BURGUNDY RESOURCE PACKAGE *for* INVESTMENT INTERVIEWS

INVESTMENT TEAM CULTURE

WHAT IS IT LIKE TO WORK ON BURGUNDY'S INVESTMENT TEAM?

Life-long Learning

Our Investment Team loves to learn. From our youngest team member to our Chief Investment Officer, everyone is striving to develop themselves intellectually. We support and encourage this drive by offering courses, guest speakers, book clubs, team off-sites and many other activities.

Mutual Respect

We treat each other with mutual respect, valuing each other's opinions and insights. There are no "stars" or big egos on our Investment Team, and new analysts are often surprised by how much their portfolio managers value their research contributions.

Lean, Empowered Teams

Our portfolio teams are small groups of people who make all of the investment decisions for their portfolios. This structure leads to a culture of empowerment and autonomy.

Passion for Business

Our Investment Team is passionate about understanding how businesses work and enjoys the never-ending pursuit of finding the next great business.

WHAT ARE WE LOOKING FOR IN AN INVESTMENT ANALYST?

In interviews, we look for Investment Analyst candidates with the following qualities:

- **Curious** – We are industry generalists. Analysts are constantly challenged to learn new industries and business models, and must therefore have a natural curiosity for business
- **Tenacious** – Winston Churchill once said, "Success consists of going from failure to failure without loss of enthusiasm." Good investment analysts have this quality because many of their recommendations will be failures
- **Skeptical** – Good investment analysts do not take anything at face value; they question everything and have a natural tendency to keep asking, "why?"
- **Thoughtful** – Good investment analysts are rigorous, thorough and analytical; they systematically weigh as many facts as they can before rendering a judgment
- **Clear and Concise** – Good investment analysts are "reductionists" – they can distill a large amount of data and information into easily understandable observations

- **High Integrity** – We put our clients' interests first and this means we must hire people of high integrity. As Warren Buffett says, "In looking for people to hire, you look for three qualities: integrity, intelligence and energy. And if they don't have the first, the other two will kill you"

- **Humble** – Pride prevents analysts from admitting when they were wrong and from learning from their mistakes

- **Self-Confident** – While we avoid people with egos, we do need people with the self-confidence to share their opinions and stand behind their thoughtfully researched recommendations

We aim to hire people who are better than we are in the hope that each new hire raises the standard for the team. David Ogilvy once wrote, "If each of us hires people who are smaller than we are, we shall become a company of dwarfs." When we hire, we try very hard to avoid "Ogilvy's trap."

SAMPLE INTERVIEW QUESTIONS

BEHAVIOURAL QUESTIONS

Tell me about your biggest wins and losses.

- Reflect on the major developmental milestones in your life (as opposed to reciting your resume)
- Highlight mistakes / setbacks you have suffered in your career and the lessons you learned
- Show us you can overcome adversity

Can you provide an example of when you have had to be a self-starter?

- Show us how you have thrived in a situation of uncertainty or done something entrepreneurial
- We are looking to see that you can take control of your own development

Who is your biggest role model?

- Explain what characteristics you admire in that person and how you have tried to emulate those characteristics
- Do not pick an egotistical business celebrity

What do you like to read outside of investing?

- Show us you are curious about how the world works
- We are looking to see that you can find time to read widely
- Continuous intellectual development is part of the job of an analyst

GENERAL ADVICE

Show that you enjoy thinking critically about businesses and can logically weigh qualitative business factors.

Show that you can break down complex numerical / accounting problems into smaller, more easily solvable problems.

NOTE: these questions are only samples. They will not be asked in the interviews.

BUSINESS QUESTIONS

Name a company you admire. If I make you CEO of that company, what three changes would you make in your first 100 days?

- Define what you are trying to do as CEO (Are you trying to grow earnings next year? Widen your economic moat?)
- Show that you know the business by discussing the challenges you might run into with each of your recommendations

Would you rather own a hotel or Expedia?

- Pick a quality accounting ratio (operating margin or ROIC) and compare how each would perform on this ratio
- Apply the Warren Buffett competition test: How difficult would it be for a well-managed / financed competitor to steal the customers of each business?

List three businesses you have interacted with today. Which is the best business?

- Do not jump to a conclusion. Pick a couple of evaluation criteria and systematically go through all three businesses (e.g., level of competitiveness, cyclicality, profitability, etc.)
- We are looking for thoughtful people who weigh the pros and cons of a business before rendering a judgment

Name a company you think will be around in 100 years and explain why.

- Do not say the first company that comes to mind
- List a few businesses and then list factors that improve a business' survivability / forecastability (e.g., product consistency, brand strength / durability, etc.)
- Use elimination (narrow search by eliminating bad sectors)

TECHNICAL QUESTIONS

Name a company with low ROA but high ROE.

- Define each ratio and note differences: one has assets in the denominator, the other has equity. Therefore you are looking for a business with a lot of assets and significantly less equity
- If the formula approach fails, start using trial and error (for each company, walk through the calculation of the two ratios)

If a management team wanted to temporarily boost free cash flow, what could they do?

- Explain how free cash flow is calculated
- Go through each item on the income statement and cash flow statement and think about how it could be manipulated to bolster free cash flow

When could a company with a high P/E still be considered a value stock?

- Break down the problem into components: either the company's earnings are temporarily depressed (e.g., earnings are suppressed by a recession, there is a loss-making business unit, etc.) or there is value in the company that is not captured by earnings (e.g., cash, real estate, etc.)

How much revenue does Uber generate?

- Write down as many variables as you can (e.g., % of the population with smartphones, Uber's penetration rate on smartphones, times per week an Uber app user takes a cab, % market share of Uber vs. Lyft / taxis, average trip length, average price per minute / kilometre, etc.)
- Fill in estimates for each factor, and then try to calculate an overall estimate

INVESTMENT PITCH

ADVICE FOR TACKLING YOUR PITCH

Things To Do

- Come up with a list of business quality characteristics you are looking for in a company. Take a list of companies and eliminate the ones that do not fit your criteria. With the shortened list, do some preliminary reading and identify the best investment idea. Do not pick a company without using a systematic process
- Start your research process by thinking about the company as if you are the consumer of its products / services: check out the company's website, research the company's products on Amazon, etc.
- Be able to talk about the business from different perspectives – as a business owner, as a competitor, as a consumer, as management, etc.
- Read all of the company's filings
- Supplement your pitch with "proprietary" information (i.e., information that is not in the filings). For example, visit stores and talk to store clerks, do a mini-survey with your friends, find trade magazines that discuss the company / industry, read a book on the history of the company's industry, read the company's Glass Door reviews, etc.
- Practice, practice, practice

Things NOT To Do

- Do not pitch a company which is too complex / esoteric. Follow Peter Lynch's advice, "If you're prepared to invest in a company, then you ought to be able to explain why in simple language that a fifth grader could understand, and quickly enough so the fifth grader won't get bored."
- Do not pitch an energy company
- Do not pitch a mining company
- Do not present the investment idea as a "sure thing" – it will come across as though you have not considered any of the investment risks
- Do not leave the stock pitch to the last minute – investment ideas take a long time to research and practice
- Do not recycle sell-side equity research – try your best to have a differentiated view on the company
- Avoid companies which are very expensive (as a rough rule, avoid companies trading over 30x earnings)

NOTE: you will be asked for at least one investment idea in your interviews.

TEN QUESTIONS YOU SHOULD BE ABLE TO ANSWER ABOUT YOUR PITCH

1. What is the value proposition of the company's product / service? Who is the customer? In plain language, explain how and why a customer buys the product / service.
2. What is the company's go-to-market strategy? How does the product / service get to the end customer?
3. Who are the competitors? What is the company's market share? How rational is the competition?
4. Why do customers choose the company's product / service over competitors'?
5. What is the company's competitive advantage / economic moat? If you had unlimited resources and management talent, how long would it take you to steal this company's customers?
6. What are the size, growth rate and volatility / cyclicality of the end market? If the end market is cyclical, where are we in the cycle?
7. Describe the economics of the business. What is the company's cost structure and operating / financial leverage profile? What is the company's capital intensity?
8. What are the most important operating / modelling drivers of the business?
9. How is the market valuing the company?
10. Who is management and what is their capital allocation track record? What are their incentives?

SUGGESTED READING LIST

NOTE: this is NOT required reading for the interviews.

INVESTMENTS

- Against the Gods: The Remarkable Story of Risk by Peter Bernstein
- Investing Against the Tide by Anthony Bolton
- Warren Buffett's Letters to Berkshire Shareholders
- There's Always Something To Do by Peter Cundill
- Quality Investing by Lawrence Cunningham
- The Power of Moats: Competitive Advantages Drive Superior Performance by Pat Dorsey (Morningstar)
- The Little Book that Builds Wealth by Pat Dorsey
- Common Stocks and Uncommon Profits by Philip Fisher
- The Origins of Value edited by William Goetzmann and Geert Rouwenhorst
- Intelligent Investor by Benjamin Graham (particularly Chapters 8, 17, 20)
- The Warren Buffett Way by Robert Hagstrom
- Margin of Safety by Seth Klarman
- Valuation: Measuring and Managing the Value of Companies by Tim Koller, Marc Goedhart and David Wessels
- Tap Dancing to Work by Carol Loomis
- Buffett: The Making of an American Capitalist by Roger Lowenstein
- One Up on Wall Street by Peter Lynch
- Beating the Street by Peter Lynch
- The Most Important Thing by Howard Marks
- Value Investing by James Montier
- Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger
- Charlie Munger's Wesco Financial Corporation Annual Letters (particularly 1990)
- Financial Shenanigans by Howard Schilit
- Antifragile: Things that Gain from Disorder by Nassim Taleb
- Best Practices for Equity Research by James Valentine

BEHAVIOURAL PSYCHOLOGY / BEHAVIOURAL FINANCE

- Predictably Irrational by Daniel Ariely
- Principles by Ray Dalio
- Thinking, Fast and Slow by Daniel Kahneman
- More Than You Know: Finding Financial Wisdom in Unconventional Places by Michael Mauboussin
- Think Twice by Michael Mauboussin
- The Little Book of Behavioral Finance by James Montier
- Superforecasting by Philip Tetlock and Brendan Gardner

BUSINESS HISTORY

- The House of Morgan: An American Banking Dynasty by Ron Chernow
- Titan: The Life of John D. Rockefeller by Ron Chernow
- Conspiracy of Fools by Kurt Einchenwald
- Capital by Charles Ellis
- The Partnership: The Making of Goldman Sachs by Charles Ellis
- The Ascent of Money by Niall Ferguson
- Manias, Panics, and Crashes: A History of Financial Crises by Charles Kindleberger
- Behind the Arches by John Love
- This Time is Different by Carmen Reinhart and Kenneth Rogoff
- Good to Great to Gone: The 60-Year Rise and Fall of Circuit City by Alan Wurtzel
- The Prize: The Epic Quest for Oil, Money, and Power by Daniel Yergin

BUSINESS STRATEGY

- The Innovator's Solution and Seeing What's Next by Clayton Christensen
- Good to Great by Jim Collins
- Competition Demystified by Bruce Greenwald and Judd Kahn
- Harvard Business Review package on Strategy
- Competitive Strategy by Michael Porter
- Good Strategy, Bad Strategy: The Difference and Why it Matters by Richard Rumelt

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