the art of boring™

EP40 | Lessons from 33 years of investing

Rob Campbell 00:41

Today we've got a real treat: we're joined on the podcast by Martin Ferguson, long-time portfolio manager at Mawer, who focused mainly on our Canadian small cap mandates, and, really, who was instrumental in shaping our investment philosophy, team, and culture—both as a portfolio manager and as a member of our board of directors.

Martin retired a little over three years ago, but has remained deeply involved with us as a member of our board. And Martin—we figured that given your time on the board is up toward the end of this year, time was running out if we wanted to get you on the podcast! So, welcome.

Martin Ferguson 01:13

Thank you, Rob.

Rob Campbell 01:13

Martin, I've heard it said—and this is actually one of my favorite quotes in investing—that the two most underappreciated skills in investing are 1) learning to control your emotions; and 2) timing your career such that it coincides with the 40-year fall in interest rates. I think you've been pretty successful on both! Maybe before we dive into our main topic, can you give us a little background as to how you started in the industry and how you ended up at Mawer?

Martin Ferguson 01:39

Sure Rob, thank you for that great introduction. I had graduated 1982 and was offered a job at the investment management division of Alberta Treasury—what is now known as AIMCo. At AIMCo, I started work basically as a file clerk, but I was also working on the U.S. equity team there, and that is where I got my start.

Rob Campbell 02:00

You were a securities analyst focused on U.S. equities, or was it more than that?

Martin Ferguson 02:07

That is exactly what I was: I was a securities analyst focused on U.S. equities.

Rob Campbell 02:10

Were you always at AIMCo or Alberta Treasury until you arrived at Mawer? Or was there something else in between?

Martin Ferguson	**02:13**	There was a brief hiatus. I was at Alberta Treasury for approximately five years when I had a job opportunity at a company called Principle Group of Companies. Principle Group of Companies existed from when I was hired to approximately 22 months later when it went under.
Martin Ferguson	**02:30**	However, I used it as a great learning experience, and because of my track record and/or abilities at Alberta Treasury, they very much wanted me back. So, as Principle Group of Companies closed its doors, I was rehired at Alberta Treasury. The first 15 years of my career were at Alberta Treasury with 22 months at Principle Group of Companies, and then I came to Mawer thereafter.
Rob Campbell	**02:53**	At Alberta Treasury, how did your career evolve? Were you still doing securities analyst work, or had you taken on broader responsibilities in that?
Martin Ferguson	**03:01**	I started on the U.S. equity side and really learned the basics of investing on that side, but after four years, the Canadian portfolio manager—a fellow by the name of John Campbell—invited me to join him on the Canadian equity side. So that gave me a bit of a broad base of learning, both U.S. equities and Canadian equities. And after about three years with him, I was promoted to assistant portfolio manager, and helped John Campbell with the Canadian equity portfolio.
Rob Campbell	**03:29**	So Martin, 15 years in your career (or thereabouts), how did you come across Mawer? Or maybe, rather, how did we come across you?
Martin Ferguson	**03:36**	Actually it's a very interesting story, which I'd be happy to share. When I was working on the Canadian equities at Alberta Treasury, we focused on large cap Canadian equities. Myself and John Campbell, the portfolio manager, decided that we would actually like to get into the smaller cap Canadian equities because it was more exciting, and we saw a more alpha—more ability to create value there.

		So, we went to our chief investment officer, a fellow by the name of Stan Susinski, and came up with a business plan to manage small cap Canadian equities at Alberta Treasury. And Mr. Susinski said, "it's a great idea, but we don't think we have the internal expertise to do so, so we're going to go external. And Martin, why don't you lead the search for external money management firms to do small cap Canadian equities?"
Rob Campbell	**04:23**	This is something that you wanted to do yourself and were effectively told, "no, you're going to have to go somewhere else?"
Martin Ferguson	**04:27**	Correct. So, we decided that we would hire four external managers in order to diversify the risk in this riskier asset class, one of which happened to be Mawer Investment Management. And, at that time, Mawer Investment Management was searching for a Canadian equity analyst. I came to Calgary to interview them for the job of managing small cap equities, but at the same time I had put in an application to join them. And after I finished interviewing them for Alberta Treasury, they said, "well, could you stay on? We want to talk to you about the analyst job" and they basically hired me on the spot. As it turns out, a long story short, I came to Mawer and I ended up managing the small cap portfolio for Mawer Investment Management and Alberta Treasury became a client.
Rob Campbell	**05:18**	Oh, best of both worlds!
Martin Ferguson	**05:18**	Yes. I was unable to [manage it] from an internal point of view [laughs] but from external, it was good. It was a very good mandate.
Rob Campbell	**05:25**	What was Mawer like back then? It's probably very different than it is today, and I've only been at Mawer for three years—that's my lens. ... What was the culture like?
Martin Ferguson	**05:36**	The culture had yet to evolve to where it is today. When I came through the doors I believe I was a mid-teens employee. Today, we have over 150 employees. I guess that makes it one-tenth the size.

From an asset under management point of view, there was approximately $700 million in assets under management—might have been even less than that.

Back to the culture side of it, Mawer has always been a firm focused on hiring high performance individuals. At that time, the difference between then and now, is that those individuals all wore many hats. The person that answered the phone was the same person that handled the IT side. And portfolio managers were analysts; analysts were portfolio managers. But it was good. All hard-working, all pulling in the same direction.

Rob Campbell 06:24

Great. The meat of this podcast—maybe just to fast-forward 20 years to where we are today—I've actually borrowed from another podcast that I really love that listeners can check out, it's called Capital Allocators by Ted Seides. Ted, at the end of all of his podcasts, asks his guests: "what are the lessons that you've learned over the course of your career that you wish you knew earlier in your life?"

So Martin, I wonder if that's a good framework for thinking about what we might talk about today, and maybe a good place to start is just with the market itself. You've spent most of your career focused on Canadian equities or Canadian small cap. Can you talk just about market complexity? How do you think about that? How do you wrap your head around just this complex system that is what we call "markets?"

Martin Ferguson 07:06

Rob, I think of the super computers that are used to predict the weather. It takes that much computing power, and all they can do is they can forecast out 7, maybe 14 days. They use averages to figure out longer term, but it's really complex.

Next to the markets, that's child's play. The markets are extremely complex. You have so many moving parts. And I think the biggest factor is the fact that it's run and controlled by humans, and humans are led by their emotions: fear and greed. They're also predators, and I can bring that in at a later date—how that affects the market.

So, they're very complex, and it's hard to make sense of the complete market. I don't think any individual can do that, at least not in my lifetime. But there are ways that a person can approach the market in order to get advantages, and that's I think what we are focused on [at Mawer]. If you can't predict the market, you can sometimes predict individual industries, individual companies; you can understand parts of it, and if you can understand parts of it, you can actually make a living investing in the market.

Rob Campbell	**08:17**	Warren Buffett's advice—when asked how someone should start thinking about investing—his advice was basically to go through all the companies that are listed. And when someone said, "how do I do that?" he said, "well, start with the As." Would that be your approach? Or was that your approach?
Martin Ferguson	**08:30**	I don't think it ever was. Now, it is an approach used by Mawer today. As our research team at Mawer has developed, we have figured out quantitative ways to approach the market. And actually, we're working on refining that process. But back in my day, no, that was definitely not the way. If I could maybe go back to do a little diatribe here as to my learnings, how Mawer got to where it is today, and how it's evolving even further...I go back to the early days: my first learning on buying stocks. The first lesson I learned was you buy stocks with earnings growth. If earnings are growing, the stock will follow suit. Earnings go up, the stock will go up. A very simple rule. And at my first learning, I took this literally. I was looking for stocks with earnings growth. I have learned over the years that's only one reason why stocks go up. And I've also learned that that gets back to the predatory nature of man: if something moves, it draws your attention. And earnings growth are something that draw attention. But if we expand on that, stocks in the news—front page news—they draw peoples' attention, and they tend to move up. So, that was another learning of mine: stocks that have momentum attract attention and do well. It's betting with a trend—that's another lesson you learn. Stocks that go up tend to keep going up until they don't. So you can make a lot of money just on stocks that have momentum.
Rob Campbell	**09:54**	Maybe if we could just pause there, just so I really understand that properly. The lesson was (and still remains), that earnings growth is important, but just that there might be nuance behind that.
		Were there any specific instances or stocks that you looked at that really taught you that lesson? Or was it just something that you came to realize?
Martin Ferguson	**10:12**	Many different stocks taught me that lesson, but they all have their nuances. I guess if I could progress this thought, I was getting into the predatory nature of humans. But the other part of it is the emotional side. My overriding theme here is the market is not all science. There is the softer side.

Rob Campbell	**10:29**	There's a behavioural aspect to it, yes.
Martin Ferguson	**10:30**	Thank you. Science and behaviour. So, let's get into the behaviour side of it. I worked for a short period at a company called the Principle Group and they were big into technical analysis. And technical analysis is basically understanding charts, but in order to understand charts, you have to understand human emotion: fear and greed. And the behavioural side of humans dictates how the market works. That's another one of my learnings—you can predict stock movements if you understand the human side of the market rather than the scientific side.
Rob Campbell	**11:04**	On fear and greed—I think very early on at Mawer, like in the late 90s—I assume there was a lot of that. And I assume that must have been difficult—when you see stocks that maybe we wouldn't have been into, just going crazy. This was very early after you started at Mawer. What was that like emotionally and what did it teach you that you think might be important to pass along to budding investors today?
Martin Ferguson	**11:26**	Some examples of fear and greed—on the fear side, one of the interesting facts of the market back in the 90s was the fact that bank stocks were trading at incredibly low P/E multiples. These were companies that had tremendous amount of leverage, very small slivers of equity, and the market was focused on the potential debt. There was an LDC problem that happened, I believe, in the 80s—"lesser developed countries"—where the Canadian banks and other banks around the world were levered to us. People feared there were some banks [levered]. However, this fear led to a period whereby banks outperformed for the next two decades. And that was a great example of human emotion playing on the market and providing opportunities for people and investors who could see past that fear. On the greed side, let's go to the tech bubble. 1999 to 2001, during the tech bubble, people invested in tech companies because they saw tech companies as the future, and they thought that these tech companies would rule the world. The multiples put on these companies were phenomenal because of the greed side of this: everyone wanted to be associated with the winners and invest in these tech companies and basically abandoned all the fundamental learnings that we had put on these stocks.

Rob Campbell	**12:42**	It sounds like you're saying that there's almost like a common sense element to this, whereby the market might be saying something, and sure, markets can stay irrational longer than you can stay solvent, but there are these moments where common sense should prevail. I wonder if you can connect that to our investment philosophy? Because from my perspective, the way we look at the world and what we're looking for in companies does seem to be less "fads, fear, and greed," and more just common sense what ought to make a good investment.
Martin Ferguson	**13:08**	I'm going to use that as an opportunity to talk about one of my mentors—John Campbell from Alberta Treasury. He said, "the biggest thing you have to learn about the markets is to use common sense." This is back in the early 80s, where interest rates were…call it 10%, and he said, "use common sense. If you can earn 10% on a fixed income instrument, then you should be able to get a similar yield from an equity portfolio." So, your P/E should be approximately 10x (price over the earnings: 10x), which equates to the fixed income yield (10%), which puts them on equal footing. But equities have an opportunity to have higher growth, so you have a better opportunity there. That boiled down to the rule of 20, which is something I used over my career. You take 20 and you subtract the going long-term interest rate, and you get an appropriate P/E multiple. Now, that only works until interest rates get close to zero, or low, and then it sort of falls apart. But it's a good multiple to use.
Martin Ferguson	**14:13**	The other parts of common sense I think are interesting are…if you look at the long-term returns from the stock market—call it 8% to 10%, that's what people use—so if you had a stock that moves up 20%-25% in a short period of time, if you put that in long-term context, you start to understand that it can't go up that rate forever. You just use common sense to say, "maybe I should actually trim stocks that go up." But let's bring that forward to Mawer Investment Management. One of the things I learned early in my career is that people play games. All investors play the games, and they play the market. They don't invest in the market, they play the market.

And the examples I'll give with this are technical analysis, which is playing on the fear and greed of people. They're not investing, they're just focusing on shortcomings of people who invest in the market in order to make money. And it's a way to make money in the market.

Martin Ferguson **15:06** If you get into the fundamental investors...a lot of fundamental investors had different rules for different stocks. If they invested in oil and gas stocks, they would use price-to-cash flow multiples. If they invested in industrial stocks, they would use P/E multiples. If they invested in life insurance companies, they use price-to-book value. In banks, they would use P/E and/or price-to-book value. They're playing all these different games.

And early in my career, I got good at playing all these different games. And then, I came to Mawer. And at Mawer, we had an opportunity to look at the market and really determine how we were going to make Mawer stand out from the others, and figure out how the proper way to invest is.

What we came up with, is basically what we use today. If you think of equities as financial instruments or financial assets rather than stocks (and one you can play a game [with]) you can start to see how our philosophy developed.

Martin Ferguson **16:05** Financial assets are capital assets that provide a return on investment. If you put your money in a savings account—put your capital in—you know that every year you're going to get a very small interest rate on that, and your capital will be available for you. If you get into GICs or bonds, the same idea. You put your capital in, you get a return on that, and you get your capital back.

Equities—why not treat them the same way as money market instruments, bond instruments, or any other financial instruments? Basically, you put your capital in, you want to generate a return on that capital, and get your capital out eventually, which in the case of equities is to sell it. But how do you measure that?

It's the same thing: what capital, or what return, are you getting on your money for the amount of capital you've put in and the amount of risk you've taken? If you've put in a savings account, very little risk, very low return. Put it into a bond, a GIC, a little more risk, a little more return. Equities, higher risk, a lot of unknowns, but you can still treat it the same way.

Martin Ferguson	**17:05**	So we sort of developed what might be considered a unified theory, whereby: let's not use different ways of measuring companies and different industries, let's measure them all the same. How much capital are we putting in, versus how much cash flow are they generating, versus how much cash flow they can generate over the long-term? With that unified theory we developed our investment philosophy which stands today, and that is we focus on wealth-creating companies, with excellent management teams—
Rob Campbell	**17:34**	—I was going to say, it seems a lot of what you just talked about really pertains to the "wealth-creating company" aspect of [the philosophy]. Is that the most important aspect?
Martin Ferguson	**17:42**	Yes, it's up there. I don't know about most important, but yes, it's an extremely important aspect of it. So why do we focus on wealth-creating companies? Well, I want to just give you an example using very simple math. Consider three companies: you want to buy into all of them. You don't know the exact value of the company, but you have an idea of what the company's worth. So, let's say you buy in at x0 (times zero) into three different companies. And, by accident, because you don't know, you actually overpay for them by 10%. The three companies have different ROEs. One is a 2% ROE company, one is a 5% ROE company, and the third one is a wealth-creating company at a 15% ROE. Over the course of three years, the company that generates 2% ROE will actually grow its intrinsic value—what it's worth—about 6.1%. That's a 2% return on its capital that it's employed over three years—actually on the equity it's employed over three years—[which] gives you an increase in the company value of 6.1%. If you sell it at its intrinsic value, you've actually lost approximately 4% because you overpaid 10% for it. The company has a 5% ROE over those three years, it'll generate a 16% return on its original equity, that's 5% compounded, which means that you will get a 6% return over the three years, which is not very good.

Martin Ferguson	**19:00**	But if you invest in a 15% ROE company, even if you overpay by 10%, over the three years that company will generate or increase its intrinsic value by 52%. That's 15% compounded over three years, which means even if you overpay for it by 10%, you're still ahead of the game assuming you can sell it at its intrinsic value, by 42%. You've created a positive return even by overpaying for a company. So that's why we focus on wealth-creating companies. The power of compounding and focusing on companies regardless of what industry they're in, we're focusing on those companies that can generate wealth.
Rob Campbell	**19:41**	As I just think about this, there seems to be ramifications to that "unified theory," as you said, that play out in terms of how we've structured our teams. You talked about looking at different metrics for different types of companies in different industries…if we're just looking for return on invested capital greater than cost of capital across all industries, is that part of the reason why we've structured our team as generalists who are looking across sectors? As opposed to analysts really focused on a narrow part of the market?
Martin Ferguson	**20:04**	Absolutely, Rob. That was one of the things that we decided upon many years ago. It sort of eliminates the biases that exist when you're playing the individual games. If you can look at all companies the same, no matter what industry they're in, then it makes sense to be generalists and not focus on individual sectors and which one's the best in that sector. Many of our portfolios are structured such that we have no exposure to certain industries. If we had specialists in each industry, they would try to pick out the best of a worst lot—and why would we put that into our portfolio?
Rob Campbell	**20:37**	But it comes at a cost too, right? Just to play the other side of it—you perhaps have less depth of knowledge in one of those industries. So how do you think about that trade-off? Maybe this gets back to one of our original conversations just around market complexity and what you choose to pay attention to and what you choose not to.
Martin Ferguson	**20:53**	Is there a downside? I suppose you might argue there is, but I will argue the other side of that. I do not believe that the downside is that big. We are focusing on companies that create wealth. If they don't create wealth, or if the whole industry isn't wealth-creating, why bother focusing on it?

Rather than focus all your attention on these vertical industry sectors, why not focus on a cross-section of companies that create wealth so your knowledge can be as deep, you're just slicing the market up in a different way? And a way that's relevant to our investment philosophy.

Rob Campbell 21:28

If I can just summarize the lessons so far, it's: understand why stocks might go up and why they might not; use common sense to develop an investment philosophy that is fairly broad; and then, we get into how you actually deploy that and how you apply it.

So, maybe if we just shift to that next aspect: what are some of the things that you've learned in that arena? I know you spoke a little bit about if you pay too much for a particular company, but I'm curious as to the way that we've thought about valuation, how that developed, and what your experiences around that have shaped how we think about intrinsic value today.

Martin Ferguson 22:01

Because the markets are so complex, in order to estimate what a company's worth, it's very difficult to do. At Mawer, we've created discounted cash flow models that work quite well, but even within those models, a lot can go differently than your expectations.

One of the things we've focused on is, "focus on the downside." And people that know me know that I've been a pessimist at heart. I'm always worried about what can go wrong. And I think a lot of investors don't do this, and that's one of the key lessons that I've learned: when someone tells you the stock's going to go up, the stock's great—question it. Look at the downside, look at what can go wrong, because so much can go wrong in any individual stock.

Rob Campbell 22:43

I guess the flip side of that too, is, if you've really got a wealth-creating company—even if it doubles or triples in price—that might not mean that you should just trim it because of that, right? Valuation is a dynamic thing. I presume that's a lesson you would have learned [with] Constellation Software on both sides, right? There's a stock that probably every time you trimmed it, was a bad decision in retrospect. But holding it through the multiple—I don't know what its return has been, but it's been phenomenal—not selling it entirely, has been a good decision. Is that a good example of that?

Martin Ferguson	**23:13**	That's an excellent example of that. Valuation is not static, it is dynamic. So, if you pick Constellation Software for an example, we bought it on its IPO, and it took us over two years to procure a complete position in it, for the simple reason it was so illiquid. But over those two years we continued to buy it because based on our DCF, based on all of the analysis, based on our downside, it was still a company that we were buying below its intrinsic value. Constellation Software did so well not because the multiple went up, which it did a little bit, but because it continued to create wealth. You had a company that used its competitive advantages to continue to create wealth in an extremely rapid and thought-out methodology. It was, I don't know, an acquirer that was able to buy small vertical market software companies at very attractive prices, integrate them, get synergies out of them, and continue to create value. So when we trimmed, it was the wrong thing to do from a return point of view, but it was the right thing to from a portfolio diversification point of view. We had a maximum 6% weight in any stock, and it kept bumping up against this, so we were forced to sell; to stick by our investment rules that we had set for ourselves to protect us from ourselves. But yes, it was a company that went up I think over 17x its original value over the course of my career.
Rob Campbell	**24:41**	And just going back to how you procured those shares—I think Vijay had shared with me some pretty remarkable stories about how you went about doing that in the early days. Do you want to share some of what that was?
Martin Ferguson	**24:50**	Sure. Two methodologies: one is what we call "crocodile investing," and that's sort of a combination of nature plus poker. The crocodile sits with only his eyes showing above the water, and waits for his meal to come to him. And in a poker game, it would be you don't show your hand. We would wait...quite often months before a block would show up, and then we'd be very aggressive and get that block. The other way, too, is because we've only invested at Mawer after talking to management. We knew the management quite well, but we got to know the board too. And whenever any insiders were looking to sell, or we could coerce them to trim their position for the greater good—which is us—we would do that too.

So, we went about it any way we could. And as interesting aside, I was at a roundtable discussion for, at that time, The National Post newspaper. I was at a table with other investors, and I had mentioned that I had a position: Constellation Software. And the other investor said, "ah, I saw that. I liked it. But it's illiquid, so I just walked away. I could not get a position in it." And at that, I smiled, because at Mawer we have a very long-term vision, and yeah, if you're just trying to establish a position over a week or a month, you can't do it. But that's no reason to walk away from a very, well, what turned out to be a great investment idea.

Rob Campbell **26:14** I like Constellation too because the third part of our philosophy that we haven't talked to as much yet, but which you led into just there at the end, [is] management—as long-term investors, we care about the people who are deploying capital on our and our clients' behalves.

What lessons have you learned there? Specifically about which management teams to partner with and which to pass over?

Martin Ferguson **26:34** Getting to know management of the companies you're investing in is of tantamount importance. If I get back to my unified theory, or my theory on financial instruments, when you have a bond or a GIC or a savings account, that cash flow is a known quantity. In stocks or equities, the management is responsible for reinvesting the cash flow the company generates.

It's very important that you have a management that knows how to reinvest that cash flow. One of the lessons I learned is, you invest with excellent management teams; management teams that understand the competitive advantages of the companies; and management that take the cash flows of the company and use it to reinvest in areas where they have those competitive advantages.

In small cap companies, there are so many management teams that thought they were smarter than they were, and thought that they [could] invest their money anywhere. And they would often dilute the competitive advantage of the companies, or invest in areas where the company had no competitive advantages. They didn't understand what the company had, and they did not understand how to reinvest the cash flow.

Rob Campbell	**27:51**	Yeah, it's interesting. I'd love to ask for your perspective—I recently sat in on a bunch of management interviews that our team was doing, and as somebody who doesn't do this myself a lot given that's not really my focus here at the firm, I was struck by how (and this gets back to human emotions and behaviours and things like that) the quality of how the CEO or representative of the company spoke, influenced my perception of their quality. Is that something that you had to get past?
Martin Ferguson	**28:18**	I don't believe any portfolio manager who's honest has said he's not made mistakes as far as management is concerned. And in order to understand management, you had to understand their strengths and their weaknesses. If I can go back to my university days where I took many courses in all aspects of business, what you realize is that managers have strengths in all these different areas. One might be a good marketer, one might be good on the accounting side, one might be good on the human resource or the behavioural side…
		So each individual manager will have strengths but they will also have weaknesses. And you had to be able to determine how these strengths and weaknesses would influence the company and their ability to reinvest the cash flows of the company.
		In my mind, management teams have three general responsibilities: the first is to grow revenues; the second is to control costs; and the third is to control risks.
		And there have been management teams that talk the good talk, but you realize that sometimes they are not doing one of those three things. Quite often, it was controlling the risk side of it.
Rob Campbell	**29:30**	It kind of strikes me so far, Martin, that a lot of what you learned is really about focus. So, you don't need to understand—and it's impossible to understand all the various complexities in the market—focus on some subset that you might understand a little bit better. Don't focus on every single industry that's out there, use a fairly simple investment philosophy that you can apply across places. Don't focus on management teams that don't do those three things well.
		Can you get rid of industries entirely? Or are they outside of wealth creation? Are there aspects of business models that you learned: it's just not worth the effort?

Martin Ferguson 30:05

Correct. But to answer your question, first of all, one of the things I always like to say is, there's many different ways to make money in the market. People have taken technical approaches and have succeeded. They've taken fundamental approaches and succeeded. They've taken quantitative approaches and succeeded. We have found a way to make money in the market that works for us. I think it's empirically proven—focusing on wealth-creating companies, buying them below their intrinsic value.

I think another great investor once said, "invest in what you know." And we have found ways to put the odds in our favour by focusing on specific parts of the market where we can...maybe not control, but there's enough controllable aspects of our investment philosophy that we can minimize the mistakes we will make. And we make mistakes same as everyone else, but by focusing on these things that are within the Mawer philosophy, we've been able to find a way to be successful. And that's a great lesson: stick with your philosophy. Well, I guess the first lesson would be pick the appropriate investment philosophy that works for you, and then stick with it.

There are other things within our philosophy that I've learned over the years, mostly through trial and error, and one of those lessons is: stick to basic economics, supply and demand. I hope that everyone who's listening will encourage their children to learn basic economics—supply and demand—because that is the way the world works.

The problem with the market is just...many industries whereby supply and demand are not the overriding factors that control the price of a stock or the direction of a company. There are political aspects, the weather, (two examples I'll use) where economics don't dominate.

For the weather, if you're investing in, say, agriculture, you can look at supply and demand, but your whole plan, your whole strategy, can go out the window if Mother Nature all of a sudden causes years of drought or years of rains, floods—whatever.

The other would be on the political side. There've been industries that are dominated by political decisions, whether it's government grants or subsidies that are given, and people invest in companies that get those grants and subsidies. They can disappear at any time. And your whole investment thesis becomes obsolete.

Rob Campbell	**32:27**	What would you say your biggest mistake in your career has been?
Martin Ferguson	**32:29**	Probably my biggest mistake—and I would say this only because my successor has pointed out many times—is, I have stuck with a stock or a management team past the point I should have. So, my buy disciplines have been good, my sell disciplines have not been that good. That would be one of my biggest mistakes—sticking with stocks too late. That's not to say that I have a horrible track record, but I have definitely made mistakes there. Another area of weakness of mine has been on the oil and gas side. So, here in Calgary as a home base, we are often inundated with oil and gas companies wanting to get in to see you, and for you to invest. And part of the problem with oil and gas is, what is beneath the ground is not often known to the company [and] not often known to consultants or experts. They only have a general idea of what's beneath the ground, and many things can go wrong. So one of my failures has been not completely understanding the risks of getting these resources out of the ground in a timely manner. Now having said that, we've had very little exposure to oil and gas companies over the years, but the times I did invest I can't say that I had the best record.
Rob Campbell	**33:47**	I'm curious to get your thoughts today, based on what we just spoke about, with regards to just the opportunity set within the Canadian small cap space today, versus where it was when you first joined Mawer.
Martin Ferguson	**33:59**	Yeah, so I'm over three years removed from the market, but I think generalizing, the market has changed quite a bit. Multiples have changed, and I think the general investing industry is more attuned to the way we've managed money. There are more copycats, there are more people that have adopted our approach, which makes it more difficult for my successor here at Mawer in Canadian small cap equities. Having said that, we have a dedication that they don't when things go awry—they still don't stick, or many of them won't stick to their methodologies. They will get back to playing the games and/or look to the other ways of investing.

So there are still opportunities. I think our team will still do a great job. But I would fully admit that it's probably more difficult today than it was when I started in this industry many, many years ago.

Rob Campbell 34:53

I'm just curious: does part of that mean that the small cap premium in Canada is no longer what it was? … At the beginning you seemed to say, "we wanted, at Alberta Treasury, to get into the small cap space because there was more opportunity there." Can you comment on that small cap premium? I know debated in the literature as well, but what are your thoughts around that today?

Martin Ferguson 35:14

Back when I first got in the industry I took my courses to get my CFA designation, which I got in 1985. In the third year, one of the required readings during that CFA course was an article called "Why Small Caps Always Outperform." They had outperformed in over the past decade and a half or two decades, and the paper said they will always outperform.

And we know now that that's not always the case. A small caps, like much of the market, their performance goes in cycles. They will be in favour and out of favour over long periods of time.

The thing about small caps is, you have fewer eyes on them, fewer investors willing to spend the time and effort to analyze them, to understand them, and to invest in them. They're less liquid, it's harder to get full positions. And this becomes a hurdle that means that over the long-term there will always be an ability to create alpha in a small cap arena.

Brokerage firms will not dedicate analysts to covering a company unless they can generate enough commissions from the analysts covering that stock. So fewer analysts will cover a stock, and with fewer analysts covering it, a lot of institutional investors don't want to put in the effort themselves, and so they will just ignore a lot of the stocks that don't have sufficient coverage. So there's always an opportunity to create alpha.

And we have a team here who's dedicated to the area, who's following a very good philosophy, and over the long-term they will create alpha—very certain of that.

Rob Campbell 36:42

Martin, since you've been retired, are you still investing? Are you still eyes-focused on the markets?

Martin Ferguson	**36:46**	I will say that I consider investing to be a digital job. For me, it was a digital career. So, think in terms of ones and zeros. Either you do it 100% of the time, full out, full on, all your time and attention, or you shouldn't be doing it. Now, this holds true for professionals—and I was professional. It doesn't hold true for people that like to invest on their own. I spent so much time in the markets knowing management teams, and companies and industries and the overall market cycles, that I created for myself a competitive advantage on those companies that I was focused on—the wealth-creating companies across the various industries.
Rob Campbell	**37:26**	Has that been hard to turn off?
Martin Ferguson	**37:27**	When I retired I realized that I couldn't spend 100% of my time and effort. So I've gone to the zero side of it. I have a great faith in the research team at Mawer. I've worked with them, I've trained some of them, I've mentored some of them. And my money's there. Is it hard to turn off? Yes it is, but whenever I showed an interest in an individual company, "oh, I've got to look at this one. This looks great," I realized as I'm looking at the company that, "okay, I better look at its competitors. Oh, I better understand the industry. Oh, I better figure out where it is in the market. Oh, I have to understand the flow of stock, the buy and sell-side. Are institutions accumulated?" There's so much that I kept wanting to know. It's like, "no, I'm very comfortable with the research team at Mawer, and I know they will do a good job for me."
Rob Campbell	**38:12**	Before I let you go though, for those who have been invested alongside you for many years, what are you up to? What have you been doing the last couple of years, and what are your plans going forward after you step down from the board at the end of this year?
Martin Ferguson	**38:22**	Over my career, which lasted 34 years, the longest holiday vacation I ever took was three weeks—and that was for my 25th wedding anniversary. Even on my 25th anniversary vacation I spent two to three hours every morning of every day updating myself on the markets.

And so, when I retired, I decided that's not the way I would spend my time. My wife—I've been married 33 and a half years—loves to travel. So we've been spending a lot of our time seeing the world.

Now, one of the bugaboos I had at Mawer Investment Management while I worked here was that covering Canadian equities small cap companies is all my research trips were to Winnipeg and Ottawa and across Canada, while other people who covered international stocks, U.S. stocks, went to San Francisco or Singapore, et cetera.

There's a lot of the world that I had not seen, so I'm spending a lot of time doing that.

Rob Campbell	**39:22**	Well thanks again, Martin! And hopefully we can convince you to come on again before the end of the year.
Martin Ferguson	**39:26**	Thank you, Rob.