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EP 149 | Post-Mortem: Learnings from 2023

[00:00:00] Rob Campbell: A bit of an experiment on today's podcast. You're going to hear not just from me, but from 11 of my colleagues too. This is the post-mortem episode, and as many of you may know, the post-mortem is an exercise that we run internally for everybody on our research team, asking them to reflect openly on their decision-making and to share insights and learnings—often from mistakes, but sometimes from successes too—that they've gleaned over the past year. We've gone a step further this year by putting a mic in front of several brave individuals who've shown real vulnerability by sharing those sometimes-painful learnings directly with you. And hey, before we dive in, a quick favour to ask of all of you: we'd love your feedback. If you've got specific topics you'd like us to cover on upcoming episodes of The Art of Boring or anything else you'd like to share with us, email us at podcast@mawer.com. All right. The post-mortem is up next.

[00:00:58] Rob Campbell: Hi everyone. I'm your host, Rob Campbell, and welcome to The Art of Boring, the podcast where we dive deeper into Mawer's investment philosophy and thinking in order to make you, our listeners, more informed investors. Ultimately, we hope to connect you with the people at Mawer who find excitement in "Be Boring. Make Money."

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[00:01:32] Rob Campbell: I'm here with Christian Deckart [Deputy CIO]. Christian, welcome.

[00:01:40] Christian Deckart: Hey, Rob. It's good to be here.

[00:01:43] Rob Campbell: Well, Christian, listeners will know that curiosity and learning are important parts of our culture. Hence, the post-mortem process. Could you remind us what the post-mortem process is all about and what we're trying to achieve with it?

[00:01:49] Christian Deckart: Often, we try to learn from our wins, from what we did right. But looking at the opposite, at the losses, is equally instructive, if not more. Why? Well, because there's a bit of a psychological pain in looking at your errors and what went wrong. And then, if we think back to Charlie Munger, his view is always invert the problem. Look at it from the ex-negativo, from the other angle. And so, if you know what you want to avoid, what you don't want to repeat, that's a good step forward already. What do we actually do in January? Traditionally, we sit down as a research team, and we talk about things that went wrong in the last year, and wrong, I think, has to be defined. We think of process and proceeds or process and outcome.

[00:02:35] Christian Deckart: And if you think of it, you could draw a grid where you have good process, bad process, good outcome, bad outcome. Now two of these fields are really good. If you have a good process and a good outcome, that's very instructive. If you have a bad process and a bad outcome, that is also very instructive. Where it gets trickier is where you follow the good process, but the outcome was bad because that can get you to learn the wrong lessons, or it might make you change a successful process just because it didn't work once. This is what I would call normal accidents, by the way; that's a term those interested can Google.

There's a concept of normal accidents; even if the process is good, sometimes things can go wrong. And then there's the funniest one, of course—which makes the cynic in me laugh every time—is you can have a bad process and still good outcomes. That's, of course, the craziest because the risk is that you learn the wrong lessons. So, we sit down as a team, talk about things that we think were bad processes, and then see what outcomes that led to.

[00:03:36] Rob Campbell: There's a real democratization to this. We're going around the table having everybody involved. Can I just build on something you mentioned, which is there are real pitfalls with respect to this learning process. And for those who have listened to past episodes, we had Justin Anderson on last year talking about that very problem, why it's so difficult to learn in investing. Can you share just some of the other things that we're mindful of as we go through this so as to end up in the right quadrant?

[00:04:02] Christian Deckart: There's many things we're mindful of. The first one to me is time horizon often because it's in January. The tendency is to talk about things that happened last year. However, our investment horizon is eight to ten years and it's very unlikely that we buy an investment that does well over eight, ten years in a linear fashion. The risk is that our learnings are too short-term. So that's risk one, which brings me back to the service we provide to our clients. Because partly, well, we provide peace of mind. That's part of our service. And that means we, as investors, see the full portfolio every day—we live with the volatility of single stocks. The client sees only the portfolio in aggregate and doesn't have to suffer through the, how shall I say, line item volatility. That is our job. We have to be mentally, physically, psychologically able to cope with that volatility. And often I think there is a tendency to talk about or to label something as an error that's not an error. It's just normal volatility you need to live with because yeah, the market is not a linear one-way street.

[00:05:11] Rob Campbell: I wonder if this is the right forum actually to reflect upon, but the act of doing this very podcast and sharing these learnings with our clients is a risk to the process in and of itself, Is it not?

[00:05:21] Christian Deckart: Absolutely. What we ask people internally here is, well, when we share our learnings, show vulnerability. Be open about the mistakes you've made. Now, might it influence people's openness if they know your mistakes get blasted out to the whole world as a podcast afterwards? So, there is a very real risk. The other risk, I see is that when you share a mistake, it can almost feel like a relief. There is a desire to talk about it and to ask for redemption with all these things if you talk about the errors. But my view is, actually, that's a cheap way out. You have to really learn from your mistakes and regret them. So, you can't just get redemption by saying, "Oh yeah, my bad. Let's move on." I personally prefer to suffer from my mistakes on my own, not share them and go through the whole suffering. I think sharing them might sometimes be too easy a way out.

[00:06:17] Rob Campbell: That's fascinating stuff to consider. Does raise the bar for those on our team who have agreed to come on and share their learnings from the past year. Christian, I'm going to leave you here. We're going to have you come back toward the end of the podcast, so don't go too far. But for listeners, let's dive right into the learnings. And first up, we have Canadian equity portfolio manager, Mark Rutherford, with a reflection on one of the big surprises, I think, from a macro perspective in 2023. And that was the resilience of the global economy.

[00:06:46] Mark Rutherford: One observation from a macro perspective that we had over the year was really that nobody is incentivized to ruin the party from the Federal Reserve, central bankers around the world, and governments as well. Their incentives are strongly aligned with keeping the system working and afloat. And it really goes back to the age old saying of: more money has been lost, trying to predict the next downturn than was actually lost in that downturn. Really, if we think back to last year, it wasn't whether a recession was going to happen or not. It was whether it was going to be in the 1st or the 2nd half and how deep it was going to be.

And I think the observation we had was that people were so narrowly focused on that one specific outcome, rather than remaining open to a wider range of outcomes. When you do consider the fact that governments are running massive fiscal deficits and the huge spending at the company level, what we were seeing is a number of companies who were hesitant to lay off as they're still seeing tight labor markets. The "so what" for us, as we think about next year is really: there's a lot of rate cuts priced in again, and so we have to remain open to scenarios of no rate cuts or even rate hikes as well as way more rate cuts than are even predicted. That is one takeaway. Another takeaway is just to respect the power of incentives in the market. And then within the portfolio, how do we enact that? We can adopt a mindset of incrementalism where making little shifts as new information comes out rather than a big wholesale adjustment to the portfolio based on a macro view.

[00:08:27] Rob Campbell: Another big-picture market theme from last year was just the leadership of the magnificent seven stocks, the mega tech-related companies in the U.S. That's Apple, Microsoft, Amazon, Google, Tesla, and the ones that had the biggest returns, Facebook and NVIDIA. And collectively, these seven stocks represented close to 30% of the S&P 500 and were up over 100% during the year, which compared to the S&P 500 overall return of just 26%. Now, our U.S. and global portfolios only held three of those magnificent seven. And so, here's U.S. equity lead manager, Grayson Witcher, on what he took away from that phenomenon last year.

[00:09:13] Grayson Witcher: You often need to invest before it feels comfortable, especially in the U.S.—it's a competitive market for investing obviously, the returns have been outstanding. One of the learnings is, well, how do we do a better job of this and not just necessarily picking one particular winner, but perhaps trying to find ways to benefit from a theme in general. So, this could be companies like Amphenol, or a company like Accenture, which is an IT outsourcer, which benefits from change in technology. So, it could be cloud computing. It could be AI. It's kind of a, an emotional learning, just trying to keep a level head in environments like this. When you're seeing a real full market or really strong market, especially a really focused market, it's easy to want to chase that. And you can see that this group of stocks that keep going up seemingly every day, you really have to go back and rely on a few things. One is looking back at prior times when this happened and knowing that typically doesn't last forever. You look back at prior tech bubble in the late nineties and you saw similar phenomenon where a bunch of tech companies kept going up and up and up for a number of years before imploding.

[00:10:28] Grayson Witcher: Same with kind of telecom companies at that time. And you've seen this at different times, so you can lean back on history and experience to try and keep a level head. You can also try—and what I tried to do—to just stick with the process. And take the emotion out of it and say, Hey, we're looking for wealth-generating companies trading at a discount to intrinsic value. And, of course, we're very focused on risk. And so, looking at these companies, the original reason for not owning all seven of these companies was different reasons of course, there's seven different companies, but some of it was risk management. And so just trying to keep reminding ourselves that, well, it's those risks haven't really changed that much, or at all, for some of these companies. That can help overcome some of that pain you feel when something you don't know, and it's a big part of the index, continues to do well if you kind of go back and look at the numbers behind it and say, *Hey, this is why we don't own it. We think the valuation stretched, we think there's better opportunities out there* and just remind yourself of that, but it still doesn't feel good.

[00:11:27] Rob Campbell: Dealing with FOMO. It's something that we have experience with in managing Canadian portfolios over the decades, just given the concentration of the investment universe here in Canada, but obviously, increasingly a phenomenon in the U.S. And globally with the rise of these mega-cap stocks shifting away from bigger picture themes, the rest of the reflections that will share with you today pertain really to our day-to-day bottom-up work. And so, first up, here's John Wilson, who leads our global small cap strategy with an observation on complexity.

[00:12:00] John Wilson: So, my learning this year was around the idea of less complexity often results in more alpha. And this idea actually starts with a concept known as variant perception. The idea of variant perception is the market is generally fairly efficiently priced so there's no opportunities to generate excess alpha. And we think that's for the most part, pretty true. But obviously, there are exceptions to that. And one of the key ingredients that helps you find these opportunities is when you have a differentiated view. That is an important concept. And we still believe in that. But I think like everything in life or in investing, it's on a spectrum. So, if you dial up the variant perception too high, now you're in the world of complexity. And now you're in the world of a lot of things need to go right in order for the investment case to work out. An example of that is we invested in a company a few years ago that helps companies assess the credit risk of their customers. It was actually quite a complex investment case. So, we had to underwrite the new management team. We had to assess their abilities without much of a track record because it was a turnaround. We had to assess not only their abilities, but their customers' willingness to accept higher prices. And on top of that, there's additional complexity in the fact that the company was highly levered.

[00:13:23] John Wilson: So, if we made a mistake in this assessment, the impact would be quite significant. That's a fair amount of complexity. You need a fair number of things to go right. The variant perception dial is probably too high; it's in the realm of complexity or too complex. On the other hand, if I think about some of the best investments that worked out over time, a lot of them still had this variant perception angle and component, but it was a less complex variant perception. So, a very simple example would be Winmark. That's a franchisor of used clothing stores. And at the time we initiated, there simply just weren't any analysts covering the company. So that in itself reduces the number of eyeballs that are looking at that company and that helps create this potential mispricing. We still think the idea of variant perception is important, we want to make sure that when we consider it, we're not walking into the realm of way-too-complex investment theses, where everything needs to work out in order for you to generate a good return. And that was my main learning from 2023.

[00:14:29] Rob Campbell: Fascinating observation. Well, here's another one that I think borders on a very similar theme, and this time from Canadian small cap manager, Samir Taghiyev. What stuck with me during the actual post-mortem process that took place. was that when Samir shared this learning, another member of our team referred to it as one of the most underappreciated margins of safety that doesn't get enough attention.

[00:14:55] Samir Taghiyev: My learning for 2023 was focusing on not only where the business is now, but also where the business is going. As Martin Ferguson would say, focusing on strength to strength. It is a very valuable idea because of what I call autocorrelation of success. Success begets success, both in life as well as business. The bigger and more successful business becomes, the easier it is for it to attract talent, for it to win more market share, for it to be better known in the marketplace and it is a self-reinforcing cycle. One example of this dynamic was Boyd Group. We looked at our notes from the history, decades ago, when we first started looking at Boyd Group, and at first the company was not that exciting. It was in an industry of collision repair shops, which was a very fragmented industry, very competitive industry. But the company was able to compound its knowledge on how to repair the cars best, how to develop relationships with the insurance companies the best, which resulted in their better financial statements. And as a result, they were able to grow faster, acquire their competitors and further increase their market share and wallet share with their insurers, therefore going from strength to strength.

[00:16:37] Rob Campbell: Next, we move to our international Equity Portfolio Manager, David Ragan, and here's his take on this concept of strength to strength, but also the reverse.

[00:16:47] David Ragan: In 2023, we had a learning reiterate to us that significant changes in the market or dislocations can take a lot longer to work their way through. One example was our holding Sartorius Stedim. They make equipment to make biological drugs. In addition to the consumables that are used in those machines, obviously a big beneficiary during the COVID crisis, which when that came off was worse than we expected [the sales], but also the consumables customers had stockpiled these given the supply chain issues and not wanting to take the risk that they don't have them on hand. So, sales again fell worse than expected and this just persisted a lot longer than we thought was likely. Another significant change that happened during this period was our defense names in 2023 actually benefited from how slow or how long it took for some of this news and some of the changes that are happening to their business due to the Ukraine war, how long it took to work its way through into the company. The orders may have been announced quickly, with big press releases, however, the actual orders being received by companies like Rheinmetall or the pricing coming out is positive, but it hasn't been to incentivize new factories to be built. That's still coming. That's still taking longer, and that continues to help share prices today. This is a relearning of how long it can take a significant change in the environment to work its way through the companies.

[00:18:18] Rob Campbell: Sticking with a member of our International Equity team, analyst Siying Li reflects on a recent initiation that, at least in the near term, hasn't turned out the way we hoped out of the gate.

[00:18:30] Siying Li: One of the relearned learnings this year is that large acquisitions are risky, and if you have found a good company that's run by a good management team, it still is better to wait because there is likely going to be rocky quarters. The company I'm referring to that I relearned this learning from is Rentokil. So, Rentokil acquired this company called Terminix. It's a company that was two times the size in the U.S. and it was about 35% of the enterprise value for Rentokil when we did the analysis initially. We liked the business model and the management team, but we thought there was a significant risk post this large-scale acquisition. So, we did not initiate at the point when we first finished the initiation report. And then three quarters later, Rentokil proceeded to record three really good quarters. And we began to think that the integration is going really well. Perhaps they're not really going to run into the risks that we were worried about in the beginning. So, we bought the company. It was at a price that was 20% higher than when the initiation report was written. And then, the company proceeded to report a poor quarter of results, and then the stock fell by almost a third because at the time when we initiated in the company, there was the valuation built in from the company itself, but also optimism about this acquisition. So, there was a bit of error in the valuation, and then it had more room to fall, so it was a painful lesson. And the lesson is to be patient. And as long-term investors, we can afford to be patient.

[00:20:10] Rob Campbell: Patience, yes, and base rates, worth paying attention to. Portfolio Manager, Jeff Mo had a bit more on probabilistic thinking and some learnings with respect to achieving a balance between the narratives and the numbers.

[00:20:30] Jeff Mo: So, my biggest learning from 2023 was to what I call lean harder on inductive evidence and the numbers. So, I think when you aren't investing, you're often looking at the split between, call it the deductive evidence or the story of a company in a stock and the inductive evidence. So how have profits been trending? How has revenue growth been trending the last several quarters, several months, several years? And often the probability of something occurring is probably more balanced than what the stories say. And what I mean by that is humans are narrative driven. We want to explain the world with stories. And it's very easy for us to say the world is going to play out in the first way; way "A". Versus, the world definitely is going to play out in way "B", but often I think the real world, especially the probabilities are messier. So, I think that's why we do Monte Carlo analysis, and that's why we lean on discounted cashflow models. That's why we look at improving versus degrading trends in the underlying quarterly and annual numbers of a company. I think something that this worked out in 2023 would be, Donnelly Financial, which was a company that we initiated at the very end of

2022, into the U.S. mid cap strategy. This is a company where a significant portion, or a meaningful portion, of its profits come through facilitating IPOs. And the story, at least at the time, at the beginning of 2023 was that the IPO market was going to the doldrums. It will be for a while, there's a recession coming, so on and so forth. But when we did the discounted cashflow model, we felt that the market at the price then was pricing basically that an IPO market is always being at a recessionary level of activity, which we thought was not really fair. And so that was one that has worked out for our clients. On the flip side, a company like Moderna, possibly we were more taken in with the story. I think I've probably shared on this podcast before in March of 2023, we went to visit their facilities. We met the CEO and I still believe that the technology they're building is changing the world or at least has the potential to change the world or already has arguably with the COVID vaccine. But I think we were too caught by that narrative, that story, and the main part of their financial performance is still a COVID vaccine. And as the year went on, it was becoming more and more clear that COVID vaccine uptake was looking weaker than projected. And it took us a long time to come around to this inductive evidence of the numbers getting weaker than what we had modeled. And we had always realized this was a wider range stock, meaning that the outcomes are going to be wider than a typical holding in our funds. But nevertheless, I think we should have shifted faster, leaned more on the inductive versus the deductive. So that's the learning in a nutshell.

[00:23:53] Rob Campbell: Credit analyst Curtis Elkington reflected back on how the best intentions around a trade can sometimes backfire. And another reminder as to why parent companies and fixed income matter.

[00:24:06] Curtis Elkington: So, at the tail end of 2022 and early 2023, we tried to high-grade and improve the overall quality, and that mainly comprised of selling lower-rated BBB securities, for example, and investing in higher-quality issuers. So, one of the companies that we liked was Enbridge Gas Inc. What they do is regulated gas distribution across the province of Ontario, where they have a near monopoly. It's also a subsidiary of Enbridge Inc., the parent. Which is a higher-risk issuer, and that was an example of an issuer that we're selling down our exposure to, to move into higher-quality names. So, the thought with Enbridge Gas was we're going to have steady regulated cash flows, we're going to have a regulated balance sheet, and that's going to be attractive in turbulent economic times. Enbridge Gas also has this unique ability that it can pass through higher interest costs, which had been rising through its regulated model. So, the story of Enbridge Gas seemed pretty clean. But what ended up happening was Enbridge, Inc., the parent, so they announced an acquisition of three natural gas utilities in the U.S. While these were completely separate from Enbridge Gas, Inc., Enbridge paid a lot for this acquisition. They paid about 20 billion dollars and the parent company had to incur a lot of additional debt to finance that. So why does this matter, or why do parents matter? It comes back to the structure of the bond market. So, Enbridge, Inc. is rated by a variety of rating agencies, including S&P and due to this acquisition, they got put on negative outlook by a number of the rating agencies, including S&P. What happened is how S&P through its group rating methodology, they actually ended up applying that same negative outlook to Enbridge Gas, Inc.

[00:25:44] Curtis Elkington: ...solely because Enbridge, Inc. was the parent. It had nothing to do with the fundamentals of the entity. And this leads me into another quirk of the Canadian Bond market, where there's a difference. So, Enbridge Gas typically issues 30-year debt, and it was A-rated. What so happens is their segment of the market, predominantly life insurance companies, that want to buy 30-year high-quality A-rated debt. But the risk was, since Enbridge, Inc. did this large acquisition, that Enbridge Gas was going to be downgraded to BBB, and thus, this insurance money that typically flowed into names like Enbridge Gas, Inc. would be less interested because the rating had lowered. And this is what we missed in the analysis. We thought the fundamental business was great and strong, but we overlooked how much that parent actually mattered and how the actions at Enbridge Inc., could impact our investment in Enbridge Gas Inc. And what ended up happening is Enbridge Gas Inc., they widened the most out of all the Enbridge entities, largely because of this bond market segmentation phenomena. And the takeaway was, this has got to be something that we incorporate in our analysis going forward. This is something we have to be aware of. And maybe issuers with riskier parents, maybe that should impact our fundamental analysis of that issue. And so overall, that was the big takeaway, parents matter when investing.

[00:27:08] Rob Campbell: The next two learnings pertain more to self-awareness. And about how to be more effective teammates in contributing to decision-making. And they both have a really cool mental model associated with them. First up, Private Equity manager Peter Lieu, who's also an avid Blue Jays fan, on a concept borrowed from baseball.

[00:27:27] Peter Lieu: The term power alley comes from baseball and is defined by the area in the field where a hitter tends to drive the ball hardest. Hitters have their own tendencies and their own strengths, and that's what we refer to as their power alley. As investors, we develop our own individual power alley over time, and it's mainly through experience and making decisions—many, many decisions over time. You know, over the last couple years I've been building a Private Equity strategy with Paul, and what I've learned about his power alley [and that's] he likes simplicity over complexity. That's where he's had success, and that's where it enables us to prioritize our deal flow, so we're spending more time on investment ideas that we're comfortable with, we have experience in. It improves our process and makes things more efficient. I shared this mental model with our team and the important takeaway is the importance of journaling because journaling allows you to have many reps of decision making and, over time, you develop pattern recognition. You develop a sense of what your own power alley is as an investor.

[00:28:49] Rob Campbell: Great advice. And here's Asim Hussain, one of our equity analysts with a mental model that has really lingered with me since I first heard it. Certainly, applicable well beyond the work of an equity analyst rather a learning about communication more broadly.

[00:29:05] Asim Hussain: My learning is what I refer to as the bends. "The Bends" is not just the Radiohead song that you may have heard some time back, but it's an actual phenomenon on which that song is based, where a scuba diver goes deep into the water, and as they're taking in compressed oxygen and nitrogen to resemble real air, the body absorbs the oxygen and makes use of it, but the nitrogen is still stuck in the body, and as that scuba diver starts resurfacing, that nitrogen is dissipated through the blood and can cause serious tissue damage and other issues in terms of nausea and so on because the resurfacing process is too fast. So how is this relevant to be an analyst? It's relevant because an analyst is something similar with respect to his or her job. My job as an analyst is to dive deeply into a stock, try to get the key insights from that stock in terms of how that company is operated: it's business model, the management who's driving that company's execution, the valuation or the stock price that is trading at the moment, the risks that face that company, it's in business environment, and other issues with respect to the portfolio and how that stock fits within the wider subset of stocks in which it finds itself. And so, for me as an analyst, when I do a deep dive I can also go through something like the bends, except it's not nitrogen dissipating from my body, it's my ideas and the crystallization of the key insights that I'm seeking within that analysis, or that deep dive that's being dissipated as I come towards the surface.

[00:30:32] Asim Hussain: I don't want to lose the key insights, but at the same time, I don't want to be lost in the details of that company, they may not be relevant to the thesis at hand, the thesis that we use to make a decision about whether to buy, add, trim, or sell a stock. So, what's the risk? The risk is that as a novice scuba diver or analyst, I dive very deeply and then come up too quickly, in which case I lose the details, I lose the insight, and I give my PM a subpar thesis with which to run with and to make his or her decision. The other risk is that as a novice analyst or scuba diver, I resurface too slowly because I want to avoid the bends, and though I might come up with a better insight or idea for my PM to use, I ultimately lose that idea or insight because the

PM is no longer around to hear it. They've moved the boat to a different location to find treasure elsewhere. So, for me, the key learning for 2023 was about finding a balance between not suffering from the bends as an analyst as I resurface, but at the same time not losing my PM's interest, or details while I resurface and come and provide those ideas to the PM. So, I hope that helps any analysts who are watching this to find that balance for themselves.

[00:31:47] Rob Campbell: All right, Christian, come on back in. If you thought I was going to let you off the hook, I'm not. So, I do want you to have a turn. What was your most notable learning looking back over the last year?

[00:31:57] Christian Deckart: As I've alluded to before, I'm very skeptical about learning things on a one-year basis because our investment horizon is eight to ten years. And usually, good ideas take time to work out. And one year is random in financial markets. So, I will go to a short-term learning, though. It's an error I made about two years and a bit ago. If you remember back to 2021, that was when rates and inflation just started to accelerate and rates hadn't really risen yet and so we got concerned about higher valuation companies, longer duration—where cash flows are further out the discount factor plays a larger role to determine net present value. And so, I really wanted to reduce our exposure in Global equity to these higher duration names. And unfortunately, in that process, I was driven by the idea of getting out of a few names. And well, if you want to get out of something, you need to get into something. But my whole logic was really driven; I want to get out of these names. And so, I think in my brain, I made a few new ideas, particularly two fit what I was looking for. Both ideas didn't work out financially. We exited out of one and the other one we own very little of. So, I think those are two cases where we're talking about permanent impairment of capital.

[00:33:15] Christian Deckart: The life lesson around that, that's also why this particular one annoys me, I had learned on a completely different topic many, many years ago. I don't know who of you out there writes visions for themselves. So how you imagine the future to be. I learned that a long time ago in Germany, a vision is you envision how something looks in the future and how you would feel. And then subconsciously your brain, as you repeat that vision to yourself will make you take little actions in that direction. And when you write the vision, one of the earliest things I learned is, well, you have to phrase it positively. So, go towards, and away from what you want to get away from, i.e., write down something like, it is December 2024 I'm sitting in my living room and I need a healthy lifestyle, which includes daily exercise and so on. And so, I'd learned that positive framing in another context, but I think it's true for portfolios as well. When you want to make a change to the portfolio, it really has to be led by where you want to go and not what you want to get away from. And I think the fact that I really wanted to get away from a few longer duration things in 2021 tricked me into doing things that otherwise I wouldn't have done. And so that's a regret, that's an error, because I think the results didn't come in great. And that's not the reason why it's an error. The reason it's an error is because I sort of went against my own principles in picking these investments.

[00:34:39] Rob Campbell: Can you just share maybe a little bit more specificity as to the nature of the error that you made in those two companies? What was it about them? What were maybe the mental gymnastics that you performed that you shouldn't have in order to fit them into this box that you wanted them to be in?

[00:34:55] Christian Deckart: I am relatively risk averse. It's important to take risk otherwise you can't make return, but we're looking for mispriced risk. And the one risk that I tend to be very skeptical about is leverage. And both these companies were higher leverage. So leverage in and of itself in the first step may not be a problem. What becomes a problem is then if something goes wrong, then usually for the equity holders, there is very limited margin of safety. And one of the cases there was a lawsuit they had to settle recently that then just pushed the debt limits to a level that was well unacceptable to us. Having gone for companies that don't have the balance sheet strength I usually look for.

[00:35:39] Rob Campbell: Reflecting back as a leader within our group, as you look back over this year's process, do you feel the team are by and large learning the right things given all the pitfalls that we talked about earlier? In addition to that, what do you do to ensure that the group continues to learn on an ongoing basis?

[00:35:57] Christian Deckart: First of all, maybe the why, why is it important that the team continues to learn? The world is getting faster and better. Our competitors aren't sleeping. And so alpha is really money you take away from other people. We don't create alpha, we just take it away from other people because the average is the average so if you beat the market you taking it away from other people. So given that its competitive, people want to be better or competitors are getting better. A great example of a similar phenomenon in sports is the following, I think it was the 2019 London Marathon where there was a new world record broken for marathons. And the person that ran those 42 kilometers, I think every single of his five case splits was fast enough that it would have gotten him the gold medal in the 1960s at the Olympic Games. So, the speed you needed to run in the 60s over 5k was now 40, 50 years later, something you needed to sustain over 42 kilometers. So that's the example, Yeah, we need to get better otherwise, other people will eat our clients' lunch. So, what are we doing to enable learning? Well, I think first element is the learning stipend. I think we've spoken about on this podcast before. So, people in research have a budget. No one knows better their own learning needs than themselves. So, they can decide what to spend that learning budget on, whether it's courses, coaches, books, whatever they need. I think another enabling tool for learning are the small teams we work in. Yes, in research overall, we're more than 40 people, but the asset classes are relatively small groups with what I would say is social control through the lead asset manager who sees if people are pulling their weights.

[00:37:37] Christian Deckart: It's collaboration on M42, our common database. People can see in real time what other people are working on, can give them feedback. People know that what they do is being seen. And I think that visibility can create dialogue, which helps in learning and sort of we get, I think, learning economies of scale because we're just four people. And then the final and maybe the most important part of it is accountability. Generally, in asset management, people are driven, want to have good careers, good compensation. And so, we're working a lot. You're accountable, making sure that the people that learn fastest have best results are most rewarded. That's well here, a plug for my colleague, Vijay, our Director of Research, who has to deal with the problem of compensation, partly based on the input I give, but he has to deal with that problem. So, to reward the right behaviors, people that follow the process, that improve the process, that contribute to good performance.

[00:38:31] Rob Campbell: I'm left in a similar space to where I was when we did that episode with Justin about a year ago, which is that, hey, learning and investing is really hard, but you still need to make the effort. The effort is worthwhile. The introspection and all that has been fascinating stuff. Christian, thank you so much for coming on and sharing your learnings, and speaking about the process.

[00:38:51] Rob Campbell: Thanks to all my other colleagues who were brave enough to come on and be vulnerable with everybody else. I hope you enjoyed it, and we'll see you on the next episode.

Rob Campbell: Hi everyone. Rob here again. To subscribe to the Art of Boring podcast, go to mawer.com – that's https://www.mawer.com/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.