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# EP 104 | Playing the plan: Mawer's EAFE large cap portfolio

**Note:** **00:01** Hi everyone, before we jump in—for context, we recorded this episode on February 16th before Russia's invasion of Ukraine, which is why it is absent from our discussion.

Our thoughts have been and continue to be with those affected by the terrible and devastating fallout of war.

**00:16** We think this episode still contains timely insight and takeaways for investors. It features our Chair, head of our risk management process, and portfolio manager, Jim Hall, sharing his insights from over 25 years at Mawer and in the industry. He's going to share observations on big macro risk themes from history and parallels to now, and at the micro level, what we're doing about it in our process and the EAFE large cap portfolio.

I hope you enjoy our conversation as much as I did.

**Disclaimer:** **01:07** 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.

**Andrew Johnson:** **01:22** Welcome back to the podcast, everyone! Happy to have you all here and we're happy to have Jim Hall joining us today. Jim is the chair of our board of directors and the lead manager of our EAFE large cap strategy, which we're going to talk about today. In past episodes, we've talked with Jim's co-manager, David Ragan, as well as Stanislav Lopata, who's an analyst that works alongside Jim and David. So today, Jim, it's your turn and in fact, this is the first time you're joining on the podcast, so a big first time welcome to you.

**Jim Hall:** **01:51** Thanks, Andrew. Took you a while to rope me in but here I am. Let's go.

**Andrew Johnson:** **01:56** [Laughs] We finally got you. So, with our first-time guests, Jim, we like to spend a little time up front learning who you are, and I'm personally going to take some joy from this because I'm forcing you to do something that you hate, which is talking about yourself. Normally this is pretty straightforward. In your case, it's your 25th year with the firm so I'm going to give you a couple extra few minutes than I normally allow to take us through your history with the firm.

**03:23** That's interesting. And I know you're commenting about the market at large...I'm curious whether you've noticed those same tendencies within our Research team. And if so, what have we done, or how have we managed them as a group?

**Jim Hall:** **02:18** It has been a while. As a matter of fact, I had to look up some of these details on our own website last night. I don't remember—it's been a long journey. So, I joined the firm in 1997. I guess things start there as an analyst; [I] focused primarily on Canadian equities. I became lead manager on our large cap Canadian equity fund in December 1999, which probably wasn't the best time. It was right in the middle of the tech bubble, late '90s, early 2000s. So, a bit of a trial by fire. Managed to survive the trial, stayed as lead manager of Canadian equities until 2018 and transitioned to co-manager with Vijay Viswanathan as lead. So, I was on that portfolio for 20 years, so that was basically the big part of my base work here. Did a few other things during that time. In 2004 I was made—we called it "Director of Research" at the time, but effectively Chief Investment Officer—stayed on as Chief Investment Officer, also 'till 2018.

**03:22** I was named chairman of the board in 2008. I'm still in that role, so that's been 14 years. I was the co-manager of our Global Equity Fund with Paul Moroz from its inception in 2009 until 2020. I was the co-manager of our International Equity Fund from 2010 to 2016. I've been the head of our investment risk process since 2019 and I was named co-manager of our EAFE large cap in 2021 and lead manager as of January 1st, 2022.

**04:03** There's a lot there on the resume, I guess. It's been 25 years of really good experience and now I have a lot of breadth to bring to the table.

**Andrew Johnson:** **04:13** Yeah, I lost track of all of the roles there halfway through your explanation but—

**Jim Hall:** **04:16** [laughs] I don't blame you.

**Andrew Johnson:** **04:17** —I think the main story here when I think about it: 25 years with one firm is certainly not unheard of, but I don't believe it would be anywhere near the norm. So, can you speak to a little bit about what's enabled you, or allowed for that, with you and Mawer?

**Jim Hall:** **04:31** The first thing that jumps to mind is just passion for the work. I just really, really like doing this. I have for a long time. I started trading securities—matter of fact, bond options—when I was 13 years old. I've been, in one way shape or form, around the investment business since then. I've always just been super passionate about it, the learning that it entails, the work you have to put in, the success you can have, challenges you have to face—all those things.

**05:01** It's just really meaningful and important for me and so I just continue to enjoy doing them. I think the work that we do has a lot of meaning, actually. I think it's good work. I think we do good work for our clients, for our employees. So, I have not only passion for the work itself, but also to use a maybe overused term these days, I have purpose, meaning in my work.

**05:24** I like what I do, and I like the outcomes that it does, that it provides for others. So, those are biggies right there. Just keep you motivated and on track and enjoying it all. I mean, there's some other things that go into it, though. Certainly the team that I work with and have worked with over the years has been fantastic and the culture of the firm, particularly around career journey—we have a very good philosophy there.

**05:54** [It] allows people to try different roles and shift roles to progress through a career as I have, starting off an analyst and all the way to CIO and managing a couple of lead flagship funds. The interesting thing is, our career philosophy has also allowed me to shift back from those roles; to step back and do other things when either I needed to do that, or the firm needed me to do that, and embrace that.

**Jim Hall** **06:21** So, as I mentioned, at one point I was chief investment officer, chairman of the board, managing two flagship funds, and then last year, my title was analyst. That's a pretty rare thing in any business to be able to move right up to the top of the chain, if you will, and then take a few steps—what might look from the outside—back or over. But no harm done. And then you carry on at a later date. So that's been great. I think the final thing I'll mention is, in this—as I said, I've been around the investment business a very long time, and in fact, my father was a stockbroker, so I've seen how this industry works from all angles. And it is rare for somebody to last 25 years in the business. It doesn't mean it doesn't happen, just it's rare because it's a chew-'em-up-and-spit-them-out kind of business. Very stressful. Can be. "You're only as good as your last trade," sort of mentality.

**07:16** It's very difficult. There's a lot of pressure. You're dealing with a lot of uncertainty. It's people's money. That's very important to them, or their careers, and the pressure is extraordinary. So, it does burn people out or cause them to flame out entirely. I think one of the reasons that I've been able to survive all of that comes back to our investment philosophy and process.

**07:40** It's very reliable. It's steady. It takes a lot of the emotion out of it. It takes a lot of the pressure off. I mean, I get asked that question all the time, "How can you handle the pressure of all these things, all these decisions to make?" and then my answer is always, "I rely on the process. The process works and it takes a lot of the stress out of it." So, I think it's all those things, Andrew. It's my own personal, just...passion and desire, what I want to do with my life.

**08:08** It's the fact that what I am doing, I think, adds value. Others might dispute that [laughs], but I think it adds value to individuals and organizations, so that has meaning to me. I think I work with a great team in a great firm with a fabulous culture. And I think we have a process that keeps me and everybody else from taking on the emotion that could come with this tremendous responsibility and carry on for...it's been 25 years, I don't know—I feel like I've got another 25 in me. So, we'll see.

**Andrew Johnson:** **08:39** We'll keep tabs. That list might be longer when we get you back on in the 25-year anniversary of your first podcast episode. We're going to come back to some topics that will be centered around the investment process, I'm sure. The career journey that you mentioned and our focus as a firm around that sort of thing, I've certainly, personally, benefitted from it. You mentioned your different roles at various times and the fact that you've come back to a role that you've played previously for the firm. On that note, what's changed for you in the last few years that allowed you to jump back at an opportunity to become a portfolio manager?

**Jim Hall:** 09:30 Yeah, the big one is bandwidth. Just time. My own time to be able to do this. So just to step back a little bit: the last two years—two and a bit—the firm basically, we were in a transition period starting in 2018 and really ramping up in 2019, moving from what I've characterized as a "professional firm" to an "enterprise." And that transition from professional to enterprise required a lot of hands-on time from me as chairman. So, from 2019 and 2020, I just needed to spend—[and] the firm needed me to spend—quite a bit of time there. So, I didn't have the bandwidth to be a lead manager on our portfolio. That's why in 2018 I gave up some of those roles, notably CIO, lead manager on Canadian equities, and so on. What's happened since then though, and what brings me enabling me to do this now, is as part of that transition to [an] enterprise-grade firm, is we created an executive committee and a management committee to run the day-to-day operations of the firm, to execute strategy, to do all those things that we wanted them to do.

**10:25** And over the last two-and-a-bit years, they've demonstrated an excellent ability to carry on all those things and basically they don't need me overlooking them or telling them what to do. Not that I was doing that, but the better they've got at their jobs, the more time it's enabled me to do other things. So, I've got the bandwidth now. At the same time, Dave Ragan, he wanted to take a step back [from] the intense roles that he has been playing for a very long time. So, he's been lead manager of international equities since 2010, had an incredible track record, and the reason for that is because he put in just a super amount of effort and stress and everything else into that role, and I think just needed to take some stuff off his plate. An obvious one was EAFE Large Cap. It was the second fund that he was lead manager on.

**11:19** I put up my hand and said, look, a) I've got the time and b) this is also right in my wheelhouse. This is something that's natural for me as chief investment officer, a manager on global equities. I knew the territory very well. Large cap is a natural environment for me. It's where I've spent most of my career—looking at larger companies. There's a lot of people on the team to look at smaller companies, and I've drifted more towards the larger ones. So this was an easy, easy transition for me. I knew the portfolio, I was right there when we built it in the first place, at its inception, so I knew all the companies. I had the time, there was the opportunity, it was a good fit for me, and Dave was going to stay on as co-manager, and has stayed on as co-manager, so it was not exactly a burden to transition back into that portfolio.

**12:09** And for me, it's like, well great! Now I'm back on the playing field, which is where I like being. So, like I said before, do I have another 25 years in me? Sure. I don't know. I'm playing the game. That's what I like to do [laughs]. So, it's those combination of things, Andrew, that allowed me to step back into the role.

**Andrew Johnson:** **12:28** All right. Well, let's get into it and let's talk about the portfolio itself. The EAFE portfolio is Europe, Australasia, Far East—effectively the developed markets of the world, excluding U.S. and Canada. So at any given time, some or all of this investment universe is going to be exposed to the major macroeconomic conditions of the world. The two things that clients are currently most curious about in terms of portfolio impacts are inflation and interest rates. It's a question that comes up in every single meeting that I've been part of for several months at this point. Let's start with inflation.

**13:04** From your view, what would be the context here? What are the contributing factors to the current inflationary environment?

**Jim Hall:** **13:10** I think 12 months ago, we would be having a debate whether it actually was an inflationary environment. I think that debate is in the rear-view mirror, and I agree that we're in an inflationary environment. Who knows how long it lasts. As to causes... there's lots of debate around that. I think there are many causes. It's complex. There are lots of interrelationships and everything else here, so, I don't propose that I have the single answer as to what's causing this inflationary environment, so let me just talk about some of the things that are probably contributing.

**13:40** On the face of it, it's a bunch of demand hitting supply that just isn't there. So, that's happening in lots of markets simultaneously. We're seeing that in commodities markets, we've seen that in labour markets, final goods, actual consumer goods, supply chains and logistics...all these things are in short supply, and the demand is ramped up, huge.

**14:03** So, then, go to the next level: what's behind the increased demand and the failure of supply to respond, or at least so far, on the demand side? No doubt that cheap money and fiscal stimulus have played a role there. A lot of that's going back several years, but some of it is newer with some of the COVID stimulus that went on. I guess, in some cases, is still going on. That definitely was an impact on demand. Speaking of COVID, I think it had an impact on supply. You take a bunch of labour out of the workforce, just making them stay home, and that's going to make it difficult to produce things and ship them and so on. So, I mean just right there you've got a couple of good, I think, pushes towards higher prices. There's some other things that are longer in term and nature, I think: the supply side was definitely hurt by COVID but that shock...there was no resilience to it because we'd stretched out supply lines very, very long and very thin globally.

**Jim Hall** **15:00** Just-in-time inventory—while it makes a lot of sense from the efficiency point of view, does expose you to lack of resiliency when a shock hits. So, I think that's part of it as well, is, some of these longer term themes—global supply chains, just-in-time inventory, those sorts of things—while fine in a normal situation, not so fine when there's a shock. We've been seeing trade barriers go up, de-globalization, those sorts of things. And those were going on before COVID hit.

**15:31** So again, on the supply side, on the logistics, that was making life a little more difficult to get goods and even, as I said, shipping final goods around. I mentioned labour force constraints—that's probably more short term. Although, we've been seeing unemployment tick down and down and down and down over the years, so I don't know if we reached some critical level during COVID or if it was already being hit before that. I don't know in terms of just labour quitting the market or just not there.

**16:02** I think there's been a lack of investment for a while in things like infrastructure, fixed assets, raw material supply, just the basic CapEx has been low for a while. You've got a whole bunch of people who have a whole bunch of different reasons as to why that is, but I'll just leave it at, it's been on the low side and not keeping up.

**16:25** So again, that's probably okay in normal circumstances, but when you get a shock, whether that's a demand shock or a supply shock, and you've got underinvestment in stuff that takes years to invest in, then you're kind of stuck for a while. So those are some of the things that I think is attributing to it. I mean, ultimately it all boils down to the classic, "too much money chasing too few goods." That's pat answer. It's still correct. You got to look down and behind that: what's pushing things? I don't know for sure, but those are some of the things that come to mind when I think about it.

**Andrew Johnson:** **16:57** Yeah, the supply chains is one that's on a lot of people's minds and one question that I've been curious about is the whole just-in-time approach to inventory management. And you described it very well in terms of working great for most of the time until you get hit with something. Have management teams in your conversations or in your reading hinted at any long-term shifts away from that type of approach? In other words, bringing some of their supply closer to their final assembly or their manufacturing processes?

**Jim Hall:** **17:25** For sure. We're seeing it in lots of places. We're seeing it at the government level, company level, personal level. In an extreme, it's hoarding toilet paper, I guess, but hopefully we don't see too much more of that [laughs]. But no, it's going on. It's definitely a theme. You can think of something very obvious, like semiconductors. We've got semiconductors in short supply, prices have gone up and that's had an impact on all kinds of things.

**17:49** It's been hard to get a lot of devices because semiconductors are just not available. Not just devices, electronic devices, but basic things like cars and refrigerators and washing machines. Everything runs with these electronics embedded in them now.

**18:03** The semiconductors, broadly speaking, are in short supply and so now we're seeing the supply chain has been reduced down basically to two big suppliers. So, that is being broadened out. In the case of the U.S., more reshoring. We've seen big, proposed investment from Intel. Fab plants in the U.S. TSMC, who I think would rather just produce in Taiwan, is now going to produce more in the U.S. Japanese suppliers are building factories as well. So absolutely. And that's just one industry. This is happening very broadly. So yes, that is the theme that's out there. It increases resilience, which is good, but it probably decreases efficiency. You basically have dead capital sitting around, which was the whole point of taking it out in the first place. But there's a cost to pay for that and maybe we're paying that cost now.

**Andrew Johnson:** **18:53** You've seen a lot of things in your actual real career. I know that you take lessons from history very seriously too. Are there any parallels that you can draw from in the past that are comparable to today?

**Jim Hall:** **19:04** Yeah, absolutely. I think it's wise for everyone to study history because these things do happen over and over and over again. There is nothing new under the sun in the world of economics, either. So, have I seen it before? Sure. Like, I'm back to Roman times or earlier. These are cycles, both short term and long term, that have been around for centuries. I don't want to overplay this, but a more recent one than Roman history would be...it does kind of remind me of the late 60s, early 70s. In the last twelve months, I've more than once referred to the economic environment as "That 70's Show." And again, I don't want to overplay that and say that, well, "what's past is prologue," or anything like that. But there are some parallels there that I note and that may, who knows what comes next, but things like in the 60s, we had the Great Society program[s]. So, massive fiscal stimulus program, kind of a "Great Reset" type of program.

**Jim Hall** **20:01** Maybe that's a politically incorrect term, but I'll use it for now. It was called the Great Society. Whether or not I should be calling something "Great Reset" is up for debate these days, I think [laughs].

**20:11** Nevertheless, a program like that to address, I think, legitimate ills in society then and now, requiring lots of government involvement, lots of spending, and so on. That's one. We had monetary stimulus or monetization of debt in maybe not-so-dramatic a form, but in the late 60s, early 70s, the world had the war in Vietnam going on, Cold War, so geopolitical tensions. In that case a hot war, [which] had to be financed somehow. Cultural tension, counterculture protests, anti-war protests...really difficult political times. We had riots around [the] Democratic National Convention, for example, in the U.S. There was lots of protests and resistance and people making their voices heard all around the world, not just in the U.S.

**21:01** I think it's fair to say we had some, at least, politicization of the Fed. I think many people would say a lot of politicization of the Fed. So, the Fed not really reacting in a timely manner to inflationary pressures that were building. You had the Nifty 50 stocks, a narrow part of the market, really leading things—very, very high multiples, very high valuations. So, I mean—it's not a stretch to see those parallels between then and now.

**21:27** I think it is a stretch to say, "What happened then is going to happen next year. We're going to have a 50% correction in the markets and runaway inflation and a lost decade" type of thing. But you know, you do have to keep those scenarios in mind when thinking and looking forward.

**Andrew Johnson:** **21:41** That was a really good segue into the follow-up question that I would have, which is one of the questions that our clients often ask and I know we certainly ask it of ourselves here at Mawer, is "So what?" [laughs]. "What does it mean for companies and stocks?" And the next question there would be, "What can we do about it or what are we doing?"

**Jim Hall:** **21:59** Yeah, the "what does it mean?" question is an impossible one to answer. We don't know exactly what it'll mean. And we can't know because these are future things. I think a better way to phrase it is to take a risk management mindset to it and say, well, what could it mean? What might it mean? What are some of the different scenarios that may unfold? And let's look through those different scenarios and see where opportunities lie, or where we might have exposure." So, I like to say, "We must prepare, not predict." So the "what does it all mean?" gets into prediction. "What might it mean?" is, yeah, a little bit of prediction, frankly, but it's more about preparation. "What might it mean?" makes us look through many, many different scenarios. So, I think that's a better way to go about it.

**22:50** So with that adjustment to the question [laughs], "what might it mean?" Well, it might mean all kinds of things. What are we doing about that? Well one thing that might happen is we could see a continuation of rising rates that, in that scenario, would apply pressure just mathematically on what we would call longer duration stocks—those with cash flows far out in the future. They often have very high multiples attached to them. Rising rates, if that's the scenario, we'd want to be careful there. So, in our case, we've reduced some of those companies that have that type of characteristic. So, in this EAFE portfolio, it's a company like Adyen would be one we've taken a little bit of weight out of. Rising rates...I mean, in one scenario is it could bring to an end or put pressure on this very, very long cycle that we've had favouring high quality, low volatility stocks almost regardless of valuation.

**23:47** It's just been a 10- or 12-year or maybe longer trend favouring those companies with those characteristics. As bond yields have fallen to zero or in many cases negative, people have, I think, invested in these low volatility, high-quality stocks as almost bond proxies. And if we're getting into an inflationary environment that's pushing up rates, the need to hold those type of companies at any price may diminish. And so there may be some pressure there. So, that would be another area that, well, we don't want to be overexposed there. So we've reduced many companies in the portfolio that have those characteristics. Companies like LVMH, Wolters Kluwer, ASSA ABLOY, Halma. These are super high-quality companies, just wonderful, wonderful businesses, but they're expensive. And in a scenario where you have rising rates and potentially slowing growth type-of-thing, well, these companies may be at risk simply from valuation, not because the business model's at risk. So that's another area we've taken down.

**Jim Hall** **24:49** On the other side, maybe some opportunities we've benefitted from and probably will for a while are our holdings and logistics companies like DSV or Kuehne + Nagel. Distributors are often beneficiaries in an inflationary environment. If they can maintain their margins—usually fairly easy for them to do, usually fairly easy for them to pass along price increases, maintain their margin, multiplied by a higher price. It's just more earnings for them. So, we have some companies in that category—like Ferguson jumps to mind. U.K.-based but distributor, mostly in the U.S. They could benefit from an inflationary environment.

**25:28** Then there's ones like pharmaceutical companies where they don't move on that. So, they can be a hedge or just a stability in a portfolio when some of these macro things are moving against you.

**25:42** So, those are some of the scenarios we think about, some of the moves we've taken. But really, the best approach is to admit that you don't know how this is going to unfold, be aware of different scenarios that could unfold, check your exposure, think about mitigation to those downsides while maintaining exposure to upside and opportunity. So essentially, it's diversify your portfolio. Where it all boils back down to is, in the face of uncertainty, best strategy is to diversify—but not blindly. Diversify among those companies that can create wealth, where management teams know what they're doing and obviously where you think you're getting value for what you're buying. Simple rules always seem to work, and they have worked and probably will continue to work in even in this environment.

**Andrew Johnson:** **26:32** All right, well, you've given a bit of a spoiler alert to what your answer's going to be on the next macroeconomic topic, but inflation is very much intertwined with the other topic that is on a lot of minds and that's interest rates. You've already touched on it briefly as something to be aware of. I think the broader context here is that we have been in a declining interest rate environment since the early 80s—effectively my entire life. There have been shorter periods of rising rates during that time but the general trend being a decline. There's a lot of talk out there that it appears we could be moving in the other direction and you gave some good reasons for why that may be—at least in the near term. Rather than a specific question, I'll just give you a general one: is that a good, bad, or a neutral thing, and why?

**Jim Hall:** **27:13** Well, I think at this stage in the game, rising interest rates are a good thing. I'll probably get some hate mail for that and deservedly so. If you're poor, you don't want to see them go up. If you've got a mortgage, you don't want to see them go up. How is that a good thing? At the micro level, it's often not a great thing, but at the macro level or the aggregate level, I think at this point, it's probably a good thing. And what makes me say that is capital needs to have a price in order to be efficiently allocated. And the price has gone to zero, or effectively. And so you have, likely, misallocation of capital. A simple example, most obvious one that jumps in my head, is housing. You take the cost of a mortgage, let's say, to near zero, the cost of money to near zero, and people invest in houses.

**28:00** In many cases, that makes sense. But in a lot of cases, it doesn't. It's an unproductive asset. Residential real estate, yes, it has some payoff. It's better than sleeping in a tent. You're going to be more productive if you sleep in a house than outside. But it's limited. So, taking the nation's wealth and plowing it into unproductive assets…I don't think is a great way to run an economy. That's essentially what I've called "Easter Island Economics." It means you take all your wealth and you stuff it into statues that look out over the ocean. You're bound to fail. There's no production in that. And that is a consequence of not pricing capital. It's like, "well, it just goes anywhere where the momentum is favourable." And there's been a lot of that going on. So, I think raising rates…although you probably don't want to do it through government fiat, you'd rather have the market do it. But I think if the government got it out of the way, the market would take it up. But anyway, I think that rising rates is ultimately a good thing because we need to put a price on capital in order to steer it to where it's most productive.

**Andrew Johnson:** **29:05** Again, I'll ask the, "so what" question: what are the considerations as a portfolio manager and a team, the whole Research team, with the prospect of rising rates?

**Jim Hall:** **29:13** If it continues. That's a big if. But let's just say we're in a scenario where it continues on, or even just stays at this level, and where there's pockets of exposure. So, I mentioned some long duration assets, high multiple stocks with all the value and all the cash flow way out in the future. Those mathematically will come down in value. So, from a strictly technical point of view, or I should say, fundamental point of view, as interest rates go up, as discount rates go up, the value of assets, of cash flow stream, goes down. And you have to be very careful with your exposures there. I mentioned some places where rising rates can have a benefit. I mentioned distributors. There's also companies that we call them "float"—financial float type companies—that make money on the roll down, on the curve or on the carry of just sitting on cash sort thing. There are examples of those.

**Jim Hall** **30:04** Banks, insurers...as long as rates don't rise too fast, or as long as we don't see an inversion in the yield curve where short rates are higher than long rates for a sustained period of time, business is a lot better for a bank when you're earning money on your loans than when you're not [laughs]. And it's obviously the spread that matters, but some of these companies can do well. So I mentioned banks, insurers—other ones we own: stock exchanges. We own, on the banking side, a couple.

**30:33** One in Europe, Handelsbanken. One in Asia, DBS, a bank based in Singapore. A stock exchange like Deutsche Börse, or Japan Exchange. We own those. Those types of companies can actually do well in rising rate environments. As I said, as long as it's not an extreme rate rise. So, there are places where you're going to be careful and places where it might be an opportunity. The way to manage portfolio through that uncertainty, I think, is to maintain a diversified balance among all of them. Subject to minimum quality constraints, these companies actually generate wealth.

**Andrew Johnson:** **31:04** All right. Well, thanks for that, Jim. I want to shift gears a little bit as we come to the end. We've launched this strategy—I think you mentioned mid-part of 2020, early part of the pandemic—2021 is now in the rear-view mirror, so that was a whole different market. What are your observations about how the portfolio itself and the team in general have handled the last couple of years?

**Jim Hall:** **30:44** Let's start with the portfolio. If you throw enough money at the system, then asset prices go up, so I guess that's been enjoyable. We had incredible returns last year, even the year before and the year before that. It's hard not to like that. More recently that's been challenging. Markets have come off pretty sharply and 50-60% corrections in some areas. That's not been as much fun [laughs]. But I think what's important in both cases, the up and the down—and this is how I really evaluate the team's performance—is, did we keep emotion out of it? Did we keep calm? Stick to the process, not lose sight of what's important? And the answer to that is an unequivocal "yes." So that's how I'd sum it up. How do I feel about how we've done? I feel great. We've stuck to the process. We haven't got emotional on the ups or the downs. We've carried on with the process that's worked over 40 years, and I think that's an excellent result so far. And the performance didn't hurt either.

**Andrew Johnson:** **32:31** What's on your mind going forward for the strategy?

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| **Jim Hall:** | **32:31** | Well, I think it's just carrying on with that theme. I think what's most important for the strategy and all of our strategies, is just sticking to that process. It's all about sticking to that process, that discipline. We can't start thinking that somehow we're going to outsmart everybody else in the market and we're going to predict better, consistently, how things are going to unfold, whether that's 12 months or 12 years. We need to stick to that. That's on my mind. So that's always what we're doing, is getting back to that, making sure we're on that. |
| | **33:03** | I think that'll be just fine. I think all kinds of things are going to happen. There's far more things that I can think of happening that aren't going to actually happen. It's going to be tough. It's always tough. It's an uncertain and volatile world out there and stocks reflect that. |
| | **33:18** | I think that's going to continue. And the way through that is this process, the discipline, philosophy that we have, the team that we have, the consistent execution of that process. If we do that, then in all those things that I worry about, be that higher rates or inflation or geopolitical events, whether that's war here or war there or another, heaven forbid, pandemic—these sorts of things, they are going to be there. So I really shouldn't worry about them [laughs]. They'll come, for sure. What I do have to make sure is that we're sticking to our plan as we roll through those. |
| **Andrew Johnson:** | **33:52** | Yeah. It's an important point. You mentioned Halma earlier and that's a stock that we've held for almost 15 years and a handful or more times, it's been down significantly in stock price and fundamentally, either something very minor or nothing at all has changed and those were chances, where, if you gave up on the process and the philosophy, you might be inclined to leave that stock out of the portfolio. And I think our clients have been paid to wait through those periods, rely on the quality assessment, and you look at the long-term stock track-record of a company like that… the quality has paid over time. |
| **Jim Hall:** | **34:29** | Agreed. |
| **Andrew Johnson:** | **34:30** | Jim, just before I let you go, we just had an episode covering the post-mortem process of 2021 that you and the Research team go through, which is where the team reflects on what you've learned in the past year or even beyond a year. Just wanted to open that up to you and like I said, don't feel restricted to the last year. What have been some of the most important learnings that you've had throughout your career or your time at Mawer? |

**Jim Hall:** **34:54** Well, that's a really long list, Andrew [laughs]. I'll give you three. The first is this concept of irreducible uncertainty. We just don't know what's coming next and there's no way to know. And that's a really hard thing for hyper, Type A, overachieving personalities to accept. There's no way for you to know. Doesn't matter how much work you do, how much effort you put in, you can't know what's going to happen next.

**35:23** And coming to terms with that is actually, I think, one of the most important things you can learn as a portfolio manager or analyst—somebody investing other people's money. Because it moves the question from, "What do you think's going to happen next?" to "How do you prepare, given that you can't possibly know what's going to happen next?" That's a much better question and it's one that, when I was in my twenties, I certainly didn't want to entertain.

**35:50** I was like, "Well, no, I just have to do enough work at this and I will get the answer and I will win!" [laughs] It's like, "No, you won't. You will never win." So, what do you do in the face of that irreducible uncertainty? That's where it becomes about looking at the world probabilistically; about preparing, not predicting; looking at multiple scenarios; being aware of what your exposures are in those scenarios, what your contingency plans are, how you can mitigate some of those risks while remaining exposed to upside opportunities.

**36:22** It's basically learning lessons that probably everybody has to learn and have learned over thousands of years that you've got to be diversified. Not just blindly diversified, as I said before, diversified among good assets. But yeah, that's the game plan. Accept the uncertainty and then this is how you can accept it and still add value in the face of irreducible uncertainty.

**36:46** So, irreducible uncertainty would be number one. Number two is the biggest risk in investing is us. People, emotion, are the biggest risk in investing. We talk ourselves into all kinds of dumb decisions based on gut feel, intuition, all these things. All these behavioural errors that we are susceptible to, we make all the time. And so, the biggest risk is us. The antidote is process. It is sticking to a process. It's discipline. So that's why I said earlier that the main thing that I think about going forward, "What are the prospects for EAFE?" It's like, "Well, it'll be fine, as long as we stick to the process." Because if we do, then we will find those companies that fit the bill in terms of creating wealth, excellent management teams, or valuation makes sense, and we will take emotion out of it as much as we can and we will have a much higher probability of success. Second one is, the biggest risk is us. And the solution is process.

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| **Jim Hall** | **37:57** | And the final one—I just don't think this one gets enough airplay, so I'll say it here—is be positive. Be positive. We worry about everything all the time. We're wired to do that, especially as the analytical type that I am. I've got to remember, we all need to remember, I think, to be positive. Have faith in people. |
| | **38:18** | Have faith in the system. Free enterprise works. There are bad people out there, but not all people are bad. The system in aggregate produces very good results. And yes, there are some things that have to be regulated and monitored, but really left to its own devices, within reason, produces very good results. Have faith in the system overall, and more importantly, have faith in people. Be positive. That'd be my number one learning, although I presented it as number three here. It's the one I want to leave you with. Be positive. |
| **Andrew Johnson:** | **38:55** | I can't think of a better way to end it, Jim. You packed a lot into a short amount of time and wrapped it up with a great learning. So, thanks for doing this, Jim. Hopefully it was enough fun that you come back at some point down the road, whether that's 25 years from now remains to be seen. But thanks again for joining us. |
| **Jim Hall:** | **39:11** | Thanks for having me, Andrew. |