WORLDWIDE
ASSET MANAGEMENT

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Themed Investments

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Our investment philosophy is a simple one: our experience tells us that to make a difference as an investor you need to have a different approach than most other investors. It has always been our conviction that the best investment performance comes from holding a combination of stable growth stocks with solid cash flows, having the favourable effect of reducing portfolio risk, and picking stocks with exposure to strong structural growth driven by long-term global themes.

Figure 1:

Our approach has always been to invest in long-term global themes that are key to driving developments in international capital markets. Our experience shows that this approach gives us a number of benefits relative to our peers.

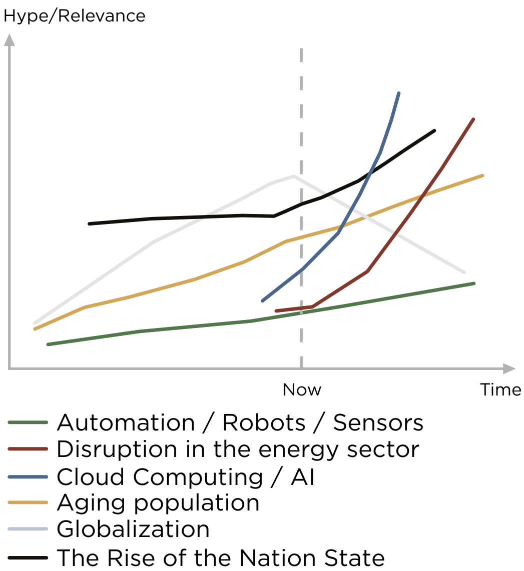
Thematic stock picking:

- ensures a long-term focus on sustainable knowledge while minimising ‘noise’ from temporary information;
- provides a tailwind for our investments, because we invest in companies generating earnings growth supported by thematic developments;
- may be both positive and negative, as identifying themes with a negative impact on parts of the equity market is at least as important as identifying themes with a positive effect;
- supports us in generating new investment ideas.

To date, we have identified about 40 different themes. This is the global lens through which we analyse the world. We are confident that we will always be able to identify pockets of growth in which to invest, regardless of the general macroeconomic environment. The themes most important to us today are listed in what we call our Hype Chart shown in figure 2 on the next page. The slope of the curves represent the degree of importance we currently attach to each theme.

Figure 2:

Hype Chart



Source: C WorldWide Asset Management (20/06-2017)

We live in a time of growing political unpredictability that is driven by technological acceleration and changing social structures in society. Many investors spend a lot of time analysing such risk factors. Examples are Brexit and the political reality show the world is currently witnessing in the United States. Donald Trump probably marks a historical turning point in the period since the second World War, which has given rise to a new theme "Rise Of the Nation State" in the portfolio. Both the media and stockbrokers revel in the drama of current developments, because drama sells newspapers and stimulates trading activity on stock exchanges. However, instead of being thrown around like a wind bag trying to align to the current mood on, say, tax reform, healthcare reform or the military budget, we remain focused on areas in which our predictions stand a good chance of materialising while maintaining a realistic investment potential.

It is uncertain whether Donald Trump's various initiatives will be successful, and it is a complex task to call the winners of any political victories that Trump may achieve. Focusing on long-term trends with a high probability of being right in your projections involves a lot less risk.

There will always be short-term risk and uncertainty factors. We have made a decision to focus on something that is easier to predict: structural trends. Time is on our side and our priority is to spend our time on information that can turn into sustainable knowledge we can build on. That is better than analysing temporary information, the value of which quickly becomes redundant.

The more themes we can identify that are supportive of a stock's long-term earnings performance, the more confident we are that the investment is an attractive one. We may from time to time see individual themes waning, but a company with exposure to more than one theme implies a smaller risk of major disappointment. A very important theme for us today is the Internet of Things (IoT), the inter-networking of devices and machinery that can be connected to the internet. Billions of IoT units will be installed over the next five to ten years and will generate huge amounts of data. Such IoT units may be self-driving cars, digital assistants or digital factories. The data they generate needs to be processed and analysed and will be growth supportive both for companies using the Cloud and for the semiconductor industry, i.e. chip manufacturers which will need to deliver more powerful chips, both for the Cloud and for IoT units, more and more of which will have some kind of artificial intelligence. We believe that IoT, the data boom and the emergence of more and more artificial intelligence applications will create a platform for structural growth in the semiconductor market, a market previously notorious for its extreme cyclicality, which made it difficult for us to invest in. We are currently invested in this area and are consistently looking for new companies that may benefit from all of these powerful themes.

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In recent years, we have discussed technological innovation in several of our White Papers. Basically, this trend is driven by the maturing of Moore's Law, according to which the number of transistors in integrated circuits doubles every 18-24 months, meaning that the computing power of a chip doubles in that period. Computing power has now doubled 38 times since 1959. It is still only very few people who are aware of the implications, because people live in a world dominated by linear thinking, i.e. the assumption that what happened in recent years will probably continue to happen in the years to come. This will not be the case however, especially not in the exponential world of digital technology. Consider the difference: a person taking 30 linear steps would move about 30 metres, whereas 30 exponential steps would cover a distance of 540,000 kilometers. And with the 38 iterations (or steps) we have seen since the invention of the integrated circuit, the length of a step is absolutely huge. As a result, what you need to keep in mind most of all as an investor are the consequences – and the potential – of technological acceleration. New industries and businesses pop up at the blink of an eye, while etablished incumbants succumb at an increasing pace. At C WorldWide, we are stockpickers, but we also recognise that de-selecting the right stocks is becoming increasingly imperative, because there will be more and more losers in the years ahead. There are many examples of companies and sectors that ended on the wrong side of technology innovation, including companies like Eastman Kodak, IBM, HP, Macy's and Sears, and industries such as coal, retail, cars and printed media.

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Active de-selection is immensely important for long-term investment returns. This has become more relevant than ever before, as equity investments are trending towards increasingly passive investment strategies, the best example being ETFs, which quite characteristically do not take account of the creative destruction occurring at a growing pace. We are convinced that the active asset manager who also looks to structural economic trends to decide what not to hold will experience increasing tailwinds in the years ahead, as equity markets become increasingly driven by short-term trends and temporary information.

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