Robert Sankey, CFA
Chief Executive Officer

CEO Address

Good afternoon, everyone. It's great to see you all today. Whenever I get a chance to come up here on stage in front of you, I'm just reminded how much of a privilege it is for me to do so. I just wanted to acknowledge that up front. So, thank you very much.

As most of you know, at Burgundy, we consider ourselves to be disciples of Warren Buffett. Not only perhaps the best investor of all time, but Buffett also serves as investing's best teacher.

In fact, to build a strong foundation in investing, a good place to start is by reading Berkshire Hathaway's annual shareholder letters from over the years, which Buffett has now written every year since 1969, or by watching Berkshire's annual meeting, which many of us have travelled to Omaha to attend in person over the years, but is now accessible to all, online and free of charge. The most recent of which just took place this past Saturday, and it did not disappoint!

In many ways, Buffett's big ideas on investing have served as the bedrock of our own investment philosophy at Burgundy. Somewhat of a ritual at the firm, each spring after the Berkshire letter is published and the annual meeting has taken place, our investment team meets to discuss and distill key takeaways. We speak about the themes that Buffett and his long-time partner, Charlie Munger, are pursuing: the big investments of the past, which continue to compound wealth for shareholders today, and the big investments he is making today.

But rather than just focusing on Buffett's extraordinary wins along the way – Coca-Cola, See's Candies, GEICO, and more recently, Apple – and perhaps because of the noisy, cluttered, and complex world we are living in today, I find myself taking a more reductive perspective. Increasingly, I am appreciating what Warren Buffett didn't do and how that has contributed so greatly to his success.

What has he consciously avoided with such clarity and discipline that has allowed him to preserve and ultimately create so much wealth for his shareholders? Answering this question offers some enduring lessons for investors. Now there's a long list of things Buffett has never done – he's a real underachiever, as we all know! – but here is what is most apparent to me:

WHAT WARREN BUFFET HAS NEVER DONE

1. NEVER LOST HIS LONG-TERM PERSPECTIVE.

First, Buffett never lost his long-term perspective. Rather than focusing only on all the issues of the day and succumbing to the allure of all that pessimism delivered by all those sophisticated pundits, Buffett has chosen instead to place greater weight on the undeniable underlying progress happening in the world. He's used this to fuel his optimistic long-term outlook – on the markets, on the economy, and on broader society. And, as an investor, he's had good reason to. As a proxy for public equity investing, the S&P 500 Index of U.S. stocks has now compounded at an average annual rate of just over 10% for the past 97 years! Buffett's appreciation of the power and dependability of long-term compounding – despite everything that the world has thrown at it – is all the evidence he needs to maintain such an unwavering, constructive long-term outlook.

2. NEVER LET THE PATH GET INTERRUPTED.

Warren's partner, Charlie Munger, once reminded us that "the first rule of compounding is to never interrupt it unnecessarily." It's one thing to maintain an optimistic outlook and an appreciation for the magic of compounding. It's another to have the capacity and discipline to allow it to play out – staying invested and avoiding big losses along the way.

The most dependable path to big losses or worse, financial ruin, is through excessive leverage and a dependence on other people's money.

Buffett has certainly taken advantage of other people's money along the way to make some of his investments. Using the zero-cost float available in his insurance businesses that is created by policyholders paying their premiums upfront, but never depending on it.

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3. NEVER ABANDONED HIS CORE INVESTMENT BELIEFS (BUT HE'S EVOLVED).

Buffett has never invested in heavily indebted businesses, nor has he employed leverage at the Berkshire Hathaway level. He doesn't depend on other people's money; he doesn't owe anyone anything. On the contrary, he operates with a fortress balance sheet, often acting as provider of capital to businesses that have found themselves in a vulnerable position. When borrowing costs are low and liquidity is abundant, the benefits of this conservative stance on debt can be concealed; however, in an environment like today with rising interest rates and rising costs of servicing those debts, this advantage becomes very real, very quickly.

Buffett never abandoned his core investment belief that stocks aren't merely slips of paper or ticker symbols that show up on a computer screen with prices that rise and fall each day. Instead, stocks represent fractional ownership in living, breathing businesses; and, most importantly, represent a slice of their future profits. And that's the basis upon which they need to be evaluated. That thinking serves as the backdrop of Buffett's approach – investing only in businesses he can understand, those with barriers to entry and durable competitive advantage, with favourable long-term prospects run by honest and competent people that are available at an attractive price. While along the way, he's adapted his approach to our ever-evolving world, he's never wavered from those beliefs.

4. NEVER MADE IT HARDER THAN NECESSARY.

Buffett has kept it simple, never making it harder than it needs to be.

He has often cited the importance of operating within a well-defined "circle of competence" – focusing in areas where he has, over time, established an advantage through either experience or study, and then maintaining the discipline and confidence to target all his efforts to building upon that advantage. Never trying to be all things to all people. According to Buffett, "the size of the circle doesn't matter but knowing its boundaries is vital." Granted, Buffett's circle has expanded over time. When you've been at it for 75 years or more, your knowledge compounds and your wisdom accumulates sufficiently to allow for that expansion.

Some things in life allow for and require precision. Investing is not one of them. Buffett is skeptical about forecasts and models that are unrealistically precise. In the spirit of that old quote about statisticians, most investment analysts use models as drunks use lamp posts – for support, not illumination! Models and the assumptions embedded throughout them are fraught with the biases of the modeler.

Buffett has avoided applying false precision in his own approach. He appreciates that the correct response to the increasing complexity in the world should not be to apply increasing precision to our interpretation of it. Instead, he has chosen to focus on the inherent qualities of the business and the real levers in the economics – long-term growth rates, profitability, and returns on capital are what matter, not only next quarter's earnings per share.

5. NEVER INVESTED IN NON-PRODUCTIVE ASSETS.

Buffett has never invested in what I'll call "non-productive assets" – whether unprofitable businesses, gold, or more recently, cryptocurrency. He has never strayed from the idea that it is far better to align your investment approach with society's most productive and adaptable assets – high-quality businesses: ones that are growing and highly profitable to begin with, those that can pass along price increases to customers in line or ahead of inflation while maintaining a certain degree of control over ongoing costs, and ones that don't require excessive reinvestment back into the business. These are what will ultimately protect against inflation – that "silent thief that can erode your wealth without you even realizing it" – and these are what will win in the long run.

6. NEVER FOLLOWED THE HERD.

Buffett has never followed the herd. His most famous quote about the need to "be fearful when others are greedy, and greedy when others are fearful" captures the essence of this. He's been disciplined enough to stay away from the "this time is different" sort of hype surrounding new innovations and courageous enough to take big bets in volatile and uncertain times, and he's found opportunities in both.

7. NEVER FORGOT ABOUT 'THE PEOPLE'.

Buffett never forgot that at the end of the day this is still all about people. It's about the business acumen and honesty and integrity of the managers of his investee companies, to whom he affords extreme autonomy. In his words, "delegation almost to the point of abdication." It's about the employees of those businesses. And most importantly, it's about those he serves and to whom he is most accountable – in his case, Berkshire Hathaway's shareholders. Across all, alignment of interests is crucial.

None of this is to suggest that Buffett's own track record has gone unblemished or that he hasn't made his own share of mistakes over the years. Even the best make mistakes. But he's been able to adhere to a framework that's allowed him to absorb those mistakes, to apply his learnings to future decisions, and still deliver a tremendous overall long-term result to his shareholders.

> We know we are not all things to all people, nor do we strive to be, but we have a lot of conviction in what we do. And we put our own money where our mouth is, investing the vast majority of our own investable wealth alongside you or in the equity of the firm.

So, why have I chosen to focus today's remarks on Warren Buffett? Because – and this may be obvious – we try to apply many of the same principles to our own brand of quality/value investing at Burgundy. We do our own deep research to identify the highest-quality businesses globally; we invest with conviction, building concentrated portfolios, being patient and disciplined about the price we'll pay, always demanding a margin of safety and holding for the long term; we focus on capital preservation with a bias toward remaining fully invested and keeping our clients fully invested; and we are willing to accept periods of underperformance through times of irrational exuberance and eager to embrace the opportunities that surface during volatile and uncertain times.

But beyond investing, Buffett's principles are also equally as applicable to how we run the firm. We apply a long-term lens to everything we do – not only to how we invest, but in how we counsel you, our clients, with only your best long-term interests in mind. This also applies to how we develop our own people and team. Key to this is our independence, which insulates us from the rampant short termism in the world and helps us avoid some of the conflicts of interest that are inherent to other models.

We are committed to never letting our own path get interrupted. We are building deep bench strength across the team, being thoughtful about succession of key roles, transitioning ownership from one generation to the next – all the while, adhering to a culture of autonomy and accountability.

Protecting our clients is always top of mind at the firm. At its most basic level, I am referring to protecting you from a permanent loss of capital. But also, I refer to the loss associated with the opportunity costs of other alternatives you might be considering for your investments. We know we are not all things to all people, nor do we strive to be, but we have a lot of conviction in what we do. And we put our own money where our mouth is, investing the vast majority of our own investable wealth alongside you or in the equity of the firm. For me, it's 100%.

And we will further protect our clients by continuing to invest in the future: in the capabilities of our people and continuity across our team, in our research capabilities, in our systems, risk controls, and in cyber security.

We keep it simple, remaining disciplined in our approach and expanding our circle of competence only at a pace that makes sense. While simple, what we do is not easy. And we acknowledge that we've had some missteps along the way. But we are committed to learning from them, to being transparent about them, to avoid repeating them, and to ultimately drive stronger results in the future.

Finally, we remember always that this is also all about people for us. Above all, it's about you, our clients. And through preserving and growing your capital, we exist to create the future that's most important to you, to live as you wish and give as you wish. And we will continue to work hard to achieve that outcome. Thank you very much. B

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The Burgundy forum

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