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Don't Just Do Something, Stand There

Anne Mette de Place Filippini: In Disney's 1951 cartoon version of *Alice in Wonderland*, the frantic White Rabbit calls out to Alice, "Don't just do something, stand there!" By twisting that more familiar expression, don't just stand there, do something, White Rabbit cleverly inverted its meaning, reminding us that life isn't only about action. It's about the choices we consider. We know that change is a given. Yet, as long-term investors, we also know that some things don't change. So, when do we do something, and when should we just stand there?

This year, we are celebrating our 25th Client Day at Burgundy. Let's use this occasion to go back in time together, a quarter of a century ago. It seems a fitting timeframe to reflect on both change and permanence.

Quarter to quarter, even year to year, it may seem as if little changes at Burgundy. Our quarterly updates may profile a new holding or tell you about one we sold, about what we see in the markets, and the companies we go visit. The challenge we have is that noticeable change can rarely be seen in quarterly increments. Therefore, I suspect that we sometimes come across with a certain "sameness" in these updates. This may leave you wondering how we are keeping up with the times, if we are keeping up with the times, and how we have evolved over time. So, let's journey back, comparing then and now, to shed light on how we have evolved over time.

It's a different world today. The internet, or at least the World Wide Web, was still very new in 2000. It was something you dialled into. You would have to announce to everyone at home: "Please, don't use the phone. I'm on the internet!" Apple's iPhone had not yet been invented. The only things home delivered were pizzas... and newspapers, of course, I almost forgot.

So how have we at Burgundy learned and adapted? And, as a result, how has that reshaped your investment portfolios? And curiously, and perhaps paradoxically, our journey back will also reveal how much we have stayed the same.

Burgundy's inaugural Client Day was held on April 5, 2000, at the Metro Convention Centre here in Toronto. Though it was ahead of my time at the firm, I imagine some of you were there. Allan MacDonald, our small-cap Portfolio Manager at the time, came up with this "blue sky" idea that we would hold an annual investment forum for our clients. The idea clearly stuck.

Our team was feeling some pressure at the time. Technology stocks were all the rage in the dot-com boom, and Burgundy had largely not participated. Our performance was underwhelming, to say the least, compared to how well the market was doing. In Canadian equities, we trailed the market by 45% percentage points on a one-year basis, and our Partners' fund was actually down in a market that was up.

This was the Canadian equity portfolio in the early 2000s. It is easy to see why it had not kept up in the dot-com boom.

Andres Wines
Astral Media
AtkinsRéalis
Bank Of Montreal
Bank Of Nova Scotia
Cameco
CanWest Global Communications
CML HealthCare
Canadian National Resources
CHUM
Crestar Energy
CTV
FACS Management Systems
Fairfax Financial
FirstService
Future Shop
Goldfarb Corp.
Gulf Canada
Investors Group
Logistec
Methanex
Metro-Richelieu
Power Corporation Of Canada
Quebecor Printing
Queensway Financial
Royal Bank Of Canada
San Fran Boutiques
Second Cup
Summit Resources
Sun Life Financial
Suzy Shier
Teknion
Timberwest Forest
Toronto-Dominion Bank
Trilon Financial
Ulster Petroleum
Uni-Select
Vector Aerospace
Versacold
Videotron
Vincor International

Nortel was the biggest stock in the Canadian market then. It had grown to become a 30% weight in the TSX, and we didn't own it. We owned the large Canadian banks and insurers, Second Cup, Gulf, and Cameco – not exactly internet-themed. As it turned out, we were near the peak of the market. The Nasdaq had already peaked, and the Canadian market peaked six months later. The technology bubble was ready to burst, and our Canadian portfolio was about to outperform in a spectacular way. Now let's take another look at this set of companies. What is striking to me is how few still exist. Just over half are no longer public companies.

Here they are highlighted in bold.

Andres Wines
Astral Media
AtkinsRéalis
Bank Of Montreal
Bank Of Nova Scotia
Cameco
CanWest Global Communications
CML HealthCare
Canadian National Resources
CHUM
Crestar Energy
CTV
FACS Management Systems
Fairfax Financial
FirstService
Future Shop
Goldfarb Corp.
Gulf Canada
Investors Group
Logistec
Methanex
Metro-Richelieu
Power Corporation Of Canada
Quebecor Printing
Queensway Financial
Royal Bank Of Canada
San Fran Boutiques
Second Cup
Summit Resources
Sun Life Financial
Suzy Shier
Teknion
Timberwest Forest
Toronto-Dominion Bank
Trilon Financial
Ulster Petroleum
Uni-Select
Vector Aerospace
Versacold
Videotron
Vincor International

Holdings like Astral, Chum, CTV, CanWest Global, and Second Cup have all been acquired, a similar fate for many oil & gas companies. This is the Canadian equity portfolio today. In another measure of change, almost half of today's portfolio was not yet listed 25 years ago.

Alimentation Couche-Tard
Altus Group
AtkinsRéalis
Bank of Nova Scotia
Boyd Group Services
Brookfield Asset Management
Brookfield Corp.
Canadian National Railway
CCL Industries
CGI
Colliers International Group
Copperleaf Technologies
D2L Inc.
Dentalcorp Holdings
Element Fleet Management
Finning International
Freehold Royalties
Gear Energy
Leon's Furniture
Mullen Group
NorthWest Healthcare Properties REIT
ONEX
Pason Systems
Pet Valu Holdings
PrairieSky Royalty
Real Matters
Restaurant Brands International
Rogers Communications
Royal Bank of Canada
Saputo
Softchoice
Stantec
TC Energy Corp.
Toromont Industries
Toronto-Dominion Bank
Total Energy Services
TWC Enterprises
Waste Connections
Winpak

Now, this is Canada. What about the largest market in the world, the United States of America? Here we have Burgundy's U.S. Large Cap portfolio at the end of March 2000. We held 23 stocks in this portfolio. We own only three of those today: Equifax, Berkshire Hathaway, and Johnson & Johnson. Equifax has been bought and sold several times, whereas Berkshire and Johnson & Johnson have been owned throughout the period. Good call too as these stocks did well, outperforming the market.

Abbott Laboratories	Gannett
Acceptance Insurance	Gillette
Albertsons	Johnson & Johnson
American Express	Kaydon
Bear Stearns	Leucadia National
Berkshire Hathaway	M&T Bank
Dentsply	Markel
E.W. Scripps	Merck & Co
Emerson Electric	Philip Morris
Equifax	Washington Post
Fannie Mae	Wells Fargo
First Data	

As we saw in Canada, many companies did not survive the last 25 years in the stock market. About a quarter are no longer around as independent, publicly traded entities.

Circumstances changed. Holdings like Gillette (razors), First Data (payments), Acceptance Insurance, and Kaydon (bearings) were acquired and delisted from public markets.

Abbott Laboratories	Gannett
Acceptance Insurance	Gillette
Albertsons	Johnson & Johnson
American Express	Kaydon
Bear Stearns	Leucadia National
Berkshire Hathaway	M&T Bank
Dentsply	Markel
E.W. Scripps	Merck & Co
Emerson Electric	Philip Morris
Equifax	Washington Post
Fannie Mae	Wells Fargo
First Data	

Our selling discipline helped us sidestep some major minefields, especially in financials, where we sold Bear Sterns in the early 2000s and Fannie Mae in 2004. Both ended up being big casualties in the Global Financial Crisis of 2007 and 2008. Traditional media companies like Washington Post and Scripps made up one-tenth of the portfolio in 2000. Those were also sold. There is not much left of traditional media anywhere in the world. Mostly, we sold to buy companies with better prospects. This is the U.S. large-cap portfolio today:

Allison Transmission	Johnson & Johnson
Alphabet	Kenvue
Amazon.com	Lowe's Companies
AutoZone	Mastercard
Berkshire Hathaway	Microsoft
Carrier Global	Mondelez International
Cencora	News Corp.
CME Group	Oracle
Dollar Tree	Procter & Gamble
eBay	Ross Stores
Electronic Arts	SS&C Technologies
Equifax	Truist Financial
Henry Schein	Willis Towers Watson
Intercontinental Exchange	

We bought Microsoft in 2006, and while the share price was flattish for eight years, talk about patience, it has been a real compounder in the portfolio. As we saw in Canada, many of the new ideas in our U.S. portfolio were also new to equity markets. Eleven of today's holdings were not yet listed in 2000.

Allison Transmission	Johnson & Johnson
Alphabet	Kenvue
Amazon.com	Lowe's Companies
AutoZone	Mastercard
Berkshire Hathaway	Microsoft
Carrier Global	Mondelez International
Cencora	News Corp.
CME Group	Oracle
Dollar Tree	Procter & Gamble
eBay	Ross Stores
Electronic Arts	SS&C Technologies
Equifax	Truist Financial
Henry Schein	Willis Towers Watson
Intercontinental Exchange	

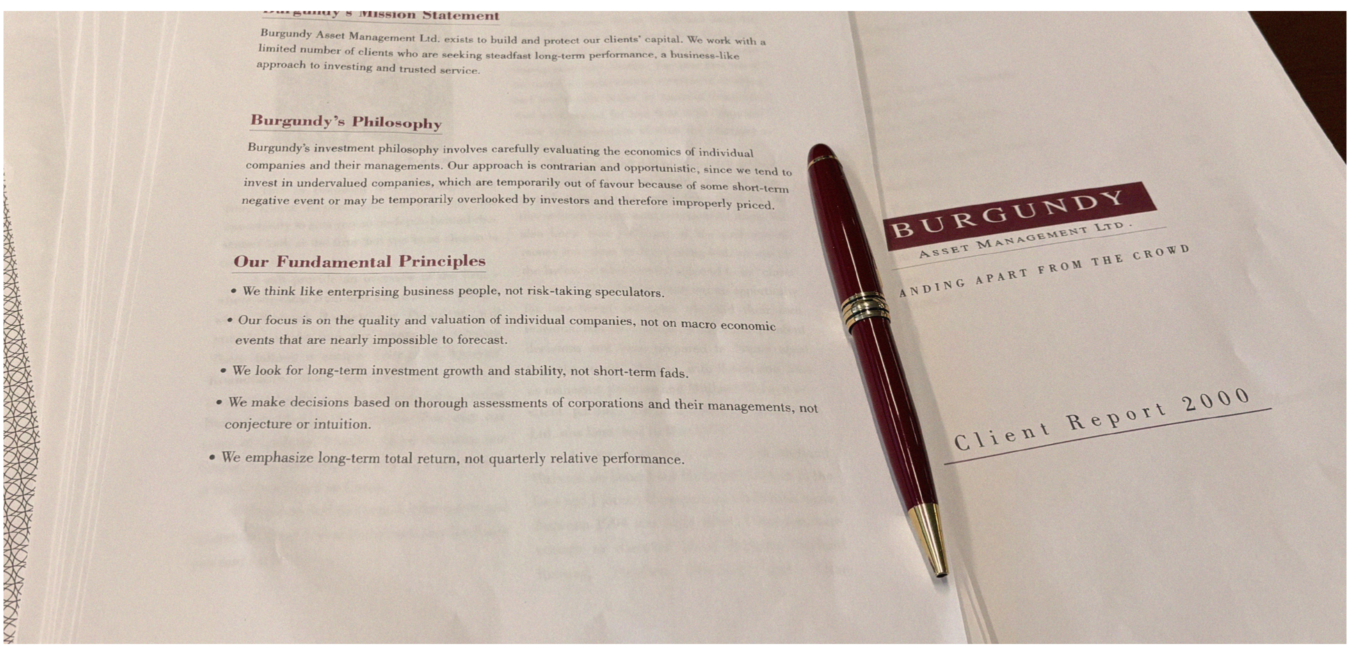
> **“Our culture is research-intensive and bottom-up oriented, and we are unwilling to jeopardize capital to reach for short-term performance numbers. These are principles that do not change.”**

For example, Google (now Alphabet) was founded in 1998 and only listed in 2004. We first bought it in 2011 and then again in 2018, recognizing that selling it in 2014 had been a mistake. So, a quarter of the 2000 portfolio is no longer around, while 40% of today’s portfolio had yet to enter the public markets. Again, change has been relentless.

In the broader markets, the lifespan has been even shorter. Consider these numbers from McKinsey. The U.S. entered the new millennium with roughly 5,500 publicly listed companies. Over the ensuing two decades, we saw 3,900 new companies enter the markets, but we also saw 5,400 companies exit. So, we ended 2020 with roughly 4,000 public companies a tremendous rate of flux if you think about it, and also a sizeable decline.

Businesses have lived through tremendous change since we held that very first Client Day. Some have done a phenomenal job navigating and adapting and, as a result, have continued to prosper. Think of Microsoft, Berkshire Hathaway, and Johnson & Johnson. Others have not. Some got disrupted, some were acquired by stronger competitors, and some were simply mismanaged out of business. While the environment in which we invest has changed, some things have not changed.

Here is a photo from the archives, the March 2000 Client Report. The very first page outlines our fundamental principles guiding our investment approach.



We think like long-term owners of businesses. We look to own companies with strong economics and outstanding management, and to purchase them when they are trading at a discount to their intrinsic value. Our culture is research-intensive and bottom-up oriented, and we are unwilling to jeopardize capital to reach for short-term performance numbers. These are principles that do not change. If you have been to this forum before, they will likely sound familiar to you. Before we conclude our journey, let's draw out some lessons.

Some Lessons:

- Play soundly when you are down
- Have a solid framework
- Discipline ≠ staying still
- Valuations do matter
- Don't fight change, adapt

An important one that we saw in Canada is how we deal with periods of underperformance because it determines long-term investing success. One of the hardest things as an investor is to determine when you are being disciplined by sticking to your beliefs and when you are being irrational because the world has changed for good. "Standing there" versus "doing something." When you underperform, there is a lot of pressure to do something. Standing there can seem irresponsible, but sometimes it is the best course of action. I call this playing soundly when you are down: having a solid framework, an investment philosophy, and sticking to it so that we avoid getting caught up in speculation and owning vastly overvalued securities. While our approach may not outperform in every period – as we saw in the late 1990s, and as we have also seen more recently across some of our mandates – over the longer term, we believe it leads to better results.

Being disciplined doesn't mean staying still. Looking back across our portfolios shows how dynamic business has been and continues to be. Change creates new winners and losers. We saw how some sectors like media and retail got completely disrupted by the internet. We saw how many are no longer around, but also how innovation created new companies that we own today.

The '90s technology boom was a forewarning of the disruption to come, but the internet's transformative power was not hype. The parallels to today's investing environment are clear. In the last decade, stock markets have been led by technology-driven companies. Advances in chip design, computing power, migration to the cloud, and breakthroughs in large language models like ChatGPT are transforming society and global business. However, the technology giants of today, Microsoft, Google, Apple, and Nvidia, don't look anything like the dot-coms of the '90s. They may well be some of the best businesses we have ever seen. Dominant in their markets, highly profitable, cash generative, financially solid, and well managed. History doesn't repeat itself, but it often rhymes.

The problem for investors is: What is factored into the price already? The internet was real. We know that. But dot-com valuations were madness all the same. Markets are not rational, and investors who bought the hype lost a lot of money. Humans think in stories and so when something comes around that really captures the imagination, speculation can take hold. But don't forget, it's not what you buy, it's what you pay. Valuations do matter.

Artificial intelligence is a topic many of you are asking about. And specifically, how it will impact our investments. Just like the '90s internet, it feels very difficult to size up. It is early still but it's also evolving very fast, and we are learning. If history is any guide, we must also be watchful of speculation and hype. Doug Winslow, Portfolio Manager of U.S. Large Caps will speak to some of these parallels – so stay tuned. Also, we have brought in Zack Kass, formerly with OpenAI as our guest speaker today, and I'm hoping that he addresses all the hard questions in his presentation.

One of the advantages of owning businesses is that, like biological organisms, they can adapt to changes in their environment. If one of our key lessons today is to count on change, we want to own companies that can adapt. Those with fortitude, foresight, strong economics, and great management are better equipped. And if the valuation is reasonable, then the hurdles will be easier to cross. We, on the other hand, as investors, must be both disciplined and flexible, to prepare and to be opportunistic. I appreciate you coming with me on this trip down memory lane. B

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