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EP54 | The Reverse Roadshow

Rob Campbell: 00:38 We're here today to talk about something we call "the reverse roadshow," which has become a critical component in our global small cap team's investment process. And we thought who better to discuss that in our two global small cap analysts, Karan Phadke and John Wilson. So, gents—welcome back to the podcast.

John Wilson: 00:53 Thanks, Rob.

Karan Phadke: 00:54 Thanks.

Rob Campbell: 00:54 Before diving into what a reverse roadshow is, let's zoom out and talk global small cap investing in general. In particular, what are your own interests in the asset class? How did you end up part of the global small cap team? And what is it about the asset class that you find so interesting?

Karan Phadke: 01:09 So, everyone at Mawer, when they start, they do a one-year rotation across the different asset classes, which gives people a flavour for the different types of investing. (And in a previous job, I'd also done a bunch of large cap investing.) What I like and continue to enjoy about global small cap, is the huge breadth of companies in the investible universe. So for me, it makes the job like a treasure hunt for excellent companies and teams without having to make any compromises on quality. It's also a really great opportunity to learn about the different types of businesses, and most importantly, you get to meet a lot of entrepreneurial managers from around the world, who are often founders of successful companies.

Rob Campbell: 01:50 Great. What about you, John?

John Wilson: 01:52 So for me, similar to Karan, I did the rotation program. The two things that stood out for me in small cap investing that's a bit different, the first one is that it's a very big universe, as Karan alluded to, which is one of the reasons why we do reverse road shows—because you have to cover a lot of ground. Karan and I, we figured there's probably about 12,000 companies in our investible universe, which is substantial, so you need to have a process to go through and turn over all those rocks. So that was one thing that attracted me to small cap land, is that hunt or search process.

2:21 And the other piece is the variety. You go from Taiwan to Chile to the U.S., and you're talking to companies that are making coffee machines, to brewers, to electrician businesses. There's a large variety of different businesses and different geographies that you get to experience, which is also something that makes it very interesting. The other aspect that I think is a bit unique about small cap land, is the importance of the management team. And the way I like to frame that is, in large cap land, I think the management team is important, but since it's such a large ship that they're driving, you need a really excellent management team for there to be a significant positive impact on the business model.

03:01 That being said, I think that it's very easy, even in large cap land, to mess things up. So you can take on too much debt or have problems with your capital allocation, so in that way, the management in large cap land is a bit asymmetric, so you're almost capped on the upside, but there's this downside that you can experience. Whereas in small cap land, like Karan mentioned, you can partner with these people that founded the business, or who came along shortly after the founding, and you can go along the journey as they grow the business. So I think about what Simon [Cooper] has done in On The Beach (our investment in On The Beach), or what Brendan has done in Kainos. Those are the types of management teams that create a really nice right tail, really nice positive skew to the investments, and I think you get that more in small cap than in large cap.

Rob Campbell: 03:44 Great. So with that in mind, what is "the reverse roadshow," in brief, and what is it really trying to accomplish in that global small cap space?

John Wilson: 03:52 So, at a very high level, our investment process gets broken down into three components. The first component is searching for new, potential investments. The second component is researching and making decisions on those investments. And the final piece is monitoring and updating our views on our existing portfolios' holdings. There's a portfolio management overlay that fits into each of those as well.

	04:11	The reverse roadshow really comes into that first piece, which is searching for companies. And what that actually looks like, is we will lock ourselves in a room and talk to a number of different companies in one week. And the goal is really to try to find companies it makes the most sense to do work on—so, the most attractive ideas. We talk about (on Global Small Cap), this idea of it being the "capitalistic Olympics," where ideas try to compete for our attention and resources. So, one of the things I like to say is—there's that song, "you don't know what you've got until it's gone." Well, in investing, you don't know what you've got until it's compared. So you don't know how attractive something is until [you] know what all [your] other options are. And that's the purpose of the roadshow: to get all options in front of the team. So, increase the odds that we spend time working on the right idea, or "fishing from the right pond."
	05:00	And more generally, just as a tangent—I think that idea compared to that mental model is something you see again and again throughout the process. It shows up in the matrix meeting—where we're trying to find the companies and allocate resources to the companies that plot the best on the matrix and take resources and capital away from companies that plot less well. It shows up in how we think about trade recommendations. It shows up even in our DCF when we build out the discount rate.
		That's not the only mental model we use, but I think it's an important one, and one that I've come to appreciate more as I've worked longer here at Mawer.
Rob Campbell:	**05:34**	Okay, so just to summarize: the reverse roadshow is a process that you guys use, whereby, you're (as you said) locking yourselves in a room for a week, speaking with 30 to 40 management teams in order to drive focus and your attention on those companies that are going to have the best chance of meeting the three elements of our investment criteria. So, wealth-creating businesses, good management teams, and paying a price that makes sense and embeds a margin of safety.
John Wilson:	**05:59**	That's exactly it. Yeah.
Rob Campbell:	**06:00**	So, just before we dive into a little bit more detail…"reverse roadshow"––where does that name come from?

John Wilson: 06:06 I believe the person who came up with that was our CIO, Paul. So, if you think about what a traditional roadshow is, that's where a public company will go around and meet with different investors. And the purpose of that is to, basically, market themselves or get the story out about that company. The idea [we had] was actually, "no, let's reverse it." So, it's a "reverse" because instead of the company going around, we are going around and talking to a number of different companies. So it's the investor that's actually talking to the various different companies. So that's the background.

Rob Campbell: 06:34 Okay. And is this a new process? How long has the global small cap team been using this? Can you just give me a sense of how it's evolved over the years?

John Wilson: 06:42 The first roadshow that I went to was about five years ago, and I think that was one of the first ones that we had. Over time, I think what we've found is we've leaned on the process more and more. Previously, we might do three roadshows a year in global small cap land. Now we're at a cadence that we're probably doing [roadshows] every six weeks. So the cadence has picked up. And the reason for that is because we've found it to be a very, very effective way of benchmarking different ideas. And I think there's also a number of benefits from a team-building and learning curve perspective that we found as well.

Rob Campbell: 07:18 Yeah, I think just from my own perspective, it's a great example of these little adjustments that we make to our process. We try things, we experiment. We know that the tools that we've used 20 years ago aren't necessarily the things that are going to work today, and if we're going to try something different and it's not going to work or it's not going to catch on, let it fail pretty quickly. The reverse roadshow—probably in global small cap the most—just seems to be something that has stuck. Maybe as a function of the investment universe that you're in.

07:45 Can you comment a little bit on why that seems to have stuck a little bit more for global small cap, specifically?

John Wilson: 07:50 My thought on that is more...as a whole, we have a common investment philosophy that we apply across all our asset classes. That being said, I think depending on the asset class you're in, you spend either more time searching—turning over rocks—or more time understanding a particular region really well. So, we have 12,000 investible companies. It makes sense for us to do these reverse roadshows and turn over rocks. If I was in Canadian large cap, where their investible universe—I don't know, but I imagine it'd probably be something like 300, 400 companies—you run out of roadshows pretty quick [laugh]. Karan and I talk to that many companies in 18 months. So, the value in other asset classes, I think, might be a bit lower compared to global small cap.

Rob Campbell: 08:32 Okay, great. Karan, turning to you—can you just jump into the process in a little bit more detail? How do companies make it into the roadshow in the first place?

Karan Phadke: 08:41 Yeah, so I think at the top of the funnel, each team member independently looks for ideas using a combination of brute-force search and systematic screening. An example of a brute-force search would be going through the description of every company listed in Japan using an actual physical handbook that has better descriptions of business models. And then an example of a systematic effort would be using the help of our Lab here to filter companies based on management tenure or some quantitative metrics. I think the idea here is, well one, it has to be independent; and then two, using a variety of different inputs or ingredients, so that we're getting a representative sample of the universe and we're not biasing towards one method or another. So that would be sort of at the top of the funnel.

Rob Campbell: 09:30 I think we mentioned this earlier, but typically, sort of 30 to 40 companies in any given roadshow?

Karan Phadke: 09:35 Yeah, so the way it would work from there is—let's say each of us at the top of the funnel come up with dozens of interesting firms. The next step is then to review each of these firms against our M42 internal database, where often we've spoken to them before, or have some notes, and then also look at the annual report to see if we can filter further for characteristics that we find interesting. So, this might take 15 minutes...up to 30 minutes per stock. And that will help each of us get down from a list of maybe 50 to 100 names, to perhaps 10 to 15 best ideas from each person. And then we each put these 10 to 15 best ideas into the roadshow, where you'll end up with, as you mentioned, about 30 ideas per week. That gets you to the 30 that go into the reverse roadshow.

Rob Campbell: 10:21 What other preparation do you do ahead of the roadshow, on a company by company basis?

Karan Phadke: 10:26 Once we've gotten down to those 30 companies, each of us will lead the call on the 10 or 15 that we shortlisted. And the idea behind that is to "eat your own cooking." So, if you came up with a bad idea, you're going to have to sit there and go through an hour-long call that may not lead to anything. And usually what we do before the call, or I do, is spend an hour reviewing the important filings, developments, some of our internal notes, to just come up with a list of questions that cover a broad array of topics—from business to management style.

I think what you'll notice, especially outside the U.S., is that you can get a lot of general information about the company far more efficiently through a Q&A session than even through their filings, which in small cap land can be pretty scarce.

Rob Campbell: 11:11 Okay. And so to be clear—each person is pitching in a certain number of ideas to this Olympics that you talked about earlier, or that John talked about earlier. But all three or all four of you are participating in the actual roadshow (the members of the global small cap team). You're not doing these independently one from each other.

Karan Phadke: 11:26 No. So that's the idea, as well. There's one component, which is team building—so that we get to see all the ideas that are going into the roadshow, because that helps us benchmark better. And then, yeah, the second component is that we're trying to triangulate roughly on the quality and valuation of an idea using input from different team members. And that facilitates a discussion; you tackle the problem from different angles.

Rob Campbell: 11:50 And I guess...you've done this preparation, it's time to get on to the call, you guys have done an awful lot of these over the past couple of years...I imagine [for] every company, you're going to have a different set of questions that you're going to want to dig down on to really understand that particular business model, just given the wide array of business models available to you in global small cap [land].

12:10 But do you have some favorites? Are there some questions that you find, at this early stage of the discovery process, are really effective in terms of understanding whether a particular company is worth more time and effort versus others?

Karan Phadke: **12:23** Yeah, I think the mental model here is that we're looking across the universe for the cross-section of wealth-creating companies. (So, this was something that was on a previous podcast mentioned.) And that's what we're looking for—we're not looking within a specific industry or a specific country, but just the cross-section of businesses that make a lot of money, essentially. And for the reverse roadshow process, we're trying to benchmark these ideas systematically against each other. So, the mix of questions needs to be both quantitative and qualitative and fairly systematic—covering the cross section of characteristics that are important, not necessarily specific to an industry.

13:00 So as an example, customer churn rate or the amount of price increases would be a quantitative measure that you can ask any type of company in any industry or any region, and use that to benchmark against each other. Another one on the qualitative side would be, "how do you prioritize uses of cash or make the 'build versus buy' decision as a management team?" Again, this is a systematic question that can be used on the cross-section of companies. It's not specific, necessarily, to one industry. And using that, we can actually benchmark these companies against each other because we have a consistent set of questions and answers that we can evaluate.

13:34 Again, this is an area where we're experimenting. We're getting help from a colleague who's going to spend an entire year building out and deepening our framework to assess culture, as an example, because that can be a pretty big advantage in small cap. So yeah, this would be the first interview in a process. If there's specific nuances as we do more diligence after the roadshow, we can always come back and dig in deeper, but the first bite is just comparing and benchmarking.

John Wilson: **13:58** The other question I'll add to that list that we often ask, is this idea of…"what do other investors misunderstand about your company, or what are other investors focused on?" And the idea here is that in order to generate excess returns in the markets or generate alpha, you need to have a view that's different than the market and you need to be correct on that view. So, asking this question gets you a sense of what other investors are focused on, and then you can decide whether it makes sense—whether that's a risk you want to underwrite, or whether that's something you think is less important.

14:27 So we have this idea—I think in my report I call it a "variant perception." Karan has a much funnier name; I like it a bit more: "who is the patsy?" That's, I think, how he labels it.

John Wilson: But that's basically the idea—trying to understand the views of the market, because I think that's an important component in generating returns over time—to understand where you're different.

Rob Campbell: 14:45 I'm struck by this idea that you're spending an hour to basically make a decision whether these companies are worth more time or effort, and you're effectively spending that hour with the CEO or the CFO of this particular company. I've just come off a couple of days of interviewing candidates for our institutional team here at Mawer, and I don't do a lot of interviewing. I'm just struck at how many biases I bring—personal biases—to those conversations. Or how much you can be swayed by the quality of how somebody articulates a particular idea.

15:15 Given that you guys are basically just getting an hour with each management team, what are some tricks or some tools that you use to minimize those biases in making sure that you're getting the best possible assessment out of that hour?

Karan Phadke: 15:27 At the end of each call, we try to rank the company across several different dimensions. So, this could be business model, management risk, or valuation—using a lower and a higher range to highlight the fact that there's a lot of uncertainty at this stage in the process. And the ranking, effectively, is used to facilitate a discussion between the three of us that covers many different topics without getting bogged down with one issue or one thing that's nagging on your mind. That helps us hone in on aspects of the investment case, where, either we're different or with similar. And at the end of the roadshow, we then look at these range of scores and use that as input to decide which ideas need further work.

16:09 So an idea might be taken to the next stage if it either has a really strong score relative to other prospects on average across these dimensions, or, there's a lot of optionality or difference in opinions. Which, to John's point, can mean perhaps there's variant perception there. Because different reasonably competent investors have different views on that same idea. We also compare the range of scores to the portfolio—the median—to get a sense check for whether this incremental idea is worth the capital and is better than the things that we already own. Because again, the philosophy of the whole reverse roadshow is to make idea generation systematic and also make it a competition for clients' capital.

Karan Phadke: 16:48 So, the phrase John uses that I like, is s "the capitalist Olympics." It's always comparing it to the next best idea from the reverse roadshow, as well as things that you already own—particularly, for example, the median. So that it's actually significantly worth the effort and not just marginal. Maybe it's a little bit better than your worst idea.

John Wilson: 17:07 Yeah, and I think one of the key mental models—this idea of having the range is really important, because when you're at this point, after you had the management call and after you spent that hour that Karan referenced preparing for it, you're probably at...I don't know, 3% of the total due diligence you'd do on that company. So, the range is really important because I think it opens you up to various different scenarios that could play out with that company and with that valuation. I find that using that range helps me keep an open mind to the investment, which I think is really important at that stage in the process—where you're really just at the very start of the whole process [and] so you don't end up killing ideas prematurely.

Rob Campbell 17:47 Okay. So, effectively, at the end of every call you're (all three of you) independently giving your scores for that company, along the dimensions of our investment philosophy. You're saying, "I think I rate this business model somewhere between a 2.3 and a 3.6 out of five." And the range, maybe, addresses the idea that...we don't know much about this business at this stage. We know a little bit more than we did before, but some of these biases that may play into that—I don't really know at this point. I need to do a little bit more work. And by the way, at the very end, once I've even done all the work, I won't have a very specific number. There's still always going to be a range, just given the uncertainty in terms of what we're doing.

Karan Phadke: 18:27 I think the key insight there...there's a couple of things maybe just to dig on. So one is that yeah, we have a numerical output as a way to express our opinion. So often when you speak with a company, if you didn't have a tool like this, you would just end up sort of speaking about one aspect at length without really enumerating that and providing a relative comparison. Whereas having a number around it allows you to quickly hone in on, well, look, we quickly know that John thinks management is great and I think they're not that great. So we can talk about that as opposed to talking about some other aspect of the investment case.

Karan Phadke: **19:04** And the range, where it helps as well is in the downside. Let's say I've ranked it a 2.4, which is below average, and in the upside I've ranked it at 3.4, which is above average. I can then go and say, "well I think they could be below average if you focus on these aspects of the evidence from the call, or they could be above average if you focus on those aspects instead, some other aspects." So again, it makes you think about scenarios and it makes the discussion a lot more fruitful.

19:30 And the point I mentioned earlier, is, the goal is not necessarily that everyone has to agree on this. The point is more that we can decide where we differ, and then we can have that input. So even if John and I disagree on a company, but there's a lot of optionality there and there's positive skew in the investment case, we can still take it to the next stage and do the work. Not everyone has to agree on the score.

Rob Campbell: **19:51** Got it. I would imagine that sometimes the most interesting conversations take place when not everybody agrees about the particular idea, good or bad, but when there's actually significant disagreement. Two different people have listened to the same interview and come away with a totally different impression. Does that happen often? Or are you guys usually somewhat on the same page?

Karan Phadke: **20:11** In my view, I think most of the time we're roughly on the same page. But I would say in every reverse roadshow there's at least a couple ideas where we have different opinions. And the process helps because then we can talk about where we're different on that specific idea, and then calibrate after that. Sometimes, maybe, I'm more pessimistic and John's optimistic. He'll lay out why he thinks a certain way and I might change my score or I might not. What I found is those ideas where one person thinks it's really interesting and maybe another doesn't, those ones we may still do work on because that could be some variant perception there. But maybe John has a different take on it.

John Wilson: **20:49** No, I think I'd agree with you. I'd say probably the majority of the time, maybe 70% of the time, I'd say our scores are in the same ballpark. But I think the really interesting cases are those 30%, where there's [a] big divergence there because that's often a signal that yeah, it makes sense to do more work on this one. We might end up killing it down the line for any number of different reasons, but we should at least take a deeper look because there might be something there.

Rob Campbell: **21:13** Okay. And again, the whole idea here is to drive focus on those ideas that are going to have the best chance of displacing something in our portfolio or improving the portfolio from the perspective of the three elements of our investment philosophy.

21:27 So can we get into some examples? You've been doing this for a number of years. What are some times where the process has really worked and you've uncovered some great companies for our clients?

John Wilson: **21:37** Rob, I think I could count on one hand the number of times over the last three years where we've generated an idea outside of the reverse roadshow. This is the main tool that we use to generate ideas and to source ideas. So, any of the initiations over the last three years would fall into this category that comes from the reverse roadshow. Maybe if I just elaborate on that—so, we talked a bit about this idea of being able to stack things up against each other, [and how] there's a benefit to that. I think I've noticed that there's an additional benefit from a team standpoint. So, the way Global Small Cap works, is we run the portfolio in a fairly decentralized manner. This is an opportunity to come together for one week, and we're often working pretty long hours—60, 70, sometimes 80 hours that week—and oftentimes we're in the same room.

22:28 So, that gives us an opportunity to chat on process improvements, talk about different ideas to improve the portfolio, and I find that's a really good thing from a cultural standpoint. The other benefit we've noticed is, there is [a] learning curve advantage. There's something about doing reps right after the other, while getting feedback from other people in the room. Karan might say, "John, yeah, we got that data point from that management team, but you asked a leading question." So, getting "one after the other" reps and getting that feedback from other people on the team, I think, moves you up the learning curve a lot quicker than if you were to just do a call here and there, no one's on the line to give you feedback...so that's the reason why you've seen [that] over the last three years. We ran the experiment prior to that, and we've determined that this works really well. The majority of our ideas come from this process now.

Rob Campbell: 23:15 I can imagine just the length of the days—probably starting in the morning with companies based in Europe, given that we're working in North American time; spending the afternoon in North America; and perhaps the early evening or later into the evening speaking to companies in Asia. So, potentially pretty long days.

Rob Campbell: 23:30 I'm interested though—are there examples of companies that one of you would have thrown into the roadshow and we're pretty excited about, but didn't really turn out the way that you would expect it and wasn't worth any further research?

John Wilson: 23:41 I can think of many companies [laughs]. I'll give you one from the last roadshow. There was a company that we put in there that sounded a lot like a company we're invested in within [the Mawer] Global Small Cap and Global Equity [Funds], called Bravida. So, just a quick background on that: what they do is they provide plumbing, HVAC, and electrical services in Scandinavia. We liked the businesses for a number of different reasons. One of the reasons is the fact that the projects are small in nature, so they're highly recurring. The other component is when you talked to management team, they had this really well-thought out process around M&A, and they're very deliberate with how they run the organization in a decentralized way.

24:16 And so now, in this last roadshow, we were talking to a company that in their investor presentation listed Bravida as a competitor. They talked about the decentralized structure that they have in place, and from a very high level, valuation looked very attractive. So I was very excited about this one. What we do before the roadshow is we send around the companies that beforehand look most promising, and those from the other participants in the room (they'll do a little bit more research on the company themselves before going into the roadshow). So I sent this email around, thinking this was a really good idea, and we got in there and we realized that it's not like Bravida at all.

24:50 The projects are much larger in nature, the company ran into financial difficulties in the last 2008-2009 period. Because of that, the cap allocation process wasn't very tight—it wasn't well thought out. And the decentralized process…they do run it decentralized, but my story around it is they don't have the control factor; they don't have a method for monitoring the decentralized business, which can result in a lot of issues if you don't have a tight control over how operations are performing. So, at the end of the day, after we got off the call, we all ranked it in the matrix and decided that it didn't make sense to do more work on.

Rob Campbell:	**25:22**	Okay, so this was an example where you had to eat your own cooking for the hour and Karan's just saying, "How soon can this call end?" [laugh]
John Wilson:	**25:28**	That's right, yeah [laugh].
Rob Campbell:	**25:29**	What about the flip side? What about an example of something that made it into the roadshow and seemed okay, but where you were sort of blown away afterwards and it did warrant further research?
John Wilson:	**25:39**	One that comes to mind is an investment that we hold in Global Small Cap called Alamo. So, this is a company that designs, manufactures, and distributes lawnmowers in the U.S. That was one where I looked at the business and it was profitable, but it didn't really click with me on why that was the case. But it checked off enough boxes that I thought, "Okay, maybe this makes sense to turn over this stone."
	26:01	And then when we spoke with them and dug down on this, the two pieces that I got from that management interview, the first one was the profitability really comes or the moat really comes from their service network. So, if you're a government customer and you have to run your lawn mowers five, six days a week and it breaks down, you want to go with a brand that has service parts nearby so you can fix the lawnmower really, really quickly. So that service network is a component of the moat and it's hard to replicate. So that was one thing that I got from the call.
	26:28	The other piece was that the management team was really excellent. They've done a really good job at growing the margins over time through implementing lean and a number of other operational improvements. So that was another piece that I picked up from that. And then we decided that after we ranked it, it made sense to do additional work and then we ended up eventually purchasing it for Global Small Cap.
Rob Campbell:	**26:47**	Karan, maybe this is one for you—I can imagine there are instances where you come through the roadshow and you're feeling pretty good about a company, but because it's still at the early stage of the discovery process, once you've done further work, it sort of just...falls away. Are there examples of that that you've been through recently?

Karan Phadke: 27:05 Maybe some examples of companies that we were excited about that went into the roadshow, but then that don't necessarily go beyond that, would be various value-added resellers. So, we own some of the best-in-class ones in the portfolio, and for context, value-added resellers are essentially advisers that distribute and service often small businesses with their IT needs, whether that's hardware or software. And they're generally pretty good businesses because clients are fairly sticky and there's a long runway to consolidate the market.

27:38 We like their general theme of business model, but over time, when we've spoken to some others in different parts of the world, sometimes we'll take them to the next stage, but then during due diligence, realize that one of the ones we already own—like a Softcat for example, or a Bechtle—are superior to the alternative. So we've shut down some other value-added resellers that have had more aggressive accounting or whose portfolio is more tilted towards fully hosted servers that is facing headwinds. So often the scenario would be…we do more work that's interesting, but look, relative to some of the ideas we're already own, and maybe it's not that much better that it's worth making a move.

John Wilson: 28:15 And just to give you some context on the pace of these roadshows, Karan, I don't know whether you have a different opinion on this, but I don't think there's a value-added reseller in small cap land that we haven't spoken to at least once and probably twice. So, the fact that you can stack up all these ideas and do it every six to seven weeks, you can get through a lot of territory in that timeframe.

Karan Phadke: 28:33 Yeah, I think in that space, for example, we've probably spoken to almost every listed company, and I think when you went to a conference, you spoke to some unlisted ones as well. But another example that comes to mind is on the cash management side—companies like Loomis that do logistics for ATMs and for banks on the cash side. We've spoken to their competitors around the world and sometimes we'll do more work on it and the realization might be—hey, we already own the best-in-class in that industry, so maybe we should just add more to our existing holding. Instead of following what I like to call, a "Noah's Ark" approach of having two of everything.

Rob Campbell: 29:08 Great. And what are your biggest regrets? In other words, companies that made it into the roadshow, for whatever reason we decided to put them to the side for a while, and have turned out to be great investments for other companies [laughs], I suppose.

Karan Phadke: **29:22** I think one of the observations has been (in this regime or in this market environment), really good companies, high quality companies that look fairly priced or maybe even a tad expensive...they just continue to get even more expensive. So, I think a lot of the companies that we've passed over because maybe we thought traded on the higher end of their fair value range, well, it turns out that the market loves those companies and they continue to get priced higher.

Karan Phadke: **29:48** So as an example, Belimo is one where we did a bunch of additional work; they make actuators in different HVAC facilities and they're best-in-class. When we did the work, it seemed reasonably priced, maybe on the higher end, so we decided to put it on the back burner, on the wine shelf, to look at later, and the stock just continued to go up and rerate even higher. So I think it's been more mistakes of omission there, where it's just the really high quality company continues to get bid up. And it's unclear to me whether that's sort of a structural feature of the market, or it's just something in the current regime when interest rates are low, that these types of companies just get more expensive.

Rob Campbell: **30:23** And I guess it would be unfair in a universe of several tens of thousands of stocks to expect that you'd get all of them.

30:28 What about companies that have been through the roadshow—are they one and done once you passed over them? Or do you sort of keep tabs on them, those that you've decided not to do more due diligence on?

John Wilson: **30:38** So, the way we do that is, all the matrix rankings we have for these roadshow companies—we have one master spreadsheet that we dump them in at the end of the roadshow. We have Karan, Christian, and my ratings for all these companies going back two years. So, that's a really useful source of ideas, especially if we thought, hey, it's really high quality, but the valuation was the bottleneck there. And [if] you see the valuation come off, you might look at it again.

John Wilson: **31:05** So the example I think about is On The Beach, which I think made it in the roadshow probably two years ago. And at the time we thought, yeah, this is a really high-quality business run by an excellent founder, but the price it was trading at seemed too high. And then what happened was, there was concerns around Brexit that crept in, the stock sold off, we decided to put it back in the roadshow, given the high quality nature, and we decided after going through that, that yeah, it stacked up pretty well. It made sense to do additional work on it. So we went and did that and now it's in Global Small Cap. It's one of our investments.

Rob Campbell: **31:35** I'd love to go back to this idea of biases and this idea that you're speaking to a single representative of these firms—typically a pretty important one—but just the idea that the way that individual expresses himself and articulates ideas could vary. Some people are better communicators than others.

Rob Campbell: **31:54** Are there specific things that you guys do to normalize for that? And I know we spoke earlier about going back to this scoring system and having some variability in there, but do you have tools that you use to try and mitigate those biases?

Karan Phadke: **32:06** Yeah, so I think the main mental model is that the null hypothesis is always that, any given company, randomly selected, or management team, are average. They are neither amazing nor terrible. And you need evidence to say either that they're slightly better or slightly worse, or goodish or badish. I think it's important to also distinguish beyond who you're speaking with, too. So for example, if you're speaking with an external investor relations representative, they shouldn't be expected to have the details on how or why the company is making capital allocation decisions. Whereas if you're speaking to the CEO, that might be important topics that they should have offhand.

32:44 But even then, sometimes the CEO...he's supported by a team, so he may or she may have a weaker grasp on detailed operational figures. In which case, that's important to then assess whether he has the right team around him to support him/her on those aspects of the strategy—so a CFO, for example. And again, we use a range when scoring management because there is inherent uncertainty, and we also try to separate what we think of management from structural features of the business model so that we're not double counting. Because sometimes it's the business and not the management that is the opportunity or the risk.

John Wilson: **33:18** The one aspect I like about this, is the mental model around "good-ish" and "bad-ish" management teams. We're trying to find the top 10 and bottom 10% of management, because what we find is in-between there, there's a lot of uncertainty. So, I think about it in terms of purchasing wine or tasting wine. I can't tell you the difference between a $20 bottle of wine and a $25 bottle of wine. But I can really tell you the difference between a $4 bottle of wine and a $60 bottle of the wine. So that's what we're trying to do—we're trying to really focus in on recognizing, to Karan's point, oftentimes that grey area in the middle. It's very hard to determine that. Oftentimes you find yourselves rating management kind of...middle of the line, unless it's really obvious that they're excellent or they're not so good.

Rob Campbell: **34:00** One final question before we wrap it up. I've noticed over the last couple of years that the degree of turnover within our global small cap strategy has crept up. I wonder: is it simply a coincidence that this has happened during a period where, the reverse roadshow has made your investment process that much more efficient? Are these two things related? Or are there other factors at play here that you think would explain that higher degree of turnover?

Karan Phadke: **34:27** Yeah, my story on the turnover is that we're trying to be pretty disciplined around valuation. So, Christian, who is the lead manager on the strategy, likes to say, "process before proceeds." And in the past year or two particularly, it does seem like the proceeds seem to have been pulled forward by the market. So, in an effort to stay balanced and not overweight, some of these expensive stocks that get more expensive, we do need to replace them with companies that still have some upside left, or that will perform well in a different market environment.

34:56 I think the roadshow makes the idea generation a little bit more systematic, especially in the context of a very big investible universe. And again, our CIO likes to say, "swapping turkeys doesn't get you an eagle." And that's what we always want: from an incremental idea to be a lot more superior than sort of...the median existing idea. Because we want that spread, not just something that's a little bit better.

Karan Phadke:	**35:18**	So I think, again, the turnover ratio is an outcome on an input. And at the end of the day, we're just trying to shift the odds in our favour and improve the risk-reward for our clients' portfolios. And turnover could be one tool that's an outcome of getting more companies in that have, let's say, a better valuation. That said, we do actually aim to own companies for five to 10 years on average, but we will move the weights up or down in the portfolio based on opportunity costs and valuation.
John Wilson:	**35:46**	And just adding on that, that idea of "capitalistic Olympics." Just because you made the team this year and you got into the portfolio, doesn't mean you get a spot forever. You constantly need to compete against the ideas coming out of the roadshow. And that's what we're trying to do—to maximize the return that we can generate for clients.
Rob Campbell:	**36:01**	Great. Well, thanks guys. Really appreciate your time in giving us an overview of the reverse roadshow. Helps us understand how on earth you can tackle an investment universe the size that it is, and gives us a great sense for basically how you drive your time—that's effectively the bottleneck—how you make sure that you spend your time looking at the companies that have the best possible chance of meeting the three criteria of our investment philosophy: great businesses, good management teams, and a good price. So, thanks! Appreciate your time, and hope to have you on again soon.
Karan Phadke:	**36:31**	Thanks, Rob.
John Wilson:	**36:32**	Thanks, Rob.