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EP75 | Nuances to portfolio construction

Disclaimer	**00:22**	This podcast is for informational purposes only. Information relating to investment approaches or individual investments should not be construed as advice or endorsement. Any views expressed in this podcast are based upon the information available at the time and are subject to change.
Rob Campbell:	**00:37**	Well, we're here this week to talk about portfolio construction, and we thought who better to do that than our U.S. Equity Portfolio Manager, just given everything happening in the U.S. these days. So Grayson, welcome to the podcast.
Grayson Witcher:	**00:52**	Thanks, Rob. It's good to be here.
Rob Campbell:	**00:54**	Here's how I was thinking about this: Mawer is primarily a bottom-up stock picker. Portfolio construction might be just as simple as putting the most weight into your best ideas and taking it from there. It's more than that though, isn't it?
Grayson Witcher:	**01:09**	Yeah, you're right. There is more to it than that. I think you made a good point to kind of kick it off—we are bottom-up stock pickers, and so that's the genesis of the stocks we look at. We try and find the best stocks out there. But there's different ways you could create a portfolio out of that. You could set a threshold and say everything above that threshold could fit in the portfolio, and [then] you just pick the ones with the highest expected return. That could be one way to do it.
	01:31	But the future's uncertain, and you want to build a resilient portfolio. That's a big part of the way we do things—is that resiliency in the portfolio. We want to build the right skew in one way.
		So, you can look at it from a bottom-up standpoint. There's the skew in terms of the distribution for a single stock. So that's one way that we often talk about [it], where you want to have the negative skew limited and the positive skew unlimited. You might have a company like Waters that makes equipment for the pharmaceutical industry, and you might say, "Well, they're locked in because they do quality control for pharma companies."

Grayson Witcher: **02:04** And so those machines are locked in for as long as they make that pill, whether it's branded or generic. So, that's great downside protection. And then you have upside of selling new products to different customers.

So that's one way that you have [it] intrinsically, but in terms of the portfolio construction, you want to add more to it than that.

02:18 And so we have constructed portfolios of typically 50 to 70 holdings. There's hard restrictions in terms of 20% max per industry, 6% max per stocks. So these are guardrails really against overconfidence. Those are simple things we have in place. But I think it's also key to mention why we do some diversification.

02:37 One reason is for downside protection, but another reason is for upside capture as well. You're never going to pick the best performing stock in the universe, so you want to have diversification on those two fronts, too. So, I think it's important to think about it from a return and a risk standpoint.

Rob Campbell: **02:53** How do you think about diversification? Because that is probably my favourite quote in investing, which is that "diversification is the only rational deployment of our ignorance." Which, I think, is the theme that you're getting at.

I get that we've got—I mean, clients should rest assured that we do have some maximum guidelines with respect to how much we can put into a stock or a given sector or industry, rather—but diversification's got to be so much more than that. And so as a portfolio manager, how are you thinking about that on a day-to-day basis?

Grayson Witcher: **03:23** You're right. So, diversification...one way to think about it would be it's like slicing a cake. You can slice the cake in many different ways, if you think about a birthday cake. And you want to be diversified in every different way you look at it. So, maybe you slice it right down the middle and you can see the different layers, or you might also want to slice it horizontally, and that's a totally different look to the cake.

Grayson Witcher: **03:44** So that's the way we often think about things—we want to be diversified in as many ways as possible. There [are] different ways we look at it to help do that. One is having contradictions in the portfolio. So, when we create contradiction, when we create portfolios, we're aware that we aren't able to predict the future. If we were, we could just pick one stock or one industry and say, "Well, this industry is going to do the best out of every industry. And let's just pick all these stocks in this industry." But we don't know that; that's not the case. We don't know how the world is going to unfold.

04:13 And so we want to build some contradictions in our portfolio. For example, we haven't had oil exposure in the U.S. Equity Fund for several years now (oil and gas exposure). And so, that's worked fairly well for us. But recently, we've added to companies like Aspen[Tech] and FLEETCOR, which are derivative plays on oil and gas exposure. And the reason is because we're not sure what's going to happen in oil and gas prices. And so, we want to have some offsets in the portfolio. So, that's one way of doing it.

04:43 Another way of looking at risk is through The Matrix. So, the matrix is a tool we have. It looks at, basically, quality versus return potential. And the way we use this in risk is trying to diversify along that continuum. So we might own a company like West Pharmaceutical [Services], which is a very high quality company in our opinion, but the return potential is not as great as some others in the portfolio. But we diversify along that potential on that kind of gradient. And we may also buy companies like State Street, which is a high-quality company, but just not as high as West Pharmaceuticals. But the valuation is, in many regards, is more attractive.

05:21 And so you diversify along the grading of The Matrix on quality and return potential. So that would be one other way of diversifying.

Rob Campbell: **05:30** Taking it from there—and again, I think you just have such great perspective managing the U.S. equity portfolio and these various ways of slicing the cake. I mean, you hinted at one that I know a lot of people in the investing world are really thinking about, which is this idea of value investing versus quality versus growth, and just how that theme plays out in a portfolio, or in putting together pieces of a portfolio.

Can you go just a little bit deeper on that one? So, recognizing that you do want to hold stocks across The Matrix, how are you weighing the impact of that theme on the portfolio overall?

Grayson Witcher:	**06:06**	Yeah, in our mind it's a continuum. So, we understand that there's this traditional groupings of value and growth and these types of buckets, but we view it as a continuum. We try and diversify the portfolio all the way across that. And so, [when] we think about The Matrix, we think about these kinds of bands that we invest in. And the band can be...it's really a mix. You think about the mix between quality and return potential. And there could be different mixes that lead to the same weight in the portfolio. And so maybe companies that are more value-based might have a mix that's appropriate for us, where you say, "It's a high-quality company, it meets our threshold. But the return potential is one of the better ones in the portfolio." And so, we have a certain weight in the portfolio in a company like that.
	06:48	Could be a company like Cognizant, for example. So they do technology consulting; that's a reasonable business, but the valuation is quite attractive. And then, you go all the way across the spectrum to a lot of the higher quality companies that we own. And the mix is right for those, too, where the return potential is decent, but the quality of management, the quality of business model's exceptionally high. So, I think they're going to create a lot of value over time.
Rob Campbell:	**07:11**	So just pushing on that one a little bit more; are there specific things that you're doing, either as a team or as a portfolio manager, to kind of assess the resilience of the portfolio? Do you play out certain scenarios? Again, without knowing how the future's going to unfold, do you look at various interest rate scenarios or economic scenarios and try to understand how that might play out and impact the resilience of the portfolio?
Grayson Witcher:	**07:36**	Absolutely, we look at it a number of different ways. So, one way that comes to mind is on the valuation front—our models, we can look at different interest rate scenarios. For example, if interest rates stay low or they go higher or they stay low and then go higher—all different scenarios. We can play around with those and see how that impacts the valuation. So, that's one way of looking at things.
	07:57	We also look at it [on] a more qualitative basis, so we can look at different factors, different risks in the portfolio and try and aggregate those. We may say, "What companies have oil as a raw material and see, okay, how much of that exposure WOULD we want to have? where a big increase in oil prices could lead to lower margins for the company?" Or it could be, "How much exposure do we have exporting products to China, for example?"

Grayson Witcher: **08:26** Especially around the tariff talks a couple of years ago, we were very cognizant of having a lot of exposure to companies that are exporting a lot to China, for example.

We look at all these different factors and we can aggregate them for the portfolio and determine if we think that's too much risk or a reasonable amount of risk, and it's diversified enough.

08:45 There's things like that. There's also other one-off projects we do on a regular basis to look at risks in a different limelight. So, one that we recently did was looking at risk through the lens of behavioural biases.

Often investing...humans have these cognitive biases built into us, [for] reasons in many cases, but we want to be aware of these. And we want to make sure that they're not skewing our investment decisions. So we look through the whole portfolio based on some of these biases—things like confirmation bias, downwind effect, fantastic object. And we try to see, "Do we think we're making any structural biases where we're making the same mistake over and over again in the portfolio and the way we look at things?"

09:28 Luckily, we believe we aren't—that we're pretty diversified [on] that front, and we were aware of these biases and we try and correct them. And part of the way we do that, on top of doing these exercises, is we have a team. The U.S. team, for example, and the whole research team is diversified. The U.S. team grew up in four different continents. We look at things from different standpoints, different viewpoints.

09:49 I think that intellectual curiosity, that diversity in the team itself has kind of led us to avoiding some of these behavioural biases. So I think there's a number of different angles we've approached this problem with to try and reduce these risks.

Rob Campbell: **10:03** That's such an interesting point on the behavioural biases piece. Part of me thinks though, that, if you're getting a team that's been together for a long time—the U.S. Equity Team, for example—to look at your own portfolio, I mean...that's not the most independent of lenses [laughs]. Do you do things to solicit more independent thought on the portfolio?

Grayson Witcher: **10:21** We do! So, a couple of things come to mind. One is that our former CIO, now Chair of the firm, he's spearheaded risk processes. And we do this formally twice a year. And as well, he's doing that with all the different asset classes at Mawer. And so he's able to bring ideas from other asset classes where he may see, "Oh, they're looking into these types of risks, or they're trying to change the portfolio to adjust it in these ways." And so he can bring those experiences to help us. That's one way of doing things.

10:56 Another that's quite helpful is…because we all speak the same investment language, we all have the same philosophy and process at Mawer, We can utilize resources from other teams and have them look at U.S. ideas and look at the U.S. portfolio, and it's a seamless process.

And so, over the last year, for example, we've had people from the Canadian Small Cap team look at U.S. companies. Samir has looked at 3M, he looked at Apple, he looked at Adobe. He brings a different perspective to it.

11:30 We've had Justin, who's been focusing lately a little more on technology companies. He has a background from MIT, he views things from a little bit different lens. He also spearheaded our Lab, which is trying to advance the technology aspect of investing and how we work with technology at the firm. He's got a lot of experience in technology and investing, so he's been able to bring some of those ideas. Over the past year, he must've looked at six or eight different U.S. companies in depth, on top of many others. And so that's a different way of bringing kind of a fresh approach to things and a slightly different perspective. We've also found that's quite helpful on risk management.

Rob Campbell: **12:11** I mean, for those who have listened to the podcast over the last couple of years, clearly that cultural element—the harnessing of different perspectives—and really allowing those to be voiced and heard by those who have decision-making authority is clearly a big part of what we're trying to do.

I want to circle back to some of these themes though, and maybe spend the rest of the time on those.

12:30 Clearly a lot of themes impacting the world, and the U.S. [specifically], and U.S. companies. I was wondering if we could go through a couple of these themes through the lens of portfolio construction and risk management, and just talk through some of the impacts and how you're thinking through them.

Rob Campbell: **12:47** The first I had was with respect to e-commerce—with people working from home and a lot more economic activity shifting online. How have you seen that play out? And what are some of the things that you guys are thinking of as a U.S. team from that perspective?

Grayson Witcher: **13:00** E-commerce has been a big one, you're right. So, [are] the obvious beneficiaries, and we do own some of those in the portfolio—Visas, MasterCards, PayPals—these type of companies, where obviously you're not going to be using cash to buy things online. And so, this benefits credit card companies, it benefits companies like PayPal, if you're buying new things during the pandemic from retailers that you don't know a whole lot about. You may want to be a little bit more safe about giving out your credit card number. Those are quite obvious ones.

13:27 I think there's other themes that maybe are less obvious, so I'll highlight one of those. Nike! Nike is one that comes to mind. So, the shoe company has made a big e-commerce push the last few years. Part of that is that they've seen the shift happening even before the pandemic. And so they've shifted their business so that they can sell more shoes directly.

13:49 Historically, if you bought a pair of running shoes, you might've gone to a store in the mall. You could go to a Footlocker, or that type of store; you try several pairs on, and then you come home. So, Nike would sell their shoes to Footlocker for half the price that you see them listed on the wall, and Footlocker would make the other half of that profit. But Nike is trying to make that shift online and sell more shoes online. And so, as a result, they control more of the ecosystem, they control more of their brand. They can capture more of the total value of the shoes they sell, rather than having a retailer make part of that profit. And they can see the inventory better and they can control discounting more. So, that's been one where you've seen a big e-commerce push and they've benefited from that.

And so there are companies like that, that are not quite as obvious as some of the ones that might come to mind immediately.

Rob Campbell: **14:40** From a portfolio perspective, well, I've got two thoughts. One is just the benefit of a good management team, because effectively that relieves your job a little bit. You're essentially outsourcing some of those decisions to the management teams themselves. Nike is the one who's got to worry about rising e-commerce. And if they've positioned themselves to have optionality, that's great. It's a stock that you continue holding.

Rob Campbell: **15:02** But thinking of the portfolio overall, the pandemic [has] clearly ushered in an acceleration of the shift to e-commerce. If that acceleration was really to increase, how would that impact the portfolio? Or where are the companies that you would be most worried about in terms of what we hold today?

Grayson Witcher: **15:19** There's different ones that come to mind. So, the obvious ones are retailers. We haven't owned too many retailers for that reason. Not that we saw the pandemic coming, but more that we kind of saw this gradual shift to online. And so, we were kind of hesitant to own too many of these companies with a theme pushing against them on that front. There'll be other industries, like real estate, commercial real estate. And so, fortunately for us, we haven't had…really [any] direct exposure to commercial real estate. We have recently kind of revisited that, as this pandemic hit and all these companies got hit pretty hard. We did set up a reverse roadshow and talked to some analysts in the commercial real estate area to make sure that we weren't missing anything.

16:01 There's also derivative plays on companies that have gotten hit pretty hard on that front. And some of those we found are ones that we've tried to benefit from. I'm thinking of companies like Carrier, which is one we historically owned through their parent company UTX, but they got spun out and we added to the position. Carrier makes air conditioners and furnaces, as many people are probably well aware. And so on the one hand, they get hurt if you believe that people aren't going to go have an office, they're going to work from home all the time. If you don't need an office, well, you don't need an air conditioning unit on top of that office building, because you don't need the office building at all. It's just shut down, basically.

16:41 But there are offsets to that, so I think that's part of finding these investments. A company like Carrier has been hurt in some ways, but benefited in that, well, maybe in certain climates you may want to have an air conditioner at home now. In Florida or something, you're going to have one, of course. But in more Northern climates, maybe you didn't have an air conditioning unit because it wasn't that warm much of the year, and you were in the office for most of the heat of the day. Whereas now, if you're at home, you want to be a bit more comfortable. So, some offsets like that. And there's some offsets with air quality, making sure the air is more purified, is circulated more. So, upgrades to the system.

17:16 That's what you often see with companies we try and invest in—is that they find different ways to benefit from some of these headwinds.

Rob Campbell: **17:24** Interesting. Let's shift to another theme: the "winner take all" nature of some of the business models that have emerged in the U.S. So, I think about some of these platform companies—even the Visas and the Microsofts—[are] effectively just a handful of one or two players who can really benefit from the scale. Or, once they get that certain scale, it's impossible for somebody else, or very difficult for somebody else to come in. Is that a theme that you guys are thinking about within the U.S. portfolio?

Grayson Witcher: **17:50** It is. So, like many things, there [are] two ways to think about it. The one is that these companies are doing a great job at what they do, [which] is really why you've seen these huge companies continue to grow despite being big. And there used to be the old trade-off, you used to talk about. You'd like to invest in small cap companies, because those are the ones that grow faster. You either trade off the large companies, potentially better businesses or lower risk, they're more diversified; versus a smaller company has more growth potential. And so you try and weigh the two and see what you think makes sense.

18:24 The last several years it seems like that hasn't quite held true because you have big companies like Google, or Visa, Amazon, and these companies are massive. Some of them are trillion-dollar companies, and they're still able to grow at 20% a year, which is just unbelievable—the amount of growth that they're achieving.

18:43 So it's a little bit different paradigm. And so, like I was saying, I think there's two sides of it. One is that they're doing a great job. The products they create are adding a lot of value in our life. That's why these companies have gotten so big. You think about Amazon, I'm sure a lot of people listening to the podcast use Amazon Prime or products from them. It's a great product; you get your stuff right away; you can get anything you want in a day or two. It's an outstanding product, you can see why people use it. Same with Google Search or YouTube—these are really high-quality products. You can see why we use them more.

Grayson Witcher: **19:16** But we also look at things from a risk management standpoint too, and we have to be careful about not getting overconfident with these kinds of companies. And so we regularly try and think about the downside. For example, we—as part of our process when we look at companies—put together what we call a short report. So, it's basically trying to reverse our mindset and think about, "Okay, we have a lot of reasons why we want to own this company, but let's turn the tables and say, why wouldn't we want to own this? Let's think about all the reasons why we shouldn't own this company." And so that's quite a helpful exercise to force us to think in different ways to make sure we're not making any mistakes in terms of getting overconfident in the investments we make.

Rob Campbell: **19:55** Related to this "winner takes all" theme, rising inequality seems to be a theme in the U.S. and just...globally in general. How does that play out through the portfolio?

Grayson Witcher: **20:05** That's something we've thought about. I like to think about these long-term themes, and I've done it the last couple of years around this time of year. I put together a kind of a paper basically on some of these longer term themes. Longer term as in a hundred-year themes, going back many decades. And you're right, inequality, wealth, and income inequality are the big ones that pop up. Perhaps that's why you're seeing some of the tension you're seeing in the U.S. and other parts of the world right now, is a lot of people feel left behind. They feel like their life hasn't gotten any better in the last 20, 30, 40 years. And they view a small sub-segment of the population as seeing a much higher quality of life, and that leads to that tension.

20:47 So part of it is recognizing these [theses], part of risk management is just awareness of some of these themes. I think that's a big part of the battle, is the way we work at Mawer allows us to think about this. We're long-term investors, we're thinking 10+ years out in the investments we own, and we're an employee-owned firm. A lot of these things that we think about really impact the firm, the clients, our holdings. That's just a kind of way we do things here.

21:14 The way it pans out, in terms of specifically looking for risks, is once you've identified this thesis, you try and see...really, one of the big ones is that it's hard to forecast how the world is going to pan out. So, we often use big themes like this as a way to protect the downside. And so, we want to lower exposure to downside from things like the wealth gap or the income gap, or tariffs, or rising interest rates.

We'll look at these things and try and find ways to reduce the sharp edges in a portfolio to lower that risk.

Rob Campbell: 21:46 Other things that we've specifically done on this theme of inequality?

Grayson Witcher: 21:50 I'll give you an example of a company that comes to mind, in terms of something that came out of this wealth gap. One would be UnitedHealth. UnitedHealth is a health insurance company in the U.S. And so, their latest push over the last few years has been to really try and make healthcare more affordable.

So, you think about healthcare in the U.S., I'm sure many of you on the podcast have heard about the escalating costs in the U.S. healthcare system, and how they're trying to reign that in, to spend less and still get good outcomes from the healthcare system.

22:27 UnitedHealth has really made the shift over the last few years to try and make healthcare more affordable. They're trying to use their clout in the market and some of their strategic moves to lower the price of healthcare. I'm thinking about things like lowering the cost of prescription drugs, so they're able to negotiate for better prices on prescription drugs on behalf of their users. And the same in terms of access to healthcare. So, whereas a lot of people in the U.S. would go to hospitals because they may not have a primary doctor, they may not know where to go to if they need to go to a doctor, UnitedHealth has tried to push people away from these expensive venues to cheaper venues, where they can go to a clinic down the street, or they can go to a clinic at the drug store and see a nurse, for example.

23:16 And so they're able to lower the healthcare costs for a lot of their users and improve the quality of life for them.

Rob Campbell: 23:23 Great. What are some of the other themes that you're thinking through that you think are most important to the U.S. portfolio's resilience right now? That are bigger picture in nature like this?

Grayson Witcher: 23:32 Well, one you hinted at a little earlier on—but one would be just the quality of management. I really want to reiterate the value high quality management teams can add on the risk management front. One that comes to mind is Fastenal. So, Fastenal is a distributor of fasteners, [which] screw things together. Which, you would imagine would do not that great in a pandemic. They sell to industrial companies, and if these industrial customers are making less product because people aren't buying as much, you'd imagine that's not an outstanding scenario for a distributor of these products.

Grayson Witcher: **24:07** But what they were able to do was they saw the pandemic coming a lot earlier than many people out there. And so they were able to proactively get a lot of PPE devices, for example, (personal protective equipment) and bring those into their distribution and were able to sell those to customers and have them in stock and provide those to their customers on the industrial side when the pandemic hit. Whereas a lot of others out there were having a hard time getting a hold of these devices because the management team just wasn't as proactive. They were kind of reacting to what happened. And after the pandemic got really bad, they'd try and call suppliers and get these devices. Whereas, Fastenal was just much more proactive on that front.

24:50 And so, I think that really highlights the value of management teams and high quality management teams in these scenarios, where they can really lower the risk of these holdings for you, and do some of the work for you like you were talking about earlier, Rob.

25:05 Another theme that comes to mind is oil. As a lot of us are working from home or have worked from home for the past several months, not flying places to talk to customers or clients, and not going to conferences, not going to trade shows. This is clearly having a big impact on the oil market. And so, one of the things we've done is to try and offset some of our risk on that front. (People are well aware of the theme and the lack of demand for oil.) And we've been able to offset some of that risk in this shaky oil market and invest in some of these companies that we've been well aware of for a while.

A company like Aspen Technology...we've owned in the past, and it's been on our inventory list for the last few years, and that's one that popped up in some recent screening. They run the software for refineries, and one of the things they've done that's quite interesting is, in these shaky times for the oil industry, they've been able to tweak their software to help these refiners lower the cost of running the refinery. So, it's not just on the revenue front—you produce more oil, and they make more money—but it's also trying to find ways for their customers to lower their costs. And so that's been a huge, huge win for them recently. So, that's been a big one.

Rob Campbell: 26:24 Yeah, what strikes me, Grayson, is that with respect to some of these bigger themes, it really does come back to the individual businesses, the individual management teams, and the risks that are embedded in them as one of the bigger staples of the portfolio construction exercise. So, it does seem to me that it starts very much the bottom up, and then you slice the cake a number of different ways just to make sure that that bottom-up work is capturing the resilience that we intend. Is that an accurate description of what you're trying to do as a team and as a portfolio manager?

Grayson Witcher: 26:57 I think so. I think we're trying to combine the two. It's, like you said, very much bottom-up focus, but we're trying to combine that with a top-down awareness of some of the risks out there, and some of the opportunities.

An example would be companies like Accenture, Cognizant. These are technology consultants, so there's upside and downside risk with some of these technology changes. There's sort of…a lot of upside, in that a lot of companies—especially during the pandemic—are trying to upgrade their portfolio. So, they may be selling stuff online and they want to really upgrade that. Or maybe their website was just average before and they really want to improve the website because people aren't coming into their stores to buy stuff, or to their warehouse. And so these two companies are ways we found to benefit from some of these shifts in technology.

27:44 Of course, with those shifts comes the risk that technology shifts quickly. You don't know who's going to be the winner. It's hard to pick who's going to be the next big cloud technology winner, or SaaS technology winner (software as a service) or all these kind of…buzzwords that you hear.

One thing we found is that we're able to hopefully find the right mix between risk and reward with some of these companies like Accenture or Cognizant, where they benefit from that transition to new technologies, but you don't have to bet on a specific company or specific technology to win. You can just bet on that transition happening.

28:17 And so there [are] ways you can manage that risk, like you say, and think about things from both a top-down and bottom-up standpoint that hopefully lead to a more resilient portfolio.

Rob Campbell: 28:26 Last question: are there areas that you feel that the portfolio is less resilient against? Or put a different way—what are some of the themes looking forward that you're most concerned about?

Grayson Witcher: 28:37 I think some of the themes that are most concerning from a real macro standpoint, are ones that impact most of the companies in the portfolio. We've tried to slice it a number of different ways, and we feel pretty comfortable with the kind of risk diversification from that standpoint. Thinking about input costs or things like this; could be exposure to payments or auto aftermarket; however you want to slice the portfolio.

29:09 Of course, there's always risks, but we feel like we've looked through a lot of those and we feel confident that we've created a resilient portfolio. I'd say some of the bigger risks that I worry about in the longer term are ones that impact the entire market more so. So, I'm thinking about things like a shift away from democracy could be one. You've seen kind of more talk about populism or authoritarianism, things like this, that really don't impact a specific stock or specific industry so much as they impact the entire investible universe.

29:43 And so, those are some things that may or may not happen, who knows? But you've seen some signs of a shift on that front. So, that's somewhat worrisome. And there could be things like interest rates as well, that are kind of more macro that of course impact the discount rates for investments. And that impacts the valuation. So those are ones, too, that can impact the whole universe that we worry about a little bit. That one's a little bit easier in some ways to find offsets.

30:10 For example, we invested in CME [Group], which is a futures exchange. And so there's some companies like that—that benefit from rising rates and rising volatility. And so we try and find ways to offset some of these macro risks.

But I think those would be a couple of the bigger ones if I look out 20 or 30 years that I worry about.

Rob Campbell: 30:29 You can worry about them, little you can do to control them, other than to diversify—even outside of the U.S. fund that you're talking about, I suppose [laughs].

Grayson Witcher: 30:36 That's right.

Rob Campbell: 30:37 Well, let's just ask, then. So, Grayson, we started talking about, one, a U.S. portfolio manager, just given things happening in the U.S. I've got to ask the question [laughs]: we've come through a recent U.S. election, not sure when this podcast will actually get released, and that things could change between now and then… but any big picture thoughts with respect to the…well, at least the outcome that we know at this stage?

Grayson Witcher: 30:59 These kind of events are tough because it's hard to predict who, a few weeks ago, who's going to win. And then, on top of that, it's hard to predict what's going to happen when either person wins, and then you have to predict how the market is going to react. So, what we've found most effective in situations like this, is the "win by not losing" strategy.

31:18 We try and look at what businesses, what industries could be hurt under different presidents, for example. You might say Trump may have poor relations with China, and so you try and avoid companies that export goods to China. I know Biden might have slightly higher taxes, so we've looked through the companies in our portfolio and tried to understand which ones are most at risk to their tax rate increase and seeing if there's any extraordinary risks on that front. And we think the answer is no; we think we've got to create a portfolio that's pretty resilient in both cases.

That's how we tend to look at hard to predict binomial outcomes like that.

Rob Campbell: 32:01 Got it. And I guess for a company like Fastenal…not a huge difference to their business model with respect to who becomes president.

Grayson Witcher: 32:08 That's exactly right. I mean, if the type of companies you invest in are ones where they are resilient in all different outcomes…you see that in any sort of scenario. It could be who's going to run the country, it could be anything. It could be how quickly do we shift to e-commerce; it could be what are oil prices going to be two years from now.

We try and buy companies that can do well in any scenario.

Rob Campbell: 32:33 Well, that seems like a good place to end. Grayson, thanks for taking us through the lens of risk management and thinking through various themes in the U.S. portfolio. Thanks for coming on the podcast!

Grayson Witcher: 32:44 Great to be here, thanks Rob.