The Upside

Your Investment Update and Global Market Outlook

Patrice Quirion, 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.

On today's podcast, host Emily Anonuevo gets to know portfolio manager Patrice Quirion a little better. Patrice shares how he first got into investing and his overall investment style for his funds. For Canadian investors, Patrice manages Fidelity Global Concentrated Equity Fund, International Concentrated Equity Fund, and a few private pools.

Patrice started with Fidelity in 2005, out of school. And for him, picking stocks and investing isn't just a job, he loves what he does, where he works and who he works with.

Patrice shares how investing is about gathering research and taking calculated risks. He expands on the benefits of working for a global company and how he accesses Fidelity's global research resources – a big research team spread out all around the world, local to their own region, but working towards the same company-wide goal. And, although he is based in Toronto, he manages global portfolios and leverages information from the local analysts worldwide.

Emily also comments on the advantages of investors working with financial advisors to create a plan to achieve their financial goals.

This podcast was recorded on February 25, 2021.

[02:01]

Emily Anonuevo: As an investor reading through financial headlines these days can be challenging and somewhat confusing, but having someone to guide you and make sense of all that market noise can help. Financial advisors, for example, help you navigate you through the noise and stick to your financial goals. Portfolio managers do similar work, but work directly with your investment funds. Quite simply, they make crucial decisions that involve your money.

Joining us on the show today is someone who knows how to navigate that market quite steadily. Portfolio manager Patrice Quirion is a 16-year veteran at Fidelity and is at the helm of four global international mandates. Welcome, Patrice. Great to have you on the show today.

Patrice Quirion: Hello everyone and Emily, my pleasure to be with you today.

[02:44]

Emily Anonuevo: Glad to have you here and looking forward to our conversation. Let's begin with a bit about you. You've actually been with Fidelity for 16 years, with the company right out of school. What has that journey been like for you, and were you always interested in investing at an early age?

Patrice Quirion: Thanks for the question. That's an interesting way to put a personal touch. My story started as a somewhat introverted small-town boy who really liked math. I was asking the question at the very young age, how can I benefit from that, or what can I do with that skill? I was actually the paper boy delivering newspapers for the best part of my youth, trying to save a little bit for university. I had the brilliant idea of looking at the financial section of those very newspapers to put literally all of my money in Nortel in 1999, which you can imagine how that ended. So after losing pretty much all of my, at the time seemed like a lot of money, today it's a small amount, that learned a valuable lesson, but it just really spiked my interest towards understanding how do stocks move. How can something like the implosion of the tech bubble actually happen? Basically from that point on it's just been reading and trying to learn as much as I can about the market and companies, and it led me to go to university in Montreal.

Largely I went to [HEC?] because at the time they had a really good student investment fund, which I literally spent a lot more time analyzing stocks and running portfolios as opposed to studying throughout my undergrad. I had set my eyes on going to work for a large U.S. asset manager, initially I thought in New York, ended up being in Boston through Fidelity. I'm still very grateful to that day to have had the opportunity to join what is really a world-scale, world-class asset manager right after school, after a short trip to Kingston to do my master's at Queen's. Really learning from the best and having the opportunity to develop as an investor at what I think is one of the best programs to become a great investor.

Like everyone else on the team, I started as an analyst covering a variety of sectors including commodities, industrials, financials. I had expressed a lot of interest towards doing something that's quite broad in nature, so a global mandate ideally, and I was given the opportunity to start proving myself after proving myself like everyone proves themselves as an analyst. Got the chance in 2013 to start managing the first global mandate, which I still run today, which is called Global Concentrated Equity. It's how it works at Fidelity. You prove yourself; you perform well; you show that there is a sound process that you use the resources internally, and we are giving those talented investors more responsibilities. For me it came through additional global and international mandates over the past now eight years in charge of these portfolios. So in a nutshell that's my quick story.

[06:02]

Emily Anonuevo: That's wonderful. What an incredible story. I knew you've been here for a while, but I didn't know your passion started so long ago. Wonderful to hear that. You've called yourself a contrarian investor. You talk a lot about favouring the unloved parts of the market. I just wanted you to take the opportunity to elaborate on this and your investment style.

Patrice Quirion: Absolutely. I think it's pretty key for any investor to basically set forth what's your style going to be. This is a hypercompetitive market. There are thousands of extremely smart investors that are looking at the stock market every day trying to benefit and make money from it. So how will we have an edge? First we have an edge through the resources we have here at Fidelity. We have an amazing team of analysts scattered all over the world, so we have truly local insights on every company out there. But as a portfolio manager it's important to set our style of how we will build the portfolios in light of that information we're getting.

For me it comes with two very fundamental beliefs. My first belief is that the market over a mid-term period, call it over a period of two, three, four, five years, tends to overreact to trends that establish themselves. Just imagine if something has been in favour, doing well for quite some time. I'm not talking doing well for a few weeks or a few months, but when it's been lasting for a while, that becomes consensus, that becomes what's catching everyone's attention, that becomes what everybody wants to own. As a result my belief is it becomes overpriced. The same is true on the flip side of that where, if something or a part of the market is for whatever reason not as hot, out of favour, as a result, most investors will shy away from that, look at something more exciting in the short term and, as a result, that area of the market is likely to become underpriced.

The second tenet to my beliefs is that a lot of that is driven, yes, by fundamentals, so what's the company's financial performance and earnings and free cash flow, but there is an important element of sentiment, of emotions that's tied on top of that, and this is what's leading to the excesses. My belief is that that sentiment mean reverts over time. What feels good might feel good for a few quarters, for a few years, but won't feel good forever. At some point that sentiment turns.

To me, that leads to a really strong opportunity to take the contrarian view, go in these areas of the market where we've done the work, we know they are sufficiently underpriced because they are out of favour. Let's go in those parts of the market and buy the best companies possible that really put time on our side where we can take a longer-term view than most and say, I will simply wait for that sentiment to reverse. I will wait for the economic cycle to reverse. I will wait for a company's specific situation to reverse, and when it does sentiment will come back, earnings will improve, multiples of valuation will improve, and that's how we will generate abnormally higher-than-average returns.

That's the entire process that I'm trying to accomplish through all my portfolios ever since I'm running them.

[09:47]

Emily Anonuevo: Wonderful summary there. It's just so interesting to get your perspective on things. You've been here for a long time, and it's obviously been working. Just moving on to discussing the market in general. 2020 has passed us, you've called 2021 is going to be an interesting year. I wanted to get your, and gauge your temperature of the markets from your perspective and where we are in the market cycle. I know a pretty hefty question there, but if you can just give us your thoughts on that.

Patrice Quirion: I'll try to touch on a few different points. First I think a lot of investors today would look at the broad indices and say we're making all-time highs, or about to in most large indices, most parts of the world. As a result, maybe it doesn't feel like the right time to invest. I would actually disagree with that. Like everything in life, the answer is rarely as easy as the general high-level reflexes you might have looking at something.

In the case of the market right now, I think there are areas where clearly valuations are expensive, sentiment is probably overly positive and that are, in my opinion, at risk. This is mostly what I would call more speculative areas of the market at this point. I won't go as far as calling them bubbles, but there's probably some bubble-ish behaviour in parts of the market. We see it on some specific stocks, especially in the past few months. We're seeing it on entirely new asset classes like cryptocurrencies. We're seeing it on thematic that people want to be tied to, but that's difficult to implement. Think about all of this renewable energy, electric vehicles, all of that trend which are very valid trends, it's just there's not many ways to get exposure to that and as a result, it leads to basically piling up of investments into very few companies that leads to, in my opinion, valuations that are disconnected from fundamentals.

If we take a bit of a step back, it goes further, and without being as excessive we've seen trends just lasting for so long now. Back to what I described earlier, when trends last for too long, it's likely to lead to a market that overshoots. I think we look back ever since the financial crisis of 2009. What has been working? It's technology, it's large-cap, it's the U.S. market, it's the U.S. currency, it's quality versus not, it's growth versus value, it's defensives versus cyclicals and all of that is very tightly correlated, so it's no surprise that all of that moves together.

But now that it's been lasting for so long, and especially that it accelerated to the upside as a result of the COVID pandemic, I think we need to be very careful about simply looking back in the rearview mirror and say that has been working for 10 years, that's what will keep working going forward. The reason I say that, and this is quite critical to understand, those changes in market leadership, so those long-term trends at some point they break and something else takes the relay. That's what we call inflection points. An inflection point tends to happen at the inflection point of an economic cycle.

I think we are right there right now with basically an economy that was actually slowing down even pre-COVID, led by China, led by trade war, corporate uncertainty, commodities that were under pressure, emerging markets that were under pressure. And you put the COVID pandemic on top of that and we just have a period of now three years, ever since 2018, where we are into a weaker market, into a recession that culminated with a recession. But now we're starting to see the light at the end of the tunnel, and I think we can make a case for a very strong economic recovery coming out of COVID, and as we enter this new cycle it's quite likely that the stocks that will take the leadership from here will be those cyclicals, those reopening plays that have been so hard hit by COVID closures.

I think this is essentially where we are in the market. Parts of it are very expensive, very speculative. You need to be careful. But at the same time there are still other areas of the market that are early in their cycle still, generally quite attractively priced, although a little bit less than let's say three or four months ago, but that is likely to be where you want to be exposed, not only for the next few months, but I think for the next few years.

[15:00]

Emily Anonuevo: Fantastic Patrice. So much there. Can you speak to your research team and who supports you? Are they located globally? I know you mentioned we have research analysts all over the world, if you just want to briefly answer that.

Patrice Quirion: I think it's key for anyone who invests with Fidelity to understand our structure. I do think it sets us apart from pretty much everyone else in the industry. I mean that globally and not only in Canada. The structure is that we have dedicated analysts that will cover, call it, 25 to 30 stocks in one given subsector, in one given country or geography. We have that local presence obviously here in Canada, in the U.S., across Europe. We have local presence in London but also in France, Italy, Germany. You go in Asia. We have a local presence in Japan, in China, in Hong Kong, in Singapore and India and Australia. Essentially it puts together a team that's all working for the same purpose, all working to help any portfolio manager that has interest in their securities, but that team is local, and they know their companies inside out, better than pretty much anyone else out there because that's what they're focused on.

As a global portfolio manager, although I'm based here in Toronto, I have access to that team of experts, not only analysts but portfolio managers that might run country-specific funds in other parts of the world and that are by definition true experts on the stock markets of their respective countries.

I'm trying to filter all of that information that comes to me and see what fits in that contrarian process, what fits in that quality lens that I'm trying to apply. I think it leads to us having better information than most, with us having the flexibility to use a longer-time horizon than most to capture those opportunities that might start to exhibit themselves in the short term, but that truly play out over a longer-time period.

[17:11]

Emily Anonuevo: Great way to put it. Patrice, I wanted to get to your funds, and I wanted to give you an opportunity to talk about how you are actively positioning to capture as much upside, as little downside in 2021. You alluded a little bit in your answer before. We're on the precipice of an economic recovery here, so what are you doing specifically in your global funds to capture that?

Patrice Quirion: I'll start with how you phrased the question because I think it's important to understand that. How do you capture as much of the upside and as little of the downside? The truth is this is really difficult to do. Almost by definition it's about taking risk, calculated risk, but taking that risk at the right time is what matters. To me, it's not bluntly trying to say we have an incredible edge, and I will realize all the upside and none of the downside. I think this is not realistic. I think it's about having more information than most to be informed about when to take risk, when to remove risk and where to take that risk. And where doesn't mean only in terms of geographies. It especially means in terms of in which sectors, in which investment style like factors do I want to get that exposure. As I mentioned, in my case with a contrarian view it is to go in the parts of the market where, because things have been out of favour for long enough, and because stocks have undershoot their fundamental long-term value that you would pay if you were a true business owner, buying that business for the next 50 or 100 years and relying on the future cash flows to get your money back. This is how we try to think.

When we see big disconnects establishing themselves because of sentiment and the market doing its thing, that we can go in one country, or one sector or one specific stock and find an opportunity that is just really disconnected from that fair value and where we say yes, things are maybe not great today, but we feel very confident that over the next few years things will sort themselves out. This is where I really, really get compelled to take action.

What does it mean at this point in time? For me, it's been to buy some of these what I call quality cyclical stocks. I think a lot of industrial companies, a lot of commodity-related supply chain companies. A lot of stocks where we will see pent-up demand when the economy recovers, and I would add an element to that which for me has been to find a lot of opportunities in terms of reopening plays. So think of retailers that have been forced to shut down because of the pandemic. You can imagine what happened to those share prices as that took place. We know that at some point things will reopen, and we will go back to shopping in store even though we might do a little bit more online.

When you see what the stocks were reflecting on companies, to give you a few examples, some of the largest positions in the portfolios right now are a company like Simon Property, which is the largest prime mall owner in the U.S. Companies I was talking about like mining exposure. I own stocks like Komatsu, which is a Japanese-based mining equipment manufacturer. Those are the kinds of ideas that we could buy at really great prices that were hurting at the time we bought them, but if we look longer term, I think are really well positioned to benefit from essentially a re- or normalization of the world which let's not kid ourself, it will happen.

[21:11]

Emily Anonuevo: So interesting, and that comment about the pent-up demand, and the concept of just this level of pandemic frustration and people are ready to get back out there and spend and get back to somewhat of a normal life. So it's just really interesting to see what will happen in the next three to six months. Really fascinating that way. Patrice, I wanted to go back to the value of advice when it comes to financial advisors. Advisors help investors stay focused and disciplined through market ups and downs. What is the advantage there, and how do you navigate through all the noise? We were just talking about how it's almost been the one-year anniversary since the market meltdown and it was such a wild time for you then. How do you stay focused through all of that?

Patrice Quirion: I'll answer it from an investor standpoint first. I think the key for anyone is give yourself the time horizon that's adequate for the investments you're buying. For equities I would say five plus years is probably what you need, and stay disciplined. Try to keep the emotions out of it. The tendency is to sell at exactly the wrong moment and to buy at exactly the wrong moment. What we do as portfolio managers, we cannot control the flows coming in or out of the products, but we essentially try to do the same thing like stay excessively focused on discipline, keep emotions out. In my case what I try to do is stay razor-sharp focused on what is the fair value of the companies that we are looking at, the companies we own, the opportunities we're considering, and what does that mean?

It means, once again, the market will move a lot more than the future value of the profits a company will generate. It's in those periods where, when things feel like everything is going wrong, if you don't have a good understanding of what's that fair value, it's very easy to say well, we'll just sell it, I don't know what to expect, things don't sound good. But if you are so focused, like my strategy is to understand that fair value, to understand how far above or how far below are we to that fair value, how much of a buffer does that give us and as a result, can we start buying good opportunities? Even if things are not going well, if we know that those are good businesses that will survive time, will survive crisis, will survive issues they might be going through at one point in time, if we know that we are playing for, I don't know, 100% upside to that fair value, even if it doesn't happen in the short term it just gives us that confidence to stick around.

So that's a lot of my process. What I try to do in terms of stewardship on the products is bring that element of focused, disciplined approach to having securities where we have a buffer of safety, where we know that in a normalized environment we have good upside, and really have that flexibility to increase the risk and increase the exposures to maybe those more economically sensitive stocks when it is the right time, when we have meaningful upside to a normalized environment.

But also equally importantly when we have parts of the portfolio, or parts of the market that are pricing in overly positive scenarios over time to have that discipline to say that party might still be ongoing now, I don't mind leaving it early. I think this is a great way to avoid the big losses, the big mistakes like the one I did with Nortel when I was a teenager. That stuck with me, and I think that's still a big part of the process I'm trying to employ. Go where things are inexpensive the same way you would to buy any asset you buy. The price matters. If you can buy a good asset at a good price, well bought is usually putting the odds on your side that you don't need to sell it perfectly at the top to beat the market. That's what I'm trying to accomplish through my strategies.

[25:39]

Emily Anonuevo: We're coming up to the end of the show here. It's just flown by, and you've so eloquently captured your investment style and your thought process. Really, really incredible. Let's switch gears here a bit. On a lighter note Patrice, if you weren't a portfolio manager, what other role do you think you'd be in right now? I'm just curious to know.

Patrice Quirion: It's a loaded question. At the end of the day I absolutely love what I do. This is not a job, this is a passion truly. I would be picking stocks if I was doing anything else on my free time. I think it's true from anyone at Fidelity. I love what I do, I love where I do it, I love the people that I do it with, so it's not even really crossing my mind. But if I go back before knowing that finance is absolutely what I wanted to do, I always had a pretty keen interest of anything more analytical in nature. I would probably be some sort of civil engineer or something along the likes. I just like to build stuff. It's a job. Unfortunately the position that we are in as investment professionals is it's really hard to see the fruits of your work. It's not like I can stare at something out the window and say this is what I've built, or what I've accomplished or this is how I made someone feel. In a way you, our clients, are sadly a little bit distant from our day-to-day. I think that's really important that we remind ourselves, I might not be seeing the fruit of what I'm building, but I'm building wealth for people and that's what I'm trying to build today.

But what I'm trying to leave with that is, as much as it might feel distant, I think it's important for our clients to know that we do think about them constantly. And I personally just constantly remind myself of … personally I'm probably one of the largest, or the largest owner of my funds, but I think of family members who are invested, and I think of everyone else I've met through the years that might be at some point or today invested in the products. That's why we do that. Although it's not visible, if we can mitigate those risks, if we can add some percentage points of excess returns over time, even after the fees of advice though that, it can lead to meaningful upgrades in living conditions and living standards for our clients.

All that to say that we really do keep that in mind. I certainly do even if it's maybe not as visible as if I were a civil engineer building bridges or buildings.

[28:23]

Emily Anonuevo: Great way to end it. You definitely have shown your passion for investing in your proven track record with Fidelity. It's always a pleasure to talk to you, Patrice, getting your insights and perspective on things and getting your thought process today.

Patrice Quirion: My pleasure. Thank you very much, and we'll talk soon I'm sure.

Ending: [28:40]

Voiceover: Thanks for listening to the FidelityConnects podcast. If you haven't done so already, please subscribe to FidelityConnects on your podcast platform of choice - and if you like what you're hearing, leave a review or a 5-star rating.

You can visit fidelity.ca for more information on future live webcasts - and don't forget to follow Fidelity Canada on Twitter. Thanks again, see you next time.

[end of podcast]