EP32 | Playing the plan: Mawer's Canadian equity portfolio

00:40	**Cam Webster**	Welcome everyone! This is the Art of Boring Podcast, and we have Vijay Viswanathan on. He's lead portfolio manager on Canadian Equities, so, we're here to talk Canadian equities. Last time we had you on [Vijay] was summer of 2018—so it's been a few months—welcome back!
00:58	**Vijay Viswanathan**	Happy to be back.
00:59	**Cam Webster**	I hope you're happy to talk about the portfolio today.
01:01	**Vijay Viswanathan**	Yup.
01:02	**Cam Webster**	Before we talk about the portfolio, I just want to open it up with the Canadian economy and a little bit broader picture. I know we don't predict things on the macro level, but talk to us a little bit about what's been going on in the Canadian landscape [and] what's been impacting people's perceptions of the economy.
01:20	**Vijay Viswanathan**	Well, I think in order to get a sense of where we are today, it probably makes sense for context to go back in time. So, if you go back to 2008-2009—the financial crisis—the economy was not in the greatest of stages at that point in time, especially the global financial system. We obviously worked our way through that, and I guess—if you fast-forward, we've been 10 years since that, which is a long time if you think about it. And a long time for an expansion in the economy. One could argue that it's longer than what have been typical cycles because it started out so slow, as opposed to maybe the more historical context [where] there have been snap-backs in the economy after some tougher times.
02:10	**Vijay Viswanathan**	If we look at Canada, specifically what has happened—and again, none of

this is known with certainty, this is just sort of my story around things—is, we had a 10-year period of pretty low interest rates. That has led (in Canada, at least), to a significant amount of capital going into/being borrowed real estate.

That's where it's gone in Canada. A big chunk of it. Which sees us kind of where we are right now, where, I think one of the biggest risks out there—as it pertains to the economy ... at least in more recent data that's come out—is that there are high levels of debt in Canada.

02:54 **Vijay Viswanathan** There appear to be high levels of debt with Canadian consumers; there's high levels of debt in Canada as a whole. If you look at where we were in 2008 and where we are now, where do we stack up—we're one of the countries in the world that has the highest debt.

03:06 **Vijay Viswanathan** That same thing would be at the consumer level. All that is just a by-product of what has been easy money, lower interest rates, and increased borrowing. And I think what we're starting to see in Canada, and maybe around the world, but in Canada specifically, is just slower growth. We're seeing even more recent readings of lower retail spending, lower consumption.

And a lot of that lower consumption coming from consumers is driven by a desire to potentially deleverage; worries around debt service; the case of having too much debt to service; or, if rates increase on that debt that they're servicing—not having as much disposal income.

Some of it could just be sentiment. People are worried about debt levels because they see it and read it in the news all the time...it becomes a self-fulfilling prophecy, and consumers start to lower their consumption. So, we're starting to see that.

04:02 **Vijay Viswanathan** We just did a big "revers roadshow" (we call it) with Canadian banks. We actually extended it out to global banks, but from a Canadian context, the bank CEOs we spoke to (we spoke to four of them) all talked about: "still seeing growth, but lower." So, still seeing growth, but not as good as what it has been.

I think that's the big question. What are we seeing? From our perspective we're seeing a slowing economy, but not necessarily a shrinking economy. We are seeing some early data, early signs of potential slowdowns in consumption, and the big worry we have is just the amount of indebtedness that people have.

Now, that may not matter that this could continue on, given the Bank of Canada stance, which is that rates aren't going anywhere. And it doesn't appear that they're going anywhere for a long period of time. Now, that could change, but it appears at least that they're not going anywhere; they're not increasing at least for this year, and probably next year, and who knows?

So that's something that could help with debt service levels. That easy credit may lead to more borrowing, but I think Canadians in general are getting close to that max out point.

05:15 **Cam Webster** So, I heard a lot of consumer through all that. I didn't hear anything about well, "I'm worried about debt levels of Canadian corporations." I heard worries about the personal side. How do you view that, and how do you fit that into the portfolio?

05:28 **Vijay Viswanathan** Yeah, we're not too worried. We have a fair amount of companies in the portfolio that have high debt levels. In most cases they have assets against that. If you look at real estate holdings—pipelines, for example—are going to have high debt levels. But then they have a lot of assets against that.

05:44 **Vijay Viswanathan** Company-wise, there are not too many concerns in the portfolio from a debt standpoint. Although, I'd make the argument that the Canadian companies seem to have higher debt levels in general. [Even] North American companies. Maybe it's North American management teams [that] have higher debt levels within the businesses they operate versus companies, you know, globally, outside of, say, North America. That's something that we've noticed, given that we invest globally.

It's not something that I'm too concerned about within the portfolio around corporate balance sheets. I think they've done a reasonable job of de-leveraging and de-risking since 2008. I think the bigger worry is just around the consumer. The consumer has not done that in Canada, but they have done it in other parts of the world. And that does have a knock-on effect to companies in the portfolio if there is less consumption. That can lead to a recession, which would be negative for companies in the portfolio.

06:40 **Cam Webster** There's a good deal of bank exposure in the Canadian Equity portfolio, so I'm putting two and two together: if consumers are over-leveraged and can't pay their debts—then that's not good for the banks. Why have so much bank exposure in the top 10?

06:54 **Vijay Viswanathan** That's something that we've talked about a lot. As I mentioned, we did our bank reverse roadshow recently and talked to CEOs for bank management teams at four companies in the portfolio, four banks we own. So yes, it's slowing, but not necessarily shrinking. That was the general take coming out of that: it may not see the same level of growth we have seen over the past 10 years, but it's not dire. Again, it's back to that it's slowing but not shrinking.

The other big piece that's an offset is that a big chunk of Canadian bank balance sheets are secured residential lending. Essentially, mortgages. So, at least the historical credit experience with that has been very good. And a big chunk of that book of mortgages is also insured, so they have very, very limited risk given the structure that we have in Canada with CMHC.

07:52 **Vijay Viswanathan** They are more worried, but they are not necessarily seeing an over-levered consumer currently. They're not seeing it yet, but it is something that they do worry about. I think the general consensus is that yeah, we're sort of getting into the later cycle, but no one knows how much longer that can take and how much longer that can go on.

And, one of the big drivers of how much longer it can go on, is where interest rates are. I think you look at the Bank of Canada, you look at central banks globally—it seems like we're in a lower-rate-for-longer environment. Then you add to that this fiscal stimulus from governments, including our own, with their most recent budget that was announced, and things could continue on for the foreseeable future.

08:40 **Cam Webster** We've covered the banking industry pretty extensively in terms of the Canadian economy. What else out there would factor into your thinking on the economy overall?

08:50 **Vijay Viswanathan** We did talk a lot about just overall indebtedness, but there are other things to consider when thinking about the Canadian economy. So, I'll start on the things that are worrying us, but I'll also talk about a couple positives.

Things that are worrying us a bit is that if you look at a lot of Canada's economic growth, if not, well, the vast majority of it—[it] has been driven by demand for stuff that we have: oil, potash, grain, radium, resources. And that's going to China, India, and other parts of the world, but predominantly that's where our stuff goes.

09:30 **Vijay Viswanathan** So any slowdown there—and I think we're starting to see potential slowdown in China—is going to have a negative impact on Canada and the Canadian economy. So that's something that does worry us as well.

09:43 **Cam Webster** Is the impact more so now than, I don't know, say 15 years ago? Has it changed in your mind in the last decade?

09:49 **Vijay Viswanathan** Yeah, well, probably it's changed just because the demand from China and other parts of the world has gone up, so I think it'll have more of an impact. ... If you're running a business and you have one customer and that customer is, let's say it's the United States. All your stuff is going there. The overall health of the U.S. is going to have the biggest impact, obviously, on your business.

Now, if you diversify your customer base and you have a customer that went from zero to all of a sudden, you know, X percentage of your revenue...if that customer is having issues or is slowing down, well that's going to have an impact on your business.

10:25 **Vijay Viswanathan** So that I think has an impact on Canada if there is a slowdown in the global economy, given how much of our economy is driven by commodities. I think that could be a potential negative.

Now, we do have some positives. We have very low unemployment currently; we have rule of law; we have a sound financial system; it's a great place to live. We have net immigration—it seems that people want to come to Canada, which I think is a very positive force. Population growth is a very positive force for GEP growth, so those are positive.

For those of our listeners in the Toronto, Ottawa, and Waterloo areas, it's like we have this ever-growing sort of IT industry, so I mean those are some of the positives. It's not all—

11:13 **Cam Webster** It's not all doom and gloom, right? 100% resource country—

11:17 **Vijay Viswanathan** But I think we've had this super-cycle in commodities over the last 20 years driven by demand from Asia, notably China, and that seems like it's coming to an end, or at least it's slowing down. So that probably means that we have slower growth as a country unless we find other ways of growing the economy.

11:35 **Cam Webster** I know internally we talk about [how] we felt that we were in the late stages of a cycle, and the analogy was a baseball game. Are we going into extra innings, or is this in fact a double-header? [laughter]

11:48 **Vijay Viswanathan** I don't know, so let me start with that. I don't know. My own opinion would be that yes, we are in the later cycles of what has been an over 10-year expansion. Could it continue on for another one, two, three years? Yeah, it could. And it could all stop in one month.

So that's a lot of theoretical talk about it and sort of predicting the future, which is a total mug's game. We don't really know what's going to happen. I think the "so what?" is in, "what are you doing about all of this in the portfolio?"

12:19 **Vijay Viswanathan** You brought up banks. What I would say there, is that some of that bad news in our estimation is priced in. Because it's not that they're trading at (we think) valuations levels that are very extended at all. It's actually converse. We think they actually look reasonable from a valuation standpoint.

So, while there may be some volatility, or there may be some clouds on the horizon, or maybe it's even closer than that, it seems like some of that may already be reflected.

12:49	**Cam Webster**	[This is] a good spot to look at the last six months. You mentioned volatility. We've had plenty of volatility in the last six months. Last quarter of 2018 was ugly across the world, globally, for equities. Flip that to: so far, in the first quarter of 2019 and it's all reversed. My question to you, Vijay, is how do you manage a portfolio through a down-trending market and an up-trending market? What risks are there? What opportunities do you see through that?
13:20	**Vijay Viswanathan**	I think probably the biggest risk ... especially in these shorter term volatile situations, is yourself. Your own actions, your own behavioral biases, and mistakes that you can make. And I think the way we can mitigate that—you can't completely mitigate that—but a way to mitigate that is having the systematic process that we have. Having a team. You work together, share ideas, and there is a high degree of candour and trust. There [are] people playing devil's advocate...you know, black hat/white hat. I think you need that in order to get through even when it isn't volatile time periods. I think that's a very important part to deal with what can be very pesky things, which is your brain and the biases that can creep in there.
14:09	**Vijay Viswanathan**	So how do we deal with it? I know this may sound glib, but we don't do that much differently than what we do every day. We're out there looking for wealth-creating companies with excellent management teams that we think are trading at decent valuation levels. That doesn't change. But we are going to get inundated, like in December with that volatility, and sometimes that can provide opportunities to add to positions that we're looking to add to. That can be buying opportunities. It could also be a sign that, no, it's time to reduce risk.
14:44	**Vijay Viswanathan**	If you look at what happened in December and then the rally in January, a lot of that was driven around sentiment around central banks. If you go back, it seemed like we were on a tightening regime.
14:55	**Cam Webster**	For sure.

14:56	Vijay Viswanathan	Rates were going to go up, and that was starting to be reflected in stock prices, which it hadn't before. So that was happening in December, and then all of a sudden there really was this about-face. This change by, not only the Fed, but sort of, central banks globally. But the Fed in particular. It's like all of a sudden: no, we're actually not going to be tightening rates, we're actually going to be holding them. I think people are calling it "the Fed U-turn" or the "Powell Put"... whatever you want to call it.
15:23	Vijay Viswanathan	There was this shift in mentality at central banks. And I'd argue that in January I sort of missed that. I missed the materiality of how important maybe that was, and so probably missed out on an opportunity in December to add more fulsomely to positions that maybe we wanted to. And was maybe a little bit too cautious. But in those time periods we stick to our process. Usually volatility provides opportunities, and I think the key is making sure that you deal as best as you can with the behavioural biases that can [and] will creep in. We are human beings.
16:01	Cam Webster	When you were describing what you do to manage through an up or a down market, [and] that the biggest thing is yourself, I was inclined to ask: on average, how many hours of sleep do you get every night, Vijay? Because maybe sleep is important too. [laughter]
16:15	Vijay Viswanathan	Well Cam, I think you would know, but our listeners probably wouldn't—except for say, like my mom and my dad and some other family members who are listening. But my wife and I had a second child recently (a month ago), so I would say sleep is relatively scarce in the Viswanathan household these days! Albeit I'm getting a lot more sleep than my wife is. But sleep is a scarce commodity.
16:42	Cam Webster	We've talked about up and down markets, but I really wanted to drill in, Vijay, on what do you find most difficult about each of those directions?
16:49	Vijay Viswanathan	They both can be difficult. In a down market you question whether or not you should be adding to a position, or trimming positions, or doing nothing, which... doing nothing can sometimes be the hardest thing to do in our business. And a

lot of times is the exact right thing to do. So, that can be a piece that's really difficult with down markets. Is this an opportunity that the market is presenting me? Or am I catching a falling knife? You don't really know.

In an up market you can have the opposite issue, where you may stop adding to a position because you think valuation has gotten stretched. Yet the stock keeps moving. So that can be an issue with an up market. I'd say that up markets tend to be more fun, than—[laughs]

17:38 **Cam Webster** Yes [laughs]. Well, happy clients generally speaking.

17:40 **Vijay Viswanathan** —down markets, because I think the pain of loss is significantly more than the happiness from gains.

I think those are sort of what comes to mind from up and down markets.

17:53 **Cam Webster** Let's go from big picture to smaller picture. Natural gas has been one play that maybe we've been early on, done a lot of work on. Talk to us about your natural gas position given what's going on.

18:08 **Vijay Viswanathan** Well, we made a small addition to the portfolio in 2018—that was ARC Resources. We already had natural gas exposure through Canadian Natural Resources, through Peyto Exploration that we own. So we did initiate and added ARC Resources to the portfolio.

Part of that was a thinking that...fundamentals for natural gas should improve off what we thought was trough levels. I think the learning there was we probably were early. Now, that could be "resulting." You know the concept resulting—you look at what happened post the decision and then you decide whether or not that's a good or a bad decision.

18:47 **Vijay Viswanathan** We still think that there are opportunities for low-cost natural gas producers in Canada as they fix the egress and take away capacity issues. There still is a fair amount of demand. The part that maybe we missed, or are continuing to miss is, just how much supply there is.

It just doesn't really matter that there's better transportation, that there's growing demand, that natural gas is sort of a "cleaner" fuel. We call it the "left/right" fuel that makes both sides of the political spectrum happy—the left and the right—but that doesn't matter because there's just too much supply.

19:23 **Vijay Viswanathan** So, I think for us that's why I'm sort of second-guessing. Or one where I'd I say yeah, we probably were early. Maybe that is something that's going to play out over a 10-year period, maybe not a three, four, or five-year period. Now, a good offset there is that we have a long-term time horizon when we invest.

19:38 **Cam Webster** Do you want to give the audience perspective on how much exposure is there for natural gas? I mean, Peyto and ARC are your two lowest holdings by percentage in the portfolio [about 100 basis points].

So, 1% of your total portfolio is there. Is that reflective of the risk and the probability set you look at? ... What has to go right for these things to really work out?

20:07 **Vijay Viswanathan** I think part of it is that. Part of it is starting to build a position and then maybe a slight pause there on continuing to build that position—given some worries around supply dynamics.

20:19 **Cam Webster** Okay. We've talked a little bit about what you do hold in the portfolio. I wanted to talk a little bit about what is absent in the portfolio, and through the fourth quarter in particular, [which] led to some under performance relative to the benchmark. And that's gold.

I know you guys address this question once probably every—I don't know, you tell me, over the last decade. Once every year? Once every six months? Once every two days?

20:51 **Vijay Viswanathan** Once every three years the question will start to come up all the time. The last time we talked about this was probably 2009-2010. We got a lot of questions about gold. Did not get as many questions, I think, from 2010 through 2018. The questions are starting to come back again.

Why don't I start with gold—and we're going to say gold producers, because those are publicly traded equities that we could invest in that are in the

Canadian universe. We're not dogmatic about whether or not we would invest in gold companies or not. We just haven't. And we haven't for a long time.

21:28	**Vijay Viswanathan**	I think if we go back before my time here—I think we did have a position in Barrick Gold. I can't remember exactly. So it's not dogmatic that we would never invest in gold producers. We have done the work on companies—and again, it comes back to the philosophy. Number one: is it a wealth creating business over the cycle? We would argue that most, if not all the gold producers—at least in the Canadian universe—have not been.
21:55	**Cam Webster**	So our level of inquiry stops right there?
21:58	**Vijay Viswanathan**	Pretty much stops there. It has not generated a return on capital greater than the cost capital over a cycle—over the long term. So that's pretty much a deal breaker. Now, could it get there? is the question. That's when we've gone back to revisit. It's like well, could this become a more wealth creating business? And I think the answer is, that it could be. Then it falls into the second step, which is the second thing we look for: management teams that understand capital allocation and managing risk in the business. And for us, we think that we're hearing a lot of the right things, now we actually have to see that happen. The third piece is valuation. For us, getting a lot of that good news is sort of priced in, I guess. In the sense that if you're pricing in a gold price of $1,300, $1,400, $1,500 forever...well I'm not sure that's going to have the risk-reward for clients that makes sense. So for us I think it just doesn't fit the criteria.
22:53	**Vijay Viswanathan**	You know, the other thing about gold, and I obviously like to bring it up, is all the gold that's been mined—for the most part—still exists. Like, there aren't a ton of end uses for gold. I mean, there are some industrial uses—pretty small.
23:08	**Cam Webster**	Yeah.
23:08	**Vijay Viswanathan**	But the big use of gold is jewelry. And beyond that, it's just a safe haven. But

you don't get any income stream off of it. So we prefer to buy assets that actually have cash flow streams as opposed to those that don't.

23:22 **Vijay Viswanathan** I would contrast that, to say, something like oil. Where again, it's also a commodity much like gold, but with oil—it's like, the oil is mined, it's refined, it's put into your vehicle, and then it's gone forever. Whereas the old Buffett story about gold...he says, essentially, you spend millions and hundreds of millions of dollars and you dig a hole. And you get the gold out of the ground. And then you truck it over to another place, you dig another hole, and you dump it in the ground. And then you pay a person to guard it [laughter]. Like that's...I mean, it's a funny story, but at the end of the day, there isn't really that many uses for it. There isn't that cash flow stream off it. So for us, we haven't found an investible ideas there.

24:03 **Cam Webster** I'll follow that up with: if you could create a wealth-creating gold company what would it look like? Or is it impossible based on the fact that gold goes from in the ground to in the ground?

24:15 **Vijay Viswanathan** No, I don't think it's impossible. I think there are some business models out there that we have done a fair amount of work on, and that's the royalty business model. So there are companies out there that are slightly different than the producer model. That's one where we have done some work on. We haven't gotten there to make the actual capital deployment decision on that.

That's one that I think is a slightly better business model. We do own royalty businesses, like Prairie Sky, which is on the oil and gas side. I think it's is a pretty good business model. Essentially a landlord for the most part.

I've never been asked that question. If I were running it, how could I run it to be wealth-creating? Well, I think what you do is you'd want to run your low cost mine. You want to run it down until it's completely depleted if it makes economic sense...[Let's say] Cam, you and I own a gold mine. Let's say it was competitive on the cost curve, and we could actually make decent margin per tonne, or the spot price (where our actual realized price is going to be). How would we do that?

25:17 **Vijay Viswanathan** I think what we'd do is we'd run that mine down and we'd pay out all the cash flow to the equity owners—in this case, in my story, you and me. I think that's the way that you actually could generate a decent return. If the mine was economical over its lifetime.

I think the problem that I've seen—again, this is my story—is that's not what happens. What happens is that the cash flow that gets generated from an asset that could be a wealth-creating asset gets recycled into another asset or buying another company. That is not wealth creating because it's all about growing. It's about growing, growing, growing. And it's about growing the business because usually incentives are tied to growth for management. And the street—the market—rewards growth.

26:05 **Vijay Viswanathan** So I don't think we have a big shareholder following. That's why we'd be a private business [laughter] in our make-believe story, but I think that's how you could do it. But that's not just for gold mining. That's for lots of businesses.

26:18 **Cam Webster** Disclaimer: Vijay and I are not going to run out the door after this podcast and start a gold mine. That's great! That's a really good perspective, I think, Vijay. Thanks for going that deep on that—oh, pun!—"digging deep" on gold. All right.

Let's switch gears a little bit right now. I was glancing at the portfolio—you give us a good update every week on it. I was wondering, how much foreign revenue would actually make up the portfolio? So yes, we're investing in Canadian businesses, but how much of their revenue streams are actually non-Canadian?

26:59 **Vijay Viswanathan** This will be approximate numbers, but if you look at the where the sources of revenue are [for Canadian Equity fund] in aggregate—50% of the revenue would be Canadian dollar, so it's coming from Canada.

27:19 **Cam Webster** That's it?

27:19 **Vijay Viswanathan** That's it. Then, the other half would come outside of Canada. Of the 50% that's not Canada—the majority of that would be U.S. So, when you think about Canadian Equity, we have a lot of excellent Canadian businesses that have operations or are doing business all over the world. And, we have this nice serendipitous location advantage I guess, geographically.

27:53	**Cam Webster**	The largest economy in the world is just south of us, so we have a lot of Canadian businesses that have U.S. revenue streams amongst others. Do you actively manage that mix? Do you go out and seek, [like] "I need more foreign revenue exposure in the portfolio and what kind of business in Canada offers that?"
28:02	**Vijay Viswanathan**	I wouldn't say it's active. I think that it is something we do talk about as a team ... it's something that could be added to the investment thesis around a company if it's something new, or, if it's a trade idea, it's like: "you know what? We like this, this, and this, and/or it also gives us a little bit more U.S. dollar exposure," for example. So, I think it's part of it, but not necessarily active. And a lot of the Canadian businesses that we're looking at in the mid-large cap universe are going to have operations outside of Canada. I'd actually say the exception is more businesses that just have domestic operations.
28:40	**Cam Webster**	One holding that comes to mind for me is Fairfax India. Can you walk us through, quickly, what the thesis there was? Why did you act on adding that to the portfolio?
28:52	**Vijay Viswanathan**	Fairfax India essentially is a holding company. It's an asset management company or holding company that is investing in public and private opportunities in India. All the people, all the decision-making, happens in Canada—in Toronto. Essentially, the management team are people from Fairfax Financial, which listeners may be familiar [with], [it's] essentially run by Prem Watsa. So, for us what's the opportunity there? Well, we think it's an opportunity to get exposure to India, which is a fast growing market—one of the fastest in the world—with what we think is a very good management team that understands capital allocation. That's the big thrust around that. The third piece is that we think we're able to buy the existing assets that they own at what we think is a reasonable price. I think we get existing assets at a reasonable price, plus we get upside over time from the ability of management to allocate capital in a country that we think which is growing and in a good place to create wealth for clients.

It's not without its risks though. With India, an emerging market, we have exposure to the Indian rupee. So if we have a strong U.S. dollar, that'll be tough for the Indian rupee. There's an election going on right now in India—that takes a month to happen. Yes, it's the largest democracy in the world, but it takes a month for them to have an election.

30:24 **Vijay Viswanathan** So there is some risk there if the pro-business government that has been led the last five years by Prime Minister Modi does not get re-elected. That could put a damper on things and the growth opportunity in India. Again, not without its risks, but we like it. And within the portfolio, it's something different.

It's not necessarily like in Canada: financial services, a commodity business, energy business. It is something different, and they have a very diversified portfolio that they have in India.

30:54 **Cam Webster** So again, to switch gears a little bit, we're going to stick to portfolio-specific stuff, but more along the lines of what's really tightly connected to the benchmark. I guess we hear you say—

31:06 **Vijay Viswanathan** Cam I don't care about the benchmark, by the way.

31:08 **Cam Webster** I don't either, but some people listening may wonder.

31:13 **Vijay Viswanathan** We're benchmark agnostic.

31:14 **Cam Webster** Agnostic to benchmarks. Yes, yes. I don't like benchmarks. Can we still talk about it though? [laughter]

31:20 **Vijay Viswanathan** Yeah! Yeah, we can. Sure.

31:24 **Cam Webster** I'm trying to lead you down the path of cozy oligopolies. There are a few of these in the portfolio...so banks, telecos, Loblaw might be almost a monopoly. But I just want to address that concept in the portfolio, why it may appeal, and what the risks around investing in these "cozy oligopolies" might be.

31:44 **Vijay Viswanathan** Canada has a lot of cozy oligopolies. And maybe just for listeners, what do we mean when we say a "cozy oligopoly?" What we're really talking about is market dynamics and market structures where there just aren't a lot of competitors. You brought up Canada telecos and cablecos. There aren't that many when you look across Canada. Out West, we have Telus and Shaw. For our listeners more Central/Eastern Canada, you have BCE and Rogers amongst other providers as well.

It's really about market structure and competitive dynamics. Why we say "cozy" in sort of our lexicon, I guess, (not that we invented it) ... you have a minimal amount of competitors and it's cozy in the sense that they're not beating themselves up in a race to the bottom.

They can be very good places to invest client capital. It's a good place to deploy capital. It's really a function of two things. So, there are two things that are probably the most important when thinking about these types of market structures.

32:47 **Vijay Viswanathan** One is the level of competitive intensity between the participants. And then the second piece, which is probably a bigger one, is the "stroke of a pen risk," which is the regulatory risk. You look at something like the teleco and cableco industry in Canada—I think there's lots of really good businesses. We own four of them.

We think they're really good business models that can create wealth over time [and that] provide mission-critical services to all of us. The joke we make is that the first bill you're going to pay is your mortgage, your second bill is probably your internet or your wireless bill. We think: very good business model, well-run businesses, and we actually think valuations are pretty reasonable. And that's why it's a pretty large weight. Individually there's pretty large weights and then collectively it's a pretty large weight.

33:36 **Vijay Viswanathan** The second part of that risk though, is the regulatory risk. And I think we're seeing the pendulum potentially swing. That may just happen to be because it's election season, but there has been some policy shifts from the current federal government that they've given to the CRTC around wireless, and wanting to promote more competition around wireless. And that can be a negative.
I mean, forget the details of what may or may not happen with wireless and telecos and cablecos in Canada. I think the bigger thing around cozy

oligopolies is this: market structure matters, competitive intensity matters, but then the regulatory risk is probably the biggest piece—that stroke of a pen risk. Because at any moment if the government changes the rules, the regulator changes the rules, what used to be a wealth-creating business can suddenly cease to be one. Or, it becomes less of a wealth-creating business. So that's one that we're monitoring very closely.

34:34 **Cam Webster** How do you do that? Like do you talk to the regulator? Do you have contacts in the industry that say oh, the regulator is thinking of doing this?

34:42 **Vijay Viswanathan** Well you're not going to know for sure until the regulator comes out with the policy. But they kind of telegraph it a lot of times. We know right now that they're looking at it. Now, that may mean nothing. It could be politically driven. It could be election related. Who knows?

But for us there's not much you can do, other than you mitigate it through what the overall weight is currently in the portfolio, knowing that there is this risk that's out there. And also if things were to shift—when you actually get that information—then acting upon it.

35:13 **Vijay Viswanathan** In the scenario where it's a more punitive regulatory environment for telecos and cablecos, we would be more negative on the teleco and cableco holdings in the portfolio.

35:23 **Cam Webster** All right Vijay, so far we have talked big picture Canadian economy, we've drilled down a little more into the portfolio...so let's just take it forward. What would say are the keys to success for the Canadian Equity portfolio?

35:38 **Vijay Viswanathan** A lot of the keys moving forward is going to be what's served us well for the last 45 years. I think it starts with having an investment philosophy that we think works over the long-term. I mean, I sound like a broken record, I've said it so many times—

35:52 **Cam Webster** Well, you are the director of research, so—

35:55 **Vijay Viswanathan** Wealth-creating businesses that are run by excellent people and you don't overpay for those future cash flow streams, I think, will serve clients well over the long-term. I think the key there is, over the long term. I think "sticking to our knitting" is key. I think having a systematic process that underpins that core philosophy is key. And it's the execution of that process I think is key over time to getting outsized results for clients and improving that process over time. So, not getting stuck in our ways and our thinking and how we do things.

Obviously, there's the governing principles and philosophy about what we look for in businesses and I don't see that changing.

36:34 **Cam Webster** You said "stuck in our ways" ... how do you recognize that? How do you know you're stuck in your ways?

36:40 **Vijay Viswanathan** That's a good question. I think a big part of it is the team dynamic, forcing yourself to look at things from the other side. I think just even having this openness that we may have a mis-calibrated model in our head, in the sense that we have a way of looking at things and we have to sort of revisit that. I mean, just the notion that we're willing to do that I think is important.

I think cognitive diversity within the team, differing viewpoints, forcing those viewpoints when they're not there, inverting thinking...I mean all that stuff is vital I think to not getting stuck. And you'll still get stuck. That's the thing! You can do all that and you still may get stuck in your ways. If I'm being fully candid, I don't think you can eliminate it. It's like risk. I think you have to mitigate it. And I think it's culture, and people, and the team dynamic, and candour, and all these things that have been talked about on these podcasts. I think that's how you mitigate that.

37:39 **Vijay Viswanathan** So I think that's an important part of it. I think when you have that underpinning, you have that philosophy around investing, you have that time horizon around investing, I think that sets it up for success.

Then it's about executing and it's about investing in those really great businesses that are well-run and letting them compound money over time. ... It has been part of the success, a big reason behind the success that we've had, and I think it continues to be moving forward.

Obviously, it helps when you can find multi-baggers in your portfolio

		[laughs] you know—
38:17	**Cam Webster**	Like something that goes up four or five times—
38:20	**Vijay Viswanathan**	That's great. If you can find tenbaggers that's fantastic, but those aren't growing on trees! And when you look at portfolios over time and how they've generated returns...those are very much the exceptions versus the rules. But, hey, you know, that definitely helps and has served us well, at least historically. So I think that's important.
38:39	**Cam Webster**	What about the reverse of that? What would that be called? If you got a bagger, what's the reverse of a bagger?
38:45	**Vijay Viswanathan**	We call those "dougnuts."
38:47	**Cam Webster**	Dougnuts?!
38:48	**Vijay Viswanathan**	Yeah.
38:48	**Cam Webster**	Oh, I was expecting torpedoes.
38:50	**Vijay Viswanathan**	Well, or torpedoes. Yeah, you want to avoid torpedoes. I don't think you can completely avoid them, but at least you want to mitigate when you do have a torpedo in the portfolio—a poor performing company where fundamentals are deteriorating, or you made a mistake—then I think you need to mitigate that risk. It's incumbent on doing that. That, I think, is a pretty important key to success in moving forward. I think is actually the way you make money over the long-term, is win by not losing. When you talk about: "okay, I'm going to find a 10-bagger or a 20-bagger or a 5-bagger..." that's trying to win. I think what has served us well is to win by not losing, which is that second one—of avoiding those blow-ups. That is vital moving forward.
39:45	**Vijay Viswanathan**	Last one: we talked a little bit earlier about Fairfax India. I think it's going off the beaten path, looking at companies that maybe others are not. Sometimes it's

taking a contrarian viewpoint on a theme that sort of is a break from conventional wisdom out there. That is the way that we've also made money.

Moving forward, [I think those are the ways] we'll continue to strive and work on every day.

40:10	**Cam Webster**	Thank you Vijay! That's a good spot to say, "thank you."
40:14	**Vijay Viswanathan**	Thanks for having me Cam.
40:16	**Cam Webster**	We'll look forward to the next time we have you on to talk about Canadian equities.
40:20	**Vijay Viswanathan**	Good! Thanks.