

Standing on the shoulders of giants

By Ted Chisholm, portfolio manager

"Nothing in life is to be feared, it is only to be understood. Now is the time to understand more, so that we may fear less."

- Marie Curie

"If I have seen further, it is by standing on the shoulders of giants."

- Isaac Newton

Last summer, my children and I went on a family vacation to Europe. One of the stops on our trip was Dingle, Ireland the hometown of my paternal grandmother, Maura Murphy. Dingle is a beautiful village on the Atlantic Ocean in the southwest of Ireland. It has become a vacation destination for both Irish families and world travellers. We enjoyed walking through town with its colourfully painted buildings, listened to traditional Irish music and ate some great seafood.

I had known some of the circumstances of my grandmother's upbringing and had researched Dingle's history. Part of my reason for travelling there was to help my children appreciate that the fortunate circumstances they were born into have much to do with the courageous choices made by a very strong woman who left her family behind in search of a better life. I didn't imagine how profoundly I would be affected by actually being there with my children and having a true sense of time and place.

I had been to Dingle when I was younger and really enjoyed meeting my dad's very large extended family. But it was only with the wisdom of age that I could truly appreciate what little my dad had been able to tell me about my grandmother (she died when my dad was 10), the experience of my previous visit there in 1981 and everything I had learned about how life in Dingle was for my grandmother and her own ancestors.

My grandmother was born on May 24, 1890 in Milltown Commons, Dingle. Her family leased a small plot of land to farm pigs and dairy cattle. Eleven people lived in her three-room house, including her siblings, parents and grandparents.

For most of the century before my grandmother was born, living in Ireland required a durability I can only imagine. I don't know my ancestors' circumstances immediately after the potato famine except that Maura's grandparents survived, didn't emigrate and had three children including my great grandfather who was born in 1860. I can imagine that life in Dingle in 1860 was very hard, especially for anyone living west of Dingle where Milltown Commons is located.

The most appalling and heart-rending cases of death from starvation daily occur in this locality, particularly to the west of Dingle. Last Sunday week the Rev. Mr. Huolahan, P.P. of Dunurlin, administered the rights of his church to eleven dying persons, of whom seven died of starvation. On an average we have ten funerals every day. The Relief Committee

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Life in Dingle around the time of the potato famine was described as “one monster pauper asylum” with a workhouse being built in 1851 to house the village’s residents who had no means to survive otherwise. At that time, 4,848 residents of Dingle lived in the workhouse and its auxiliary building, which is equal to 1 in 7 residents. Conditions within the workhouse were designed by the 1838 Poor Law Act such that the inmates should be “worse fed, worse clothed and worse lodged than the independent labourers of the district.”

By 1889, the year before my Grandmother was born, conditions hadn’t changed much and the workhouse was described in this way:

“...four nuns from the St John’s Convent of Mercy, Tralee – Sr M Elizabeth, Sr Baptist, Sr Ursula and Sr Colman arrived in Dingle to work in the hospital part of the Dingle Workhouse. At that time patients “slept on straw mattresses placed on planks, the bed clothes were soiled, and the attendants were dirty and careless.” The wards on the ground floor had only earthen floors and upstairs there were platforms 18 inches high. Saucepans black from the fire were the only utensils they had, no knives or forks-each one kept his own saucepan, mug and spoon-but everything was dirty. With the arrival of the nuns, patients were now allowed their own clothes and bedsteads and mattress were ordered as “the Guardians did not understand the necessity.”

While my grandmother’s living conditions weren’t as desperate as those in the workhouse, I have no doubt that they were far from comfortable. My dad told me that even something as simple as doing her chores could be terrifying. On at least one occasion the Irish Constabulary, the Black and Tans, shot at her for sport while she was working on her family’s property. Given these living conditions, it’s not surprising that my grandmother decided to leave to North America in 1921. She first lived in the U.S. and eventually made her way to Canada in 1924.

Part of my intent in taking my children to Dingle was to establish some roots and give them a better sense of how the courageous choices their great grandmother made so long ago played a huge part in where we are today. I have no

doubt their sense of gratitude was less profound than what I experienced when we were in Dingle, but I also believe that it will lay the foundation for that understanding the same way it did with me when I visited in 1981. I believe the greatest character trait I can help my children learn is the strength to deal with adversity and the confidence to know, when dealing with life’s challenges, that things will be better with time and effort. It is that kind of confidence that gave my grandmother the courage that led her to seek a better life outside Ireland.

Turning growing pains into growing gains

I believe a huge part of our advantage as investors at EdgePoint is our ability to apply the same kind of patience and thinking to the investments we make for you. I have an investment process and that process has the heritage of being formed and developed a generation ago by an EdgePoint founder Bob Krembil, providing me guidance in determining the qualities of a business that make a good investment. My belief is that applying this process in a thoughtful and patient way will lead to good investment results over a reasonably long period of time.

But the life of a business is no different than any other human endeavour. It involves growth and overcoming adversity that hopefully will ultimately lead to maturity and stability. It is rare to find a business that performs in a way that leads a stock price to go up every day, in the same way it is rare to find a child, teenager or young adult who performs in a perfect or admirable manner on their way to achieving what they want from life as an adult. You need both comfort and discomfort to have the experience to deal with the change life can bring to you. I think life would be pretty boring without all of these diverse experiences.

Danish company Genmab A/S is a recent addition to the portfolio. I believe Genmab is a business you could characterize as young adult that has faced many challenges and is on a journey to greater maturity. I think it’s important to establish some of the history of Genmab to give context regarding why I believe the business can develop in the future.

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Genmab was a spin-off of American biotechnology company Medarex. Medarex developed technology for antibody therapy that made antibodies more effective in treating cancer and autoimmune disease. If you've heard of the revolution in immuno-oncology products for treating cancer, it was Medarex who first developed them. The first two immuno-oncology products developed by Medarex were Yervoy and Opdivo. They also developed Simponi for arthritis in partnership with Johnson & Johnson. In 2009, Medarex was purchased by Bristol Myers Squibb for \$2.4 billion. Based on estimates for this year, the three drugs that Medarex developed and sold to Bristol Myers - Yervoy (\$1.6 billion), Simponi (\$2.3 billion) and Opdivo (\$7.6 billion) - will do roughly \$11.4 billion in combined revenue. Based on current valuations of similar biotechnology companies and depending on how much ownership of the drugs they kept, Medarex would likely be worth more than \$50 billion today rather than the \$2.4 billion they sold for 10 years ago. In this case, patience on the journey to maturity surely would have been a virtue.

Genmab was born when it was spun out of Medarex in 1999 and will be celebrating its 20th birthday this year. Genmab's growth from newborn to young adult has been anything but smooth. Outside of making a mistake in selling Medarex too early, one of the founders and the CEO of Medarex, Donald Drakeman, made another huge error by putting his wife Lisa Drakeman, who had limited business experience, in charge of Genmab. As CEO of Genmab, she made a series of mistakes that led to negative free cash flow of 2 billion Danish krone, serious financial instability and a lack of product pipeline progress by the time she retired in 2010.

After Lisa Drakeman's retirement, Jan van de Winkel became CEO and remains in that role today. Van de Winkel had started his career as a scientific director at Medarex eventually becoming head of research and development (R&D) at Genmab in 2008. Van de Winkel set about

managing the financial behaviour of the volatile teenager by cutting R&D costs almost in half, renegotiating development contracts with their partner GlaxoSmithKline and out-licensing the rights to their now flagship multiple myeloma product, Darzalex, to Johnson & Johnson. Many of these were difficult decisions and no doubt were very hard for a scientist who had led Genmab's R&D where the deepest cuts were made and was just starting his journey as CEO.

Since Van de Winkel took over, the company has only lost money in two years, fiscal 2011 and 2012, and now has 6 billion Danish krone in cash in the bank, which gives the company significant financial stability. Genmab had retained rights to Medarex's antibody technology and Van de Winkel has set about growing Genmab with a focus on using the technology to develop a robust pipeline of 28 oncology antibody products. Genmab now has great financial strength and a substantial pipeline of products in development that we believe will allow Genmab to grow and prosper over the coming years.

While I have no doubt that Van de Winkel's oversight of Genmab's financial management will be guided by the previous management's lack of financial discipline, I believe he is also acutely aware that patience and better management would have allowed the financial rewards at Medarex to be much more substantial. While financial goals are always important in an investment, I believe even more important is Van de Winkel's belief that the work Genmab does will contribute to eventually making cancer a manageable disease. They are off to a good start with Darzalex, the therapy Genmab developed for multiple myeloma, leading to a significant increase in the lives of people suffering from this disease. I believe Genmab will be a good investment for us over the coming years and I take comfort in the dexterity, common sense and optimism Van de Winkel shows after having faced some significant adversity in his 20 years at Genmab.

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On any journey, whether it be emigrating from Ireland or building a business, there are always both imagined possibilities and fears. Whatever those imagined possibilities or fears are at the beginning, they rarely come to pass in the way you might have thought. Accepting and understanding those same conditions exist in investing will go a long way to freeing you from worrying about those snapshots in time when investing seems manifest with fear rather than possibility. As always, I am honoured to accept the duty of looking after your savings with care and look forward to the journey – a journey that I’m committed to making less arduous than my grandmother’s courageous voyage from Dingle to North America.

ⁱ Source: Brosnan, Charles & Collins, Grainne, “Famine in an Irish town – how Dingle survived the Great Hunger”, Irish Central, January 19, 2018. <https://www.irishcentral.com/roots/history/famine-dingle-survived-irish-holocaust>

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