Focused Growth Overview

The Focused Growth strategy is based on the simple belief that returns in the equity markets will follow earnings growth over the long-term. As such, we purchase high quality companies in attractive industries that possess long-term growth opportunities greater than that of the broader market. We want to own these businesses as long as these advantages persist, and long-term return projections remain attractive. The strategy is a concentrated portfolio of 18 to 25 businesses, available as a separately managed account, with each holding typically weighted between 2% and 10%.

Each investment is made with a 3–5 year time horizon in mind so that the favorable growth attributes of our portfolio companies are allowed to compound in a tax-efficient manner. While the investment philosophy is straightforward, our skills determine exactly which companies fit these criteria. As a general rule, the Focused Growth strategy seeks to invest in companies that are disrupting existing and sometimes sluggish business models, businesses with network characteristics that are very difficult if not impossible to replicate, and businesses with predictable and recurring revenue streams. Many times, companies will have more than one of these characteristics and these favorable business models can be found in a variety of industries. Below, we highlight some of our portfolio companies that fall within each category.

Structural Disruption

We live in a time in which new technologies are posing threats to entrenched business models across a number of industries. Amazon alone has caused major disruption across the retail, media, consumer staples, and technology sectors. Entire business models have had to be rethought and, in some cases, reworked as the result of competition from this one company. Some businesses were simply unable to compete in the new world foisted upon them by Amazon while others endured, but at materially lower levels of profitability.

While Amazon is the most obvious example of technologically driven disruption, this is a phenomenon occurring across many different industries driven by many different disruptors. NVIDIA sits at the center of the shift from general-purpose computing to accelerated computing, and its platform has become the substrate on which most artificial intelligence work is now built. Meta and Google have driven a shift in the global advertising market towards targeted digital advertising. Intuitive Surgical is driving an ever-greater share of surgical procedures towards robotic surgery. Robotic surgery delivers better patient outcomes and lower long-term costs to the health care system. Palantir is displacing bespoke systems-integration work with a software platform that puts decision-grade data in front of the people actually making operating decisions. The pace of technological disruption is quickening and its effect can be found across all industries. This creates both uncertainty and opportunity and is a strong argument for active, fundamental based investing.

Network Effects

A strong network puts up a competitive moat around a business model that can protect it from technological or any other form of disruption. Visa and Mastercard are two portfolio companies that are a good example of this dynamic. With operating margins above 50% and high rates of long-term revenue growth driven by a shift from cash towards card-based transactions, there are many seeking to disrupt the Visa and Mastercard franchises. However, the massive number of member bank and retail partners these companies have garnered, coupled with the multi-decades long investments made in a reliable and secure payment network, makes this a business that is very difficult to disrupt.

The same dynamic holds in marketplaces and exchanges. Uber's network compounds on itself: more riders shorten wait times, which attracts more drivers, which shortens wait times again — a flywheel a subscale competitor cannot buy its way into. Intercontinental Exchange owns venues where liquidity begets liquidity; order flow concentrates where execution is best, and the data that flow produces becomes a second business a competitor cannot replicate without first winning the flow. Payment processing networks, marketplaces, and exchanges are good examples of defensible network businesses in completely different areas of the economy.

Recurring Revenue

The notion of a predictable, recurring revenue stream as an attractive investment characteristic is straightforward, and it is highly valued by investors. Recurring revenue streams can be found in subscription businesses, businesses with high rates of customer retention, and even consumer staples businesses, provided market shares are stable and brand loyalty rates are high.

ServiceNow is a good example. Its platform sits underneath the workflows a large enterprise runs on, and once those workflows are built on it, the cost and disruption of moving them elsewhere is considerable. Revenue arrives under multi-year subscriptions and grows as customers add modules to a platform they have already adopted. CrowdStrike shows the same pattern in security: a single agent on the endpoint, with additional protection modules sold onto an installed base, so each new module raises revenue per customer without requiring a new sale to a new buyer. Predictable, recurring revenue streams can be found in businesses across a variety of sectors and these businesses have a unique ability to compound earnings growth over an extended period of time.

High Quality

Quality comes first. We look for fortress balance sheets, durable cash flow generation, and management teams with a record of allocating capital well — characteristics that let a business fund its own growth and survive conditions it did not forecast. ASML is the clearest expression of this in the portfolio: it is the sole supplier of extreme ultraviolet lithography, without which the most advanced semiconductors cannot be manufactured. Eaton brings the same characteristics to electrical infrastructure, where a large installed base and the distribution network built around it produce revenue that continues long after the initial sale.

Conclusion

Whether it be through owning businesses with disruptive technologies, defensible networks, large and recurring income streams, or all of the above, the Focused Growth strategy seeks to own companies that can deliver steady earnings growth that compounds over time. While the traits discussed in this overview are not a comprehensive checklist that each company must meet in order for inclusion in the portfolio, it provides a sense of our thinking when we say we intend to purchase high quality companies in attractive industries that possess long-term structural growth opportunities.

Disclosure

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The securities discussed above are not all of the securities held in the Focused Growth strategy and were selected to illustrate the investment characteristics described. It should not be assumed that an investment in any security identified was or will be profitable. A list of all holdings in the strategy over the past twelve months, including each holding's contribution to the strategy's performance, is available on request.

Portfolio holdings are as of [DATE] and are subject to change without notice. There can be no guarantee that you will not experience losses in any investment. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE PERFORMANCE. Historical information contained herein is for illustrative purposes only; such information is based on market and other conditions at the time that may significantly change and should not be relied upon.

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