FSSA
Investment Managers

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Client Update

FSSA Asian Growth

May 2023

> *"The ultimate result of shielding men from the effects of folly, is to fill the world with fools."*
>
> *Herbert Spencer, English philosopher (1820-1903).*[1]

Returning to reality?

Looking back (though it's not like we didn't already know), it is clear that we have been living in an increasingly distorted world. Financially, for the last decade, it has been about interest rates falling to (and staying at) zero in a world of general money printing. ZIRP[2] meant TINA[3] and so even the wise acted foolishly. Then, in the real world, there has been Covid and its aftermath. Navigating such an environment has been tricky for all.

Life has taken on a strange sense of magical realism as things have turned upside down, from the world of work to unprecedented government intervention and stimulus. It has taken decades, as neo-liberal policies reached their zenith; but financialisation has run amok, the Gini coefficient[4] has blown out and the social consequences of division and envy have fractured society with its negative consequences.

Cause and effect is one of the most basic laws of the universe. But, with financial repression and seemingly-free money (reminiscent of Y2K[5] and the dotcom bubble), the old financial rules stopped working. Those taking the biggest risks reaped the biggest rewards, but with little consequence. Today that is no longer true, with banks and crypto leading the fall-out. And after such excess, it would not be surprising if there is more dislocation ahead.

There has been much foolish behaviour, as folly has had very little cost for the last decade. We try to stay away from having a determinist macro stance, but if we were to have a view, it is to be more fearful than bold given the current environment. Turning macro on its head can provide insight. From a bottom-up perspective, it seems clear to us that many companies are already struggling amid an unconvincing Covid-recovery.

From an earnings point of view, there are plenty of reasons to expect inflation and interest rates to remain elevated, putting pressure on costs and demand, while the growth outlook (and indeed expectations for a recession) are the countervailing force.

The delicate path between these two negative and opposing forces seems quite precarious, as well as narrow, largely consisting of arguments for a shallow recession and consequently looking through to lower inflation and lower rates. Even if we magically manage to thread that needle, in our view markets look likely, at best, to grind along.

Maybe this is indeed possible, but given the excesses that have built up (with very little buffer, post-Covid), as well as negative geopolitical developments almost on a weekly basis, there is plenty of scope for accidents. Moreover, valuations are not obviously depressed, while earnings forecasts still remain on the optimistic side. We think growth in Asia may well disappoint, which will bring a sharper focus on valuations, against a likely tougher international background.

[1] https://www.goodreads.com/quotes/79987-the-ultimate-result-of-shielding-men-from-the-effects-of
[2] Zero interest rate policy
[3] There is no alternative
[4] A measure of economic inequality
[5] Y2K relates to the time when people thought computers were going to crash when calendar dates reverted to 00 for the Year 2000 (using only the final two digits of a calendar year).

Portfolio activity

In our last letter, six months ago, we commented that portfolio activity had been surprisingly elevated. We explained that this was the result of a more determined effort to shock-proof the portfolio for tougher times. We then anticipated doing much less for the rest of the year. And that is how things have turned out.

Conditions certainly do appear tougher, regionally and globally, while China has bounced with little follow through. Portfolio turnover has appropriately been rather subdued. In the last three and five years, portfolio turnover has averaged 20%, which still seems a little too high. Name turnover (in terms of companies held) has been 14%, meaning the average company has been owned for seven years. This seems better and in line with our expectations.

There was only one new addition to the portfolio over the last six months, being Unilever Indonesia, while we sold Singapore Telecom, Mediatek and the final vestigial position in Vietnam's Vinamilk. Otherwise, the trimming of and additions to existing positions were fairly modest too. We added on weakness to Taiwan Semiconductor (TSMC), Naver, Techtronic, Nippon Paint, Axis Bank and Mahindra & Mahindra. These are all companies that we have owned (and have previously written about), for many years.

In respect of trims, we reduced HDFC Corp as the merger with HDFC Bank grew closer, while smaller reductions were made in Universal Robina Corp (URC), Largan and China Resources Beer (CR Beer). Largan, which makes lenses and camera modules for smartphones, has been a serial detractor (as well as a recurrent feature of our mistakes and laggards section). Headwinds for the smartphone cycle show little sign of abating, while the shares have lately perked up somewhat.

We retain a small position in Largan as it is now quite attractively valued, while on the other hand we see grounds for negative future top-line as well as margin disappointment for Mediatek and exited the last of our position. That said, Mediatek has been a good (and much larger) investment over the years and we still like the franchise as well as the management. TSMC remains a large position, despite the significant existential threat to the business. Even Buffett has flip-flopped on that one.

People continue to ask us about Taiwan risk, in general, but we have little novel or any particular insights to add to the already substantial commentary and debate about geopolitics. Companies don't have anything to add either, when we ask them. It does seem that the relationship between two of the world's largest trading partners is set to continue to deteriorate; though to what extent, no one knows. We think it appropriate that asset allocators formulate their own views about such matters.

We trimmed URC on concerns around likely future acquisitions, but subsequent results have at least borne out our earlier optimism about margin improvement as well as the post-Covid recovery. We retain a 2% position. CR Beer is a slightly larger position, with our trim being the result of the high valuation versus likely sustainable growth over the next few years. The business remains highly defensible, though the recent purchase of a Chinese liquor business looks somewhat questionable, in our view.

Lastly, Singapore Telecom was held for only a short period which always merits explanation. The position, though small, was bought and sold in less than a year. Our earlier comments about new management, improvement in operations and a greater focus on return on equity (ROE) remain true, but the headwinds to growth for such a business are quite strong. After several years of share-price decline, these risks are perhaps now adequately discounted, but we thought some of the companies we added to (as described above) looked more attractive.

For the additions, two companies perhaps also need a little more explanation, being Techtronic and Naver. Both, as is often the case when we add, have already fallen and are not without controversy. We had previously sharply reduced Techtronic (though we still hold a 3% position today), before the share price subsequently declined by more than 20% within a couple of days on the back of a short-seller report.

Techtronic

The report contained little that we did not already know, but was well timed in highlighting a company culture that we have known to be aggressive, with the company clearly vulnerable to negative macro forces ahead of an economic downturn. Home Depot is its biggest customer, where the outlook is clearly murky as Covid pulled forward a lot of demand for such companies.

We have engaged with the company many times over the years, and a couple of times since the short-seller report. We don't agree that Techtronic's books are an accounting fraud, though their tax and development expenditure policies are undoubtedly punchy (although it is nothing compared to the non-GAAP[6] manipulation we see with some other companies). We have always understood and known that capitalising a growing portion of research and development (R&D) which has to be subsequently expensed, will obviously weigh (and be charged off) against future profits.

This is a much easier treatment (and effect) to look through in a buoyant environment, with R&D driving innovation and new sales, but into a downturn it is a much tougher proposition. Indeed, sales from new products (circa 30%) is a metric of vitality and signifier of innovation. Perhaps we, along with the company, were slow to foresee such a swift post-Covid reversion to more normal conditions. In hindsight, the group could have perhaps behaved less pro-cyclically.

It should be said though, that these qualities are the same ones that allowed the company to invest, gain share and

[6] Non-GAAP – not aligned with general accepted accounting practices

maintain supply throughout the pandemic. It still appears to be outperforming the rest of the industry, while on-shoring and reinvestment in America are all positive tailwinds. However, these factors might not be sufficient to continue to underpin overall profit growth, which is quite a change in trajectory. For now, we don't yet know the outcome and nor does the company.

All of that said, the culture has been what has successfully propelled the company over the years and transformed it into one of Hong Kong's most successful (and one of very few) globally relevant brands (in Milwaukee and Ryobi).

We suspect that things will remain relatively tough and perhaps even get worse, but the company has been in tougher spots in the past (for example, in 2008). We believe this too will pass, looking out 3-5 years. The shares have been sharply de-rated and even if you adjust earnings down by 20%, to normalise and front-end the deferred expenses, the rating is now not unreasonable. Recovery, however, will take time.

Naver

Naver has experienced turbulence too. But, per Techtronic, we have been here before with this one as well. It is obvious that very few companies, and more so their share prices, ever advance in a linear fashion. In fact, the last collapse in confidence around Naver's future returns enabled us to build a larger position, which subsequently propelled the overall performance of the strategy.

We want to (and should) take advantage of such dislocations, or opportunities, but of course we have to be right. That takes time, while we will only know in hindsight. *Life is lived forwards, but only understood backwards*, to paraphrase Kierkegaard.[7] We think that perhaps the same thing is happening today, but as usual and despite a relatively recent call with the CFO, the outlook is rather unclear.

This time around, changes in both the CEO and CFO (two outsiders, both lawyers), as well as allegations of bullying (and the sad instance of an employee suicide), compounded existing share-price pressure around the post-Covid uncertainty on its top-line growth and margin dilution.

The subsequent sizeable (USD 1.2bn) acquisition of a US e-commerce company (PoshMark) in October last year resulted in a sharp de-rating, with the prevailing narratives and our own views about cost control, discipline and returns focus all subsequently looking a bit tattered. As we commented in our last write-up, such prosaic matters are often low down in the corporate-DNA of such businesses, with a growth-at-all-costs emphasis. But, in the last six months even the global titans have begun to behave more conventionally.

As usual, we engaged with the management; and while opinions from our team are undoubtedly mixed, overall we thought that the stated mission to focus on growth, as well as a ready awareness of the issues (costs, like most internet companies), was quite encouraging. The new CFO was candid and open in his discussion of these issues. Cost reduction is always a fraught topic in Korea, particularly in terms of people, and of course in the good times (during Covid) many e-commerce and internet companies over-expanded.

Recent results have at least confirmed that the core search business is still growing and remains profitable, while the e-commerce business is still doing well. Poshmark in America, where things can happen quickly, has returned to profit ahead of schedule. More significantly, the results were accompanied by a candid eight-page letter to shareholders from the new CEO. Such things are rare enough anywhere, but it might be a first in Korea.

We were encouraged by the contents, specifically in respect of corporate governance (by comparison to its peer group and Korea), as well as comments on alignment, diversity, remuneration, a commitment to pay 15-30% of free cash-flow in dividends and the cancellation of 3% of the equity held in treasury shares. (Treasury share non-cancellation in Korea has been a long-running issue.)

[7] https://www.goodreads.com/quotes/6812-life-can-only-be-understood-backwards-but-it-must-be

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Naver's Q1 results (meaningless on its own, but perhaps something of a signpost to the future), were better than expected, with strong core performance. Cost discipline and commitment to value accretion in respect of the Japan business (Line) and Webtoons subsidiaries is perhaps already underway.

Unilever Indonesia

Unilever Indonesia was the only new position over the period, though we are already very familiar with the group. Unilever plc owns 85% of the company, which has a market capitalisation of USD 12bn. The group has been in Indonesia for 90 years. Ten years ago, it was a very successful and highly rated company. But, it became complacent, with very high margins and market share. As can be typical, such success led to competitors being handed a margin umbrella under which to build new businesses.

Consequently, Unilever lost market share, failed to innovate, and revenues have now been stagnant for a decade as Indonesia has gone sideways as well. Fixing a problem requires acknowledgment and encouragingly, after short-term (and injurious) actions like increasing the royalty charge in the recent past, the group have belatedly realised that they need to get back to basics. We have seen Unilever do this before, in India, with the company well aware of what (and how) things should be done.

The good news is that they have appointed new top management, with multiple changes in the senior ranks, and talent from other Unilever operations (some from India). The turnaround will take time, probably at least 3-5 years, but the group remains in a strong position. It still leads in 13 of the 15 categories it operates in, but it will need to innovate (introduce new products), reduce prices (on secondary brands) and increase share.

The distribution network needs to improve as well, to reflect how Indonesia has changed with chain mini-marts and convenience retail now a feature of the competitive landscape. The group have done such transformations in other places, with the parent company being well aware of the longer-term growth opportunity. Indonesia has a population of 250 million (with 150 million on Java, the main island, alone), while their market share today remains higher than that of Unilever India.

The valuation is not obviously compelling, but growth and recovery should ensure that it trades at a relatively high price-to-earnings ratio (PER). Indian consumer companies, with their long growth runways, are among Asia's most highly rated companies. Indonesia should not be too different, if the management can deliver. We are wary of adding yet another turnaround, but Unilever's track record in Asia through the ages is strong. The bulk of the group's top senior management have visited, so we believe they do really care.

Portfolio metrics

While times are tougher, the valuation metrics of the overall portfolio are broadly unchanged, though the PER has increased slightly compared to our last write-up. Last time, the forward PER was around 18-20x. Now it is at the higher end of that range, at 20x PER, which mostly reflects price appreciation and no doubt some reduction in earnings. As we noted then, earnings were in the process of falling, but the persistency of portfolio company earnings remains high, in our view.

The overall portfolio ROE remains at 20%, though the top 10 holdings' ROE has declined from 23% to 20%. This mostly reflects the reduction in TSMC's ROE from 38% historic to 26% forward, with profits expected to decline 20% in the current year as the semiconductor cycle turns downward. The increase in our Nippon Paint exposure also had an impact, as its ROE is still around 10%. The profit margin has yet to normalise, per the company's and our own expectations.

The portfolio remains more expensive than the market, with the MSCI Asia Pacific ex-Japan index trading on a PER multiple of around 12x. However, just as we noted before, the ROE is commensurately lower at circa 11%. In markets it would seem true, as in so many other cases, that you get what you pay for, and ROE does seem to be one of the most consistent factors to correlate with positive absolute (and above index) returns.

In our experience, going down the perceived quality curve, in terms of substituting cheap but less good companies for expensive leaders, is seldom a successful strategy over longer time periods. It is clear too that while such a strategy might work in more expansive times, it is much more difficult to execute in tougher environments (like now?) when certainty and return of capital should justifiably trade at a premium.

Country and sector exposure

In line with our earlier comments, there has been little change in our broad weightings. The focus remains on China and our stated position (just 10-11%), compared to the real economic exposure. With the Chinese economy equivalent in scale to the rest of Asia, only India and the truly global companies (like India IT services) are minimally exposed to China.

Our India weighting — a mix of domestic banks, consumer and global IT services companies — remains at 34% while ASEAN[8] has fallen slightly from 17% to 15% of the portfolio. This reduction reflects the sales of Vinamilk and Singapore Telecom. In Singapore, the secondary-listed but Hong Kong-based Jardine group companies (Dairy Farm and Jardine Matheson) are both significantly exposed to Chinese demand.

[8] Association of Southeast Asian Nations

We still think that the real economic exposure to China approaches 40% for the strategy, with the country remaining the biggest source of growth for the Asia region (and the world) over the last decade. One of our challenges is finding growing companies, for instance in ASEAN, where many countries now seem to be firmly stuck in the middle-income trap. We are still the most enthusiastic about Indonesia (6% weighting) and Vietnam, but it is challenging to find investable companies in Vietnam.

Our sector weightings have not changed materially either, with stated consumer exposure at 33%, but economic exposure nearer 40% of the portfolio. The difference is MSCI's categorisation of Jardine Matheson, Jardine Cycle & Carriage, Shanghai International Airport and Techtronic as industrials. Of course it is partly true, but we consider them more broadly and correctly as being propelled by consumption.

Otherwise our IT exposure remains broadly unchanged, falling from 23% to 22% of the portfolio. Naver is our only pure internet and e-commerce company. Exposure to financials is the same at 26%, which given the headlines probably merits an explanation. Our banking exposure is predominantly held in India and Singapore banks, with a smaller position in Bank Central Asia in Indonesia. Otherwise the portfolio holds two insurance companies: AIA Group in Hong Kong and Great Eastern Holdings in Singapore.

All of these institutions are well capitalised, have high loan-to-deposit (LDR) ratios and are tightly regulated. Their deposit bases, for the banks, are granular (and mostly retail). LDRs have drifted down, with higher absolute returns now available elsewhere, but loan portfolios seem well diversified.

Generally, the banks have benefited from the interest rate cycle with rising margins, while credit costs have remained subdued. Loan growth has not been high in recent years, while the structural challenges more broadly in the West (work-from-home and commercial property woes) seem less of a pressing issue in Asia.

Laggards & mistakes

As is so often the case, our gloomy November 2022 write-up coincided with a market nadir against the background of China's now infamous 20th Party Conference. Despite the rather obvious optics, a Covid-pivot proved sufficient to propel a buying frenzy, from un-investable to business-as-usual. As might be expected, in the shorter term it proved difficult to keep up with the market, but even in retrospect our overall returns have remained respectable.

In hindsight, we could have been more constructive about some of the bigger names (such as Tencent, in particular), but despite quite some analytical effort, we only ended up buying CR Beer and adding substantially to Nippon Paint. That's been fine, as the policy changes in China, as well as the economic and market follow through, remain quite challenging overall.

Hong Kong has reopened and more normal conditions have resumed, with a strong bounce in visitor arrivals and economic activity. The longer-term structural challenges remain profound and there is little tangible evidence of much leadership effort to confront them. Politics, or ensuring a lack of such, seems to have been elevated above all. This is unfortunate, as well as likely unnecessary and counter-productive.

We are, despite these challenges, reasonably confident that the Hong Kong businesses in the portfolio will show a material improvement in profits and earnings. By contrast, other investors (perhaps understandably) do not seem too interested. In particular, Dairy Farm stands to be a major beneficiary across its drugstores, 7-11, IKEA, grocery and restaurants businesses.

The group recently announced that the CEO, Ian McLeod, is to step down after six years. He has battled a force-nine headwind ever since he arrived, while the shares have collapsed. Paradoxically, we think it is now a much better business than it was, but e-commerce and more competition suggest that its historic margins and returns are unlikely to recur. So far, so wrong, as we wrote in our last note.

In hindsight, we were over-confident. Retail is always difficult, horribly competitive and most of the benefits of doing things better and more profitably ultimately get passed to the customers. This can be a great business model, like Walmart's Everyday Low Pricing (EDLP) with scale benefits shared, but it is notoriously hard to execute. We did not realise, looking back, quite how broken the company was when we first invested.

We think that the point of maximum pain has already past, but our overall returns would have been better if not for holding the company. From here, we believe it will contribute positively, but the lesson from this episode is in the position sizing, and that anything (once-in-a-generation Covid?) can and does happen. *Mea culpa*; but we believe it is a much better business today and that is why we have continued to hold on to the position.

Outlook & conclusion

> *"Trust me when I tell you, more fiction is written on Microsoft Excel than on Microsoft Word. Let that sink in. The biggest fiction I've ever seen is written on Microsoft Excel."*
>
> *Johann Peter Rupert, Chairman of Richemont*

One of the biggest drivers of financialisation and the expansion of the money business in the last 40 years has been technology, and computerisation in particular. When I started as an analyst in the 1980s, I was given a calculator, a phone and a pad of paper. We didn't have computers and we couldn't do really clever things, but then again we couldn't get into much trouble either.

There were no sci-fi spreadsheets, no TAMs, no DCFs and few IRRs.[9] We had one, fiendishly complex Datastream terminal, which few could understand. Bloomberg was still a bond trader. Emerging markets didn't even exist – they were LDCs (less-developed countries). We did our numbers in pencil, with lots of use of an eraser. We spent most of our time, instead, talking to companies.

Some things haven't changed; that is still at the heart of what we do as analysts. Indeed, one of my longstanding reflections on errors (in terms of analysis), is that they tend to occur when relying merely on trend-extrapolation in the wonderful parallel universe of Excel-world. Once again, it comes back to the view about investment broadly being better when it is roughly right, rather than precisely wrong.

Just because you can do something, does not mean that you should. Risk models that predict that something is a one-in-a-hundred-year risk, only for a series of such events to appear like a line of buses, suggest that we are often collectively befuddled by the power of technology. As George Box, the statistician, said: "All models are wrong, but some are useful."[10]

We seem (as an industry) to spend rather too much time justifying things and outcomes narrowly, based on the numbers, rather than thinking much harder about the key inputs, discontinuities and what could go wrong. Much of this seems to be, we think, driven by the shorter-term fear of being left behind by the index.

Blame it on technology.. and human nature

These issues have grown as activity has risen, with the expansion of passive investment, a greater focus on the short term, the seeming failure of active management and the rise of the technology-economy. You can very easily and quickly end up chasing share prices, or even just tickers, rather than reflecting on the underlying corporate and business drivers over the next 3-5 years. It is human nature and it takes a lot to resist, particularly when everybody else is doing the self-same things.

It is particularly hard, it seems, in the technology area. Accelerated technological disruption, compounded latterly by Covid, has changed everything over the last 20 years. The initial growth rates for these businesses are often exponential, while the self-reinforcing and compounding network effects can be extremely powerful. Every business, to a greater or lesser extent, is now a technology business

[9] Total Addressable Market, Discounted Cash Flow and the Internal Rate of Return are financial terms popularised in modern financial analysis
[10] https://www.goodreads.com/quotes/1046977-as-the-statistician-george-e-p-box-wrote-all-models

and such thinking, therefore, has come to saturate society and investing broadly.

Conventional metrics and approaches have not been useful either, as these companies have scaled across the world, making nearly everybody a growth investor. Being sensible, too sceptical or overly focused on valuations has simply not worked for a very long time. Looking back, many of the great so-called value firms of 20 years ago (that we all used to admire) have shrunk dramatically or even gone out of business as they failed to keep up. Their leaders have gone from being feted to being regarded, with some incredulity, as dinosaurs.

One of the key explanations seems to have been their collective unwillingness to embrace technology companies. *Too difficult, outside my circle of competence, nobody knows;* and so on. Indeed, it was something of a Buffett-ism, even becoming a proud (though misguided) boast. By contrast, today he is one of the biggest investors in Apple. There is always plenty to learn, while the winners have taken all.

On to the next big thing?

Some say that Artificial Intelligence (AI) will be next, providing an opportunity at least as big as the internet, with the commentary currently focused on its scope for the destruction of businesses, jobs and even our way of life. Surely the key is to remain open-minded, but also not to get too carried away. These things can go further than you think, but ultimately they normalise; and then spreadsheets can get you into all sorts of trouble.

I have made some progress in these 30-plus years; today I am as addicted to my technology and smartphone as everyone else. It remains though, that our big investment wins have come from listening and reading, as well as thinking critically, rather than spending time building yet another predictive linear spreadsheet model. Excel is fine and mostly useful, especially when looking back to explain the past, but in terms of providing answers we think Richemont's chairman is far more right than wrong.

With globalisation, Covid and the hyper-growth of the e-commerce platforms now fading into the background, we seem to be confronted by a saturated world with little visible or obvious growth. But, as we noted in the introduction, in many ways it simply looks like a return to reality after the magical realism of the last couple of decades. Could this be a time when the tectonic plates shift once again, the world changes, history reasserts herself and the markets confound yet another generation of money managers? It feels like a distinct possibility.

Valuations look quite full; and without lower prices, grinding out absolute returns from here could be something of a protracted struggle. That said, with dividend yields of circa 3%, a high single- to low double-digit absolute return still looks like a realistic goal in the medium term. Financial risks seem well contained too, given that most of the companies in the portfolio have net cash balance sheets. Covid was a good test of solvency and none of them were obliged to ask shareholders for money.

We believe that doing things differently, looking up, standing apart from the crowd and turning away from a dependency on spreadsheets should continue to provide us with the greater part of the answers that we are looking for. To achieve a superior outcome, which is the stated end-game for most participants in the investment business, conversely and perhaps fairly obviously one must do things in a contrary and different fashion. Few have ever become (or more relevantly stayed) rich doing the same things as everybody else.

Quality matters

In numerical and Excel output terms, most people (including ourselves) would consider the sustainable ROE of any business to be synonymous with, as well as one of the best indicators of, the absolute quality of a company. But, that's just first-order thinking and what we see in the spreadsheet. What really, ultimately, matters are the intangible factors that lie behind the ROE's persistency, as well as its sustainability into the future.

In our view the answer, as well as the key magic investment ingredient, is the management and leadership team. It remains hard, for now, to encode this human factor into a spreadsheet. That's the Microsoft Word side of the investment equation – insight, we hope, rather than information, as well as (and we would say this) something that may keep us ahead of AI a bit longer.

For us, such an approach has always been the fulcrum on which our absolute returns have turned. Consequently, our philosophy and process has been grounded in not losing, rather than always wanting to win. For many investment practitioners these things sound roughly the same, do they not? In reality though, we believe they are radically different. In the same way, rigorous analytical efforts to reduce life and the complexity of a corporation into an Excel spreadsheet, whilst neat and tidy, often lead to entirely the wrong conclusion.

Like Mr Rupert, we think that any Excel model and output is therefore best regarded as fiction masquerading as fact. In the physical world this mash-up is sometimes called "faction". It is (and so are the models) a very useful tool, just as faction can be entertaining. But equally, we think that such things need to be treated with the greatest care, otherwise you end up lost in a world of alternative facts and distorted reality.

Ideas like "my lived reality" have lately led to many questioning the very concept of objective truths, but markets keep you honest and there is nothing like losing money as a salutary reminder and wake-up call. That's life; and in money-land you can very quickly get into a heap of trouble once you start trend-extrapolating, lying to yourself and crossing your fingers. Mistakes should be confronted and learnt from, so that we can all improve.

Just like the chairman of Richemont, we have often reflected that thinking in little rectangular boxes has seldom produced our best insights, or been the foundation of many great money-making ideas. In fact, quite the opposite. Younger people may (and often do) have a different view; that's their lived experience.

Investing is always a work in progress, of course, while these age-old tensions might best be expressed through the medium of the folksy and timeless aphorism: "In theory there is no difference between theory and practice, but in practice there is."[11] From an investment return point of view, we think that the next 6-12 months may well prove to be far more of a Word, as opposed to an Excel, type of world.

And so, on looking back from some future date, we might not be overly surprised to find that we are today living through a marked structural shift in the investment climate. There are enough straws in the wind. At the very least, we are positioned for that possibility, secure in the knowledge that the best companies run by the most capable people will continue to execute proficiently. We believe there is no surer route to protecting and over time growing client capital. As always, we thank our investors for your investment, as well as your patience.

Source: Company data retrieved from company annual reports or other such investor reports. Financial metrics and valuations are from FactSet and Bloomberg. As at 30 April 2023 or otherwise noted.

[11] https://www.goodreads.com/quotes/5684-in-theory-there-is-no-difference-between-theory-and-practice