



[0:00] [Rob Campbell] [RC] Come hear, they sang, renowned Odysseus, and listened to our two voices. That's the song of the Sirens, from Homer's Odyssey — the voices that lured sailors in toward the rocks. The markets, of course, have their own sirens, and lately there's been no shortage of them.

Just past the sirens, Odysseus had to thread a narrow strait between Scylla and Charybdis — a monster on one side and a whirlpool on the other. Today I'm joined again by Portfolio Manager Paul Moroz, and we use that stretch of Odysseus' long journey to talk through the seductive side of things: memory, a wave of giant IPOs, and the AI complex more broadly, and then the harder question waiting right behind it. When there's no option, no safe course to chart, how do you decide which risk to live with?

My conversation with Paul, up next.

[0:54] [Disclaimer] This podcast is for informational purposes only. Information relating to investment approaches or individual investments should not be construed as advice or endorsement. Any views expressed in this podcast are based upon the information available at the time and are subject to change.

[1:11] [RC] Well, Paul, welcome back to the podcast.

[1:14] [Paul Moroz] [PM] Thanks for having me, Rob.

[1:15] [RC] You and I have a habit of going back in time. Earlier this year we went back to Shakespeare and literature, gleaning lessons that can be applied to investing. We're going to go back a little further today — still in the realm of literature, but back to Homer and the Odyssey, with some investing lessons that you think are particularly relevant today. Can you set the stage for us?

[1:39] [PM] The Odyssey was written by Homer — Greek poems that might date to around 800 B.C. It tells the story of the protagonist, Odysseus, and his journey home after the Trojan Wars. There are a couple of stories that I find particularly fascinating.

Most people would remember the story of the Sirens and the seductive calls that would lead Odysseus to crash his ship into the rocks. And then, the next challenge on the voyage — and he was tipped off on both of these in advance — was a whirlpool called Charybdis, a monster creating this whirlpool. If he got too close, it would take the ship down. But if he steered too far away from Charybdis, he would get too close to the rocks and cliffs, and a sea monster named Scylla.

Odysseus wasn't the strongest character — he's not Achilles — but Homer painted him as someone who exemplified wisdom, patience, and resilience. That's the setup, and I think these stories have some wisdom for us



today.

[2:58] [RC] Let's start with the Sirens — the story of this beautiful song that would lure sailors in. I can imagine there are some beautiful songs in markets today. Odysseus, as you mentioned, knew what was coming and had a strategy for it. Can you describe what that was, and what's the loudest siren song to you right now?

[3:21] [PM] Most stocks in up markets or down markets become serially correlated. One of the biggest themes — and it's a theme we own in the portfolio — is memory stocks. Historically this was a commodity type of business, but the demand for memory semiconductors has gone through the roof, partly because a lot of the DRAM — the stacked DRAM called HBM, or high bandwidth memory — goes into data centres. There are shortages everywhere and a bottle neck in the supply chain. ASML, which produces the machines to enable this process, is short. Everything is short and backed up.

So you have volumes increasing rapidly and price increases like we've never seen before. Apple announced overnight that they're increasing prices by 15 to 20 percent — and that's because of memory prices, even with the bargaining power Apple has. There are fundamental reasons why this is going up. That's the wisdom in the siren's song.

But things have gone up so rapidly that you're seeing retail investors pile on and leveraged ETFs being created. That's all fine, but you need logic behind those investment decisions. The risk of ignorance is assuming that just because a stock is going up, it must be more valuable. You have to go through your investment process — valuation, upside versus downside.

This is an area where we spend extensive time modelling. We just had an update overnight from our team in Singapore. I was on the phone a few days ago with one of our analysts going through the model again, because price changes are so dynamic. We want to understand upside, downside, and probabilities — knowing too that this is still going to be cyclical.

SK Hynix trades at a little more than 5 times earnings — 5 or 6 times, depending on whose estimates you believe. The risk isn't valuation in terms of the P/E multiple; it's the cyclical nature of the earnings. That's the question mark. Will this super-cycle go on for a couple of years, 3-5 years? How much price deflation will there be?

But to bring it back to the Odyssey: what Odysseus concluded was that he wanted to balance the risk of seduction with the risk of ignorance. He had his crew tie him to the mast of the ship, and they rowed with beeswax in their ears so they could guide the ship through. He still heard what they were saying and took that information in without being seduced.

So what's our equivalent? To give viewers a sense: we allocated 164 basis points — 1.64% of the portfolio — into SK Hynix over time. We have now sold back 159 basis points, or 1.59% of the cost base. It's still over a 5% position, but we're systematically peeling it back. This is all within under a year.

We're managing risk by cutting the position, but also going back actively to the models: what are the new odds, the prices? How is the market evolving with the long-term contracts they're signing with customers? How will that influence the industry? Really establishing our fair-value range so we can allocate capital properly. It's a matter of



odds — and going back to that process and discipline of risk management. I think that is one of the things that we are doing that really relates to the story.

[7:54] [RC] You had an important clarification about the Sirens story: Odysseus was tipped off in advance. He had time to think through his response before the moment of temptation arrived. It's not about making decisions in the heat of the moment — it's about having a plan, being open to the signal, but having a process to stay disciplined.

Can I ask about this concept of having taken out almost as much as you've put into a position, and yet it's still a fairly large weight in the portfolio at around 5%? Does that make you think about the position differently — versus a situation where you've put in a dollar and it's worth a dollar? Is there a risk of treating it as 'free weight' in the portfolio?

[8:44] [PM] That's exactly the risk — the risk of mental accounting, of somehow not looking at the market value of the position. Going back to the models is what really keeps you in check, because at any point we can invest in something else, cut the position, and reallocate to another security.

The truth is there are still arguments for why the security could be worth more: a normalisation of South Korean valuations relative to similar U.S. securities, a shortage that is set to intensify, including the theme of agentic AI. If you can envision a world with more agentic machines running processes, we might be very early in this cycle. So we're trying to balance all those odds.

We've also looked back at the original thesis — as a process check, what's the real downside? In the past this stock has traded down to one times book value. As it accrues book value, what could the downside be based on historical metrics? Those are all inputs into the decision. It's not a mental accounting exercise; it's thinking about odds and probabilities and twisting that math in different ways.

[10:30] [RC] We're going to have Shan on, our colleague in Singapore, on the podcast in a couple of weeks for a deep dive on memory. Can I ask you about another siren song I perceive in the market — these mega IPOs that seem to be lined up? We had SpaceX, and potentially others in the near future. Have you thought about what those mean for markets, for individual investment cases, and how they enter our process?

[10:55] [PM] These are significant because they mark a period in investment history where new business models are being developed and capital markets are evolving. They're enormous, and they all carry high elements of risk — whether it's SpaceX, whether it's frontier AI models where we're still uncertain who's going to win or how the industry will evolve. There's still a great deal of debate about how value in the AI value chain will be captured between the models, those providing the compute, and those with unique distribution advantages. And investment bankers are skilled at finding a spot in the market and taking advantage of the animal spirits that investors have.

The bigger-picture idea is that we're going through a period where the economy has become much more capital-intensive. If you're bringing something large to market, there's a risk that these companies, being so big, get fast-tracked into indexes and benchmarks. But the capital has to come from somewhere — what are you selling? The hyperscalers, SpaceX — they're going to the bond market as well.



We went through a period where business models were asset-light; companies could grow without requiring much capital and were buying back stock. Now we're in a period where there are genuine investment opportunities, but the capital intensity is increasing. Do these new IPOs crowd things out? I don't know — maybe.

It's an interesting tension because everyone looks at performance and thinks, if a stock goes up, that's a good thing. But if multiples expand, it does affect your reinvestment risk if you want to deploy more into equities. What we've been seeing lately — and maybe it's the crowding-out effect — is companies growing earnings while some stocks have not expanded their P/E multiples. If anything, it's been more deflationary. You might feel a little disappointed when you look at your statement, but it's an interesting setup because your reinvestment risk actually improves.

There's nothing saying we can't go through a period — 5-10 years — where multiples grind down because of capital intensity and reduced buybacks. That makes you feel sad when you look at your statement, but if you're doing the math, you can actually reinvest at a better rate of return and compound money over 10, 15, or 20 years better.

[14:14] [RC] That's akin to a commodity business — actually, the time to invest is when the multiple is higher.

[14:20] [PM] Yes, similar analogy.

[14:21] [RC] Interesting. Can I ask about the other side though? In a world that's more capital-intensive, the cost of capital matters that much more. And I know you have a few thoughts about these large IPOs and what a cost-of-capital advantage might look like.

[14:36] [PM] If we take SpaceX and Elon Musk as an example — he thinks from first principles, and most people know he was trying to fast-track SpaceX into the S&P 500. Why not? Because you gain a cost-of-capital advantage. If you're in a certain index, you structurally have a lower cost of capital versus a smaller company that isn't.

[15:05] [RC] Or even if you are in a specific jurisdiction, like the U.S., you might have a lower cost.

[15:10] [PM] Same thing. It's not really a continuous thing — it's a structural advantage or disadvantage, unrelated to the actual riskiness of the investment. From an industry perspective, you could call it a distribution advantage.

If you run a publicly-traded company in the S&P 500, you have a low-cost distribution advantage to shareholders. And if you were a small-cap company in, say, Greece — or, keeping with our theme, a company on the island of Ithaca — your cost of capital is going to be higher. That's just the way the world works.

[15:49] [RC] Can we return to the Odyssey? There's another story that rhymes with a lot of what we've been talking about — the choice Odysseus faced between two bad options. Can you describe that for us?

[16:05] [PM] After they passed through the Sirens adventure, and I think he was tipped off on this one too —



[16:12] [RC] I think he knew what he was getting into.

[16:13] [PM] On one side — let's say the right — is Charybdis, a monster that creates a giant whirlpool that would take the entire ship down. On the other side is Scylla, a six-headed sea monster living in the cliffs that would eat the people on your boat. You can imagine being a sea monster all alone — not a lot of ships pass through, so when one comes along, it's lunchtime.

This is such a powerful example because there are so many times in life where the choices you face don't have a clean answer. There are trade-offs. There is no perfect option.

[17:09] [RC] There's no way to eliminate risk — it's about which risk you're willing to choose. I imagine a big one for clients, and for you as a portfolio manager today, is AI. It's such a large driver of economic growth, corporate earnings, and the stock market overall. We started talking about memory, but that's just one piece of the broader AI trade. The big question from a portfolio manager's perspective must be: on one side, the risk of concentration; on the other, the risk of not keeping up when everything has been driven by this theme. How are you thinking about that right now?

[17:58] [PM] This retells the tale in a different way from a podcast we did together about a year ago, when I stepped back into the portfolio and talked through my intention to stand in the middle of the net and balance these risks. It's probably even more two-dimensional than that, because you have valuation risk — but that can often be offset with disruption risk. It's not always the case that the cheapest thing on paper, from a value perspective, is less risky. You also have cyclical risk. With memory stocks, the P/E issue isn't the P — it's the cyclical risk of the E.

Going back to our protagonist, Odysseus: what he chose was to stay in the middle of the net and lean slightly toward Scylla. He was more concerned about the ship being sucked into the whirlpool, Charybdis, and losing everything. The consequence of leaning toward Scylla was that Scylla picked off six of his men — one per head, which makes sense for a six-headed monster. Not a fun choice, but the lesser of two evils.

So what are we doing? We're participating in AI, but we're also constructing the portfolio in a way that ensures we survive no matter what. That does mean we haven't been keeping up. If this continues, we won't be keeping up. I just sold a security — I won't name it right now — after a 25% move, where I redid the math and it was a complete exit on valuation grounds.

These things aren't clear. There are trade-offs. And we're not going to get all of them right — there's just no way. You want to stay balanced across different names. And that is the way we are chartering the ship, and going back to the message of staying in the middle of the net: we're being consistent. Charybdis on the right, Scylla on the left. Just like Odysseus, we're going to lean a little toward Scylla. That's how we're navigating this difficult situation, and there is a trade-off in doing so.

[20:29] [RC] On AI specifically, Paul — can you put some numbers around it? It's not as simple as, say, a country allocation, I suppose. But how are you quantifying some of that risk when thinking about the portfolio?

[20:41] [PM] Very simply — and this moves us from stock selection to portfolio construction, which I think is



important for viewers to understand. Our AI exposure, meaning actual hardware, picks and shovels, chips and the like, is 22.7% of the portfolio, as of essentially today. In a scenario where this rolls over and half of that is gone — just like that — that's an 11-12% drawdown, just for perspective. So there's real exposure. We're participating. But in a downside scenario, it's not a complete disaster.

[21:23] [RC] So it's significant, but you're saying it's manageable — something the portfolio can recover from.

[21:29] [PM] Exactly, and there's an important offset. We have about 15.5% of the portfolio in what I consider very high-quality businesses that have been funding that CapEx — companies like Meta, Microsoft, and Amazon. They all have different front-end business models, but they're all acquiring compute and are really the ones funding this cycle. So if you look at the correlation: one person's CapEx is another person's revenue. If something falls on the hardware side, there's a natural offset on the hyperscaler side.

So you could look at it as balancing the risk. Your net directional AI exposure isn't 22% — it's more like 7 or 8 points actually leaning toward AI. And we have seen that in the market; there are certainly days where that correlation fluctuates. But fundamentally, as long-term business thinkers, there will be some relationship between those collecting the CapEx revenue and those spending it.

Now, if you lump all of that together into an 'AI basket,' it's a little more than 1/3 of the portfolio tied to AI in some form — though I think that's a somewhat extreme framing. And then there's the rest of the portfolio: oil, gold, cement companies, distribution companies, or things that are entirely different.

[23:11] [RC] It's still remarkable how some of those seemingly unrelated things are getting pulled into the whirlpool — not in the global portfolio, but I know we have an investment in our emerging markets portfolio that services ship engines. You wouldn't think of it as an AI business, but ship engines provide reliable power for long periods of time — and now they're powering data centres. This company will service those as well. It's almost as if the whirlpool is expanding. Do you feel that?

[23:44] [PM] A little bit — it'll ebb and flow. We're at a point now where we're participating and there are spots where you can arbitrage out positions that may actually carry less risk. Another example: power utilities. We have a few percentage points of exposure in the portfolio. Sometimes they act very defensive — they're going to be around regardless. Sometimes they trade more like AI stocks because of the power shortage and the reinvestment opportunity that comes with it. It depends on the day.

But the point is that we see different patterns. The market is very efficient, but not perfectly efficient. You can often arbitrage based on risk — something may not carry the same AI feature you're describing, and that's when you can trade it off for something else.

[24:42] [RC] There's one more story from the Odyssey I'd like your reaction to — the Cyclops. Odysseus defeats the Cyclops, and this goes back to your point that he wasn't the strongest character, but he was sharp, witty, and cunning. He tricks the Cyclops into not knowing who had defeated him. But on the way out, Odysseus couldn't help himself — he boasted, shouted back, 'It was me. It was Odysseus who got you.' Which caused the Cyclops to complain to the gods — Poseidon, I believe — and Poseidon then made Odysseus' voyage miserable for the next ten years.



It's a story about humility — getting something right, and still recognising that all kinds of dangers could lurk ahead. How do you think about that right now, both with decisions you're getting right and perhaps some you're getting wrong — where on the opposite end you don't want to beat yourself up too much either?

[25:37] [PM] The longer you're in this business, the more you realise that things are never as bad as you think they are — and when things are good, they're not as good as you think either. The cure, honestly, is diversification.

That's going back to what I said earlier. Right away in this investment regime our intention was to hold more names. We're just short of 90 now in the portfolio. I've said before I could get to as high as 100. Positions are going to be smaller. Viewers probably don't know this, but I'm moving in smaller increments quite often, recognising there's so much volatility that you might not get the exact price you want. It might move against you. Those concepts imply the humility we're applying at the process level in how we construct the portfolio.

It was funny — we added to one of our positions the other day, and one of the analysts gave me a compliment right away: 'Paul, nice trade.' I shot back immediately: 'Maybe. We'll see.'

[26:53] [RC] That's the thing about investing, isn't it? Odysseus eventually got home — there was an end to his journey. There's no end for us. We're managing money for generations in some cases. That requires a different type of mindset. Anyway, Paul, thank you so much for another meandering conversation. I always love chatting with you.

[27:14] [PM] Thanks, Rob.

[27:15] [RC] Hi everyone, Rob here again. To subscribe to The Art of Boring podcast, go to mawer.com — that's M-A-W-E-R dot com forward slash podcast — or wherever you download your podcasts. If you enjoyed this episode, please leave a review on iTunes, which will help more people discover the Be Boring, Make Money philosophy. Thanks for listening.

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