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Guinness Atkinson Global Innovators Q3 2017 Webinar Transcript
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Transcription:

S1 00:06 Hello and welcome to the Guinness Atkinson Global Innovators Q3 2017 Webinar. After today's slide presentation, we will take some time to review topical questions that have come up in recent conversations with our prospects and clients. I would now like to turn the conference call over to Mr. Matthew Page and Dr. Ian Mortimer, portfolio managers for Guinness Atkinson Asset Management. Gentlemen, please go ahead.

S2 00:30 Thanks, Tracy and hello everyone. Welcome to the call. My name's Matthew Page. I'm only going to take you through the first half of this presentation and then I'll hand it over to Ian to take you through the second half and then we will answer some questions toward the end of the presentation. So slide 2, then, a quick overview of what we're going to talk about today. For those of you who are new to the strategy, we'll give you a quick introduction to the fund. We'll then review what happened in the market in Q3. We'll look at fund performance, what was driving that performance. Then, we'll discuss the changes we've made to the portfolio and how that affected our sector in geographic allocation. And then, we'll show you the portfolio as it was at the end of the quarter discuss the characteristics of that portfolio. And finally, we'll discuss a little bit of market commentary in terms of what we're seeing.

S2 01:24 So on the next slide, you can just see my biography and Ian's biography. So we've both been with the firm for well over 10 years now. We have been working together really, since 2009. And Ian and I took over running this strategy in 2010, 2011. And in terms of our backgrounds, we both studied physics at university, which I think is not an unhelpful thing to happen; you're looking at innovating companies. On the next page, you can just see our team. So we've added two members to our team this year, Josh Cole and Sagar Thanki. They're very well bedded into the team and the process now, and they have similar backgrounds to us, quite quantitated. Josh was an engineer at university. He then went and joined a specialty finance house. Sagar's a Cambridge economist and joined Bloomberg before he came to us. So on the next slide then, why should you invest in innovative companies? Well, ultimately, we think they are the types of companies that can outperform. We think it's a better way of looking for good growth companies. The traditional methods of looking for growth companies tend to look at historic growth rates and there isn't much persistence in terms of historic growth rates or they look at screening forward on earnings grade forecasts. And similarly, those analysts' forecasts can be quite volatile and unreliable. So we think, if you want to find a good growth company, what are the characteristics you want it to be having? You want it to be fairly asset light. You want it to be investing for the future. And we think, for us, a lot of that means investing in R&D, it means asset-light businesses that aren't the manufacturers of old, but of the new sort of information companies of the future. And they're companies that ultimately should also, therefore, generate a higher return on capital than their average peers.

S2 03:26 So that's really why we like innovation. There's obviously lots of interesting innovation themes that come out of this approach. But if we maybe go to the philosophy then, how we actually put that into practice, on the next page, there you go, you can see there's four elements to our strategy and our philosophy. So it starts with innovation. It starts by defining a universe of what we believe are innovative companies, which have those types of characteristics. And then, within that universe, you've got everything from small caps to

large caps. You've got very strong businesses. You've got quite weak businesses, businesses growing very rapidly. Some of them, where their innovation is more continuous, are not growing as fast. And so, we really then, want to delve into the underlying quality of the business. And we like companies that don't have too much debt, that aren't highly levered, companies where we think they are generating a higher return on capital, or their return on capital is going to grow into the future. And then, the third element is the growth. And we're not looking for the fastest growing companies. We don't think that's necessarily a good place to screen. We're more interested in the characteristics of the growth. Where were they investing? How are they spending it, and what's that translating into in terms of the margins that the business is generating? So it's innovation, it's quality, and then it's growth and those characteristics of growth. And then, finally, we run this as a high conviction portfolio. So we only own 30 companies and we equally weigh all the positions in that portfolio.

S2 04:59 So on slide seven, you can just see a bit more detail on the way that we think about innovation. I think when a lot of people hear the word innovation, what immediately comes to mind is disruptive tech companies. So you might think of something like a Tesla in that bucket or Uber for example, but it's not listed. But we take a broader view. So you can see across the horizontal axis at the top there, we describe it as level of innovation and that includes disruption or disrupted companies. But we also would characterize innovation occurring in companies where, maybe that isn't translating into disruption of an industry or rapid growth of an industry, but it's allowing that company to maintain its competitive edge. And so, we call that more of a continuous innovator. And then, in the middle, you've got accelerating, so companies where, maybe it's not disrupting of an industry, but it's accelerating their growth because of the way that the company is being innovative. There are also different drivers of innovation. So you can see across the vertical axis, we have got science and technology in there. So if you have discovered a new drug, if you're a biotech company, you'd probably go in there. If you're a new chip manufacturer, you'd probably go in there. But also, there are disruptive business models and there are innovative products and services. So if you think of a company like Netflix, for example, that really disrupted the DVD rental business back when it originally came to market, what the company did was it took DVDs and the US Postal Service and it disrupted the entire industry. And that was not technology or science at that stage. That was really a business model. So that's the way that we think about innovation. It gives us quite a broad scope and it means we can own quite a lot of different companies to do that.

S2 06:48 So on page eight, how do we go and identify those innovative companies? Well, there's two ways we do it. On the one hand, we take a top-down approach, which is to identify innovative themes. So that might be big data. It might be robotics, 3D printing, biotech, all these types of things. And we then go out and we find companies that have got exposure to those things. The other way then, is to do a bottom-up search, and that's by looking more at the metrics that we like. So often that tends to find some of the less obvious innovative companies, maybe some more of the accelerating and continuously innovative companies, whereby we're looking there more at return on capital and what they're investing to generate that high return on capital. Once we've done that, we put that all together. That gives you today about 1,200 companies in our universe and about half of those are in the US. And the other half is split fairly evenly between Asia and Europe. And when you look at sectors, there isn't much in the likes of what you might expect like utilities, real estate, energy. But there's quite a lot in IT, industrials, consumer discretionary, and health care. Excuse me.

S2 08:05 If we go to the next slide then, let's look at how the market as a whole performs over the quarter. So you can see here on a regional basis, what really grow equity markets was emerging markets, Europe and Asia, and this was a continuation of the trend that we've seen this year. So those dark blue bars are the quarter. The light blue bars are so far this year. And you can see we've seen very strong performance from those markets so far this year. And on the less well-performing areas were Japan, the US and the UK. And it's been interesting to see the US underperform the market this year. It's been the first time for a while, but certainly those concerns over evaluations in the US seem to have gripped this rotation. But also, I would point out that currencies have been quite important. The dollar has been weaker than other major currencies, and

that I think, was a little unexpected, whilst the Euro has been extremely strong. So that's the regional basis. If we go to the next page you can see the sector performance, and what we saw was a bit of a reversal here. Actually, the energy sector was the best-performing sector. However, year to date, it's still in negative territory. Materials continue to be strong, as did IT. And IT is certainly the strongest performing sector year to date, up nearly 28%. And the weaker sectors in the last quarter were really in the defensive parts of the market. So consumer staples, real estate, health care, utilities were all quite weak. But certainly, health care has had a strong year so far, part of that being a recovery of weak performance in that sector in the run-up and shortly after the US general election.

S2 10:02 If we go to the next slide, you can just look at styles performance, and we can see during the quarter when we look at value versus growth on the left-hand side, you can see growth was a little bit ahead of value, but not by a huge amount. And what we've seeing here today is growth considerably outperforming value. It's around 8% ahead of value over the first nine months of the year. And so, therefore, most of that really came in the first six months of the year. Over the last quarter we weren't seeing huge divergence like we had seen in the first two quarters. And then, on the right-hand side of that page you can see the market cap breakdown. So the small caps were the strongest, mid-caps were weakest, but again not a huge divergence, and year to date there hasn't been a massive change there. What I would say is certainly, we've seen the large cap bang type stocks perform particularly well this year, and smalls caps have also performed fairly well this year, although on a relative basis to large caps they've come in and out of favor. They were very in favour post the US election at the end of last year. They then gave up nearly all that outperformance relative to large caps by about the middle of September. And then, since then, as these tax cuts in the US came more into focus, we saw some more caps go on another bit of outperformance. And again, that's now slightly reversed. So putting all that together then, how has the fund performed over the short, medium and long-term? You can see this on the next slide. So year to date, we've had some very strong performance. We are over 10% ahead of our benchmark, the MSCI World. Year to date we're also more than 10% ahead on a 1-year basis, and our 3, 5 and 10 year numbers are all very positive as well.

S2 12:04 On the next slide you can just see the cumulative performance of the funds going all the way back to 2004, and then year by year performance numbers as well. And what this fund has tended to do historically, is outperform in a rising market environment like we're in at the moment. And it has underperformed a little bit during weaker markets, such as 2011 when we really had the Euro crisis come to the front of everyone's mind. 2015 I think, was a little bit different. That was a year where really, the FANGs were really driving the market and we didn't have really, any exposure to them at that point, and that was a bit of a drag. Well, so the FANGs were doing well, but the rest of the market was doing pretty weakly. But you can see generally speaking we outperform and we haven't done this with a high beta. The beta of the portfolio is about 1.1. So all that outperformance that we have generated, particularly given we equally weight the portfolio, you can be fairly sure that that's come from our stock selection rather than us taking some very big bets on a few individual stocks or what have you. So I will at that point hand it over to Ian, and Ian's going to go through attribution, the portfolio, and all the other elements.

S3 13:22 Thanks, Matt. Welcome, everyone. So maybe we just move onto the next page, page 14. If we just take it to a slightly high-level overview of the performance in the quarter, we can just see pretty simplistically put, our overweight information technology, one of the better performing sectors, and our underweight to consumer staples, which was one of the weakest performers, therefore led to, sort of, a good, positive allocation relative to the benchmark over the quarter. Our underweight in materials and energy sectors was a bit of a small drag as they did quite well, but we note they are a relatively small proportion of the benchmark, so the fact that we have a low exposure there was not too problematic. In terms of stock selection, I'm going to talk about that in a bit more detail shortly. But we can see that generally speaking, kind of, it was pretty positive across all the sectors that we have exposure to in the portfolio with, sort of, IT, industrial, consumer discretionary names being particularly positive. But if we go on to the next page, what we can see here is just in a little bit more detail about actually specific stocks that did well and specific stocks that maybe didn't do quite so well over Q3. So we have a positive one to start with. The best-

performing stock was AAC Technologies, so this is the manufacturer of kind of acoustic components, smartphones, and also, the sort of things like haptic buttons. This is a Hong Kong-listed business. And we saw essentially, it just was very, sort of, strong earnings, and coming through, sort of, increasing in sales, and also the fact that the company actually diversifies it little bit across their product range, which is something the market was maybe getting a bit concerned about.

S3 15:13 Boeing, obviously a name our, sort of, people in the US will know quite well, did a very strong performance broadly over the last, sort of, 12 to 18 months, but also reported strong second quarter results boosting its, sort of, earnings per share forecasts for the full year, which was taken again, very positively by the market. We know that the profitability of its 787 Dreamliner contributed quite strongly to better cash flows. Nuance Education, so this is another Hong Kong-listed share, which is actually a business that does private education in China, whether it's in classrooms or online specifically, actually did again, very well. This has been one of the strongest performers in the portfolio. We actually bought this at the end of last year. I think year to date, we're up to well over 100% already to where we are today. Generally speaking, sort of, again, just from the positive notes around the company, sentiment has been very good, very strong growth. I think market is rewarding companies with growth. We actually own the ADR, EDU. So therefore, I think that's also, sort of, helped in terms of what people are looking for. We note that they beat the African estimates pretty handily by 4%. Supplies and materials, much longer-term holding in the portfolio. Semiconductor and equipment manufacturer, we've seen strong sales growth of chips and Nan Technology generally, across the market. So this is very much reading through as a positive for supplies and materials. In its earnings they announced that they've got a big share a purchase plan, getting kind of confidence from management around where the share price is today and where it might be in the future, and also had a pretty strong outlook through all the way into 2020. They did another long-term holding the portfolio. We've had this well over 10 years now, in fact. So we're not particularly new to this, although it's becoming somewhat of a market darling. We still see it, sort of, hosting very strong results. It's got exposure in some of the, sort of, fastest growing, sort of, secular trends of the market around artificial intelligence, big data, data centers, driverless cars, all of which are growing at a pretty rapid pace and the video is right in the center of that.

S3 17:32 Moving on then, to sort, of a slightly weaker performance over the quarter, Catcher Technologies. This is Taiwan listed business that actually makes-- a manufacturer of, sort of, aluminum and magnesium cases. So started off really for laptops and now it's really moved very much into the smartphone market. It suffered a little bit with some of the other iPhone or Apple suppliers and the supply chain. As what we saw as the new iPhone 8 coming out, there was maybe some worries that maybe they hadn't sold maybe quite as positively as people though. And therefore. a lot of the stocks that were exposed to that were actually sold off. What we would note though is, Catcher Technology was actually up 84% in the first eight months up to this point, were actually sold off. So therefore, that was probably down with profit taking on this too. We actually see that, sort of, coming back a little bit. I think maybe people are now looking forward to the iPhone X and maybe thinking about iPhone 8 sales relative to maybe people holding off a little bit and looking for the iPhone 10. So therefore, we still feel reasonably positive about the stock.

S3 18:37 Nike continued to weaken a little bit. They had relatively a poorer sales growth in terms of where the company has been, sort of, at the last five years. What we do know though is, this is slower growth. This is not, sort of, the company turning around to go negative. It's just maybe not growing as fast as people were-- or had been in the past. However, we note that the company's doing lots of positive things. They're moving into, sort of, sell more direct to clients, they're sort of cutting out the middleman, web sales are increasing at a really, a very fast pace. And we see them, they're being pretty innovative down to the manufacturing process. So typically, sneakers would be made with quite a high level of interaction with the actual person making them in terms of the glue and stitching, and then moving to do quite interesting things and automating quite a lot of that. So that's going to be a company, we think, will be quite interesting, looking at margins and growth of that company going forward. Shire was a bit depressed over the quarter, slightly disappointing on some drugs trials. We often see this with the health care companies. Colcom continues to be relatively weak. I think there's more worries around the, sort of, the litigation with Apple. And Comcast

suffered a little bit through some of the Trump discussions around licensing for some of their TV stations locally. But generally speaking, a positive performance very much outweighed the weaker performance over the quarter.

S3 20:05 If we then move on to the next page, we can just see some changes we've made in the quarter. So we've made two changes over Q3. So we sold positions in Gilead Sciences and Qualcomm and we replaced them with positions in Facebook and Continental. So Facebook I think is the ubiquitous social networking platform. This is a company we have had on our, sort of, radars for a while. It's actually been a very strong performer, as we know. We probably get questions around, why did we not buy it earlier? I think a part of our process is to look at evaluation, particularly multiples and try and understand earnings of companies. I think over, one of the first IPOs into the first couple of years, earnings were actually either pretty small or non-existent and that meant that initially the shares traded at very, very high multiples. It is something that typically puts us off because we don't know whether those earnings are going to come through or not. This is with the idea of paying for hope. That is something we try to avoid. So as we've seen that strong growth in earnings, we can now, sort of, understand the cash flows more. We can actually model them a bit better. We actually felt a lot more comfortable, kind of, entering the position at this stage. So we see good upside potential in terms of the average revenue per user, particularly in the US. Facebook still counts for a fairly modest or small percentage of the total revenue advertising spent per person. We could see that growth coming through there. We also see good growth potential for accelerating in Asia, particularly India. Obviously, it is going to be a much more, sort of, lower revenue-generating client base. But because there could be growth there is pretty accounted for, we think and we also note that there's significant earnings potential around a lot of the unmonetized apps they have which they've purchased over the last few years whether that's WhatsApp, Messenger, or Instagram.

S3 21:58 The second buy we made was Continental. So this is a German company traditionally known as a tyre manufacturer that accounts for about half its business today, whereas actually, the other half comes from what's described as automated systems. And this covers actually, quite interesting and innovative technologies. So they would be associated quite a lot about, sort of, braking systems, sort of, ABS, for example. They make a lot of just general, sort of, switches. I've seen the working cars, and also do quite a lot around dashboards, for example. However, when you, kind of, look a little bit deeper now, what you see is in things that, sort of, their braking for example, actually, sort of, ABS can help. You think about how the more, sort of, excuse me, the more automated cars, so whether that's, sort of, driver assistance, moving into fully driverless cars, I think they could actually do quite well through that. So there's the dashboard business. They actually have a maps business in terms of Satmap. That again, could be technology that could be quite important especially with driverless cars and that. So there's quite a lot in that, sort of, second half of that business that we think is quite interesting. We also know that the tire business is actually one of the best at tire business relative to peers. So it actually has some of the best margins, probably one of the highest end products. And there's some chat around the market around maybe, potentially the company could actually split itself up. So is it suffering a, kind of, conglomerate discount at the moment? The fact that you could actually value the standalone tire business quite differently. So Pirelli, for example, trades at potentially a much higher multiple. That's an IPO that's coming through into Milan. And therefore, if you split the business, then actually, it could get re-rated. We don't necessarily think that's going to happen. There's a big holder, I think, it's the Schaefer family, who owns about 40% of the outstanding shares. So there's quite a debate about whether that would be possible or not. But it's still interesting in terms of the multiple and potential upside.

S3 23:51 Stocks today are trading pretty low double digits. They're, sort of, 13, 14 times, with pretty steady growth. And we think that's pretty good value. In terms of the sales, Gilead, we sold. We actually held this in the fund since October 2010. And they've actually been one of our most successful holdings. It's actually risen almost 400% over a holding period relative to - I put a dirty comment - only 100% rally in the market. It's done well from its Hepatitis C and HIV drug franchises. But we saw actually, it started to lose a market share of competition. Generally, we know with drug companies that we can't keep onto these franchises for too

long. The growth had actually turned negative, had built up a big earnings pile. The market's, kind of, getting quite frustrated. They weren't doing something with that. And what we saw more recently is, the $11 billion purchase of Kite Pharma. This is the new, sort of, oncology-cast T technology, it's described as. The market quite liked this. We saw the stock rally. We just thought that was a good opportunity to maybe exit the business and to move into something with a bit more proceeds with a slightly better opportunity to that going forward. It could be very successful if you-- this new, business I'm buying. We just question mark a little bit whether the company can necessarily replicate the very, very strong success it had before. Qualcomm was another company we'd held for relatively a long time in the portfolio say, October 2013. It had generally been an underperformer, so relative to the overall funds, so therefore, a bit of a drag on performance, ultimately. We know note the sales, as I said earlier, impacted pretty heavily by lawsuits through their royalty model with Apple. We also know over the longer term, more chip competition generally, but also a rise in competition from actually in-house manufacturing or design of chips from some of their largest smartphone manufacturers. It gives a bit of a question mark around, sort of, long-term future growth.

S3 25:52 So if we then move on to the next slide and we think about what these changes did in terms of the allocation of the funds, in terms of sector allocation, overall, the sale of Gilead and Qualcomm to be replaced by Facebook and Continental, have reduced our health care exposure by about 3% and would have increased our consumer discretionary exposure by about 3%. So Facebook and Qualcomm would be IT for an IT company. So that means that it leaves the-- the portfolio still remains pretty overweight in IT and also small overweights with industrials, although I would note is, we're looking at this comparatively to the MSCI world index. So this is not a growth index, per se, whereas if you looked at, for example, the S&P 500 Growth Index, the IT exposure would actually be more like 35, 36 percent. So in that sense, if you're looking for growth, I think you probably do have a bit of an overweight to IT. And also then, in terms of underweight to a financial consumer staples, is generally the underweight we've seen. And we know the fund maintains a zero waiting to all of Telco's utilities, and real estate, and materials, and consumer staples of today. We then move on, if we think about it by geography, generally speaking the changes we've made have reduced our US exposure on North America by abut 3%, increased our Europe exposure by about a similar amount. So that meant we are now about equal weight in the MSCI world in terms of US exposure, around 60%. We're underweight Europe by about, sort of, eight or nine percent, and we're overweight in emerging markets. So we know that the MSCI world we're looking at here includes no emerging markets, so this is just telling you we own some stocks in Taiwan and China in terms of domicile. So we just know in terms of emerging markets, we're still not on those, kind of, frontier type markets. Also, we're a little bit underweight in Asia-Pacific today.

S3 27:49 We then we move on though, to page 19 and we look at the exposure by domicile and by sales. We just know our US exposure's a bit lower, so we're in more globally exposed companies, our Asia-Pacific exposure actually looks a lot higher when we think about it by sales. We then move on and think about the portfolio. Here we can look at all the names we own. And we will see we've ordered that by industry. Market cap-wise, we looking at larger names today, sort of, medium market cap about 55 billion. And what we see is, if we look at the bottom right, you see the total portfolio trading at 19.6 times 2017 expected earnings and 17.3 times 2018 expected earnings, so with a, sort of, a 13% growth year on year. That's meant that the fund has moved to a premium versus the broad market with about just under 10% on the 17 basis, and about 6% on an 18 basis. Partly that's through the outperformance we've seen here today. So as Matt said earlier, we're about 10% ahead of the benchmark and we also note that Gilead was on a particularly low multiple and therefore, the sale of that with a replacement would have actually increased our exposure there a little bit at the moment. However, we do believe the types of company we're earning as we're going to show you later in terms of characteristics, that 6% premium on an 18 basis, we think it's pretty justifiable.

S3 29:16 So if we look at page 21, and we can see here just an idea to give you a bit of a flavor for the types of growth profile of the companies we're earning and how the fund is exposed today. So it'll be about 36% in that more moderate growth, sort of, 0 to 10 percent with Continental. When we buy sets, we think that kind of

higher growth from 10 to 20 percent is probably about two-thirds, a bit under two-thirds of the portfolio. We can put our Facebook in there. And then finally, we've got a small proportion of about 7% today in what we describe as kind of high growth businesses. Generally speaking, these kind of high growth businesses are generally of much higher evaluations, and typically that's not where we see the opportunity. Whereas, things like Nuance Education and PayPal, what we're seeing around here is also quite good secular growth trends. So if the businesses are doing well and growing, then, kind of, the market they are in is also growing at quite a rapid rate. So therefore, we think that, sort of, the growth is more likely to come through and therefore, maybe we're a bit more comfortable paying a slightly higher multiple for them. We then move on to page 22. We, sort of, concluded our thoughts on the portfolio by just going back to the four key elements of what we're looking for: innovation, quality growth and conviction, and can we see those elements coming through in our portfolio?

S3 30:34 So in terms of innovation, quite hard to define, but let's attempt to do it by thinking about research and development as the potential of sales. We can see the portfolio today has a ratio, which is about 36% higher than the benchmark. So these are companies that are reinvesting, and particularly reinvesting in their intellectual property. Whereas, our CAPEX to sales, so at least a gauge of how likely businesses are, is about 25% less. So we're going to be coming with innovation there as coming through. In terms of the quality though, the fund maintains a, sort of, 60% higher cash flow turn of investments. So these are really very strong return on capital businesses, whereas our net debt to equity where the moment the companies are running at net cash in the portfolio, whereas the benchmark's almost at 74%. If we look at that on a growths basis, so we actually see that the MSCI world trading about 130 percent or 120 percent debt to equity. So we think debt is quite a worrying thing to be owning at the moment in terms of the companies that we don't want be owning leverage companies. In terms of growth, annualized sales growth is about three times the market. Our earnings growth is about 45% higher. Our free capital yield is about the same, so in terms of the, sort of, evaluation metric. And we've seen that the fund is only trading at a 10% premium on 17 basis, whereas only 6% premium on a 2018 basis, so we still think offering pretty good value for the kind of characteristics we're showing. So actually, that, kind of, concludes our thoughts on the portfolio. So we've just got three slides left to finish where we'll talk a little bit about maybe some more interesting market commentary that we're seeing recently.

S3 32:09 So if we go on to the next page, we can just-- I'll throw up the question a little bit of, do we think IT stocks are expensive? So this is a big part of our portfolio. It's a sector that's done well year to date. I think people are, kind of, interested in our thoughts there. So this first chart is just to show relative to the S&P 500 on an absolute basis, the forward PE is about in line with the benchmark today. So we're not seeing it as being overly expensive on a, sort of, relative to the benchmark basis. However, if we look through-- we go on to the next page. Let me just think about what this looks like relative to history. So should the IT companies actually trade at a premium to the broad market. So some sectors do, some sectors don't. A lot of this is relative to growth. And what we see historically, is that the US IT sector generally trades at a premium to the broad market. That's what we see historically, whereas today, the companies are in line and therefore at a discount or relative on their relative basis. So actually, you can argue that the IT sector generally, is cheap on a historic basis relative to where its trade is. However, we move on to the next slide, the slider one, and we just think about we've got a-- worth thinking about different types of companies. So what we know here is just thinking that actually, at the moment large-cap companies are actually, sort of, maintaining growing the EBIT Margin we're looking at here, this, kind of, idea of their profitability, whereas actually over the longer term the, sort of, smaller company has actually been eroded. So the fact of the day, we're in the, kind of, larger companies is a little bit of a reflection of how we see the market and how we're looking at those types of trends. And that's why one of the reasons that the portfolio maybe doesn't quite so many of those smaller or mid-cap. So ultimately, kind of, concluding about, kind of, the IT sector, this is pretty broad brush strokes, but it's, kind of, saying, "Well, actually, it's done very well." But yes, that's probably coming from a slightly lower base." So the relative evaluations are still looking fairly attractive despite that good performance. And we still, actually, still see pretty good opportunities in that space. So with that maybe,

we'll open it up to any questions, and Tracy, I'll pass the call back to you.

S1 34:24 Great, thank you so much, Ian and Matt, for your comments this afternoon, and we would just like to take this opportunity to have you answer a few questions we've been fielding from certain prospects and clients. First question here. Where are you seeing your best opportunities?

S2 34:43 Well, I think we continue to see attractive value in the IT sector, as Ian has just discussed. I mean, one element we didn't show you there was the fact that not only are IT companies still at a discount to their historic average premium, but also, their earnings are growing faster than they have done on average as well. And then, when you drill into the IT sector, you've obviously got, kind of, three sub-sectors if you like. You've got semiconductors, you've got hardware, you've got software. And I think when you look at a lot of pure tech funds; they actually tend to have a lot on the software end of the market. But where we're really seeing, sort of, the most exciting prospects at the moment, I would say is more in the semiconductor space. We've had great success already from the likes of Nvidia. We've had a great success from Applied Materials, which is an equipment manufacturer for the semiconductor companies. We've bought, a couple of years ago, a German company called Infineon, which specializes in semiconductors for the automotive industry, so a nice play on electrification of vehicles and potentially self-driving cars further down the road. But there's also more secular trends going on there in terms of a really quite big cycle in the demand for NAND memory, and NAND memory technology is going through a new evolution, new process, where rather than having two-dimensional chips in terms of the silicon layout, we're now moving towards 3D chips. And what that means is, there's a whole new equipment cycle going on, as well as very strong pricing for NAND chips. You've also got organic LED display technology really starting to take off, so equipment demand for that is very attractive. And obviously big data is a huge driver of semiconductor demand, particularly in graphics processing units, where we have played that through the market leader, which is Nvidia. So I think that's one area, which we continue to be excited about. I think if you look at the FANGs, many will be concerned by the very strong performance and the evaluations of some of those companies, but I think the IT sector is very broad with many different types of businesses, many different, sort of, sub- trends, growth trends, cycles going on within it. And both top-down as Ian showed you and bottom-up on our stock selection bases, we're still finding attractive opportunities there. So our heavyweight to IT is one I would not necessarily expect to come down anytime soon. It's about the kind of weight that we've had it in the portfolio for some time now. But there's certainly lot's of excitement going on in that part of the market.

S1 38:07 Matt, thank you so much. Next question we've been hearing is, what's on your watch list more? Is it more tilted toward the US or towards non-US?

S3 38:19 Yeah, I think Germany is, sort of-- it's fairly reflective of what we're seeing in the portfolio, actually. I think we're still seeing some good opportunities in the US, certainly. I think the opportunities that there is, has probably reduced somewhat in the sense of evaluations more broadly in the US that has gone up. I think we are seeing ideas in Europe as well. I think the growth there is actually now starting to come through more readily in terms of, localized growth there is actually picking up. And I think we also see good growth prospects, particularly in Asia as well. So it's, sort of, broadly speaking of what we're seeing is, economic growth is actually being quite positive broadly across the global marketplace, specifically with maybe higher growth in Europe and maybe some of the emerging markets actually, kind of, growing more strongly, maybe coming from a slightly lower base, whereas the US has actually been a little bit more, sort of, steady. So, sort of, relatively a slower growth, but as we know, a lot of the companies we're seeing in the US as I mentioned earlier, are very global in their exposure. So many of these companies are having exposure to these faster-growing markets, were very comfortable, sort of, owning companies within the different areas. So I'd say there's not any, sort of, one particular, sort of, region that we're, sort of, finding some vast amounts of opportunities in. But actually, we're seeing pretty reasonable opportunities kind of, across the set at the moment.

S1 39:53 Thank you so much, Ian. Next question here, what sectors are screening attractive right now? I know that you both went through performance of the sectors in general over the quarter, but what sectors might be

screening well for the coming future?

S2 40:10 Yeah, I think I'd echo again what we were saying about, the IT sector continues to have plenty of opportunities. I think areas where we're less excited about, would be in some of the more, sort of, capital intensive industries. We haven't owned a commodity stock for example, for a very long time. I think we sold our last one in about 2010. That's not an area that we're seeing much, kind of, innovation or excitement going on there. Consumer staples, we have owned a consumer staple in this portfolio for a quite a long time as well. So I think really, it continues to be in some of the more obvious places I suppose, in terms of IT, the industrial sector, consumer discretionary. I mean, biotech is an area that we haven't had huge amounts of exposure to. We like it from an innovation point of view. It certainly ticks that box. Some of the quality of those underlying companies is not sufficiently high for us. The average return on equity of the biotech space is only 1%, for example. And a lot of the companies within that investable universe for us are really going to be quite binary in terms of the potential outcomes on drug trials and what have you. But the health care sector as a whole continues to be an area of interest. And yeah, so it would really be those four sectors that we continue to have a bias towards.

S1 41:46 Great. Thank you so much. And that looks like that concludes the questions we wanted to review with you today. I would just like to turn it back to the two of you for any closing remarks.

S3 41:57 Thanks, Tracy. No, just to say thanks to everyone for joining us today. We hope that was useful. We hope everyone has a successful, productive end of the year, and we look forward to updating you in 2018 about how the fund has done in Q4.

S1 42:16 Great. Thanks again to Ian and Matt for their time this afternoon and I'll now read through some required disclosures. Mutual fund investing involves risk and loss of principle is possible. Investments in foreign securities involve greater volatility, political, economic, and currency risks in differences in accounting methods. These risks are greater for emerging market countries. The fund also invests in smaller companies, which involve additional risks such as limited liquidity and greater volatility. The fund may invest in derivatives which involves risks differing from and in certain cases greater than the risks presented by traditional investments. Fund holdings and their sector allocations are subject to change at any time and are not recommendations to buy or sell any security. The fund is distributed by Foreside Fund Services, LLC. The webinar is now concluded and thank you for listening.