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EP27 | Trader Talk

00:38 Rob Campbell

I'm Rob Campbell, filling in for Cam, who's on vacation this week. And there's something a little bit new on this week's podcast as I'm joined in Calgary by not one, but two of our equity traders: Merv Mendes is here from our Toronto office and Peter Dmytruk is in town all the way from our desk in Singapore.

This week we talk about the evolution of the trading desk at Mawer, the value of relationships, the difference between qualitative and quantitative data, and why Merv is "the meat" of the trading desk sandwich.

So guys, welcome to the pod! Maybe just before we get started—because I think the flavour, really, that we're looking for is to give people a sense of how you operate as a trading desk and how you help invest money on behalf of our clients—I'd love to get a sense of your backgrounds. How did you get into the business? How did you wind up at Mawer? What's your story?

Peter, do you want to kick that off?

01:51 Peter Dmytruk

Sure! I thought about being an investor since I was twelve. I was trained as an engineer in university, and I had a passion for investing that I shared with one of my older brothers. That older brother worked with Paul Moroz at AIMco for a period of time. Eventually I met Paul, started the CFA program, and got to a level in my career that I was able to step into an equity analyst role here at Mawer Investment Management.

02:16 Rob Campbell

So did you ever work as an engineer?

02:18 Peter Dmytruk

I did, yeah. I worked for five years as an engineer in a couple of different roles. This is probably career number four for me at this point in my life.

02:25 Rob Campbell

I think as you said you started as an analyst—at what point would you have moved into more of a trading role?

02:30	**Peter Dmytruk**	About the end of 2013/beginning of 2014, I took the plunge to try out trading. I think that there were certain elements of trading that suited my personality and my genius area. So it was kind of an easy transition for me, personally.
02:42	**Rob Campbell**	And what would that be?
02:43	**Peter Dmytruk**	I think I'm pretty outgoing, so I like to talk to people.
02:46	**Rob Campbell**	This is going to be a long podcast [laughter].
02:47	**Peter Dmytruk**	In terms of trading and markets, it's something I had been doing it for my own personal accounts for a long period of time. I think like an analyst—I'm analytical—but I think in practice, I am probably more of a trader at heart, so for me it was actually a pretty easy transition. I also had some good mentorship from fellow traders to transition my role.
03:05	**Rob Campbell**	So, a "good fit" area that just interested you a little bit more and a chance to apply some of the expertise that you've developed over the years.
03:10	**Peter Dmytruk**	That's correct.
03:11	**Rob Campbell**	What about you Merv? How did you end up here?
03:12	**Merv Mendes**	I think like most traders, we start just with that ambition. As a kid, I was always intrigued by the stock market. Probably saw too many Hollywood movies. I got sucked into that role, [and] took a job right out of university with a mutual fund company. I ended up working on a small private client trading desk. I got what I would consider my big break working for one of the banks ... [the] promise was that I would get to work on the trading desk in this research associate role. What ended up happening was the trading desk opportunity never came around for that bank, [so] I left that bank to go work at another bank, but on the trading desk for about two years (that was a retail desk), with the hope that I'd move on to the institutional desk. And 18 months down the road or so, I got that opportunity.

03:50	**Rob Campbell**	Sorry, maybe just help me out—what's the difference between a retail desk and institutional desk?
03:53	**Merv Mendes**	So, we would have just been primarily dealing with investment counsellors, people that were part of the bank's wealth management system...but they would aggregate the trades to make it almost as large as an institutional-type trade zone. Rather than trading five or ten shares of small stocks, you ended up doing fifty [to] a hundred thousand shares, and we would have correspondence with the institutional desk, which is how I met who would end up being my future bosses. I got a job on the institutional desk and, coincidence: Mawer was actually one of my clients throughout that period. I formed a relationship with a couple of the portfolio managers here.
04:23	**Rob Campbell**	So, what year would that have been?
04:24	**Merv Mendes**	I moved over to the institutional desk in 2005 and I was there for about nine years before I ended up making the transition over to Mawer.
04:35	**Rob Campbell**	And would you have traded a particular geographic market? Or were you covering basically everything?
04:39	**Merv Mendes**	I covered primarily Canadian stocks—Canada and U.S., but this was a Canadian bank that really just had a Canadian franchise. So, I would have dealt with Mawer's Canadian Equity and New Canada Fund primarily, and obviously the managers that went along with that.
04:53	**Rob Campbell**	So how did you make the jump over to Mawer then?
04:54	**Merv Mendes**	This was post financial crisis. Banks started to downsize, I ended up getting restructured out, took a job at another U.S. dealer, but always kept in touch with the guys at Mawer. I knew one of the traders here, Jeff Wilson, from a previous life, where he was at a previous shop. [I] ended up just keeping the network and they came and asked me if I would like to join. It was an easy decision. Certainly not one that I look back on with any regret. This has just been an absolute home run.

05:19	**Rob Campbell**	So Merv, when you joined, the trading desk looked a little bit different than where it was today. Can you maybe talk back to how that evolved? So, basically going back to when you first started covering us at the bank, and how the trading desk really evolved over that time period to where we are today?
05:32	**Merv Mendes**	It's very different—and again, even just trading desks in general would have been very different—but for Mawer ... I wouldn't say that there was any kind of specific trader role in that capacity. It was maybe trading clerks versus what we would have now, where there's four dedicated equity traders. A lot of the communication wasn't coming through electronically; conversations were minimal. It was a case of having to deal with the portfolio manager more, and that ended up being a benefit for me in my career—just building up the network and contacts. Whereas now, we have four traders: two that cover Canada, U.S., and Latin America. Peter covers Asia and I cover Europe, so we have certainly a much more dedicated focus for each one of us. We know the companies a little bit better, and I wouldn't say that we're different in that regard [to] a lot of places, but this is certainly very different than what it used to be, call it 10 years ago.
06:20	**Rob Campbell**	I do want to dig in now a little bit more though, because it does sound pretty transformative. Peter, [maybe] this is one for you. When you first started trading, would you guys have been trading around the world 24 hours? Or were you sort of limited by the number of people that there were and what normal working hours are here in Calgary?
06:36	**Peter Dmytruk**	We were, yeah, definitely limited by people. We were transacting in a lot of the markets, but we were not transacting in real time. So we would be what we would call, “delegating” that responsibility to sell side brokers to trade for us on our behalf overnight.
06:49	**Rob Campbell**	So you'd say, "I've got to buy 20,000 shares of company X. Can you just take care of it for me?" And the difference now is that—
06:55	**Peter Dmytruk**	The desk is structured kind of by time zone, if that makes sense. So when we say Asia, we actually mean Asia Pacific—New Zealand to India and all

the markets in between. There are fifty stock markets that kind of fit that region. In Europe, you're covering the Middle East as well as European markets. And then North America, or "Americas" we're covering South America and North American markets.

Each of those are kind of three time zones. And it makes sense to have one person that deals in all the stock markets that relate to that time zone. And so, today, we have three traders or three "pods" that trade each of those regions real time, 24 hours a day.

07:30 **Rob Campbell** And then again: just the benefit of doing it live ourselves, is what?

07:34 **Peter Dmytruk** There are a couple things. First off, the stock market moves intraday. I know that's not necessarily how we invest money for that day, but from an execution point of view, there's lots that can happen in a day. So, the ebbs and flows of how people are transacting in a stock or a market—the relation to indexes—that's pretty important. ... In many markets, it's the norm that financial news is released during the day. So, it's unlike Canada where it's pre-market or post-market. ... In addition to that, our style of investing is such that we typically buy names that are not necessarily covered by sell side brokers or a lot of other investors, so they're illiquid by nature.

Now, illiquidity typically leads to...if you want to buy 2% of a company, or 5% of a company, you can't do it on the stock market. You have to find a willing seller. So that's called a "blocker" or a "crossing situation" and that's really hard to do overnight. It does happen sometimes that way, but typically that's not the norm—that you would be transacting crosses overnight or over a weekly basis.

08:36 **Rob Campbell** Maybe I can interrupt you just to define some of the terms that you've been using. So, maybe a basic one, but probably a pretty important one for what you guys do. What is liquidity? I mean, I think if your role as managing liquidity, [but] what does that actually mean?

08:45 **Peter Dmytruk** When it comes to execution, there's a portfolio manager that has made an investment decision, and they will make that decision based on the size of their portfolio...there's a weight. If you manage a billion dollars, and you want to build a 5% position in a company, well that's 50 million dollars. So you have to transact in the market for 50 million dollars of stock. Depending on the size of the company, and how "liquid" the stock is, that may be a very hard task or it could be a fairly easy task. Liquidity just means how fast can you put that position on.

09:15	**Rob Campbell**	And at what assurity price that you can get.
09:17	**Peter Dmytruk**	Exactly.
09:18	**Peter Dmytruk**	If you were to triple the value of a stock just by buying it, which would be terrible for investors, you could probably buy that 5% position. So, really the goal of a trader is to minimize that transaction cost, which would be an implicit transaction cost versus an explicit transaction cost, which would be a commission rate.
09:33	**Rob Campbell**	You mentioned "crossing." What does that actually mean?
09:35	**Peter Dmytruk**	Crossing typically means that some markets have a special crossing mechanism—meaning it's not done on the stock exchange, it's done beside the stock exchange, or just on a different venue. And it's special crossing. Usually it has to do with the size—the notional size—of the number of shares that are traded, but it typically means that you have a willing seller and a willing buyer of size. It's something that, if you were trying to sell 5% of a company...doing that on stock market, you're going to have a much different impact than if you find somebody that will buy that position, if that makes sense.
10:05	**Rob Campbell**	So your job as a trader is essentially to find those parties. [And] I would imagine without alerting too many people, because if everyone found out you were looking to shop a huge block of shares, that would have the potential to impact the margin.
10:10	**Peter Dmytruk**	Exactly.
10:14	**Peter Dmytruk**	So this is part of the risk element—information. Knowing that we're trying to buy something is actually important in the transaction side of the world. Merv might have some other thoughts on that.

10:22 **Merv Mendes**

I just want to add something just [around] liquidity that's more anecdotal for anybody who's listening and might think, "oh, it must be relatively easy to buy 50 million dollars," (or whatever the case might be) of Microsoft, or an Apple, or some big name that we've all heard of. But when we're investing for something like the Global Small Cap Fund, and you're looking for a small company in Norway or in Taiwan...those companies don't necessarily trade 5 million dollars notional a day. It might take a little while. So, having the 24-hour—the live coverage that we would have in those regions with Europe or with APAC makes that benefit when there is an opportunity, where there is a block for sale that we don't have to buy a lot of small shares. We can do a larger transaction that, if we were asleep, we might have missed out on.

11:01 **Rob Campbell**

I'm glad you brought us back there because I think that's one of the other benefits of, maybe for you, Peter, being in Singapore. Just having better contacts with people in the region to be able to source that kind of liquidity. Is my thinking about that the right way?

11:11 **Peter Dmytruk**

Yep. You're real time for the brokers on the other side so they know they can talk to you. It's a bit of a trust game, it's a bit of a relationship exercise. So, part of the role is to be integrated with the capital markets in these regions.

11:23 **Rob Campbell**

I think that's something that I probably have underappreciated, and I wonder if other people have too—the value of those relationships. I sort of had this idea of, okay, so you go, you got an order, you press a button, and maybe you manage the size of it and you do it over time to not have a huge market impact. But I think I underappreciated just the value of those relationships. Do you have examples of where that maybe would have really helped us, or helped our clients?

11:41 **Merv Mendes**

There would be a few examples that I can think of, certainly in Canada with us being a Canadian-domiciled shop with offices obviously in Toronto and Calgary. The relationships are a little bit more organic—or certainly longer lasting than what we would have in Asia or in Europe.

Because the other trader might be a neighbour, a former colleague, whatever the case might be...there's a little bit more trust that gets built into [the relationship]. With people knowing how we invest a little bit better in Canada, I think they also trust us with information a little bit more. To tell us that, we've got a situation where there is stock coming for sale and the situation might be they're not looking to sell it to somebody who might be in it today, gone tomorrow. That happens a lot with larger deals, private placements...those types of deals that go on.

12:22 **Merv Mendes**

They want a shareholder [that's] more involved, rather than, let's just say, a hedge fund or a momentum style of account. So again, having that relationship with—whether it be a sell side broker or trader specifically—we tend to be viewed a little bit differently versus somebody in London, let's say, who know us as maybe a "value manager" or just very vanilla-based type of investing. The information that we would get sometimes is a little bit different depending on the region.

12:46 **Peter Dmytruk**

I resent that Merv! [laughter] I think that within the context of Asia where we didn't have any relationships, we have a number of examples, especially in small cap, where we were able to purchase a large percentage of a company because of our relationship with a local broker. So, this is somebody who is not a global broker, somebody that has the context of a local market—especially in Australia where were able to buy, like, 2.5% of a firm today, this morning. And that was very meaningful for our clients because some of these companies have gone up four and five times from their original purchase price. So, it enabled us to build a position with basically nobody knowing that we were interested. And if we didn't have a live desk, we wouldn't have somebody necessarily talking to that counterparty. So I think that we've done that in probably all the markets now where we have local context and we're able to take advantage of relationships because we've spent the time in building out that network.

13:40 **Rob Campbell**

So, this is a question I actually wanted to ask a little bit later, but I think I'll ask it now, just because we've talked about this ability to get into a position that's appreciated quite substantially, and that obviously, the ability to do that faster was a good thing for our clients.

But in general, it seems murky to me—and maybe it's just because I'm not as in tune with it—but how do you judge whether you're doing a good job as a trader or not? What is it that you guys look at to say, "okay, we could be better here, or we're doing a good job here." What are the KPIs (key performance indicators) that you guys look at for yourself?

14:07 **Merv Mendes**

I think the important thing to remember in terms of the trading role is that, it's just part of the team that we work with—the asset class teams. The idea and the generation and the incubator of all of that starts with the portfolio manager and the analyst. So when it comes down to the trading desk, it's a matter of executing it. By the time it gets to our desk, we already know that the name is on there because we've sat in on the meetings and we're aware of what's coming down the pipe.

We might have done a little bit of homework to find out where the liquidity is, how much stock is for sale at a given point, or the opposite: if we're exiting a position, where the bodies lie on the buy side; if there's anybody new coming in. How we measure that, again, would be are we fulfilling what the team is looking for?

14:41 **Merv Mendes**

The team would certainly have their parameters in terms of valuation, the part of the business cycle where it's at, and they would pass that along to us. Not so much with a limit, but certainly just with an overall concept of, "hey, I really like the stock here. We think that it's going to do this, and it might be a toehold type of position, but if it came in lower, we'd buy some more." So again, being part of the team I think makes a big difference [to] how we measure that.

We've got all of the post trade analysis to look at, how did we do versus benchmark, VWAPS, and all of the metrics that every single trader looks at. We use those for more learning purposes for ourselves individually, not because we're going to be rated on it or compensated because of it ... more for our learning as to, "hey, how can I trade Sweden better? Or an energy stock better?" You can go through a number of different examples. So again, the performance of it comes back to, "did we execute on what the asset class team was intending?"

15:27 **Peter Dmytruk**

Rob, I think there're also qualitative and quantitative metrics. I think a lot of the world wants quantitative metrics—they want data, they want the analysis. "How much [did] the price move relative to where we transacted?"

Because people can hang their hats on a number. But there's the qualitative part as well: ...did you get the instructions? Did you go to the stock market? Are you there during live hours? I mean, those are the things you can't really discount.

15:52 **Rob Campbell** Also going back to this idea of trust...I would think that, okay, if you look at any individual trade—if you did something to break your trust with your counterparty, that probably has negative knock-on effects for the next time that you're looking to transact with that particular individual or—

16:03 **Peter Dmytruk** Yep, exactly. We have a relationship in the market. We have a consistent story that we basically tell sell side brokers. This is how we operate. And if they don't do things in a proper manner, then that also impacts our ability to trust them and to transact on behalf of our clients. So, it's a nuance, but it's really important because if you're trying to trade 5 million shares, a five cent difference can make quite a bit of a difference, right?

16:26 **Rob Campbell** Absolutely.

16:27 **Peter Dmytruk** On the counter side, it's important to understand that you're not always going to get those five cents. There is a part of the world that you're going to have to negotiate, and you're going to have to know when you can actually capture that and when you can't.

16:38 **Rob Campbell** And if you wait, those five cents might run away from you because that price might get away, and as long-term investors, we really care about where the thing is five or ten years from now.

16:40 **Peter Dmytruk** Exactly.

16:45 **Peter Dmytruk** Yeah. If you're stubborn on every negotiation, you're going to miss out on some deals. And that's also what we don't want, right? ... you could maybe look at a quantitative metric and be like, oh, we didn't perform well there, but we got a bigger picture, we got it more done. Maybe had to pay a little bit more for it, but we didn't have to be sitting here with a bunch of cash. In the meantime, we were able to transact quicker. Maybe the price was a little bit more aggressive than we wanted, but that's kind of what happened in that particular negotiation.

The stocks move within the stock market and that's kind of what we're trying to manage—that relationship. Even with the stock market over time, I think.

17:16	**Rob Campbell**	Merv, I want to go back to something that you talked about earlier, which was just your relationship—or the idea of being really embedded within the team—versus being this trading desk that's kind of off to the side and that just executes orders. Can you talk a little bit more about what that relationship looks like in practice? What does it mean for what you do day-to-day? And is that something that's unique to our desk?
17:33	**Merv Mendes**	I believe it's something unique to our firm. So how it would typically work: each asset class team—let's call it international equity—would meet once a week, if not more than that, depending on time of the year. And one of the four traders would sit in on that meeting and share the notes with everybody else—whether it be at our traders meeting or just the next day. That helps us to know what the team is thinking ... about the overall market, about a lot of the new names that come up that came from conference calls, or road shows, or however they came up with the idea generation. As we move through the life cycle of the idea, the reports get written—we actually have access to all the delta reports—so, I think what would be unique, possibly, to our firm versus a lot of others, is that the traders will actually read the delta reports. So we know what the company does.
18:14	**Rob Campbell**	Delta report being our research report; our due diligence on a particular stock.
18:18	**Merv Mendes**	Yes, and they would go through the geography/all the areas that the company works in: "revenues are generated X% in this region." That way, when it comes down to the trading, we know we're just not looking at one single stock trying to figure out how that is, but we'd look at its competitor; we look at its relationship to currency markets; relationship to a bond market. There are some stocks that we've owned historically that really trade more like bonds and they're based off of the yield. We're trying to figure out, again, what is the optimal way of trading that stock? And really, no two stocks trade exactly the same. Certainly not by region.

18:48 **Rob Campbell**

I've also sat on that international equity meeting. I know it's a group that typically, in that meeting, talks a lot about idea generation: what are potential candidates for the portfolio?

Do you think about the lifecycle of, when we first come across a company that we might be invested in, to actually getting into the portfolio? How early are you guys getting involved in terms of feeding information to the analyst or portfolio managers?

19:06 **Merv Mendes**

I think it would depend on the team. When you're looking at something for an international equity team, the companies are more of the mid cap space, a little bit more liquid—probably require a little less groundwork on the trading side.

But when you look at the global small cap team, there are certainly liquidity rules. They will give us a heads up to say, "how liquid is this name?" And we'll just do a quick report as to how many days this volume would take if we wanted to put on a 50-basis point position. Then they can assess it with compliance and determine as to whether that's appropriate for the portfolio.

I think it really depends on what team we're dealing with, and how much of a position they would want to take as well.

19:40 **Rob Campbell**

So, you guys are involved with the research teams. You're reading the research reports, you know the investment thesis. I guess I'm still stuck, Peter, on how that actually helps you when you go to actually execute trades.

I understand you [may] understand a little bit more about the competitors. When it comes to transacting in stock on the day that you go to execute—how does knowing the long-term thesis actually help you as a trader?

19:59 **Peter Dmytruk**

It helps because you have a better understanding of why we're buying this company and what it is about this company that we believe has a competitive advantage.

I think in the last three to five years you've seen software platform businesses really catch on. They're scalable businesses that can make a lot of money. Often times if you look at the stock chart, the best time to buy them was on a Monday morning on the open. And so you have to be aggressive—in the last five years anyways—very aggressive, if you think that these are really good businesses, to acquire or accumulate [them] in our portfolios. If it is a bank stock, well, you know it's probably not going to double in the next 10 months or something like that. It's a bank stock. It's not going to do that.

20:37 **Peter Dmytruk**

There are different characteristics of what drive that firm, so it's really important to understand: is this a scalable business that can grow very quickly and at a higher return on capital? Or is this a business that's kind of going to be there for a long time and protect our clients' investment because it's got different characteristics? Maybe less debt, it's been around a long time. It's a good business, earns good returns, but it's probably not going to double or triple in the next couple of years. So you would change your approach to how you would transact.

21:03 **Rob Campbell**

Maybe just in real terms—and this goes back probably a couple of years from when we had first initiated in this company—but for a Hansen, (they're based out of Australia, right?) ... when we first went to build our position there ... Am I correctly understanding that that would have meant you would have had to be more aggressive? Or you would have moved a little bit more quickly to build a position knowing that, yeah, the growth and the scalability is really a part of the thesis?

21:24 **Peter Dmytruk**

Yes. The biggest transaction—I think we bought about a percent and a half or 2% of Hansen—we got a phone call, it said, "yeah we have a seller of size"—it was like a million and three shares or something like that. "They want 133." Which was, (I think that was) on the offer or just outside the offer.

I remember thinking, "we want to buy the whole thing." I said, "I'll bid you for the whole stock, done." And he said, "well, we might have other parties that are interested," which is typical in small cap land where you might have multiple parties that have shown interest. They came back within five minutes and said, "well, we can't get a hold of the other buyers. We don't know if they care on this or not. So you're done. You bought the whole thing." And that was like 1.5% of the firm. Where a transaction like that is really important, is that we identified it early in the lifecycle of where it fit with the investment case.

22:04 **Peter Dmytruk**

And then that enabled us to have a further negotiation with the family that further sold stock down the road, and then we took down a majority of that selldown by the family.

So that transaction turned into a bigger negotiation with the founders that were selling stock and enabled us to build an even bigger position, right? And that was done at a higher price. And these are all kind of done at 52-week high (almost) levels.

But if we don't do the first transaction, that maybe doesn't get us the second transaction. There's a stock that has gone up two or three times since we bought it—so these are good companies that we want to own.

22:35 **Rob Campbell**

Take us through a typical day on the trading desk. And I realized I used the word "day" in the context that this is a 24-hour trading desk, and that Peter your days are looking pretty different than Merv's. It's different than Mike and Jeff's.

How often do you guys actually talk to one another? I think you mentioned earlier a weekly meeting. Merv, maybe let's start with you. You're covering Europe; you're coming in the office in Toronto at 2:00 in the morning. Or, at least starting your day at about 2:00 in the morning. What are you doing when you get to the desk?

22:55 **Merv Mendes**

Yeah, I'm the "meat" of the sandwich, let's call it, with Peter and Mike and Jeff being both sides of the bread. So, my day will start usually just with getting a quick rundown from Pete as to what happened in Asia overnight. People [will] give me a quick rundown in terms of—Japan and probably China—more appropriate these days. From there, I'll go through some individual broker notes just to find out something a little bit more European-specific, do a quick take as to what happened in the U.S., which is the centre of the universe when it comes to the market these days. And I will start trading from there, will go through the orders. I tend to watch the U.S. futures market quite a fair bit during the European session—certainly up until about 6:00 a.m., which is when I find most of the Americans and U.S. participants get into the office and then the market changes a little bit.

23:36 **Merv Mendes**

For Europe, it tends to be busy right after the open call for the first half hour to an hour, it goes quiet for a little bit—which is when I'll transition myself to the office. Pete's still in Singapore, so Pete and I are in constant contact, certainly for the first three or four hours of my day until India closes down, which is when Peter leaves. And that's almost a smooth hand-off to when Mike and Jeff get in to trade the America session. And then they will do the same thing: they'll chat with me about what happened in Europe, they'll go through their day as to U.S. activity, Canadian activity, and run right through 'till again—they're there until about 5:00—and it's almost time for Pete to start up again a couple of hours later.

24:13 **Rob Campbell**

Another thing that you talked about earlier was currency markets. So, we're not trading currencies, but we're watching currencies—for what?

24:19 **Peter Dmytruk**

In Asia and a lot of less developed markets, currency can have a big impact. It can have an impact on the local markets, and it can also tell you what's kind of going on in behind the scenes.

It's really important to monitor that, because in global contexts of assets, the things that are going to move the quickest are currencies and indexes—or features. And they're going to move much quicker than stocks, because they're more liquid, they're larger, there're more players involved. So when you look at big macro events, currency is always leading. It's always going to be leading versus a small cap stock in that particular country. It's bigger, it's more liquid, it can react quicker, so it's something that you have to pay attention to. If you're not, it's part of the process that the world works off of.

24:58 **Rob Campbell**

And we're recording this podcast in October. Do you have examples of, having watched currencies move and has that influenced the way that we've invested?

25:05 **Peter Dmytruk**

I'm not sure it's influenced the way that we invested because we're a little bit agnostic about currencies themselves. In the long run, they will turn out.

But I think that we do have to factor that into our companies. The simple example is India has an 8% interest rate environment. That's going to cause the rupee to devalue versus the U.S. dollar; the Canadian dollar because of interest rate parity. So you have to build that into your financial models knowing that the stock price might go up, but how you base it back to Canadian dollars will also devalue over time. So it does play a part of our process [but] it's not the reason to invest, if that makes sense. If we ran a currency fund or a macro fund, that would be a different story.

25:41 **Rob Campbell** I guess I'm asking, do you have instances, for example, in the past couple of months where there's been a big currency move that has either caused you to accelerate or decelerate your trade in a particular stock?

25:50 **Peter Dmytruk** No, I don't.

25:51 **Merv Mendes** I think one of the pitfalls that we avoided would have been in Turkey, where we did have positions just ahead of the emerging market crisis. Again, like Peter said, we didn't necessarily base any investment decisions off of that, but we certainly got out of some of those names, just with a mild concern. No real foreshadowing, but we got out ahead of that. And I think if we were still in some of those names, at least when the crisis started, the currency play would have probably kicked in for us to speed things up a little bit.

I'd probably say the same for South Africa to a degree. I know that exists for us in Brazil and some of our names sometimes, particularly with the elections going on, you get a bigger currency play there. That would probably play a little bit in terms of how fast or slow we might be moving on a particular trade.

26:30 **Rob Campbell** Okay. Maybe just another one in terms of, where companies source their revenues. So, you got a company like InterContinental Hotels Group: the stock is in British pounds, but the revenues are sort of all of the world. You would imagine this pretty strong U.S. dollar exposure.

26:43 **Merv Mendes** Yeah. There are quite a few of those when trading Europe, particularly that are London-based companies. But their earnings are, for the most part, derived in U.S. dollars, let's say. And so, the European market or the FTSE might be going in one direction, but the stock is going in a complete opposite direction—and that's really just because of how the U.S. dollar is behaving relative to the pound.

27:01 **Rob Campbell** And does that happen like, pretty instantaneously? I mean, are the markets that efficient? Or is the thesis that, by better understanding the company's sources of revenues, we might have an edge in terms of that information flow to our investment team?

27:11 **Merv Mendes** I definitely think that there is an efficiency to the market when it comes to currencies and how they correlate to the individual stocks. Where you might get kind of, the leak, or the gaps in there, would just be very small windows that yes, if you can take advantage of that ahead of some kind of rate decision, or anything like that. Most of the time I think they're pretty efficiently priced.

27:28 **Peter Dmytruk** I think after Brexit you saw that with a few companies like Croda. It's a UK-based company, but they have a large source of their revenues from continental Europe, so the pound is devaluing and the euro is strengthening relative to the pound. There's a stock that actually went up post Brexit. A part of that was the relationship with continental Europe. So, yes, it does happen, right? And understanding how that works.

The market reacted very quickly in that scenario. I think that you probably, when you have a second order of the business that's not, maybe, well-understood—that's when the market won't appreciate or react as quickly. But in the case of Croda, I think it is very direct. Like you can look at their segment of the revenues—where they come from. You can understand very quickly whether that's going to help them or hurt them.

28:07 **Rob Campbell** I think—at least for me when I think about trading at Mawer—you've got these two opposite forces, right? You've got this investment philosophy that is really, really long-term oriented—ideally looking to hold stocks forever, but typically our turnovers in our portfolios are somewhere between 10% and 25%. Versus: you guys sifting through the day-to-day; all the news that's happening in the world. Whether it's more macro-level or currencies, or whether it's individual news about particular companies.

Can you guys talk a little bit about how you actually put that together? How do you sift out all this information flow from what's actually going to matter for the long term? And do you have trouble with that dissonance? Merv do you want to take a shot?

28:40 **Merv Mendes**

I think the last part is probably the key—it's where you have problems trying to resolve the two competing forces. The way I always look at it, when it comes to trading, I'm thinking about the end individual client that's entrusted us with their money, and whether they pay five cents more for the stock, unnecessarily, let's say.

I don't see any reason why they should, so I'm always trying to get that additional nickel. Which again, in the grand scheme of things for the overall fund that has a long-term thesis, if we miss that opportunity, we might end up having to pay more. A way for us to reconcile thinking of the long-game as opposed to getting stuck or stubborn on our principles of negotiation not going so well.

29:11 **Peter Dmytruk**

I think the investment process and the investment decisions—those are longer-term decisions. In terms of execution, they could be milliseconds, days, weeks, months. So, the actual execution is shorter timeframe, but it is meant to be a different timeframe. We are put in the noise on purpose. We have to filter the noise on purpose because you have to know what the market is saying. And I think that if you were to ask our research team...a lot of them would be probably pretty humble, in that, well, we don't necessarily know some of these things. We have a thesis and the market might actually be telling us differently. So there's a bit of an inflection point there, that, if the market is telling you something that's different than what our researcher guys are saying? Maybe we got it wrong.

29:50 **Peter Dmytruk**

So you have to kind of have somebody in the noise. It's like if you were trying to sell a property and you just left the door open. And you didn't have an agent, and he never turned the lights on, and you didn't put artwork up on the wall. Are you going to sell that property better? No. You probably need somebody to represent your interests while each client comes through and you hear what they say. What do they like about the place? What don't they like about the place?

If you're going to say, "I don't know how much value that adds—having somebody there." Well, you're probably not maximizing the value of that transaction because you're just saying, "we don't know the outcomes, so we're not going to try." And I don't think that's an appropriate approach either.

30:23 **Peter Dmytruk**

So I think that, the short term: you have to have somebody in the noise. Even though it's stressful, and you don't really want to be in the noise all the time, but you kind of got to do it. Because the market works that way. So you have to have somebody representing your interest in that market. What we're buying is not short-term related. The investment decision itself is not short-term related necessarily.

30:41 **Rob Campbell**

And I guess the added benefit there is for the rest of the research team. They don't have to spend their time figuring that out.

What I'd love to know is, okay, so we've got trading, live, 24 hours. You guys are obviously trading in different markets, but I think one of the other key tenets of our research team as a whole is this idea of cognitive diversity. So, different skillsets and mental models and backgrounds that come together to ultimately (hopefully) produce better—or at least probabilistically more accurate—insights for our clients. Can we say the same about the trading team? I know we talked about your backgrounds originally [and that] the other two guys aren't in the room, but as you think about your team, what are the different skill-sets that you guys bring that you share—in terms of those areas of genius?

31:15 **Merv Mendes**

I think that we all bring something different to the table. If I have to go through it individually, probably myself being...I don't like to say it, but the "elder" statesman of the group—

31:22 **Rob Campbell**

I was going to say, your old age and wisdom [laughs]—

31:23 **Merv Mendes**

—having been in the business probably the longest, and certainly on the trading side of it, and bringing in sell side experience from when I was at the banks...that would be one aspect. So, relationships and just negotiating ability. Versus: Peter coming from the analytical side, being an analyst with the global small cap team for a time; Jeff working as a buy side trader and at a brokerage firm as well through his career; and then Michael, who is our newest member for two years now, brought the analytical side [and] brings in a programming background [and] a more of a quantitative-type focus along with Peter.

I think if you put the four of us together, that's a pretty diverse team relative to what somebody might think a trading desk might actually look like.

31:58	**Rob Campbell**	Guys, thanks so much for being on the pod and look forward to having you again.
32:01	**Merv Mendes**	Thanks Rob.
32:02	**Peter Dmytruk**	Thanks.