



“THE CHALLENGE THE CANADIAN MARKET FACES IS THAT IT’S A CONCENTRATED MARKET WITH ENERGY AND MATERIALS REPRESENTING A FAIRLY LARGE COMPONENT OF THE BENCHMARK, AND THAT LEADS TO SOME VOLATILITY. WHEN YOU HAVE A MORE BALANCED MIX OF GLOBAL AND CANADIAN STOCKS, OVER TIME, YOU’LL ENHANCE THAT RISK-RETURN PROFILE AND ENSURE A SMOOTHER RIDE.”



STEPHEN WAY

*Senior Vice-president
and Portfolio Manager,
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THE PERFORMERS

✕ CANADA’S INFLUENTIAL THOUGHT LEADERS ✕

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Senior Vice-president and Portfolio Manager, AGF Investments Inc.

The opinions expressed herein are those of the Portfolio Manager as of April 2015 and should not be considered investment advice or a solicitation to buy or sell securities.

You’ve been managing AGF’s flagship global equity fund for 20 years now. How has the investment world changed over the last two decades?

There’s certainly a lot more information available now than there was in the past. That’s caused information overload, and that can be a real challenge, but we deal with that by having a clear investment thesis on each of the names that we own. Also, when I started in 1995, emerging markets were around 7% of the MSCI All Country World Index and, as of March 2015, it’s more like 12%. China’s been a big part of that, but the emerging markets in general have really come to people’s attention. Emerging Markets currencies have also come a long way. In 1995, most EM currencies were pegged to the U.S. dollar whereas now most are free-floating.

The creation of the euro and the single European market were also significant events in the last 20 years.

It seems there’s more emphasis on global investing these days, yet Canadian Pension Plans still have a large home bias. Why is diversifying globally so important?

By diversifying internationally, investors can enhance the risk-return profile of their portfolios and so, when things get tough, they don’t experience the same degree of volatility. That helps them stay invested and committed to their plan. The challenge the Canadian market faces is that it’s a concentrated market with energy and materials representing a fairly large component of the benchmark, and that leads to some

volatility. When you have a more balanced mix of global and Canadian stocks, over time, you’ll enhance that risk-return profile and ensure a smoother ride.

What is your investing philosophy and how has it changed over the years?

Our focus is on companies that can earn a rate of return above their cost of capital. We look at economic profits, and we also use a country allocation framework to determine how much we should invest in those countries. Our EVA philosophy (economic value-added) is a long-term investment tool that helps us identify companies that have long-term sustainable competitive advantages. That philosophy hasn’t changed dramatically, though the tools that we apply have been enhanced so we can dig deeper into companies and get better insights.

You’ve gone through two fairly significant corrections over the last two decades—the tech bust and the recession. What have you learned from those periods?

It’s important to stick to your discipline and keep a long-term view. Also, I believe the market is often too short-term focused, or it’s focused on the wrong issues. Even if our investments turn out of favour, we have to be willing to be contrarian, but our views have to be backed by deep fundamental analysis and strong convictions. When you look back at the tech boom and bust, it was difficult to find valuation opportunities in the tech sector, so we

didn’t have any exposure there. We had lackluster returns in 1998 and 1999, but then from 2000 on, all of that underperformance had been gained back and more. We stuck to our discipline and didn’t get caught in hype.

What kind of team do you work with?

In order to be successful global investors, you have to have diversity on the team. We have 10 people on the team, and we come from eight different countries and speak 11 different languages. In fact, I am the only one born in Canada! We also have diverse experiences, so we bring different perspectives to the table. Success is also having a team that works together face-to-face—we’re not dispersed around the world—and we have open communication and we challenge each other.

What opportunities are you seeing in the market today?

There are hot spots in Asia, and I would highlight China and Japan. Chinese equities are some of the cheapest stocks in the world right now, and the economic slowdown that some people are worried about is well-understood by the market. Japan has been attractive from a valuation perspective ever since the earthquake in 2011, but more recently we’re seeing changes in the Japanese market—in particular, with corporate governance reforms taking place.



IPHONE, BLACKBERRY OR ANDROID?

I have a BlackBerry. I like to support a Canadian enterprise.



WHAT’S YOUR FAVOURITE BOOK AND WHY?

It’s not a book, but I like Warren Buffett’s annual letters. He stresses the importance of shareholder value creation by taking a long-term approach.



WHO WOULD YOU SAY HAS BEEN A MENTOR TO YOU?

I’ve had a lot of mentors here at AGF Investments Inc., but Bob Farquharson, our vice-chairman, has been and remains a mentor for me.



WHAT’S YOUR BEST PIECE OF INVESTMENT ADVICE?

Be patient, take a long-term view, develop a process and stick to it, and work hard.

