ASK ME ANYTHING
with the Empire Life Investments team

Transcript: Ask me anything webinar on June 7, 2022, with Ashley Misquitta, Sr. Portfolio Manager, U.S. and Global equities

There are many factors that are affecting our markets around the world today, and concerns around inflation, and fears around potential recession growing, just to name a few. Now, we did reach out in advance, and we've received a number of questions, we're going to address those as we go through the webinar today. But before we do that, I will invite you also, we do have a Q & A section within this platform, so please feel free to ask us any questions. I will look away occasionally to check and see what's happening there so we can make sure we're answering your questions. I am joined today by Ashley Misquitta. Ashley is the senior portfolio manager, U.S. & Global Equities. Joined Empire Life Investments in 2017. He is the lead manager, of the Empire Life American Value GIF as well as the Global Dividend Growth Fund, and co-manager of several other funds.

We've seen a lot of volatility over the last few weeks, months, and the first question I think is going to help to set the stage. From your standpoint, are we currently in a bear market or do you think maybe we've turned the corner?

- So that is the question, and we've seen some downdraft in the S&P 500 and the Nasdaq and other broad indices. And both in March and then more recently we've seen some very volatile rallies. So, the million-dollar question is, is a bear market rally that will be followed by a subsequent move down, or is it the beginning of a trend going upwards? We don't know the answer to that. Obviously, but we're positioning in ways to manage both possible outcomes. But let me tell you about some of the things that are pulling me in either direction. One is that we've seen P/E multiple compression, which often happens at the beginning of a bear market, but what we haven't seen yet is major earnings rollovers. So, we haven't seen major GDP rollovers, PMI going into negative territory, or going sub-50, which is an effectively contractionary territory, so we haven't seen that yet.

- Some longer-term leading indicators would suggest that, and that would be part of the argument for why this actually is just a bear market rally. We are also seeing interest rates go up and that's a headwind, but that happens with a lag. I think that's something that maybe doesn't get appreciated enough, is that there's a sense that, "Okay, well, they raised rates, and something's got to happen and break tomorrow." It doesn't really work that way. There's a six to nine-month, even longer sometimes lag for the impacts of that interest rate move to flow through the economy, just like inflation. The inflation we see headline numbers and we're like, "Wow, that's a big deal and that's going to hit things right now." And it will, but the longer-term pain of these things takes time to propagate through.

- And the big answer really, I think to the bear market question and the depth of it versus there's your standard correction which happens periodically, there's your bear market which happens less frequently but not really that rare, and then there are the big, bad events, and those are usually associated with more pronounced recessions. So, in some ways, part of that question is, what does the trajectory of the economy of the world look like from now as we go forward. And I give you one side of it. The other side of it is, China is reopening and that should provide some tailwind. Western consumers are generally in pretty good shape. It's funny that we've been really digging into that question over the past, year. There was this view that because of the amount of fiscal stimulus from western governments, the way they basically deposited money functionally speaking into people's bank accounts, what you saw was meaningful savings rates.

- We saw recently it was the CEO of Bank of America, I think who made comments at a conference recently that basically said, "Listen, if you had 1000 in your bank account in 2019 and you're in that cohort, you probably have about..." I'm ballpark of the numbers, I can't remember exactly what it was, you have more than that now. If you had a higher amount, again, you have a higher amount than that now. The really interesting question there is, and I'll stop at this point and then let you follow with more questions. But I think what's really interesting is the question of, is this a temporal immediate thing which then changes, or are consumers structurally in better shape because the debt to disposable income consumer balance sheets, especially in the US, less so in Canada, but especially in the US, US consumer balance sheets are generally in decent shape.

- So really the question is, are people having this conversation saying, "I know hotel prices are higher, I know airfares are higher, I know gas prices are higher, but I've been cooped up for two years and I am going on this vacation. I am going to spend this money on myself and my family." The question is, what follows that? And that's I think a very important question to try to figure out.

You're overweight energy. Can you talk about your views on this sector, do you see continued growth? And if we're in an energy bull market, where do you feel we are in this cycle?

- So, if I'm going to be overweight, obviously I have some level of optimism around the sector. Let me talk about why I think that is. So, I have what I would describe, and I've over time talking about this, honed down to this. I have a four-point thesis on why I'm so optimistic about energy stocks. And I think that's a framework that is very broadly applicable, particularly in the world of physical resources, commodities, things like that. So, number one is supply, number two is demand, and number three is the hatred for stocks for lack of a better phrase. The investor base is shrinking, or the number of people willing to own those businesses is shrinking and that goes to valuation a little bit. Then finally is the question of, "What do companies do with their cash?"

- Let's start with number one on energy. Number one is supply. So, we are doing a reasonably effective job of constraining supply. So, you have a variety of actions ranging from failing to get leases for the North Sea new drilling in Europe, I think in the UK in this specific example, but in general, there's pressure on leases. The Biden administration came in and no longer issued new leases on federal lands, they either pulled back or stopped issuing leases for the Gulf of Mexico. You had democratic Congressional people in October, or as recently as October, having the CEOs of Chevron and Exxon and other leading super majors in the industry be asked, "Are you not ashamed that you are growing your oil supply while the European super majors are reducing theirs? And when are you going to start reducing?" So, we're [the global markets are] doing a good job of hitting supply.

- You may remember a ruling in Holland that precipitated Shell leaving Holland as its headquarters based on a court ruling that said, "No, you can't cut your emissions at the rate you want, you have to go to net-zero faster than you've told people you're going to do,". So, you have activists, governments, courts, and politicians using the sector as just a sector to beat upon. And companies that must invest for a long time take that into account. If you are investing billions of dollars where you wouldn't get any money back for probably five or six years and then only make your money back over the next seven to 10 and governments are saying, "I'm going to put you out of business," you're probably going to be more focused on short cycle as much as you can, or saying, "I'm not going to build more supply." So that's supply, I feel good about that.

- Demand, this is the one where I think that's missed most often out there in the discussion because there is a desire to move to net-zero very, very quickly. The challenge is that we're not technologically there yet. And what happens is, when you build a bottom-up model instead of saying, "I want oil demand to go down," you say, "Well, when I make reasonable assumptions about technology, population growth, growth in the middle class from core oil demand, from transportation, from jet fuel, auto transportation, jet fuel," things like that and you stack them up, and you say, "Well, that's what the demand would be." And then you say,

"Well, let me remove some of that because EVs are going to grow in penetration. We may very well eventually have hydrogen-powered, either [personal] vehicles, probably not for you or me, but [more] from a transportation sector, they may have that. You have to back that out. But when you build that model, and I've seen a number of these, I've yet to see one I find believable that gets to oil demand declining before the end of this decade, meaning between now and 2028, 2029, and 2030.

    - Oil demand is going to go up based on a bunch... We can deal with that, talking about that another time if you want or later on. But what that means is, that supply and demand are in our favor, and the price is created at the intersection of supply and demand. Point three, and I know I've extended this a little, but I'll wrap it very shortly.

- Point three is that you've got companies that are hated. Investors in many instances simply will not touch oil companies, which makes them super attractive valuation-wise. And then finally, what are they doing with their cash? They're generating phenomenal amounts of cash. And in the old world, what they would be doing is plowing that into the ground in growth, in today's world and as they've changed their capital or compensation structure, they're incentivized to return capital to shareholders. So, I don't need the stocks to rerate, I don't need everyone to say, "Oh my God, I love energy stocks." All I need to do is get the money back from them, so that's what makes energy very attractive I think in the world we live in today.

So, the Windfall Profits Tax in the UK, is that something you think could be applied elsewhere, or not?

- So, I think it's a risk and it's a starting point. Today, Joe Biden is trying to get Saudi Arabia to drill more oil. Most countries, especially as we're trying to remove dependence on Russian energy are trying to get more supply from somewhere. In a world where you're saying, "I want you to give me more oil," simultaneously saying, "I'm going to tax you if you give me more oil," profitably...that doesn't seem like a really great way to go. So, I think there is a risk because governments are trying to treat that as a response to popular pressure. I think it's a terrible idea, but it doesn't mean that it probably can't happen. All it means in relation to those four things [Supply, Demand, equities out of favour, policy pressure] what it means is supply becomes structurally more attractive longer-term.

Got you, okay. I'm going to dig into inflation now, but in the headlines what do you think is going to happen, say over the next 12 to 24 months with respect to inflation?

- So, it's reasonable to assume based on a bunch of different possible inputs that we've probably hit the peak from this cycle. We may not have, there are things that can change that, but you've got used car prices starting to roll over. We saw Target today announce that in order to remediate their inventory problem they're going to start discounting. One of the things that drove inflation was goods inflation, where no one put anything on sale because they didn't have enough supply and that was one of the things that drove inflation higher. On the flip side of that though, you have energy, and you have food prices. And I always try to throw in things people are not talking about today that in six, nine, 12 months they are going to be talking about, food prices.

- We are going to experience famine where very large numbers of people die in African countries and in parts of Asia and potentially Latin America, but they're a little more self-sufficient. Because Ukraine and Russia produce so much global wheat, potash for fertilizers, that kind of thing, so I think there's a reasonably big risk price remains high on food. So, there is a push and pull, and what that means is I think we are likely to see higher than low inflation but not some of the breakneck stuff we've been seeing because some of that has been reversing itself out of the system, but it is a risk.

- I was going to say, the one thing I would like to throw in longer-term though to think about is, that we have a world that had optimized supply chains in the past 20 years, we'd spent a lot of time, effort, brain power and money to optimize those supply chains for everything ranging from food to oil, to base metals, to you name it. And now we are in the midst of reorganizing global supply chains driven by the Russian invasion of Ukraine. We are reorganizing supply chains into a less optimal set of supply chains because we had the optimal set before, we're going to be suboptimal. The costs of that will be higher during that transition because it takes time to figure it all out, the risks will be bigger because there's more of a risk, you're going to be transiting points that are less secure and require more convoy support or military support to ensure you're safe from piracy and such, and it's going to be longer further distances.

- So, all of those things structurally should put upward pressure on supply, notwithstanding the fact that if we want to do an energy transition it's going to take a lot more nickel, a lot more copper, a lot more lithium, a lot more of a lot of the physical goods that we have to build minds for. And so, there's a good chance structurally commodities will be under pressure upwards which will flow through to inflation.

The next area I want to really dig into here, Ashley is, we touched it already but the recession. So, do you think that we're heading to a recession, what's the risk of a recession and how's that in particular affecting how you position your portfolios?

- Let me talk about it in terms of risk levels, obviously we don't know the answer because there are external factors that are going to drive this. So, the risk of a really hot growth, super strong market or economics environment in the next 12, 24 months seems remote, that doesn't seem like a high probability. So then once you exclude that, let's say we're talking about not great but not a recession, a mild recession or more severe recession. So, to me, the balance of probabilities is in those last threes in some way or other. And the things that are going to drive that are going to be a few folds. One, what happens with interest rates and inflation?

- So, we've got a fed that has not had to deal with inflation for 30 years give or take, inflation has been on a one-way track, deflation from globalization where the cost of goods went down to produce them externally. And you could get lower input costs and sell for lower costs and still make a better margin. We had technology which has driven costs out, that's likely to continue. But for some of the reasons I mentioned, I think this real risk inflation is higher. That puts pressure on interest rates because there's the economic argument and the political argument. The economic argument is you're eroding purchasing power. So, your people's ability to buy things becomes more of a problem and you run bigger risks of bad things happening from that of wage spirals and inflation become a self-perpetuating function. The political risk is that inflation is one of the worst possible things politically and it's because it affects everybody.

- So, let's say unemployment goes from 4% to 5%. Well, that 1% of people who lost their jobs, plus the people who know them and their family and their friends and the people who hear about it, it's a problem for them in less and less direct way. Inflation hits everybody and it's highly regressive. And because of that, you have people who would just have less discretionary money. So, we all hear stats about people cannot afford a X dollar expense, unexpected expense in the US, people have not saved enough in certain tax bracket or economic strata. Well, if you take away that money from purchasing power via inflation in general, higher energy prices, higher food prices, they just have less money to spend on other things and discretionary items. So, you combine that with where oil prices are right now and that gas and then gasoline and diesel and so forth, and I think there's a real risk of recession in the next 12 to 24 months.

- The risk of a terrible recession, it's not impossible, but things would really have to line up. I mean, that really wouldn't be my base case right now, things would have to line up in a very specific way for that to happen. So probably the base case is just missing a recession. So, then the question is, "Well, what are you doing about it?" I think the reality is, if we get anywhere between a recession or a bad recession that's going to have market impact, that's just the reality of the world. The other reality of the world is, no matter how we

position ourselves absent going to cash, let's say the market goes down 20% in totality, it's very unlikely we're going to be positive. So, the question is, how can we protect on that downside such that when you think about your portfolio over a number of years, we've captured that delta for you and protected on that.

- So, there's a few things we're doing. So one is, in American Value particularly we own utilities. And I don't often own utilities. I do occasionally, but I haven't often owned them through my career. That gives you a level of defensiveness, so that's one. Two is you own businesses that have a lower beta basically. And some of the weightings in the fund depend on whether you are positioned in a little more defensive manner or offensive manner? So highly cyclical businesses that tend to really perform well coming off of the [market] bottom, but really take it in the teeth on the downside as the economy begins to slow, we're going underweight [those companies]. Those are some of the ways that just [within] the construction and configuration of the portfolio and some of the businesses that we would own that we wouldn't typically own.

So maybe you can dive into technology and whether even some of the small cap technology stocks can even survive if they're not generating any earnings, how do they survive?

- So, Y Combinator, which is a VC out of California, Silicon Valley. They broadcasted to all their companies, time to hunger down, cut expenses, extend your cash runway, and raise money if you can. It doesn't matter if you're going a raise [money] flat to last year, or even down a little, raise some cash because there's a risk it may get a lot worse for you. So, the impact of interest rates on technology stocks is not that different than some other businesses, in the sense that the companies that have hit hard have their cash generation very far into the future, you would think of as long duration assets. And just the math of it is, if my discount rate goes up, if interest rates go up then the value of those future streams of cash flow is lower at a present value.

- So that's why we've seen such a reaction from these businesses that in some cases are really good businesses but have had this very negative reaction as interest rates have gone up. I have historically been very overweight technology, so that makes me open and intrigued with the idea [owning some of them]. And we've actually nibbled at a couple of them, [they tend to generate very high cash flow], and we really think they are fantastic businesses. So, we're not piling in, and I've always been of the view that you're never really going to catch the [market] bottom, so what you want to do is scale your way in. For some of these businesses we've [already] done the work so we're pretty excited [to be able to take positions at current valuations].

- Very quickly on smaller caps, I'm going to be a little more excited about smaller caps probably once we move a little further in the cycle. They tend to be a little more cyclical, within small caps we're probably, not probably we are skewed to the larger end of smaller caps, we're skewed towards more cash generative as opposed to cash far into the future. And in time this too shall pass, so the thing to remember with all this is I think that it sounds fairly quite negative a lot of the stuff I'm saying, the name of the game is to manage that downside as things go and try and protect our way through it as much as we can but then be ready to position for the upside. Because like I said, in time this too shall pass, and we will have another up cycle.

What do you think about interest rate hikes and how far does it affect our funds? So, what fixed income sectors have the potential to counteract rising interest rates?

- So, I will give you a quick pass on that next week actually for the ask me anything, Ian Fung, who manages some of our fixed income investments he'll be the one doing the call or doing the AMA. So, I would encourage you to ask that question to him as well. I think that the simple math of course is that, as interest rates go up, bond prices go down. The way the shape of the curve, interest rates can be pretty impactful on the shape of the curve, particularly as people view that into the future. So, if you look at two-year rates, that's very sensitive to fed policy. If you look at 30-year rates, and the term structure of interest rates that

impact them, views on growth are that it can have a higher impact on rates. So, you'll encounter situations, and this is something that as you move from theory to practice is important, is that let's make the argument hypothetically speaking, I'm not necessarily saying I'm advocating this. Hypothetically speaking, the fed goes crazy, raises rates way too high.

- At some point, the market will say, "Okay, I get it. You're going to blow everything up, but then you're going to lower rates. We're going to get to the other side of the cycle and people will adjust their positioning in that way." I don't want to say everybody, the majority of the fixed income products that we have either independently or as a component of an asset allocation type product we are a lower duration than the index. And again, in the same vein of if the bond market goes down by 10%, whatever percent it went down, it's going to be very difficult in this environment to be positive. What you're trying to do is protect to some degree on that downside being shorter duration has a greater chance of helping you out there. And again, I think we'll be able to talk about it in a little more substantial detail.

If you had a dollar today, where would you invest it? How would you allocate it?

- I hate to give bad answers to these questions, but there is some element of it, it really depends on what your current positioning is. We are generally postured in a little more defensive fashion. So, what that means from our positioning perspective is we're a little higher weight in fixed income, we're shorter duration within that. And this is not ubiquitous, I'm talking in American value in a couple of the asset allocation-oriented products I'm associated with, right, we're lower international than we characteristically would be.

- And normally the play is to be overweight US relative to what you would normally be. But I think in this instance we're maintaining a weighting to Canada because of the energy as I described earlier. And if I can throw one very quick thing in there, if we go into a recession, and a big part of the energy view is driven by that supply side. And it's tricky because if oil production declines, I'll spare you the geology of it, but if from one year to the next oil declines in a given [range] of 5% to 7% and I drill a well today, next year that same well will be producing, on average. if it's the exact same average (probably globally as well) it'll be producing 5% to 7% less. Which means I've got to spend [more] money just to [make the same revenue as before].

- Remember how I said I expect demand to be higher by 2029, to prevent supply from going lower I've got to put more Capex into the ground. The numbers I've seen range from globally speaking $375 billion to $450 billion just to stay flat. So, if that's the case, if we go into a recession, well, price is going to come down most likely, these companies are going to have less Capex [capital expenditure] available to deploy and this cycle will potentially extend even further or become more [volatile] on the upside. I thought I'd mention that within that context of energy.

- The other thing I would say and It's something I'm evaluating at the moment, but there's this thesis that we're supply-constrained on the commodity side. We've gone from a period where super-smart software engineers in Silicon Valley could make things work a little faster and we can do [applications like] ridesharing, and with the low-interest rates environment, it allowed for an even deeper investment in software development to make some of the apps we take for granted today possible.

- And a variety of these new businesses that have evolved have been amenable to software and very smart people and they've been amenable to capital. If you don't have copper, you cannot make something out of copper, so no software fix for that. So, what that means is, if we want to do this [clean] energy transition we're going to have to be investing in hard commodities. And so that creates a really good argument for Canada. So that's something else we're evaluating. And then along those lines, another idea of globally ESG versus local ESG, it's a concept I've recently come across where globally everyone wants to go to EVs and get off of coal, get off of all of these things, at the local ESG level you need to build a mine somewhere to mine copper and lithium and cadmium and nickel and the energy because the energy needs to get us

through that transition. Because the predicate, which people often skip saying but breaks down unless you do these things is transition without cratering our standard of living.

- We want to maintain our standard of living or make it better in more places while we transition. Why shouldn't Guyana have stable electricity from their new massive find offshore. We have stable electricity, my kids spent the first two weeks of their lives in the neonatal ICU, which you can't do without stable electricity. And there are so many places in the world that don't have that, and we need that to help them transition as well. So, I think there's an argument mainly, Canada's going to be a really interesting place to be for some time to come.

Sort of leads into the question that Mike asked, which is somewhat political in nature, but it speaks to Canadian leadership and the effect that might have on our economic prospects. I'm not sure we want to go there, but if you had some comments, Ashley, maybe that would help.

- Yeah. No, I mean, I think that if you give me the choice and say, "You can have one of two countries. One country would aggressively like to develop their resources but they have none, and the other country has a bounty of resources, it's abundant, it's unbelievable good fortune but the current political framework and leadership doesn't want to exploit and use those resources," I'll take the second option because political regimes, I don't mean regime in some of the negative connotations, but political structures, the party in power maybe is a way to say changes over time. That's just the reality of our world, we tend to move from one to the other. And so, absent a truly catastrophic, I don't even know how you would do it blowing up wells or something like that. As long as those resources are available, ultimately, we'll make use of them.

- And I think the other reality that is being discovered in the United States right now or the Biden administration is that, if you start by saying, "I want to put your companies out of business and bringing in CEOs and brow beating them to produce less," and it's going to be hard to convince those companies to say, "Hey, I'm on board. Let me drop more capital that's long life. And you told me that I'm never going to get back, so why would I be putting more in the ground?" And they're discovering the political difficulty of that. And that's that predicate, that's the thing that gets missed all the time, not trading away the standard of living in order to do this but doing both simultaneously. Which we can do, and I do think this is changing but the current way people are looking at it is oil going to zero, EV's going to 100, but transitions take time.

Do you think that the federal reserve in the US can actually execute a soft landing here and avoid what you talked about, the deeper recession?

- Listen, it's a heavy lift. Anyone who's talked to me in the past two years, I'm incredibly frustrated with our central bankers. The fed is comprised of an overwhelming number of them who have spent the overwhelming, if not the totality of their professional lives, either in academia or in the federal reserve. And I think they made just a number of terrible decisions. And the reason is that you want to be raising rates into a growing economy, into a strong economy. QE should have been pulled back last year, in the early last year, we had a booming early part of the cycle. Take a tiny bit of that edge off, take 1% off maybe of the 8% growth, maybe it's 7% growth, but start to give yourself dry powder and stop stimulating the economy.

- At the same time, they should have been raising rates then. And I've changed my view. So, if you talked to me in 2008, I would've made a very strong argument or what I thought was a very strong argument that QE and rate cuts were going to drive out-of-control inflation. And the thing I didn't appreciate adequately was, as you increase the money supply if you then can commonly reduce the velocity of money your inflation's going to stay flat or not really move around too much. And that's what we saw, we saw the velocity of money go down that we were pushing on a string. And so, you don't necessarily want them to cut rates in order to massively curtail inflation, although it will on the margin have that effect, what you really want them to do is, you want them to have dry powder available if needs be.

- You want QE to have been removed because you don't want markets to go into a blow-off phase, and you don't want the crazy Game Stop and AMC [meme stocks], stuff like that, sure, some people did well off it, but ultimately if something is not fundamentally grounded it's not going to last and you'll end up causing more pain because the people who ultimately get most hurt by it are more of your retail investors who often come in later on. And maybe they catch a little bit of this, maybe they don't, but they catch most of this. And that I lay at the feet of the fed and the central banks who I think behave very irresponsibly, which makes it now harder, sorry to tie it back together, makes it harder to avoid a soft landing when you're raising rates into a slowing macroeconomic environment, and that's what they're doing.

What kind of EPS (earnings per share) would you consider as a value investor in energy, utilities, and commodities? Even if there are other ratios you can use, from an EPS perspective what would that number be?

- I don't as much break it down that way, I'm more of a cash flow person. I care a lot more about cash flow because I've seen EPS be manipulated and manipulated has a negative and a neutral connotation. Either way, I don't find that quite as reliable as cash flow. But if you look at some Canadian EPS and US energy exploration production companies, from a cash flow basis they are trading very cheap. Now they're trading cheap if you believe there's the longevity of the cycle. How do commodity businesses trade? They trade really cheap at the top because people are taking today's earnings and, or cash flows and drawing us either a flat line or a straight line up so it looks optically super cheap.

- Conversely, at the bottom it looks really expensive, they're losing money. You're like, "My God, that screens terribly," but prices are about to evolve and about to change, maybe some competitors have gone away. So, there's no easy answer to that, the way I would think about looking at it would be on key things or on cash flow, what they're going to do with that cash flow, and what oil price is embedded into the future in order to believe those cash flows.

Perfect. I want dig in a little bit more on that, and another large American company we'll call Apple. You and I talked about this yesterday, I thought it was a great illustration of how you think and how you look to add companies to your portfolios, maybe you can share that with everybody else.

- So let me start with, I love Apple products, at different points in my career I've been meaningfully overweight Apple in the funds I managed or was associated with. And for a good five to seven years, I was arguing the side of, "How can you not own Apple? [Apple has] 10 times earnings, eight times X cash." In front of them was China, in front of them was the Apple watch growing as a business, and in front of them were high-margin services. At certain points when I was having these arguments in front of them was a bigger iPhone, as simple as people were like, "Oh, they're not going to be able to make a bigger iPhone." What do you mean they're not going to be able to make a bigger iPhone? Of course, they're going to be able to.

- And so, people hated the stock. I mean, it was trading at 10 times, and I had the argument that I thought it could get to 15 at least and people were like, "No way, it's a hardware company, no chance." So, in those circumstances, I love being on the other side of that trade. I love saying, "I understand something you don't. I think the market is fundamentally..." People get super excited and super negative about things, and it doesn't happen that often on market cap sizes that big, but Apple was one of those really great opportunities. So, I've owned it for a long time. I don't own it now; I have zero weight Apple. I love the products; I love the business. In **fact, I would like to own it again, there are things that I think they're working on that potentially can help them over time, but a business that is trading in the mid-20s with single-digit growth on the top line, maybe a little more of that through to the bottom line that has probably pulled forward earnings through COVID, did people probably buy more iPads and MacBooks? Yeah, probably.**

- Supply chain is harder. If I think about their supply chain and their ability to extract costs, it's probably harder over the next 10 years than over the last 10 years. It is probably, I should say much less upside and maybe even downside over the next 10 years versus the last 10 years, because one of the things we haven't talked about at all is what does China conclude from Russia's invasion of Ukraine? Do they conclude that the west is robustly responding in a way that would be detrimental if they chose to go into Taiwan or is the west responding in their view, it doesn't matter what I think, it matters what they think but does the Chinese communist party leadership view the west response have been fighting to a stalemate? And maybe they conclude that would happen in Taiwan as well.
- That would have very broad impacts if ever that happens. But that is a risk for Apple, Apple has massive amounts of production in mainland China. Huge amounts of their semiconductors are made by TSMC in Taiwan. So, and just to be clear, that's not my base case, that's not a huge probability, but I think I actually have a higher probability of that than I think many other people do. That's a longer conversation, but it is a risk that I think exists. And so, I would love to own Apple again, and the way markets work, there's likely a chance I'll have the opportunity to own Apple again.

We hope you find this helpful and wish you and our clients all the best as we all navigate these complicated times.

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