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EP99 | Deep dive: Inflation

Disclaimer:	00:22	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.
Rob Campbell:	00:39	This week we have Samir Taghiyev back on the podcast. Samir is a portfolio manager who works with our Canadian small cap and U.S. mid cap [equity] strategy. So Samir, welcome to the pod.
Samir Taghiyev:	00:50	Thanks Rob.
Rob Campbell:	00:51	You are here to talk about inflation. I know at least for me, as I look back at 2021 and even forward to next year, one of the most talked about themes in the market has been inflation. It's fascinating to see how that's evolved.
	01:05	We're recording this podcast towards the end of November. As we speak, the Federal Reserve chairman J. Powell is testifying in front of Congress. Despite describing recent inflationary pressures as transitory for much of the past year, he's just said that it's time to retire that word with inflation running at the fastest pace in thirty-one years.
	1:26	As listeners of the podcast, you'll know that inflation has come up in many of our recent conversations, particularly around the “Playing the plan” episodes. I know it comes up pretty much every week in our risk meeting. But Samir, you recently took a deeper dive—more explicitly about inflation, its history, what it might mean as part of our research retreat and the top-down scenarios forum. I thought that'd be a good place to start: what's the research retreat, what's the point of the top-down scenarios forum, and why did you decide to dig into inflation?

Samir Taghiyev: 01:54 I should start with saying that it's not typical of me to do these kinds of macro deep dives, like looking into inflation. We are generalists; even though I'm a portfolio manager, I do a lot of analytical work and a lot of that is bottom up. That has worked historically. However, every year we do have a so-called retreat, which is a tradition, and part of our process as well, where we go to typically Banff and get together, discuss what was achieved in the previous year, what we're seeing in the world, what do we think we need to do more of, where do we need to go, and how to do it.

02:49 The goal of the macro process is really to guide the positioning of the portfolio with respect to interest rates and overall credit spreads. So what should the duration of the portfolio be? Where on the yield curve offers the most attractive opportunities? Is it sort of that five-year space? Is it that 30-year space? Or how much spread product do you want your portfolio at any given time?

Samir Taghiyev: 02:30 As part of that event, we typically do a macro outlook, or top-down scenario forum, we call it. There [are] typically five presenters in the macro outlook or top-down scenarios forum. The reason for that is we don't do a lot of it. This is an opportunity for us once a year to take a step back, think in different terms, wear different hats, and do a different kind of work. It's nice to have.

Rob Campbell: 02:54 The topics themselves...does the Director of Research basically say, "here are the things that we need to look at and do?" How [do] the topics bubble up?

Samir Taghiyev: 03:02 It is a little bit of both. It's more organic, I would say. Last year, Mark [Rutherford] and I did one on Canada's future outlook—in terms of what we're seeing, how Canada can evolve in the next 10 years. We approached the organizers of the event. People like Vijay, Paul, they green-lighted it; they thought that it does have a place in the top-down scenarios forum. This year, top of my mind was inflation. It was something that I didn't know much about. I knew a little bit, but there was a natural personal curiosity that I wanted to fulfill. And I reached out to Paul saying, I'm really looking forward to doing a deep dive in that. And I thought a top-down scenario forum would be a good place for this. And he agreed. This is one of the very top of mind topics of 2020, 2021.

Rob Campbell: 03:49 You're a bottom-up guy; you've decided to take on probably one of the most macro of topics. Let's dig into it. To start from your perspective, inflation, what drives it? What's some of the evidence? How do you think about inflation in general?

Samir Taghiyev: **04:02** Yeah, I'm a bottom-up guy, but it's also fascinating—my dad is a PhD in economics and sometimes we have these conversations. He's very top-down thinking while I'm very bottom up. Coming to this macro land, my bottom-up thinking process comes in. I typically think of companies in terms of deductive portions, as well as inductive portions. Deductive being more abstract thinking about the companies, the moats, for example. While inductive is the actual results—what has happened historically.

4:31 So, I did approach this study from the same perspective. Looking at deductive, let's think from first principles basis—how it works, how other people think about it. From an inductive perspective, let's look into the history—going back hundreds of years, see how has inflation played out: what were the reasons for it? What were the causes for it? What were the results of it, and implications of it?

Rob Campbell: **04:53** Let's start on the deductive side, more the theory. We're going back to 101, but describe a few of those.

Samir Taghiyev: **04:59** Looking into it, the so-called Keynesian view and monetarist view capture it very well, but interestingly, none of them captures the topic of inflation to 100%. Each of them explains parts of it or certain periods of time—historically, [it] has been explained better by, for example, the monetarist's view. Sometimes it was explained better by the current neoclassical thinking process—the writings of Keynes on the macroeconomics, that explained it better.

05:26 Let's start with Keynes's views on that. They see it as the inflation being a price level, and every price in the economy is determined by demand and supply. In this case, we're talking about a very high-level demand and supply, so called "aggregate demand," (demand for everything out there, which is a pretty abstract term), and "aggregate supply," (the supply and capacity of a production of everything).

5:53 Think of all the factories and all of the producers out there, as well as all of the consumers for the demand side. The equation between those two demand and supply sides would explain whether the price is running higher or lower. If there's a lot of aggregate demand versus the supply, the prices will keep going up. If it's vice versa, then prices will go down.

06:13 Typically, the causes for the demand are low unemployment rate, optimism in the markets, optimism of the consumers (they consume a lot and that creates more demand for everyday products). It can come from the government's stimulus. For example, the government's decided to spend trillions of dollars on a new infrastructure project. Well, that alone is a demand for labour, as well as goods, as well as everything else.

Rob Campbell: 06:39 That Keynesian view probably does a decent job of explaining the current state, in the sense that there's been a ton of stimulus, lots of demands, but then also the supply side too—with some of the well-known bottlenecks that we've been experiencing.

Samir Taghiyev: 06:50 Exactly right. There has been on the demand side a pent-up demand from 2020 as well. People couldn't consume in 2020, so they deferred some of the purchases to 2021. And a lot of government stimulus—the government gave people stimulus cheques; they have more money to spend. While on the supply side, some people don't want to come to work because it's still a risky environment in terms of COVID. There's also the supply shocks that we've talked a lot about.

Rob Campbell: 07:18 The Keynesian view seems to explain on the surface, a lot of the dynamics going on today. Where does the monetarist view come in?

Samir Taghiyev: 07:25 The monetarist view will come in from this very simple equation of MV = PQ. M being all the money that has been printed out. Very theoretical here, but—

Rob Campbell: 07:36 Your dad would be proud.

Samir Taghiyev: 07:38 [Laughs]—it's essentially the amount of money flow. PQ is essentially the price level, and Q is the number of goods out there. Meaning that, a lot of this can be explained by amount of money that has been printed out and has been flowing in the economy. The monetarists have this famous phrase, of "inflation is always an everywhere monetary phenomenon." So, I don't agree with that 100%, but there's some truth to that. Monetary expansion has been contributing to the demand side. There's more money flowing around. And the demand supply equation comes into play here as well. If there's high supply of money, then the price of money will go down, and the price of money going down means the price of everything going up—which leads to inflation.

08:20 I want to mention one thing also on the Keynesian view. The third portion, which matters quite a bit, is the expectations. That is quite a powerful idea because the expectations of future inflation can also be quite reflexive. They can impact the way the consumers, the producers, act. It can be self-fulfilling. There's this term of “deflationary spiral,” for example. If you expect the prices to go down in the future, you'll probably delay some of your purchases. I myself have delayed my technology purchases, for example, knowing that next season, I might get a better product for the same price.

Samir Taghiyev: 08:58 Well, if that happens throughout the economy, then a lot purchases will be delayed. That leads to less demand, therefore lower price levels as well. So, it becomes very self-fulfilling. The same can be true about inflation. If the inflation expectations are baked in in people's minds, then they start pricing it in. They make the purchases now versus tomorrow. They perhaps make some of the purchases for now as well as their future consumption, which increases the demand for products today. Which further increases the inflation levels, as well.

Rob Campbell: 09:32 You and I are based in the Toronto area. I can certainly relate to that with respect to the housing market. In terms of reconciling the two views, is the monetarist view more applicable towards financial inflation, versus the Keynesian view more with respect to physical goods inflation? Is one better suited than the other?

Samir Taghiyev: 09:50 I can see some of that being definitely true. I don't have right answers by the way, but there's definitely part of that. There's been a lot of monetary expansion over the last 10, 20 years. We haven't seen much of inflation so far. While there has been periods of time, historically—and I can talk about the inductive evidence historically later on—but it has ended up impacting the demand for day-to-day goods, which would impact the inflation of day-to-day goods and services, which typically we define as a broad inflation rather than the asset inflation.

Rob Campbell: 10:24 Let's go there. Let's go to the inductive side. We're going back in time. How far back are you taking us? Are we talking about “That 70s Show,” or are we going back further than that?

Samir Taghiyev: 10:32 It is further than that! I was excited about this. I'm personally a fan of history. I think history does not provide a roadmap for the future, but it does provide some mental models that have played out historically that perhaps might play out in the future as well.

10:47 Two historians that I'm a big fan of, especially focused on the inflation topic, has been David Fischer and Peter Turchin. They have gone back to the Roman Empire's days, the medieval ages, going through the 19th century, the 20th century, and today, seeing how does the cycle of inflation play out throughout those very prolonged periods of time. And it was quite fascinating. The primary learning from that was that we do go through the cycles of disinflation and inflation, historically. There's been periods of time that, for a couple of reasons, that are very disinflationary; there are a couple of times when they're consistently inflationary.

Samir Taghiyev: **11:29** I should point out another learning that was quite fascinating for me was the disinflationary periods of time typically tend to be very stable, especially from a price point of view. While inflationary periods, it's not a consistent inflation. It's typically a very volatile environment; it does tend to be higher in general, but it doesn't mean that there will not be periods of short-lived deflation in those periods.

Rob Campbell: **11:52** My own scope doesn't go back to the Roman empire, but thinking back over the past hundred years, the 20th century, I think that rhymes. You had the period of higher inflation in the 70s, a more volatile period. Back over the last 20-30 years, consistently lower inflation. It's been more of a stable environment.

12:08 Those long-term relationships but focusing on more recent history for which we have a little bit more insight—call it the 20th century—what have you learned inductively from there?

Samir Taghiyev: **12:17** But I want to go slightly further! Perhaps the 19th century. Because the 19th century and 20th century were very interesting, two different periods.

12:25 In [the] 19th century, you had a period of general decline in prices. From 1800 to 1900, the price levels declined by 40%. There was deflation. It translates to less than 1% of annualized deflation, but it was a very stable, deflationary period, which is very different environment from the 20th century, where the price levels from 1900 till 2000 have increased by 30 times, essentially.

12:49 The difference is stark. If we take the 19th century—trying to read about it, there's never a right answer to it. There's never a 100% evidence for these thoughts, for these hypotheses, but the main hypotheses on why that happened was [the] 19th century was the century of proliferation of a lot of technologies. For example, railroads. That was a deflationary period. Technology tends to be a deflationary force.

13:14 As part of the railroad expansion, we also had a huge expansion in the U.S. All of the land that we're seeing—that Western expansion of the U.S.—really happened in the 19th century. Imagine that land becomes more and more abundant as this technology has enabled us. And this is having impact not only in the U.S., but throughout the world. All of the production capacity flows into the U.S., where things are more abundant.

13:37 You've had connected markets. Different worlds can be more connected, can interact with each other, which is a deflationary force. It acts as a connector of different markets so that the disinflation that we've seen in the U.S. translates into disinflation in the UK as well.

The difference is stark. If we take the 19th century—trying to read about it, there's never a right answer to it. There's never a 100% evidence for these thoughts, for these hypotheses, but the main hypotheses on why that happened was [the] 19th century was the century of proliferation of a lot of technologies. For example, railroads. That was a deflationary period. Technology tends to be a deflationary force.

Samir Taghiyev: 13:52 Also, there were no major wars. Historically, the government spending has not been on the health of the day-to-day people, but it was more on the ambitions of the emperors. So, government spending usually was done through wars. It sounds like these forces were the main driving forces of the disinflation.

14:11 I will point out that despite all of this, the monetary supply, defined as the supply of gold and silver, has increased twofold throughout that whole century. The production—so, the addition—has increased tenfold of gold, for example, as well as silver has increased tenfold from 1800 to 1900. I'm mentioning this is because from certain perspectives, the Keynesian view played a huge role, while the monetarist view should have led to much higher inflation because there's increased monetary supply. But it did not play out in this century. That contrasts to 20th century, which I can talk about unless you have the questions on the 19th century, Rob.

Rob Campbell: 14:52 I was going to say good transition talking about gold, given the gold standard and how that's evolved in the 20th century. I presume that's got a little bit to do with the price increases of 30x in the 20th century.

Samir Taghiyev: **15:02** Exactly. There was a shift in the mindset of the government. Around [the] 1930s, we effectively in a short period of time abandoned the gold standard. My personal opinion is there's nothing special about gold, except for one fact: it was typically the restraining factor for the governments to print out more money. So, they couldn't unless they had more gold, and that led to increased printing. But once you get off the gold standard, then you are essentially unlimited in terms of your printing ability as a government. That was definitely a factor that was contributing to that.

15:38 We also saw the government budgets increasing by a lot. We had two major world wars, the Cold War as well, the space competition. In general, these were much larger wars throughout the world. That was an aggregate demand for day-to-day products.

15:54 You also had the major increase in what governments are. Previously, governments were just one emperor with his or her ambitions, spending money as he or she wishes. In the 20th century, it became an expectation that the government will look [after] your welfare. Healthcare system, the education system— all of these became institutionalized and became new additions to essentially demand as well.

Samir Taghiyev: We had this huge shift from the monetary perspective, but also from the demand-supply perspective that Keynes's views would support for higher inflation. That's what we saw.

Rob Campbell: **16:31** As we shift towards the current state and the debate forward on inflation, I'm struck in your description of the 20th century. And the question I want to ask is, is inflation bad?

Despite prices rising 30 times in the 20th century, standards of living improved from 1900 to 2000 pretty spectacularly—a century of real incredible advancement. Why do we worry about inflation? Why is it good or bad?

Samir Taghiyev: **16:54** You raise a very good question. People talk a lot about inflation going back to, "so what? How does this impact me?" The answer that I have come to after doing the deep dive is, inflation in a reasonable range is good. If suddenly the inflation becomes unpredictably high, that becomes the real issue of actually impacting the consumers' and producers' inability to forecast their three or six months into the future. That leads to a permanent damage. And that's why central banks are so focused on inflation these days as well, because there is an actual linkage of inflation, which theoretically, one can assume that there's neutrality of inflation, meaning, who cares? The prices increase by 5%, but your wages will also increase by 5%. You'll be even. It does not matter what inflation number is. Except there's a reflexive element to it, which leads to you actually changing your behaviour.

Rob Campbell: **17:53** Take a step ‘til today: on the one hand, as I sit here, it's a lot more expensive to buy groceries. It's a lot more expensive to fill up my car with gas. We talked about housing prices. It seems like we're on a path—I presume you speak to management teams at companies: inflation and their ability to pass it along, raise prices, is coming up. Build us the case for on the expectation side, why we should be in for a higher inflation environment on a more persistent basis going forward?

Samir Taghiyev: **18:18** I will address that from two devil's advocate perspectives: the case for deflation as well as case for inflation. The truth is, I don't know. Macro is a very fuzzy place. It's hard to predict. That is why our process so relies on the bottom-up research of each company, rather than trying to forecast the changing winds of macro forces.

17:57 Take a step ‘til today: on the one hand, as I sit here, it's a lot more expensive to buy groceries. It's a lot more expensive to fill up my car with gas. We talked about housing prices. It seems like we're on a path—I presume you speak to management teams at companies: inflation and their ability to pass it along, raise prices, is coming up. Build us the case for on the expectation side, why we should be in for a higher inflation environment on a more persistent basis going forward?

Samir Taghiyev: **18:42** But if you look at what has happened since 1990s, 2000s—there were major deflationary forces. One of them was China joining the world markets. Just imagine a billion people that were cut off from the rest of the market previously...now suddenly, they are part of the global market. That is a major deflationary force. A lot of the production was shifted away from the U.S. and other developed markets to China. That was a deflationary force. And you can argue that the world markets are still very much globalized, even though there are talks of the split of China and U.S. and their allies. But there's still some runway for other developing countries to join that, to open their markets, and that will be one of the forces of deflation.

19:29 There's also the thought of—immigration to a country also increases the labour pool [and] also increases the productive capacity, effectively. It increases the supply, therefore it should lead to lower prices. Even though you can argue the same: people become consumers, they will demand more, as well.

19:47 [The] third one would be technology. Technology has been a miracle. I think it was the year 2007 when [the] iPhone was introduced. The first iPhone that was introduced cost $500. It didn't have a camera. It was something special, but it's nothing special in today's terms. If you look at how much that $500 would be in today's dollars, if we adjust those $500 for today's dollars, it would be around $680. Well, you can get an iPhone for $700 that is much better than the first iPhone.

20:19 That's just one example of how much technology can impact pricing of goods. I was shocked to learn that the resolution of a monitor of [the] newest Apple Watch is larger than the first iPhone. It is the major deflation[ary] force and it can continue. There's nothing saying that this will stop. That will be another factor for deflation to be sustaining.

Samir Taghiyev: 20:43 I want to shift to inflation. So, if you look at inflation going forward, what would be the reasons for increased inflation going forward—I think there's a couple of good evidence surfacing up as well. There has been a shift in the government's minds in terms of the spending, the fiscal spending.

Samir Taghiyev: 20:59 You've seen that with the U.S.—becoming way more aggressive in terms of the fiscal stimulus, with trillions of dollars in infrastructure, as well as the welfare spending. Last year, Paul talked about MMT, the modern monetary theory.

Samir Taghiyev: 21:13 [The] embrace of that alone very well-aligns with what we are seeing now. But there has been a major embrace of the monetary policy being more unleashed.

21:24 If you compare how much U.S. dollars are out there printed by the Federal Reserve today, versus [the] beginning of 2020, it is twice. There [are] twice more dollars out there, which is quite astounding. It does not mean that it'll lead to inflation just because of that. Again, think about [the] 19th century—it played out very differently. But it's a contributing factor.

21:47 Brainstorming about this, was this term or this idea of “environmental debt.” We have been, throughout the 20th century, collecting this environmental debt or “climate debt” you can call it, using very cheap oil with disregard to the environment. But it does not mean that there were no consequences of it. We were just collecting all of those expenses of the damage that we have caused to the environment going forward—off-balance sheet rather than on-balance sheet, as a debt. And now it seems like the consensus is that we need to deal with that as soon as possible because it's starting to have very big implications.

22:22 So, the low prices that we enjoyed previously, now we'll have to reverse, we'll have to tackle. Fossil fuels—all of the future as well as the previous emissions that we have put into the environment—a lot of debts that we'll need to pay up. And that's very inflationary. And also, you can see it quite a bit, China and U.S., there is a split. Supply chains probably will have to adapt to that. I cannot tell for sure that it will be more inflationary, but it should theoretically be the companies that were enjoying the low-cost Chinese production will have to find as cheap of a production, as well as as effective of a production base in other countries. That can be a deflationary force as well as inflationary force.

23:06 And one last factor that I think is also starting to play out is aging, which was something new to me before doing this deep dive into this topic on how the future can play out. [During the] 1990s as well as 2000s we enjoyed this major increase in the pool of productive capacity by China joining the rest of the world. Well, the world is also getting older.

23:28 Some people can say that, well, that's deflationary. But if you look at the numbers, the consumption as people age, is not that lower than people in their youth or in their most productive periods of their life. It is about the same.

Samir Taghiyev: 23:42 What is different though, is, they cannot work. They typically are retired. That means that there'll be more consumers versus producers. That alone can be another nudge towards the inflation as well.

23:57 This is the equation in my mind, these are the factors that are playing out. If I had to guess, I would say with very low confidence that yeah, the forces have shifted towards more inflation expectations going forward, but it's yet to be played out. It's hard to say. How does that translate into our day-to-day work is another question.

Rob Campbell: 24:15 You mentioned central banks and their role in this. I know you missed your shot a couple weeks ago to be named Fed Chair, Samir, but had you been, do you think central banks are managing the risks appropriately at this stage?

Samir Taghiyev:	**24:27**	It is a hard question. That would not be the job that I would want. It is a very tough job. It comes with a lot of responsibilities and, effectively, you are trying to predict the future and predicting the future is very tough. It's not what we do. It's not where my genius area is in, and not what I'm trained for. The central bank's job is to regulate the supply of money to ensure the inflation stays at a manageable degree. And we have seen more and more cards saying that the economy is overheated; there's low supply and high demand for things. With low confidence, I would argue that, yeah, the central banks are being too slow to tighten the monetary supply.
Rob Campbell:	**25:11**	Except for Turkey, I guess. That's a whole other issue.
Samir Taghiyev:	**25:12**	Yeah.
Rob Campbell:	**25:14**	So let's bring you a little bit closer to your area of comfort. As a portfolio manager, as somebody who's analyzing and picking stocks, you went into this exercise. I'm curious what the "so whats?" are. How has this impacted your day to day and how you manage portfolios for our clients?
Samir Taghiyev:	**25:29**	The same way I looked at the deductive as well as inductive reasoning with macro, that's actually the mental model that I and my colleagues use a lot when looking at companies. From [the] deductive perspective we should think about a company: they're selling something, they have revenues, there's costs.
	26:37	Going back to that thought on inflation, "how will that impact the companies?" Again, theoretically, if revenues and costs are running at the same rate of inflation, then there should be no impact to the real dollars of profit. However, that's not the reality. In many cases, some companies have true pricing power. They can push their price increases to the end clients and the companies that have costs, they're forced to eat all of those cost increases. They don't have much negotiation power. That leads into lower profits.
Samir Taghiyev:	**25:46**	And if you deduct costs from revenue, you're left with profit. And then you discount it at a certain rate that brings you the discounted cash flows. The future cash flows at a certain rate— that gives you the value of a company. This is the exercise that we go through in every due diligence process. We do models on what the company can be worth, and we are never pointing out at one specific valuation that this stock, we think, is worth $36.53. No. We do try to look at [a] myriad of different possibilities. We try to bake that in. Typically, our answer is it's worth somewhere between 10 to 30 to 60, and it's currently trading at 20, so the odds are in our favour.

26:32 Going back to that thought on inflation, "how will that impact the companies?" Again, theoretically, if revenues and costs are running at the same rate of inflation, then there should be no impact to the real dollars of profit. However, that's not the reality. In many cases, some companies have true pricing power. They can push their price increases to the end clients and the companies that have costs, they're forced to eat all of those cost increases. They don't have much negotiation power. That leads into lower profits.

27:06 The way we think about the pricing portion of it, the main factors that we focus on—especially as we go through the increased probability of inflation going forward—pricing power becomes a lot more fundamental. You want to have companies that have that pricing power, and that typically comes from mission criticality. What you are buying, the customers have to buy it. They cannot simply defer that purchase into the future. It is a typically lower portion of the overall picture. For example, we own a company called Dye & Durham in our Canadian small cap portfolios. They have high pricing power because they are mission critical for lawyers to finalize a real estate transaction. Real estate transactions that typically [run]—going back to Toronto—a million, million point five, two million. You want that transaction to be done. You hired a lawyer for that. Using the software, perhaps, costs a hundred dollars to finalize that transaction. Will you back away from your house purchasing transaction? If it was $110 in the future? Probably not. This company does have a higher pricing power than other companies out there that simply cannot push those prices.

28:15 [A] different way to increase prices is not to have a control over the prices. I think that's what's happening with commodities. They don't have much control over the prices, but they can defer that discussion to the market.

Samir Taghiyev: 28:28 So, if you own a good business that is basing its price for example, as a percentage of a world commodity, and if you're a capital-light business, you don't have much expenses, you can simply defer to that world price, saying, "well customer, now I have to raise prices. This is contractual." It's not a negotiation process. It's simply following the contract. It becomes a way easier way of doing things.

28:51 On the cost side, we also look at profit margins. So, costs increasing by 5% will hurt you way more if you are in a business with 5% margins versus a business with 55% margins. Those are the main factors that we think about. It was a part of the process previously—we always looked from this perspective on the pricing power of companies, as well as the margins and the capital lightness of the companies. These parts of the process become even more needed in potentially inflationary scenario.

Rob Campbell: **29:24** Are there lags associated with that? Meaning, companies input costs go up. Maybe they have pricing power, but it takes them a couple quarters or a year to pass those through. Or the other way around—company earnings lately have been incredible. Have we seen some of those cost increases play out yet, or do we anticipate that coming?

Samir Taghiyev: **29:42** There's not one definite answer to that. We have seen some of that playing out already. I want to give an example of Winpak, which is one of the four so-called converters in North America. They convert natural gas into plastics. It's a real good business, high ROE business, but natural gas is an input to that business. If natural gas prices increase as they have been, then your profits will be shrunk. For this company, it is an industry practice to base pricing off of the natural gas prices, but there's a three to six months of a lag. So yes, short term, your profits are going to decrease. But you should keep in mind that this company will increase the prices in three to six months. Even if by that time, the natural gas prices decline, they will still contractually increase it at that point. They will have to adjust the prices to natural gas. So it ties to my point of, some companies can simply defer the pricing negotiation to the world markets. It makes the pricing power much easier.

Rob Campbell: **30:44** Well, I appreciate your use of the word shrink when it comes to Winpak, as they do make shrink wrap. As we wrap up here, big picture: what else is there? Whether it's for you as a portfolio manager or clients who are wondering what to do with their portfolios…any more macro learnings with respect to your deep dive into inflation?

Samir Taghiyev: **31:04** We have [a] process in place, and that process is the bottom-up process of looking at different companies, but also the process of doing the portfolio management. So, not looking at each stock one by one, but looking at the portfolio as a whole.

31:21 Someone like Jim [Hall], who is very experienced, he brings in a lot of risk management acumen to our process. Every week we do have these risk meetings where we talk about what we're seeing is a potential risk, what should we do about it, perhaps we shouldn't do anything about it. And one phrase that I like that Jim uses a lot, is "the biggest enemy is us." It's not the inflation that is the biggest enemy [laughs], it's you that is the biggest enemy. If you overreact and make wrong decisions, that is the biggest risk. That will have the big implications on your wealth.

Rob Campbell: **31:57** Based on your comments from earlier, I take it if periods of higher inflation are a little bit more volatile, the risk coming from us, or behavioural errors, is potentially even larger.

Samir Taghiyev:	**32:08**	Exactly.
Rob Campbell:	**32:09**	Samir, you've given us a lot to think about. Thank you so much. I suspect given the trajectory here that this has probably not the last conversation we'll have about inflation, but this has helped, at least for me, put the big pieces together as well as how it matters for our portfolios, so thank you.
Samir Taghiyev:	**32:23**	Thanks a lot, Rob. I enjoyed this as well.