Anne Mette de Place Filippini

Panelist

Senior Vice President,
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Moderator

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Does Value Matter?

VIDEO #1: NO, VALUE ISN'T DEAD

Amid a changing environment of globalization, technological advancement, and digitalization, value has been largely out of favour in the last few years. Anne Mette explores why value isn't dead, breaks down Burgundy's fundamental investment process, and shares how Burgundy's research approach reveals where the real quality lies.

VIDEO #2: MISTAKES AT THE EXTREMES: VALUE & GROWTH TRAPS

Using case study examples, Anne Mette, Andrew, and Oliver offer insight into the perils of value traps and growth traps. They share tips for avoiding paying up for hopes and dreams and going beyond the usual financial screens to spot company red flags.

VIDEO #3: QUALITY/ VALUE SWEET SPOT

Oliver explores the "sweet spot" between value traps and growth traps. From this vantage point, he discusses how company characteristics like network effects and a strong management team, combined with strategic timing, can provide investment opportunity.

VIDEO #4: BURGUNDY'S APPROACH IN AN UNCERTAIN ENVIRONMENT

Anne Mette looks back at the past few decades, which have all experienced bouts of instability, and shares how quality, value, and a focus on the long term all act as risk controls when navigating a volatile and uncertain world.

VIDEO #1: NO, VALUE ISN'T DEAD

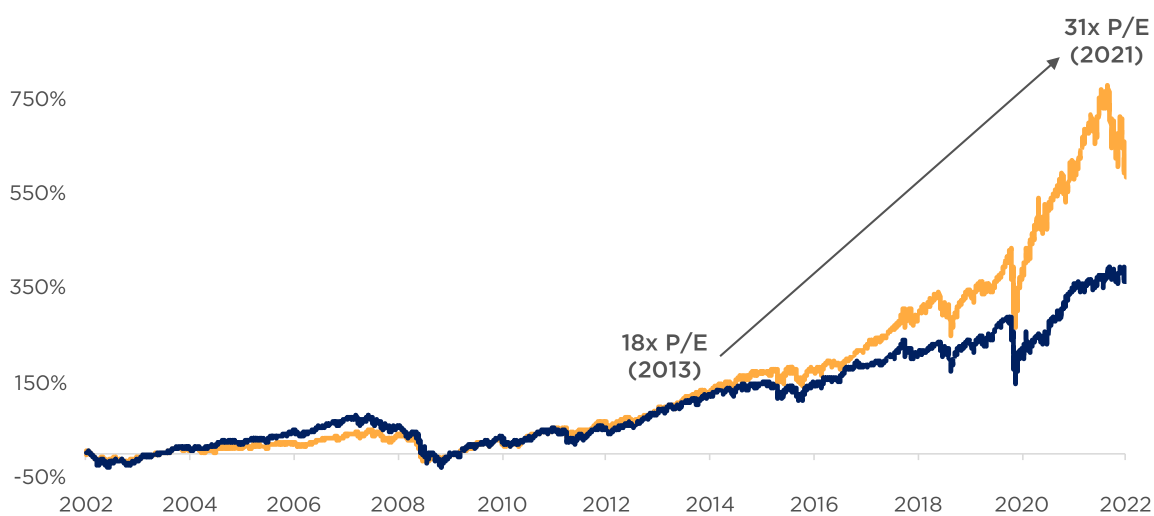
Rachel Davies: Anne Mette, I'd like to start with you. And I'd like to start with a bit of context about this debate and what brought this panel together. Can you perhaps take us through the environment that brought us to this discussion today? How much has a value approach been out of favour, and why do you think that's the case?

Anne Mette de Place Filippini: Thanks, Rachel, and good afternoon, everyone. Value certainly has been out of style for five to six years, I would say, now. And maybe we can pull up a chart [Figure 1] to show just the kind of world that we've been living through.

This chart here, it's not a perfect illustration of the point that I wanted to make. It's a bit simplistic. It sort of divides the world into growth and value stocks, but you'll get the general idea. And you can see from the chart that by the mid-2010s, the lines really started to diverge and the yellow line, which denotes the growth stocks, really has taken off and growth performed much better than value. It wasn't simply the fundamentals that diverged. It wasn't simply that growth stocks grew faster and therefore deserved to do much better. What we also saw was a market that was willing to pay higher and higher multiples for companies that could grow. And you could see here, if we go back to put some numbers on that, if you go back to 2013, growth stocks were trading at about 18 times earnings, value stocks at about mid-teens. And by the time we reached the peak at the end of 2021, growth stocks traded at 31 times earnings and value stocks sort of muddle along in the mid-teens. You are asking why.

There is probably a myriad of answers to that, and you mentioned change as one explaining factor, and I think that's right. We've certainly seen the acceleration of change. Globalization, advances in technology, digitalization, even the pandemic accelerated change. And, as Rob mentioned in his speech, the average S&P 500 company today is a teenager. The average age is less than 20 years old. And if you go back to the 1950s, the average age was over 60. So, we've seen there's been a big step down. But I think we can't also escape the importance of living in a world of ultra low interest rates and a massive amount of government stimulus, both fiscally and monetarily. Warren Buffett famously has

FIGURE 1



From May 7, 2002 through May 6, 2022
Source: FactSet in U.S. dollars. Logos are shown for illustrative purposes only.
Please note that past performance is not indicative of future performance, and investment results are not guaranteed.
The expected return ranges do not consider unique objectives, constraints or financial needs, and investors should speak to their Investment Counsellor.

> To understand what a company's worth, we have to understand its quality and to understand its quality, this is where doing underlying research, bottom-up research, and really understanding the fundamentals play in.

said that interest rates are to asset prices what gravity is to the apple. And what he meant by that was that government bond rates are the risk-free return that's offered out there. And every asset is priced in relation to that. So, when interest rates are nothing, values can be almost infinite. And in a world where we have near zero interest rates, that really benefits growth stocks because growth stocks are the longest duration assets because most of the value sits out from the future.

Rachel Davies: Right. So, it sounds like there have been meaningful trends that have driven this divergence. What does that then mean for Burgundy and our investment approach. Does value matter?

Anne Mette de Place Filippini: Perhaps the title was a bit more controversial when we came up with it, Rachel, some months ago. We've seen a correction that I think it's showing us that valuations do matter. So, yes, value is not dead. It might have been out of favour, but we think it'll once again begin to play its role. And I think maybe we should spend a little bit of time talking about how we understand value at Burgundy.

Value investing is a big tent, and we are not statistically cheap value investors. We like to think of value as a relative concept. It's the difference between what you pay and what you get. And what you pay is the market price, and the market price changes every day. Every day the market opens it's a new price that's on offer. Whereas what you get is really the underlying earnings power and worth of a business, and it doesn't change daily. If you own a good business, it goes up over time. So, finding value to us is finding something of a discount, relative to what we believe it's worth. And this is where quality comes in, you could say, because two stocks trading at the same multiple don't represent the same value because we would pay more for a stock of higher quality and less for a stock of lesser quality. To understand what a company's worth, we have to understand its quality and to understand its quality, this is where doing underlying research, bottom-up research, and really understanding the fundamentals play in. Because to understand the worth of a business, we really need to understand its products and services, its competition, its customers, what customers value, what they're looking for, and what we as a business can do better or cheaper than anyone else and really how sustainable that is. And it's that fundamental analysis that allows us to figure out whether there's something on discount.

Rachel Davies: Right. So, value continues to play, and will continue to play, a meaningful role in our process. But clients shouldn't think about it the way that the media is portraying it. So, I guess in other words, that bottom line in the chart that you showed us doesn't describe our approach, if I'm understanding correctly.

Anne Mette de Place Filippini: Yes, I was showing a sort of simplified picture of things, but we think it's more nuanced. It isn't simply that someone can tell you what growth is and what value is. It takes fundamental research to figure out whether we have a quality business and whether the valuation actually represents value or not.

VIDEO #2: MISTAKES AT THE EXTREMES: VALUE & GROWTH TRAPS

Rachel Davies: We've often said that this idea of buying a business at a discount to what we think it's worth is a simple idea, but that simple doesn't mean that it's easy to do. So, let's talk a little bit about how our approach goes wrong in practice.

Anne Mette de Place Filippini: Yeah, you make the mistakes at the extremes. This is really where it goes wrong. If you look on one extreme, you've got companies that are trading at very high valuation levels. They're rapid growers. And what tends to happen is that the market looks forward and extrapolates this future and imagines a company that is much, much larger and much more profitable. The risk that we've run here is that we are paying up for hopes and dreams. And eventually we sit for the future that isn't quite as glorious as the market thought it was going to be. So, we overpay. That's what we call a growth trap. And at the other end of the extreme, we have got the value traps. Those are companies that are looking very discounted. They look very cheap, but they're often cheap for a reason. The market is often right. And they're of low quality. Perhaps they have no opportunity to grow. Perhaps they have no competitive advantage, or they're very indebted. And so perhaps they can't survive the next crisis in the economy. We call those value traps.

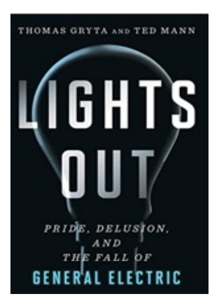
Oliver Cardoso: I think it's worth noting that between the two, between growth traps and value traps, value traps are probably the ones that we encounter the most. As value investors, we're looking to buy businesses that trade at a discount to their intrinsic value, as Anne Mette mentioned. And one of the most intuitive ways to start searching for businesses that look cheap is to do a screen for companies that are trading at very low multiples. The challenge with that approach is that the market is actually reasonably efficient at figuring out what's a low-quality business, what's a high-quality business, and assigning a multiple to it as a result. So, when we pull together a screen of all the companies that trade at the lowest earnings multiples, we just get a list that's chock-full of really, really low-quality businesses. Companies that can't grow, or are shrinking, or have a negligible economic moat, or a shrinking economic moat, or too much debt. And that's really where our quality focus comes into play. Just doing the screening exercise on the basis of the financial parameters might start you off in the right direction, but that's not where we spend the majority of our time. The majority of our time is looking under the hood of the business, trying to understand the unit economics, trying to understand the competitiveness of the industry, so that we can get a view on quality because it's only once we have the view on quality that we can make the determination of whether this business is actually trading at a discount or not.

"I think it's worth noting that between the two, between growth traps and value traps, value traps are probably the ones that we encounter the most."

Rachel Davies: Okay, so Oliver's just talked about and Anne Mette's talked about how value traps are a risk that we face in our process. Andrew, as Director of Research, can you take us through a case study that we've looked at in some of our weekly meetings?

Andrew Iu: Yeah, definitely. Thanks, Rachel. Just to reiterate what Anne Mette and Oliver have said, a value trap is a situation where you're paying a low multiple and you think it looks undervalued, but it's paradoxically overvalued because the earnings power of the business is deteriorating because there are hidden liabilities or other issues. And a really good example of that, that we studied at an investment meeting last year, is called General Electric. And the reason I picked this is because we read a book on it. There's a book called *Lights Out* that my colleague David Vanderwood suggested, and a group of us bought and talked about the lessons from it. And it's a great story.

General Electric in the '90s and the 2000s was one of America's glorious businesses. It produced very high, consistent earnings growth for a long time. It was at one time America's most valuable company, $600 billion valuation at the peak. Its CEO, Jack Welch, has numerous books, management books, written about him. There's even a business school named after him, which in hindsight looks absolutely ridiculous. And General Electric ran into trouble during the financial crisis. They had a division called GE Capital. It had made bets on subprime mortgages and had a near-death experience. And since that time,



it has been a value stock. It's traded at a low-earnings multiple, a low book multiple. And because of that, it has sucked in value investor after value investor, and the book actually describes several of them. And all of those investors have been disappointed. What happened was in its glorious days, General Electric developed a very aggressive management culture. Part of that was very aggressive accounting. So, investors thought they were buying a dollar of earnings, but that dollar of earnings was nowhere close to the cash generation potential of the business, and it eventually showed up. And then also, as often happens in aggressively managed businesses, there are skeletons in the closet. Since the financial crisis, there have been environmental remediation liabilities, there have been workers compensation and insurance liabilities, there have been lawsuits. There have been all of these other things that have also contributed. And when you put those together, a lot of value investors have lost a lot of money on this stock.

Rachel Davies: I guess with the benefit of hindsight, value traps often look obvious, but you mentioned that that GE was considered a success story, Jack Welch, a successful CEO through the '90s and 2000s. So, I guess it's something you can identify with the benefit of hindsight. So, if value traps are a risk that we face in our process, what can we do to differentiate between a low-multiple value trap and a cheap quality business?

> "We want growth. We just want it to be of high quality. And then the second kind of growth trap is one where you simply pay too much. It could be great growth. It could be very beautiful economically, but if you pay too much for it, you can still lose money. When you put the two of those together, that's a recipe for erasing wealth."

Andrew Iu: Yeah, you're so right. It's very easy to sit here now once a book has been written about General Electric and say how obvious that was that that was a value trap. But in real time, it is very difficult. As has been alluded to, we're trying to find companies with competitive advantage and moats. And the great challenge for that kind of investing is that nobody puts up a sign and says, "Hey, this moat's broken. Don't invest in this. This is about to become a value trap." Nobody does that until it's too late and someone's written a book on you. Instead, you get this trail of clues, we call them red flags, that suggest the moat might be breaking down. And if you get a big enough pattern of them, it's probably a sign you should put that file in the too-hard pile.

Warren Buffett has this great story about using red flags to avoid value traps. He has an interview with the Wall Street Journal on it. And it's a story about his potential investment in Lehman Brothers during the financial crisis. So, a banker calls him on a Friday and says, "Lehman brothers is in big trouble. They need an emergency equity investment. You're gonna get very generous terms. Would you invest?" And he says, "Leave it with me. I'll read the annual report over the weekend, and I'll get back to you." So he reads the annual report and each time he sees a red flag, he just notes it on the cover of his annual report. And by the time he's done reading, the cover of the annual report is just full of red flags. And he says, "Thanks very much. That's too many red flags. This is probably going to be a value trap. I'm going to take a pass." And that's ultimately what it becomes. And so that's what we're trying to do. It's not easy and we don't get it right every time, but you're looking for a pattern of red flags. And if you see too many of them, it's more likely than not that that low multiple stock is a value trap. If you had done this on General Electric, say you were looking at it post-financial crisis, it was 12 times earnings and you had read the last 10 annuals, you would've seen a ton of red flags. There was an investigation by the securities regulator into the accounting. There was constant management turnover. There was constant M&A. They were constantly re-segmenting the business. All of these are signs that something's broken. So, we don't always get it right, but that's the hope is that when you see in enough red flags, you take that low multiple stock and you put it in the too-hard pile.

Rachel Davies: We spent time talking about the one extreme, the value traps. Andrew, just since we're on a roll here, why don't we just talk a little bit about the other extreme, the growth traps. Can you give me an example of that as well?

Andrew Iu: Yeah, so Anne Mette alluded to this, but let's just unpack growth traps for a minute. There are sort of two types. There's low-quality growth. So, this is a company that grows quite rapidly, but consumes a lot of shareholder or investor capital to achieve that growth and then doesn't return that capital. That's part of the reason we focus on things like return on equity and return on invested capital is we're looking for the quality of growth. We want growth. We just want it to be of high quality. And then the second kind of growth trap is one where you simply pay too much. It could be great growth. It could be very beautiful economically, but if you pay too much for it, you can still lose money. When you put the two of those together, that's a recipe for erasing wealth. And a well-known growth trap that had both of these characteristics is WeWork.

For those who are not familiar, it's a short-term office lessor. So, if we had a business and we had a handful of employees and we didn't want to sign a long-term office lease but we wanted them to have some space to work, we might use a WeWork facility. Incidentally, Apple TV just made a TV show about WeWork, which I guess tells you it's made it as a growth trap.

A lot of fun has been made of this company, but it had a tremendous growth track record. Over the course of a decade, it doubled revenue every single year, which is an amazing achievement. And because of that, it sucked in a lot of growth investors, but the quality of the growth was extremely low. When the company filed to go public in 2019, investors could finally sort of see that. If you looked at the income statement of WeWork, the revenue for the three years leading up to the IPO was $400 million, $800 million, and then $1.6 billion. And the losses to shareholders were negative $400 million, negative $800 million, and negative $1.6 billion. In other words, for every dollar they were bringing in revenue, they were spending two dollars in cost. It's an extreme example, but it's that kind of growth, where it consumes a lot of capital, that we want to try our best to avoid.

Anne Mette de Place Filippini: Andrew, this might have been the cheapest real estate that Burgundy ever paid, but when we lived in China for six months, we spent three of those in Shanghai. And we worked out of WeWork, because it was such a great deal. WeWork had these beautiful offices in one of the nicest areas of Shanghai. And you could either opt for paying for sort of a permanent chair or you could just have your mobile phone, install an app, and then every time you went into WeWork's offices, you just scan your app and you're paid by the minute. But it's sort of like Uber Eats, where every day you would get some kind of discount. You get a big subsidy in order to come back. So, it ended up being just super cheap actually, working out of there. A great product for the customer, but it didn't make a lot of economic sense.

Oliver Cardoso: I think it's worth noting also, Andrew, the WeWork example is a great example of a low-quality growth trap, but there's another variety of growth trap and that's when you have a really high-quality business that is growing very profitably but growing so quickly that the market is extremely excited about it and seemingly willing to pay virtually any price. That's been a common theme, as you mentioned, Anne Mette, for a lot of the past five years, especially in the U.S. market. We've seen that happen time and again. It's been painful for us because we try to avoid those, given our valuation discipline.

Often what happens is a company grows incredibly quickly, the market extrapolates that historical growth virtually and definitely into the future. The stock is priced for perfection as if nothing is ever going to go wrong. The challenge there is that as soon as there's some evidence that growth begins to slow, those stocks tend to take a beating. We're starting to see that a little bit in the market so far this year. And I think a prime example that's close to home for a lot of us is Shopify. It's a great Canadian success story. A high-quality business, one that we could see ourselves owning in the future at the right price, but it had been growing at 50%, 60%, 70% a year. And as soon as perception changed about their ability to grow and growth expectations went down from say 60% a year to 30% or 40% a year, which is still tremendous growth, the stock got absolutely hammered. I think today it's down over 75% from where it was trading at its peak just last

November. So those are the high-quality growth traps that we try to avoid. And it's by applying our valuation discipline that we try to make sure that we're patient enough to wait for an opportunity to buy when there's a margin of safety, and we think we have a reasonable right to earn a good return.

VIDEO #3: QUALITY/ VALUE SWEET SPOT

Rachel Davies: To recap our discussions so far, we've talked about how value matters, but not how, to us, it's not how the way the financial media portrays it. We see value existing on a spectrum. For us to apply our style correctly, we need to avoid the extremes, the growth traps, and the value traps. So now I'd like to take a minute to focus on the opportunity set in the middle, which is where we would spend most of our time. Oliver, you have an example you're going to share with us from one of your portfolios.

Oliver Cardoso: Sure, Rachel, I think a great example is a company called Copart. It's a company that we've owned [in our Burgundy U.S. Small/Mid Cap Fund] now for nearly a decade. For those who aren't familiar with it, Copart is the biggest operator in the U.S. of auto salvage auctions. The way that business works is that if you get into a car accident, the insurance company is going to make a decision about whether to pay to repair the car or to declare the car a total loss and send it to an auction like Copart's auctions, where it'll be sold either to someone who will dismantle it for parts or who's going to rebuild the vehicle.

It's a company that we studied for a long time, and we got very familiar with it and very confident that this was truly a high-quality business, in large part because there really isn't a lot of competition. The industry is effectively a duopoly. There are only two main players, Copart and IAA, who together control about 80% market share, with Copart being the bigger and better of the two competitors in our opinion. And one of the reasons why the competition in the industry is so limited is because Copart's auctions have very strong network effects. So, the way to understand that is that the auctions are effectively marketplaces. Sellers only want to show up to the marketplace if they expect that there's going to be a very large number of very high-quality buyers there who can give them the best price for their wrecked cars. And the buyers aren't going to show up to the marketplace unless they know there are going to be a lot of sellers there providing a lot of supply of wrecked cars. So, there's a self-reinforcing mechanism there that we call network effects that exists in these auctions, these marketplaces, that make Copart's auctions incredibly well insulated from any threat of a new competitor coming in and trying to start an adjacent auction to steal market share.

> "I think a great example is a company called Copart. It's a company that we've owned [in our Burgundy U.S. Small/ Mid Cap Fund] now for nearly a decade."

In addition to that, the salvage yard / salvage auction business requires, as you can imagine, a lot of land, a lot of real estate. Cars take up a lot of space. If you wan to run a large auction, you're going to need a very large salvage yard. And ideally, you're going to want it to be very close to a major urban area because that's where almost all the accidents happen. And obviously if you're buying a lot of land near a major urban area, it's going to be very expensive. On top of that, nobody really wants to have a salvage yard in their backyard. So, there are a lot of barriers at the municipal level to gathering the kind of land that would be necessary to run that business. And Copart has been accumulating land now for decades. They still spend hundreds of millions of dollars a year just buying land. So, it's very difficult for someone to enter the industry and compete head-to-head with them. We see that manifest in the financial performance of the business as well. They have operating margins well north of 30%. They earn very high returns on invested capital. They still have tremendous opportunities for growth. So, the business really had all of the ingredients that we look for when we try to find a very high-quality business. Probably the most important of which as well is that they have an exceptional management team, one that we've gotten to know over the years. And all of those factors together got us comfortable that they meet our quality parameters.

> “...the business really had all of the ingredients that we look for when we try to find a very high-quality business. Probably the most important of which as well is that they have an exceptional management team, one that we've gotten to know over the years.”

Rachel Davies: You mentioned that they had an exceptional management team, and that's something that we often talk about as a key factor that we look for in our investments, but it's very qualitative, the assessments. Can you take us through how you got comfortable with the management at Copart?

Oliver Cardoso: Well, first of all, it's an owner-operated business. That means that the managers of the company are also big shareholders in the company who have skin in the game. It's not something that we see every day. A lot of publicly traded companies are managed by professional managers. They extract a lot of value from the business by paying themselves big salaries, but they're not significant shareholders. They may only be around for five or six years. So, they're not necessarily making investments for the long term. It's the opposite at Copart.

The founder started the business in 1982 with a single salvage yard. He grew it to over 200 salvage yards in the U.S. It's an enterprise worth now over $25 billion. He's still involved in the company as Chairman of the Board. He still owns almost 7% of the company, and that stake is worth about $2 billion. It's substantially all of his net worth that still invested alongside us in the shares of Copart. So, they have real skin in the game. The same is true for the CEO. The CEO's been working at Copart since he was 19 years old. That's how he got wealthy. He owns 3% of the company, and his stake is worth about a billion dollars, and that's substantially all of his net worth. So, again, they have a tremendous alignment of incentives with us as shareholders, alongside them as partners.

I would also point out that they have a tremendous track record as visionary entrepreneurs in their industry, adapting to changing market environments and investing for the long term. They were the first company in their industry to invest in a computerized inventory management system in the 1980s. They had all of their auctions running digitally as early as 1994. That's way before the internet was ubiquitous and everywhere around us. They've always been insistent on keeping a clean balance sheet so they could be flexible to make investments for growth, buying hundreds of millions of dollars of land every year. And with a clean balance sheet, they've been extremely effective at being opportunistic in buying back shares of the company when they thought the market wasn't giving them appropriate value for the quality of the business. And so, we observed all those characteristics of management and studied them over a very long period of time. And it's exactly those sorts of people who we could see ourselves being long-term partners within an enterprise.

Anne Mette de Place Filippini: Maybe tell that story, Oliver, about the first piece of land they bought.

Oliver Cardoso: Well, that's an interesting one. In the early years of the business, the founder was looking to add some office space and some showroom space so he could show off some of the auto retail parts that he was selling. And he was always looking for a deal. He saw a listing in Sacramento, California for 4,000 square feet of a fabricated metal office building that was being offered for sale for only $5,000. But the condition was that you had to remove that fabricated metal building from the lot and take it somewhere else. He thought, look, no problem. It's a great deal. So, he and his business partner and his family bought it, went over to the lot, dismantled the metal building on site, put all the nuts and bolts and washers and everything into buckets, moved them over to their plot and reconstructed the building as it was. It's actually a story that I learned by reading a book written by the founder. It's a terrific book. It's called *Junk to Gold*, where he tells the story of how he founded Copart and built it over the years, and a lot of the lessons learned. And that book is just chock-full of anecdotes similar to that that give you a flavour for the managerial culture at the company, the entrepreneurial vision that he had. And you can see that play out to this day in the decisions that management makes running the business.

Rachel Davies: So, it's clear you thought this was a business of high quality, but you also mentioned earlier that the market tends to be reasonably efficient. So, I'm sure you're not the only one that noticed the quality of this business. Bringing the value part into the equation, how did we get an opportunity to buy it at a discount to what we thought it was worth? And of course, how did it turn out?

Oliver Cardoso: We'd been following the business for a long time. Around the end of 2013, as inevitably happens for every business no matter how great the quality is, they missed earnings expectations one quarter. And so that brought the stock price down, which gave us an attractive opportunity, we thought, to buy at quite a good margin of safety to what we thought the intrinsic value was. But at the same time, there was also quite a bit of disagreement in the marketplace about Copart's ability to grow. There was a group of investors who were saying, "Look, cars are just getting safer. They're getting more high tech. Now they have collision detection systems with automated braking. In the future, we're going to see autonomous vehicles. That means people are going to get into less accidents, so there are going to be fewer wrecked cars. So, there's less for Copart to do at its auctions.

We actually took a different view. We had followed the business very closely and noticed two really important trends. One was that the frequency of auto accidents in the U.S. was actually increasing. And that was largely due to the advent of the iPhone. From 2008 onwards, everybody had a smartphone in the vehicle. There was a lot more distracted driving, a lot more texting while driving. So, the frequency of accidents was going up and with all of the advanced componentry, and advanced materials that were going into new automobiles, the cost to repair a car after a wreck was only getting more expensive. So, it was becoming more likely that if you got into an accident, the insurance company wasn't going to pay to repair it. They were just going to send it to a salvage auction. And you can tell that story really in one statistic: 15 or 20 years ago, of all the car accidents in the U.S., 95% would get repaired and only 5% would get sold at auction. Today, that number is closer to 20% getting sold at auction. So Copart had these tremendous growth tailwinds, and we knew that the naysayers were wrong because we were very closely studying the insurance sector, all the big auto insurance guys, GEICO, Progressive, et cetera were talking about how their losses with auto insurance were going up. And we knew it was going to continue because the average age of a vehicle in a car park in the U.S. is like 10 or 12 years. So even if the next generation vehicle is much safer than the old cars, it's going to take a long time for those next-generation vehicles to become such a big proportion of all the cars on the road, that it substantially changes the economics to Copart. So, we had visibility into a long runway of several years when we saw their ability to compound earnings growth. And when the stock came down as a result of missing earnings and these differing views about the company in the marketplace, we thought we're never going get as good a buying opportunity as this. I think we actually have an exhibit [Figure 2] here to show what's happened over time.

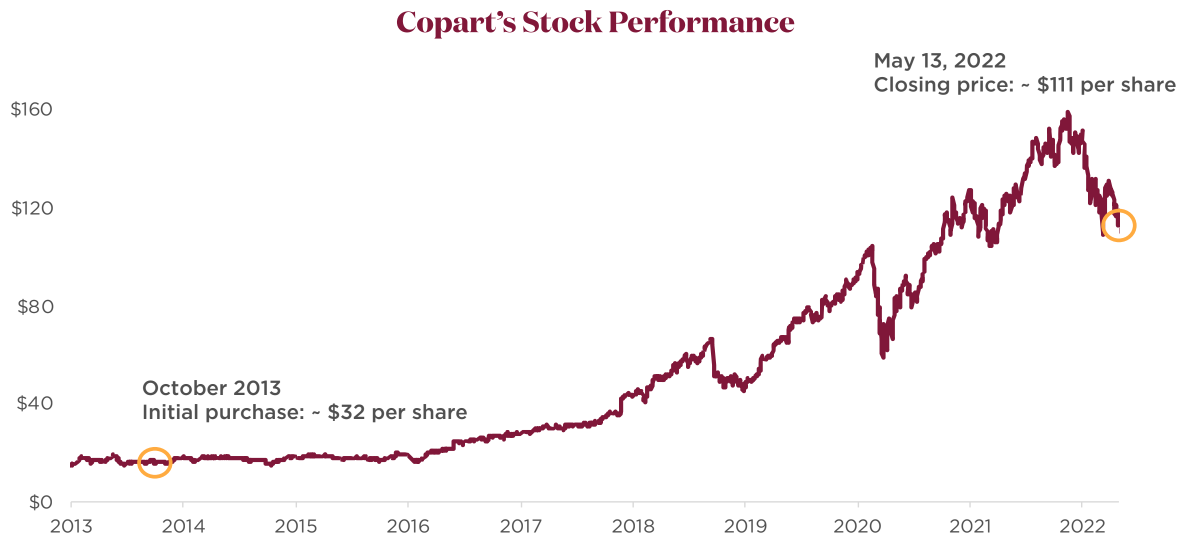
We bought it for around $32 a share towards the end of 2013. If you had bought a share of Copart at the same time we did and held onto it today with dividends accruing every year, you would have earned a total return per annum of over 25%. Our return is similar. It's a little bit different because we've trimmed the position a little bit over time, but it's still a big weight in the portfolio. It's one of our top-10 holdings [in the Burgundy U.S. Small/Mid Cap Fund] to this day.

> "... we had to be patient. We had been following the company since the mid-2000s. It was years before we made the first investment."

Anne Mette de Place Filippini: It wasn't exactly cheap when you first bought it on multiples, and you had to be patient.

Oliver Cardoso: That's absolutely right. We paid about 18 times earnings. Historically, statistically, especially in 2013, that wasn't an especially cheap multiple, but Copart had never been a cheap stock. It had always traded in the low to high 20s P/E multiple range because the market recognized that it was a very high-quality business. And we had to be patient.

FIGURE 2



As at May 13, 2022
Source: FactSet in U.S. dollars.
Please note that past performance is not indicative of future performance, and investment results are not guaranteed.
The expected return ranges do not consider unique objectives, constraints or financial needs, and investors should speak to their Investment Counsellor.

We had been following the company since the mid-2000s. It was years before we made the first investment. And even then, if you'll notice on this chart, the stock price was pretty flat for two or three years after we first started buying. It also took patience once we were owners for that compounding earnings growth to be recognized and appreciated by the market and for it to show up in the share price.

VIDEO #4: UNCERTAIN ENVIRONMENT

Rachel Davies: We started today's discussion with a review of the environment that led us to question whether value was dead. And we clearly believe value still matters, but I'd like to take a minute and reflect on our style in today's environment. And perhaps you can tell us a little bit about how our approach helps to ground us when we're facing such uncertain times that we are today.

Anne Mette de Place Filippini: I think what we've been discussing today is that quality and value go hand in hand. They complement each other. They each work as risk controls and help us navigate an uncertain world. Value is always going to have a place in our process. It may not have proven as useful over the last five to six years. And in some cases, it took away from returns. But I think with high inflation, and rising rates, and fewer dollars chasing opportunities, it will once again play an important role going forward.

Quality helps us navigate uncertain times. Quality companies and stocks have been very reliable long-term value creators. They have survival instincts, they have agency, they can adapt, and they can't do so in the short-term. They need time to adapt, and we're seeing some of this now with inflationary pressures or supply chain issues. And this is also why we get short-term volatility and unpredictable returns, but long term, they have been tremendous generators of value. So, we need both. And we certainly live in an uncertain world. We are more than two years into the pandemic, and we are still not out of it. We've got a war in Ukraine that all of us worry about, but we also have to recognize that we always live in uncertain times. And I think every generation always tends to believe that their time is the most turbulent ever. And part of that is history and the past are known. And so, we forget how uncertain times seemed at the time.

> **“Quality helps us navigate uncertain times. Quality companies and stocks have been very reliable long-term value creators. They have survival instincts, they have agency, they can adapt, and they can’t do so in the short term. They need time to adapt”**

I think of my own lifetime. We had the Vietnam War. We had two oil shocks in the ‘70s. You couldn’t drive a car in Denmark, where I’m from, on Sundays. We had stagflation. We had interest rates spikes. We had a recession. We had two wars in Iraq. We had booms and bubbles. We had 9/11. We had the Global Financial Crisis. And yet shareholders made money. Not in a straight line and we weren’t always above water, but we earned strong returns, especially investing in quality stocks and staying invested.

Rachel Davies: I think that’s a good way to end things with a reminder that we always face uncertainty to some degree when investing and over our 30 years, we’ve had other times that have felt unsettling like they do today. And we’ve all come out okay. ■

FINANCIAL CONCEPTS - QUICK REFERENCE GUIDE

Active Investing/Passive Investing

Investors employing an active approach look to generate returns above and beyond an index – their goal is to create a portfolio that beats the markets. A passive approach involves creating a portfolio that mirrors an index (in terms of both stock selection and weight within the portfolio) in order to earn an index-like return.

Bull Market/Bear Market

A “bull” market signifies an upward-trending market and positive sentiment from market participants, whereas a “bear” market signifies a downward-trending market and negative sentiment or fear. They are named for each animal’s motion of attack (the upward motion of a bull’s horns versus the downward motion of a bear’s claw).

Capital Allocation

How a company allocates its cash within the business. Examples would be to reinvest in the business, or to pay out cash to shareholders in the form of dividends.

Dream Team

A list of companies that embody the business, financial and management characteristics that Burgundy deems high quality, but their current market price does not offer enough of a margin of safety to warrant investing at this time.

Intrinsic Value (Valuation)

An estimate of a company’s actual worth, based on in-depth research and both quantitative and qualitative factors. A company’s intrinsic value may differ from its market price.

Margin of Safety

The difference between a company’s market price and its intrinsic value. The lower the price compared to intrinsic value, the higher the margin of safety; conversely, the higher the price compared to intrinsic value, the lower the margin of safety.

Market Capitalization

Determines the financial “size” of a company. It is calculated by multiplying a company’s stock price by the number of shares outstanding. Companies are often then categorized into small market capitalization (small cap), small/mid-market capitalization (small/mid cap) and large market capitalization (large cap).

Moat (Economic Moat)

Likened to a physical moat around a castle, an economic moat is used to describe the advantages a company possesses over its competitors. The more competitive advantages, the wider the moat.

Quality-Value Investing

Value investing encompasses a spectrum of styles. At one end, “deep value” (associated with Ben Graham) focuses on the companies that are significantly undervalued with less focus on the quality of these companies.

Watch List

A list of companies that do not yet meet the criteria to be deemed high quality but are worth monitoring for any changes that strengthen the business. If any companies are deemed at some point to be of high quality, we will invest (if the price is right) or move them to the Dream Team.

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