



**[00:00] Rob Campbell:** Coming up on The Art of Boring, the return of Paul Moroz, both to the podcast and as lead manager of our global equity strategy. Paul speaks to the opportunities that he sees within the global equity portfolio, some high-level themes with respect to the shifts we've already begun to implement, and reflects on what's changed in the market landscape since he last led the strategy in 2021.

**[00:25] 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.

**[00:51] Rob Campbell:** Okay, we'll dive right in. Paul Moroz, welcome back to The Art of Boring.

**Paul Moroz:** Thanks, Rob. Thanks for having me.

**Rob Campbell:** Yes, well, I'm delighted to have you. I was going through the archives, or more specifically, I asked Chuck, our AI agent, to go back through the archives for me. And I think the last time you and I sat down—or stood up, as it were—to do a podcast was three years ago, so it's been a while.

Paul, many listeners will know that earlier this month, you were reappointed the lead manager of our global equity strategy portfolio that you launched back in 2009 and led all the way until 2021. To start, in your words, what's led up to that decision that we took recently in that regard?

**[1:22] Paul Moroz:** Well, we've gone through a rough patch in performance. There was a decision made in the organization to make a change, and I'm coming back in, and my colleague David Ragan is coming back in to help things out and make it better. These are difficult decisions that are taken, we're pretty empathetic about what it means both for clients and the individuals involved. And the positive thing is there's a lot of positive energy coming out of our organization about the decision. I know I'm pretty excited to be working with the team again in public equities and back into looking at companies and making investments.

**[2:02] Rob Campbell:** For you, Paul, I'm just curious with respect to your motivations and what it's been like coming back to the strategy.

**[2:07] Paul Moroz:** Well, remember, I just really love business and I love investing and solving business problems. So we'll talk about some of the changes later, but when I think about a business like TSMC—we own it in international, we own it in global equity—all roads lead to TSMC in terms of producing chips. This is, for listeners not familiar with the business, Taiwan Semiconductor Manufacturing Company.

They make the lion's share of profit of the entire industry in terms of actually manufacturing the semiconductors.



Most companies can't even do that. We're talking years and years and years behind. They have an ecosystem that makes it difficult for these chips to be replicated. And you can imagine even a new business like NVIDIA, which is doing very well—TSMC produces all their chips. NVIDIA doesn't get paid unless TSMC ships.

So these business models are really fun, and I'm really enjoying engaging with the team and getting involved in them, solving business puzzles.

**[3:15] Rob Campbell:** I certainly want to spend a bunch of this conversation focused on what you're doing and looking forward. But if we could spend just a little bit more time looking backwards, you mentioned performance as a reason leading up to the decision. From your perspective, Paul, performance-wise, what has happened over the last, call it 18 to 24 months with the global strategy?

**[3:34] Paul Moroz:** Yeah, performance is always difficult because remember, we're making investment decisions across a variety of strategies. And of course, it depends on the world that comes out and unfolds. From a professional investing standpoint, you have to have a lot of humility recognizing that the world could have unfolded differently and we could be having a very different conversation. So that's the starting point. What happened with the global equity strategy is performance was a result of some of the portfolio decisions made where the portfolio was a little bit more concentrated. It started to look a little bit more different than some of our other strategies.

For listeners, we have the ability to invest in what we call "unchained securities." That means a security that's not in one of the existing portfolios. And I think the portfolio was also a little bit more defensive when the world evolved such that that defence wasn't needed. So there were a few things going on that resulted in performance that had subsequently transpired.

**[4:39] Rob Campbell:** Okay, and so presumably, since you were named lead manager a couple of weeks ago, this has been all your time and energy. And I'm curious how you've prioritized things over the last couple of weeks coming back and seeing what that's meant in terms of you, David, Manar and others working on the global strategy.

**[4:57] Paul Moroz:** Yeah, a lot of this is "back to the future," Rob. So some of the things that we're doing is looking at the portfolio and saying, where is there perhaps a place where we can diversify more in terms of places that might be in our other existing portfolios where there probably should be more overlap based on the wisdom of crowds. David and I are spending a lot of time just working with our existing team and understanding their perspective. And really, we kind of play this aggregator function in terms of bringing up that wisdom and then making portfolio decisions that relate to that. So that's been a big part of it. I think we were down to about 50 names in the portfolio, and there's going to be more names. Again, "back to the future"—it improves the resilience of the portfolio. You have more chess pieces on the board, so to speak. The portfolio trending towards a little bit more balanced in terms of the economic scenario.

There's a technical term that some viewers might know, the beta of the portfolio, which is the sensitivity to the overall market. The portfolio got down to a beta of 0.75, which was very defensive. And we recognized, well, maybe there's going to be a recession, maybe not. And so just for that balance and context, when I ran the portfolio, I think our beta averaged between 0.9, 0.95, and around that area. It was still a little bit defensive, less



than one, but a little bit more balanced. So those are some of the things that we're doing to bring it back in line, maybe make it more resilient to other economic scenarios that might unfold.

**[6:41] Rob Campbell:** I'd like to just go a little bit deeper on both of those things that you mentioned. So the first, just alignment with other portfolios. This is because we have a single investment philosophy and process, but to the extent that there's wisdom within other members of the team, you're looking to reflect that a bit more within the global strategy. Can you be more specific as to what that looks like over the last couple of weeks in practice, maybe in terms of the additions that you've made to the portfolio?

**[7:06] Paul Moroz:** Yes, for sure. And let's talk maybe in some themes. There's obviously lots of investment and development or evolution in the technology sector. So that's something where when we've looked at the portfolio, we noticed that we have less exposure to the technology sector and a place where maybe there are emerging technologies that are reasonably valued, really great companies, and have higher conviction in other portfolios that we can add to. That's one straight away that we've done. And likewise, there are some spots where maybe we have more consumer staples, and it's good to have some consumer staples, but we've been paring some of that back. And particularly if securities maybe are less represented in other portfolios, we're just using that wisdom and adjusting that way.

**[8:05] Rob Campbell:** Another shift to just looking at some of the recent activity that you've initiated in the portfolio that I've noticed is—and I'm wondering if you can articulate what this means to you—is shifting away from companies where the business fundamentals or the momentum of those business fundamentals is trending in a negative direction. I'm just wondering if you can expand on that.

**[8:25] Paul Moroz:** This gets into the real technical aspect of valuing a company. As you can imagine, you're paying, let's say 15 times earnings or 20 times earnings for a security, and you're building a discounted cash flow model and looking at scenarios, and you have this last earnings point that may be directed or trending upward or trending downward. That trend makes a difference. And often it relates to what I call the fundamental momentum—something that's really going on inside the business that's going to drive value in the future. It might be that you're winning a customer. It might be improvement on margins. It shows up from our perspective as modelling error, but it's really important to understand. So there are some companies that we've trimmed where that valuation is fair enough, but there are a few pieces where the business momentum was going the wrong way, and we thought the modelling error in valuation might be to the downside. And likewise, there are a few business models where things seem to be going really well. They're going from strength to strength, and we've emphasized those.

**[9:37] Rob Campbell:** Does that align with your comments earlier about just underexposure in the technology sector in terms of where that business momentum might be positive?

**[9:43] Paul Moroz:** A little bit, and it's important to know you also have to be careful not to overdo it because there are businesses that, of course, have cyclical embedded in them, have a fixed cost base. So there's a cyclical element—like many decisions in life, it's about moderation and balance. I think that's important for listeners and our clients to really understand too that we understand that.



**[10:10] Rob Campbell:** On the topic of moderation and balance, can you speak to—you and David are now in the portfolio, you're working with the team, you've identified some spots where you feel like some shifts are necessary. How quickly are you moving towards those adjustments? And over what timeline do you think that clients can expect that transition to a Paul Moroz-led portfolio to take place?

**[10:32] Paul Moroz:** Right now, we've made changes that touch about 7% of the portfolio. And as David and I and Manar look at the portfolio, we think that there's maybe another 7% or 8% in the foreseeable future that we can adjust. I think the bulk of these changes are going to be made by certainly the next month or so or by the end of the quarter. But remember, it also depends what the market will give you. And of course, the markets always change. All of a sudden, a security goes up or down, the valuation is adjusting and you might make a different decision. We recognize this feature of the market and we'll adjust as the market adjusts and take what the market will give us in making this transition.

I think what listeners and clients should note is that both David and I have tended towards portfolio management between turnover rates—we're talking about now—between 10 and 20% a year. After these changes are made, we're going to settle down into that, I think, more typical turnover that you've seen in the past when we're managing portfolios.

**[11:49] Rob Campbell:** Paul, I'm curious, given your comments in the market and what it might give you with respect to trading, but just more broadly, it's been almost five years since you were lead manager of this strategy. And I'm curious, as you step back and zoom out, thinking about the investment landscape—and I know we touched on technology, so that might be an element here—but I'm just curious, what are the big changes that you've noticed in markets and what do they mean for a global equity strategy like ours?

**[12:16] Paul Moroz:** Some of it's the same and some of it's different. What's the same? The decisions are still driven by people, and people are wired with all their imperfections just like they were 1,000 years ago. And what's so fascinating—it'll always be fascinating about the stock market—it's the collective psychology of fear and greed and envy and all these emotions that people have that gets played out in the stock market. So that's the same.

The market's different in that we're evolving rapidly in technology. AI is a new technology and that's great, and it's just like any other technological boom where you have investment and there are going to be winners and in some places, it's going to go too far. I mean, we've seen this go back to the internet, go back to railroads, canals, whatever sort of technology it is—you see similar trends. The structure is different. Passive versus active investing is a little bit different, almost to the point where there are certain securities that have, I'll call it a distribution advantage. They're in an index and you have to recognize that moving in or out of that can create tremendous volatility. It creates differences in perhaps the cost of capital where you see discrete jumps.

There's always this debate in the market about value versus growth, and these debates are quite heated, but even over five years, I mean, there are just more and more business models that are capital light and maybe require fewer people to execute on them overall if you think about the scalability of those business models, and they can grow rapidly. I'm a real believer in thinking about the world with real options and recognizing that these real options that you'll see in particular in the U.S. stock market shed light on what value there could be, and that there's real value there if you understand the structures.



Small cap markets are a little bit different now too. That's evolved since I was managing small cap years and years ago.

**Rob Campbell:** On the same theme, meaning you can scale a lot quicker. Sometimes, again, but it depends.

**Paul Moroz:** Actually, just because a small cap security is small doesn't mean that it has outsized growth potential. It relates more to functions of, well, what type of business is it? How is the structure? You could have a company that's smaller in terms of number of employees, but it might be a mid-cap size company because of the scalability of its revenue model and business model.

**[15:00] Rob Campbell:** Paul, last words for clients. Again, recognizing it's been a number of years since you've been on this podcast in a global equity role.

**[15:08] Paul Moroz:** Here's what I want people to know: one, we get it. It's been a little bit tough. It's been tough for a lot of the people across the organization too with this change. And I want to thank everyone involved both in the transition across the organization. And just want to leave you with the fact that both David and I are excited to be back and energized with the team. And it's just something that we really do both love to do and we're going to be working hard to make things better.

So thank you to all our clients, everyone across the team, and thanks for having me on the podcast, Rob. Appreciate it.

**[15:44] Rob Campbell:** Very good. Well, I reiterate that appreciation to listeners and clients and Paul, I'm sure we'll see you again soon on this very same channel.

**Paul Moroz:** Thanks, Rob.

**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.

