The Upside

Canada's place in a global market

Max Lemieux, Portfolio Manager

Emily Anonuevo, Host

Voiceover:

Hello and welcome to Fidelity Connects - the Fidelity Investments Canada podcast - connecting you to the world of investing and helping you stay ahead.

Today we're joined by portfolio manager Max Lemieux. Max shares with host Emily Anonuevo how he first got into investing - which started as a child thanks to his grandfather, and lead to McGill University's investment club - before what has now been a 25-year career with Fidelity. This included time at Fidelity's Boston office which Max explains was an incredible learning experience being immersed in Fidelity's strong corporate culture. This time spent in Boston lead to "Team Canada" growing and then relocating to Toronto and Montreal in 2009.

Max's process running Fidelity True North Fund is based on fundamental analysis and research. He keeps a focus on small-caps, looking for the leaders of tomorrow that are expected to grow over the long term, and currently trading at reasonable valuation. Max notes a big advantage at Fidelity is how technology is used to keep everyone connected with the local analysts and local knowledge spread around the world.

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Emily: As the seasons change, we are seeing more light and sunshine in our lives and with vaccines and gradual reopenings, we are also seeing the light at the end of the dreaded covid-19 tunnel right here in Canada. In fact, given how Canada's economy and markets are structured, many investors are cautiously optimistic that if everything goes right, we could see a strong rebound. To share perspectives on our economy and markets and where there are opportunities, but also challenges, we are joined by portfolio manager Max Lemieux. Max runs one of the largest Canadian equity funds, the Fidelity True North Fund, and joins us today to provide an update on his fund and to answer your questions. Max, welcome to the show. So happy you could be here today.

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Max: Well, thank you. Good day, everyone.

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Emily: Max, I want to begin with a bit about you because I know you've been with Fidelity for several years, actually working in the Boston office, if I'm not mistaken, for 14 years and then coming to the Canadian side. So tell us, what that journey has been like for you and experience has been like for you in Fidelity?

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Max: Well, Boston was an incredible experience. And I have to say that I feel that I was ready for this, actually, because I started to buy stocks at the age of 11 being part of an investment club created by my godfather at that time. And I remember later on in late high school reading "One Up on Wall Street" written by Peter Lynch, who, as you might know, was one of the very famous portfolio managers at Fidelity back in the late 80s. And so attending McGill University, being involved with applied investment class, running real money, trying to set up a mutual fund with other students. I was really into it. And Fidelity was a great place to start. It was pretty much a dream coming through. Basically being in Boston exposed me and some of my colleagues to the brains and the very famous portfolio managers that Fidelity has always had and still today.

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Max: And not only that, but we also could learn in an environment where we had access to so many corporate meetings and the well-known CEOs of G.E., Cisco, you name it, Google, et cetera. I remember attending meetings, sometimes company meetings, and we could be like a hundred investment professionals and a lot of young blood like me, one of junior analysts attending these meetings and just trying to understand the business, trying to understand the investment world. So therefore, Fidelity always had a very strong corporate culture and it was truly a unique place to learn how to analyze companies. And we could entertain those discussions all day long with so many people at the headquarters. So it was really the heydays of Fidelity in the 90s in Boston.

And I think that we were very lucky to create that Canadian group back in 1998 and being able to, if you want, acquire that culture for the Canadian group and being able to perpetuate it once we moved back to Canada in 2009, 2010. So I think that's part of the reason why the group has been quite successful despite the fact that we're not in Boston anymore. It was really to cultivate this way of doing things. The fact that the Canadian group is not necessarily a two-hundred people team, I think it really helped us to preserve that culture and to build on it. As you might know, we recruit students every year. So there's also additional resources added to the team, and we make sure that we pass on to them that knowledge and that process, that way of doing things that we've always had.

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Emily: It's just an incredible time to be part of the company, like you said, back in the 90s and still with the company now. And you've personally seen so many major financial events since that time, in the 90s and the tech bubble, in the 2000s and the financial crisis in 08, 09 and obviously now where we are. What an incredible time to have just all those learnings and experiences to bring to Canada. Now, you have an extremely strong long-term track record managing one of the largest Canadian equity funds. Throughout the years, what investing principles have worked for you? In other words, what is your investment philosophy that you've stuck by through all these years?

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Max: Emily, first of all, I want people to understand that my process is very much based on fundamental analysis, and that's the core DNA of fidelity. I just explained to you how it worked in Boston, and that's the way it works in Toronto and Montreal and everywhere actually. Fidelity is a worldwide company, a global presence on many continents of hundreds of analysts, portfolio managers. I think what makes us successful is also the way we use technology and the way that our system works in real time. Every day in my inbox, I get real-time research from anywhere in the world. So the fact that we have boots on the ground really keeps us updated to the last minute on what might impact company X, Y, Z that that we own or Company X, Y or Z that we do not own and that we should be buying right now. So that's very key having those resources at Fidelity.

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Max: Now, in terms of my investment style, if you want, I've always been an investor focused on quality and growth at a reasonable price. And I think it goes hand in hand in some ways. First of all, a quality company, the way I define it is typically a company that will have a strong management team, companies that can grow revenue over time because they're usually a leader in the marketplace or a future leader in that sector. They'll grow revenue, but they'll also hopefully improve on the margins, profit margins. And then that's how you see earnings per share growing and compounding over time.

Typically, these companies also will allocate capital in very smart ways and that tends also to add value to shareholders in the long term. Now, growth, as I said, I think it will be a sign that a company is a quality company, because sometimes you have to determine if the growth is really short term and could be just a head fake, or is this a long-term sustainable growth. Those are the type of companies that I try to own. I like to say also, I want to add that I like to be diversified. So typically all the funds I've managed over my career, they're well diversified.

Having said that, there are sectors I don't like. I'm not going to own stocks in those sectors, but it's a bottom-up approach, stock by stock, and you'll see wide differences vis à vis the benchmark in some sectors. But typically to be well diversified across sectors but also across market cap is important. I've always been an active investor in the small-cap and mid-cap scene. So TrueNorth is a large fund, almost five billion dollars. In the Canadian context, this is a large boat. But having said that, I think we have to be part of the ecosystem of how can the Canadian marketplace renew itself. And being involved in some of these small-cap opportunities allows you to identify which company might become the next BlackBerry or Research in Motion or the next CGI group or the next Dollarama. So, these companies always start small. And so that's one thing also that I keep an eye on. And I tend to favour sectors also that are less driven by commodities. Typically you'll see underweight in commodity or natural resources. I believe that technology, industrial sectors or the consumer sectors will be adding more value to shareholders in the long run.

I mean, it's proven, the numbers prove it.

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So having said that, there are cycles also in commodities, and sometimes I'll be more active than in other cycles. So we'll see for the next couple of years. And last thing also, I try to be long term. You'll see that the turnover of the fund is typically between twenty-five to thirty-five percent, and obviously there are inflexion points in a cycle where if we're entering a recession or if we're just exiting a recession, there might be a bit more turnover.

But when you find quality names that can grow over multiple years, if it's a secular stories, there's a nice tailwind, companies that can win market share, typically these names can have really a nice sustainable track ahead of themselves. And that's why I think my turnover is a bit lower than the market. And last element, nonetheless, risk. I try to look at risk in absolute terms, and I care about balance sheets. So I've learnt over my career that companies that have too much leverage, you never know. There could be an accident, financial crisis, all sorts of events. That could be a big deal because they have too much debt on the balance sheet.

Also controlling your bet size. If I buy a small-cap name, of course, it's going to be a very small position because they're not very liquid. Same thing with large-cap names. Sometimes they're controlled by another entity or a family, so they might not trade really well. Commodity stocks, same thing, not always super liquid. I'm really conscious about risk and it's always been part of my framework, if you want.

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Emily: That's a great overview of your thought process and your investment style. I wanted to get more thoughts from you on just the outlook of the Canadian economy, which I mentioned there in the intro. Many believe the economy will be boosted, obviously, by the vaccine, by pent-up global demand. What are your thoughts on everything? And correspondingly, how are you positioned your fund for this year to capture as much upside and as little of the downside this year?

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Well, as you pointed out, it's been almost a year now that we've been in this crisis. It was pretty much a recession created by a health issue, which obviously we've seen it only once in a century. And it was not necessarily easy to maneuver. But I have to say that when you have more experience and the fact that I've seen crises before, it has helped me to maneuver over the past year or so. And it was a fast-paced kind of movie, if you want, compared to 2000, 2001 or 2008, 2009.

Sometimes you have like two or three years before to prepare yourself as you see some of the symptoms of the next bubble. But this time around, despite the fact that we had a preview out of China, I think most of us were somewhat in denial about the potential impact and ramifications of a complete shutdown of the economy by the Western world governments. But having said that, I think that I was quick enough to, first of all, the fund was somewhat defensive entering the crisis. But then you really had to play your cards well in terms of being ready for the next sequence. And at the same time, as I've mentioned earlier, I try to invest for the long term, usually a year plus. But this time around, sometimes you had to be quicker. But I've tried to be in the right sectors at the right time, but also just holding to my winners, trying to own stocks that I know coming out of this crisis will continue to compound over time.

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Max: And of course, the first category stocks that did well last year was anything related to digital technologies, companies that would enable Loblaw or other corporations to sell on the Internet. You can think of Shopify, etc. Then we quickly moved onto the reopening type of stocks, so restaurants, retailers, and then quickly again, industrial stocks and then cyclicals, metals and then later on energy stocks. And then we had more recently the financial stocks, the banks finally working because of the steepening of the yield curve. So it's been fast paced. And, of course, you want to manage a fund for the long term. I think what I've tried to apply here is to go with companies that had good balance sheet, companies that could sustain themselves a little bit longer.

What if, for instance, there were still no vaccine today? It's an incredible news that we had a vaccine ready in less than a year. And it's a world record. We've never seen this in history. I think that now the way I see the world for the next year or so, for sure the economy will reopen, will continue to run itself. I think that there will be plenty of opportunities. But I think that I'm already positioned in ways to take advantage of it because those long-term compounders or those long-term quality names or leaders that I own, they will continue to do well in pretty much all sort of scenarios in the economy.

So there's a bit more cyclical, a bit more metals. I've held on to my energy stocks, even though for six months it did absolutely nothing, and now we're finally seeing the recovery. There's a bit more financials than usual, and this might prevail for some time as long as we see that yield curve behaving the way it is. But at some point you have to decide if interest rates were to keep going higher or much higher, does not necessarily mean that it will be always perceived as a positive for those Canadian banks.

It's hard for me to tell you exactly how the fund will look like six months from now or 12 months from now, but, for sure, there's a common denominator and it's usually based on quality and secular stories. In technology sector, yes, of course, you have the super expensive stocks trading at 30 times sales, which was pretty much unheard of and was to me very reminiscent of what we saw in 2000, 2001, but you also have many companies, part of the technology sector that are just like companies that grow between 5 and 10% a year, their revenue, and I call them a little bit like older technology, and these names continue to do well. And they were not necessarily impacted by the last shock that we saw over the past four weeks.

So you have to be open-minded, and still we will continue to see a lot of IPOs. I think that's the exciting part for the Canadian market, and we're seeing it also in the US. But the amount of new financings and new IPOs, I've never seen this in my career. I've been complaining about the past 20 years, a shrinking pool of public listings. I think it's been proven that in twenty-five years, the Western world has seen, I think, a shrinkage of like 35% of the number of names. So it makes it makes our job harder. But now that we're seeing so many new listings, doesn't mean that we buy them all. But over the next couple of years, there will be a new set of opportunities, a lot of new names to invest in. And I think it's probably very positive for our group and for Fidelity because that will probably be a nice source of Alpha. The more names that there are, the better off we are, I think, in terms of optionality to add value for the unit holders.

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Emily: Absolutely. Now, I wanted to touch upon financial advisors for a moment because they add so much value in terms of helping investors stay focused and disciplined through all the market ups and downs, of course. What's the advantage there and how do you navigate through all the market noise? And also, what would you say to investors who are reading the financial headline news right now? And it could be aggressive and scary to them. What would you say to them in terms of trying to navigate all that market noise?

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Max: I think it's an advantage to have someone that you can trust in order to provide you sound advice, because really, especially when we go into a turmoil or a crisis, it can get on your nerves and it can be scary at times, especially if you don't know anything about finance and the world's economy. And look, I know a lot of smart people that, frankly, they're dedicated to their profession, and they have no time to keep an eye on the stock markets or the state of the world. I think that to have someone that is professional and does it in a very objective fashion, I think is truly helpful to guide you and especially to meet your long-term objectives because there are so many products out there. In the world of finance for the past 15 years, I have seen an explosion of different products in terms of like fixed-income ETFs, you name it. It's not plain vanilla anymore. And I think, even for myself sometimes I feel like, geez, I was not a full-time investor, I think that it would be really harsh sometimes and difficult to navigate in this world.

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Max: So I truly appreciate what these people do. It's a bit like being a counsellor or a psychologist in some ways. But I think they really have a purpose. I think it's like in any profession, you have very strong professionals, and sometimes you have people that might not be as good. But it's important to have someone that you can trust in.

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Emily: Now, you've been with Fidelity for over 20 years. I'm just curious on what are some of the biggest lessons over the years that have stayed with you?

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Max: Well. I think for me to be invested in a diversified way, it has been a sound advice, and that was my mentor back then who was the first lesson to me. Timing is essential, but it's impossible to have the perfect timing. So to be diversified is one thing. Valuation matters. I've talked about growth at reasonable price, but when you have a long-term winner, it's smart, often it's been smart and it has paid off quite nicely to me in terms of holding on to your winners.

So unless the valuation is really extreme, and as I said, we've seen situations recently that were reminiscent of year 2000, so you have to use your judgement about that, but in the long term, it's not because a stock might be slightly overpriced in the short term that I'll be selling out of that position. I think you have to hold on to your winners as long as you believe that fundamentals will remain.

I think that sound advice or lesson for me was also to stick with quality most of the time. So my largest or the stocks in which I have the highest conviction, typically they tend to fit that criteria. Also be disciplined, do your homework, but try to keep an open mind. Sometimes there's a company you might not like, but you have to revisit the story.

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Max: Every quarter companies report their numbers, and I go through that with my analysts, and we reassess all the time. It's not because something was a bad apple last year that it means that it cannot offer a new opportunity over the next couple of years. So you need to reassess and keep that flexibility in your mind. Be curious, this job is about learning. It's a long journey, and you learn every day. I mean, after twenty-five years on this job, I'm still learning. So it's super important to keep that mental flexibility. All this is to me lessons that have served me quite well. And Emily, if I can, I just want to go back on the Canadian opportunities for next cycle.

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Max: I've talked about the renewal of the Canadian marketplace, which has been fascinating to me with all these new IPOs. But, I think Canada, we don't know if there will be another commodity supercycle or not, like between 2001 and 2008. But I think that if you're a good stock picker and if you do your homework, you'll be able to add value in any kind of markets.

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Max: And I think that the fact that we've got this renewal going on in Canada, not only in technology, but industrials and consumers; there are a lot of good stories and Canadian companies that are not necessarily driven by the domestic economy. A lot of these companies are involved selling their goods worldwide or services, and so I think that they'll benefit from a growing economy that we'll see over time. And there will be all sorts of trends. In fact, in Canada you can think also about onshoring on the back of harsher geopolitics. We've seen companies that will probably manufacture more domestically, so it's one trend. But you can think about the electrification, rare-earth material, the green trend that we've started also with all sort of utilities based on renewables, renewable energy. I think Canada will have plenty to offer over the next few years. And that's why I'm really excited. I'm more excited now than I was 10 years ago.

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Emily: We're almost up to a year since all of this started, and working from home. How has your day to day changed as a portfolio manager? I know you must miss travelling, but have you been adjusting to the working from home? And how has that all changed for you?

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Max: Well, as I said earlier, I think we're extremely lucky to work at Fidelity because we've got amazing resources. Fidelity was always proactive to invest in technology way ahead of the peers, and I've seen it back in the days in Boston. And I think that it's amazing we've been able to navigate this crisis without any major issues. The next day after the lockdown, we were up and running at home, and my colleagues and I were able to keep in touch on a daily basis. And I think what's been very demanding is the fact that we're not travelling anymore, as you said.

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Max: So based on the fact that everything now is done on a virtual manner, it allows us to attend pretty much all the conferences. It turns out that we've had probably more meetings than during a normal year. I can tell you that in March, April last year, we were calling companies every day. Kudos to all my analysts, well, our analysts, they've been working day and night. Sometimes I read notes at midnight.

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Max: It's been quite a journey for all of us. But you had to be up to date to the minute because it was so fluid, and the pace of changes was so rapid that you had to really pay attention and get ready to change your positioning based on that latest information.

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Max: So that's what we've done, keeping in touch probably more often than at any time in the past and all based on emails, phone calls, Zoom meetings, Teams meetings, et cetera. But we made sure that we were keeping in touch on a daily basis. And that's been quite demanding, as I said, because it was more meetings. In our companies that we cover, they told us at the beginning of the crisis we're the only one calling. So that's the strength of Fidelity. No matter what is the crisis or the type of environment that we're in, we stay connected to these companies, and we want to make sure that we know as much as possible about what are the risks and opportunities about being in Company X, Y, Z.

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Emily: Absolutely incredible to know that we're here a year later. Just to end off the show, I ask every portfolio manager this at the end of the show. If you weren't a PM, what other career do you think you would be in, Max?

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Max: Being 11 years old. As a young kid, I used to do a lot of Legos, and I think I really enjoy building and creating. In high school, at some point, I had a thought about maybe becoming an architect. I had an uncle who was an architect. So maybe that would have been another opportunity. But the passion was really about the stock market because it was so dynamic and I was really intrigued by that. So it's hard for me to contemplate that I could have done something else. But we could say something. You know, I've talked about small-cap or mid-cap companies that at some point will become the larger ones. Maybe there's something about building something sustainable, being part of the construction of something. I believe that maybe I enjoy the fact that I can contribute to the growth of a company over time. And I think that's part of our mandate, allocating capital and trying to invest in the best companies that will be adding value to all our shareholders.

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Emily: Well, we're glad you stuck with investing. Twenty-five years later with Fidelity. Max, thank you so much for joining me on the show today. Always great to get your perspectives and insights.

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Max: Thank you. Pleasure's all mine.

Ending: *[29:42]*

Voiceover:

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