



[00:00] Rob Campbell: Coming up on the Art of Boring, Paul Moroz returns to share a progress report on our global equity strategy. We dig into what's changed since Paul resumed the lead portfolio manager role, how the team's collaboration has evolved, and why a more diversified and resilient portfolio is the result. Listen for Paul's take on why optionality and humility matter more than ever.

[00:22] Disclaimer: This podcast is for informational purposes only. Information relating to investment approaches or individual investments should not be construed as advice or endorsement. Any views expressed in this podcast are based upon the information available at the time and are subject to change.

[00:42] Rob Campbell: Paul, welcome back to the podcast.

[01:02] Paul Moroz: Rob, thanks for having me.

Rob Campbell: It's great to have you, Paul. You and I were last in this forum mid-July, and I think that was a week or two after you reassumed the lead portfolio manager role for the global equity strategy. Back on that podcast, you laid out a bit of a near-term vision. I was hoping that we'd use this time today as a bit of a progress report. How have things gone since you and I last connected? What's changed? And I wonder, can we start with the team, with you and Dave back on the global equity strategy. What's the team dynamic looking like?

[01:17] Paul Moroz: The team's been great. The first thing Dave, Manar and I have been doing is engaging across the entire team and that means everything from spending time in models. We had a great session with a client. We spent about an hour inside the model, stress testing it and looking at the Monte Carlo analysis. This was a top holding that we subsequently increased our exposure to. From model time to conversations in Singapore and understanding all the good work that our teammates are doing on the AI complex. And just basic changes to structure to improve how we collaborate. One of the things we did, Rob, was we merged our weekly global equity meeting with our U.S. meeting. That has yielded great benefits. We're in step with each other, and there's been a lot more cross collaboration because of it.

[02:15] Rob Campbell: Where did you start, Paul? I can imagine a portfolio of around 50 stocks when you took it over. Did you just start at the top to reacquaint yourself with the businesses, or how does that teamwork look?

[02:26] Paul Moroz: I'm pretty well acquainted with the businesses. I ran this for over a decade, so that wasn't the issue. We started by going back to the people and asked some really simple questions. We asked all our portfolio managers and analysts, "What are your top ideas? What do you think we should be doing with it?" And what bubbled up to the surface were some great ideas that both fit our investment philosophy and ultimately diversified the portfolio. One idea that came out from our international team was an increase in exposure to Taiwan Semiconductor. This is still a security that trades at a pretty reasonable valuation, has a wonderful growth



trajectory ahead of it, and as you can imagine, has already improved portfolio returns for clients. That's not so much me and Dave as one of our other portfolio managers who gave us that suggestion. So that's where we started.

[03:22] Rob Campbell: One of the goals that you had when we spoke back in July, and you mentioned it earlier, was just improving the diversification of the portfolio. A very simple point on that would just be the number of holdings. Last I looked, you were north of 70 in the portfolio. But can you dig a bit deeper with respect to that concept of diversification and what that looks like with respect to rounding out the portfolio?

[03:43] Paul Moroz: There are a few different layers to that. The first is really basic industry or GICS sector diversification. When we came into the portfolio, we had a large overweight exposure to consumer staples. Actually, things were going pretty well across the economy, we didn't need to be there and had a little too much exposure to consumer discretionary. That segment is difficult as it is. The nature of discretionary is that the customer gets to choose whether or not they buy the product. All else equal, and this is my investment bias, I prefer less discretionary business models. So that drove some of the diversification. We increased the number of small positions in the portfolio, and some of this provides optionality and landing pads as the market shifts. We have something in the portfolio, we're completely on top of it, we can allocate and move capital very rapidly. And some of it is just to take advantage of small positions, which themselves might not seem that significant. But when you add up a number of positions related to a theme, it's a way to get liquid and maybe better risk-adjusted exposure. I'm thinking in particular of the AI complex, where you can imagine all these pieces of infrastructure that go into the memory that's required, the power that's required in these data centers and racks, and the fabric that these chips are made of. There are some really great businesses in Asia with high market share and high returns that we've added to get exposure. And I think it's a lot smarter than increasing our exposure just through, call it, headline names that you might be more familiar with. For all those reasons, I think the diversification has improved the portfolio, Rob.

[05:40] Rob Campbell: Another topic that we spoke about a few months ago was this notion of fundamental momentum within a business and how your bias was to be more positively aligned with good fundamental momentum in businesses. And to reduce, perhaps, those where the momentum was moving in the wrong direction. How has that transpired with respect to the portfolio over the last little while?

[06:03] Paul Moroz: It's been really good. There were some, I'll call them "problem childs" in the portfolio. And it's not that you can't be in that security, but it's a matter of weights in the portfolio. Those were adjusted downward. And likewise, there are some companies where earnings momentum was really good and we increased the weights. It makes all the difference in the world. In particular, most people won't see this, and obviously this was a transition quarter, but on a day-to-day basis, what's happening is we're now starting to get that down capture back and that's just so important to our overall style of what we're doing. Where if the market's dropping, we're tending now to drop less than the market. A good chunk of that is not only the general investment philosophy and the business models that we're investing in, but that characteristic of not being offside on the earnings momentum or the business momentum.

[07:02] Rob Campbell: With a higher name count, and you mentioned this earlier, I wanted to just dive in a bit deeper that clients may notice a slightly longer tail in the portfolio. Can you explain just what that means, that expression of "tail"? Just go a bit deeper with respect to the benefits of having a larger number of securities in the



portfolio, perhaps at below-average position sizes.

[07:23] Paul Moroz: So just to explain the tail, let's talk about the top 10 securities in the portfolio that typically represent 35-40% of the portfolio. But then a number of the securities might be very small, anywhere from five basis points or 10 basis points, which is about a tenth of a percentage point, all the way up to one percentage point. Now, why would you have a tail?

Sometimes securities are so important that you want to be very close to it. You want it covered. You want to be following it every day. And one of the reasons you do that is so that if Mr. Market opens up and gives you an opportunity to add to it, you are completely on top of it. You can make that decision instantaneously, without trying to do extra work and bring up coverage on a security.

[08:13] Rob Campbell: Can I interject though, Paul? I mean, we certainly have a lot of inventory. In other words, companies or stocks that we don't own, but that we've done the work on. How is this different? Is there an emotional element? Just curious on that side.

[08:26] Paul Moroz: There are a couple of things. There is a psychological element sometimes. There is more friction to putting a new security in a portfolio than adding incrementally. Often you can move in a small way to put the security into the portfolio and really break the ice. And psychologically, that's pretty important because you want to stay as unbiased as possible to that emotion. That certainly can be a big element to it, but also there can be just a more general friction putting a security into the portfolio because there can be a higher bar or it might be more contentious. You're creating and collecting more input from people and sometimes that takes time. That's the offset of process. This way, we can get the best of both worlds in terms of having done that process and then being close to the security for that optionality.

[09:21] Rob Campbell: Can I assume, and maybe this is the wrong assumption, but with these companies in the tail, would they be more, well, you mentioned the word 'contentious' names? Areas of bigger disagreement within the team, or areas of wider dispersion that create these smaller position sizes? Is that the right way of thinking about them?

[09:38] Paul Moroz: It can be. Sometimes it's risk management or just simply a riskier security. Sometimes there's a risk that could be a one or a zero, or it's just a matter of liquidity. A key insight for people, I think, is when you start small, and over time, you can add to that particular security. With compounding, it's amazing how a security that sits in your tail could grow into a large position and be a big weight in the portfolio. As a firm, I reflect back to a case in point for us is the story of Constellation Software. Now a household name across Canada, there was a time over a decade ago where that was a very illiquid security. You started small and saw how the business model evolved. You saw how Mark Leonard developed the business and managed the people. You added to it as the business grew and as valuation made sense. That grew into a very large company, a much more significant weight across a number of different portfolios. I just want to emphasize that portfolio management is not just this static number today; it's an evolutionary process.

[10:54] Rob Campbell: You mentioned the AI complex as being an area of focus. You, Dave and Manar have really engaged the team and sought the wisdom of the crowds you spoke about earlier. What are other pockets of the market where you've found opportunity and that we've seen shifts in the portfolio?



[11:13] Paul Moroz: My observation is that some of the best risk-adjusted returns are out in Asia. These infrastructure-like parts of the value chain where there's a critical process, the companies have high market share. Even if it makes sense for risk management purposes to only create a small position in the portfolio, we're really bundling that together to gain exposure to the theme. We're not sure how this is going to evolve, who's ultimately going to win, or what all the ramifications are going to be, but we're trying to get that risk-adjusted exposure. As often is the case with Asian securities that are just less efficient than American securities, I think we're finding some value there. AI, we could go down this rabbit hole too. That's a whole other topic of where we are in this cycle. The truth is we haven't seen something like this since the internet boom of the early 2000s, late 1990s. We're working really hard to not only add exposure that makes sense with that theme and fits our investment philosophy. but do so in a risk-adjusted manner. Really stay in the middle of the net, recognizing that things may evolve in a couple of different paths. We want this portfolio to be resilient to however the economy evolves, AI included.

[12:48] Rob Campbell: Paul, how much change have we seen in the last three months? I think your estimate back in July was about 15% of the portfolio you'd need to change to get it to a point where you were quite comfortable with the portfolio. Curious what that's looked like over the last three months and are we there?

[13:06] Paul Moroz: I think the heavy lifting has been done. I think we've executed pretty well on that. There has been approximately 19% turnover. That's a little bit higher, but pretty much on target from what we thought it would take. We're feeling like it's in a good spot now. It's a lot more balanced and a lot more diversified. It's aligned with the platform and we're seeing how the portfolio is now trading in the market and we're back to the future.

[13:36] Rob Campbell: A question I have gotten a lot from clients has been "Okay, you've made a change with respect to the portfolio managers on the strategy. What are the right metrics or guideposts that we should evaluate you on from here?" How would you answer that question, Paul?

[13:53] Paul Moroz: You have to start to think about how the portfolio trades in context of the market regime we're in. If AI keeps on running, if gold is climbing to new heights every day and cryptocurrency, that's a market regime where we're not going to beat the market. We shouldn't want to beat that market because of the risk that entails. One of the signposts, like I said, to the other side is watching "Well, how does down capture look?" If the market heads down, is the portfolio heading down less than the market because of the resiliency of the companies and the fundamentals that we have in those businesses? That is something that we should expect, and we're starting to see it. A question for people to ask, and we'll talk about this more, is what's really important for the collaboration across the team. So, running our process but continuing to get the best from all of our team members, whether they're sitting in Singapore, Toronto, Calgary, Seattle, or wherever they are. That's something that's maybe less visible, but crucially important, I think, is a milestone. So much of what we do in the decision-making, Rob, and I know you and a lot of the viewers know this, but it's cultural. That's what we continue to work really hard on with this transition.

[15:17] Rob Campbell: You mentioned culture, the decision-making environment. You mentioned earlier some new meetings or meeting structures, tweaks that we've made to better prioritize resources. What's next for you guys in terms of your priorities and whether it's with respect to the team, aspects of the market or the portfolios?



[15:37] Paul Moroz: Well, one of the real fun projects that we have on the go is a complete review of the IT sector. A couple of our team members are heading down and spending some time in California. We're pulling in some resources from Singapore, looking at infrastructure that's AI-related, and really a complete sweep. It's almost a zero-budget exercise of looking at this with fresh eyes. How should we think about IT? Keep in mind, there's a lot of voting going on in the market right now. Just think about what we do. We're looking for companies with competitive advantages, or moats. There's a letter that Warren Buffett wrote about a moat around the castle, and that's what defends the cash flow, so to speak. That's the analogy; where that term comes from. With the development of AI, what's happening in the market is many companies are getting hit with the perception of risks. Some sort of AI development is going to impact their business. And the voting that's going on in the market is making some securities cheaper. There's also voting on the other side, where it's making other securities more expensive. The truth is we don't know exactly how that's going to pan out, but I think that there will be opportunities, for example, software companies that perhaps are more fairly valued and will both survive and thrive. They can be purchased because of this risk. There's going to be lots of learnings where maybe the world's going to evolve and change, and we have to recognize those risks. So that's the purpose of the project. Our team is really excited about it. It's another forum for collaboration across many different people and asset classes.

Rob Campbell: Paul, any last thoughts for clients?

Paul Moroz: I think we've moved pretty rapidly to put the portfolio in a position that people can expect: to be an all-weather portfolio. We're going to do relatively well in an up market. We've brought the down capture back. If we hit a speed bump, the key message is it's about resiliency of the portfolio. We don't know exactly how the economy's going to evolve, how AI's going to evolve. We're really trying to stay in the middle of the net, cut down the angle, and play the plan in terms of our investment philosophy and process. That's what I want people to take away.

[18:14] Rob Campbell: Paul, markets evolve, but in terms of that message of staying in the middle of the net, being in two spots at once is certainly something I've heard from you over many years in my time at Mawer. Thanks so much for coming on the podcast.

[18:25] Paul Moroz: Thanks for having me, Rob. Look forward to the next time.

[18:29] Rob Campbell: Hi, everyone. Rob here again. To subscribe to the Art of Boring podcast, go to mawer.com. That's M-A-W-E-R.com forward slash podcast, or wherever you download your podcasts. If you enjoyed this episode, please leave a review on iTunes, which will help more people discover the Be Boring, Make Money philosophy. Thanks for listening.

