarification.

Okay, let's move to another part of the Bathroom List. As you mentioned or alluded to, you speak to the management teams, you collect scuttlebutt, but another part is to look through the financial statements and do your own forensic accounting exercise. I'm not sure how many of our listeners know much about what this entails or our process, so perhaps you could talk about what exactly you're looking for. Do you see any, you know, major red flags through this exercise? Or is it something more subtle than that?

[00:09:46] Manar Hassan-Agha:

You know, we're not necessarily coming up with this idea that when we do forensic [accounting] we're trying to catch frauds explicitly. This is more of an accumulation-of-red-flags exercise, where you're assessing the accumulation of these flags and looking at the materiality of them on a standalone basis, but also cumulatively in aggregate. And then trying to price that risk appropriately. It reminds me just on this note, you know, that black swans are person dependent. It's a black swan for the turkey who gets their head chopped off for Thanksgiving, but not for the butcher. The butcher was aware of that—that they were gonna cut the turkey's head off for Thanksgiving. We just don't want to be the turkey. We should know the risk and should try to price it in.

So, what is forensics? We do checklists. We have checklist questions that we go through and ask, "What is the litigation? [Are] there golden parachutes in terms of governance and compensation?" We also do trending and ratios analysis. In this case, we're looking at days payable, days sales, other kind of working capital metrics. We're looking at goodwill and as a percentage of sales.

[00:11:02] Manar Hassan-Agha:

But let me give you a tangible example to make it concrete. They lend up to the supply chain trade financing and that's baked into their accounts payable. So, in effect, you may want to reclassify that as net debt. Because really, this is them lending out to their supply chain. It might change your perception and awareness of the risk, which is in this case, you know, "hey, the debt load is larger than you think."

Anyway, you might want to reclassify that as net debt, but the key here is [thinking like] a pilot. We use a lot of checklists in this case. And we've kind of aggregated these checklists and we're looking at the red flags, both on a standalone basis and cumulatively to look at the materiality of them.

[00:11:47] Anum Siddiqui:

Got it. Be aware of the risks and don't be the turkey.

[00:11:51] Manar Hassan-Agha:

Yes! Exactly, exactly.

[00:11:52] Anum Siddiqui:

Well, you mentioned JDE Peet's, and that reminds me of something that I've heard you talk about before or written in notes in regards to some of their practices [in] ESG. And ESG is actually a part of our Bathroom List as well, so perhaps you can talk to us about why it's considered, and in particular, why it's relevant for JDE Peet's.

[00:12:15] Manar Hassan-Agha:

So, we make our own assessment of ESG and we factor that in Matrix terms. So, in terms of our business quality, risks, and valuation. When you think of ESG, it encapsulates a lot; doing shady things potentially impacts, for example, the risks of the business. It also could increase kind of these externalities. So, in this case, you might have liabilities with respect to greenhouse gas emissions that are not on the balance sheet today, but they will be eventually. Everything comes, everything comes due at some point, right? In due course.

It also impacts the duration of the competitive advantage. So, if you know coffee customers are desiring responsibly sourced coffee, if they're desiring coffee that is with a supply chain that is efficient in not emitting greenhouse gases, then if you're not providing that to the customer, then that impacts the duration of your competitive advantage. Your brand's not resonating with the consumers of today.

So, to give you an example of the ESG though, you know, it's not a free lunch. There's no such thing as a free lunch. Maybe diversification, sometimes people throw that in. But JDE Peet's spends about a €100 million every year in supporting operating expenses related to ESG. Think of all the people you need, for example, to support, "Hey, how do we know this is responsibly sourced coffee?" So, the verification of the supply chain. The measurement, the calculation of greenhouse gas emissions. So, how do we get the infrastructure and the technology to support that measurement process?

[00:13:55] Manar Hassan-Agha:

They're also seeing double-digit increases in the premium cost of responsibly sourced coffee. So, you know, you can get coffee that's not responsibly sourced [throughout the supply chain] for a lot cheaper than you can get responsibly sourced coffee. Because of those kinds of verification and logistic costs.

[00:14:20] Manar Hassan-Agha:

But we like and appreciate what JDE Peet's is doing on that respect because we think it exhibits long-term thinking. You know, they're taking clearly short-term pain to mitigate externalities over the long term—negative externalities in the long term—and also to extend the duration of their competitive advantage.

Spending a hundred million every year today might mitigate, you know, a 5-billion-dollar liability down the road or something to that effect. We don't know how this externality could be priced, but one thing to note about JDE Peet's, is it has made significant [progress towards its ESG goals], including roughly 80% of its coffee is now responsibly sourced, with the goal of 100% by 2025.

But, you know, we use third-party ESG assessments as kind of a plain vanilla sense check. And similar to scuttlebutt, you know, the signal increases if directionally they're all positive and that there's clustering. So, all of them are going the same way at the same time and we're kind of seeing that progress in JDE Peet's ESG rating.

[00:15:22] Anum Siddiqui:

I appreciate what you're saying about the duration of the competitive advantage because listeners will know that our investment philosophy is very much focused on how sustainable a company's competitive advantage is. So, that definitely ties into our investment philosophy.

Keeping on the theme of ESG—this is not part of our Bathroom List anymore—but I know that sometimes, in addition to considering it into our investment thesis, we also engage and speak to management. Can you talk about what type of situations we'll do that and what benefit that is to the portfolio?

[00:15:59] Manar Hassan-Agha:

Absolutely. I mean, we assess and partner with management teams versus tell them how to run their business. They're the experts, they know how to run their business. But we do provide feedback where we think it's relevant. And you know, typically if you improve your alignment, you're already kind of there—getting the right compensation for example, or the right ESG long-term thinking.

I will give you an example. Sometimes, when we look at compensation and we think the return on invested capital is very practically relevant to their business, we think that would be a superior kind of incorporation into their compensation alignment. For example, some businesses are deploying a lot of capital into MNA, or perhaps more organic CapEx like property, plant, and equipment, so they're building a lot of plants. We think ROIC might be more relevant, but you can't be a man with a hammer, because then you see everything as a nail. You don't go around telling all management teams it's necessary to do that. You know, there's no holy grail compensation metric in investing.

[00:17:02] Manar Hassan-Agha:

So, if a business is not deploying a lot of capital, or have, for example, long duration assets in biotech, right, it might not be as relevant for Moderna—because, you know, they can prop up their return on invested capital by simply stopping their investments in their pipeline. You might have a disincentive because of their naturally longer duration assets.

We also engage on ESG. And this is more conversational, where we think it's relevant. And in particular, to incent management. For example, with JDE Peet's, we've engaged with the board members and management there [to] say, "Hey, you have all these KPIs, they're excellent, and you're doing significant progress on them. Let's incorporate them into compensation in some form or fashion because they're so relevant to the sustainability and competitive advantage of the business."

[00:17:56] Anum Siddiqui:

Okay, great. Thanks for that Manar. So, we are bottom-up investors, very much focused on the individual companies that we own. But naturally, you know, there are outcomes of our bottom-up process—certain sector and regional exposures. This year so far, our portfolio's exposure to technology has had an impact on relative performance, and I was wondering if you could provide some thoughts on that.

[00:18:24] Manar Hassan-Agha:

You hit the nail on its head. You know, we're bottom-up investors, so lot of this exposure is kind of an outcome of our decision making on an individual security level. But we're certainly aware of the different factors and different ways of slicing and dicing our portfolio.

A few things I'll say about this—you know, the desire to outperform all the time is an obstacle to perform over time. We've historically added the most value in our downside capture, and we expect to keep up or lag in an upcycle or a bull market, which we're kind of seeing here with the generative AI and things of that nature.

We're really focused on our process and making repeatable good decisions. And we think, for example, with generative AI, we may be overestimating its impact in the short term but underestimating it, perhaps, over the long term. And we do think that the proposition there is quite high uncertainty, and perhaps an asymmetric proposition where it's easier to identify losers versus winners.

[00:19:23] Manar Hassan-Agha:

But we obviously have a beneficiary in our portfolio with Microsoft, which has this kind of distribution moat of roughly 400 million enterprises where it can distribute these enterprise productivity tools. And I think that most enterprises would be willing to pay for them and so it can leverage that distribution moat.

As you said, we don't look at industry categories. We're kind of bottom-up, but we're aware of it. And there might be some misclassifications, I think, in these industries. Almost everything uses tech, right? When we say technology, almost everything uses technology in some shape or form. We have some names for example, like Wolters Kluwer, which is classified as industrial, but I would say it's more of a software or data business.

[00:19:53] Manar Hassan-Agha:

And the last thing I would just say is it requires a lot of humility in our investing. We don't think it's necessarily a bubble, but it takes years to break even if you are in those kind of territories. For example, Cisco has never broke even since the 2000 dot-com highs, supposedly it was to power the internet and it has, to much degree. But you haven't seen those lucrative returns from a shareholder perspective. And then Microsoft—it took almost 16 years, which we own today—but it almost took 16 years to break even from those dot-com highs.

[00:20:44] Anum Siddiqui:

Okay, thanks for that Manar. Now, on the regional front, one thing that I have noticed within the strategy is that our exposure to emerging markets has been fairly low. I'm just wondering, has the team thought about this exposure? In regards to, perhaps, increasing it? And what kind of opportunities are you seeing within this space?

[00:21:06] Manar Hassan-Agha:

In emerging markets, the key here for us in terms of our exposure is we plot each individual security on the Matrix, and we have kind of a bottom-up thinking and we compare that with our opportunity cost, which is, you know, the rest of our universe, and that fit our philosophy.

We had pretty high EM exposure in the past. We're not ideological about it; today it's a little higher than zero. I think it's roughly 2%. We own, for example, XP, which is a broker dealer, the number one independent broker dealer in Brazil. So, we're very open to ideas.

We noticed today emerging markets are early in the hiking cycle, but they're also early on the cutting cycle from a central bank perspective. Chile recently did a hundred basis point cut and Brazil did a 50 basis point cut. Again, reducing the cost of capital. So, there was a lot of risk aversion in emerging markets, [which is] slowly kind of receding. They're in a better place financially from a debt perspective.

[00:22:17] Manar Hassan-Agha:

But we think that there could be some interesting opportunities, particularly in some of the Latam countries. We're not ideological about it. We plot each opportunity on the Matrix from a bottom-up basis, so we don't think of it too much from a macro perspective, but we're aware of what the macro is.

Often the issue with emerging markets is you're in for the micro and out for the macro, for some reason. You love the company. It's wealth-creating, excellent management team, discount to intrinsic value, follows our investment philosophy, but then you're out some macro reason because of some government coup or something to that effect.

But we also have a lot of indirect emerging market exposure, so, I wouldn't just think about it directly. To give you an example, we own Nestlé. About 40% of its sales is in emerging markets, and that's a big driver of volume for them.

[00:23:06] Anum Siddiqui:

We talked about the parts of the process that are very much ingrained into what we do every day, but a big part of what we do as a firm is trying new things, seeing what works, what sticks, what doesn't. Can you talk a little bit about what the team has been working on more lately?

[00:23:22] Manar Hassan-Agha:

So, a few things that we're kind of tinkering with—trial with small error—we talk about these reverse roadshows, and what we do with reverse roadshows is we occasionally inject randomness into the process. And so, just for context for the audience, reverse roadshows [are] when we have calls with, you know, let's say 30 different management teams in a span of one week or two weeks, and we kind of put them all together so that we can get a lot of context and benchmarking context so that we know, when you're comparing different opportunities with each other, using opportunity cost as a filter.

We try to inject some randomness in that process by adding some companies into our idea generation that we may not think meet all the criteria immediately upon looking at it, but could be interesting benchmarking context for us.

[00:24:24] Manar Hassan-Agha:

It's also, you know, a good dose of intellectual humility: we don't know what we don't know, and perhaps through that exposure and turning over [those] rocks, maybe something has changed. But a few other new tools—and again, this is me standing or us standing on the edge of the frontier of knowledge and making a small dent, right? So, we're not recreating the wheel. We have a process that we think works.

For example, we have a few tools aggregating the idea generation that we have on both the platform, so the entire platform, including our knowledge base in M42—so, what funds we existingly own, but also initiations. And so we scrape all of that and put it into one kind of aggregated tool so that we have the visibility and context to improve the latency of our scavenging, right? If you think about the vulture vs. eagle mental model.

[00:25:16] Anum Siddiqui:

Thanks for that Manar. Thinking back to your last podcast with Rob and when you spoke about the Swiss cheese [mental] model, which looked at the different layers of risk management that we have at the firm—and I don't know which layer of the Swiss cheese this would fall under!—but I know the team recently did a qualitative risk assessment looking at different factors. Can you talk a little bit about what you guys looked at?

[00:25:41] Manar Hassan-Agha:

We do a quarterly Matrix review and we've incorporated a portfolio review checklist every quarter in[to] our Matrix reviews. And this, really, is a qualitative risk assessment checklist and it's dynamic, so, it's not static, but there's certain questions that we would ask ourselves.

[00:26:11] Manar Hassan-Agha:

And the idea is to go through the portfolio one by one and have a thoughtful exercise for each one versus what we call, you know, or what Nassim Taleb would call "statistics from the cookbook." Correlations and stuff like that. We think a lot of the risks where you can add a lot of value is by thinking through them qualitatively.

So, I'll give you some examples. "Skin in the game," we use that as a filter. You know there's Hammurabi's Code, where if a builder builds a house for someone and the house they built and falls in and kills the owner, well then, the builder is put to death. And we use "skin in the game" as a filter.

[00:26:36] Manar Hassan-Agha:

And as we go through the exercise, we tag each of the companies in our portfolio by degree of alignment. And the output of that, for example, in the most recent review was that we think roughly 70%-75% of our portfolio—so, three fourths of our portfolio—has above average to excellent alignment.

Another exercise that we do is looking at it from an economic sensitivity perspective. So, as we think of the environment, recession, no recession, etc., we think of our portfolio and we we ask, "what's the degree of economic sensitivity that our businesses have?" Again, this is based on a qualitative review.

And after going through each company and thinking through the business model and the various risks from an economic sensitivity perspective, we think roughly 90% of our companies are average, to very little, to no economic sensitivity.

[00:27:35] Manar Hassan-Agha:

We also slice and dice by different kind of questions. So, I think some of the questions might be interesting. For example, we ask ourselves, "if the stock market was closed for 10 years, are there any businesses we wouldn't want to own in the portfolio?" Or, as Charlie Munger likes to say, "Where are we gonna die? So we don't go there."

This is kind of a reminder to us—a question that's a reminder to us—that we own fractional interests in businesses. We're not trading sardines. And also a reminder to us to try to identify the fragilities in our portfolio and serves kind of as a replenishment of our paranoia, right? Where, you know, only the paranoid survive in this business.

[00:28:18] Manar Hassan-Agha:

There [are] a few other questions I'll quickly go over. Are we making too many decisions? We think inactivity can be very intelligent behaviour. On average, for example, in *The Art of Execution* book, only 49% of the top investors' ideas made money. And then when you try to make five successive winning trades, statistically speaking, that was something like 2%. So, if you're making a lot of trades sequentially, it's likely that you're making too many decisions.

We also ask ourselves what we call, "The Portfolio Turing Test," or, an ideological portfolio Turing test. Which is, if you know the Turing test, it refers to basically the test of the computer's ability to exhibit intelligent behaviour.

[00:29:08] Manar Hassan-Agha:

In this test there's an interrogator and there's two players, Player A and Player B. And it, the interrogator tries to determine whether Player A or B is a human or a computer based on just their responses to written questions. And so this test for us is kind of like the asset test. And we ask ourselves, do we understand and can we convincingly formulate the other side of the argument?

[00:29:33] Manar Hassan-Agha:

Or otherwise, what is the short thesis on our portfolio? If you were just to look at our portfolio, where would it go wrong? Where would it go sideways? Where would it underperform?

And the last one I'll just mention is opportunity cost as a filter. We think that opportunity cost is one of the of best yardsticks and we really have four channels of actionable ideas. We have our existing Global Equity strategy holdings; we have ready inventory with reports already done, quite actionable within 24 hours—you just need to review any new material; and then any high-ranking inventory ideas that came out of a reverse roadshow. And this is kind of like the Warren Buffett Coke test: "Should I own more Coke? Or XYZ potential idea." So, [that's] just to give you a flavour of some of the qualitative risk assessment checklist and questions we ask ourselves.

[00:30:27] Anum Siddiqui:

Thanks for that Manar. A lot of that makes me think of a mantra that we have at the firm, which is "prepare, don't predict." So, I guess a lot of that has to do with that preparation that we speak to.

[00:30:40] Manar Hassan-Agha:

Absolutely.

[00:30:40] Anum Siddiqui:

Okay, well, we're in the thick of summer. We'll see when this [episode] is actually released, but I'd be interested in hearing and perhaps our listeners would be as well, what you've been reading lately and if you have any recommendations.

[00:30:55] Manar Hassan-Agha:

Yeah! So, three books that are interesting that I've been reading or rereading, so I'll briefly talk about one takeaway or one interesting learning from each one.

So, the first one is *Fortune's Formula*, and this kind of goes through information theory and Kelly [Criterion in] betting. And one takeaway I had is, you know, with Kelly betting what you're doing is trying to bet a bigger proportion of your bankroll where you feel you have a higher edge and favourable odds, and without taking on the risk of ruin, because survival is kind of the name of the game. So, first protect your capital, but then bet bigger when you have higher edge and favorable odds.

[00:31:40] Manar Hassan-Agha:

And they do this. If you've watched 21, they do this in the casinos, if shown in the casinos. But you can also do this in the stock market, but it's not as clean, perhaps, as the casino where you have a more defined edge. Or, over the phone when they used to do it for horse betting, where you get private tips on which horse is going to win.

Because, for example, in the stock market, how do you know your edge? Right? What is your edge? It's hard to define. It's your perceived edge, but it's still a very interesting way of thinking about it, of your position sizing. If you think of it from a first principles perspective versus a mechanical math exercise, trying to compute the perfect, optimal weight. So, think of it more from first principles perspective. So, book number one, Fortunes Formula, Kelly betting.

[00:32:28] Manar Hassan-Agha:

Book number two. I've read, I love this book, *Ubiquity, Why Catastrophes Happen*. And this is a book talking about power laws. And one of the mental models I took away from the book is the sandpile mental model.

And that's when you know, the last grain or the additional grain of sand can topple the entire sandpile, but you don't know which incremental grain of sand will topple the entire sandpile because you have to try to think in non-linearities.

So, a lot of things in life can be non-linear. And to give you an example, a magnitude 3 earthquake is 10,000 times less violent than a magnitude of seven. So, it's not linear. You know, you go from three to seven, so two, two and a half times higher, but it's 10,000 times less violent. So, trying to think about where [there are] non-linearities. And that's again, another question you can think about in through your portfolio.

[00:33:29] Manar Hassan-Agha:

And the last book I'll mention is, *Where Are the Customer's Yachts?* And this is a hilarious book, where, you know, just the title tells you kind of how funny it is, but basically, everyone's making money, but no one can figure out where the customer's yachts are.

The banker has a yacht. Nobody knows where the customer's yachts are. But it's a hilarious kind of book talking about kind of timeless behaviours and psychology of markets and market participants. And one takeaway that I had or it mentions this quote, "plus ça change, plus c'est la même chose." And sorry for all the French people out there, but effectively in English--I butchered that, I'm sure, in French—but the more things change, the more they stay the same. So, a lot of the psychology and behaviour in markets and market participants, a lot of it stays the same over time. So, it's quite timeless.

[00:34:24] Manar Hassan-Agha:

And they mentioned something about the differences between speculation versus investing. Where, you know, speculation is an art to try to take little money into a lot. To [try and] turn a little money into a lot.

Whereas investing is kind of this effort where, if it's successful, it's trying to prevent a lot of money from becoming a little. And I think that really identifies how we think of risk, which is how do we reduce the risk of permanent capital impairment? We try to protect the downside first because we're investing, we're not speculating.

[00:34:58] Anum Siddiqui:

Well, thanks so much for that Manar. And this is a pretty low bar, but your French is much better than mine [laughs]. And there you have it folks, we have some summer reading recommendations or some fall reading recommendations as well.

Thanks so much for joining me today, Manar.

[00:35:16] Manar Hassan-Agha:

Cheers, thank you Anum.