



- ⌚ 01:13 **Cam Webster** We're here to talk about something called "suitcase words," but before we get there, Rob, just give us a little background on you and how you ended up as an institutional portfolio manager at Mawer.
- ⌚ 01:24 **Rob Campbell** Sure! Well, first—thanks for having me on the show. I'm a big fan.
- ⌚ 01:29 **Cam Webster** Woohoo!
- ⌚ 01:29 **Rob Campbell** I'm actually relatively new to Mawer—I've been at the firm for about two years, and ... I got into the industry around 2008 or 2009, so right in the depths of the financial crisis.
- ⌚ 01:48 **Cam Webster** Sorry, that was your first job?
- ⌚ 01:49 **Rob Campbell** First job out of university was right around that time.
- ⌚ 01:50 **Cam Webster** I have a good story about my first job.
- ⌚ 01:54 **Rob Campbell** What was that?
- ⌚ 01:54 **Cam Webster** The day BRE-X broke.
- ⌚ 01:55 **Rob Campbell** Oh, wow.
- ⌚ 01:56 **Cam Webster** I was on a trading floor that day. That was wild.
- ⌚ 01:58 **Rob Campbell** I think these things sort of shape your outlook ... but I think I'm more worried having started sort of early in 2009. I've basically only known a bull market. I haven't really seen a real correction. At least, something I haven't read about in a book, or before getting really involved in the industry. So, when I think about my personal portfolio, one of the things I'm always wrestling with is: I think I have a high risk tolerance, but it's never really been tested. And, hope I don't have to anytime soon...but you never

- 02:32 **Cam Webster** knowOkay, your only career experience is a bull market.
- 02:35 **Rob Campbell** A growing number of people in the industry by the way.
- 02:37 **Cam Webster** Oh yeah—I think it's actually a generation. There has been a generation of people that have not experienced a bear market.
- When the proverbial hits the fan...maybe that'll be a shock, or there'll be people that go through their whole investing careers and not see a bear market. That's a possibility too.
- 02:56 **Rob Campbell** Hey, let's hope.
- 02:57 **Cam Webster** There you go.
- 02:58 **Rob Campbell** But, probabilities would say: probably not.
- 02:59 **Cam Webster** Okay. That's a good introduction. Thanks for that. What we're here to talk about is something called a suitcase word. First of all, Rob, why don't you give us a sense of what that means?
- 03:09 **Rob Campbell** A suitcase word is a word into which people pack multiple meanings. Think about a suitcase—I travelled to Calgary, (actually packed this morning) and threw in my shirts, my socks...things like that.
- 03:32 **Rob Campbell** The term itself was coined by a guy named Marvin Minsky. And Marvin Minsky is actually a really interesting character. He's one of the legends, I guess, when it comes to artificial intelligence. One of the real pioneers, one of the very early winners of the Turing Award (named for Alan Turing—another legend in the world of computing). [Minsky] founded the artificial intelligence lab at MIT, and has really been this visionary, very early on, when it came to applying computing power to all kinds of different things. I think at his core, Minsky was a cognitive scientist. If you think about artificial intelligence, and if you think about the Turing test ... the sign of true artificial intelligence is, can a human determine whether they're speaking with another human, or with a computer? Marvin Minsky's work was really about breaking down these insanely

complicated processes that we call “intelligence” or the “functioning of the human brain.” It was his belief that you could really break that down into these very discreet, possibly millions of processes, that make up what we call “intelligence,” or “consciousness,” or “learning,” or “emotion.”

- L

05:24

Rob Campbell

I think it was his vision that 50 or 100 years from now, we might actually have the tools to be able to do that.

So, why does it matter for suitcase words? Well, he thought that one of the real obstacles to figuring out what consciousness was, is that everybody ascribed different things to this word ‘consciousness’ (as an example). Are you conscious of what you did yesterday? Are you conscious of how you made that person feel? Consciousness is this quasi-religious type thing. This word consciousness is used to represent all of that, and when faced with something so complicated...I think a lot of people just sort of throw up their hands and say, well, we can't define this—it's too complex. It's something about the human experience that's irreconcilable, or we just can't break down, so let's sort of give up doing it.

Minsky's view was well, no, we shouldn't just give up because something's complex. We should actually try to figure it out.

- L

06:17

Cam Webster

Okay, I'm thinking—let's do a word association. We'll go back and forth. I'll give you a word. You tell me what you think it means. I'll tell you what I think it means, and we'll see if we're—

- L

06:34

Rob Campbell

Let's do it.

- L

06:35

Cam Webster

—building the suitcase. One that comes to mind that's really easy: Canadians like to talk about the weather a lot, so, it's “nice” outside. “Nice.”

- L

06:45

Rob Campbell

Yeah, my wife and I have different views on this. For my wife, “nice” is being on a beach somewhere a lot further south. From my perspective? Being uncomfortably hot. For me, it's a “nice” fall day—that's “nice” weather. Two people can have very different definitions of what “nice” can mean.

- L

07:04

Cam Webster

Okay. I'm going to throw it back to you. You give me a word.

- L

07:08

Rob Campbell

I'll give you a challenging one—what is “love” to you?

- L  
07:13

**Cam Webster**

Oh my goodness. Personally, I can think of multiple meanings.
- L  
07:22

**Rob Campbell**

I think that's the point, right?

Another example might be something like “social justice.” You and I might say, (and we might agree) that “the world needs more ‘social justice,’” or, “we need more ‘social justice’ here in Canada.” But for one [of us] that might mean having more welfare programs and a larger social net; a more redistributive tax system; a more progressive tax code...and for the other, it actually might mean the entire opposite.

If we don't take the time to “unpack” those words, then we run into—potentially—trouble, or at least some pretty serious misunderstanding.
- L  
08:02

**Cam Webster**

So, if you and I are trying to have a conversation about social justice, but we don't understand our points of view...we're not going to have a very productive conversation.
- L  
08:15

**Rob Campbell**

That's right. My wife might say, “Can you clean the dishes?” And I'll scrub them and put them in the rack to dry. To me, that's having “cleaned the dishes.” For her, she maybe meant: “can you also dry them and put them away?”
- L  
08:31

**Cam Webster**

Let's get listeners thinking a little more about investing. The industry puts tags on a lot of stuff and ... maybe some investors get caught in that trap. A really good example is “value.” I'm a “value” investor. Well, what is a “value” stock? That's a suitcase word in itself! (Or a suitcase bucket in investing.) Flip it around: growth. Mid cap, small cap. Small caps can become large caps, large caps can become small caps—thank you, Blackberry.

How do we [at Mawer] actually look at suitcase words and get to those conversations where, we're understanding one another when we're speaking about something?

Maybe we'll focus on one particular area that might be changing in investing: what does “defensive” mean? If you want “defensive” qualities in your portfolio, is that a suitcase word? Or do we all understand what “defensive” means?
- L  
09:32

**Rob Campbell**

I think, if you think about it, pretty much every word in English language is a suitcase word. Probably the best example of that I is 20 years ago—when President Bill Clinton had his troubles with Monica

Lewinsky—I remember listening to this and thinking “this guy is crazy” and he was making the argument something like, “it depends on what your meaning of the word ‘is,’ is.” This was a legal defense of whether or not he had lied to the American public!

- L

**10:06**

**Cam Webster**

Some lawyer got paid, like, 30k to just go and argue that “it depends on the meaning of is, is.”

- L

**10:12**

**Rob Campbell**

Well, and it seemed like a pretty important point. And I just remember thinking, “that’s ridiculous!”

But, the verb “to be” is a suitcase word. ... I am a serial user of the thesaurus function in Microsoft Word, and you can basically look up any word and there is a long list of synonyms that mean the same thing, but they’re all a little bit different too. Again, each one of those synonyms fits into this idea of a suitcase word.

So, yes, I think there are massive amounts of suitcase words in investing. I think where you’re going with this, is: where do we have the potential as investors to go astray if we rely too much on—or, I guess, presume too much—about what we mean by a certain word.

- L

**10:59**

**Cam Webster**

Yes, absolutely. Let’s talk a little bit about how we avoid multiple meanings in important words in our investment approach.

- L

**11:28**

**Rob Campbell**

I don’t think that we try to avoid them. Sometimes the best insights come out of people who have two different approaches to a problem, or two different mental models of how to think about something, and then getting those people together to talk about it.

I think one of the things that we’ve done as a team is we’ve tried to foster a team where we have cognitive diversity—people from various backgrounds who might bring different views to a potential issue (whether it’s the defensive characteristics for a stock, or what represents value).

- L

**12:09**

**Rob Campbell**

Having those various viewpoints come together is important, but I think it’s also important that once we do realize that there’s the potential for dissonance, or for a difference in interpretation, that we actually take the time to define. So that we can be speaking a common language. And, so that when somebody says, “yeah, I think the stock has some really great

defensive characteristics,” that's not misinterpreted by somebody else. Let's dig into what actually makes a stock “defensive.” Again, it's not the truth—other groups can have different ways of thinking about it—but to avoid this idea of crossing our signals, let's take the time to define things that we think are important.

- L

12:52

**Cam Webster**

Okay. What would the defensive qualities be about Mastercard? It's transaction based, electronic transactions are growing and growing...the company is growing at 15%-20% a year in earnings. That's different than, say, a utility that grows at 3% a year and pays a 5% dividend. Yet the investing world says, well, Mastercard's a “growth” stock and the utility's a “defensive” stock.
- L

13:19

**Rob Campbell**

Sure, and you talked about small cap, large cap, and growth, value...there are these style boxes, right? You could plot every fund or strategy onto this sort of 3x3 grid, and all of a sudden someone's made a decision that, well, that's just the type of investment strategy it is.

...Ultimately it's a heuristic. And heuristics are pretty important as well. If I come across a tiger, I probably don't want to spend my time trying to figure out which of the nine different types or species of tigers I'm actually facing—I probably want to get the hell out of there.
- L

14:17

**Cam Webster**

We were talking a little bit about cognitive diversity and how, at the onset, there's a wide variance in terms of definition or perception of the same thing (word, company, industry, sector). What other tools does the team use to get on the same page?
- L

14:41

**Rob Campbell**

I think one thing we didn't mention earlier that's really important about cognitive diversity is that it's worthless if you're in an environment where you don't feel like you can speak up.

Having a culture within the firm where everybody's opinion is valued, everybody feels that they're in a safe place to express their views, is really important to be able to harness that cognitive diversity. Otherwise, it sort of goes out the window if everybody keeps their opinions to themselves because they're worried about being judged, or making a mistake, or something like that.

- |       |                     |  |
|-------|---------------------|--|
| 15:12 | <b>Cam Webster</b>  | Or the structure's hierarchical.   |
| 15:14 | <b>Rob Campbell</b> | <p>It doesn't mean that it can't work in a hierarchal structure, just the way we thought about it is: put people in a pretty flat environment and you'll be able to foster that cognitive diversity. That's one important piece that's worth mentioning.</p> <p>Then the other is this idea of really trying to separate between what is opinion and what's actually fact. It's incredible how often the two get confused. It's actually entered into the vernacular of the way that we speak to one another—when presenting an opinion, we'll introduce our comment by saying, “well, my story is—” and then present why I think this is a wealth creating business for these particular reasons.</p> <p>It's not uncommon for somebody to challenge somebody else if they've presented something as fact to say, “well, that's just your story.”</p> |
| 16:12 | <b>Rob Campbell</b> | I think those behaviours are important to have in that open culture. Then connected to that, I guess, is trying to collect as much as we can in terms of facts and data to actually back up and provide some proof behind something we put forward.  |
| 16:47 | <b>Cam Webster</b>  | You entered the industry and just after the downturn...do you even know what a “defensive stock” is?   |
| 16:52 | <b>Rob Campbell</b> | <p>[Laughs] I don't think anyone can really know or say with certainty, but I think the reason it's such an interesting word to talk about today is... where we are. Nine years into the current equity market with valuations where they are.</p> <p>In my interactions with clients, a lot of questions I'm getting are centered around valuation. Clients are worried about a lot of the gains that they've enjoyed over the past nine years. How sustainable are they going forward? What can they expect the next five years?</p>   |
| 17:23 | <b>Cam Webster</b>  | These are clients with grey hair like me, most likely. [Laughs]  |
| 17:27 | <b>Rob Campbell</b> | Sometimes! [Laughs] It's top of mind essentially. Just a really interesting word to explore right now.   |

- 17:37 **Cam Webster** What's their definition of defensive?
- 17:38 **Rob Campbell** Well, I think they're all different, right? There are clients who think being defensive means holding a lot of cash. When they asked me, "are you getting more defensive?" Really, that's when you dig in a little bit, that's what they're asking—"are you holding more cash in the portfolio?"
- For other clients, it's about the particular attributes of stocks that we hold. Are we shifting to a more defensive posture? For some clients that means—are you loading up on utilities, and telcos, and consumer staples? You go back 50 years, and over the last eight recessionary periods in the U.S., the consumer staple sector has always outperformed during those recessionary periods. That's probably a good way of thinking about defensiveness: an investment that retains its value through periods of market strife. That's what they're asking about. Really, they're asking from a sector perspective.
- There might be some overlap in terms of the way that we think about that as well, but we're really fundamental bottom up stock pickers, essentially. We're looking at the portfolio stock by stock.
- 18:45 **Rob Campbell** I think that's where most of the conversations around "defensive"—at least internally within the research team—are coming from. What is it about a particular business model that might be more or less defensive? What is it about valuations that might lend themselves to something be more or less defensive, and what might it mean in terms of what we might do in portfolios?
- 19:04 **Cam Webster** Okay. We have a couple of client perspectives of what "defensive" means. It could be cash, it could mean type of securities you own in the equity portfolio...  
Have we (at Mawer) come to a conclusion as to what defensive means?
- 19:20 **Rob Campbell** Yes. When we unpack the suitcase, it comes back to a few things that are really tied to our investment philosophy. It really starts with the business model. We're looking at companies on a case by case basis—what are the characteristics of the business model, the industry that it competes in...



- L

19:36

**Cam Webster**

So, it's irrespective of the sector; we're not doing top down, "here are the defensive sectors and we'll look at companies in these sectors." It's: what's the business model?
- L

19:44

**Rob Campbell**

Absolutely. What's management like? Are they stewards of capital, are they effective stewards of capital? From this, when we define what a defensive business is, it's really one in which the cash flows that are generated by the company are both recurring and they're durable. So recurring—
- L

20:02

**Cam Webster**

Ooh--another suitcase word (durable).
- L

20:04

**Rob Campbell**

Recurring meaning if you think of a business model where it's a subscription. We don't hold Netflix, but it's somewhat similar. You pay \$10 a month (or whatever it is) and you pay that every month. Those are our recurring revenues. And the durability of those revenues, are: how sure can we be in a year or two from now that those will still be there?

That's really the two qualities of a defensive business: the recurrence and the durability of the business model. I think it's fair to say that historically, there probably are a lot of companies in the consumer staple sector that have met that definition. If you think about a company that makes toothpaste, well, whether we're in this period of strong economic growth, or of a really strong downturn, I would hope, at least, that most people are still brushing their teeth. That's probably not where you're going to pull back.
- L

20:56

**Cam Webster**

You might pull back on the Crest Whitestrips. It cost 80 bucks a box!
- L

21:00

**Rob Campbell**

Maybe, but the toothpaste itself—historically it's probably been a little bit more durable than some large capital expenditure.
- L

21:11

**Rob Campbell**

That's one piece (the business model). I think at Mawer we really start there. But if I purchased a really defensive business model at a price that doesn't make a lot of sense...well, all of a sudden I invite a lot of downside risk to that investment. And that's tied to the way we think about risk. There are a lot of ways to define "risk" as a suitcase word. A very common one in terms of what clients look at is: "what were the standard deviation of my returns?" The larger the variance in terms of returns, well that's probably a little bit more risky. The more volatile things are, the more risky.

That's really not the way that we think about [risk]. We don't think of risk as the day-to-day movement in stock prices. Risk for us is what we call "permanent impairment of capital." What is the probability that capital gets impaired so much that our ability to recover that over a period of time—the probability of that becomes really low.

- L

22:11

Rob Campbell

You've got to tie these two things: the durability of cash flows with the valuation. Something where the odds are a little bit more in your favour from evaluation perspective—that's also what we would define as being "defensive."
- L

22:25

Cam Webster

Okay, so let's talk about two examples. One that traditionally would be characterized as defensive, but in our process and our analysis suggests maybe the cash flows aren't as defensible anymore (as we thought). Nestlé comes to mind. Widely speaking, the consumer packaged goods players, the global players, are struggling with innovation, with product roll outs primarily due to local competition and being able to fast forward and gain share. What's our conclusion around Nestlé? Why don't we hold it? It should be a pretty defensive security.
- L

23:02

Rob Campbell

We sold Nestlé mid-2017, and really, it was a function of those two things that I spoke about. ... historically, you could say, it has been a pretty good defensive business.
- L

23:15

Cam Webster

Coffee, man! Nespresso every morning!
- L

23:18

Rob Campbell

Coffee! Exactly. I think one of the things that's happened with Nestlé—it seems like there isn't a podcast where not they're talking about Amazon—the shadow of Amazon is very long. The disintermediation and the disruption in the retail sector is incredible. It is very, very easy today for a small local competitor to get distribution. In the past, big companies like Nestlé had very, very strong brands. You think of coffee, you think of Nescafé, you think of the brands associated with chocolate bars...which meant that consumers really knew about them and they were able to get really great positioning on grocery shelves, and things like that. The value of the brands were very strong.

Because it's so easy for local competitors who are a little bit more nimble

to accommodate the various tastes, in different countries. And because it's so easy to get a product on Amazon, and get a couple of solid reviews—it's just become a lot more difficult for companies like Nestlé.

**24:21 Rob Campbell** A lot of consumer companies have actually seen their pricing power erode over the past year, which is the first time in a really, really long time. Which, I think speaks to some of the competition out there. They can't charge the same year over year increase in prices that they used to in the past. They're having to compete with more formidable competition. So, from a durability perspective, we began to question just how durable those revenues were at companies like Nestlé.

**24:50 Cam Webster** And the valuation at the time didn't speak to ... there's a huge margin of safety here. While these companies might be struggling, there's no high conviction on the return potential.

**25:02 Rob Campbell** That's right. A company like Nestlé—if you think back to 2007 or 2008, the peak of the market—at that point, I think, was trading around 14x earnings. When we sold I think it was somewhere near 35x. That's a very expensive stock!

When you think about both pieces: the resilience of the business model and the resilience at evaluation, ultimately... well, maybe this company won't be as defensive as it maybe was. I think the experience (and it's probably too early to tell), but we've come through a period through the first half of 2018 where volatility has really come back to the market, and I think that's sort of the time that you would expect those more “defensive” investments to hold up a little bit. And the experience has really been—and it's not just Nestlé—but a lot of consumer staples companies (particularly the very strong brands that have really suffered so far this year) have underperformed.

It speaks to the danger of saying, “Oh, it's a consumer staples company. We can hold that pretty safely. It's a pretty good place to hide out.” And it might be, we could be wrong...[but] when we go through our model and our thinking, it just stood out, based on our definition of the word, as something as maybe worth stepping away from.

- ⌚ 26:22 **Cam Webster** Okay. On the flip side, what have we added to the portfolios recently that have the better combination of defensible, recurring revenue and attract evaluation?
- ⌚ 26:35 **Rob Campbell** They're really hard to find today! And I don't think it's because there aren't really great business models that have recurring revenues out there. I think in today's environment it's more a function of the valuation piece. Where, we might come across a lot of great companies, but we just can't wrap our heads around valuation and have difficulty there. At least when thinking of the “defensiveness” of the investment.
- ⌚ 27:00 **Rob Campbell** One [example]—and it's sort of counterintuitive in the same way that I think consumer staples are a little bit counterintuitive—we've been finding a lot of ideas within the industrial space ... when you think about industrials, well these are pretty cyclical type businesses. The economy turns; they've got lots of fixed costs...they have all these factories and stuff like that. They're definitely not defensive. But “industrials” is a pretty big catch-all. Just in the same way that any sector is a pretty big catch-all. And some of the ideas that we found in that space ... one example is Wolters Kluwer. Wolters Kluwer is a company based in the Netherlands, but their business is pretty global.
- ⌚ 27:44 **Rob Campbell** They're essentially a company that provides a lot of reference material and software that's used by various types of professionals in the world—think about accounting software that is used in the preparation of corporate taxes or medical journals. They publish papers, they're the ones who actually own the journals.  
When you think about the business model and the products that they offer—these are things that their customers really need. As a research scientist you've got to stay on top of the latest research. As somebody filing taxes every year, you've got to have the most updated—
- ⌚ 28:16 **Cam Webster** There's change in tax code—
- ⌚ 28:18 **Rob Campbell** It changes all the time!
- ⌚ 28:20 **Rob Campbell** These are largely subscription-based, which brings recurring revenues...it's a little bit less sensitive to the economy in that, even if

things go south, people still have to purchase their products. I think this particular company—at least management—has done a very good job of transitioning a lot of their legacy print business over to digital.

- L

28:41

**Cam Webster**

That would be a major risk to their traditional business.
- L

28:43

**Rob Campbell**

Exactly.
- L

28:44

**Cam Webster**

Does that make it higher margin, maybe too?
- L

28:45

**Rob Campbell**

I don't know if it makes it higher margin, but what it does from a recurrence perspective is the revenues in the digital space are something like ... the retention rate is 90% to 100%. What that means is that customers will return every year to repurchase the same product or maybe add on some additional products.

Let's tie that to the valuation. Wolters Kluwer has done pretty well the last little while, so perhaps from a valuation perspective it's not as attractive as it used to be, but there is a little bit more of that margin of safety associated with that stock.

What that means, is, when we look through and make our assumptions about the various scenarios that could unfold...there's a greater probability that we're purchasing the stock with a margin of safety than something like a Nestlé.
- L

29:31

**Cam Webster**

Wolters would be outside the shadow of Amazon—they've got proprietary content that, from a regulatory point of view, or a scientific point of view, is changing day to day. You can't just list those on Amazon and distribute that way.
- L

29:49

**Rob Campbell**

To the extent, Cam, that you think that anybody's outside the shadow of Amazon [laughs].
- L

29:52

**Cam Webster**

[Laughs] This is true. Okay! I think we've done a great job of working through what a suitcase word is, how our research team approaches it, and a couple examples on both sides where a traditionally defensive stock would have been in the portfolio is no longer ... I want to wrap up

our discussion, Rob, with One Mawer Thought.

I know you're a big rugby player—was, okay. You're not playing anymore. Give us a sense of what you learned in rugby and how you apply that to your day to day.

- ⌚ 31:07 **Rob Campbell** The beauty, and one of things I love about rugby, is it's really about everybody. There are 15 players from each team on a field—all of them have different roles and responsibilities; different body types; different skill sets; and it's about bringing that collective together with a common objective that makes for a successful rugby team. I think that's one of the interesting things: this need to have these various skill sets on a team for ultimate success.
- ⌚ 31:31 **Rob Campbell** The other thing I think of, both from my own experiences playing rugby ... the best teams I've been on...or when looking at the world of professional rugby—and I know you spoke to Vijay about the All Blacks, (huge fan)—is that culture really makes a big difference. The All Blacks very famously around 2004 realized they had a culture problem, instituted a lot of reforms, passed down responsibility from the coaches onto the leadership group from a player's perspective, and really put it on the players to adopt this philosophy of “leaving the jersey in a better place.” They've had incredible success since then.
- ⌚ 32:13 **Rob Campbell** The best club I ever played for ... I think one of the really strong reasons behind our success is that we all hung out outside of rugby practices, and really enjoyed practices and being on the field together. We're able to express ourselves to the extent that we wanted to on the field. I think that culture played a big role. As I think about our business and our team, those are two really important elements.
- ⌚ 32:37 **Cam Webster** Fantastic! Well I've really enjoyed having you on—colleague, teammate ... we'll have another conversation down the road, I'm sure.
- ⌚ 32:46 **Rob Campbell** I look forward to it.

