

Lauren Davis Landau Hello, everyone, and welcome. My name is Lauren Landau. I'm an Investment Counsellor here at Burgundy. I'd like to first thank you all for joining us here today. We hope that you and your families are all staying well and that we have the opportunity to see you in person sometime soon. In the meantime, we're happy to have this ability to connect with you in this virtual way. Today, we're sitting down with Craig Pho, Senior Vice President and Portfolio Manager of our Asian Equities Strategies. Craig joined Burgundy in 1998. This was an important time for the firm. Burgundy was launching its first strategy outside of North America, a Japanese equity portfolio.

Over these last 22 years, Japan has faced major macroeconomic challenges: lots of uncertainty, an aging demographic, an economy that was not growing, periods of deflation – you name it. Craig has had his work cut out for him. The question we'd like to discuss today is how it is that this strategy has generated a pretty remarkable compound rate of return for our clients in an environment where on the surface there seemed to be no growth whatsoever. And a stock market, as well, that did very little.

We think about this today as we sit in a pretty uncertain environment where potentially we are facing similar headwinds to what Japan has experienced, and we'd like to look at this as a case study to explore Burgundy's approach and philosophy at work.

BURGUNDY'S START TO INVESTING IN JAPAN (1:42)

Lauren Davis Landau I'd like to just start by asking you a little bit of history. You started in '98 and this was a time when Japan was not at all a popular place to invest. The stock market had collapsed after the peak in '89. A real estate and asset price bubble had burst. The economy stagnated. It was really not a nice time. Banks failed in '97, and then Burgundy takes an interest. Can you explain to us a little bit about these early days and why Japan? What was it like to get started?

Craig Pho Sure. Maybe I'll just start by saying had I known what I was in for, what we were in for, maybe I wouldn't have looked at this opportunity with the same sort of excitement. I think the gray hairs and the lack of hair is sort of reflective of how challenging it has been. There's that saying that everything we talk about sounds simple, but it really isn't easy. But going back to 1998, Burgundy wrote a View at the time called [The Sun Also Rises](#). And I think the idea was somewhat simple. The market in Japan was statistically cheap. There was lots of companies ... I remember looking through pages and pages of screens identifying companies that were trading 50% of book value below their net working capital per share, some even below the cash net liabilities; very statistically cheap market. And the other idea was that it appeared that people had sort of given up on Japan. And very few people were interested.

People were avoiding it. And there's something about doing something when you know that others are not interested. There's the potential there to exploit some inefficiencies. And I think the combination of those two things were really at the root of what was interesting to Burgundy at the time.

INVESTING THROUGH CRISES AND HOW IMPROBABLE THINGS HAPPEN A LOT MORE FREQUENTLY THAN WE THINK (4:39)

Lauren Davis Landau And since that time, Japan has just faced so many challenges. And you had two decades, you've been investing 22 years, full of challenges, macro headwinds as I mentioned upfront. And then in addition to that, you saw a variety of the usual financial market crises, and they were some pretty big ones. You had the tech bubble burst; shortly after you started, you had 9/11; and you had the global financial crisis. The earthquake and tsunami, I understand you were there in 2011.

So that's specific to Japan, but pretty disastrous. And then, of course, a few other blips, along the way and here we are in this global pandemic that we're dealing with. So lots of uncertainty, lots of crises. Without getting into every crisis, of course we don't have time to do that, do you have a sense of any common themes amongst these various periods that you think have led to your success in how you navigated them?

Craig Pho

The common variable, I think, is learning; learning as an investor, learning about yourself. I think what is obvious in hindsight and is applicable today and always good to remember is: Improbable things happen a lot more frequently than we think. The only certainty is uncertainty. People say the world seems so uncertain and chaotic. It was apparent last night in the debate. But this is actually kind of normal. It's been normal for me throughout my career to face uncertainty. So I think through the lens of an investor, you realize that this is the constant state, and we must find a strategy and approach that can deal with this. And the other learning is statistical cheapness, cheapness in and of itself, is an insufficient factor to get success.

And over time, as we've shown up every day and studied businesses every day, all of the macro challenges we've faced have shown us ... Some say adversity is valuable for what it teaches but also for what it reveals. We were noticing in troubled times, in crises, some businesses did okay. And we gravitated to those cases and wanted to learn why some businesses were able to do okay and why some businesses were not able to do okay. Statistical cheap companies, in some cases, were cheap for good reasons. And those crises proved that despite looking at something that was trading at a very, very low P/E, if the E, the earnings, disappeared, in fact it wasn't as cheap as we thought.

Or if something was statistically cheaper on a net asset basis, on a book value basis, if the book value had to be written off, it wasn't as cheap as it appeared.

And so early on in this experiment, in this sort of effort, we realized what was scarce were good quality businesses that could maintain their business in these difficult times and grow out of them as times improved. So, we sort

of quickly started to focus on those kinds of businesses entities that could evolve, adapt, and even grow through these crises. And that really became something first and foremost in terms of the sort of success long term. Owning great businesses is about being able to not just survive but to sort of thrive in the uncertain environment that they live in. Some of the factors that contribute to this are strong balance sheets and the ability to generate profits and cash flows even in times of uncertainty, and to be able to allocate those cash flows into areas that have long-term potential, and to develop new products that are differentiated from their peers and competition, are run by people who are thinking longer term and looking at crises as an opportunity to sort of take advantage of their competition who have been weakened.

BEING A CONTRARIAN AND STANDING APART (10:09)

Lauren Davis Landau It hasn't always looked so good, right?

Craig Pho Yeah.

Lauren Davis Landau Being a contrarian investor by nature, you're standing apart from the crowd. You're doing things differently at times when it's not so popular to do so, much like the entry into Japan in '98. Can you speak about the challenges that you've faced as a contrarian investor and maybe reflect on a time when the portfolio was particularly out of favour?

Craig Pho Yeah. Running a business, trying to generate good returns is not easy. And the hardest part is the psychological battle that is just a day-to-day thing. You are not always going to be right. We've made lots of mistakes, every kind of mistake you can think of. And even though you know you own great businesses, it doesn't always mean the market is going to recognize those businesses as great and is not going to appreciate those businesses the same way you do. And there have been many occasions where it looks like clients would have been far better off owning a different asset class or a different sort of manager within this asset class. I mean, we don't compare ourselves to anybody else. We're just trying to do what our clients expect us to do: own businesses with the idea that over the long term, the compounding growth of those businesses will deliver the kind of outcomes that we're all after. But there are lots of periods of time when it just isn't obvious that's happening. And you just have to stay focused and you have to stay close to the companies. You have to have conviction that you somehow have a variant view that is right.

The great thing about Japan early on, and I already mentioned it in the beginning, nobody was paying attention. And that was true for quite some time. Even I think it was 2011, 2012, this was many, many years, a decade-plus after we started, the actual market itself hit a 25-year low. So for most of my career, this market, Japan, has been out of favour. There were a lot of questions and a lot of skepticism and a lot of rolling of the eyes, just saying, "Japan is just not a place to find these kinds of businesses." And we knew, just based on fundamental work, that not to be true. That might be true on the average. It might be true that most businesses in Japan don't generate

an ROE of greater than 8%. But that doesn't mean that there aren't businesses in Japan that generate very high double-digit ROEs and do so without the use of any leverage whatsoever.

THE IMPORTANCE OF FOCUSING ON QUALITY AND HAVING A LONG-TERM PERSPECTIVE (14:14)

Craig Pho

And to us, we just sort of felt that the few numbers of really high-quality, really good companies were being overlooked because there was a broader consensus that the market wasn't attractive. But there's something really important in that others' ignorance, others' lack of work, can be our opportunity. And you have to be patient. You have to be long-term oriented, and you have to be right. But there's a way better chance of succeeding in this business when you're able to buy things at a price that's really attractive because others are just not willing to do the work to really understand what a business might be worth. So it's hard. Nobody likes to be different. Nobody likes to underperform. But with each one of these crises, there's an opportunity that comes with a big drawdown in the market, and all companies being sort of penalized for a broader concern, and that's when a longer-term investor with a focus on quality can find... Quality doesn't trade cheaply very often. So the flip side of this ... The title of our presentation today is: Is Japan our Future?

I mean, if it is, and I know it's going to be a challenging future, but there is the opportunity that comes with market volatility that will allow us to purchase the kind of businesses we think can deliver great outcomes at fair prices. And that's critical to that sort of thing. So I know nobody wants to necessarily sign up for this sort of path. But really, a requirement for us to be able to deliver returns is getting prices that are attractive. And that doesn't happen all that often. So it's not so bad in hindsight, looking back and seeing good returns. It wasn't so great in the trenches while we were working away and not always being recognized as doing such. But it is the sort of beauty of the long term. If you're focused on the right things and your long term, wealth-creating businesses will create wealth for their owners. If we can find them at attractive prices, they're going to do what our clients want them to do, and that's the sort of opportunity.

So we're not predicting anything, right? I think Howard Marks said, "There are two kinds of forecasters. There are those that don't know, and then there are those that don't know they don't know." We're in the first camp. We don't know. We don't know what our future is going to hold. But what we believe is if we own the right companies and we own them for long periods of time, we're going to do well for our clients and that's the idea that brings us to work every day.

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