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## RESILIENCE

Robert Sankey delivered the following speech at Burgundy's Client Day, June 8, 2017, in Toronto, Canada.

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Good evening everyone, it's a tremendous honour for me to be in front of all of you here tonight. Since assuming the role of chief operating officer at Burgundy last December, one of the common questions I get asked by clients is about my background, my career and education. I studied at the University of British Columbia, where I received a bachelor of science in forest resources management. I then spent a couple of years working as a forest engineer on the West Coast. Had it not been for the severe downturn in Western Canada's forest industry, which coincided with a very close encounter with a grizzly bear, I may have never considered an alternate career path. In fact, I may to this day be running around the forest with a gun I never even knew how to use! But, after backfilling financial education with various courses and designations, and having now worked in the space for 18 years, 12 of which have been with Burgundy, I'm a big believer that things happen for us, not to us. Looking back, our forests can teach us quite a bit about investing — about growth, about yield, adaptability, succession and resilience in the face of disturbance.

In forestry, resilience refers to the capacity of an ecosystem to respond to a disturbance by resisting damage and recovering quickly. Such disturbances can include fire, adverse weather, insects, disease or deforestation. There are countless demonstrations of resilience in forests, one of which is the trembling aspen. Aspen occupy practically every corner of North America, usually as the dominant deciduous tree species. Unique to aspen is that they actually reproduce through shoots that arise along their long lateral roots. So what appear to be individual trees above ground are actually all connected to one another below the ground. This attribute provides the aspen with a system through which it can more efficiently distribute water and nutrients through its network and rebound quickly from disturbance. In Utah, there is actually a colony of 50,000 aspen, all connected underground, which covers an area — a surface area — equivalent to more than 100 football fields. Scientists reckon this is both the largest and, at 80,000 years of age, the oldest living organism on the planet, and that sounds pretty resilient to me. So resilience is about resisting damage and recovering in the face of disturbance.

**“...Resilience is about resisting damage and recovering in the face of disturbance.”**

At Burgundy, we think a lot about this concept, in the way we invest, in the way we manage the business and in our clients. To meet our primary objective of providing the best overall stewardship of your capital, you, as clients, can rest assured that resilience will remain top of mind in our approach. Resilience at Burgundy really starts with the way we invest, and from there emanates across the firm. The roots are the disciplined, quality/value investing philosophy to which we all adhere — the goal of which is first to protect your capital and second to grow it.

We seek to own high-quality businesses, those which have long-term sustainable competitive advantages that can better defend against competition and earn high economic returns long into the future. And those run by competent management teams. Our approach is to own concentrated portfolios of these types of companies and to own them for the long term. Of course, we also need to be opportunistic in how we construct and manage these portfolios. We will only add new positions when a sufficient margin of safety is available. That is, when the market offers us an adequate discount relative to our own conservative estimate of a business's intrinsic value. Broadly speaking, our investment team has achieved success by remaining disciplined in this approach, by adapting to an ever dynamic environment, and by showing resilience and opportunism in hard times. The approach is constantly honed and reinforced by an outstanding team of practitioners who apply it to their respective assignments daily. And while the approach is simple, it is certainly not easy and there is nuance in its application. We have small, dedicated teams managing different mandates across the globe who, while applying the same investment philosophy, have to do it under much different circumstances. Similar to the trembling aspen — individual trees living above the ground but with common roots beneath the surface.

Having worked in Burgundy's investment department for 10 years across fixed income, Canadian equities and emerging markets, including four years as director of research, I can speak from experience in executing our investment approach in a dynamic environment. Undoubtedly, there will be periods of market disruption.

This month marks the 100<sup>th</sup> month of a bull market that began back in March of 2009 in the depths of the Global Financial Crisis. Only one other time in history has a bull market lasted as long. Today, share prices are high and it's difficult to find bargains. Our portfolios are concentrated in a collection of high-quality and financially strong businesses. In our experience, this has represented the best way to weather any inevitable disturbances that may come our way.

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In our forests, fire periodically tests the system, breaking down the tall but tired old trees that have monopolized the resources and efficiently recycling them into nutrients to spur new growth. Just as forests need fire, so too do we. While we don’t make it our business to predict the timing, market disruption at some point is inevitable. It is in times of market disruption that our portfolio holdings typically defend against losses far better than average, and valuable new ideas into which we can recycle our clients’ capital are surfaced. Rather than cause for worry, this recycling of capital during times of market stress plays a key role in the long-term compounding equation, setting our clients up for attractive future returns.

Separately, I understand from our investment counsellors, as well as some of my own meetings that I’ve had with clients recently, that many of you have been asking about the merits of passive investing as an alternative to active investing. Passive investing involves the use of low-fee exchange-traded funds to achieve market-like returns. The gain in popularity of these vehicles has really been driven by two factors. First, the broad realization by the investing public that most active managers do not add real value for clients over the long term, especially once management fees are factored in. Second, in the current bull market (which, as measured by the S&P 500 Index, has returned 330 per cent including dividends in a little over eight years), index-like returns have certainly been agreeable to most. Passive investing clearly looks great in a bull market, but we shouldn’t get seduced by that. It is in down markets where good active managers earn their keep. We remain steadfast in our belief that the Burgundy way of investing is the right approach for the long term.

There’s no clearer evidence than the attractive “net-of-fee” track record we have built over years through tougher climates and across all regions.

Let’s now move on to organizational resilience. By that, I am referring to the interaction of our culture and our people, our approach to organizational renewal, and our business and systems infrastructure. In my view, we are operating from a position of strength here, but we can’t get complacent and we always need to strive to do better.

As a firm, we are guided by a clear and consistent mission statement: “Burgundy exists to protect and grow our clients’ capital. We strive to achieve superior, long-term absolute results, while providing outstanding client service.” Furthermore, we have a strong values-based culture that Tony and Anne have mentioned. The values of honesty, courage and always acting in our clients’ best interests have been fully internalized by our people.

A culture of alignment has fostered an entrepreneurial spirit at Burgundy and a strong sense of accountability. I know that, for myself, other than some RESP savings I have outside the firm, I have 100 per cent of my investable net worth invested in Burgundy — through a direct ownership stake in the equity or invested right alongside you in Burgundy’s fund offerings.

But this is about much more than money for us. An interesting takeaway from a recent anonymous employee survey was that, when asked the question “If you had a magic wand, what is the one thing you would change about your experience at Burgundy?”

not a single person cited anything to do with compensation. Of course, we pay fairly, but this result clearly highlights that people are driven by more intrinsic factors. We will continue to work to foster an environment where our people can find meaning, autonomy, growth opportunities and impact in their work.

Another way to achieve resilience in our organization is ensuring that we have diversity in perspective. Today, as Tony mentioned, we have people from 26 different countries; those people speak 27 different languages and are all from very diverse backgrounds in education and work and life experience. Our 140 people are split roughly 50-50 between men and women, and our nine-person board of directors, which three years ago had no women, now has two. Just as diversity adds resilience to our forests, in order to provide balance, different perspectives and seeds for organizational renewal, so too does diversity add resilience to Burgundy. Fostering a culture of tolerance and diversity is paramount. We're moving in the right direction, but there is still work to do. When Tony and Richard appointed me as COO, I was told that my perspective, distinct from each of their own, influenced this decision. And I am committed to bringing this perspective to the table each and every day.

Among other things, my new role has provided me a clear window into the rest of the firm and a better opportunity to observe that the need for resilience extends far beyond the investment team. The firm has now reached a size at which increased management oversight is warranted; more due process and systematization around implementing some of the firm's biggest operational priorities is now necessary. These are things like investment in back-office systems, the website, the client portal and other things like cybersecurity. We are confident that our team is up to the task, and part of my mandate is to support the firm in this endeavour.

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Resilience for us is not only derived from our investment approach and how we manage the organization; resilience also comes from you. We never take for granted or underestimate the value afforded by the long-term mindset and loyalty of our clients. Clients who understand our approach and have, with time and often patience, shown confidence in our execution, are essential to our collective success. We thank you for that loyalty.

There is clearly much uncertainty in the world today — I think we would all agree. A key component of resilience is keeping an optimistic mindset amid that uncertainty. This is not about being credulous or having blind faith. It is more a belief that, over the long term, prosperity will continue to evolve.

I once heard Ed Clark, the former head of TD Bank, refer to himself as a “paranoid optimist” — it always stuck with me. At Burgundy, we believe that a thoughtful and disciplined investment approach, together with a healthy degree of skepticism and the maintenance of an optimistic mindset will serve our clients well in the long run.

Resilience has always been top of mind at Burgundy and that will continue.

Thank you very much. 

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