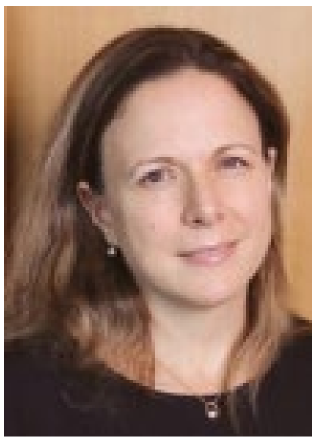
Mike Elkins

Vice President, Deputy Portfolio Manager, Director of Research, Burgundy Asset Management Ltd.

January 30, 2025



Robyn Ross

Vice President, Head of People and Talent, Burgundy Asset Management Ltd.

January 30, 2025

What initially inspired you to pursue your career in value investing, and why Burgundy?

Mike: I had a general interest in business and investing in high school, but it wasn't a major focus for me until I entered university. I attended business school at Wilfrid Laurier from 1997 to 2001, during the peak of the technology bubble. The stock market was booming, and investing became part of popular culture. I got swept up in the excitement. While most of my peers were focused on speculation—guessing what others might pay for stocks without considering their fundamentals or valuation—I became determined to understand how to assess companies based on their fundamentals. That's when my passion for investing began.

My growing interest led me to join the Investment Club at Laurier, which had recently formed. While it wasn't necessarily an introduction to fundamental investing, it provided valuable hands-on experience. Each of the members put in around $200 and I think we invested them mostly in unprofitable tech companies. With the rise of internet stocks, I think my initial investment grew to almost $1,000, before round tripping. While the approach of the club was somewhat speculative at the time, the excitement motivated me to deepen my understanding of investing, and I became dedicated to learning more about fundamental analysis.

During the summer between my third and fourth year at Laurier, I had the opportunity to join one of the largest investment counsels in Kitchener-Waterloo, Rae & Lipskie Investment Counsel, as an intern. It was a fantastic experience that not only deepened my understanding of fundamental analysis but also solidified my interest in investing. By the end of university, I knew I wanted a career in the field, even though my early professional path took a different direction.

Why Burgundy? There are a few reasons.

#1: The investment philosophy. I think it's logical, grounded in common-sense, and based on fundamental truths.

#2: The ownership model. Burgundy is completely owned by the employees. It's a huge investment for me. Excluding my home, all of my net worth is invested in ownership of Burgundy and the products we manage. It creates a unique level of alignment and a partnership culture.

#3: The people at Burgundy. As Director of Research, I've had the chance to observe the exceptional quality of the Investment Team. It's an incredible environment to work, practice, and deepen my knowledge of quality/value investing.

What draws you to Burgundy's investment approach over other styles of investing?

Mike: Burgundy's quality/value investment approach is grounded in common sense and fundamental truths. The approach is straightforward: buy a good business for less than it's worth and hold it for the long term. When done correctly, it's a reliable way to earn good returns. Other investment styles tend to be more speculative in nature - trying to determine what someone else might pay for something in the future irrespective of what its worth. Some people may be able to do this well, but it doesn't resonate with me.

Were there any key moments or mentors who significantly shaped your professional journey?

Mike: I don't have a romantic story of inspiration, but I've been fortunate to have had some great mentors. One of the most important was Scott Cuthbertson. I worked for him when started at TD Securities in equity research in 2005. Scott was a legendary Bay Street Analyst covering Canadian media and was an important mentor to me. Scott was fantastic at scuttlebutt and taught me what it takes to do it well. We are still good friends, and his mentorship had an important impact on my career.

Ken Broekaert, my partner and boss at Burgundy, has been a great mentor to me over the last nine years. His background in management consulting gives him a unique lens for evaluating businesses, and he has taught me a lot about how to think about and evaluate businesses and business models. Ken is also incredibly good at interviewing management, and he has taught me a lot about how to do that effectively.

How does Burgundy approach hiring, and what values, skills, or experiences do you look for in candidates? How do you determine whether someone is the right cultural fit? Additionally, do you have a preference for hiring recent graduates versus those with experience?

Robyn: We look for partners, not just employees. As a result, our process is incredibly thorough. Typically, candidates will interview with six to ten individuals. For Analysts, we assess their writing and communication skills through case studies and interviews. We look for individuals who demonstrate critical thinking, curiosity, and a willingness to go beyond the obvious, especially in research.

> “I can't emphasize enough — we are looking for self-starters. We seek individuals who are intrinsically motivated, driven by curiosity and a deep passion for the work, whether on the Investment Team or on the client servicing side. In terms of skills, on the Investment Team, obviously we look for a strong understanding of numbers, including accounting and mental math. Our Chief Investment Officer often says we're looking for investigative journalists—individuals who love to research. This typically comes from those who are well-read.”

We also look for individuals who have passions outside of investing. When tough investments take their toll, having something like running a 10K in a certain time can help keep you grounded. Most of our team members pursue hobbies with the same intensity they bring to analyzing businesses. We're also focused on finding team players and individuals with whom we can build long-term partnerships. Our thorough hiring process is designed to ensure we make the right choice. Humility is critical, both in investing and in client servicing.

At Burgundy, we are not focused on the traditional investment banking route, welcoming varied backgrounds. While Mike comes from accounting, our Investment Team also includes Analysts with engineering and consulting experience. Lived experiences contribute to diverse thinking across our investment and client teams, and our founder, Tony Arrell, highly values this. We appreciate risk-takers who aren't afraid to try things before they are fully qualified. Our private, entrepreneurial culture thrives on hiring people who challenge the norm.

For our intern program, we prefer second-year students since we can't offer full-time jobs immediately. We're a small team, so we're happy to have students for a summer or winter. When a full-time role opens, we can then evaluate their track record. So, the preference is really driven by the role.

Mike, tell us more about your career as a CPA and how that's affected you as a value investor. Would you recommend people getting their CPA before turning to an investing role?

Mike: My career in investing has definitely benefitted from having a background in accounting. Warren Buffett said, "accounting is the language of business and you have to be as comfortable with it as you are with your own native language to really evaluate businesses". While becoming a Chartered Accountant has been very helpful to my career, it's obviously not a prerequisite to success in investing. We have several fantastic investors at Burgundy and, of course, most aren't Chartered Accountants.

In your role as a value investor, where do you seek value? Do you focus solely on established businesses, or do you also look at new ideas, like venture capital? How do you compete with venture capital firms in identifying opportunities?

Mike: We learn as much as we can about emerging business models, but we rarely invest in them. A key element of Burgundy's approach, process, and philosophy is capital preservation and risk mitigation. We have a large private client business and an important promise we make to them is that we will preserve their capital and mitigate risk. One way that we do that is having a high reluctance to invest in unproven business models.

At Burgundy, have you ever considered a product that invests in private businesses?

Mike: From time to time, we've considered different asset classes. Some have considerable growth potential. However, we always come to the conclusion that we should focus on what we do best: long-term quality/value investing in public equities and fixed income securities.

You've argued in the past that a stock should be viewed as an ownership share in a business, not just a ticker—an approach rarely practiced by other investors. Why do you think that is?

Mike: Our quality/value investing style requires patience. We take a long-term approach, run concentrated portfolios, and don't trade very often. In Europe, the geography I work in, for example, we probably buy three to four new names a year. We're focused on understanding and valuing great businesses, even when their stocks aren't immediately actionable, and wait for them to trade for less than we think they are worth. This style suits people at Burgundy, but it's not for everyone. The investment business attracts ambitious and energetic people. They often crave a faster pace environment with more trading, and faster feedback on investment decisions.

How do you define and manage risk in your portfolio, and what role does diversification play in your strategy?

Mike: In business schools, risk is often taught as the volatility of security prices. This definition fits neatly into the capital asset pricing model. We don't view risk that way. We view risk as the potential for the permanent impairment of capital. It's a subjective measure, in our view, that is best determined through intensive study of the business. That's how we view risk.

"Risk management and capital preservation are critical elements in our investment process. We manage risk in several ways. The most important is understanding the businesses we invest in through an intensive study of them. I probably spent two months researching the last company we invested in in Europe and wrote 20k words on my findings. I think the best way to manage risk is to deeply understand what you're investing in. Investing in something you don't understand is a common way of losing money. ”

As part of our approach to risk management, we also avoid investing in emerging or unproven business models and companies with too much debt.

Valuation is also an important component of our approach to risk management. We are careful not to overpay for a business and expose our clients to valuation risk. There is a difference between a great company and a great stock. You can lose a lot of money investing in a great company if you pay too much for it. We place a lot of importance on valuation and investing with a margin of safety.

In *The Intelligent Investor, Benjamin Graham* emphasizes not giving into your emotions. How do you go about this when your stock prices fall?

Mike: It's tough, but there are a few things that help. First, I think knowing yourself is important. Understanding your natural impulses and biases allows you to adjust your decision-making for them. For me, I tend to focus too much on what could go wrong, and not enough on what could go right. Recognizing this helps me adjust for it when making decisions.

Doing research prior to an idea being actionable can also be helpful. Conducting research when a decision is not imminent removes emotion from the research process and your evaluation of the company and its intrinsic value. You can return to that work when the stock falls below your estimate of intrinsic value knowing it was conducted without emotion impacting your perspective.

Being aware of common behavioural biases is also important. Its something we focus on at Burgundy. I took a two-day course on behavioural finance at Harvard. Several of my colleagues at Burgundy took the course as well. Success in investing requires two things: the ability to correctly analyze and value businesses and the right emotional approach to decision-making. Both are equally important.

Robyn: Many Analysts at Burgundy keep journals to reflect on their decisions—whether buying or selling—and will look back on them to identify patterns in their thinking. It's all about building self-awareness over time.

How do you mitigate foreign currency exposure when investing in companies in other countries?

Mike: We rarely hedge currencies at Burgundy. In Europe, the geography I work in, we don't spend much time thinking about currency hedging. The Euro is a hard currency that doesn't typically experience substantial over or under valuation. In addition, hedging our European portfolio is tough to do. Most of the businesses that we invest in have international sources of demand. Nestlé, for example, is based in Switzerland and trades in Swiss francs, but maybe 1% of its revenue comes from Switzerland. To effectively hedge, we would have to determine the geographic breakdown of revenue for each company in our portfolio, and then across the portfolio, and hedge currencies on that basis. Its possible, but complex, and not a productive use of time and resources, particularly in regions with hard currencies like the Euro, in our view.

While we've thought about currency hedging in emerging markets, we haven't implemented it. A few years ago, we considered hedging the Brazil real, when the currency seemed elevated. We ultimately found it too costly, however, and concluded doing so would detract from returns. We hedged the Japanese yen once, back in 2010-2011, when we felt it was overvalued. It worked out but, overall, we generally don't hedge currencies.

At Burgundy, you use scuttlebutt work as part of your strategy. How do you evaluate the risk of trying to gain an edge this way compared to, say, an established UK-based investment firm that's already investing in UK companies?

Mike: I don't think you necessarily need to live in a country to be successful investing there. Success in investing primarily comes down to your ability to effectively analyze businesses and your judgement. Those skills are generally applicable across geographies.

With that said, I do believe you need some form of presence in the regions where you invest. It is helpful to understand the local culture and business conditions, which are important. For that reason, we travel extensively to the regions that we invest in at Burgundy. In Europe, for example, we make it a point to travel to the region four or five times a year.

Our Emerging Markets team also travels frequently. It is particularly important for regions where the culture is significantly different than ours. A few years ago, they spent six-months in China in that vein.

Robyn: And with emerging markets, if I can add to that, language can be a huge barrier. So, we're fortunate that on our Emerging Markets team, we have somebody who is Brazilian and moved to Canada. That is helpful with the language barrier. And on the other side of our Emerging Markets team, we have a newly hired Analyst who speaks Mandarin and a couple of languages spoken in India. This fluency provides an advantage.

On our Japan team, our Portfolio Manager speaks Japanese and previously taught English in Japan, which provides an advantage. When we went on a research trip to Japan about eight years ago, it was so eye-opening to experience a meeting with a translator. You start to wonder if the, CEO is telling you what you need to know through the translator.

On portfolio maintenance, how do you decide what portfolio weight to assign a stock?

Mike: Investing is more of an art than a science. There have been academic and scientific studies about diversification, and it's often said that diversification is the only "free lunch" in investing—and that's true. I think academic studies generally suggest you get about 95% of the benefits of diversification with a portfolio of 15 to 20 names. The incremental diversification benefit you get from having more positions than this is very marginal. So, we run concentrated portfolios at Burgundy.

In Europe, we typically have 15 to 20 positions. This strikes a balance between the benefits of diversification and concentration. Within our portfolio, a new position would typically start at around a 5% weight, and then we adjust would it based on our conviction. If we believe in a particular idea, we might increase the position size to 7%, 8%, or even 9%. However, when we do this, it's important that the business is resilient and low risk, especially when it comes to debt. Even if the upside is sizable, we avoid going big on ideas with above average risk.

Could you tell us a bit about your self-discipline and the criteria or rules you follow when deciding when to sell and exit your investment?

Mike: There are generally two scenarios when we sell. We're thesis-based investors at Burgundy. We underwrite a thesis for each of our investments. It is a set of beliefs upon which the investment is based. If important elements of that thesis do not hold true, we typically sell the position. Sometimes we'll explore other options, but in most cases, if the thesis breaks, we sell. That's the first scenario.

The second scenario is when the valuation of a company exceeds our estimate of its intrinsic value. If a stock runs meaningfully past our estimate of its intrinsic value, and we identify a better combination of quality and value elsewhere, we'll typically sell.

And what do you do if you invest in a stock and it doesn't perform as well as you'd hoped? How long do you give it before you just give up?

Mike: It's subjective. Ultimately, it comes down to the confidence in your analysis. If you truly believe in your assessment of the company and valuation of it, you're likely to be very patient and may add to the position if it's weak. But if the stock is falling, I think its important to honestly reflect on whether you are missing something. The market tends to be pretty efficient, so an honest assessment of your investment thesis is important if the stock is performing differently from what you expected.

Burgundy is full of very bright people, and I'm sure there are disagreements on certain businesses or names. How do you handle those situations?

Mike: Portfolio Managers have complete autonomy to make investment decision. There are no committees or layers of approval. This structure leads to sharper investment decisions. When committees are involved and multiple people are required to approve decisions, accountability is diluted. When everyone is responsible, nobody is responsible.

> "So, Portfolio Managers have absolute autonomy to make investment decisions and are accountable for them. When things go well, it's clear who is responsible. The same is true when things don't go well."

Disagreements between Analysts and Portfolio Managers are natural and healthy. Debate is an important part of the investment process. Ultimately, though, it's the Portfolio Managers' decision and they are accountable for it.

Robyn: One way we address this and develop our Analysts is by having them manage mock portfolios. It's a great tool, especially when an Analyst feels strongly about a stock that hasn't been chosen by their Portfolio Manager. If they have enough conviction in the idea, they can include it in their mock portfolio. Over time, this allows us to observe the outcome. The mock portfolio system also helps Analysts understand the complexities of being a Portfolio Manager.

Moving on to management. When you're dealing with management teams, are there certain questions you like to ask?

Mike: Over my career, I've compiled a list of around 100 questions to ask management teams. I've picked them up from reading, colleagues, and from the hundreds of management meeting I have been involved in during my career. I'll often start a meeting off by asking what are 2-3 things that your company needs to excel at to succeed over the long-term and how are you doing on those things? I got the question from Lou Gerstner, the former CEO of IBM, who wrote about it in his book *Who Says Elephants Can't Dance?* I've found it often elicits useful responses.

I also like to ask two-sided questions. When interviewing management, you often want to identify things that are not going well. To get at this, I'll often ask management teams to provide 2-3 things that are going very well with a particular initiative and 1 thing that could be going better. Management teams are more likely to acknowledge where something is not going well after speaking, at length, about what is going well.

I typically like to ask broad open-ended questions to start management meetings. I learned this from Ken. It tends to open management up and gets them off their script. It allows them to steer the conversation to what they think is important, and you can gain some important insight from that. It also often turns the meeting into more of a conversation than an interview, which I have found tends to lead to more productive meetings.

In *Models of My Life,* Herbert Simon, discusses how information overload creates poverty of attention, reflecting his concept of bounded rationality. Do you think recent technological developments like Tegus and YouTube have changed the way scuttlebutt research is conducted? And has Burgundy adapted its approach in light of these advancements?

Mike: Throughout my career technology has made more information available to more people, which has generally resulted in more efficient security prices. While this makes the business more challenging, I don't think it diminishes the value of scuttlebutt. The insights you gain from scuttlebutt can still be very powerful.

I don't think it has fundamentally changed our research process, but it has certainly enhanced it. We use Tegus and YouTube in addition to a variety of other tools. Many of our Analysts and Portfolio Managers have integrated AI into their investment process. While the core process of researching companies remains unchanged, technology is making it more efficient, allowing us to get more information and evaluate more companies than we would be able to otherwise. The corollary of this, however, is that these tools are making security prices more efficient.

You've spoken in the past about people and culture being one of Burgundy's greatest assets. How does Burgundy invest in the development and growth of its employees? Additionally, how do you ensure a robust culture is maintained across departments and teams as the firm scales?

Robyn: I'll start with the development of our investment Analysts. It depends on the level of experience we hire an Analyst at, but if we were to bring on someone with one to two years of experience, we focus on immersing them in the quality/value investing process. We don't expect them to come up with the next top five stock picks right away. Instead, we want them to understand the process, become familiar with the names in the portfolio, and dive into deep research. This is the training process—getting them comfortable with the tools. One of the biggest challenges for new Analysts is information overload. It's like being a kid in a candy store, moving from limited access to a full Bloomberg license, Tegus, and all these research tools at their disposal.

So, we dedicate a significant amount of time helping our Analysts figure out where to find the information they need and how to navigate these resources effectively.

As Analysts gain more experience, we introduce mock portfolios. I think they really serve as humbling experiences for Analysts, because they realize how hard it is to get a stock-pick right. Hopefully, this gives them more empathy for their Portfolio Managers who are making these decisions.

One of our biggest challenges on the Investment Team is that we're not that big. We want to maintain this fantastic talent, but our Portfolio Managers are not that old. So, how do we manage succession? After a period, Analysts have the opportunity to be appointed as a Vice President. Once promoted, they manage their own internal fund, which is funded by our founders. This gives them a chance to manage real money, but it's not client money. It provides them with a greater understanding of the responsibility of being a Portfolio Manager and offers a clear career trajectory.

We also invest heavily in development. We send our Analysts to New York for a course operated by Business Intelligence Advisors—essentially, teaching Analysts how to interview and ask questions to management, as well as how to read body language. As Mike mentioned, we've also sent a couple of our Analysts to Harvard for courses on behavioural investing. For our emerging market Analysts who don't speak the local language, we offer language lessons to help them get ahead. We're lifelong learners, and our Investment Team really embraces that philosophy.

Looking bigger picture, we do a lot of fun initiatives and activities. We host corporate retreats, and we also bring in guest speakers to discuss topics like stress management and mental health. Recently, we did a company-wide exercise focused on self-awareness, using the PrinciplesUs personality assessment. We looked at our individual personalities, team assessments, and the personality of our organization, with the goal of being more effective with one another.

We also offer opportunities for movement within the firm. Some investment Analysts move into client-facing roles, and some client-facing employees transition into the Investment Team.

This mobility helps with retention and provides a clear career trajectory across departments.

In terms of maintaining a robust and aligned culture, Dunbar's Number suggests the sweet spot is 150 people. When you go beyond 150, culture can start to become diluted. We really do have a culture of collaboration, and I think that's set from our founders. There are no big silos between departments. The main thing with maintaining culture is having a common goal. Our end goal is to serve clients. Everyone understands that. And we do a really good job of onboarding our people and constantly reminding them about why we exist and what we do. This sets the tone for a unified goal and a culture working towards that.

Robyn, you grew up in Zimbabwe and have worked in the United Kingdom, Bermuda, and now Canada. What lessons have you learned about motivating people from across the globe and working with different cultures?

Robyn: I believe motivation comes from within an individual, while inspiration is something you provide to another person, primarily through example. Our goal is to hire motivated people. As for inspiration, sometimes it's a gentle nudge—It could be saying to someone, “You're really good at this. Have you considered this opportunity?” A lot of inspiration also comes from how leaders live their everyday lives. You start to think, “I want to be like Mike because he does this, this, and this and look at his career trajectory.” So, seeing examples of people who you want to be and working with those individuals is key. There's a saying that you should surround yourself with people that are way better than you, because you start to become like them. I think inspiration really stems from the people you surround yourself with. While it's hard to directly motivate someone, if you can understand what makes them tick and speak their language, that's the best approach. Mike mentioned self-awareness, and I find that when I can understand what's motivating a person, I can better help inspire them.

To end it off, do you have any advice to up-and-coming investors or readers of this newsletter?

Mike: If you're interested in a career in investing, there are a couple key things to keep in mind. First, it's a unique field, and success really does require a genuine passion for it. So, if you do have an emerging passion, I would encourage you to lean into it. It's important.

> “It's a business where, to some degree, you can learn from the experiences of others. So, reading as much as possible about other investors' experiences can be very powerful. Early in my career, I read a lot, and it has been very helpful to me throughout my career. At Burgundy, our original CIO and Co-Founder Richard Rooney really instilled a culture of reading at the firm, and I think it's been an important factor in our success.”

Aptitude in investing, to some degree, comes from a combination of experience, the knowledge you gain from others, and practice. The more investment decisions you make, the better you become at making them. I'd encourage anyone interested in a career in investing to start as soon as possible and start to build reps.

Robyn: It is so important to build relationships and learn to work with people different from you. While not easy, the ability to argue a point with someone while still maintaining a good relationship with that person is invaluable. This is hitting me more and more, especially post-COVID, where we all struggled. Working effectively with others is critical. I also want to emphasize the importance of knowing yourself and regularly checking where your biases lies. If you don't take the time for self-awareness, it will come back to bite you —whether through a failed relationship or a missed investment opportunity.

I owe much of my success to the incredible people who have helped me along the way. This has been possible through building good relationships and being honest about where I stand. I understand that reaching out to someone with more experience can feel intimidating, especially when you are still a student, but the truth is, most people want to help. So, take advantage of that. Building your network is so important.